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EDITORIAL

As We See It

A bold and successful stroke in Korea has so completely altered the situation in that section of the world almost overnight that few have had time to readjust their thinking to the new state of affairs. It is evident enough, however, that the time has come when we must review and reconsider a good many elements in our foreign policy.

Two familiar cries are already being heard again. One of them is: "Unconditional Surrender!" The other is reported from Korea and it has its counterpart in this country. In Asia it takes the form of the question from the American soldiers: "When do we go home?" In this country, it is already being asked whether in light of recent developments it is now really necessary to add to the burden of taxation as has been planned. Some are also inquiring whether there is any longer much point in the regulations and controls which had been planned in the expectation of a protracted struggle in Korea. Others may well presently ask whether we need to increase our ready military strength in any great degree now that the immediate danger is over.

Any or all of this could be basically altered overnight by some other overt move by or at the order of the Kremlin, of course, but such sentiments as these are rather likely to grow in force in the days immediately ahead in the event that nothing of the sort occurs, and it will not be easy for politicians to resist much popular feeling of this sort. Moreover, there is the ever-present danger of the demagogue, or, let us say rather more politely, the politician just now specially desirous of courting popular favor. The tempta-

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Our Current National Scene

By A. L. M. WIGGINS*
Chairman, Bank of Hartsville, S. C.
Chairman, Atlantic Coast Line Railroad
Former President, American Bankers Association

Prominent Southern banker and industrialist, in reviewing current international situation as it affects American economy, stresses importance of proper management of public debt in maintaining integrity of nation's financial life. Condemns present heavy government civilian spending and warns, though public sentiment demands additional taxes, large incomes are already over-heavily taxed and effectiveness of excess profits taxes is doubtful. Says our excise taxes require re-examination and credit controls must be imposed. Holds inflation can be reduced by effective utilization of labor supply and increased mechanization, but warns against excessive trade union wage demands. Stresses responsibility of commercial bankers.

When I addressed the Convention of the American Bankers Association as retiring President on Sept. 26, 1944, exactly six years ago today, two questions were uppermost in our minds. One was whether or not the freedoms of individual action and opportunity could be preserved in a society largely controlled and directed by the hand of government. A second question was whether or not it was possible to preserve a productive competitive society and at the same time achieve the degree of cooperation, one with another, that was required by the changing order of society. We were also confronted with a world that had diminished in size but had multiplied in the dependence of one nation upon another for a higher degree of cooperation than ever before.

A. L. M. Wiggins

When I addressed you three years ago on Oct. 1, 1947, we had discov-

*An address by Mr. Wiggins at First General Session of Diamond Anniversary Convention of American Bankers Association, New York City, Sept. 26, 1950.

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ABA Holds Diamond Anniversary Convention

Meeting held in New York City from Sept. 25 through Sept. 27. James E. Shelton succeeds F. Raymond Peterson as President, and C. Francis Cocke becomes Vice-President. Glenn L. Emmons re-elected Treasurer. Addresses by A. L. M. Wiggins, Robert M. Hanes, Marcus Nadler, M. S. Szymczak, and others, given herein. Association's membership now comprises 98.1% of nation's banks and over 99% of nation's bank resources. Chicago to be site of 1951 Convention.

The American Bankers Association held its Annual Convention, marking its Diamond Anniversary meeting, at the Waldorf-Astoria Hotel in New York City from Sept. 25 through Sept. 27, and, before ad-

James E. Shelton

C. Francis Cocke

Glenn L. Emmons

journment, elected James E. Shelton, President of the Security First National Bank of Los Angeles, Cal., as President to succeed F. Raymond Peterson, Chairman of the Board of the First National Bank & Trust Co., of Paterson, N. J. C. Francis Cocke was elected Vice-President and Glenn L. Emmons was re-elected Treasurer.

JAMES E. SHELTON, President

James E. Shelton, the incoming President of the American Bankers Association, who was advanced from

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MORE ABA ARTICLES IN THIS ISSUE—In addition to the material on the cover page, we present in this issue, starting on page 14, other addresses made during the course of the recent Diamond Anniversary Convention of the American Bankers Association.

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

Winn & Lovett Grocery Co.—Charles A. Bianchi, Partner, Cohu & Co., New York City (Page 2).

Armco Steel Corp. (formerly American Rolling Mills)—William A. Fine, Partner, W. A. Fine & Co., New York City (Page 2).

Pittston Company—John P. Murray, Investment Counsel, Boston, Mass. (Page 54).

CHARLES A. BIANCHI

Partner, Cohu & Co., Members of N. Y. S. E.

(Winn & Lovett Grocery Co.)

When the myriad of variants affecting the appeal of a security are complicated by the many types of investors, the difficulty of selecting one individual item approaches the impossible. However, I will attempt to define the type of security I like best and pick one of a number of current selections as an example. I feel I should affirm, however, that the selection might be different next month, next week, or even this afternoon.

Charles A. Bianchi

Herewith are a few fairly obvious characteristics I favor:

(1) Growth trend—sales, earnings, net worth.

(2) Sound financial condition.

(3) Able and aggressive management.

(4) Modest capitalization.

(5) Basic and expanding industry.

(6) Record of consistent earnings and dividends.

(7) Favorable outlook.

As an example, I might cite the Winn & Lovett Grocery Company of Jacksonville, Fla.

Since 1941 sales have increased from $16,600,000 to an estimated $150,000,000 for the fiscal year ending June 24, 1951; earnings have increased from $251,000 to $2,332,000 for the year ending June 24, 1950, net worth advanced comparably to attain about $8,000,000.

As of June 24, 1950, the company showed net current assets in excess of $4,000,000, and long-term debt of $5,200,000. Sale of common stock recently has added about $3,000,000.

The present management assumed office in 1934 and the record of extraordinary growth and consistent earnings since that time is an effective testament as to ability and aggressiveness.

At the present time the capitalization consists of $5,000,000 of long-term debt, 20,000 shares of $50 par preferred stock and 1,350,000 shares of common stock. Hence, present sales exceed $100 per share per year and the moderate capitalization provides considerable earnings leverage on future growth.

The phenomenal growth of the super-market in the United States has been an outstanding feature in the food distributing business during the past two decades. As the chain of small grocery stores tended to eliminate the old-fashioned retail unit, so now the huge super-markets surrounded with ample parking space, are superseding the small units located in restricted shopping centers. The handwriting is already on the wall so far as other types of merchandising units are concerned with many, if not most, super-markets purveying a variety of products besides food items. Here, indeed, is a basic and expanding industry.

Since the present management assumed office in the mid-30s, the company has the enviable record of never having operated at a loss and in recent years, since stock has been held by public stockholders, dividend payments have been equally consistent and payments of from ½ to ⅔ of net income are a reasonable expectation.

A favorable outlook for the Winn & Lovett Grocery Company appears assured for sometime to come. Plans for opening new units each year, plus expanding sales of present units as the economy of the South continues to out-grow the nation as a whole, plus the ever growing popularity of super-markets, well imply steadily increasing sales and earnings providing fodder for increasing values for the equity of common stockholders.

In conclusion, at the present price of around $15 to $16 per share, I find the stock of this favorably situated super-market food chain qualifies in every respect as the type of security I like best.

WILLIAM A. FINE

Partner, W. A. Fine & Co. Members of New York Stock Exchange

(Armco Steel Corporation—Formerly American Rolling Mills)

For those seeking a company which should do well under the conditions now confronting our country, whose stock offers a liberal dividend return with appreciation possibilities above the average, we call attention to this research-minded steel concern.

William A. Fine

The pattern for future growth was drawn as early as 1907, when road builders came to it seeking a metal for culverts that wouldn't rust. Armco was then a small one-mill operation at Middletown, Ohio. Commercially pure iron made in an open hearth furnace was developed to meet their needs, an outstanding metallurgical development. Since then the basic policy of Armco has been to produce the best possible grades of special purpose, high quality steels. As a result of that early challenge a wholly-owned subsidiairy operating 46 plants in this country and Canada, has grown to be the largest manufacturer of steel drainage products.

Nationwide building of new highways and roads will keep at a high level the demand for this division's products which also include a patented type of pre-fab building which can be used for garages, construction sheds, small farm buildings and the like. Today Armco Drainage & Metal Products accounts for about 20%-25% of the company's profits.

After many years of planning and experimentation, Armco perfected in 1924 the first continuous sheet-rolling mill in the world—a large, complicated piece of machinery about a quarter of a mile long which takes 10,000 pounds of white hot steel slab at one end and rolls it out as a thin, wide strip of steel at the other. Its development helped Armco to grow to be a large producer of steel sheets. As the automobile and appliance industries are large users of these sheets, an all-out war economy would force conversion to less profitable items in some of its plants.

Sheffield Steel Corp., operating plants at Kansas City, Missouri; Houston, Texas, and Sand Springs, Oklahoma, is another fully-owned subsidiary which produces about one-third of Armco's tonnage. Sheffield's products—rods, wire, and plate—serve different markets than the parent company.

This division has built on a 50-50 basis with A. O. Smith Corp., a new $5,000,000 pipe plant at Houston, Texas, with an annual capacity of 400,000 tons. Rushed to completion ahead of time to meet the urgent needs of a pipe line, it has just started operations and will turn out 10,000 tons of pipe in this, its first month of operations.

Sheffield is adding a plate mill costing about $6,000,000 to its Houston operations to meet the steadily mounting demand coming from the nearby oil fields for steel plates to make pipe.

While Armco does not own large iron ore reserves of its own, it holds interests in ore mining companies which, plus purchase contracts, assure it sufficient ore for its maximum requirements for

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An Anti-Inflation Program

By ROY BLOUGH*
Member, Council of Economic Advisers

Recently appointed member of President Truman's economic council outlines major defense problems and stresses importance of maintaining economic stability. Says problem is one of keeping balance between civilian supply and civilian demand. Favors higher taxes as inflation curb, but warns taxes should be such as to encourage investment and not repress economic incentives. Contends higher taxes now are not economic burden and taxation can provide defense outlays. Warns, however, tax shifting may be inflationary.

The American public has come reluctantly to the conclusion that the only road open to peace and the preservation of American values requires devoting a much larger proportion of our economic resources to building up military strength than we have been devoting during the past few years. The uncertain character of the international threat presents the possibility of three alternative lines of future development. The international tension might erupt into full-scale open war. Or, the international tension might subside, and a general settlement might be achieved with great reduction in the level of military spending. Or, there might be a long period of high defense expenditures without open war.


Roy Blough

My remarks tonight are based on the third assumption, namely, that we face a high level of defense expenditures extending over a long period of time, but without full-scale war. This assumption helps to set the background; unfortunately it does not indicate the probable magnitude of the defense program. About all that can be said is that the total increase in annual defense expenditures seems likely to be substantially more than the $17 billion provided in the supplemental defense appropriation recently passed. The larger the program the greater the strain which is placed on the economy and the stronger the measures that are required to successfully bear that strain.

Three Major Economic Problems

The defense program poses for us three major economic problems. The first is to move quickly toward achieving adequate production of materiel required for the arming and expansion of military, naval, and air forces, and for civilian defense. In part, this is a problem of stepping up production in plants already engaged in producing military goods. In part, it is a matter of reopening plants which have been kept in reserve since the war. And in part, it is a matter of diverting raw materials, plants, and labor from civilian to military production. Fiscal policy can do little directly to expand military production. Government orders, combined with priorities where these are necessary, are the methods indicated for doing the job. Taxation can furnish the money, which is obviously important, although a lack of tax revenue would not likely stand in the way of spending for defense. Accelerated depreciation can serve a useful purpose in facilitating necessary plant expansion although its inequities are such that it needs to be used sparingly.

The second major economic problem raised by the defense program is to increase the total productive power of the whole economy. Production and the capacity to produce are basic sources of both military power and a strong civilian economy. The larger the productivity of the economy, the less the impairment of the civilian standard of living required to achieve the necessary defense production. In a full-scale war the military requirements on the one hand and the immediate demands for consumption on the other would so absorb the whole national production that little if any residue would remain to provide new investment and productive growth. With the level of defense expenditure greatly below the levels of full-scale war, however, there is opportunity to expand productive power, for example, through increased investment and research. But this requires a diversion of production from consumer goods to capital goods—a diversion that intensifies immediate pressure on the civilian level of living while assuring a higher level for the future.

Tax policy can help the economy grow in a period of heavy defense expenditure by avoiding repression of economic incentives, by encouraging investment, and by discouraging consumption. Taxes which encourage investment are likely to be at the expense of consumption, which raises acute problems if the great body of consumers presses for the maximum current consumption.

Problem of Balancing Civilian Supply and Demand

The third major problem of a defense program is that of maintaining economic stability. This is an immediately urgent and immensely difficult task. The problem is essentially one of maintaining a balance between civilian supply and civilian demand. Civilian supply of some commodities will certainly have to be re-

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*An address by Dr. Blough before the Tax Executives Institute, Inc., Lake Placid, N. Y., Sept. 26, 1950.

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The Business Outlook During Warm Wartime

By A. W. ZELOMEK*
Economist, International Statistical Bureau, Inc.

Mr. Zelomek states as his prime assumption certainty we will carry through on our defense effort, with rising costs in money and manpower. Predicts pay-as-you-go basis won't cover half of prospective Government expenditures. Forecasts defense economy will prove profitable for textile-apparel trades, but in its late period rather than in the earlier stage.

A. W. Zelomek

You can call the present situation what you want to. I think personally that the words—warm war economy—are a good description. It isn't hot, yet, or we would be stepping up war production as we did in 1942. And cutting down on civilian production. But it isn't cold, or we would be going along normally, not worrying about war and defense and higher taxes and inflation. So warm is the best thing to call it, since that allows for alternations of hot and cold; short periods when we will expect war and others when we can still expect peaceful settlements.

In this situation, we have to make some assumptions. Some people now are talking about the possibility of a deflation, of an easing of prices in many markets. Others are talking about inflation, of a continued advance in prices that will lead quickly to the imposition of general price controls. Maybe they are both right. Maybe we will have inflation over the long term, with little periods of short-term deflation developing from time to time. Or maybe they are making different assumptions about what is going to happen to the war and the defense effort. We have to make these assumptions, before we can talk about future prospects with any intelligence. It is a period when the experts disagree, and it is a period when the experts will merely confuse you when they refuse to tell you what their assumptions are.

So the first thing I will tell you is the basic assumption I make whenever I try to form any view about the economic future.

A Basic Assumption

My basic assumption is very simple. *It is simply that we will carry through on our defense effort.*

I think our eyes are open now to the kind of a world that we have to keep our place in. I don't think it is inevitable that we will have to fight to hold our place. But I think we see clearly that we *will* have to fight if we just drift along, trusting to diplomacy and good-will alone.

I think we see that being ready to fight, and being strong enough to fight, are just the things that we will have to do if we want to prevent a general war.

I don't think any of us like this. The U. S. is a peace-loving nation. It has helped with world reconstruction as an aid to peace. It has supported the institutions through which a peaceful world government may eventually develop. It has reduced its military strength, rapidly and consistently, ever since the last war ended, so that no other nation need fear us. But none of that did any good.

Now I think there is no doubt that we are going to try it the other way. We will continue to tell the world that we have no aggressive designs. We will continue, through the United Nations, to offer support to other nations who become the victims of aggression. But now we will have the strength to back up these offers with face.

That, in my opinion, is the one decisive and predictable factor, on which we can count with a reasonable degree of certainty. We will, I feel certain, carry through in our defense effort. And that effort is going to have a rising cost, both in money and in manpower.

Further Inflation Is Inevitable

If you agree with me so far, then I am afraid you will have to agree also that further inflation is inevitable.

Do not under-estimate the magnitude of the new funds that will be required.

For defense alone, the total before the Korean war was about $14 billion.

Additional amounts now in sight, including more aid for Europe, add up to about $16 billion.

Within a few months, at least another $10 billion will have to be requested.

Moreover, the defense heads have recently turned in their estimates of needs. At present price levels, they are supposed to call for an annual rate of spending of between $50 and $60 billion a year.

This means that there will have to be still further increases next year—probably another $15 to $25 billion for fiscal 1952.

Counting only the additions since June, plus another $10 billion which will probably be requested within the next few months, the additions to defense spending already add up to $26 billion.

Taxes, on the other hand, including next year's tax bill, will not total more than around $12 billion.

At this rate, it doesn't look as if pay-as-you-go, as applied to the war, will cover more than about 50% of the expenditures.

This, of course, simply means a growing deficit on a long-term basis. And that means a further accumulation of inflationary forces.

Slow Periods May Develop

Now we must distinguish between the long-term and the short-term outlook.

The long-term outlook is inflationary, but the inflation may develop slowly.

The economy is still primarily a civilian economy. Military takings are still small. Production has been pushed up to high levels, and we are getting just about the biggest civilian supply we have ever had. Retail sales have dropped back to a normal level in relation to income. Business inventories, I suspect, will show some pretty fair increases in the next few months.

Even in terms of money, the near term outlook is deflationary rather than the reverse. Federal deficits will be getting bigger and bigger over the next few years. But during the next few months, the Treasury will get the benefit of (a) higher tax rates, (b) a speed-up in corporation payments, (c) the high level of income and profits, and (d) a retroactive excess profits tax.

During the first quarter of 1951, the Treasury will be operating with a cash surplus. This is deflationary. The Treasury will be taking more money out of the economy in that period than it will be taking in.

A slow period like this was predictable in advance. The feverish activity generated by the invasion of Korea was bound to wear itself out in a month or two, and it has. This was already developing before the battle news from Korea began to take such a favorable turn.

Naturally, this good news had a psychological effect. It encouraged every one to stop and think, to take a second look, to become a little more cautious. And it led to some of the heaviest pressure on speculative markets that they have felt for many months.

But I want you to remember one thing.

These deflationary trends won't have nearly as much of an effect

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*An address by Mr. Zelomek before the Textile Distributors Institute, New York City, Sept. 26, 1950.

The Outlook for Interest Rates

By IVAN WRIGHT*
Consulting Economist

Dr. Wright, in pointing out prevalent inflationary forces, lays low interest rates to Government's policies. Looks for no great change in prices of high-grade bonds in near future, but holds long-term outlook will depend on Government financing policies. Advocates adoption of inflation controls recommended by Federal Reserve Board and advises a watch on Treasury's debt management policy in present emergency.

Dr. Ivan Wright

Interest rates are determined by the supply and demand for funds in the various compartments of the Money Market. For many years we have had abnormally low interest rates as a result of inflation policies which have created excess supplies of loanable funds. These surpluses of loanable funds and low interest rate policies have stimulated inflation and rising prices in all phases of industry and finance. In other words, both the earning power and the purchasing power of money have declined sharply, and the end of the decline in the value of money is not in sight.

On the contrary, the Korean War and the necessities of defense spending have made it clear that deficit spending and inflation will increase. The Secretary of the Treasury has indicated that the government's policy will be to hold down interest rates on government securities. While interest rates have firmed this summer in most markets, both the banks and industry can be expected to cooperate with the government in a national emergency. The conclusion that the Money Markets will come under more complete control of the government and that interest rates will remain low and stable seems inevitable. Already the government has taken steps to curb the demand for money on the part of private borrowers, as for example, in the case of installment lenders and new housing projects. Capital for industry may soon be both more costly and more difficult to obtain unless the industries are serving the defense needs or are rated as essential.

In other words, the supply of available funds will be somewhat channeled into government and defense needs at the present prevailing low interest rates. The steady rise in loans to business during the past six months may soon culminate. Loans abroad will probably take on more of a defense nature than business loans. The exports of gold which have exceeded a half billion dollars in recent months will probably be increased as the dollar gap is reduced through our imports of foreign goods and defense supplies.

While economic forces are at work affecting the supply and demand of loanable funds, money rates and the supply and demand for funds will continue under the control and guidance of the government for the duration of the threatened war-emergency preparation. The government control of both the supply and demand sides of the money market makes it extremely hazardous to venture any opinion about money rates for any long period of time. The government's policy will undoubtedly be determined by conditions as they arise. The control of money rates, however, by the government and the channeling of funds into defense necessities may cover up the enormous inflation which will result from deficit financing until some future date when these controls are relaxed or the demands for private capital financing break through the controls.

Bond Prices

As a result of the government policies no great change in the prices of high grade bonds or their yields is to be expected in the near future. Because of the increase in taxes upon personal incomes, municipal bonds, revenue bonds and all bonds which are tax exempt or partially tax exempt should enjoy an increased demand from investors in high income tax brackets.

The spread in the yield between high grade bonds, medium grade bonds and the dividends on investment grade preferred stocks and common stocks has been narrowed in the bull market of the past year, but the spread is still sufficiently wide to attract private investors to investment grade stocks and medium grade bonds. The inflation which makes possible some speculative capital gains from investment in stocks and medium grade bonds will undoubtedly cause this gap to be further reduced. The prospects of further inflation with rising prices could cause considerable flight of investment funds into stocks, real estate and tangible things. Improved economic and financial conditions in the British Commonwealth of Nations, Western Europe and South America could bring about considerable export of capital from this country if the fear of inflation, taxes and government controls become too discouraging in the United States.

Government Financing Policies—The Determining Factors

From the standpoint of national monetary policies for the best in-

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*An address by Dr. Wright before the Municipal Bond Forum, New York City, Sept. 28, 1950.

The State of Trade and Industry

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

A slight increase occurred in nation-wide industrial production last week, sustaining total output at a level noticeably above that of the comparable week in 1949. This continued advance made for a new postwar high record and resulted in total claims for unemployment insurance dropping in the latest reporting week to a new low point for the year.

This week, the American Iron and Steel Institute reports, steel will top its all-time high weekly record for the industry by 9,700 tons of steel ingots and castings.

The pressure of increasing military orders, it is reported, though still relatively small percentage-wise, plus the continued heavy demand from non-military consumers, has spurred the nation's steel mills to high-level production this year and to an almost certain annual production record in the vicinity of 95,000,000 tons.

This week steelmakers enter fourth quarter with books so heavily loaded with orders virtually no openings in rolling schedules in any products are in prospect for the period, says "Steel," the nation's authority on metalworking. Carryover third quarter tonnage is so large a substantial portion of output in the closing months of the year will be required to care for the overflow. The mills, seeking to become current on most products by year-end, are not booking new orders for fourth quarter. They are turning away customers' requests wholesale, sticking rigidly to established quotas. With consumer allotments reduced and subject to further cutbacks as military orders develop, all the signs point to increasing supply stringency as the weeks pass.

In the automotive industry production last week was slightly lower due to a decline caused by Studebaker's closing for model changeover, labor trouble at Hudson and reduced Ford truck output because of a shortage of cabs. However, from a longer-range view, "Ward's Automotive Reports" asserts that the six millionth vehicle of the year for United States plants was completed on Friday of last week, with no indication of a coming letdown in the record production pace.

In the electric light and power industry the amount of electrical energy distributed in the week ended Sept. 30, reached an all-time historical high of 6,503,008,000 kilowatts. This total compares with 5,521,238,000 kwh. distributed in the weekly period ended Oct. 1, 1949. In this connection it should be pointed out that in the comparable week a year ago the country was suffering from the effects of a two-week-old coal strike involving close to 380,000 men responsible in part for mining the greater bulk of the nation's industrial coal. The country at the same time was confronted with an impending strike called by half a million steel workers.

Further encouraging news to the businessman was the report that the month of August was a period wherein manufacturers' sales and new orders set fresh records, according to the Department of Commerce. The extent of the improvement is readily apparent when such sales in excess of $24,000,000,000 in August are compared with the total of $20,000,000,000 in July. New orders in August, the Department points out, rose to $27,800,000,000, up 15% from July. On the other hand, manufacturers' inventories at the close of August totaled $31,500,000,000, or a $200,000,000 drop during the month. Most of the decline by the way was in "soft" goods.

* * *

Figures now at hand relative to consumer credit show that the American consumer extended himself to the tune of an all-time high of $20,979,000,000 in August, the Federal Reserve Board disclosed on Monday of this week.

The record figure for consumer credit was reached a month before the government put on controls to slow down instalment-buying.

Debt incurred by time-buying alone accounted for $13,015,000,000 of the over-all total, and stood at a new high itself as a result of the rush for war-enhanced goods.

Over-all consumer credit jumped $614,000,000 in August after

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30 Finance Experts To Participate in Investment Course

Gerald M. Loeb, senior partner of E. F. Hutton & Co., William W. Cumberland of Ladenburg, Thalmann & Co., and John W. Spurdle of Dominick & Dominick, are among the 30 specialists in finance who will take part in "You and Your Dollars In A War or Peace Economy," investment course scheduled to open at Town Hall, 113 West 43rd Street, next Tuesday, Oct. 10, it was announced today.

The course, which has been designed to help build personal and family financial defense programs against inflation, will consist of 10 weekly sessions from 4:00 to 5:30 p.m. on Tuesdays at Town Hall. Each session will have three speakers and a discussion leader. All sessions will be open to the public.

Mr. Loeb and Mr. Cumberland, with George Geyer, President of Geyer & Co., Inc. and former President of the New York Security Dealers Association, will make up the panel which will discuss "In Which Industry Shall I Invest?"

Mr. Spurdle, who is President of the New York Security Analysts, will join Janet A. Kapelsohn Messing, C.P.A. and Hunter College lecturer, and Pierre Bretey, railroad analyst with Baker, Weeks & Harden, in discussing "How to Read a Financial Report."

Other speakers include A. Wilfred May, Executive Editor of the "Commercial and Financial Chronicle," Louis Loss, associate general counsel, Securities & Exchange Commission, and Sydney J. Weinberg of Goldman Sachs & Co. and former Governor of the New York Stock Exchange.

Morgan Stanley Group Offers Southern Company Stock

Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane, together with 29 other investment firms on Oct. 4 offered to the pubilc 1,000,000 shares of $5 par value common stock of The Southern Co. at $11.25 per share. The stock was awarded to the group at competitive sale Oct. 3 on a bid of $10.9501 per share.

Proceeds from the financing will be used to buy additional shares of common stock of two of The Southern Company's subsidiary public utility operating companies to help finance construction programs. Prior to the end of this year, the company intends to invest proceeds of the present sale of common stock, together with treasury funds to the extent required, as follows: $6,000,000 for Alabama Power Company shares and $6,000,000 for shares of Georgia Power Company.

The Southern Co., a public utilities holding company incorporated in 1945, owns all of the outstanding common stocks of four operating public utility companies which furnish electric service in the States of Alabama, Georgia, Florida and Mississippi. These companies are: Alabama Power Co., Georgia Power Co., Gulf Power Co. and Mississippi Power Co. An exchange offer is presently underway to acquire for common stock of The Southern Co. all of the outstanding common stock of Birmingham Electric Co. which sells and distributes electric energy in Birmingham, Ala., and several adjoining communities.

Observations . . .

By A. WILFRED MAY

Should Stocks Be Bought As An Inflation Hedge?

It is of course true that "inflation" is being grossly oversold. Whereas in the late 1920s the taxi-driver, barber and cook expounded the *New Era* precept "good stocks are cheap at *any* price," today the tyro cites to the exact decimal point the rise in the consumers' price index to support his forecasting of "dollar-depreciation-ahead."


A. Wilfred May

Nevertheless the investor has important and continuing need for policy dealing both with potential inflation and deflation—continuingly and wholly irrespective of momentary changes in the degree of war temperature.

The inflation threat confronts the investor with a two-fold dilemma. First, he must forecast its occurrence in the economy; and second, he must translate his economic interpretation into intelligent investment policy.

Deciding the net residual preponderance of the economy's inflationary or deflationary elements surely is difficult enough. We must remember that expansion of the money supply and other facets of the world-wide long-term process of politically-promoted monetary depreciation carry strongly counterbalancing offsets—in war and semi-war times by the miscellany of government controls and taxation; and in peacetime by deflationary factors like the nation's enormous plant capacity, potential industrial and agricultural overproduction and ever rising taxation.

Stocks Not Tied to the General Price Level

Even assuming the correctness of a forecast of general inflation, its translation into presumption of a stock price rise raises basic doubts. Actually, equity shares are not commodities with inherent value, nor are they tied automatically to prices. Rather are they correlated with profits and the shareholder's "net-net"—after corporate and individual income tax—take-home pay. The fact that so many stocks of well-managed companies consistently sell below their book and replacement values throughout inflationary periods proves that they are not tied to the general price level. Stock prices reflect gain-able earnings rather than plant and equipment reproduction costs. Even in the celebrated German inflation after World War I, the real rise in common stocks occurred only after the drastic collapse of the monetary unit in 1921.

The European Experience

The post-World War I experience of European countries, as France, Germany, Austria, and Italy, constitute a useful laboratory for scrutinizing the process of large-scale inflation. In their panickly flight from the currency, the citizens of moderate means sought commodities and physical goods. In France, wholesale commodity prices climbed to eight times their 1913 level. In Italy, they rose six-fold, while in Germany by 1922 they stood at 147,500% of their 1913 figure, and by 1923 the increase was 1.5 trillion to 1. The wealthier possessors of capital tried to protect themselves by buying securities. This has always proved more

Continued on page 46

Near-Term Outlook For Insurance Stocks

By SHELBY CULLOM DAVIS*

Shelby Cullom Davis & Co., Members N. Y. S. E.
Former Deputy Superintendent of Insurance, N. Y. State

Insurance authority predicts 1950 underwriting results will be second best in history, approaching 1949's record. Foresees favorable outgrowth of Korea impact in following ways: (1) lifting of regulatory pressure against rate structure; (2) abrogation of commission price-war threat; (3) improvement of technical position of insurance shares after previous drop caused by unwarranted war-induced fears; and (4) enhancement of their attractiveness as anti-inflation instrument. Foresees early liberalization of dividends more commensurate with assets and earnings.

Nearly six months ago in an address before the Financial Analysts' Society in Philadelphia I stated that the primary attraction of insurance stocks at that time was for the long term, as opposed to the short or intermediate term. The reasons for this opinion were twofold: In the first place, last March insurance companies filed at the Insurance Departments all over the country the finest statements in their entire history as far as underwriting results were concerned. The highest underwriting profits in insurance history were revealed. These underwriting profits far surpassed what most of the underwriting executives had considered possible earlier in the year. They had been made possible because not only had "straight" underwriting been extremely favorable, but there had been a virtual dearth of catastrophes.

Shelby Cullom Davis

In anticipation of these excellent statements the insurance share market had for a period of more than 22 months been performing better than any other of the 45 groups of stocks on which we keep records, with one exception, the finance companies. During this almost two years of better-than-average market performance the insurance stocks had done nearly 25% better than the averages as a whole. After this period of superior market performance it seemed only natural that a rest was in order. What more natural time would be afforded than after insurance stock companies revealed the greatest underwriting earnings in their history.

The Transfer to Other Securities

It seemed almost inevitable, therefore, that near and intermediate term holders of insurance stocks, those who had purchased their shares during the dark days of 1947 and the early part of 1948 when insurance shares were almost friendless, should think of transferring their funds perhaps to greener pastures. And this is exactly what has happened. During the past six months the insurance share market has had to withstand selling from these holders. During these months the insurance share market has performed worse than the averages as a whole.

*Remarks of Mr. Davis before luncheon meeting of N. Y. Society of Security Analysts, N. Y. City, Sept. 20, 1950.

1950 Results Favorable

Meanwhile the record of insurance companies during these past six months has borne out our thought that 1949 results would stand as the pinnacle of underwriting for some time. At the same time, the results thus far in 1950 have been by no means unfavorable. Premium volume is up on an average around 2% or 3%, underwriting profits are down about 15% to 20% on average, while investment income is up around 12% to 15% on average. Loss ratios are up around three points on average in fire and three points also in casualty. Actually, the fire experience would show even more favorably had it not been for disastrous windstorms in the Middle West and in the Panhandle during the spring. One storm in the Middle West produced something like 400,000 claims which are costly to investigate as well as to settle. Then there was the famous South Amboy explosion, a real catastrophe in insurance history although by no means as extensive as the Texas City disaster of three years before. Had it not been for these windstorms and catastrophic claims fire experience would actually have been better or as good during the first six months of this year as last year—and that is almost a record. It looks as if underwriting profits in 1950 might well be the second in fire insurance company history. Certainly they have been gratifying thus far and the most recent figures, released just yesterday for August burnings, reveal that August, 1950, was somewhat better than August, 1949, thus reversing a previously slightly unfavorable loss trend for the prior five months.

As far as casualty is concerned workmen's compensation experience has worsened due to rate decreases and broadening of coverage. Massachusetts has been a prime example of the latter. Furthermore, there has been less overtime and some unemployment. Workmen's compensation usually does not do as well under these conditions as during booms such as during the past seven or eight years. Automobile liability has also been an unfavorable line in casualty during the first six months. There have been more new cars on the road than ever before and a great deal of cross country driving at high speeds. Fatal deaths in automobile accidents are up around 11% from a year ago. Nevertheless, on the whole, the casualty companies are also having a good year.

Impact of Korea

The events of June 26, 1950, the outbreak of the war in Korea, served to alter in four important respects what had been a relatively uninteresting near or intermediate term outlook for insurance stocks.

(1) Pressure was almost immediately lifted from the rate structure. Underwriting profits had been so ample during 1949 that it was an open secret that a number of commissioners were eyeing the rate structure with a skeptical eye. Rate studies were under way in a number of states which might well have produced rate reductions during the fall of 1950. With advent of war in Korea and the inauguration of an inflationary potential rather than a deflationary one, many of the insurance commissioners have given pause. They recall only too well what happened to the rate structure in 1944 and 1945 when commodity prices started to jump ahead. Underwriting experience had been favorable for the five years ending 1943 and as a result rate reductions were ordered in the spring and summer of 1944. The results, of course, were disastrous and the insurance companies were caught in the vise of lowered rates and higher replacement costs. Eventually they had to come back to the insurance commissioners for relief and the rates were again raised upwards in 1947. Insurance commissioners do not want to put the companies in another such squeeze. I know some of these commissioners and I believe it fair to say that in face of the pending inflationary situation they think the insurance companies are entitled to put on a little fat. This is a positive factor of improvement.

(2) Talk of a commission war ceased almost overnight. It seemed obvious that there would be plenty of business around and therefore there was less incentive for the companies to meet the demands of some producers in some areas for higher commissions. Since commissions amount to roughly 50% of the operating expenses of an insurance company after payment of losses and adjustment expenses this quieting of fears as to a commission war can be regarded also as a positive factor of improvement.

(3) Because some investors jumped to the immediate conclusion that an atom bomb would be dropped on New York and other large cities in the east and the insurance companies would be therefore the hardest hit by such catastrophies, insurance shares were sold heavily on the Korean war news. Hence the technical reaction which the insurance share market was entitled to after nearly two years of far better than average market performance was accomplished. The rebound of insurance stocks from their Korean lows has not been as rapid as some of the war favored industries such as steels, oils, rails, and textiles. The result is that relative to the rest of the market insurance shares are now far cheaper than six months earlier.

(4) This is the most important change and positive factor of improvement in the insurance share outlook. Faced with a pending inflationary situation over the next 3, 5 or 10 years investors are seeking stores of value for their money. We all know how much money there is around, money created during the past war. A good deal of this money has been lying idle, waiting for the postwar deflation which has always occurred after previous wars. If inflation rather than deflation is to be the outlook, then this money is and should be put to work. Two kinds of this money are flowing into insurance stocks.

Both Bond and Stock Money Flowing In

What has been considered primarily "bond" money has been going into insurance stocks. One does not need to be a student of money to realize what has happened to the purchasing power of the dollar during the past ten years. Every person who has bought an E bond, every one who has had a savings account, realizes that the dollar does not buy as much as it did ten years ago. The primary investment problem today has become—how to protect one's self in these inflationary conditions. Fixed Obligations have not proven satisfactory because although income remains stable from interest, it loses purchasing power as commodity prices rise. So this primarily "bond" money in the hands of not only wealthy individuals and trustees but small investors as well, has been turning to vehicles for investments such as insurance stocks whose dividends are covered largely by interest received from bonds and which in addition promise growth and some protection against advancing commodity prices. Many insurance stocks might be cited whose dividend is covered entirely by bond interest, and interest received from U. S. Government obligations alone. Not only do these insurance stocks have that important characteristic of bonds that the return is very secure. They offer more than do bonds in that they promise substantial growth, growth due to the plowback of excess of investment income over dividends paid out, plus all underwriting profits. The record of our insurance companies testifies as to the reality of this growth. Such vehicles as insurance stocks in a sense permit the investor to have his cake and eat it too.

"Big stock" money has also been going into insurance stocks. During the past month we have witnessed the spectacle of foreign interests, Italian and Swiss respectively, purchasing the majority control of two of our insurance companies and at prices only 10 and 15% respectively from their net asset or liquidating values. These foreign interests, which traditionally have been canny, have thus been willing to pay far higher prices for American insurance shares than American investors. Stocks of well known companies which have paid dividends continuously for 50 or 75 and in some cases 100 years are now selling at discounts of 25, 30 and even as high as 40% from liquidating value. Although I do not believe that net asset or liquidating value is always a governing factor in the market for insurance stocks, I believe that it is going to assume greater importance in the future. In the face of an inflationary potential investors do not wish to hold dollars. They are anxious to place them in investments which seem fundamentally cheap. What can seem more fundamentally cheap than an insurance stock which can be bought at a substantial discount from its "break-up" value. It seems almost like shooting fish in a pond. Discounts from liquidating value may seem tenable during a deflationary period when investors expect prices to go lower and hence hang on to their dollars. But during a period when prices are expected to rise and investors are obviously worried about the future purchasing power of their dollars, assets in cash, U. S. Governments and the highest grade securities available at a discount seem absurdly cheap. As recent developments in the bank stock field have indicated, net asset or liquidating value eventually does have an effect upon market price. I believe similar developments are under way in the insurance stock field and that they will be beneficial to insurance share prices.

Dividend Increases Ahead

One final point in this discussion of the near-term or intermediate outlook. We are coming into the season of the year when directors of insurance companies begin to consider the possibility of extra dividends or dividend increases. Since investment income has been running from 10 to 15% higher than a year ago it seems quite possible that some of this increased investment income as well perhaps as some of the substantial underwriting profits may be passed along to stockholders. Insurance dividends are well below their traditional 75 or 80% of investment income and a rise could well be in order. Furthermore insurance company managements have an additional incentive to placate some of their "blue chip" stockholders such as university endowments, pension funds, trust funds for retired ministers and missionaries and hospital funds, all of which are substantial owners of insurance stocks and who during the past few years have been crying for additional income. Insurance company managements are rightly proud of these stockholders. But they may lose some of them if their dividends are not increased so that yields from insurance stocks are more commensurate with yields which may be obtained from other securities. So insurance company managements have both the incentive and the wherewithall to increase dividends this autumn and I believe that some good news along these lines may be expected.

Scudder, Stevens Admit Two Partners

Scudder, Stevens & Clark have announced the admissions of Hamilton M. Chase and James F. Lawrence as general partners, resident in New York.

Keyserling Places Output Above Controls

Chief Presidential economic adviser looks for five years of heavy military outlays, and favors closing inflationary gap by heavy taxation and strict credit curbs.

Addressing the American Management Association, in New York City on Oct. 2, Leon H. Keyserling, Chairman of the President's Council of Economic Advisers, contended that increased production and higher taxes were more important and more effective in filling the current inflationary gap than wage and price controls. He stated that since international crisis is likely to continue for five to ten years "at the most hopeful," the emphasis in meeting military needs must be primarily on production. "But," he added, "random actions at certain strategic points by segments of management and labor have made those of us who thought we could hold off on controls very worried. Some wage increases and some price increases have occurred that were not dictated by economic necessity."

Leon H. Keyserling

Primarily, Mr. Keyserling believes, the immediate inflationary gap must be closed by taxation and by strict credit curbs—controls do not take the place of these measures, he said, since they do not reduce the purchasing power available to buy the smaller civilian output.

Over the long pull, however, he believes the primary stress must be placed on production, if military needs are to be met with the least strain on the economy. In the last war, he pointed out, production increased 75%, and if we do only one-third as well in the next five years, it will mean a national product of $350 billion. As far as manpower goes he said, the situation now is actually better than it was in 1939. Then there were 7½ million unemployed to be drawn upon, making a gain of 6 million when unemployment was down to 1½ million. But in the meantime 12 million men were drawn into the armed forces, for a net loss of 6 million to the economy. Thus he said, we would have to draw 8 million men into the armed forces to have a comparable manpower situation—and an armed force of that size is not now contemplated. However, he believes, hours will have to be stepped up to get the production we need.

Mr. Keyserling said he was hopeful that World War III may be averted. "The men in the Kremlin," he said, "while they are cruel and lacking in our standards, have done nothing that indicates that they are crazy as the term is commonly utilized. On the contrary, they are cold and calculating. They will be reluctant to take the risk if we are well prepared."

Titus-Miller Branch

LANSING, Mich.—Titus-Miller & Company, members of the Detroit and Midwest Stock Exchanges, announce the opening of a branch office in the Hollister Building. Beulah D. Bogue and William L. Black have become associated with them as registered representatives.

From Washington Ahead of the News

By CARLISLE BARGERON

There is more than meets the eye in President Truman's attack on Former Secretary of State Byrnes through the medium of Jonathan Daniels' book "The Man of Independence." Daniels authoritatively represents the President as feeling that Byrnes, at the Moscow conference of Foreign Ministers in the winter of 1945-46, "went too far in accepting Russian positions with regard to the government of Bulgaria and other satellite states." Truman is quoted as telling Daniels that "Byrnes lost his nerve in Moscow."

Carlisle Bargeron

Truman is also quoted as saying:

"Byrnes got the real riot act after Moscow. I told him our policy was not appeasement and not a one-way street."

I describe it as an "attack" because Truman knew his statements were to be published and he wanted them to be published. At another place he is quoted as saying that he told Stalin at Potsdam that he wouldn't recognize the Eastern European governments unless they were established along democratic lines, but Byrnes went ahead and recognized them.

The primary purpose of the attack is revealed in Truman's complaint that Byrnes ran out on him "when I needed him most." This refers to Byrnes' lack of active support in Truman's 1948 campaign for reelection. That he expected any warmth from Byrnes at that time is rather amazing because he had eased Byrnes out of the State Secretaryship in January, 1947, a year after the Moscow conference, but he undoubtedly credits Byrnes with influencing Barney Baruch not to help him financially [illegible] campaign after Truman had directly asked Baruch to do so. Byrnes and Baruch have long been close friends.

The not-so-apparent purpose behind Truman's attack is to get the onus of appeasing Stalin, in the months immediately following the end of the war, off his shoulders. This is an important issue in the current campaign. Stalin has taken over East-[illegible] and we [illegible] spent and are spending billions of dollars to check him, the Reds have China and our boys are in Korea—all because of this earlier "appeasement," first by Roosevelt and then by Truman.

Well Truman would now have us believe that he, himself, was not for "appeasement," that his was a hard-boiled, two-fisted attitude, but he was, in effect, double-crossed. Naturally, he can't be held personally responsible for Teheran, Cairo and Yalta that went on before his ascendancy to the Presidency, and things would certainly have been different in his administration had it not been for Byrnes. That leaves the political propaganda picture thus: Louis Johnson was responsible for the mess of Korea, he has been gotten rid of. Byrnes was responsible for the earlier "appeasement" policy of the Truman administration which greased the road to Korea, he has gone. Everything is now hunkydory. On its face, it is not a justification of Truman because Byrnes and Johnson were his appointees.

But it is not a true picture. It is a fact that Byrnes went out of office, giving ill health as the reason and with Truman's tenderest expressions of regard, under criticism of having "appeased" Stalin. The criticism continued for a year, from the time he returned from Moscow, until he resigned in January, 1947. The man most responsible for it, in the crowd around Truman, was Admiral Leahy, then Truman's Chief of Staff, and who had acted in a similar capacity for Roosevelt. For months Leahy carried on the usual Washington campaign against Byrnes through the medium of planting stories with columnists that Byrnes was on the way out because he had appeased Stalin.

But months before he went out, Byrnes himself along with Truman and the Administration generally, let it be known they were disillusioned with Stalin and thenceforth a hard-boiled, realistic attitude was to be pursued towards him. Ever since, the Administration has been pursuing that hard-boiled, realistic attitude, if by that is meant the heaping of denunciations upon Stalin and the spending of billions of dollars to "contain" him in Europe, but not in Asia, stepping up the Voice of America radio program, and feeding the American people daily stories about Stalin's having the atomic bomb and how, at his command, it will destroy us.

However, what I have never been able to understand is, just what it was that Byrnes did at that winter meeting in Moscow of 1945-46 that got him in such ill-favor. Stalin's troops were astride Eastern Europe and Germany. They were not there through any of Jimmy's doing. It was not for him to talk hard-boiled with Stalin when the war had just ended and everything was sweetness and light. The recognition that was extended to certain satellite governments had to be approved by the White House and the United States Senate.

The plain fact is that it was not until the American people began to wake up to the fact that in World War II they had been hoodwinked again, had succeeded in exchanging Hitler for Stalin, that Truman switched from what it called "appeasement" to a policy of bellicosity which had cost plenty of money, and is to cost plenty more.

I am much interested in an Associated Press dispatch in the morning papers of Oct. 3 telling of a speech by John M. Hancock at White Sulphur Springs, W. Va.

Mr. Hancock is a partner in Lehman Brothers, Chairman of the Board of Lever Bros., former U. S. representative on the United Nations Atomic Energy Commission, and has served in several important positions in Washington. He is certainly a man whose words should carry weight. He was represented as saying that he did not believe Russia can make atomic bombs, that there is no reason why we should have any "undue fear" and "every reason why we should maintain poise." He was further represented as telling his audience that the best military minds with the best possible information believe that Russia is a "second-class power with a third-rate army."

This has been my information all along.

Run-down Farms As Bombing Escape

By ROGER W. BABSON

Repeating previous advice, Mr. Babson recommends firms and persons located in large metropolitan areas make arrangements for shift to country districts, in event World War III comes. Says move would not be investment but an excellent insurance policy. Concludes time to buy run-down farms is now.

In view of the Korean situation I wish to repeat some advice which I have given before. It is not written for those who live in small self-sustaining cities or rural communities. Rather, I am writing for those in New York, Chicago, Philadelphia, Detroit, Los Angeles, Cleveland, Baltimore, St. Louis, Boston, Pittsburgh, and Washington, D. C. In some one of these cities almost every reader has relatives or friends. When World War III does come, some one or more of these 11 cities may suffer a terrible loss of life.

Roger W. Babson

Readers who live in the Central West are especially fortunate and have nothing to fear. You are in "the richest in time of peace and safest in time of war" of any part of the U. S. Probably every state has some similar safe, productive and attractive sections. Readers who live in such places should be very thankful. With the above introduction I will sail ahead.

What I Have Done

For sometime my Statistical Organization has been building a branch here at New Boston, N. H. for use in case of World War III. We bought an old brick building which we could use for offices and several nearby homes in which we could house a limited number of executives. We believe that many more business concerns in each of these vulnerable cities should do the same thing. We all owe it to our customers and clients. Most employers have summer places to which they personally could flee, but such places do not provide an emergency plant or emergency offices.

I, however, have not been content to do only this. Hence, I have been picking up some old farm houses to which the families of our employees could move. These are from one to three miles from our Emergency Plant at New Boston, a distance which could easily be covered with a horse and wagon if no gasoline is available! Such farm houses are well-built with all modern conveniences and can be bought for one-quarter of what it would cost to build them today.

How Far Away?

The authorities tell me that to be absolutely safe one should be about 60 miles away from any of the above big cities. It also is important to be in a locality where there is a bountiful supply of water, food and fuel which makes it independent of railroad transportation. This last requirement rules out many places which are good for summer residences but are not self-contained. Hence, I prefer a small acreage of fertile land which—in an emergency—could support a family. If it now has a house on it, so much the better.

I am sure that property in these large cities will decline in price and small surrounding farms will increase in price until peace is made with Russia. The purchase of such need not be considered an investment any more than an insurance policy is an investment. Such a farm would give a family wholly dependent thereon only a meager existence. The same time and energy spent on a city job would pay three times as much as if expended on this farm—but for employees who work in a large city, it is an excellent insurance policy.

Farms as Insurance

This is not a recommendation that educated young or old people try to get a living on such a farm. The experiment would probably end in disappointment. Such farms are useful as summer homes for employers and executives within commuting distance, or those who have saved or inherited a modest nest egg. This, however, is an appeal that medium-sized corporations provide not only for their owners and the business, but also for their key employees and families.

I believe that more corporations should buy a few of such farms within 20 to 60 miles of their plant. These farms should be fairly close together; they should be expected to pay only enough to compensate for maintenance and taxes. They should be furnished so each house could — in an emergency — take care of four families (with one central kitchen). I repeat: Whatever happens in Korea, there **someday** will be a World War III. When it comes some of the above cities will be bombed. Old employees, who have not the money to buy and maintain such places of refuge, should be protected in this way by their employers. Time to buy such farms is **now.**

COMING EVENTS

In Investment Field

Oct. 12, 1950 (Dallas, Tex.)

Dallas Bond Club Annual Columbus Day Outing at the Northwood Club.

Nov. 3-4, 1950 (Miami, Fla.)

Florida Security Dealers Association Annual Meeting at the MacFadden-Deauville Hotel.

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.

Gude, Winmill Admit

Gude, Winmill & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Dorothy B. Winmill, Viola W. Duffey, Josephine W. Austin and Phyllis B. Tremaine to limited partnership on Oct. 11.

NSTA Notes

AD LIBBING

Missed many of you last week at the Convention at Virginia Beach when I gave two reports.

Harold B. Smith

The most interesting points of the reports were that 11 affiliates exceeded their basic quotas, and will participate financially accordingly, as against four last year. Also we are about 24% over last year in gross business.

Outstanding jobs were done by Philadelphia, Cleveland and San Francisco affiliates. Quotas were exceeded greatly with corporate advertising.

With 11 of our regional associations giving real support to your committee and their results so gratifying, can you project what cooperation of all of our 29 affiliates would mean in the way of an enlarged treasury bank balance?

It's been fun ad libbing and the comments from members were most pleasing and helpful.

So long and good luck!

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

FLORIDA SECURITY DEALERS ASSOCIATION

The 1950 Annual Meeting of the Florida Security Dealers Association will be held at the MacFadden-Deauville Hotel, Miami Beach, Fla., Nov. 3 and 4. Special rates have been obtained of $5.00 for single rooms and $8 for double rooms. The registration fee is $15.00 per person and includes the cocktail-buffet Friday evening, boat trip and luncheon Saturday, cocktail party and banquet Saturday night. The football game and transportation to and from the Hotel including the ticket to the game will be $5.00 per person.

Registration fee and $5.00 for football ticket should be mailed with reservation as soon as possible to B. J. Van Ingen & Co., 1320 du Pont Building, Miami.

Program scheduled is as follows:

Friday, Nov. 3—

9:00 a.m. to 11:00 a.m. Registration.
9:30 a.m. Meeting of Board of Directors.
11:00 a.m. Meeting of entire group.
The afternoon is open for: swimming, golf. Sightseeing and shopping for the ladies.
5:30 p.m. Cocktail-Buffet.
7:00 p.m. Bus leaves for Georgetown University versus University of Miami Football Game.

Saturday, Nov. 4—

10:00 a.m. Election of Officers.
Final Business Meeting.
Selection of 1951 Convention City.
12:00 p.m. Boatride and luncheon at Quarterdeck Club.
6:00 p.m. Cocktails.
7:30 p.m. Banquet—Guest Speaker.
Dance.

Dealer-Broker Investment Recommendations and Literature

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

America's Gold Losses and the Prices of Foreign Securities—Analysis—Arnhold and S. Bleichroeder, Inc., 30 Broad Street, New York 4, N. Y.

Department Store Business—Review with special reference to **Crowley-Milner, Gimbel Brothers,** and **Marshall Field & Company**—Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

Inflation Protection—Industries and companies—Analysis—Delafield & Delafield, 14 Wall Street, New York 5, N. Y.

Oil Well Equipment Companies—Analysis—Bache & Co., 36 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.

Radio - Television - Motion Pictures—Illustrated brochure with brief resumes of 26 companies.—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

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Bank of America, N. T. & S. A.—Analysis—The First Boston Corporation, 100 Broadway, New York 5, N. Y.

Bates Manufacturing Co.—Memorandum—Pacific Northwest Co., Exchange Building, Seattle 4, Wash.

Cluett, Peabody & Co.—Memorandum—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

Eastern Corp.—Memorandum—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y. Also available is a memorandum on **Scoville Manufacturing Co.**

International Minerals & Chemical Corp.—Memorandum—Kebbon, McCormick & Co., 231 South La Salle Street, Chicago 4, Ill.

Interstate Department Stores—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y.

Also available is a memorandum on **Lockheed Aircraft Corp.**

Kellogg Company—Memorandum—William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

Montgomery Ward—Brief review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Newport Steel Corp.—Memorandum—Penington, Colket & Co., 123 South Broad Street, Philadelphia 9, Pa.

Pure Oil Co.—Memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y. Also available is a memorandum on **Southern Railway Co.**

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

Sylvania Electric Products, Inc.—Analysis—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Twentieth Century - Fox Film Corp—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

U. S. Steel—Memorandum—Roberts & Co., 488 Madison Avenue, New York 22, N. Y.

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

Village of Monticello, N. Y.—Bulletin—Paul Frederick & Company, 70 Pine Street, New York 5, N. Y.

Warner Brothers Pictures—Bulletin—Newburger & Company, 1342 Walnut Street, Philadelphia 7, Pa.

Also available is a memorandum on **Glen Alden Coal Co.**

Wellman Engineering Company—Analysis—Bond, Richman & Co., 37 Wall Street, New York 5, N. Y.

Wells-Gardner & Company—Bulletin—Rogers & Tracy, Inc., 120 South La Salle Street, Chicago 3, Ill.

Yankee Fibre Tile Manufacturing Company—Bulletin—Baker, Simonds & Co., Buhl Building, Detroit 26, Mich.

With UNO Equities

W. S. Salomon, formerly with Sutro Brothers & Co. has become associated with the Foreign Department of UNO Equities, Inc., 30 Pine Street, New York City.

Joins Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

HENDERSONVILLE, N. C. — Ronald A. Beaton has become associated with Merrill Lynch, Pierce, Fenner & Beane.

With McKee & Jaeckels

(Special to THE FINANCIAL CHRONICLE)

MANITOWOC, WIS. — Thomas B. Inglis is now associated with McKee & Jaeckels, Inc., Irving Zuelke Building, Appleton, Wis. He was formerly with Alm & Company of Oshkosh.

Joins Draper, Sears Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Cornelius L. McDonald has joined the staff of Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges. He was formerly with J. Arthur Warner & Co., Inc. and du Pont, Homsey Co.

Reduce Social Security Cost By Subsidizing Employers To Retain Older Workers

By SUMNER H. SLICHTER*

Lamont University Professor, Harvard University

In calling attention to rising costs of social insurance due to earlier-age retirements, Dr. Slichter advocates encouraging employers to retain older workers through subsidies. Says this would not only reduce pension costs, but would also keep up employment of younger men. Recommends cost-of-living basis for pensions.

During the last 60 years the usual age of retirement has been dropping rapidly. In 1890 about 74% of the males of 65 years of age or more were in the labor force. At present the proportion has dropped to less than 50%.

Prof. S. H. Slichter

The drop in usual age of retirement has occurred at the volition of employers, not of employees. Men who are in good health usually prefer employment at their customary jobs to retirement, even on liberal pensions. The great majority of men who retire of their own volition do so because of ill health.

The loss of production from premature retirements is one of the principal wastes in the economy. Indeed, the loss of output from premature retirements is greater than the loss from all the featherbed rules of all the unions in the country. If the ratio of employed workers of 65 years of age or over to the population of 65 years of age could be raised to the ratio of 1890, employment would be about 1.5 million larger than it is and the national product would be about $5 billion a year larger than it is. This gain in output from raising the usual age of retirement would be far larger than the cost of all the pensions now paid to retired workers.

A Subsidy Plan

How can employers be discouraged from retiring men who are still capable of producing a considerable amount and who prefer to work rather than to retire? A simple and effective plan would be to give the employer a subsidy for each worker he retains beyond the age of 65. The subsidy might be one-fourth or one-fifth of the annual earnings of the worker. The retention of workers beyond the age of 65 would save money to the old age and survivors' pension scheme, since men who were employed would not be drawing pensions. Hence, the cost of the subsidies should be paid by the old-age and survivors' pension plan.

The total money costs of pensions and subsidies under this plan would probably be about the same as the cost of pensions alone under a plan that gave the employer no incentive to keep workers beyond the age of 65. A pension plan that discouraged the retirement of men who were still capable of producing would be good for the entire community because it would eliminate most of the present loss of output caused by premature retirements and would raise the consumption of the country by several billion dollars a year. In addition, a pension plan that gave employers an incentive to employ men beyond the age of 65 would improve the employment opportunities of men of 62 or 63 or 64 who often have trouble obtaining employment in competition with younger men. If employers were able to obtain a subsidy for keeping men beyond the age of 65, they would be much more willing to hire men who were slightly below 65 years of age.

Would Not Mean Fewer Jobs For Younger Men

Would not encouraging employers to retain more older workers simply mean fewer jobs for younger workers? The answer is "No." The volume of employment adjusts itself to changes in the size of the labor force. As the size of the labor force grows, the volume of employment grows. It increased from about 35 million in 1910 to about 59 million in 1950. The supply of labor is rising more or less constantly. At present it increases by about 600,000 to 1,000,000 a year. Output per manhour also increases each year. Wages adjust themselves to these increases in supply and the increases in productivity in such a way that employment rises at about the same rate that the labor force increases. In other words, about the same proportion of the labor force (subject to cyclical fluctuations) remains employed. The gain in the size of the labor force from a rise in the age of retirement would tend to hold back the rise in wages until the new supply of labor had been employed.

Absorption of the increased supply of labor might also be accelerated by public policy. If a rise in the usual age of retirement were to occur quite rapidly under circumstances that produced an appreciable rise in unemployment, public policies would undoubtedly be modified to stimulate an increase in employment. Everyone agrees that public policies can affect the volume of spending—they can either discourage the tendency of men to spend a little bit more than their recent incomes, or they can encourage this tendency. Furthermore, public policies are likely to be affected by the volume of employment and unemployment. The larger the volume of unemployment, the more vigorous and persistent are likely to be the efforts to stimulate an increase in employment. The effect of an incentive pension system, therefore, is likely to be to cause the makers of public policy to raise their sights—to cause them to endeavor to create a larger volume of employment. In other words, if the labor force, as a result of an incentive pension system, has 65.5 million members rather than 64 million members, one may expect that public policy will endeavor to create a demand for 1.5 million more jobs than it otherwise would do. The reason for this conclusion is that the main determinant of public policy will be the volume of unemployment.

Problem of Maintaining Purchasing Power

A problem that has become of great importance in recent months is the problem of how to maintain the purchasing power of pensions during a period of rising prices. Between 1940 and 1949, when the prices of consumer goods increased by about 70%, the average pension paid under the old-age and survivors insurance plan increased about 15%. The quickening conflict with Russia makes it highly probable that the movement of the price level will be slowly upward for some years to come. At any rate, the people of the country evidently prefer a slowly rising price level to the steps necessary to prevent it, such as strict controls on credit, substantial increases in taxes, particularly taxes on spending, and controls over wages. The politicians seem to feel no strong demand from the country that rising prices be prevented.

If the country is going to have a slowly rising price level, steps should be taken to see that pensions are automatically increased as prices rise. Recent changes in the Social Security Act will increase the benefits now being paid to pensioners by about 77%. This is a little bit more than the rise in the consumer price index since 1940. The adjustment of pensions to this rise has been very tardy. The Social Security Act should be promptly amended to revise once a year both the tax base and benefit payments by the amount of the rise in the cost of living during that period. For administrative simplicity it might be desirable to provide that adjustments will be made only in the event that the consumers' price index has risen by at least 5% since June 1950 or since the last annual adjustment. Since the country seems to prefer policies that make a slow rise in the price level highly probable, it is only fair that the old-age and survivors insurance plan protect pensioners against a drop in the purchasing power of their benefits.

*Summary of an address by Professor Slichter before the American Meat Institute, Chicago, Ill., Oct. 2, 1950.

Carlisle Jacquelin Admit

Carlisle & Jacquelin, 120 Broadway, New York City, members of the New York Stock Exchange, will admit B. P. Schmeil to partnership on Oct. 11. Mr. Schmeil will acquire the Exchange membership of the late William E. Edmonds.

Walston, Hoffman Opens New Branch in Yakima

YAKIMA, Wash.—Walston, Hoffman & Goodwin has opened their 32nd office, in Yakima, in the A. E. Larson Building. This will be the first New York Stock Exchange firm in Yakima in more than a decade. The Yakima office will include Alan C. Ewing and Carl T. Knapp.

Mr. Ewing is a native of Yakima, attended local schools, graduated from the University of Washington, and spent several years in the Air Force during the war. During the past year he has been associated with the Seattle office of Walston, Hoffman & Goodwin and is a registered representative.

Associated with Mr. Ewing will be Mr. Knapp. Mr. Knapp attended the University of Oregon, was associated with General Electric Company in Portland for nine years, was in the finance business in Wenatchee, and during the war was Civilian Property Officer associated with the Pacific Car & Foundry Company at Renton. During the past four years he operated Knapp's, Inc. in Yakima. He is well known in the community and is well versed in investment and brokerage business. Mrs. Robert Heath of Yakima will be office secretary.

The Yakima office will be completely equipped with a stock quotation board carrying quotations on approximately 150 New York Stock Exchange stocks and other securities and commodities. The office will have a direct private wire from Walston, Hoffman & Goodwin's Wall Street Office to Yakima that will permit immediate execution of orders, fast quotations and the latest information on world and market news.

The office will be open from 7:00 a.m. to 5:00 p.m.

Walston, Hoffman & Goodwin was founded in 1930, has three offices in New York, and among its 32 offices are those which are situated in Philadelphia, Pittsburgh, Hartford, San Francisco, Los Angeles, Oakland, Portland, Seattle and Bellingham.

The Yakima office will be equipped with various statistical manuals, corporation reports prepared by the company's large staff of research experts located in New York, San Francisco and Los Angeles, and periodicals.

Gibbs & Coe Formed

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass.—Gibbs & Coe has been formed with offices at 119 Monadnock Road to engage in a securities business.

Carter Hanna Opens

(Special to THE FINANCIAL CHRONICLE)

BURBANK, Ohio—Carter M. Hanna is engaging in a securities business. Vernon Wright is associated with him.

Charles G. Kuhn Opens

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Charles G. Kuhn is engaging in a securities business from offices at West 25th Street & Lorain Avenue.

Pennsylvania Brevities

Pittsburgh Rwys. Distribution

Distribution of over $17,000,000 in cash and interim certificates representing new bonds and stock in the reorganized Pittsburgh Railways Co. system began last Monday in conformance with an order issued by Federal Judge Owen M. Burns of Pittsburgh. The action validates the revised reorganization plan adopted over a year ago and which has been subsequently approved by Securities and Exchange Commission, the Pennsylvania Public Utility Commission and the firm's security holders and general creditors.

Capitalization of the new company will consist of $6,000,000, or less, of 5% first mortgage bonds and 1,076,096 shares of common stock. Outstanding car trust certificates are undisturbed. December 31 has been set as the effective date of consummation.

Thus will pass from existence some 52 component underlying companies whose claims and cross-claims, individual securities issues, contracts, leases, subleases and guarantees have precipitated two extensive periods of receivership the unraveling of which has posed extremely complicated problems in reconciling contractual rights with feasible procedure.

Present holders of former "unguaranteed" bonds of the system are receiving $500 in cash and $500 in Interim Bond Certificates plus temporary stock certificates for the number of shares scheduled under the plan. At a later date the Interim Bond Certificates will be exchanged for new bonds and probably some small amount of additional cash, the latter depending upon the amount available following a final accounting.

Both the Interim Bond Certificates and temporary stock certificates are transferable and negotiable and are being actively traded, as are the new bonds, the latter on a "when issued" basis.

Philadelphia Company, which formerly controlled Pittsburgh Railways Co. through 100% stock ownership, is scheduled to receive 50.9% of the new company common stock in satisfaction of its claims. However, Philadelphia Company is under SEC order to divest itself of its traction company holdings. Thus, in due course, its interest in the new Pittsburgh Railways Co. must be liquidated. Many financial analysts believe the most logical avenue of disposal is by sale and the most logical buyer is the City of Pittsburgh. Indicated book value of the new common stock is about $37 per share.

* * *

P. T. C. Hopes Dim

PHILADELPHIA—Last month the Pennsylvania Utility Commission postponed, from Sept. 14 to Dec. 14, the effective date of an increase in fares originally scheduled by Philadelphia Transportation Co. to have become effective last March. The company estimates that on the basis of existing fares it will have no taxable income for 1950. Whether operations for the year will be in the black will depend upon traffic during the last half and the amount of anticipated Federal tax returns.

For the first six months of 1950, company reported a profit of $236,980 compared with a loss of $1,314,497 in the like 1949 period. In February, 1949, operations were suspended by a crippling 10-day strike.

The schedule under examination seeks to raise the present 10-cent cash fare to 13 cents, or two tokens for 25 cents, with certain adjustments in transfer charges. It is possible that a final order may be forthcoming from the PUC before Dec. 14.

Adding to the troubled outlook this week was the announcement by Andrew J. Kaelin, President of Local 234, Transport Workers Union (CIO), that the union is preparing its demands for further wage increases and benefits to become effective upon the expiration of its present contract next Feb. 1. The union will seek higher wages on the basis of increased living costs. The company's capacity to pay, he believes, is beside the point.

"Too often in the past our contract negotiations have been bogged down with a score of issues that never should be discussed at the bargaining table," Kaelin said. "Much time has always been consumed in discussing the gains and losses of the company in the previous year.

"Actually, as a union, we should concern ourselves only with the wages, hours and working conditions of our members. We are not a finance committee for PTC."

* * *

Fares Increased in Allentown

HARRISBURG—By discontinuing the 8¾-cent token fare and establishing a 2-cent charge for transfers, the Public Utility Commission has granted Lehigh Valley Transit Co., Allentown, increases which, it is estimated, will increase revenues by $83,000 per year. The basic zone fare of 10 cents remains unchanged. The new schedules became effective Sept. 17.

* * *

SKF Consent Decree

PHILADELPHIA—SKF Industries, Inc., manufacturer of antifriction bearings, has consented to an anti-trust decree entered in U. S. District Court here last Saturday.

Exporting and foreign marketing practices were the target of the Justice Department's civil suit. SKF was accused of entering into illegal cartel agreements with a Swedish and an Italian firm the effect of which was to restrain international trade.

The consent judgment requires the company to adopt a new and different trademark for its export products and to advertise its own bearings in foreign markets and use its best efforts to develop independent distribution outlets abroad. The company must also "manufacture and carry in stock such quantities of bearings with the new trademark as are needed for reasonably anticipated export demands, and to sell such bearings to persons desiring them."

Counsel for the company did not admit violation of any anti-trust law but said the company entered a consent in a "spirit of cooperation with the government."

William L. Batt, SKF President, stated that the decree's most important stipulation was that the firm shall continue to make and sell its products to its customers in the United States under the SKF trademark, well and favorably known for 40 years.

It was recently announced that the company's productive facilities at its ball-bearing and roller plant here will be expanded by the construction of an addition providing more than 40,000 square feet of floor space.

* * *

American Stores to Borrow

In order to provide funds for additional facilities and to increase working capital, American Stores Co., through Lehman Brothers, has concluded arrangements for the sale to an insurance company of $10,000,000 in 3% notes. Half the amount will be purchased prior to Dec. 31, 1950; the remainder any time prior to June 30, 1951. The financing is in addition to $15,000,000 in similar notes sold privately in 1947. All notes mature Aug. 1, 1967, subject to an amortization program beginning Aug. 4, 1954, scheduled to retire 4½% annually of the principal amount.

* * *

Pittston Reduces Debt

Thus far in 1950, Pittston Co. has reduced its outstanding collateral trust bonds and income debentures by approximately $1,500,000. Totals now outstanding are $4,669,000 and $1,712,000, respectively. Next year's sinking fund payments are expected to total about $1,000,000.

* * *

Stockholder's Suit Fizzles

PHILADELPHIA — On Sept. 9, 1948, John E. Kroese, holder of 100 shares of the 100,000 outstanding preferred shares of General Steel Castings Corp. filed suit to compel the company to pay preferred stockholders $5,850,000 in accumulated dividends. Mr. Kroese alleged that the company was withholding the money to expand its facilities for the benefit of its common stockholders.

Last month, the suit was dismissed by Federal Judge J. Cullen Ganey at the request of the plaintiff. In the meantime, Kroese had received dividend payments of $27 per share, representing about half the accumulated arrearages.

* * *

Locomotive Orders

Baldwin Locomotive Works has received an order from Erie Railroad Co. for eight diesel-electric locomotives, the third order received from the Erie this year. Baldwin also reports an order for six all-service diesel-electrics from the French North African Railway.

Reading Co. has ordered 20 new diesel road switching locomotives, to cost about $3,000,000, for delivery early next year.

* * *

Budd to Build 51 Cars

H. A. Coward, Vice-President of Budd Co., has announced receipt of an order from Sorocabana Railway Co. of Sao Paulo, Brazil, for 51 stainless steel railway cars, believed to be the largest order of its kind placed this year with any American railway passenger car manufacturer.

* * *

Stock Splits

Stockholders of Smith, Kline & French Laboratories have authorized increase from 1,000,000 to 2,000,000 common shares and have approved giving directors power to issue any or all of authorized but unissued shares at any time without obtaining prior consent of stockholders. The contemplated two-for-one split will bring presently outstanding shares to 1,614,590, which, in the opinion of company officials, "make the stock more readily marketable."

A special stockholders' meeting of Philco Corp. has been called for Nov. 28 to vote on an increase in the authorized number of common shares from 2,500,000 to 5,000,000. William Balderston, company President, said the step reflects the growth in Philco's sales from $52,311,000 in 1940 to an estimated $300,000,000 in 1950.

* * *

Sylvania Electric Products Co. is building a new plant in Warren, Pa., for the production of plastic and plastic-metal parts for radio, television and lighting industries.

* * *

The B. F. Goodrich Co. will occupy a new $500,000 building in Philadelphia about May, 1951. The two-story structure, comprising 100,000 square feet of floor space will house district offices, a distribution center and a retail store.

* * *

Aetna - Standard Engineering Co., whose manufacturing plants are located at Warren, Ohio, and Ellwood City, Pa., is moving its executive offices and engineering departments from Youngstown to Ellwood City and Pittsburgh.

* * *

PHILADELPHIA — The Philadelphia Gas Works Co. and Motor Parts Co., together holding exclusive distributing rights for Servel gas refrigerators in Philadelphia and 14 nearby Pennsylvania counties, have been charged with violating the Sherman Anti-Trust Law by conspiring to fix the prices of gas refrigerators sold in this area.

* * *

More than 90% of the outstanding stock of American Casualty Co. of Reading has been acquired by Accident and Casualty Insurance Co. under the latter's offer of Aug. 14 to pay $22 per share for up to 100% of the Reading company's stock.

* * *

Lecture Series Scheduled

PHILADELPHIA — A series of four lectures, further developing the "Invest in America" theme that was the topic of a forum held last year under the sponsorship of the Philadelphia - Baltimore Stock Exchange and the Chamber of Commerce, has been scheduled for Oct. 17, 24, 31 and Nov. 7. They will be held in the auditorium of the John Wanamaker store. Joining in this year's sponsorship are the Association of Stock Exchange Firms, Investment Bankers Association and the National Association of Securities Dealers.

Speakers at the lecture series will include Edward Hopkinson, Jr., partner, Drexel & Co.; Courtnay Pitt, Vice-President-finance, Philco Corp.; R. S. Tannehill, Vice-President, Secretary and Treasurer, Bell Telephone Co. of Penna.; Francis Boyer, Smith, Kline & French Laboratories; E. S. Banks, financial editor, the Philadelphia "Inquirer," and J. A. Livingston, financial editor, the Philadelphia "Evening Bulletin."

Director

J. Arthur Warner

J. Arthur Warner has been elected a director of Eastern Stainless Steel Corporation, Baltimore, Md.

H. W. Armington Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Henry W. Armington has formed H. W. Armington & Co. with offices at 79 Milk Street to engage in a securities business. He was formerly with Amott, Baker & Co., Inc.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Guaranty Trust Company of New York announces the appointment of Donald B. Anthony as a Second Vice-President, Robert H. Blake as Assistant Manager, Paris office, and Gerard Hallock as Assistant Treasurer. Mr. Anthony has been Assistant Real Estate Trust Officer and now becomes associated with the banking department. Mr. Blake continues with the Paris office, where he has been Assistant Secretary. Mr. Hallock also becomes an officer of the banking department.

* * *

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. 12, 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

[The foregoing item appeared in the "Chronicle" of Sept. 28, on page 20, and is repeated for the reason that the picture then published was not of the "Arthur J. Morris" referred to in the article.—Editor.]

* * *

The 100th anniversary of the **Emigrant Industrial Savings Bank of New York,** which opened its doors Sept. 30, 1850, was marked on Sept. 28 by a dinner for its trustees, officers and entire personnel at the Hotel Biltmore, according to an announcement made by John T. Madden, President. Mr. Madden made the address of welcome and was followed by Michael A. Morrissey, Chairman of the Board of the American News Company and a trustee of the bank, who took for his subject, "Our Heritage." Thomas I. Parkinson President of the Equitable Life Assurance Society of the United States and also a trustee of the Emigrant, spoke on "Traditions of Thrift."

Established as a result of the concern felt by the Irish Emigrant Society for the financial well-being of the tides of emigrants flowing into New York in the mid-nineteenth century, the new bank received its charter on April 10, 1850, and began operations on the site of its present main office at 51 Chambers Street, five months later. Its board of trustees was composed of 18 merchants and its first President was Gregory Dillon, one of the founders of the Irish Emigrant Society. Twenty depositors entrusted a total of $3,009 to the new bank the first day it was opened for business. By 1860, depositors had grown to more than 8,487, while deposits exceeded $2,172,000. At the half century mark, in 1900, deposits increased to more than $57,089,000 and represented the savings of 88,076 depositors. According to the latest statement of the bank, released July 1, depositors number 307,228 and deposits total $600,977,733.

* * *

James Waller Hole, a Trust Officer of the **Bankers Trust Company of New York** died on Sept. 24. Before the merger on Sept. 18 of the Lawyers Trust Company with the Bankers Trust, Mr. Hole had held a similar post with the Lawyers Trust. The merger was referred to in our Sept. 21 issue, page 1105.

* * *

Throughout the month of October a choice of the works of Franz Felix, portrait painter, book designer and illustrator of the "Droll Stories" by Honore de Balzac, will be on exhibit at the **East River Savings Bank of New York** in its Rockefeller Center office, 50th Street and Rockefeller Plaza, in a commemoration of this year's Balzac Centennial.

* * *

At the regular meeting of the Directors of **City Bank Farmers Trust Co. of New York,** held on Oct. 3, William Rogers Coe, Vice-President, Treasurer and Director of the Virginian Railway, was elected a Director. Mr. Coe is also a Director of the Brooklyn Union Gas Company, Long Island Lighting Co.; and Trustee of East River Savings Bank, and Vice-President and Director of the Loup Creek Co. and Wyoming Land Co.

* * *

MANUFACTURERS TRUST COMPANY, NEW YORK

	Sept. 30, '50 $	June 30, '50 $
Total resources	2,320,044,595	2,271,810,894
Deposits	2,135,910,161	2,100,793,828
Cash and due from banks	619,939,730	542,796,848
U. S. Govt. security hldgs.	864,942,694	1,005,984,915
Loans and bills discounted	662,977,764	580,363.892
Undivided prof.	36,452,372	34,992,899

* * *

CENTRAL HANOVER BANK AND TRUST COMPANY, NEW YORK

	Sept. 30, '50 $	June 30, '50 $
Total resources	1,562,484,722	1,551,777,211
Deposits	1,409,518,387	1,399,854,442
Cash and due from banks	411,363,312	388,075,342
U. S. Govt. security hldgs.	526,930,236	649,504,735
Loans and bills discounted	520,547,548	422,762,644
Surplus & undivided prof.	113,769,108	113,243,780

* * *

CHEMICAL BANK & TRUST COMPANY, NEW YORK

	Sept. 30, '50 $	June 30, '50 $
Total resources	1,533,839,422	1,552,253,850
Deposits	1,377,983,667	1,390,485,051
Cash and due from banks	378,773,423	402,419,942
U. S. Govt. security hldgs.	432,702,298	511,288,433
Loans and bills discounted	535,862,281	480,140,109
Undivided prof.	15,919,950	15,081,250

* * *

IRVING TRUST COMPANY, NEW YORK

	Sept. 30, '50 $	June 30, '50 $
Total resources	1,207,324,358	1,205,513,499
Deposits	1,060,832,938	1,068,961,562
Cash and due from banks	310,751,144	311,956,317
U. S. Govt. security hldgs.	342,544,894	436,218,284
Loans and bills discounted	486,150,266	405,488,334
Undivided prof.	14,764,650	14,113,398

* * *

CORN EXCHANGE BANK TRUST COMPANY, NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	795,925,689	792,224,895
Deposits	745,405,655	742,473,531
Cash and due from banks	227,588,047	216,565,724
U. S. Govt. security holdings	441,792,953	464,294,184
Loans & bills disct.	90,078,003	78,816,164
Undivided profits	7,658,428	7,359,706

Continued on page 47

"Liberation" of Canadian Dollar

By FRANZ PICK

International Monetary Economist

Currency expert, analyzing U. S. "hot money" in Canada, asserts speculators gained negligible results from their operations in currency or securities. Predicts "wait-and-see" policy of Canadian government and doubts further up-valuation of Canadian currency.

The Canadian dollar, which sold at $0.95 on Monday, Oct. 2. World-in New York, could only be bought at $0.95 on Monday, Oct. 2. World-wide speculation, which for many weeks expected an "up-valuation" of Canada's monetary unit to par with the U. S. dollar, was rather disappointed. Hundreds of millions of dollars had been invested in many kinds of currency speculations in Canadian dollars and the results were rather meager. Less than 4% was received in profits, for often very complicated transactions.

Franz Pick

The patterns followed by American and international operators in these recent currency deals, based on the Canadian dollar, were the following:

(1) Fully Paid Transactions

Purchase of Canadian banknotes or deposit of American, Swiss, Mexican, Venezuelan or Uruguayan funds in Canadian banks or on special Canadian dollar accounts of international banks with Canadian affiliations.

(2) Margin Transactions

(A) Purchase of Canadian dollars for 30, 60 or 90 day delivery in New York at a premium of ½ to 1% per month.

(B) Purchase of Canadian securities listed in New York, especially Canadian Pacific, International Nickel, Dome Mines, McIntyre Porcupine Mines, Brazilian Traction, etc.

(C) Purchase of Canadian "internal loans" such as Canadian Government 3s of 1959-1956, and her 3s of 1966-61, for which many banks advanced about 90% of the purchasing price to the buyer.

(3) Arbitrage Transactions

The American or international speculator acquired "switch-pounds" in New York in order to buy Canadian securities in sterling, in the London market.

* * *

After the freeing of the Canadian dollar from its official peg, and the moderate "up-valuation" of Ottawa's currency unit to U. S. $0.95, most of the abovementioned transactions came to a standstill. Liquidation of forward positions in Canadian dollars began Oct. 2, and on Tuesday, Oct. 3, nearly one-fourth of such contracts seemed to have been liquidated with small profits.

Most of the positions in Canadian securities seemed to have been maintained, although they offered only a small additional chance of "up-valuation" for currency reasons. Commitments in Canadian internal loans also showed only small profit-taking.

What Are the Further Chances of Such Speculations?

At this moment it seems as if the Canadian Government would not plan to bring its dollar up to full parity with the U. S. dollar. Finance Minister Abbott may follow a rather prudent policy to keep Canada's currency in the neighborhood of U. S. $0.95. In pursuing such a policy, the speculative elements and their "hot money" might soon give up their commitments in Canadian dollars or securities, and a more normal development of the "free rate" of Ottawa's dollar could take place. This could spread over a number of months and would enable Mr. Abbott to solidify the new currency rate. He could also raise it periodically by fractions only, if and when the inflow of non-speculative foreign capital justifies such a step.

Canada's citizens, in spite of the recent "up-valuation" of their dollar, are not yet free to hold foreign currencies, or to invest their assets abroad. Therefore, as long as complete liberty of capital transfers is not granted to Canada's population, the present currency reform remains a non-completed measure. We will have to wait for the moment in which a freely convertible Canadian dollar becomes convertible not only for foreigners, but for Canadian nationals as well. Only then, the acid test of Ottawa's currency will be completed.

In the meantime, profit chances of foreign exchange speculations in Canada's currency remain rather small and not very attractive for speculators, who have better opportunities in Wall Street than in Toronto or Montreal.

* * *

Canada's free gold markets reacted—as could be expected—with a heavy decline of prices of gold bars and gold coins, which lost about 6% to 8% in value over the week-end.

Ronan, Donadio With J. F. Reilly & Co.

Joseph F. Donadio

Frank J. Ronan and Joseph F. Donadio have joined the Trading Department of J. F. Reilly & Co., Inc., 61 Broadway, New York City.

Mr. Donadio was formerly with the New York Hanseatic Corp. and Strauss Bros.

Reopens Branch

PINEHURST, N. C.—Reynolds & Co., members of the New York Stock Exchange, announce the reopening of their branch in Pinehurst in the Priscilla Scofield Building, under the management of Thomas C. Darst, Jr. The Lumberton, N. C. office has been closed.

MacDonald-Hoornaert

LOS ANGELES, Calif.—Donald MacDonald and John F. Hoornaert have formed a partnership to engage in a securities business with offices at 315 West 9th Street.

E. C. McManaway Opens

(Special to THE FINANCIAL CHRONICLE)

ASHLAND, Ohio — E. C. McManaway is engaging in a securities business from offices at 831 Sandusky Street.

Jules J. Vatable

Jules J. Vatable, who had been associated with H. Hentz & Co., died, it has been announced.

Mutual Funds

By ROBERT R. RICH

NASD Releases Clarifying Letter

The National Association of Securities Dealers, Inc. released to its members this week the first clarifying letter on the Securities and Exchange Commission's Statement of Policy of Aug. 14.

The clarifying letter stated that small, typically institutional advertisements in newspapers and magazines need not, for the time being, include a statement relating to the sales charge, unless the sales literature undertakes to give a general description of investment companies, in which case mention of a sales charge, in general terms, is suggested.

The letter further noted that percentage return or yield figures should not be used in advertisements or general sales literature of an institutional type, since such information can be given, under the Statement of Policy, only with respect to specific companies.

Any literature or advertisement that invites the reader to state his investment objectives should make it clear that the information sought is for the purpose of guidance only and should state that there is no assurance that such objectives will necessarily be achieved.

The Association reiterated its earlier statement that it will be glad to assist any underwriter or dealer in interpreting any section of the Statement of Policy. It requested that material be filed in duplicate and be dated.

The Securities and Exchange Commission's study of general advertising and sales literature is not yet completed. Pending completion, all general advertising and sales literature must meet the standards set forth in the Statement.

Nat'l Securities Wins Oscar For Best Annual Report

In the final ratings of an independent board of judges for the "Financial World" Annual Report Survey, National Securities Series was judged as having the best annual report of investment funds for the seventh consecutive year.

The bronze "Oscar of Industry" trophy will be presented to Henry J. Simonson, Jr., President of National Securities & Research Corporation at the Annual Awards Banquet in the Grand Ballroom of the Hotel Statler in New York on Oct. 30, 1950.

More than 4,500 corporation annual reports were submitted in this national survey, the tenth in the series, and these were judged in one hundred industrial classifications for "Best of Industry" awards.

The jury who made the final selections was under the Chairmanship of Dr. Lewis Haney, Professor of Economics at New York University. He was assisted by Denny Griswold, Editor and Publisher of "Public Relations News"; Elmer Walzer, United Press Financial Editor; Carman G. Blough, C.P.A. and Research Director of the American Institute of Accountants; John H. Watson, III, of the Division of Business Practices, National Industrial Conference Board; Guy Fry, President of the National Society of Art Directors.

Weston Smith, Executive Vice-President of "Financial World" and originator of the annual report surveys, has advised that the National Securities Series Annual Report is in the running for the silver and gold oscars.

Wellington Canadian Holdings Over $3 Million

Wellington Fund reported today that its holdings of Canadian securities amounted to $3,774,725 at the close of business Sept. 29, last. The Fund said it was releasing the figures in advance of the report for the September quarter because of a substantial public interest in the figures following the Canadian Government's action in placing its currency on a free exchange basis this past week-end. Wellington Fund listed its Canadian bond holdings as follows—$716,000 Canadian National Ry. 4½s, 1951—$649,000 Dominion of Canada 3s, May 1, 1957—54—$288,000 Canadian Pacific Ry. 3⅛s, 1970—$183,000 Imperial Oil 3s, 1969—$94,000 Bell Telephone of Canada 3¼s, 1973—$91,000 Bell Telephone of Canada 3s, 1977 — $47,000 Shawinigan Water & Power 3½s, 1970—and $71,000 Shawinigan Water & Power 3½s, 1973. The Fund's holdings of Canadian common stocks included — 30,000 shares International Nickel of Canada—10,000 shares Hudson Bay Mining & Smelting—and 5,700 shares Shawinigan Water & Power.

Keystone at Peak

Combined net assets of the ten Keystone Funds on Aug. 31, 1950, reached a new high of $215,193,200, it is disclosed by the annual report of Keystone Fund K1, made public today. This total compares with $176,559,400 at the close of August last year. As of the date of the present report, the number of shareholders of the ten funds totaled 52,368.

Net assets of the Income Preferred Stock Fund increased to $38,872,595 on Aug. 31, 1950, equal to $16.44 per share. This compares with net assets of $32,182,527 on Aug. 31, 1949, equal to $14.66 per share. In the Fund's semi-annual report as of Feb. 28, 1950, net assets of $37,304,533 were shown, equal to $16.09 per share. The number of shares outstanding also increased from 2,195,473 a year ago, to 2,318,405 on Feb. 28 and 2,364,403 on Aug. 31, 1950.

Nation-Wide Gains

On Aug. 31, 1950, total net assets of Nation-Wide Securities Company, Inc., amounted to $15,217,559, equal to $14.50 per share on 1,049,261 outstanding shares. These compared with $13,604,986, or $13.97 a share on Dec. 31, 1949, on 973,838 shares.

"During the first half of 1950 up to the time of the Korean crisis, the company decreased the percentage of assets invested in common stocks, but, following the sharp break in the market in June which culminated in July, a portion of reserve funds was used for selected common stock purchases," according to the quarterly letter to stockholders.

Percentages of total net assets invested in various classes of securities as of Aug. 31, 1950, were: common stocks, 46.44%; preferred stocks, 21.82%; U. S. Government bonds, 10.65%; other bonds, 18.21%; cash, etc., 2.88%.

Affiliated Fund Reports

Affiliated Fund Inc. reports a per share asset value of $4.59 as of Sept. 15, 1950, which compares with $3.81 per share a year earlier. Net assets at the end of the latest period were $108,371,619 diversified as follows: Automotive, 0.79%; aviation, 1.68%; building, 2.30%; chemical, 5.33%; machinery, 2.29%; motion picture, 1.65%; nonferrous metal, 6.19%; oil, 30.18%; railroad and railroad equipment, 6.56%; retail trade, 5.27%; textile, 1.98%; tobacco, 5.19%; utility, 18.79%; miscellaneous, 6.10%, and cash and receivables, 5.70%.

Stock and Bond Group 6% Over June High

The share value of Stock and Bond Group Shares was 6% above the June 12 high on Sept. 22, E. S. Hare, President of the Fund, reported. The market price was $14.69 on June 12, 1950, compared with $15.57 on Sept. 22, for a gain of $0.88. Mr. Hare pointed out that, at the close of the same period, the Dow, Jones Industrial Average was 0.76% below the June 12 high.

Technical Fund Files

Technical Fund, Inc., San Francisco, filed on Sept. 28 a registration statement with the Securities and Exchange Commission covering 680,375 shares of $1 par value common stock, to be sold at price per share based on market value of portfolio securities. The underwriter is Technical Fund Distributors, Inc.

The Value of Experience

One of the greatest assets a mutual fund's shareholder has is the experience of the management which is working for him. It should be comfort for him, indeed, to realize that, during this period of wartime stress on our economy and its consequent reflection in the stock market, his investments are being managed by men whose valued experience has been gained in other war years, peace years and uncertain years.

How wrong the investor can be who manages his own portfolio on the basis of "logic" and stock market "rules of thumb" is well-demonstrated in a "Brevits" article of July, 1945. It is particularly timely now, when speculation, or, at least, speculative talk

Continued on page 47

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

This is going to be a repeat of last week's column and of similar columns written in the past few weeks. In essence it will say the market is going higher even though there may be some minor setbacks in the next few days, or weeks.

* * *

Oddly enough, the utilities, that friendless group about which everybody shakes their heads dolefully, now look higher. It's no secret that the utilities, tied to rate structures regulated by municipalities, State and Federal bodies, are behind the eight ball during inflationary spirals. One thing in their favor is that, as regulated companies, they are not permitted to earn excess profits. It is virtually a certainty that Congress will take that into consideration when it gets around to dreaming up an excess profits tax law. In any event, there's been some interesting buying going on in this group for the past few days; buying, which in my opinion is much more indicative of the future than ponderous articles about rate structures, excess profits, etc.

* * *

A number of weeks ago I commented in the same fashion about rails. Just as I didn't mention specific rail stocks, I am likewise refraining from mentioning specific utility stocks. It is the group that will advance.

* * *

Incidentally, if you'd like some insurance, consider the lows of last Tuesday, Sept. 26, as the support zone. If you buy any utilities here, watch the lows of that date.

* * *

I might mention that these lows are equally important in other stocks (non-utilities). I stress these figures because that was the day when stocks looked as if they had reacted from an impenetrable object. The previous day (Monday) they closed hesitatingly. Tuesday they went down. But Wednesday, the day they looked like they would break, they curled up and then—up again.

* * *

This rise is much more evident in individual stocks than in the Dow averages. At this writing the latter are in what chartists call "double top" zones. But individual issues, e. g., General Motors, DuPont, Steel, etc., have gone through their top figures and are now headed, or seemingly headed, to higher levels. In fact, based on recent market action, it would not be at all surprising to see a 10% rise in the general averages before any reaction worthy of the name came about.

* * *

Last week I outlined one method of trading, long and short, as engaged in by professional traders. I'd like to add that in these days of taxes and higher commissions, the method is hardly suitable for tyros.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

With I. M. Simon Co.

(Special to The Financial Chronicle)

ST. LOUIS, Mo.—Floyd E. Dixon, Sr., has become connected with I. M. Simon & Co., 315 North Fourth Street, members of the New York and Midwest Stock Exchanges. He was previously with Slayton & Co., Inc.

Monetary Policy Today

By M. S. SZYMCZAK*
Member, Board of Governors,
Federal Reserve System

Federal Reserve Governor, in pointing out why savings institutions are vitally concerned in preserving purchasing power of their deposits, reviews inflationary threat arising from rising prices and expansion of bank credit. Stresses need for checks on consumer and real estate credit, and reveals plans of Federal Reserve System in these fields. Urges higher taxes and measures for gradual retirement of bank-held Federal debt to supplement Federal Reserve's anti-inflation efforts.

Within the past year and a half we have seen business recession, business recovery, and a business boom. Six months ago we were wondering how long business recovery could continue. Since June 25 the question on most people's minds has been "How serious is the present inflationary threat likely to become?"

M. S. Szymczak

To ignore the present inflationary threat would be to misinterpret recent economic developments. True, immediate plans call for a smaller diversion of gross national product to the defense of Korea and rearmament than the maximum diverted for World War II. Unlike the situation in 1941, however, there is much less slack in the economy at the present time. Our productive capacity is now much closer to being fully utilized for the satisfaction of private consumer demands than it was when we entered World War II.

Not only is our productive capacity more fully utilized, but the purchasing power of consumers is substantially greater today than it was in 1941. During the past nine years disposable personal income has doubled, liquid asset holdings of individuals have nearly tripled, and the ability of the financial system to expand credit is very large. Should the supply of consumer goods be reduced without a corresponding reduction in people's capacity to purchase them, competitive bidding for goods and services would inevitably lead to inflation.

Savings bankers, as guardians of individuals' savings deposits, are vitally concerned with preventing further erosion of the purchasing power of these deposits. More than that, they are vitally concerned with the prevention of inflationary booms and unsound credit expansion that pave the way for future economic collapse. That is why I should like to discuss with you the need for monetary and credit action to curb further inflation, and the effects of such action on savings banks.

Recent Economic Developments

Immediately prior to the outbreak of war in Korea, economic activity and employment were at very high levels. Industrial production in May exceeded the record postwar level reached during 1948, unemployment had declined sharply from the February peak, and wholesale prices had edged back to their early 1949 level. New housing units started were 50% greater during the first five months of 1950 than in the corresponding period of 1949, while business investment in new plant and equipment and inventories was expanding rapidly. It was readily apparent by the early part of June that the year 1950 would be one of exceptionally good business, and that renewed inflationary forces were pressing on the economy.

The immediate effect of war in Korea was to intensify existing inflationary forces, and to add new ones. Many consumers and business men, whose memories of wartime shortages and rationing were still vivid, started to buy up goods as fast as possible. Department store sales, which during the first half of 1950 had been running slightly below those of the same period in 1949, jumped 21% in July—an unprecedented increase for one month. While this sudden upsurge in consumer demand, more commonly referred to as "scare buying," has subsided somewhat in recent weeks, department store sales are continuing at a level from 5 to 10% above last year's. The reaction of business men can be seen in a sharp rise in orders and in the heavy demand for primary commodities.

Increased demands of individuals, businesses, and the Government resulting from the Korean war and an accelerated rearmament program have also been reflected in higher prices, increased industrial production, and declining unemployment. By mid-September prices of 28 basic commodities had risen 25%, while wholesale prices of all commodities were up 8%, from their end-of-June levels. Industrial production, as measured by the Board's index, had already reached a record postwar level of 199 in June; since then, it has risen to 207 in August and is expected to reach 211 in September. Unemployment has declined sharply since June, and is now about one-third less than this time last year.

Were it not for the fact that commercial bank loans have expanded by $2.5 billion since June and that prices continue to rise, the recent increase in consumer buying and industrial production might be looked upon merely as evidence of increased prosperity. However, in view of these developments, and an increase during July in outstanding consumer instalment credit that was 2½ times the monthly average for the first half of 1950, it seems fairly obvious that what we are facing today is not vigorous and healthy prosperity but the threat of inflation.

Inflation, if uncurbed by monetary, credit, debt management, and fiscal policies, can creep upon us month by month and year by year until suddenly we find ourselves prostrate in its grasp. It's not a particularly pleasant prospect for us who have watched the purchasing power of the dollar dwindle over the past 10 years, and it's not one that we can afford to let pass unchallenged when we have the means of stopping it at our disposal.

Monetary, Credit, and Fiscal Curbs on Inflation

Several possible courses of action for curbing inflation have been widely discussed in recent months. On the one hand, we hear the proponents of direct price, rationing, and wage controls arguing for an immediate return to the regimented economy of the last war. On the other hand, we hear the somewhat calmer, if less audible, proponents of monetary and fiscal policies arguing for curbing inflation by means of credit control, higher taxes, and debt management.

I shall not take the time today to discuss the relative merits and demerits of rationing and direct controls of production, prices, and wages. I shall merely remind you that they are difficult and cumbersome to administer and that they attack the effects, rather than the basic causes, of inflation. Instead, I'd like to spend a few minutes discussing the ways in which the banking system and the Federal Government can strike at the causes of inflation, and the responsibilities of the Federal Reserve System in an inflationary period.

Since ours is primarily a credit rather than a cash economy, one of the surest ways to curb inflationary forces is to diminish the flow of credit. This can be done in any one of a number of ways, or combinations of ways. By raising the rediscount rate the Federal Reserve makes it more expensive for member banks to borrow on eligible paper. This increased cost of borrowing is usually passed on to bank customers in the form of higher interest charges on personal and business loans. Thus, by making Reserve Bank credit more expensive, the System may discourage credit expansion to some extent.

By increasing reserve requirements, the Federal Reserve can reduce the amount of credit which member banks may extend on the basis of deposit balances maintained with Federal Reserve Banks. Through open market sales of government securities, which reduce the reserve balances of member banks, the Federal Reserve may contract the basis of bank credit expansion. Theoretically, any one of these methods may be used to curb further credit expansion or to contract the total volume of outstanding bank credit, but in practice they need to be employed in some appropriate combination.

In addition to the general credit instruments which I have been discussing—instruments which affect the total volume but not the particular type of credit extended or outstanding—the Federal Reserve now has authority to restrict specific types of credit. At the present time the Federal Reserve may, by establishing certain terms and conditions for stock purchase, consumer instalment, and real estate construction loans, affect the demand of individuals for such credit. These selective credit instruments, unlike the general credit instruments, do not directly affect the volume of credit which may be extended or outstanding, but they do alter the terms on which credit is available, and hence affect the ability and willingness of individuals to utilize such credit.

The Federal Reserve, as the agency of the government charged with responsibility for contributing, as best it can, to the maintenance of monetary and credit conditions consistent with the needs of economic stability, is obligated to exercise its monetary and credit powers in curbing inflationary forces. There is no question, therefore, as to whether the Federal Reserve should take action to curb inflation: the question is simply when and in what form it should be taken.

In addition to monetary and credit action by the Federal Reserve to curb further expansion of bank credit, there are other financial measures necessary for attacking the basic causes of inflation. In the field of fiscal or budgetary policy it is possible for the Federal Government to finance a large part of its increased defense expenditures on a "pay-as-you-go" basis by means of higher individual and corporate income taxes. In retrospect, the gravest mistake we made in financing World War II, and the mistake which left the deepest mark on the American economy, was failure to tax enough. This failure left us with a huge burden of government debt and tremendous potentialities for inflation. As a consequence, we experienced great difficulty in maintaining financial stability in the postwar period.

The longer it takes to increase taxes substantially, the smaller the increase in taxes relative to government expenditures, and the more the government borrows from banks, as contrasted with the public and nonbanking institutions, the greater the need for monetary and credit action to restrain further credit expansion.

Even if government expenditures were almost fully covered by taxation, it would be highly desirable under present and prospective conditions for the government to siphon off as large a volume of excess investment funds as possible by tapping real savings when borrowing additional funds or when refunding securities that mature. Moreover, the government should take advantage of every opportunity to sell securities to nonbank investors and to retire public debt held by the banking system. Sales of bonds to individuals, corporations, and nonbank financial institutions would absorb money that might otherwise be spent on current consumption or new private investment, and using the proceeds to retire securities held by banks would reduce bank liquidity and help to offset expansion of bank credit to private borrowers.

Recent Monetary and Credit Developments

During the weeks immediately following the Korean invasion, steps were taken to reduce the expansion of certain types of credit and to broaden the powers of the government for expediting rearmament and curbing inflation. On July 18 the President directed Federal agencies concerned with real estate financing to restrict their lending activities; on July 19 he requested additional control, allocation, and credit restriction authority from Congress; and, on July 25, he asked that individual and corporate income taxes be increased to provide additional revenues to help cover the costs of rearmament.

Reviewing very briefly the major provisions of the Defense Production Act of 1950, we find that it grants authority to the President to (1) establish priorities and allocations covering the use of scarce or critical materials; (2) requisition productive capacity essential to fulfilling rearmament contracts; (3) expedite the expansion of capacity and supply through guaranteeing bank loans to war contractors and subcontractors; (4) establish wage and price controls and rationing under certain conditions; and (5) control the terms and conditions upon which consumer and real estate loans are extended. In all cases the powers conferred in this act are permissive rather than mandatory, and the extent to which they are used will depend largely on the future course taken by rearmament and inflation.

On Aug. 18, in announcing its approval of the New York Bank's increase in rediscount rates from 1½% to 1¾%, the Board pointed to the fact that during the preceding six weeks' period loans and holdings of corporate securities at banks in leading cities had expanded by $1.5 billion—an excessive amount, in view of existing conditions. The Board further emphasized the fact that while effective restraint of inflation must ultimately depend on the willingness of the American people to tax themselves adequately to meet the government's needs on a "pay-as-you-go" basis, taxation alone would not do the job. On the contrary, prompt and parallel curbs in the area of monetary and credit policy are needed if effective restraint is to be achieved.

Throughout the postwar period, low yields on government securities, together with the large and growing volume of short-term securities outstanding and held by banks and savings institutions, have prompted these institutions to shift their funds to higher yielding investments. In so doing, they have made real estate and other credit readily available to private borrowers. The problem of restricting such credit expansion has been further complicated by the policy of maintaining an orderly market for government securities at rates which assured low cost refunding and new financing by the Treasury. In order to keep short-term rates from rising, the Federal Reserve had to purchase substantial amounts of short-term securities. These purchases created additional bank reserves.

In an effort to curtail extension of credit to private borrowers, the Board of Governors and the Federal Open Market Committee initiated a new phase of open market operations on Aug. 18. On that date they stated that they were prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the government securities market.

The first test of the new open market policy was provided by the Treasury refunding of bonds and certificates maturing Sept. 15 and Oct. 1 with 1¼% notes of 13 months' maturity—a rate which was lower than the rate established in the market as a result of discontinuance by the Federal Reserve of the policy of preventing rates from rising. In order to assure the success of the Treasury refunding, the Federal Reserve bought the maturing issues. At the same time, however, to prevent a growth in bank reserves, the Federal Reserve sold other outstanding issues at somewhat higher yields. As a result, the average yield on short-term government securities has risen during the past month. Federal Reserve purchases so far have somewhat exceeded sales and bank credit and bank reserve expansion has continued, but it is hoped that with termination of

Continued on page 34

*Address by Gov. Szymczak before the Savings and Mortgage Division of the American Bankers Association Diamond Anniversary Convention, New York City, Sept. 25, 1950.

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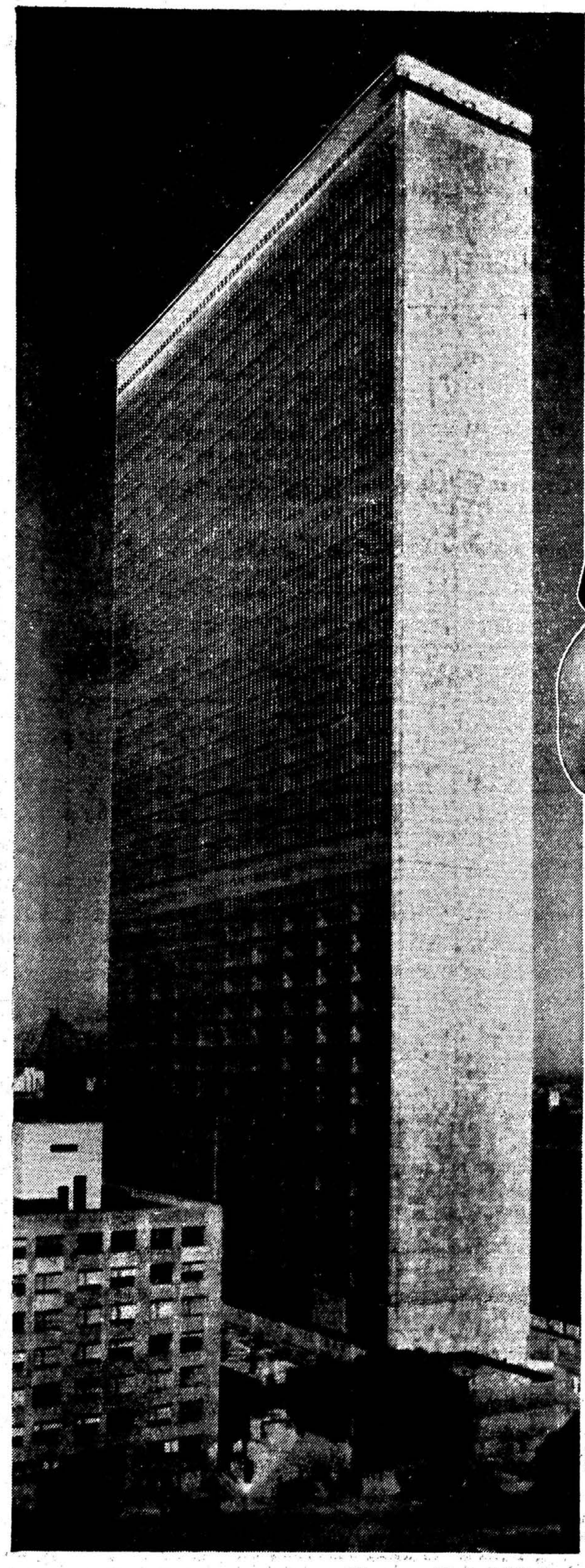

HELPING TO BUILD A BETTER WORLD. The new United Nations Secretariat Building that rises so majestically beside the East River in New York City has a 39-story steel framework that not only came from United States Steel furnaces, but was fabricated and erected by U. S. Steel.

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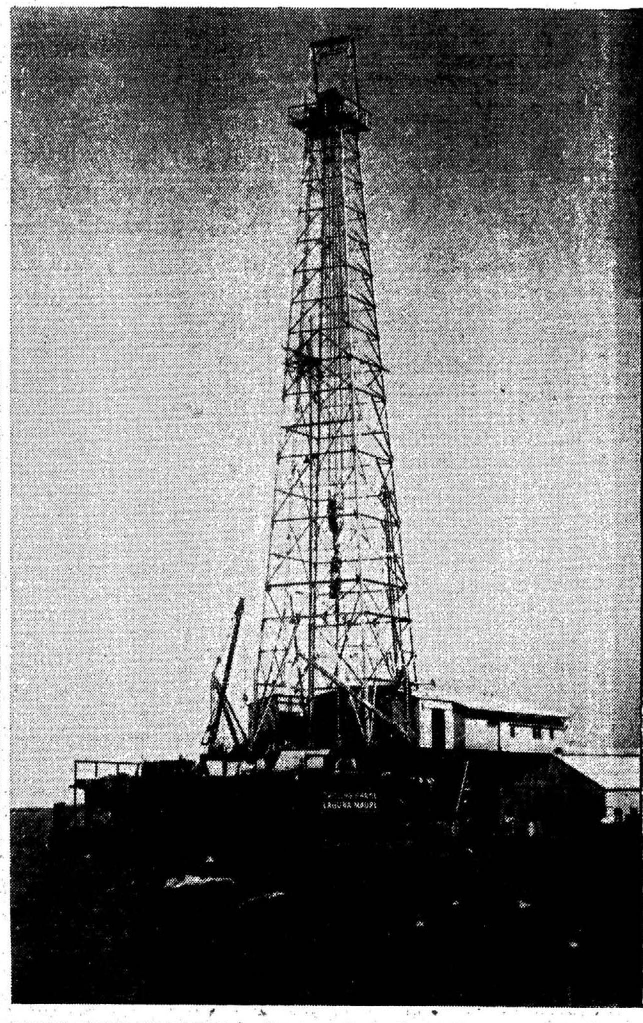

FORTY FATHOMS DOWN isn't very deep these days . . . not when they're drilling oil wells in the ocean floor that go down two miles or more! Making steel drilling equipment, wire lines, pipe and cement for use in the oil fields is just one of the ways in which United States Steel continues its number-one job of helping to build a better America.

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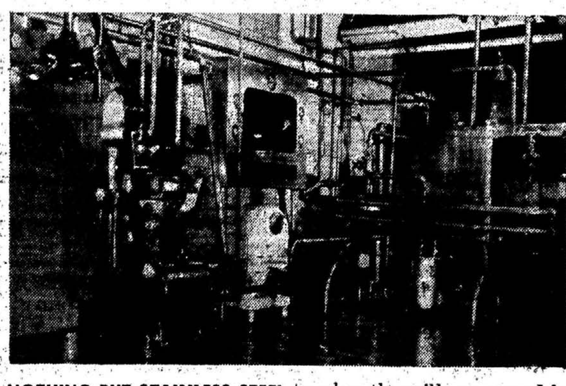

NOTHING BUT STAINLESS STEEL touches the milk processed in modern dairies like this. Equipment has to be clean *all* the time . . . and because Stainless Steel is so easy to clean and keep clean, it's the preferred material for piping and other equipment in dairies. United States Steel makes U·S·S Stainless Steel for thousands of other uses, too.

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Problems Confronting Banks

By MARCUS NADLER*
Professor of Finance, New York University

Among problems confronting banks, Dr. Nadler lists: (1) growing economic power of government, especially in fields of credit and banking; (2) inflationary pressures resulting from rearmament programs; (3) huge public debt; and (4) heavy burden of taxation. Says serious inflation can be avoided if nation's productive capacity is increased and banks curb credit expansion while excess purchasing power is siphoned off by government. Stresses role of banks in emergency and expects continued Treasury deficits. Looks also for higher bank reserve requirements that will depress bank earnings. Advocates sterilization of excess bank reserves.

Marcus Nadler

The problems confroting the banks in the present emergency cannot be considered in the abstract nor from the point of view of the banks alone. They must be considered within the framework of general economic developments and the international political situation.

The economic and social thinking of the United States has undergone great changes during the last two decades, and this has had a profound effect on Congressional actions. The government is committed to the goals of providing greater economic security and better housing and health facilities, and preventing large scale unemployment and a sharp decline in farm income. This involves not only increased power and influence of government over business in general, but also continued intervention in periods of declining business activity, large Federal expenditures, and mounting lending and guaranteeing operations by government agencies.

The change of thinking in the international political sphere has been equally great. The policy of isolation so pronounced during the twenties is a thing of the past. We now are committed to a policy of containing the Soviet Union, of stopping communist aggression—if need be by force of arms—and of giving economic and military aid to the noncommunistic nations. In many respects, the United States has assumed the burdens which formerly rested on Great Britain and on other Western European nations. This implies continued large scale military preparedness and larger Federal expenditures and hence an accentuation of the inflationary forces which began to reassert themselves early in the present year.

The economic and political changes of the past years are not temporary manifestations; they are permanent in character; and as yet nobody can tell what the ultimate outcome will be.

In spite of these developments and the possibility of new government controls, it is unrealistic to assume that we are headed for socialism and a repetition of what has happened in some countries of Europe. Socialism implies government ownership of basic industries, nationalization of the financial institutions, and a planned economy. Nothing of this sort is in the making in the United States. Even in labor circles—at least among the powerful labor unions—there is no desire to nationalize the basic industries. There is no movement on foot to nationalize the commercial banks and insurance companies. Unless the present international emergency becomes considerably more serious, we are not headed for a planned economy.

Government Economic Power Growing

Nevertheless, a new form of society is evolving in the United States. While the pillars of this society are still the system of competitive private enterprise and political freedom, the power of government to regulate economic activity is growing; and the economic functions of government are widening and embracing new fields and activities. Government intervention is more pronounced in some sectors than in others. It is especially strong in the fields of credit and banking, housing, and utilities. In these spheres, a type of dualism has developed—the coexistence of private institutions regulated by supervisory and regulatory authorities, and of government agencies operating with taxpayers' money or based on the credit of the Federal Government.

Under these conditions, the paramount questions are: How far will these trends go? Where will they end? The answers to these questions will depend on what the people want. So long as we enjoy political freedom—and so far our freedoms are not threatened—trends will go as far as the people desire them to go. The mass of legislation passed during the last two decades and the momentous changes in our domestic and foreign policies were not the work of one man or one party. They were based on the will of the majority of the voters of the country.

The real problem that confronts the nation is to ascertain what type of economy we desire and how far we want the functions of the government to expand. This problem is of particular importance in the present emergency when the rearmament program is bound to cause serious dislocations and lead to a further increase in the powers of the government. Under these conditions, it is doubly important that each economic group recognizes that the welfare of the country comes before the benefits of individual groups. No group, no matter how large or powerful, can benefit in the long run if the special benefits it receives are at the expense of the country as a whole. The welfare of the entire population depends on the maintenance of a constantly expanding economy to produce goods essential to our military security and the maintenance of our high standard of living. This is the strongest guaranty against socialism and the most effective weapon against communistic aggression.

The principal tasks that confront the nation in the present crisis are to increase our military strength as rapidly as possible, and at the same time to prevent the imposition of the huge rearmament program on an economy operating at near capacity from creating a serious inflationary spiral. These tasks are closely intertwined. Military preparedness based on inflation does not assure ultimate victory; and "business as usual," disregarding the serious international situation, means building on quicksand. While every effort must be made to strengthen our security, those in charge of this program must take into consideration the seriousness of the inflationary threat, the huge public debt, and the heavy burden of taxation. Under these circumstances, waste and inefficiency will not only harm the rearmament program but also cause serious damage to the economy. The legislators who vote the billions of dollars for national defense must consider where the money will come from and what effects the huge expenditures and the diversion of raw materials, manufacturing capacity, and labor from the production of civilian goods to rearmament will have on the economy. Politically, it is easy to borrow and difficult to tax, particularly the people in the lower- and middle-income brackets who constitute the majority of the voters and who receive the largest share of the national income. Yet an unsound tax policy leads either to inflation—an invisible tax on those least capable of carrying it—or to regimentation, which, while it may temporarily stem the tide of inflation, merely postpones the day of reckoning, as was clearly demonstrated during and after World War II.

Productive Capacity vs. Inflation

Unless the Korean fighting spreads and the international situation becomes much more grave, the productive capacity of the country is so great that we can attain military preparedness without too serious dislocation of the civilian economy and without serious inflation. This can take place, however, only if the rearmament program is financed as far as possible on a pay-as-you-go basis, if all other government expenditures are reduced, if any deficit that may develop is financed outside the commercial banking system, and if the banks adopt a strong anti-inflationary policy. The imposition of the large rearmament program on an economy operating practically at capacity places on government the duty to siphon off the excess purchasing power which the rearmament will generate, on industry and labor to increase production and efficiency, on the banks to curb the expansion of credit, and on the public to practice restraint in purchasing and to save and economize. Only in this manner can we avoid a serious inflation—which history proves is one of the greatest menaces to a free society.

The Role of the Banks in the Emergency

The problems confronting the commercial banks as a result of the rearmament program can best be understood in relation to the influence which the banks exercise on economic conditions. An increase in loans and investments by the commercial banks—except in transactions with the Federal Reserve Banks—leads to an increase in the volume of deposits and to expanded purchasing power. Furthermore, lending and investing policies of the commercial banks not only directly influence business conditions but have a considerable influence on business psychology. Under present conditions, a material increase in the volume of bank deposits must be avoided.

As a result of the rearmament program and the expanded expenditures by the Federal Government, the banks may have to purchase additional government securities and meet an increased demand for credit from private sources, brought about partly by higher prices of commodities and partly by anticipatory buying and the accumulation of inventories. Already the volume of such loans has increased considerably. If the banks freely meet the requests of the government, as they will since they are the residual buyers of government obligations not absorbed by ultimate investors, and at the same time freely meet all demands of their customers, the volume of deposits could increase quite considerably, thus supplying more fuel to the inflationary forces.

An inflationary trend can be much more dangerous now than was the case in 1941, partly because the supply of liquid savings in the hands of the people is much larger than ever before and partly because, in contrast to 1941, there is very little unemployment and idle plant capacity. Furthermore, the people's experience with the sharp postwar price rise has taught them that it is not always desirable or sound to postpone purchases. Thus, the problem that may confront the banks in the not distant future will be that of formulating lending and investing policies to prevent a further rapid expansion in the volume of bank deposits.

Curtailment of Credit

The first task before the banks is to adopt policies designed to prevent the use of credit for speculative purposes or for purposes which could hamper the rearmament program or lead to an increase in commodity prices. On the other hand, the banks should adopt a liberal lending policy towards borrowers who use the proceeds to increase production.

The time is at hand when banks should increase their rates of interest on commercial loans. Interest rates are too low; in fact, they are lower than before the war, when the purchasing power of the dollar was twice as high as today. An increase in money rates on loans is not only desirable as a curb against inflation, but it would also diminish the pressure on the banks to seek loans aggressively in order to increase their earnings and to meet the increased cost of operations. Banks must always bear in mind that without an expansion in the means of payment, in relation to the volume of goods available for sale, there can be no serious threat of inflation.

Financing the Government

How large the expenditures of the Federal Government will be during the current and succeeding fiscal years is impossible to state. It is certain, however, that they will be very large. Moreover, it is doubtful whether the Congress will levy new taxes and reduce non-essential expenditures sufficiently to balance the budget. Hence, one may expect that the Treasury will continue to operate with a deficit. If the deficits are financed through the sale of obligations to ultimate investors, they are not inflationary, because this method of deficit financing does not create new bank deposits. The safest and soundest method of financing the Federal deficit in an inflationary period is to sell government obligations to individuals, thereby siphoning off excess purchasing power. It will require great effort, however, and particularly by the banks, to stimulate the sale of Savings Bonds to individuals who, after having bought large amounts of Series E Bonds during and after the war, find that while the rate of return was satisfactory and the securities carry no risk of loss in principal, they have been hard hit by the decline in the purchasing power of the dollar.

So long as building activity is at a high level and the supply of mortgages is large, institutional investors will be more interested in acquiring mortgages, particularly those guaranteed or insured by a Federal agency. Only after the curtailment of mortgage credit and the shortage of certain basic commodities cause a reduction in building activity will insurance companies, savings banks, and other institutional investors look toward the government bond market as an important outlet for their funds. Hence, if in the meantime the Treasury should need new funds, at least a portion may have to be obtained from the commercial banks; and this will lead to an undesirable increase in deposits. Should a material increase in the volume of deposits take place, the Reserve authorities will adopt credit restrictive measures, primarily in the form of raising reserve requirements. Since the threat of inflation is real and the fear of inflation more pronounced now than during the war, the Board, under these circumstances, may find it necessary to ask Congress for greater powers over the money market and the banks than is now contemplated.

What can the banks do to prevent further regimentation and control and higher reserve requirements, which would depress their earnings in a period of rising costs, and at the same time contribute to the fight against the inflationary forces? This is a problem to which the banks should give immediate consideration. It has many facets and is rather complicated. The following objectives must be sought:

(1) Means should be found to permit an increase in commercial rates of interest without affecting materially prices and yields on government obligations. While an increase in commercial rates is certainly desirable, it is doubtful whether the Treasury will permit any material increase in yields on government obligations.

(2) It is necessary to find ways of increasing the sale of government securities to individuals in order to siphon off excess purchasing power. The banks have had a great deal of experience in the sale and redemption of Series E bonds. They know the attitude of the public to these obligations, and hence are in a position to advise the Treasury in the formulation of plans which would induce more individuals to buy and discourage the redemption of government securities.

(3) It is advisable to find ways to sterilize newly created reserve balances without reducing the earning assets of the commercial banks. This problem will become

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*An address by Dr. Nadler before the Second General Session of Diamond Anniversary Convention of the American Bankers Association, New York City, Sept. 27, 1950.

The European Problem

By ROBERT M. HANES*
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Former ABA President, though admitting ECA has made mistakes, contends its achievements are unparalleled. Cites increased European production, now 25% above prewar level, and points out dollar deficit has been greatly reduced. Warns, however, Western Europe is not "out of the woods," and sees need for improvements in its industrial techniques. Stresses need for European economic unity and cooperation, and holds U. S., if its aid is to continue, must insist on more and better integration. Cites economic gains in West Germany and urges less Allied industrial restraints and greater police force for that region.

World War II left in its wake the greatest destruction of life and property the world has ever witnessed. Western Europe, including the United Kingdom, lost almost 13 million people; they sustained property damage of $122 billion; and in addition, they have to date spent $505 billion for the direct and indirect costs of fighting the war. The net investment income of Western Europe, over $1 billion annually, as well as its invisible exports, such as shipping, banking, and insurance, virtually disappeared.

Robert M. Hanes

When it is remembered that there are people in France today who have lived under three occupations; that Belgium and Luxembourg have been overrun twice in a generation and Holland, Norway, and Denmark once each; that the United Kingdom has given profusely of its men and money twice in 25 years; and that Germany lost 8.5 million men in the two world wars—we can understand to some extent their apparent apathy toward the sacrifices that are necessary, in the present threatening situation, to prepare a strong defense.

Against this background of mass killing and destruction, widespread poverty, chaos, and disruption of economic structures and commercial relationships of most of the nations of the world, the people and government of the United States undertook the responsibility of assisting wartorn nations in peace just as we had supported our allies in war. Secretary of State George C. Marshall gave expression to this in his historic ten-minute speech at Harvard University on June 5, 1947. His pronouncements received wide and immediate acceptance and shortly became known as the Marshall Plan. This plan was implemented by Congress in 1948 with the creation of the Economic Cooperation Administration, which to date has dispensed aid of almost $10 billion to Western European countries. In addition to this, the Army, through relief funds, has invested $2 billion in Germany, bringing the total aid since 1948 to $12 billion. This aid, on the whole, has brought positive results.

*An address by Mr. Hanes before the Second Session of the Diamond Anniversary Convention of the American Bankers Association, N. Y. City, Sept. 27, 1950.

No one connected with E.C.A. would claim that mistakes have not been made. Mistakes are inherent in any mammoth undertaking where an organization must be recruited quickly and where circumstances dictate haste in planning and execution. I believe, however, that the record of E.C.A. is outstanding, and its achievements unparalleled. Let us examine briefly some of the more obvious results of the aid administered by E.C.A.

European Production 25% Above Prewar Level

Although it took Western Europe seven years to regain prewar levels after the first World War, in the first two years of the Marshall Plan, industrial production in Western Europe increased, in terms of constant values, to a level 25% above that existing before World War II. Intra-European trade and agricultural production are each at prewar level. Hunger has been banished; currencies have been stabilized; better living and working conditions are everywhere apparent; and communism, which unquestionably would have spread over the continent, has been stopped in its tracks.

By increasing indigenous production of foodstuffs, by transferring purchases to soft currency areas, and by increasing dollar exports, Western Europe's dollar deficit in trade has been cut approximately $5 billion over the past three years.

We must do more, however, to help solve the European economic problem. Of necessity, Western Europe imports huge quantities of grains, commodities, and raw materials from the dollar areas; and to pay for these, it must export manufactured goods. Unless we wish to drive Europe to seek these essentials from the Eastern countries, we must agree to substantial imports from Europe. Russia is today offering to sell Western Europe wheat and to take local currencies in payment. A substantial portion of these monies would, of course, be used for Communist party activities in those very countries.

It is estimated that in order to bring Europe's dollar deficit into manageable proportions we must further increase our purchases from Europe by approximately $1 billion. It may mean that of our total purchases from Europe we will have to accept $1 to $1¼ billion of competitive goods and services; but this, with our annual production of more than $140 billion of goods, and a gross national product of $260 billion, cannot be viewed as serious. When we as taxpayers cease our aid, we as consumers must retain our responsibilities. Either we help the Western Europeans to self-support; or we as taxpayers, continue to support them.

At the same time, we must insist on the acceptance of multilateral, nondiscriminatory trade policies and practices, in order that the benefits of high productivity may be spread over wider areas, and so that our American products may not be excluded from foreign markets by the dictates of narrow nationalism.

Western Europe Not "Out of the Woods"

Because of the generally improved conditions I have mentioned, I would not lead you to believe that Western Europe is out of the woods. With 20 million more people to feed, clothe, and employ, there is a crying need for much greater production in order to lift the standards of living of the masses from the present low levels. This will depend, in large degree, on greater productivity in agriculture and industry which will have to come from modernization of methods and plants. Compared with our standards, Europe's equipment and techniques are, on the whole, antiquated.

After having visited scores of industrial plants of all kinds in Europe, I am convinced that, except where handwork is a large factor, our industries have little to fear from European competition.

For illustration, I visited recently a very large plant in Western Europe which was 75% destroyed during the war. The management has spent over $20 million in rebuilding and reequipping it. In doing this, one would think that the plant, which was more than 50 years old, would have been completely redesigned for the most efficient operation. Not at all—each building was rebuilt on the old foundations; and new machines were placed exactly where the old ones had been, with no thought of line flow or the elimination of waste motions.

Raising substantially the productivity of the individual countries will not, alone, give Western Europe the sound, expanding, virile economy which is necessary to insure its future. Eighteen small, restricted, protected, national economic units, each striving for self-sufficiency, can never realize their maximum potentialities for prosperity and security. Trade barriers must be discarded; and monies must be made convertible so that production can be scheduled, not for small, circumscribed national groups, but for the 270 million people of Western Europe and for exports to the rest of the world. The possibilities of an integration program are evident when we remember that the gross national product of the United States, with 150 million people, was in 1949, $260 billion, while Western Europe with 270 million people had a gross national product of only $160 billion. Expressing this differently, the per capita production in the United States is approximately $2,000 against $500 in Western Europe.

Trade liberalization and currency convertibility are, in fact, the two cardinal points of the new European Payments Union which has been created by the Western European countries with the help of the ECA. This Union, operating somewhat like a bank clearing system, will calculate, by means of offsets, periodic balances owed by Western European countries to other countries in the group and arrange settlements through resources available to the Union. This is a big step toward liberalization of payments and of trade, which in turn will foster European integration.

Western Europe does not have the coal, iron, farm lands, or raw materials that we possess; the per capita purchasing power is not nearly so great; yet there is a wide area for improvement if present trade obstructions are removed. If European producers saw the continent as a whole, there would be real incentives to modernize plants and procedures, to concentrate on fewer items, and to produce them in much larger quantities—all of which would lower costs and increase the number of possible buyers.

The small, inefficient, protected economies that now exist will always be menaced on the one hand by the competition of more efficient methods, and on the other by the demoralizing capacity of the Russian prison state to foment internal revolution and create external tensions.

As necessary as it is for Western Europe to integrate commercially, it is even more compelling that it unite defensively. A European army, to which each country will make its maximum contribution in men, money, and equipment under one command, is of paramount importance if Western Europe hopes to withstand aggression. Ten or 15 relatively small military forces built without a coordinated plan, without interchangeable equipment, and each with a different idea as to defense plans and procedures, cannot successfully stop a ruthless, strong, and well equipped aggressor operating under a single command. World War II gave sufficient proof of this.

Question of European Economic Union

The choice is not whether Western Europe will unite, but rather what kind of union, and how quickly will it be formed. If through indecision, timidity, and neglect it fails to act affirmatively and soon, the piecemeal disintegration of the whole of Western Europe will eventually occur; and Europe will then become united in another form as a series of police States, completely subservient to the Kremlin.

Changes in national habits and procedures come slowly; but the fact that the Europeans are cooperating in the Brussels Pact, the Council of Europe, the United Nations, the North Atlantic Treaty, the Organization for European Economic Cooperation, and the European Payments Union gives hope that the commercial, financial, and military integration of Europe may not be too far off.

Indeed, Korea points up, dramatically, that integration cannot be postponed. The ruthless, cruel, un-Godly, lying enemy we in the free world face makes fatal any further delay in realizing all-out preparedness. The time for wishful thinking, appeasement, compromises, and sugar-coating of the disagreeable truths is over. Our enemy is bending his every energy to the destruction of the free nations. We and our Allies can no longer take half measures without courting destruction.

Therefore, if we in the United States are to continue to aid Western Europe, we must insist on better and more wholehearted cooperation toward integration. We must demand that delaying tactics and position trading be discarded. We must be convinced that there is greater determination on the part of Western Europe to defend itself than is apparent in some

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Problems Confronting Banks

more important later on, when the banks will witness a reduction in consumer loans and possibly a decline in mortgage loans and at the same time will be confronted with the problem of increased costs, notably wages, brought about by the rise in the cost of living.

To sum up, the pressing problems before the commercial banks today are to aid the rearmament program; to assist the government in meeting its deficit, particularly that portion not covered by the sale of Federal obligations to ultimate investors; and at the same time to prevent an increase in the volume of deposits and a decline in bank earnings at a time when costs are bound to increase. Obviously, the solution of these problems is not easy.

The Sterilization of Excess Reserve Balances

This method of credit control is an old one. Since the Banking Act of 1935, whenever the need for such action arose, it was achieved primarily through the raising of reserve requirements. This instrument of credit control is clumsy, however; and whenever it is applied, it not only jolts the entire banking system but also reduces the earning powers of the banks, since they are required to keep a larger proportion of their assets idle. If the Board of Governors should ask for power to raise reserve requirements beyond the present maximum, it would be advisable to recommend the establishment of a special certificate reserve to be maintained by member as well as non-member banks. Whenever the volume of excess reserves increases, the Board of Governors should have the power to impose such a reserve and to increase or decrease it, depending on conditions. The Board should have the power to impose and vary such a certificate reserve on the entire system or in individual reserve districts or on the various classes of member banks, depending on their geographical location.

A simpler method of achieving the same objective would be for the Congress to authorize the Reserve Banks to pay a certain rate of interest to banks on deposits beyond the required cash reserves. The Board should have the power to order all banks to keep such excess reserves and vary the amount whenever necessary.

Differentiation Between Commercial Money Rates and Treasury Short-Term Rates

As indicated before, an increase in short-term commercial rates is desirable for various reasons. At the same time, in view of the huge floating Federal debt, a material increase in short-term Treasury rates would encounter the opposition of the Treasury. It is quite evident, however, that unless special measures are adopted, it will be difficult, if not impossible, to bring about an increase in short-term commercial rates without affecting the yield on short-term government securities. A solution to this problem will become important if the Treasury is compelled to sell a considerable amount of securities to the commercial banks.

In that case, it may be advisable for the Treasury to finance that portion of the deficit which has to be absorbed by the commercial banks through the sale of special certificates eligible for purchase by commercial banks only. These certificates could be allotted to banks in accordance with the volume of their deposits. The same objective could be achieved through the adoption of the "Treasury Deposit Receipts" used in Great Britain. The first method is more flexible and more adaptable to the American banking system. Naturally, some problems in regard to such obligations would have to be solved; but these are problems of detail rather than of principle.

The Redemption and Sale of Series E Bonds

In view of the desirability of financing the government deficit through the sale of obligations to ultimate investors, particularly individuals, the fact that nearly $35 billion of Series E bonds are outstanding (as of July 31, 1950) and can be redeemed at the option of their holders, and that over $1 billion worth come due in 1951 and nearly $4 billion in 1952, deserves the careful attention of the banks. It is essential to find means of preventing a large scale redemption of outstanding obligations and the cashing of matured bonds. While a return of 2.9% on a ten-year bond seemed highly desirable during the war, it may not look so attractive today, partly because individuals can obtain a return of 2% or better on what is tantamount to a demand deposit, but primarily because the cost of living is today much higher and the fear of inflation more pronounced than during the war period.

A possible answer to this problem is for the Treasury to offer a new security with a higher return in exchange for matured Series E Bonds; or it may be advisable to offer holders of matured bonds an obligation with a coupon rate of 2.90%. This would tend to prevent redemption before maturity and induce owners to exchange their redeemed bonds. Similarly, inducements are necessary to encourage individuals to buy more new bonds than has been the case since the end of the war. No matter what policy the Treasury adopts, it is imperative that the banks do their utmost, even more than during the war, to help the government finance any deficit through the sale of obligations to ultimate investors.

Debt Management and the Banks

The effectiveness of the policies of the banks in combating the strong inflationary forces will to a large extent depend on the debt management policy of the Treasury. Because of the sharp increase in the volume of deposits, and because the ratio of capital to deposits of many banks is today smaller than before the war, many banks prefer to invest primarily in government securities in order to reduce the element of risk. This, however, is possible only if the banks find in the government bond market a suitable outlet for their funds. If, however, the debt policy of the Treasury leads to a constant reduction in the volume of medium term and relatively high-coupon bonds and notes and to an increase in the supply of short-term obligations with a relatively low yield, many banks will seek an outlet for their funds elsewhere to increase their earnings in order to meet increased costs.

The problem of finding suitable investments will become of even greater importance to the banks when the rearmament program gets under way and controls reduce the supply of mortgages as well as of consumer loans and the cost of operation increases. If the Treasury continues its present policy, then many banks, in order to meet the increased costs, may seek loans and other investments even more aggressively than now, and thus contribute to inflation instead of combating it. If, however, the Treasury adjusts its debt management policy to the needs of the commercial banks and the prevailing economic trends, it can, through its refunding operations, exercise a considerable influence on the lending and investing policies of the banks.

Admittedly, the solution of this problem is not easy. It is even difficult to coordinate the policies of the Reserve authorities with those of the Treasury. There is, however, a precedent of Treasury policy which offers the possibility of a solution. Before issuing securities to investors other than commercial banks, the Treasury carefully examines the position and needs of the purchasers and then tailors its securities to meet their requirements. The same policy can be followed with the securities to be acquired by the commercial banks. So far as the volume of bank deposits is concerned, it makes no difference whether the banks buy Treasury bills or medium or long-term government obligations.

The investment policies of the commercial banks will also be affected by the movement of prices of government obligations. Should the highly uncertain international political situation create fear that prices of government obligations may decline sharply, and particularly that the support of the government bond market by the Reserve authorities may be abandoned, the banks will not be eager to acquire longer term government or other high grade obligations; liquidity preference will prevail; and the spread between short-term and long-term yields will widen.

It may be assumed, however, that under no conditions will the the monetary authorities give up the support of the government bond market and leave prices of government obligations to the whim of the market. The protection of the government bond market is necessary, not only because the Treasury is confronted with the task of refunding billions of dollars of matured and called obligations and of borrowing new money to finance deficits, which are likely to increase, but in the interests of the economy as a whole. A sharp break in government obligations could set in motion forces which could do untold harm to the economy. Under these circumstances, the arguments so often presented for restoring freedom in the government bond market and eliminating the influence of the Reserve authorities over the market are hardly realistic.

In spite of the recent sales by the Reserve Banks of long-term government securities and the moderate increase in short-term Treasury rates, the broad policy of maintaining low money rates adopted nearly two decades ago has not undergone a change. As in the past, so in the future, the purchase of government bonds involves no risks if the holders do not become panicky and sell when the market is weak. A well managed bank has its portfolio so arranged as to maturity that it never has to sell medium or long-term obligations to meet its cash requirements.

Conclusion

The problems that confront the United States today are in many respects more serious than those which confronted the nation in 1942. The aim of the Soviet leaders is well known. It is to destroy the system of private enterprise and the freedom of individuals all over the world. The principal task before the United States today is to strengthen our military preparedness and at the same time keep our economy sound and our financial structure healthy. Military preparedness, if it leads to inflation, does not offer security or ultimate victory.

The problems created by the recent international developments impose obligations on all of us. They impose on the Congress the duty of financing the increased military expenditures as far as possible out of current taxes. Taxation should have two aims: it should produce the necessary revenue to cover the increased expenditures, and it should siphon off excess purchasing power. Unless a satisfactory tax bill is passed, the danger of inflation will become more serious than at present.

The national emergency imposes on the government the obligation to curtail nonmilitary expenditures to the utmost and to see to it that the military appropriations are used wisely in increasing the military strength of the country. It also imposes on the Administration the obligation of giving the country strong leadership in this period of concern and confusion.

It imposes on industry and labor the duty to increase production as much as is humanly possible and to prevent a new spiral between prices and wages. The labor market will be tight, and labor will be in a strong position to demand and obtain higher wages. But this in turn will lead to higher prices, and in the long run a decline in the purchasing power of the dollar benefits nobody. It merely destroys the middle class, the backbone of every democratic country, and hence undermines the pillars on which free society rests.

The present crisis imposes on the Treasury the obligation to adopt a debt management policy which will be in the interest of the economy as a whole and not based only on the principle that the rate of interest paid by the government should remain indefinitely at extreme low levels, irrespective of the inflationary dangers that lurk in the background. It imposes an obligation on the banks to utilize all their knowledge and experience in the extension of productive credit in the distribution of government securities among ultimate investors, notably individuals, and to prevent an undue incerase in the volume of bank deposits created through loans and investments. Adoption of a sound debt management policy by the Treasury and of sound policies by the Reserve authorities will be of great aid to the commercial banks in preventing a rapid increase in the volume of deposits.

If the proper measures are taken, and if the attitude of individual groups is guided primarily by patriotic and not selfish motives, the tremendous productive capacity of the country, which is still increasing, will enable the United States to spend anywhere from \$30 to \$40 billion on military preparedness without too serious dislocation of the civilian economy. If, on the other hand, each individual group considers only its own selfish interests, irrespective of the ultimate effects on the country, then the increase in prices which set in early in the year and has been greatly accentuated since the outbreak of the Korean incident will continue. This in turn will lead either to a further sharp reduction in the purchasing power of the dollar or to drastic controls and regimentation. Neither is desirable. Inflation would undermine the economic security of many millions of Americans living on fixed incomes—and their number is rapidly growing because of the broadening of pensions. Controls once imposed may not be easy to repeal for a long time to come.

The tasks confronting the people of the United States today are indeed great. It is to be hoped that the American people and their leaders in government, business, and labor will live up to their tremendous responsibilities.

Freedom Doesn't Come Free

By J. L. ROBERTSON*
Deputy Comptroller of the Currency

Defining free enterprise as a system of economic selfishness, the Deputy Comptroller holds it differs greatly from "laissez faire" economic philosophy. Says initiative is mainspring of free enterprise, and American tradition has always respected and approved enlightened selfishness governed by law, but contends in present situation there is need for private renunciation to protect general welfare. Reveals banker's part in fight on inflation.

Today the leaders of the American economy face a task of unique difficulty. Those men—and bankers make up a large part of the group—have proven their ability to operate the American economic machine to such good purposes that its product and the distribution of that product are unparalleled.

J. L. Robertson

What are the causes of the amazing economic achievements of our country? Nature has been lavish in her gifts of natural resources; but our mines, our forests, and our fertile soils can be matched elsewhere in the world. The American worker is trained and intelligent, but so are the workers of many other nations. I believe sincerely that the catalytic agent which has caused these elements to produce results far greater than the sum of all their separate parts is the peculiarly American system of free enterprise.

I suppose millions of words have been written and spoken about the free enterprise system. Like many catch phrases, it has been used so much that we tend to mouth it without considering its real meaning. Perhaps I should define the term, as I use it. Bluntly speaking, free enterprise is a system of economic selfishness. But it is a selfishness that, to borrow from Lincoln, has added the fuel of interest to the fire of American genius—a selfishness that, in a not very mysterious manner, has done more to raise the economic standards of mankind than has any system of economic altruism ever devised.

American free enterprise is a far cry from the *laissez faire* economic philosophy of Adam Smith, which flourished during the century that followed his writing of the "Wealth of Nations"—the first century of our country's independence. The essential difference lies in our recognition of the economic complexities and strains that have grown out of a highly mechanized industrialization, and meeting them with measures based upon essentially American principles—particularly the principle of checks and balances.

The Founding Fathers recognized the value of balanced and interacting forces in government, and some instinctive wisdom—peculiarly American, apparently—has led us to apply the same principle to our economy. As large scale business developed, we recognized the dangerous trend which in other countries has led to cartelization and monopoly; and we adopted and enforced a series of anti-trust laws. Those laws have not been perfect; at times their administration has been clumsy or improperly motivated; but they have preserved for us a competitive economy, with its immeasurable benefits of efficiency, inventiveness, acceptance of new ideas, and, above all, initiative.

In another respect, American free enterprise differs fundamentally from the *laissez faire* policy which worked pretty well a hundred years ago. As corporate industry grew in magnitude and power, the relative position of labor became increasingly insecure and weak. This was another rock on which free enterprise might have foundered; but again our somewhat blundering wisdom led to the enactment of laws which in some measure reestablished the balance between labor, capital and management, assured the benefits of our productive capacity to millions of industrial workers and their families, and avoided a possible breakdown of the economy due to failure of distribution.

The same general process has occurred and is occurring in other parts of our national life—in agriculture, in education, in providing homes for American families. Perfect balance cannot be hoped for—it would be the mark of a static rather than dynamic nation. But as threatening defects show up, we strive to correct them, and to keep the American system one in which every worthy element has its place and has free scope to make its greatest possible contribution to the general welfare.

Initiative the Mainspring of Free Enterprise

The mainspring of the effective activity of our free enterprise system is initiative; and, as I said before, that initiative stems from self-interest. Americans are free to buy and sell, to change their jobs and to start new businesses, to invent and manufacture, to advertise and market; and all of us have benefited greatly because each knows that the greater his efforts, the greater will be the rewards for himself and his family. Two generations ago, in his book on the "Forgotten Man," William Graham Sumner stated the essence of this when he defined civil liberty as "the status of the man who is guaranteed by law and civil institutions the exclusive employment of all his own powers for his own welfare."

The American tradition has always respected and approved the enlightened selfishness, governed by law, which has made us the world's most powerful industrial nation, with an unequaled standard of living. No one values our system more highly than I, or dreads more the damage which could follow unwise tampering with it. But the times are forcing upon us a choice of evils, and we must have the courage and wisdom to make that choice and not bring catastrophe upon ourselves by default—by failure to act.

Most of us were born and grew up during the years when America was still geographically isolated—when thousands of miles of ocean insulated us from the troubles of the rest of the world, in a military sense at least. Perhaps it is for this reason that we find it difficult to see and believe the facts of our present international situation. Perhaps, having been brought up in one of our most inland communities—Broken Bow, Nebraska—I am even more handicapped than most of you in that respect. But it remains a fact that today we are engaged in a broad, deep conflict that is worldwide—a struggle which could last for the rest of our lives or until the terrible conflagration of war forces a decision. This is a harsh and painful truth, but not as harsh or painful as the consequences of turning our back to it.

In this struggle, we have many advantages over the enemy; but there are disadvantages as well. One of these is the very freedom which is also the source of our strength. In a totalitarian state, every man and every productive effort is shackled—shackled by fear of secret police and by the interminable regulations of an enormous bureaucracy. That is not the situation in America. The military needs for the defense of our existence must and will be supplied, but we have a choice of means for accomplishing this. There is a choice between detailed, irritating, wasteful government regulation on the one hand, and control through our own intelligent self-discipline on the other. If we have the good sense and the faith in ourselves to choose the path of restraint and self-control, we will be able to supply all our defense needs, keep our economy strong and dynamic, save ourselves from the annoyances and waste of a monstrous network of rules, and at the same time demonstrate to a world that is watching our every move the power of democratic capitalism. To do this will be one of the hardest jobs we have ever done.

Heretofore the best American business thinking has always revolved about the question whether this proposed action or that will benefit our own business interests—will it broaden our market, will it strengthen our competitive position, will it result in a better income statement and balance sheet? There is nothing wrong with these considerations, in ordinary times—quite the contrary; they are the very considerations that have made our economy strong and expanding and efficient. But the necessities of this hour in history, when as General Marshall has warned us, "the chips are down," demand definite changes in our business thinking and in our personal economic thinking.

Willing Renunciation for Protection of General Welfare

Today, free enterprise calls for something more. It calls for a willing renunciation, where necessary, of immediate personal advantage in order to protect the general welfare. No longer is it justifiable to decide that this chemical or that metal will be the subject of increasing demand and limited supply, and on the basis of this judgment to purchase and hold the commodity in expectation of a rise in price and consequent profit. Nor is it justifiable to store in the basement quantities of soap and canned fish because we think that these staples may be scarce and expensive a year from now. Such actions in times like these can seriously impair our economic strength. There are many reasons to believe that Communist Russia today is more interested in having our economic strength sapped than in losing face or battles in Korea. The perils on our economic front are as real and as foreboding as any military dangers we face.

Remember what happened just after Korea Day when responsible authorities sought to warn us of the dangers ahead: how jittery people throughout the land jumped to act in their own individual interest, without regard for the common good; how many men and women, who regard themselves as intelligent and morally upright citizens, found themselves propelled headlong into a race of self-interest; how many of them pushed their way to the counters to buy unneeded suits and nylons, refrigerators and televisions!

In a free land such as ours, there will always be a few unprincipled persons who have no regard for the public welfare, and who in time of crisis will jump into the lifeboat and cut the ropes before anyone else can get aboard. But the great majority of those who rush to advance their own immediate self-interest at the expense of the rest of us do so out of thoughtlessness. They confuse freedom with license, being too shortsighted to see the long-range evil of a given act. It is much easier to close one's eyes and justify the acquisition of one unnecessary article than to think in terms of the effect on the economy of thousands or even millions of similar acts.

I firmly believe this element of weakness in our national make-up can be corrected through strengthening leadership. Today we know too much about mass psychology to doubt that if, through panic or fear, thoughtlessness or selfishness, we try to enrich our individual selves in an attitude of "each man for himself and the devil take the hindmost," so will our neighbor. The persuasive force of example is surprisingly strong; the course of action of a few community leaders is often enough to keep community morality on a high—or a low—plane.

Application to Bankers

The application of all of this to bankers is plain enough. The time has arrived when certain aspects of the individual freedom we possess must for a time be voluntarily subordinated to the economic welfare of all. It must be understood, more so now than ever before, first, that our system of deposit banking was not designed solely to provide banks with relatively free funds to use exclusively for profit; second, that banks must be regarded and respected as quasi-public institutions, trusted in your hands; and, consequently, that it is the function of banks to channel the flow of credit with the wisdom that will assure a sound economy as

*An address by Mr. Robertson before the Annual Meeting of the National Bank Division of the American Bankers Association, Diamond Anniversary Convention, New York City, Sept. 25, 1950.

well as a firm military defense for democracy. Failure to perform this function will wreck much that we hold precious. It will encourage and nourish that diabolical creature called inflation, which has already shattered some of our defenses. It is unnecessary to spell out to you, as bankers, the dreadful consequences if we should permit this jinni-like creature to get out of hand—which is not unlikely if we remain complacent and continue to rely on someone else to keep it under control.

You and I cannot honestly blame any one group or class of persons for what has been inflation's sustenance. We must admit frankly that all groups have courted it, and the banking fraternity is no exception. The blame rests largely on the inertia of all groups, based in too many cases on the hope of getting something for nothing, and the belief that government ultimately can and will "hold the bag."

The three most important factors which work toward inflation and all its attendant evils are: (1) spending by government in excess of intake from the people; (2) spending by individuals and business in excess of real needs; and (3) creation of credit beyond what is essential for defense purposes and minimum civilian needs. Let there be no mistake about it, notwithstanding the tremendous difficulties involved, the present trend in all three categories must be checked and reversed immediately. They have already advanced so far that correction will call for a very strong dose of very unpleasant medicine—to be taken voluntarily, as I am suggesting, or involuntarily. If we fail to heed the prescription and fervently work for stability and peace, it will become apparent all too soon that what has happened elsewhere can happen here.

Banker's Part in Inflation Struggle

The banker's part in this prescribed treatment is especially difficult. It does not call simply for assuming the role of the upright servant of duty, sternly and unselfishly refusing loan after loan. It calls for the utmost in public duty coupled with judgment and controlled by it. The banker can no longer think only of the commercial integrity of his customer, the business soundness of the proposed expansion, or the adequacy of collateral. He must also weigh more difficult and intangible considerations; for example, whether the proposed inventory increase is reasonably needed for the customer's maximum contribution to the military and civilian economy; whether a thousand homes in the community should have new refrigerators or should struggle along another year with the old. He must gauge over-all quantity as well as quality in consumer credit and, to the extent possible, require others to do likewise by refusing to buy such paper sight unseen from dealers or finance companies, merchants or manufacturers. In addition, he must scrutinize closely every loan application, with a view to weeding out those which smack of speculation—in securities or commodities, in real estate or nonessential inventories, or any "get-rich-quick" category.

These are not easy decisions to make. Inevitably there will be mistakes; inevitably there will be misunderstanding and conflict and antagonism.

Even while making these difficult decisions, the banker must continue to maintain the soundness of his own institution, upon which so much depends—the well-being of the community and, collectively, the nation. This task will not be made easier by stockholder demands for ever higher dividends, and employee demands for higher wages or more liberal pensions, even in the face of reducing net income; and it will not be made easier by the example of a few banks striving to do a volume of nonessential business far beyond their capital capacity. There are a few bankers (let us be thankful there are so few) who are more anxious for profits than soundness, who have been lulled into a false sense of safety by the relative absence of losses in recent years, as well as the belief that government can't afford to let them fail. That thinking has too often brought extravagantly liberal lending of depositors' funds and the counterpart refusal to risk more of stockholders' funds in building an adequate capital structure for their expanding institutions.

All this must be acknowledged and faced and unceasingly fought, keeping always in mind the fact that if American bankers apply to this task the full measure of their thought and ability, if they conduct their institutions with a full realization of the conflicting needs of a war-mobilized economy and the American free enterprise system, and the dangers to both in stressing too much the absolute requirements of either, they can face their consciences with assurance and pride. As Emerson said: "Nothing is at last sacred but the integrity of our own mind."

Yes, you and the other leaders of the American economy are facing a task of unique difficulty, for the compass needle will now be drawn toward two poles. Fortunately, those poles are not completely divergent. The course between the two must be steered with skill and courage, if the future path of American civilization is to be traversed without loss of more and more freedom and independence.

If our problems are to be solved through the democratic process of intelligent, self-disciplined action by our people as a whole, there must be leaders in thought and action to whom the people can look for both precept and example. You bankers fit that role—by setting a true standard for others to follow, you can reorient the attitude of American business and the American people with respect to economic goals and economic conduct.

George Bernard Shaw once cynically said: "Liberty means responsibility. That is why most men dread it." The American people, under the leadership of those best suited by training and position to lead, can and must prove themselves worthy of liberty in accomplishing and discharging their responsibilities. Only in this way can we preserve the fundamentals of the free, unregimented economic system that has been the wonder of the world. Only in this way can we prove to a watching world that although freedom doesn't come free, a free people can and do pay the price with courage, intelligence, and self-discipline.

Dangers of Liberalized Mortgage Lending

By JULES I. BOGEN*
Professor of Finance, New York University

Warning against over-stimulating of home building by government liberalized lending and mortgage guarantees, Dr. Bogen urges Federal Housing Administration curb activities and return to its original status of mutual mortgage insurance. Holds public housing programs should be limited to slum eradication. Says we are in midst of unprecedented building boom, a fertile cause of economic instability. Holds Korean crisis furnishes opportunity for return to sound mortgage market.

The Korean war broke out in the midst of the most intensive residential building boom in American history.

Dr. Jules I. Bogen

Until last year, the greatest home building year on record was 1925, when 937,000 dwelling units were started. In 1949, somewhat over 1,000,000 units were begun; and in the first six months of this year, 700,000. We were starting new homes in this country during the first half of the year at a rate 40% higher than in the record year 1949.

Statistical evidence that home building was being overstimulated this year is overwhelming. Official estimates are that the net increase in the number of families in this country is now around 600,000. Only about 50,000 dwelling units are demolished or destroyed in the course of an average year, so that there is only a negligible replacement demand for homes in the literal sense of that term. The inventory of housing was thus increasing more than twice as fast as the growth in the number of families.

Our economy was becoming habituated to this high level of home construction. The Council of Economic Advisers was suggesting that we should aim for 1,500,000 dwelling units annually as a way to assure full employment.

Home building was clearly being overstimulated in the United States. What were the causes of this overstimulation?

Most important among the stimuli to home building was the use of the credit of the Federal Government to finance home building on extremely liberal credit terms. Half of the 700,000 dwelling units started in the first six months of this year were financed with mortgages guaranteed by the Veterans Administration or insured by the Federal Housing Administration. Such mortgages were very attractive to the lenders, for in the event of default they could transform the loan into either a government bond or cash. Being in effect government obligations, these insured and guaranteed mortgages were more attractive to many lenders than government bonds since the mortgages carried 4 and 4¼% interest; whereas Treasury bonds yielded less than 2½% even for the longest term issues.

*Address by Dr. Bogen before the Savings and Mortgage Division of the American Bankers Association Diamond Anniversary Convention, New York City, Sept. 25, 1950.

Over-liberalization of Mortgage Credit

Since World War II, the conditions governing the insurance and guaranty of mortgages by Federal agencies had been repeatedly liberalized. The Housing Act of 1950, the latest of these liberalizations, had further reduced the down payments required and expanded insurance and guaranty privileges, so that veterans could purchase a house without initial cash payment and with amortization spread over a long period of years. Financing on this basis makes a home virtually a "free gift" to a veteran, since he pays no cash for it and the monthly service is often less than the rent he has been paying. Where loans have not been absorbed by institutional lenders because of the low interest rate or other unattractive features, they have been bought by the Federal National Mortgage Association (Fannie May) to the tune of several billion dollars, providing a further powerful artificial stimulus to new home construction.

The dangers involved in this overstimulated building boom are obvious. Overbuilding is a cause of economic instability. If we build many more homes than are required to house American families, a surplus of housing will emerge that will discourage new building in future years, leading to a sharp drop in the volume of new construction at some later date. In our managed economy, however, the government is more than likely to step in to sustain the level of building through further liberalization and expansion of insurance and guaranties, and above all through public housing programs. The Housing Act of 1949 already authorized the erection of 135,000 dwelling units a year under a federally aided public housing program, while as many as 200,000 units could be put up in one year with the President's approval. But if public housing is to become a means of maintaining employment and prosperity, instead of a method of eradicating slums, there is no telling to what lengths it could be expanded. Public housing projects, launched to sustain employment would then contribute to the surplus of dwelling space and further threaten values and rents of existing housing.

Obviously, the number of defaults on mortgage loans and foreclosures would rise sharply under such conditions. Holders of insured and guaranteed mortgages would, needless to say, look to the insurance and guaranties to protect them. There is every reason to expect that the insurance and guaranties would be honored; else, how could the government hope to stimulate future building activity by their means? But these contingent obligations would constitute a real problem for the Federal Government as well as for lenders expected to bring foreclosure proceedings, and holders of many conventional mortgages could then find themselves in an unenviable position.

In brief, at the outbreak of the Korean War, the trend was towards overbuilding of homes, wholesale reliance upon government rather than private credit in mortgage lending, and eventual resort to public housing to sustain employment at a time when the inventory of homes would already have become excessive because of overstimulation of building by Federal insurance and guaranties of mortgages.

The Changed Situation

Communist invasion of South Korea has radically affected the outlook for home building and mortgage lending.

Instead of stimulating home building to sustain employment, the Federal Government is now avowedly seeking to curb construction activity to combat inflation. The government plans to double its military expenditure by the end of the current fiscal year, and to increase such outlays further in the years to come. Since only a gradual expansion of total production is to be expected because the economy was already operating very close to capacity pre-Korea, a contraction of civilian spending is being sought to offset the expansion of military spending. Because government stimulation played so important a part in expanding new home construction, the government can now do much to reduce new building.

As early as July 18, the President directed letters to the Federal agencies concerned to cut down on Federal insurance and guaranties of mortgages. They were told to ignore in their valuations increases in construction costs following July 1, to step up down payments by 5% of the value of the home, and to reduce the maximum mortgage on single-family homes that could be insured from $16,000 to $14,000. The additional insurance authorization of the FHA under the new housing act was made $650 million by the President, instead of the $1,250 million authorized by the law. Federal public housing authorities limited the starts under their program in the last half of 1950 to 30,000 units.

The Defense Production Act has gone much further than any previous law in providing for direct controls over mortgage lending. The Board of Governors of the Federal Reserve System now can set minimum down payments and maximum terms of real estate construction loans, just as on consumer credit under the revived Regulation W. These restrictions may apply to loans on projects started after noon of Aug. 3. At the same time, the insurance and guaranties of mortgages by Federal agencies may be curtailed or suspended by order of the President.

It is too early to say how far and how long building activity will be curtailed as a result of the Korean war and the intensive rearmament that is bound to occur as a result of this evidence of the aggressive intentions of Communist Russia. Not only direct curbs on mortgage credit, but also rising costs, shortages of materials and labor in some areas, and the general uncertainty will reduce building activity. It is not unreasonable to conclude that when projects launched before June 25 have been completed, housing starts will drop below the 1,000,000-dwelling-unit level. With a limited war, we may have a considerable volume of building, but it will probably be attuned much closer to the rate of new family formation than was the case in the overstimulated building boom of the first half of this year.

At the Crossroads

The international crisis precipitated by the communist invasion of South Korea has thus given this country an opportunity to reappraise recent building and mortgage policies, to weigh the dangers to which they pointed, and to consider how these could best be avoided for the future.

The road we were following until June 25 pointed to the progressive substitution of government for private credit in financing home construction. More and more, mortgage loans were being made in reliance upon Federal, rather than private, credit. Where lenders did not want to take government-insured loans because they doubted their intrinsic soundness, the Federal National Mortgage Association was there to absorb the loans rejected as substandard.

Looming ominously in the background has been the public housing program. In future depressions, especially if accompanied by a low level of private building, large public housing projects designed to sustain employment could further weaken the position of both the mortgage lender and the real estate owner through adding to the supply of dwellings when a surplus already exists.

Now we have the option of taking a different road towards the goal of less, rather than more, government intervention in home building and financing.

With a reduced volume of new construction during the rearmament period, the danger of defaults on outstanding mortgages will be greatly reduced. Rather, there will be time in which to reduce the face amounts of mortgages, to be better prepared for a possible decline in values in later years.

The curtailment of government insurance and guaranty activities and mortgage-buying operations during this emergency should be made permanent. We should not go back, even when the international situation will permit, to the unrestrained overstimulation of mortgage lending that prevailed in the first half of this year, by substituting government for private credit.

The original FHA did a great deal of good. We should return to the original concept of FHA as a program for the actuarially sound insurance of mortgages by a government-operated mutual mortgage fund, with reasonable safeguards against wholesale future defaults. Above all, public housing programs must be limited to slum eradication directly or indirectly—for the purpose of eliminating breeding places of disease and crime. They must not be used as a means of sustaining full employment, regardless of the economic need for additional housing. Certainly, we do not want to start subsidizing "middle income housing" to have an excuse for further expanding the role of government in residential construction.

Mortgage lenders can do much to help assure that the nation will choose the road to a healthy home and mortgage market where private enterprise, rather than government, will play the major role. But many lenders will have to modify and readjust their own thinking with this end in view.

They will want to seek safety by the careful selection of mortgages and by setting up reserves out of income for future losses, rather than by reliance upon the sweet drug of government insurance and guaranties.

They will want to seek out sound conventional mortgage loans aggressively and go as far in liberalizing terms as prudence permits, so as to lessen the pressure upon Washington to liberalize insurance and guaranties by the goverment.

They will want to help finance slum clearance and low-cost housing projects, so that pressure group demands for public housing will have less justification.

In other words, the job of mortgage lenders is to make government intervention in the mortgage market and in home building unnecessary so far as possible.

Other industries have found that the best way to combat socialism is to solve their problems within the industry so that government intervention is no longer demanded. Following World War I, for example, when the railroads were in very bad shape, there was powerful support for the so-called Plumb Plan for government ownership of the railroads to assure adequate service to shippers and travelers. Today, when the railroads are doing a job that gives general satisfaction, we do not hear government ownership mentioned in any responsible quarter.

Mortgage lenders were not doing a good enough job, many people believed; and there developed powerful support for the movement to have the government expand its role in this field. We know that a good deal of the support for liberalization of insurance and guaranties came right from the lenders themselves.

But we have been fortunate enough to have seen where this primrose path of reliance upon government insurance and guaranties was leading. In the nick of time, we have been given the opportunity to get off the road that leads to more and more government intervention in mortgage and home building, and to get on the road that leads to a sound, healthy mortgage market and a home building industry that depends primarily on private enterprise, not on government credit.

It would be a pity if this opportunity to get back on the right road is missed. Let us do this job of salvaging private enterprise in housing and home financing that fate has made possible at the eleventh hour.

Is Dollar Scarcity Ending?

By PAUL EINZIG

Dr. Einzig, though stating position of sterling has considerably improved in recent months, contends wave of optimism regarding probable return to sterling convertibility is not warranted. Looks for long continuance of dollar gap, and maintains dependence of Britain on sterling area countries for influx of dollars is not ideal state of affairs.

LONDON, Eng.—There has been developing lately in Britain a wave of optimism about the prospects of a termination of the dollar scarcity. The increase of the British gold reserve since the devaluation of sterling, the improvement of the terms of trade between the sterling area and the dollar area through the rise in the price of sterling area raw materials, and the preoccupation of American industries with rearmament have all contributed towards this optimism. The main factor has been, however, the decline of the United States gold reserve in recent months. For many years the flow of gold has been almost incessantly in the direction of the United States. The reversal of that flow during the last six months or so has conveyed the impression that the tide has now definitely turned.

Dr. Paul Einzig

The result of this optimism is that in many quarters in Britain views have been expressed in favor of an early restoration of the full convertibility of sterling and in favor of its upward revaluation to $3 or above. The optimists envisage a continued increase of the British gold reserve and an improvement of the trade balance, and feel that most of the country's postwar troubles in the sphere of international trade and exchanges are now coming to an end.

Beyond doubt, the situation has improved considerably during recent months. Nevertheless this wave of optimism must be regarded as being grossly exaggerated. So are similar optimistic trends that have become noticeable in other Western European countries. As far as Britain and Europe are concerned, the dollar gap is still in existence and is likely to remain in existence for a long time. The improvement in the British gold reserve is due almost entirely to the favorable change in the trade balances of raw material producing sterling area countries. Not only has American demand for their product been stepped up by rearmament, stockpiling and business boom but the prices of wool, tin, rubber, etc., have also been rising sharply. The combined effect is a substantial influx of dollars to the sterling area.

The cessation of dollar scarcity in the sterling area as a whole does not mean, however, that all is well with the British dollar position. Britain's dollar deficit is still very large, and it is covered out of the dollar surplus of other sterling area countries. For the moment this may appear to be satisfactory. But it must be borne in mind that there is a tendency on the part of these countries with dollar surpluses to use more of the dollars they earn. For the present they are content to accept sterling in payment for their dollars, so that the proceeds of their export surpluses to the dollar area result in an increase of the British gold reserve and a corresponding increase of the amount of sterling balances held by sterling area countries. Fortunately, confidence in sterling is on the increase, and for this reason there is a growing willingness on the part of these countries to hold sterling. At the same time, however, they are anxious to proceed with their urgent development schemes, and this necessitates an increase of their imports from the United States. Their governments are likely to be exposed to growing pressure to insist on the allocation of larger amounts of dollars from the British reserve to which they have contributed substantially.

It is therefore not an ideal state of affairs that Britain should depend on the export surpluses of other sterling area countries to the extent she does at present. The situation could be remedied if British exports to these countries should increase materially, in order to offset the increase of their sterling balances arising through the sale of gold or dollars to the British gold reserve. At present, however, the capacity of British industries to produce for additional exports to the sterling area is limited by the growing requirements of rearmament and by the efforts to maintain and increase exports to the dollar area.

The result of the increase of sterling area holdings of sterling balances has been a depreciation of "transferable sterling" in the New York market. In spite of persistent talk about the possibility of an upward revaluation of sterling, and in spite of the premium on forward sterling, the quotation of transferable sterling has declined to a discount of some 7½%. This is believed to be due to the fact that some of the increased sterling holdings of sterling area countries has managed somehow to circumvent exchange control and found its way to the New York market. Although that market is not very important, the phenomenon is well worth bearing in mind, if only in order to counteract unwarranted optimism.

The position of sterling will have to become much stronger before the British Government could even think of restoring its full convertibility. The lesson of 1947, when the premature restoration of convertibility of sterling resulted in heavy losses of dollars, is still fresh in the minds of most people, and they are not keen on risking its repetition. It is true, in the meantime Britain has succeeded in improving her trade balance. Nevertheless, the safety margin of her gold reserve is still highly inadequate, especially if we bear in mind that a very large proportion of the gold is merely held in trust for the sterling area countries which have earned it and which have every moral right to claim it for themselves for the purpose of financing the import of essential goods from the dollar area.

It is also necessary to bear in mind that the increase of the gold reserve has been largely the result of Marshall aid. Unless and until Britain is able to manage without external financial assistance there would be no justification for her to indulge in convertibility experiments beyond the degree to which it has already been adopted.

As for the revaluation of sterling to $3 or above, it is not considered seriously in official circles. The rumors are welcomed because they tend to strengthen confidence in sterling. For this reason the government is not likely to go out of its way to eliminate the rumors. But it has not the slightest intention to weaken the position of sterling by raising it from its present level, undervalued as it may be in the changed circumstances. Realism is the keynote of the official policy, and no risks are likely to be taken for the sake of misplaced considerations of prestige.

Preserve and Strengthen Dual Banking System

By CLAUDE E. BENNETT*

President, State Bank Division, ABA

President, Tioga County Savings and Trust Co., Wellsboro, Pa.

Mr. Bennett, in urging national as well as state banks to preserve dual banking system, contends it preserves states' rights and balanced relationship between State and Federal governments and this prevents excessive concentration of banking power. Warns against bureaucratic political centralization of banking in Washington, and upholds unit banks as factor in community development and safeguard against Kremlin type of control of banking business.

To preserve and strengthen the dual banking system has been the battle cry of the State Bank Division during the past 11 months; and to this end, two events of outstanding importance have transpired: first, passage of the Bank Merger Bill; and second, the defeat of that portion of Reorganization Plan No. 1 as it affected the independence of the Office of the Comptroller of the Currency. The Bank Merger Bill has been characterized as one of the most important banking measures enacted in recent years. It gives added strength to the dual banking system by placing the conversion or merger of national banks into state banks on a parity with the conversion or merger of state banks into national banks. Heretofore, when a national bank undertook to convert or merge into a bank operating under a state charter, it was required to liquidate and lose its corporate identity. This created problems of taxation and other disadvantages. The legislation was designed to overcome these disadvantages.

Claude E. Bennett

It took nearly three years of almost continuous effort to accomplish this result, and henceforth it will require the combined energies of both the state and the national systems to consolidate the gains we have made in this effort to strengthen the dual system.

With this legislation enacted, the job is only partially done. At least five states now require approval by the state banking department before a state bank may transfer to the national bank system. They include Colorado, Idaho, Michigan, Missouri, and Washington. The new Federal law cannot be used in any state where such approval is necessary. Therefore, it will be necessary in those states to enact legislation which will permit a state bank to convert into or merge with a national bank as provided by the Federal statute without necessity of approval by state authority.

On conversion from a national into a state bank, or a merger of a national into a state bank, state legislation should be based on H.R. 1161, Par. 2 (now Public Law 706—81st Congress), which specifies the procedure for such action.

Present state legislation is based largely on the principle that the national bank had to be liquidated in a merger or conversion. State laws should be changed to conform to the new principle that a national bank does not lose its corporate identity upon conversion into or merger with a state bank.

State legislation should follow the provisions of Public Law 706, which provides that, on conversion or merger, "the resulting state bank shall be considered the same business and corporate entity" as the national bank. It should also repeat the provision that a reference to a national bank in any document shall be considered a reference to the state bank.

Every state association should check the status of its own banking laws on these points. Reference should also be made to the model act as to bank merger and conversion. This draft is based upon a chapter in the ABA Model State Banking Code. A copy of this and reprint of an explanatory article from "Banking" have been forwarded to each state supervisor, each member of the Committee on State Legislation and the State Legislative Council of the ABA and each state secretary. Additional copies are available at this meeting. I urge you one and all to start a movement in your state at once to have your state laws amended, so that the banking fraternity will receive the full benefit of this hard-won legislation.

*An address by Mr. Bennett before the State Bank Division of the American Bankers Association, New York City, Sept. 25, 1950.

Closer Relationship Between National and State Banks

For years there has existed some degree of rivalry between the state bank system and the national bank system, but my observation is that the two Divisions are now closer together than ever before in the history of banking. It is signficant that many prominent national bankers cooperated in the effort to secure the passage of the Bank Merger Bill. They were guided by the belief that the dual banking system is the best banking system in the world. They recognized that the strength of one component depends upon the strength of the other, and that both have a common cause in the preservation of the system.

I cannot let the occasion pass without paying special tribute to the Office of the Comptroller of the Currency, and particularly to Preston Delano and J. L. Robertson, for their broad understanding and interpretation of this legislation, which some bankers feared would have a tendency to decrease the membership of the national banking system. But this fear I do not share. Characteristic of their cooperation was their testimony before the Senate Banking Committee. The question was asked, "Why is it that the Comptroller's Office does not object to this bill?" The reply was, "It is our belief that this bill will strengthen the dual banking system, and that is the system we wish to preserve."

We believe that joint action should be taken when clouds hover over either banking system. For example, when the independence of the Comptroller's Office was threatened under Reorganization Plan No. 1, the Executive Committee of the State Bank Division was unanimous in opposing the approval of the Plan. With the concurrence of the Executive Committee, the officers of your Division testified before the Senate Committee, protesting against the proposed abolition of the independence of the Comptroller's Office. This Office has stood the test of time. It has never been accused of political maneuvering. It has maintained its dignity throughout 86 years. Therefore, I am pleased to report that the part of Reorganization Plan No. 1 which related to the Comptroller's Office was defeated. It is particularly gratifying that during the course of testimony on the plan, the Honorable John W. Snyder, Secretary of the Treasury, paid a strong tribute to the dual system when he stated: "It is my firm conviction that a vigorous national banking system is essential to the economy of this country. It not only acts as a pacemaker for the state banking system but also serves to provide competition for those systems, and hence increases their strength as it increases its own."

I would like to quote you a few sentences from a speech by J. L. Robertson, First Deputy Comptroller of the Currency, in Reno, Nevada, last October. It illustrates clearly what the dual system means:

"Some years ago, Justice Oliver Wendell Holmes pointed out that one of the greatest advantages of a Federal system of government composed of 48 sovereign states is that it makes possible the testing of a new idea within a single state. This permits bold experimentation, without jeopardizing the economy or social welfare of the entire nation. Ideas and proposals which may seem quite extreme can be tried and tested; and if they fail, the nation can easily recover from the localized bruise. And if an idea proves to have merit, it can be taken up by as many other states as wish to do so, and adapted to their particular needs. By this process, worthwhile proposals can be perfected gradually, and achieve nationwide acceptance, to the benefit of all. For obvious reasons, this beneficial process for achieving gradual but steady improvement in the aims and practices of government cannot be used by a country with a single centralized government without danger of grave injury in the event of failure. In recent decades, we have often seen both panels of this picture.

"The operation of this principle is one of the outstanding merits of our 'dual'—it should be called 'multiple'—banking system. Unless it is guided by self-discipline and adherence to sound precepts, it can be perniciously destructive —witness the 'race of laxity' in the chartering of banks during the 1920s. But I am sure that a broad-guaged appraisal by qualified judges would establish beyond any doubt that the beneficial aspects of this competition (for basically, that is what it is) among the several units of our 'multiple' banking system completely overshadow its occasionally unfortunate effects.

"Furthermore, there is much to be gained from this type of competition between bank supervisory authorities; not vicious rivalry, but frank and friendly competition. The better one of our respective organizations becomes, the better the rest must strive to be. Undoubtedly, each of us wants the organization he represents to be the best in the field; and I sincerely hope that continues to be the case."

Advantages of Dual System

The dual system of state and national banks has now been in operation almost a century. The development of banking history shows that both state and national banks have adopted those principles which make for sounder banking, for a better servicing of the financial requirements of the country, and for the protection of depositors; and this has been the outcome, regardless of whether the suggestions have emanated from the state or national systems. It is one of the reasons why farsighted national bankers have joined the American Bankers Association in its efforts to preserve the dual banking system.

Arguments in favor of the dual system of banking are:

(1) It preserves the doctrine of states' rights in which the spirit of a balanced relationship between the state and Federal Governments is maintained.

(2) It aids in preventing concentration of banking power.

(3) Decentralization under the dual system preserves the country against a bureaucratic political centralization of banking control in Washington.

(4) It has permitted innovations in banking which have become recognized as being based on sound principles.

(5) Competition between state and national banks permits greater adaptation of banking laws to economic needs of the state.

(6) The country is too large, and too widely diversified, to expect one banking system to be so versatile as to deal with so complex a situation effectively.

(7) It gives greater assurance for the continued existence of unit banks, which have been a vital factor in their communities and which have played an important role in the economic development of our country.

At the risk of inviting criticism by some members of the State Bank Division who are complacent and prone to rely upon the record of accomplishment in recent years, it should be emphasized that state bankers must be constantly alert to the need for legislative changes which strengthen and protect the dual banking system in their respective states.

At the Spring Meeting in French Lick, the Executive Committee of the State Bank Division requested the American Bankers Association to urge the adoption of more uniform laws among the various states regarding examinations, salaries of state bank supervisors, the selection of such supervisors on a nonpolitical basis, and reserve requirements.

The question was thoroughly discussed at two meetings of state secretaries, and the conclusion was reached that the ABA should not enter any state and urge a change in the laws which would parallel the laws of other states, because such action would be construed as an invasion of states' rights. Also, any such changes in law can hardly be advocated by banking supervisors because they are political appointees. The Committee on State Legislation of the ABA has worked out a model code for state banking laws. The results of their study are available to you for guidance in drafting legislation for your state.

A second piece of legislation which has just been passed by Congress after years of effort is S. 2822, the Federal Deposit Insurance Act. It affects in many important respects each one of the 8,653 state banks, as well as the national banks, in the deposit insurance system. These state banks numerically account for a large percentage of the deposit insurance membership.

I would like to discuss briefly four points in this legislation:

(1) The new law makes a fundamental change in the assessment burden on the banks. The assessments are now to be based on the loss experience of the corporation, rather than on a fixed percentage of deposits. In years in which the corporation has favorable experience, the banks will receive dividend credits against the assessment which they normally would have to pay at the rate of 1/12th of 1% of deposits. Under current operating experience of the corporation, these dividend credits amount to about $68 million annually, equivalent to a reduction of 55% in the present assessment costs. The first dividend credit will be applied on July 15, 1951.

(2) Payment to the Treasury of approximately $80 million interest on the capital which was advanced to the corporation at its organization and was later repaid.

(3) Simplification of the formula in computing deposit insurance assessments.

(4) Increase in deposit insurance coverage from $5,000 to $10,000 per account.

The capital advanced by the Treasury and the 12 Federal Re-

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Railroad Securities

Western Pacific

Western Pacific has been rolling along at a great pace so far this year, beginning to justify the high hopes that had been held out for it when it came out of reorganization a number of years ago. Fundamentally, Western Pacific had been considered by many analysts to have about the best potentialities of any of the roads that had succumbed during the depression years. It was felt that the full traffic potentialities of the territorial growth and the new extension into northern California to connect with Great Northern had never been fully realized. Also, it was expected that property rehabilitation, and rehabilitation of the connecting Denver & Rio Grande Western, would bring substantial earnings benefits.

Unfortunately, these hopes were not realized as we entered the postwar era. In particular, it was noted that the company was having difficulty in getting its costs under control. Also, revenues were not holding up as well as had been expected, and many analysts began to fear for the $3 dividend—only $3.59 was earned on the stock in 1948 and that was before sinking and other reserve funds. Following a change in top management there was a decided change for the better in the company's affairs. It was found that even the vast sums spent on the property during trusteeship had not been sufficient to bring it to its top potential efficiency. Obviously this condition has now been corrected.

There are many elements of basic strength in the Western Pacific property. One important factor is the growth characteristics of the territory. This is found not only in the trend toward industrialization of parts of the service area but, also, in the sizable expansion in farming activity along the company's lines. This growth has by means even yet run its full course. Secondly, the company gets an unusually long average haul for its size. Generally speaking long haul traffic, with terminal costs relatively less of a burden, is the most profitable to the railroads. Finally, the road has quite a heavy freight density for a western carrier.

The company has a very sound financial structure. It emerged from bankruptcy with only $10,000,000 of 1st 4s of 1974, and $21,218,000 of income 4½s, 2014. The Incomes are convertible into common at the rate of two shares per $100 of bonds. Through retirements and conversions the amount of Income bonds had been reduced to $6,287,000 by the end of last year. The full $10,000,000 of 1st 4s was still outstanding. It is now proposed to do some refunding.

The company plans, within the next few months, to sell at competitive bidding $22,000,000 of new 1st 3s. Proceeds would be used to retire the present 1st 4s and Income 4½s. While this will increase the amount of debt outstanding it will result in a modest reduction in the annual charges. The operation will also remove the threat of future dilution of the common stock by conversion of income bonds. Finally, it will give the company additional cash of between $5 and $6 million for property outlays, etc.

Stock capitalization consists of 318,502 shares of $5 participating preferred (cumulative only to the extent earned) and 408,437 shares of common. After the common receives $3 a share in dividends in any one year the preferred participates equally, share for share, in any additional dividends paid in that year. It is considered likely that, because of the participation feature, the company will eventually make every effort to refinance the present preferred also.

Western Pacific has been staging a strong recovery in the current year. August by itself was little short of phenomenal. Gross increased almost 60% from a year earlier without appreciable rise in transportation costs. As a result, the transportation ratio dipped almost 10 points to 24.6% and the overall operating ratio was less than 52%. The transportation ratio for the full eight months was held to 31.1%, one of the best showings in the industry. Net income for the eight months, before sinking and other reserve funds, amounted to $3,972,445 compared with only $1,728,996 a year earlier. Before funds, and allowing for the participating provisions of the preferred, earnings on the common for the full year 1950 could well run to $9 or $10 a share.

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The European Problem

countries today; and certainly we must insist that our Allies control the export of strategic materials, products, and tools in the same way as we do. We must have an understanding that business-as-usual is over, and that real sacrifices on the part of all are necessary; that realistic and well rounded, fairly distributed tax programs be substituted for the antiquated, ineffectual, unrealistic ones that presently prevail; that tax evasion, now notoriously prevalent in many European countries, be eliminated so that the European taxpayer bears his just part of the burden; that each dollar we put into the defense of Western Europe be matched by a substantially larger amount from the Europeans; and that, as speedily as possible, a European army of sufficient size and equipment be organized under a single command.

For our part, we must realize that we are in a death struggle with an uncompromising enemy, and we must accept the same sacrifices and exhibit the same determination that we expect of our Allies. We should participate fully and firmly in the planning and implementing organizations which have been established to carry on this fight for freedom. Two world wars and today's defense of the South Korean Republic by the United Nations have definitely proved that, whether we like it or not, we live in "one world," and that we are "our brothers' keeper."

We have taken an active part in the North Atlantic Treaty, and in my opinion we should expand this participation to other Western Europe organizations. We do not pretend to have all the answers; but certainly our leadership can be most helpful in making the important decisions that face Western Europe today.

I would now like to turn to the most complex problem in Europe today — the problem posed by West Germany. In order to achieve our objectives in Western Europe, the greatest effort has yet to be made in West Germany.

Any one who has been in West Germany for any length of time cannot but be impressed by the rapid and substantial strides it is making in almost all directions.

Gains in West Germany

The recovery of industrial production in West Germany, still less than the average of European production, has made enormous gains. Whereas in 1947 West Germany's production was only 33% of 1938, while other European countries had reached an average of 103%, West Germany's production is now 104% of 1938, while the European average is about 130%.

These gains can become much more impressive when the present industrial restrictions and limitations are liberalized. Particularly is this true if steel production ceiling is increased, and shipbuilding, both passenger and freight, is permitted up to the present West German capacity, without limits as to tonnage and speed. The recent pronouncements on these points is most heartening.

A currency reform in June, 1948, did much to speed West German recovery. Before this there was lack of confidence in the Reichsmark, desperate commodity and inventory shortages, low productivity, and high absenteeism. The cigarette was the accepted medium of exchange. Currency reform replaced the watered Reichsmark with the new Deutsche mark at a rate of 16 to 1, and restored full confidence in West German money. The mark has been kept in short supply, thereby driving its open market rate almost up to par. These are all encouraging economic facts, and many of the political trends in West Germany are equally encouraging.

The German Federal Republic has a responsible government, elected in a free and democratic manner by the citizens of West Germany a year ago. As this young government becomes tested and seasoned, the function and powers of the High Commission will be gradually turned over to it so that the will of the German people will have free and complete expression.

It is hoped that the principles of democracy, that have been enunciated and demonstrated so consistently by the Allies during the past five years, have made their impress on the minds of the German people. I think we have done a good job; but certainly we cannot claim complete success. Old modes of thought are still evident in political and economic fields. For instance, the Germans, like most Europeans, retain much of their belief in restrictive and protective procedures. Laws are being passed limiting the number of professional men and trades people, all the way from pharmacists to chimney sweeps. Applicants must appear before a board composed of those already in the profession or trade—a practice by which competition is kept to a minimum and opportunity limited to a relative few.

Much the same idea is expressed by the big businesses of Germany, such as coal, steel, and chemicals, which wish to resume non-competitive status through huge cartels and holding companies.

Centuries of habit, thought, and precedence cannot be changed in a short time; but it is hoped that the suffering and terrific losses in lives and property which the Germans have undergone, as a result of their acts of aggression, have convinced them that there is a different and better way of life.

The public expressions of many government officials give hope that West Germany is turning from reactionary principles to liberal concepts, but we must not be stampeded into relinquishing our efforts to bring this about.

A demonstration of this has been given in West Germany's leadership in the liberalization of international trade. This policy has been championed by the Government of the Federal Republic, and has resulted in changing an unfavorable foreign trade balance, averaging \$65 million per month in 1948, to \$33 million per month in June of this year. The dollar deficit, in the same period, has been reduced from \$90 million to \$30 million monthly. West Germany is well on the way to the regaining of its position as a creditor nation in Europe.

Financially West Germany is very short of capital, and especially long-term capital. At the time of currency reform, deposits, capital and the assets of financial institutions, such as insurance companies and building and mortgage associations, were practically wiped out. The need for new capital is very great.

In June of this year, the prohibition against foreign investments was lifted under certain restrictions which will be progressively relinquished.

West Germany has to build back a lot of character before foreign investments will come in. The United States, through E. C. A. and the Army relief funds, has assisted with \$3 billion; but additional capital needs will have to come, largely, from earnings and savings. American aid has been used to buy grains, corn, fertilizer, petroleum products, cotton, non-ferrous metals, hides, skins, leather, machinery, and tobacco. In 1948 it paid for almost two-thirds of all West German imports, while in 1950 it will be used for less than one-fifth. The counterpart of our dollars, put up by the Germans in Deutsche marks, has been invested in agriculture, public utilities, coal mining, steel and a great range of other industries, transport, communications, and housing.

We are now working with the German authorities on the reorganization of the commercial banks and the central bank, which will help materially in stabilizing and expanding the German economy.

Agricultural production, while practically back to prewar, is far short of requirements because West Germany's population, by reason of the refugees and expellees, is nine million larger than it was before the war. Agricultural methods must be modernized.

Farms average about twenty-five acres and are split into many small parcels, forcing the farmer to spend a good part of his time going from one plot to another. Milk cows and oxen are the principal draft animals—a practice which results in loss of time and low milk production. The small land plots make use of farm machinery difficult; therefore, the greater part of planting, cultivating, and harvesting is done by hand.

Under American influence, much has been done to improve total agricultural production by setting up extension services; by assisting in the organizing of institutes for home economics where human nutrition, home management and child care will be taught; by improving animal herds and dairying—this is vital because 80% of the cows have tuberculosis; and no milk can be drunk, safely, without boiling; and by improving the productivity of meadow and grass lands.

West Germany in all lines is on the road to recovery, and if permitted to continue, in peace, will be almost self-supporting with the ending of E. C. A. in 1952.

Problems Pressing for Solution

However, there are many problems pressing for solution.

Unemployment, now 1.3 million or 8.7% of the total labor force, has been one of West Germany's greatest problems. This may now prove to be a real asset because this is one of the few large pools of unused workers in the world to which we can turn for the necessary, enlarged defense production. Many of these people are skilled workers who can start producing needed articles immediately; and their employment would not only lessen the financial burden on West Germany, but their production would materially increase West Germany's trade and commerce.

Displaced persons, refugees, and expellees from the Iron Curtain countries are a continuing challenge. Nine million of these have found their way into West Germany, and are still coming at the rate of 20,000 per month. Approximately 250,000 of them are quartered in camps, and a million are living in overcrowded conditions in private homes. Coming with no equipment or money, they have always posed a tremendous social, economic, and political problem on which the West German government and the Allied authorities have continuously spent considerable effort. At present, E. C. A. is financing an American team of experts in housing, finance, and economics, to be matched by a team of West Germans, who will study this problem and, we hope, will assist in its solution.

A whole cluster of difficulties is presented by Berlin. With 30% of its working population unemployed; with continual harassment by the Russians of incoming and outgoing people, freight, and parcel post; with a city budget and trade badly out of balance; and with 80% of its productive machinery lost through bombing and Russian removal, continued assistance must be given it.

It is unfortunate that the Western Allies did not demand written assurances of free and unrestricted access to Berlin. The mechanics of aiding a city entirely cut off from the Western World by the Soviet barrier surrounding it are not simple or inexpensive. The air lift, with its terrific cost, gave ample demonstration of this fact, as well as magnificent testimony of our determination to assist those who stand firm against a power which would devour them.

With all their suffering from Russian harassment and bullying, the staunch spirit of the West Berliners is the most inspiring and heartening thing which I have experienced in Europe. Their mayor, Ernst Reuter, a superior man in intelligence and courage, is typical of West Berlin. Knowing that if the Russians ever occupy his city, his head will be the first to fall, he stands, magnificently, within a stone's throw of the Russians and their East German puppets and denounces them for their crimes.

Situated as it is behind the Iron Curtain, Berlin is the show window of all free people, and as such is the greatest source of annoyance to the Russians. Consequently, the Allies may expect constant and increasing pressure, aimed at forcing them to withdraw from Berlin.

The solution to many of the problems of West Germany can be found only in its integration into the Western European family of nations.

The West Germans have expressed an earnest desire to become a real partner with the other countries of Western Europe. Since Korea, there are, however, increasing signs that some Germans wish to play the game of "hard to get," a game which should not be countenanced by the Western Allies. West Germany is extremely important to Western Europe, but the reverse is equally true. Since a successful and lasting partnership cannot be built on sharp trading and advantage-taking by any member, the Allies must accept West Germany in good faith and complete cooperation, forgetting the past in the compelling necessity of building a strong, democratic, self-supporting and self-defending Western Europe. They must demand no less of the West Germans.

The events in Korea have had a great impact on West Germany. The parallel is all too frighteningly clear between North and South Korea and East and West Germany. Both East Germany and North Korea are contiguous to the vast land masses under Soviet control; each has a puppet government servile to its Communist masters; in each prevails the same intensive, lying propaganda; and each has a native military force.

The West German, unlike the South Korean, has no military force at all; no firearms except a limited number of hunting weapons; and therefore is dependent for his safety on a pitifully small body of Allied troops. Unable to protect himself, knowing that the present strength of the Western Allies is insufficient, and subject to the incessant propaganda of the Communists by radio, newspaper, word of mouth, and posters, he finds himself groping for a solution to his worries.

A few indulge in sail trimming. We have such astounding cases as leading industrialists advertising in the Communist press, apparently in the strange hope that these pecuniary contributions would save their skins and their businesses if the "comrades" arrived to communize the Ruhr. One large

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industrialist, who had borrowed E.C.A. counterpart funds with which to rehabilitate his plant, excused himself for his page advertisement in a West German Communist paper by saying he was promised it would be run only in the papers of East Germany. Others have withdrawn from politics completely, hoping that neutrality will gain for them the enmity of neither the democracies nor the Communists. The vast majority of West Germans, however, are clearly anxious to stay with the free world, and have no hesitation in so declaring themselves. They would much rather tie their future to ours and that of our Allies than they would to the Soviets', and we must give them every encouragement in this desire.

If we are to retain their active support we must give them concrete assurances of successful defense and not, merely, a lot of double-talk and meaningless phrases. One tank is worth thousands of promises, and a few divisions are more persuasive than reams of proposed plans. The Allies must put enough troops in Western Europe to defend it, including West Germany; and the West Germans must assist in this defense.

The time has past for the academic argument as to whether or not a rearmed West Germany would be dangerous. It does invite some dangers in the light of the past, and one could wish there were no necessity of raising the question at all. The rearming of East Germany, however, and the Communist use of force in Korea also raise dangers which compel us to weigh other alternatives.

Steps to Be Taken Regarding West Germany

In my opinion, the Allies should immediately:

(1) Accept West Germany as a partner and withdraw from the control of German internal affairs as quickly as the Germans prove their dependability.

(2) Implement immediately the Foreign Ministers' decision to increase the permitted production of raw steel and the production of cargo ships without restrictions for export. In my opinion, we should go further and lift all restrictions on cargo and passenger ships.

(3) Permit West Germany to form an increased police force for internal use to keep law and order so as to meet the declarations by the Communists of subversive warfare in the Western Zones.

(4) Increase the number of Allied divisions in Europe to give substance to their promises of defending Western Europe against aggression. The Allies have announced this as their intention.

(5) Insist on the creation of an army for the defense of Europe with enough manpower and equipment to stop any aggressor.

(6) Allow the West Germans to contribute a substantial number of units to such an army.

(7) Organize German industry so that it can make its contribution to the defense effort.

(8) Continue to aid the West Germans in developing democratic government and institutions, for only a democratic state will stand firm against a communistic state.

The German people have been guilty of starting two aggressive, worldwide conflicts. For these acts, they reserve the condemnation of the world, which they have received. It is now time to liquidate the traces of this aggression in every form, and do everything possible to prevent another.

In any defense plan for Western Europe, West Germany must be an integral and substantial part. Therefore, the time for incriminations and name-calling is past. We must meet the West Germans at the council table, and together decide what part they will accept as their share in men, money, and equipment, in the defense of Western Europe.

The decisions taken by the three Foreign Ministers earlier this month open a new era in the relationships of the Western Allies with the Germans, and pave the way for cooperative action of all Western powers in the defense effort. These decisions are a recognition of the confidence and dependence which the Western powers place in West Germany.

Having been an active participant in the First World War, I have no illusions as to the Germans' natural inclination to accept leadership rather than to assume responsibility. We hope their disastrous experiences of two world wars will lead them to exercise better judgment in their selection of leaders in the future.

Rejoins King Merritt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Dick R. Linch has rejoined King Merritt & Co., Inc., Chamber of Commerce Building. He has recently been with Morgan & Co.

With Harold E. Wood

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, Minn.—Frank H. Delaney is affiliated with Harold E. Wood & Co., First National Bank Bldg.

Floyd Allen Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Martin J. Haims has been added to the staff of Floyd A. Allen & Co., Inc., 650 South Grand Avenue.

With Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Capel E. Kelly has joined the staff of Paine, Webber, Jackson & Curtis, 626 South Spring Street. He was formerly with E. F. Hutton & Company.

With Trowbridge Co.

(Special to THE FINANCIAL CHRONICLE)

BATTLE CREEK, Mich.—Roy C. Walt is now with Trowbridge & Co., Michigan National Bank Bldg. In the past he was with Silas C. Coleman.

Robert Bowers Adds

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Charles C. Nielsen has been added to the staff of Robert D. Bowers & Co., Cooper Building.

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Preserve and Strengthen Dual Banking System

serve banks was paid two years ago. The corporation will be required to pay half of the $80 million interest on the returned capital during the second half of this year, but its surplus nevertheless will approximate $1.3 billion by the end of the year. This fund, which will continue to grow at the rate of over $70 million per year under the new bill as long as the corporation's loss experience follows the present pattern, will provide an important reservoir for protection of the deposit insurance system. It will serve to back up the primary protection for depositors represented by the capital funds of the insured banks themselves, which have advanced from $6.4 billion in 1934 to almost $13 billion in 1950.

I hope you share my belief that bankers generally approve the retroactive payment of $80 million interest for the use of the $289 million advanced as capital to the FDIC by the Treasury and the 12 Federal Reserve banks. It is within the tradition of banking that it should not be subsidized by government funds. Whether or not other agencies pay interest on funds advanced by the Treasury should not deter us from welcoming an action which is so basically sound. As far as I know, the Federal Deposit Insurance Corporation is the first Federally sponsored agency ever to repay a Treasury investment with interest. It is my hope that this payment will prompt other agencies using government funds to consider the payment of interest on such funds in order to eliminate a subsidy from the taxpayers.

The simplification of the computation of the assessment was a much needed reform. It should prove advantageous to the many small state banks which have found the present method cumbersome and expensive.

While there are many bankers who believe the $5,000 coverage fully met the intention of the framers of the original FDIC legislation, which was to protect the small depositors, there has been some demand that the coverage be increased to $10,000. While I recognize that a $10,000 coverage today is about equal to the $5,000 original coverage when measured by purchasing power of the dollar, nevertheless we must be careful to guard against any further increase lest the original function of protecting the large majority of depositors become a guaranty of bank credit.

Centralized Control Has Failed

During the past few years it has been evident that the planners in Washington and some others in high authority have been advocating centralized control of the banking system, entirely ignoring the historical fact that such centralized control in 17 other countries has been a miserable failure and has dragged these nations toward socialization. Many well-intentioned people have advanced arguments that centralized banking would be beneficial to the economy, despite the fact that under our existing system greater progress has been made than in any other nation.

Membership of the State Bank Division comprises 9,573 banks, of which 7,700 do not belong to the Federal Reserve System. On the platform at the San Francisco Convention a year ago, an official of the Federal Reserve System, while admitting the dangers of compulsory membership in that system, characterized the non-member banks as "free riders," a term which is in common use among Federal Reserve officials; and which is derogatory, undeserved, and resented by all non-member banks. Let's look at the record.

During World Wars I and II, the government found that non-member banks joined all other banks in support of the government bond program. They took pride in helping their communities to meet their quotas of bond subscriptions. Non-member banks were included in the praise given by both the President of the United States and the Secretary of the Treasury for the help they gave without remuneration. Non-member banks welcomed the opportunity to cooperate in the war program.

Simply because non-member banks share in a protection provided by a policy felt necessary by the Federal Reserve Board to maintain the market for government bonds is no reason why non-member banks should be singled out as a class for criticism when they resist the demand to give control of their reserve requirements to the Federal Reserve Board. The beneficiaries of this policy include not only non-member banks but also every institutional or individual investor who has access to the bond market. Certainly the non-bank investor has not been labeled "free rider" merely because he has been able to avail himself of Federal Reserve market support.

Control over non-member bank reserve requirements by the Federal Reserve Board strikes at the heart of the principles of the dual system of banking. It is a basic principle that a state bank should be subject only to that Federal banking legislation which it is voluntarily willing to accept as a condition of membership in a Federal instrumentality. The imposition of Federal Reserve requirements, superseding the power exercised by the state bank supervisors with respect to non-member banks, would represent a violation of the sanctity of this principle.

There is no strong foundation for a claim that lack of control of non-member bank reserves can jeopardize effective control of the monetary structure of our economy. Only a small proportion of the total commercial bank deposits is in the non-member banks, which under state laws already have to maintain the reserve requirements prescribed by state statutes and supervisors. The difference between reserves held under these requirements, as against any which might be imposed by the Federal Reserve, is so small as to invalidate the argument that the present position of the non-member banks prevents effective credit monetary control. The ability of nonbank investors to have access to Federal Reserve credit through open market operations is certainly much more significant; likewise, the existence of non-member bank reserve requirements, different from those of member banks, is a very small matter towards the control of inflation compared to the $23 billion the government has pumped into the credit structure of the country through various governmental loaning agencies. It just does not make sense. Furthermore, the argument that differences between member and non-member banks in reserve requirements is unfair competition is more apparent than real. It may be true in isolated cases; but out of the 7,700 non-member banks, 5,577 are located in communities having only one bank; and, therefore, this supposed competition is negligible.

As a national banker as well as a state non-member banker, I am fully aware of the vital importance of the Federal Reserve System in our economic life. In reply to the Joint Economic Subcommittee, the Federal Reserve Board frankly states its belief in the dual banking system, and does not advocate compulsory membership in the System. Characterizing non-members as "free riders" is not the way to induce them to join.

States' Rights Principle Upheld

The basic concept of the Federal Reserve System and the Federal Deposit Insurance Corporation in their relationships to state-chartered banks was a recognition of the principle of states' rights. It provided for voluntary membership on the part of state banks in both the Federal Reserve System and the Federal Deposit Insurance Corporation. Such a concept of voluntary participation is the only basis on which the dual banking system can survive. Voluntary membership will not impair the effectiveness of either. This principle was recognized by the framers of both the Federal Reserve Act and the Federal Deposit Insurance legislation.

As leaders in our communities, we should devote our efforts in the interest of soundness in our nation's economy and in providing the security necessary for world peace. Such efforts could be along lines such as these: Encourage customers to increase their savings habit. Unless national defense would be served by so doing, discourage the use of customers' own or borrowed capital to construct, expand, or modernize industrial or commercial facilities. Advise against the use of customers' own or borrowed funds to accumulate goods beyond normal requirements, either for hoarding or speculating. Assist customers in understanding and complying with new regulations in laws relating to credit control. Encourage and stimulate defense production by giving needed technical advice and financial assistance. Advocate sound fiscal policies and the elimination of unnecessary expenditures by governmental bodies. Stress the importance of currently meeting defense costs to avoid further inflation through deficit financing.

The present situation requires serious thought. War and preparation for war destroy real values; therefore, we must be prepared to pay for that destruction. This will mean sacrifice on the part of every one of us.

The development of our country is the product of the birth and growth of millions of little independent businesses resulting from the vision, ambition, and industry of progressive and free men—men who cherished the right of individual initiative to make their dreams come true.

Alongside the story of the progess of these pathfinders is the record of the state banking system, which was able to recognize and provide the particular type of financial service needed in their communities because the local banks were owned and operated by men with an intimate knowledge of those needs.

There is no reason to believe that those communities would now be better served if the control of the thousands of banking institutions were to be lodged in the hands of a single individual or agency in some distant center.

The dual banking system is a safeguard against the growth of the Kremlin type of control over banking and business. Let us be sure it is preserved, and demand that the agencies which were created to be the servants of the banks are never allowed to become their masters.

Eternal vigilance must be the watchword

Labor Unions, Too?

"As I pointed out in my State of the Union message in January, 1947, during the last war the long-standing tendency toward economic concentration was accelerated. Partial mobilization, in the absence of protective measures, may again expose our economy to this threat and thereby imperil the very system we are seeking to protect. In numerous provisions of the Defense Production Act of 1950, the Congress indicated its concern over this danger to free competitive enterprise.

President Truman

"In order that this danger may be minimized, it is requested that, in performing those functions delegated to or vested in you by Executive Order 10161, you consult with the Attorney General and the Chairman of the Federal Trade Commission for the purpose of determining and, to the extent consistent with the principal objectives of the Act and without impairing the defense effort, of eliminating any factors which may tend to suppress competition unduly, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power.

"I am requesting the Attorney General and the Chairman of the Federal Trade Commission to consult with you as the occasion requires and to report to me from time to time concerning the progress that is being made in carrying out this policy."—President Truman to Federal agencies.

Does all this apply to labor unions, too?

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American Bankers Assn. Holds Diamond Anniversary Convention


L. C. Bucher


John Q. McAdams


William A. Reckman


Raymond H. Trott


Ralph Fontaine

the post of Vice-President, is a native of California, having been born at Colusa. He attended elementary school in Fresno, high school in San Jose, and was graduated from Stanford University in 1910 with the degree of A.B. In 1912 he was graduated from the Stanford Law School with the degree of J.D.

Mr. Shelton practiced law in Los Angeles from 1912 to 1917 and served as trust counsel for the Title Insurance and Trust Co. of Los Angeles from 1917 to 1919. He became Assistant Trust Officer of the Security-First National Bank of Los Angeles in 1919. In 1920 he became Secretary of the bank, in 1921 Vice-President and Secretary, and in 1934 Chairman of the Executive Committee. In 1946 he was elected President of the bank.

Mr. Shelton has long been active in bankers' affairs, in those of the California Bankers Association and in those of the Association of Reserve City Bankers and the American Bankers Association.

C. FRANCIS COCKE
Vice-President

C. Francis Cocke, the newly elected Vice-President of the ABA, is President of the First National Exchange Bank, Roanoke, Va. He is a native of Roanoke, Va., and was graduated from the University of Virginia in 1908 and subsequently attended the University Law School.

Mr. Cocke was admitted to the Virginia bar in 1910 and later became a senior partner in the law firm of Cocke, Hazlegrove & Shackelford. During World War I, he was a Second Lieutenant, Air Service Aeronautics; and in 1919 was elected First Department Commander of the American Legion in Virginia.

Mr. Cocke was elected Vice-President and director of the First National Exchange Bank in 1927 and was elevated to the Presidency in 1938. He has held a number of offices in the Virginia Bankers Association, including the Presidency in 1948-49.

In the American Bankers Association, Mr. Cocke has been a member of the Committee on Federal Legislation since 1941 and has served as Chairman of that Committee since 1946. He has been Chairman of the Federal Legislative Council since 1946. In 1949 he was elected to a three-year term on the Association's Executive Council.

GLENN L. EMMONS
Treasurer

Glenn L. Emmons, who was reelected ABA Treasurer, is President of the First State Bank at Gallup, Gallup, N. M.

Mr. Emmons is a native of Atmore, Ala., but has resided in New Mexico since he was nine years old. He is a product of the public schools in Albuquerque and would have been a graduate of the University of New Mexico except for the fact that he left college during his senior year to enter the Army in World War I, serving as a Lieutenant in the Air Corps.

During the war, Mr. Emmons's family moved from Albuquerque to California, where he joined them upon his discharge from the Army, later to return to Gallup as an employee of the Gallup State Bank. When the First National Bank of Gallup was organized in 1921, Mr. Emmons joined it as Assistant Cashier, becoming successively Cashier and Vice-President. Upon organization of the First State Bank in January, 1934, Mr. Emmons became associated with it, becoming President and Chairman of its board of directors in 1935.

NEW DIVISION PRESIDENTS

The following were elected as Presidents of the Four Divisions of the American Bankers Association:

L. C. Bucher, President of the Lincoln National Bank, Cincinnati, O., as President of the National Bank Division.

John Q. McAdams, President of the Winters State Bank, Winters, Texas, as President of the State Bank Division.

William A. Reckman, President of the Western Bank and Trust Company, Cincinnati, Ohio, as President of the Savings and Mortgage Division.

Raymond H. Trott, President of the Rhode Island Hospital Trust Company, Providence, R. I., as President of the Trust Division.

Ralph Fontaine, Executive Secretary of the Kentucky Bankers Association, Louisville, Ky., was elected President of the State Association Section, an organization within the American Bankers Association.

Membership Continues to Rise

It was reported by T. J. O'Brien, Chairman of the ABA's Organization Committee, that on Aug. 31, 1950, 98.1% of the banks of the United States were members of the Association, the highest percentage in its 75-year history. Mr. O'Brien is Vice-President of the Second National Bank, Houston, Texas.

During the past year, the ABA enrolled 113 new members, bringing the membership to 14,331 banks, 2,062 branches, and 163 members in foreign countries, a total of 16,556. In addition to being 98.1% of the nation's banks, the figure represents over 99% of the banking resources in the United States.

In 20 states and the District of Columbia, every bank is a member of the Association; and in four states, only one bank is a nonmember. The states with 100% membership are Arizona, Arkansas, Delaware, Florida, Georgia, Idaho, Iowa, Louisiana, Michigan, Montana, Neveda, New Mexico, North Carolina, North Dakota, Oregon, Utah, Vermont, Virginia, Washington, and Wyoming.

The ABA has members in every state in the Union and in Alaska, Bermuda, Brazil, Canada, Cuba, France, Great Britain, Guam, Hawaii, India, Japan, Mexico, Philippine Islands, Puerto Rico, and the Virgin Islands.

Retiring President's Report

In his report to the Convention, F. Raymond Peterson, the retiring President, stated that the past year was a successful and progressive year for banking and for the Association. "It could not have been that kind of year without the hard work, the loyalty, and the willing support of these men, their committees, and the varied parts of the banking industry which they represent," Mr. Peterson added.


F. Raymond Peterson

Reporting briefly on the nature and outcome of some of the more important legislation affecting banking that this session of Congress has considered, Mr. Peterson stated that six areas of Federal legislation have been of interest and concern to members of the Association. These legislative areas were:

(1) Reduction of the FDIC assessment and increase of its deposit insurance coverage.

(2) Government Reorganization Plan No. 1, which would have stripped the Office of the Comptroller of the Currency of its independence and direct responsibility to Congress.

(3) The government's housing program.

(4) Agricultural legislation concerning Banks for Cooperatives and the Commodity Credit Corporation.

(5) A bill amending Section 60A of the Bankruptcy Act.

(6) The Defense Production Act passed by Congress two and a half weeks ago.

"I am pleased to report to you that the outcome of almost all this legislation has been decidedly satisfactory," Mr. Peterson remarked. "Some of the laws that Congress, in its wisdom, has enacted have contributed to the strength and soundness of banking. Congress amended other legislation before it was enacted this session so that it would not jeopardize the strength of the banking system."

"Last spring," Mr. Peterson reported, "the ABA took exception to a provision in Government Reorganization Plan No. 1. It would have endangered the welfare of the 5,000 national banks through its effect on the Comptroller's Office. It was also a grave threat to the security of the dual banking system. We were invited by the Senate Committee on Expenditures in the Executive Departments to offer testimony on this bill. We pointed out the dangers which lay in this provision, and Congress amended the plan to exempt the Office of the Comptroller and maintain his independence. This was an exceedingly difficult piece of legislation, because there was a general public misunderstanding that economy and efficiency in government operation would be served by the bill just as it was drawn. We pointed out that the Comptroller's Office has always been supported by the banks, that it constitutes no burden whatever upon the taxpayers, and it has always been an efficient office of government in maintaining and safeguarding the national banking system. However, we of course favored the other provisions of the bill, which brought about further efficiencies in the Treasury Department. Our position with respect to the Comptroller's independence would have been to no avail had we not had the support of the Secretary of the Treasury."

Commenting on the recently enacted Defense Production Act, Mr. Peterson stated:

"The Defense Production Act passed by Congress two and a half weeks ago contains three provisions of very direct interest to banking. The first of these provisions restores regulation of consumer and instalment credit. Through the years, we have opposed this selective credit control; yet when the nation is at war, we must acquiesce to enactment of some of the measures the government believes will aid the war effort. The Association has sent all banks a communication urging them to cooperate fully with the Federal Reserve in the administration of Regulation W. The second provision of the bill concerns mortgage credit. The law does not provide all of the steps that are necessary to maintain a sound, anti-inflationary mortgage credit situation; but we are hopeful that the administration of the law may eventually produce somewhat more significant tightening of the government's easy mortgage money policy. The third item in the Defense Production Act in which we are directly interested provides government guaranty of loans to producers and suppliers of war material, similar to the V-Loan program during World War II. The Association has urged every bank to make every loan it possibly can to defense industries, without use of the government's guaranty. You will recall that during World War II the banks made war production loans estimated to have totaled more than $20 billion. It is to the credit of the banks that only about half of this amount was guaranteed by the government. Careful appraisal of the risk involved, and of the ability of these industrial concerns to produce and fulfill their government contracts, is the essential step in this type of lending."

Concluding his report, Mr. Peterson commented:

"I feel confident that I speak for every banker in the country when I say that America's tremendous industrial capacity, combined with the will and determination of free men, can bring victory for this nation in its struggle with the growing aggression of the Communist empire. We, like everyone else in this country, had hoped until the conflict began in Korea that open warfare could be avoided. It is still our hope that the war lords of communism may be brought to reason. Failing this, there is no choice for this nation, for industry, for banking, or for the American people but to do their part in the defense of this country. I am certain also that I speak for all bankers when I voice again here at our Annual Convention our determination to do all that we can to aid this nation throughout the war, as we did in World War II, and as we have done in peace."

Secretary Snyder Honored

At the First General Session of the Convention on Sept. 26, Secretary of the Treasury, John W. Snyder was presented with an engrossed and illuminated testimonial on behalf of the Association. The then Vice-President, now President of the Association, James E. Shelton, read the following tribute to Secretary Snyder:

"Upon this occasion, the celebration of the seventy-fifth anniversary of its founding, the American Bankers Association extends its respects to The Honorable John W. Snyder. His career is a living demonstration of patriotism and conscientious public service. In the crisis of the first World War, he volunteered for army duty and served in combat forces overseas. In the economic crisis of the early 1930's, he served the government in several important posts, in which he helped to strengthen the economic institutions of the country. Following this, he returned to private life as an official of one of our larger banks.

"A few years later, the sudden death of the President of the United States made it necessary for a new Administration to be formed. Again, the government called Mr. Snyder to Washington. For nearly five years, he has served with distinction in the high office of Secretary of the Treasury. This department is one of the oldest in the Federal Government. Never before in the Treasury's long history have there been such difficult and complex national and international financing problems. Our guest of honor has approached the solution of these problems with poise, patient research, a keen mind, a spirit devoted to the welfare of his country and to the interests of a free world.

"During his administration of the Treasury, he has always welcomed suggestions from all groups and individuals interested in public finance. When the times for decision have arrived, he has moved with courage and dispatch. He has inspired confidence among many millions of Americans who own bonds representing their faith in America.

"To John W. Snyder we offer this testimonial of our admiration of his services as a citizen, a banker, and a public servant."

Resolution Regarding Inflation

Before the Convention adjourned, the Resolutions Committee submitted a report in which it upheld the national effort to preserve peace and freedom in the world against Communist imperialism and outlined a policy for resisting inflation. According to the resolution:

"The present struggle against Communist imperialism is taking a new form and poses new problems. Thus far, it is a different kind of conflict from the concentrated all-out efforts of two world wars. This is a long-range conflict which may last for decades and calls for long-range policies, for a pace which can be maintained. It calls not alone for military strength but for that underlying economic and social strength basic to long-term military power.

"The first duty of the government and the people is to produce more to fill the double need for arms and for a sound economy. But something more is required—we can meet the military needs only by spending less on other things. We must therefore produce more, spend less, and save more.

"The primary economic danger we face is inflation which impairs the value of money. A sound dollar in which we and the people of other countries have confidence is an effective weapon against Communism which we must not sacrifice. The parallel danger is that regimentation, excessive controls, and too drastic taxation may endanger the very freedoms and the economic strengths we seek to preserve. This would play directly into the hands of the Communists.

"We believe that inflation at this time is unnecessary. With common-sense action by the government and by the people, this country has the resources to meet this emergency without either inflation or detailed regimentation of the economy.

"Some desirable steps have been taken to resist inflation and preserve the integrity of the dollar. One such step was the prompt passage by the Congress of an act for increased taxes. The second step is restraints on consumer credit and housing credit, and these will have the full support of members of this Association.

"Only a beginning has been made in resisting inflation, and further action is necessary on the part of national, state and local governments, and on the part of the people themselves.

"The national government should set an example by cutting back non-defense expenditures at least to the levels of 1948, which would mean a saving of about $6 billion a year. To avoid inflationary borrowing by the government from the banks, the Treasury should seek to distribute the national debt more widely among the people. The bankers of the Nation again pledge their aid in the campaign for the sale of savings bonds. The government can sell savings bonds to the people more readily and with better conscience when government itself has taken more adequate measures to insure against the decline in the buying power of the dollar.

"In the area of monetary policy the principle should be clearly recognized that flexibility of interest rates is effective in influencing the volume of credit and the amount of savings.

"Courageous fiscal and monetary policies of these sorts would reduce the need for direct controls and the need for such excessive taxation as would impair the long-range power of the country to produce.

"In this anti-inflationary program, the people themselves have a duty both to encourage sound government policies and to manage their own affairs so that they will produce more, spend less, and save more.

"The foregoing principles apply to banking policies. Increased production will call for added uses of bank credit. The banks recognize their responsibility to avoid uses of credit which are unnecessary to the national effort and indeed would impair it through increasing inflationary pressure.

"It is our faith and belief that the people of this country, working together and with their government, have the resources, physical and moral, to meet this new emergency with courage, confidence, energy and self-control so that our way of life, with economic, political, and spiritual freedom, will demonstrate once more to the world that it is the best for human welfare.

"If we will do these things we shall weaken the power of Communism to disturb the peace and freedom of the world."

1951 Convention to Be Held At Chicago

It was announced at the closing session of the organization's Diamond Anniversary Convention on Sept. 27 by James E. Shelton, newly elected President of the ABA, that the 1951 convention will be held in Chicago. The date of the Convention will be Sept. 30 to Oct. 3, 1951.

The invitation to hold the 1951 Convention in Chicago has been extended on behalf of the Chicago Clearing House by the Clearing House Committee, of which Mark A. Brown, President of the Harris Trust and Savings Bank, is Chairman. The Chairman of the Executive Committee for the Convention itself will be John J. Anton, Vice-President of The First National Bank of Chicago. The Vice-Chairman of the Committee will be William H. Miller, Vice-President of the City National Bank and Trust Co.

Canadian Securities

By WILLIAM J. McKAY

As anticipated, the fundamental strength and undervaluation of the Canadian dollar became so obvious, that despite apparent official reluctance, the arbitrarily fixed exchange level had perforce to be abandoned. The Canadian authorities can only be commended for their decision to relinquish the efforts to resist world-wide upward pressure on the Canadian dollar, and especially for their bold initiative in setting the pattern for exchange freedom. It had been hoped that the United Kingdom and the Dominions would have agreed at the Commonwealth meeting in London to take concerted action along these lines in order to prevent disturbance of inter-Imperial trade relationships.

It is possible, however, that the overwhelming foreign demand for Canadian dollars at the end of last week precipitated action ahead of a previously contemplated deadline. Once again the truth of an old foreign exchange maxim that no foreign exchange control can indefinitely withstand the pressure of natural forces, was clearly demonstrated. In this instance the decision to permit the exchange to seek its own level is an acknowledgement of the fact that arbitrarily pegged levels of exchange inevitably become the target of speculative attack with every change of the economic trend. Failure to adjust the exchange rate in conformity with natural economic forces can only lead to the perpetuation of artificial controls and restrictions.

Now that Canada has been forced to take the lead in the direction of exchange freedom, the United Kingdom, Australia, India and Sweden, which are in a similar position, should no longer hesitate to take a step that appears to be inevitable in the long run. It might very well be that the Canadian dollar is the guinea-pig in an exchange experiment, the results of which are being closely watched in London and Canberra in particular. Its evident success so far would suggest emulation by the monetary authorities of the United Kingdom and Australia who have left it to Canada to sponsor a movement which conflicts with the precepts of the International Monetary Fund. The impending visit to Washington and Ottawa of the Acting Chief of the British Treasury can hardly be unconnected with Canada's striking action in the field of foreign exchange.

Whether or not the Canadian example is followed elsewhere there is little question that the Dominion's financial prestige and the standing of the Canadian dollar has been enhanced as a result of the spectacular move that has met with world-wide approval. The simultaneous announcement of the removal of all remaining import restrictions on consumer goods at the end of the year will further stimulate the already booming U. S.-Canadian trade. Furthermore, investor confidence in the Dominion cannot fail to be strengthened as a result of greater exchange freedom and the fact that the external holder of a Canadian investment now has an interest in a currency with a commercial backing. Previously repatriation of capital invested in the Dominion could be effected only through the medium of the narrow market in New York for free funds.

Thus the success of the apparently reluctant action taken by the Canadian monetary authorities, which according to the somewhat petulant official comments was virtually dictated by U. S. speculators, has probably exceeded all expectations. With regard to the implied criticism of undue speculation on the part of U. S. interests, it should be borne in mind that without the strong confidence on the part of U. S. capital in the high destinies of the Dominion, the dynamic Canadian economic expansion of the past few decades would never have been achieved. If U. S. speculation did indeed compel official attention to be directed to the obvious undervaluation of the Canadian dollar, it can now be said that it has made a notable contribution to Canadian progress and prestige.

During the week attention in the bond market was naturally concentrated on the recorded Dominion internals which were marked up in proportion to the rise in the new and fundamentally stronger Canadian dollar. Liquidation for profit-taking purposes was surprisingly light and the volume in this direction was almost entirely offset by fresh investment at the new higher prices. Having happily survived the initial shock of freedom the Canadian dollar should eventually attain the logical goal of parity with the U. S. dollar. Stocks immediately following dollar revaluation were inclined to sag but subsequently recovered most of the lost ground. The paper issues registered the greatest initial losses but the golds were well maintained as the restoration of the $3.50 cut places them now in a better position than before the freeing of the dollar.

N. S. Greene Joins Townsend, Graff & Co.

Nathaniel S. Greene

Townsend, Graff & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, announced that Nathaniel S. Greene has become associated with the firm in its unlisted trading department.

Mr. Greene was formerly with First Guardian Securities Corp. and Simons, Linburn & Co.

Dr. Frank Hu Joins Schwabacher & Co.

SAN FRANCISCO, Calif. — Dr. Frank Hu, nationally known financial analyst, has joined Schwabacher & Co. in their head offices in San Francisco, 600 Market Street, as a registered representative and research authority.

Hu, holder of a Ph.D. in finance and economics from the University of Illinois, will divide his time between research and contact work.

In addition to his studies at U. of Illinois Hu did post-doctoral work at Columbia in economic analysis, money and banking, corporation finance, investments, public financing, business fluctuations, statistics, marketing and business organization. He was Assistant Professor of Economics at Seton Hall College, South Orange, N. J., prior to joining Schwabacher & Co.

Born in Tungtai, Kiangsu, China, he is a graduate of National Central University of Chungking. Following graduation he continued at the University two years as Economic Research Assistant. He became acting Principal of Chungking High School in 1941 and during his four years there was in charge of the school's financial management.

In 1945 Hu was sent by his government to the United States on a scholarship to work for his Ph.D. and to study progressive methods in use to promote the country's growth and development with reference to United State's standards of living, education facilities, production "know-how" and the nation's various financial operations and functions.

Dr. Hu is a Phi Beta Kappa, Beta Gamma Sigma and Sigma Iota Epsilon.

William D. Scranton

William D. Scranton, senior partner of Charles W. Scranton & Co., New Haven, Conn., died at the age of 75 after an illness of several weeks.

Continued from page 14

Monetary Policy Today

the refunding operation, the effects of the Federal Reserve's policy will be more restrictive.

Future Monetary and Fiscal Policy

The rise in short-term government yields, coupled with increases in rates on bankers' acceptances, security loans, and other forms of bank credit in response to Federal Reserve open market and rediscount rate actions, are first steps in the direction of curbing inflation by seeking to reduce the availability of reserves. Should these steps prove to be inadequate, further action might have to be taken.

So far as general credit controls are concerned, the Federal Reserve still has not invoked its authority to increase member bank reserve requirements. Under this authority, as presently constituted, required reserves of central reserve city banks could be increased from 22 to 26% of demand deposits; those of reserve city banks, from 18 to 20%; and those of country banks from 12 to 14%; while reserves against time depsits could be increased from 5 to 6%.

As long as short-term interest rates are rigidly kept down and banks have an abundance of short-term securities, the effectiveness of reserve requirement increases is limited. In the event existing authority over reserve requirements should prove inadequate, Congress may decide to expand this authority to permit further increases in reserve requirements. It may even be necessary, in my opinion, particularly if large-scale deficit financing would necessitate some Treasury borrowing from banks, to institute some sort of supplementary requirement. Under such a plan commercial banks might be required to hold some percentage of their demand and time deposits, in addition to present reserves, in the form of Treasury bills, certificates and notes, or cash and cash items.

Such supplementary requirements could be limited by law to a certain percentage of demand and time deposits. Banks could retain the same volume of earnings assets as they now hold, or perhaps more, but at the same time the supplementary requirement would restrict the basis of credit expansion currently and in the future.

Selective Credit Instruments

Consumer Credit Regulation—In accordance with the authority granted by Congress in the Defense Production Act of 1950, the Federal Reserve implemented, as of Sept. 18, certain restrictions on consumer credit. In general, these restrictions call for somewhat larger down payments and shorter maturities on consumer installment loans than prevailed at the time the regulation was issued. Thus, for example, purchases of new automobiles on credit can only be made with a minimum down payment of one-third of the purchase price, the balance to be paid off within 21 months; of stoves, radios, dishwashers, refrigerators, and other household equipment, with a minimum down payment of 15%, the balance to be paid within 18 months.

The purpose of these larger down payment and shorter maturity provisions is to curtail consumer purchases of automobiles, household appliances, and other durable goods, particularly where recent expansion of such purchases has occurred largely in response to progressively more liberal terms.

Control of Real Estate Credit—As I mentioned previously, in discussing current economic developments, the demand of consumers for housing has been one of the major factors contributing to recent high levels of business activity and employment. This demand for housing has in large measure been supported by, and in turn has contributed to, a rapid expansion in real estate mortgage credit.

New loans made on small residential properties during the first eight months of 1950 totaled slightly more than $9 billion—an annual rate of almost $14 billion, as compared with roughly $11 billion in each of the past three years. Residential mortgage debt outstanding, which on Dec. 31, 1949 totaled $37 billion, increased at a record rate during the first eight months of 1950, reflecting a more rapid increase in new debt than in retirement of previously contracted debt. As of Aug. 31, mortgage loans outstanding on one to four-family houses totaled about $41 billion, an increase of nearly $4 billion since the first of the year, as compared with an increase of less than $4 billion during the entire 12 months of 1949.

To argue, as some responsible individuals have, that real estate mortgage lending based on expansion of bank credit is not inflationary, seems to me in contradiction of the facts. Not only is the volume of money in circulation increased by the expansion of credit, but its turnover is quickened by the chain of transactions involved in building. More than that, private building operations increase competitive bidding for labor and materials needed for the defense effort and thus induce price rises.

During the past 12 months prices of most building materials have been advancing steadily—by the beginning of September they had advanced 16%, on the average, from the lowest level reached in 1949, which was still very high, and were continuing to climb. In the case of some building components, such as millwork, the price increases have been even more pronounced.

Real estate mortgage credit plays a very important and desirable role in our economic system in normal times. Without such credit, widespread home ownership would not be possible. However, in order that such financing may be of greatest value, it is important that it be used most fully when the construction industry as well as all other industries are in a position to meet demands without inflating prices and otherwise damaging the whole economy.

When industry in general is running at capacity and increased needs for national defense require a substantial diversion of labor and materials from civilian use, the expansion of mortgage credit will only add fuel to the fires of inflation. If mortgage credit is appropriately limited now, it will be in a better position to play its essential role when more productive capacity becomes available to meet consumer demands.

The Defense Production Act of 1950 and executive orders pursuant thereto provide for the regulation of private real estate construction credit by the Federal Reserve, with the concurrence of the Housing and Home Finance Administrator. Government guaranteed real estate credit will be regulated by the Housing and Home Finance Administrator, and to the greatest extent possible will be coordinated with the restrictions imposed on private credit. While regulations implementing private real estate cerdit control have not yet been published, the general intent and form of such control will probably be about as follows:

Restrictions will be imposed on credit (whether or not secured by a mortgage) granted for new construction, including major additions and improvements to existing structures, and may cover industrial and commercial as well as residential properties. Interest rates will not be regulated, but minimum down payment requirements will be established on residential properties. Consideration is also being given to maximum maturity and/or minimum rate of repayment requirements.

Unlike consumer credit regulation, where we have an extensive experience to draw upon, restriction of real estate credit presents many new and knotty problems. In an effort to deal equitably and wisely with these problems, the Federal Reserve has elicited the assistance of recognized experts in the field of real estate credit, and has invited the cooperation and advice of bankers and others who extend real estate credit.

Conclusion

Quite obviously, the measures for curbing inflation which I have been discussing will have their effects, directly or indirectly, upon savings banks. To the extent that these measures are employed successfully, they will preserve the purchasing power of savingse deposits and will sustain the confidence of those who maintain savings deposits. In an era in which savings banks must compete with other institutions and investment media for the savings of individuals, this in itself is of great importance to the savings banker.

If consumer instalment and real estate credit controls succeed in deferring consumer expenditures, savings deposits may be expected to increase at somewhat higher than present rates as they did during World War II. At the same time, reduction of real estate credit extension may reduce the supply of such investments available to savings banks. This should strengthen market demand for long-term Government securities.

Whatever the ultimate effects of present monetary, credit, and fiscal policies may be on the earnings and investment prospects of savings banks, I am confident that savings bankers throughout the country will lend their wholehearted support to the prevention of inflation. The more we can accomplish by means of monetary, credit, and fiscal policies within the existing framework and institutions of our free enterprise economy, the less need there will be for the authoritarian harness of rationing and other direct controls.

Protest Mortgage Credit Restrictions

George C. Johnson, President of Dime Savings Bank of Brooklyn, says they are unreasonable and unnecessary. Holds liberal mortgage credit when sound, is actually a weapon against inflation.

Criticizing the Federal Reserve Board, government economists and certain segments of the banking industry for advocating excessively stringent curbs on home mortgage credit, George C. Johnson, President of The Dime Savings Bank of Brooklyn, fourth largest institution of its kind in the world, in a statement issued Sept. 29, termed severe mortgage restrictions as "unreasonable and unnecessary." Government's deficit financing is the real root of the nation's inflationary troubles, he added.


George C. Johnson

"We are told by the Federal Reserve Board, government economic advisers and a few bankers that the proposed stringent mortgage credit requirements in the form of extremely high down payments is necessary to halt inflation," Mr. Johnson said.

"This is decidedly not the way to meet the problem," the banker continued. "Liberal mortgage credit, applied in a sound manner based on the borrower's ability to pay, is actually a weapon against inflation."

"When a family buys a new home," Mr. Johnson explained, "it uses up savings that have been accumulated for this purpose. The mortgage money that is provided by a lender also comes from savings and does not increase the total money supply of the country. Then more money is immediately taken out of the inflationary stream each month as that home buyer makes payments against the principal and interest of his mortgage.

"Recent restrictions on mortgage credit probably will reduce the number of homes built next year by the 30% suggested by the building industry and certain government agencies. If it is evident in another three or four months that this is not fully accomplishing the aim, surely another 5% increase on down payments should release all the men and materials that can be absorbed in war industries.

"Home building is one of the greatest means of producing and creating real wealth that we have. Purchase of homes provides employment for millions of persons and the house itself constitutes something tangible in the way of wealth; something that has a definite value."

This is in distinct contrast to government deficit financing, Mr. Johnson asserted.

"Deficit financing simply creates billions of more money which is poured into the nation's monetary stream. This is done by a bookkeeping process and by borrowing. The only difference between this and fiat money is that government does not resort to the printing press to turn out currency. It achieves the same result by issuing bonds, 91-day bills and other forms of what are in reality nothing more than I.O.U.s.

"The most dangerous and inflationary aspect of deficit government financing is that virtually none of government's spending creates new wealth, such as is the case with home buying. Government spending goes largely into salaries for its enormous bureaucracy, and into articles and commodities that are quickly used up, worn out or destroyed. It is certainly not productive.

"Another government-inspired inflationary trend is that government apparently favors an increasingly higher wage level. If the production of things for workers to buy is limited, especially homes and home equipment, this will add dangerously to the inflation spiral.

"Although these facts are well known as basic economic factors, I am extremely surprised that the Federal Reserve Board and others are advocating excessive down payments for home purchases," Mr. Johnson concluded. "If the proponents of unduly excessive mortgage credit curbs are successful in their plans, they will force the closing down of the nation's largest nonagricultural industry and thus will pave the way for a severe economic depression. Furthermore, such steps as are being discussed at high levels of government policy making can be regarded as another move toward socialization of our country. Never before has it been necessary to establish stringent mortgage credit regulations, and it is not necessary today."

Detroit Bond Club Elects New Officers


Reginald MacArthur Frank P. Meyer

DETROIT, Mich.—At a meeting held Sept. 6, 1950, the directors of The Bond Club of Detroit elected the following officers and directors for the year 1950-51, beginning Sept. 1:

President, Reginald MacArthur of Kenowar, MacArthur & Co.; **Vice-President,** Frank P. Meyer of First of Michigan Corp.; **Secretary-Treasurer,** Ernest B. Kelly, Jr. of Halsey, Stuart & Co.

Directors: Frank P. Meyer of First of Michigan Corp.; Merle J. Bowyer of Braun, Bosworth & Co.; John K. Roney of W. C. Roney & Co.; Gilbert S. Currie of Crouse & Co.; Reginald MacArthur of Kenowar, MacArthur & Co.; Ernest B. Kelly, Jr. of Halsey, Stuart & Co.; Victor P. Dhooge of Blyth & Co.

The following committee chairmen were appointed:

Chairman of the Program Committee: Frank P. Meyer, First of Michigan Corp.

Chairman of the Entertainment Committee: Victor P. Dhooge, Blyth & Co.

Chairman of the Publicity Committee: Merle J. Bowyer, Braun, Bosworth & Co.

Chairman of the Membership Committee: John K. Roney, W. C. Roney & Co.

Chairman of the Finance Committee: Gilbert S. Curtis, Crouse & Co.

Carry Investment Story to Businessmen

DETROIT, Mich.—The investment industry is carrying their story to other business men in the Metropolitan Detroit area when members of a number of luncheon clubs will listen to reasons why they should "Invest in America." A joint public relations committee made up of representatives of the Detroit Stock Exchange, Securities Traders, Investment Bankers, Bond Club and Investors' Brokers is sponsoring the plan they hope will further develop a positive philosophy of our free enterprise system which calls for voluntary investments ranging from government bonds to the furnishing of venture capital. Members of local brokerage firms and investment houses are included in the Speakers' Bureau, from which all requests for speakers are being filled.

Assisting Chairman Charles B. Crouse of Crouse and Co., are William Adams of Braun, Bosworth and Co.; Charles Bechtel of Watling, Lerchen and Co.; Gilbert Currie of Crouse and Co.; and Raymond Laude of Goodbody and Co.

Securities Salesman's Corner

By JOHN DUTTON

"You have to make contacts," that is the way an old friend of mine used to say it. "You have to see the people." That is the only way you are going to do business. It won't come to you without work and effort. I don't think there is much argument about this and most good salesmen know it. In fact, if you will check up on the times that business came to you without much work upon your part, you will remember that it was because of your past efforts that you got today's orders.

Just to prove the point though, last week I heard of two cases where being alert and exposing oneself to business brought in two orders. Both were from entirely different types of individuals, and at a different time and place.

One case: This salesman was on a routine trip to a small town near his office. Business had been slow, but he went out anyway. He stopped for gasoline at a filling station and being a friendly fellow, became engaged in a casual talk with the young man at the pump. The station attendant asked him his business and he told him. They started talking about saving money. The salesman went over a balanced fund with the young man and spent in all about 15 minutes' time. He drove on after leaving some literature. Two days later who showed up at the door but the filling station attendant and his wife. They decided that they wanted to invest a thousand dollars. Small sale, yes—but worth 15 minutes' time—I think so, don't you?

Second case: This salesman was riding on the train and he got into a conversation with a fellow passenger. It is true that people are more friendly on trains and boats, and this was no exception to the rule. After a pleasant two hours and dinner together, this salesman opened up a good account and placed an initial order for about $10,000 worth of securities.

Now both of these instances are rare. They don't happen often But the point is that you have to see the people. You can't sell them unless you expose yourself to business. I have seen good men who wouldn't work unless they needed money—then they were world beaters. They could have been twice as successful if they had put into every week at least half the effort they made on those days when they felt like working. There is something about work that is somewhat like any other habit. If you get into the habit of working in spasms and jerks, you will do it that way; and you will find that it is a harder row to hoe than if you hit a steady day after day pace, and then took a good rest in between if you needed it. I know some men who are excellent five day workers. They won't do a thing about working on Saturday and Sunday though. They produce good results. But the in and outer is often the best man of all, if he could only plan enough work ahead and then force himself early in the day to get started. Once you start working it is a pleasure, although there are times when even the most consistant salesmen has to have a boost. That is when a short rest or a change will do the trick.

Frankly, it is too bad when any man is engaged in a line of work that he doesn't enjoy. A salesman who likes what he is doing will work consistently, even when things are slow. Any man who doesn't enjoy selling enough to see the people, might try and find another kind of work where he will feel like working at least eight hours a day. It is just possible that he is a square peg in a round hole and doesn't know it.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Statements of New York City banks for the period ending Sept. 30, 1950, published so far reveal a substantial expansion in the loans outstanding as compared with the totals at the end of June and those of a year ago.

The weekly reports of member banks in the City for the last three months have indicated that a material expansion in loan volume was taking place. The figures released this week by the individual banks confirm it. The gain has been fairly general with all but one or two banks showing improvement in the loan total.

In the following table we show the loans outstanding as of Sept. 30, 1950, compared with those at June 30, 1950 and Sept. 30, 1949, for the principal banks in New York City. Also shown are the percentage changes between the different dates.

	Loans and Discounts (000s Omitted) Sept. 30, 1950	June 30, 1950	Sept. 30, 1949	Increase in Loans fr. June to Sept.	Percentage Gain June to Sept. 1950	Percentage Gain Sept.'49 to Sept. 1950
Bank of Manhattan	$466,677	$427,795	$451,217	$38,882	9.1%	3.4%
Bank of NY & 5th Av.	135,034	126,514	113,701	8,520	6.7	18.8
Central Hanover	520,548	422,763	484,887	97,785	23.1	7.4
Chemical Bank	535,862	480,140	482,255	55,722	11.6	11.1
Commercial National	58,512	45,404	45,853	13,108	28.9	27.6
Corn Exchange	90,078	78,816	69,340	11,262	14.3	29.9
First National Bank	144,766	155,154	186,620	—10,388	—6.7	—22.4
Guaranty Trust	992,079	982,767	956,427	9,312	0.9	3.7
Irving Trust	486,150	405,488	381,683	80,662	19.9	27.4
Manufacturers Trust	662,978	580,364	555,237	82,614	14.2	19.4
Morgan, J. P.	213,928	180,924	194,538	33,004	18.2	10.0
*National City Bank	1,501,446	1,337,790	1,347,435	163,656	12.2	11.4
New York Trust	250,814	243,719	239,441	7,095	2.9	4.7
Public National	243,436	193,541	148,753	44,945	22.6	63.7
U. S. Trust	45,267	52,799	49,044	—7,532	—14.3	—7.7

*Includes figures of City Bank Farmers Trust Co.

Several of the banks showed rather impressive increases in their loan portfolios during the two periods. Central Hanover, Commercial National, Irving Trust, J. P. Morgan, and Public National all reported gains in excess of 15% from June to September. In a number of cases the comparison with a year earlier was even more favorable.

The funds required for the additional loans were provided, in part, from the sale of U. S. Government securities. With only one exception, holdings of such securities showed a decline during the quarter and were generally lower as compared with September, 1949.

Deposit totals were little changed for the period and no major trend was in evidence.

In the table presented below we show the holdings of U. S. Government securities and the deposit totals at the end of the last two quarters and September, 1949.

	U. S. Government Securities Sept. 30 1950 $	June 30 1950 $	Sept. 30 1949 $	Deposits Sept. 30 1950 $	June 30 1950 $	Sept. 30 1949 $
	(000s Omitted)					
Bank of Manhattan	288,276	323,432	337,340	1,102,808	1,069,344	1,040,504
Bank of NY & 5th Av.	149,533	161,453	151,341	378,398	396,005	368,402
Central Hanover	526,930	649,505	556,049	1,409,518	1,399,855	1,361,688
Chemical Bank	432,703	511,288	494,257	1,377,984	1,390,495	1,327,825
Commercial National	84,792	93,882	99,128	171,175	183,461	179,007
Corn Exchange	441,793	464,294	471,958	745,406	742,474	739,968
First National	309,126	315,478	349,552	620,992	627,937	658,647
Guaranty Trust	993,379	1,079,906	1,102,405	2,312,110	2,335,397	2,315,253
Irving Trust	342,545	436,218	458,345	1,060,833	1,068,962	1,060,925
Manufacturers Trust	864,943	1,005,985	998,900	2,135,910	2,100,794	2,094,367
Morgan, J. P.	197,154	253,330	349,571	593,305	567,026	717,180
*National City Bank	1,800,638	1,949,981	1,939,757	4,923,117	4,688,598	4,611,284
New York Trust	280,473	314,962	272,096	668,186	687,472	610,394
Public National	109,251	156,454	220,334	471,514	465,476	475,248
U. S. Trust	63,963	59,091	58,507	115,354	115,740	113,236

*Includes figures of City Bank Farmers Trust Co.

In regard to the earnings reports, those issued so far indicate a modest gain in the per share results. Some of the institutions have made allowance for an increase in the Federal income tax rate. Even after this provision most of the banks show earnings which compare favorably with previous periods.

Merrill Lynch Team Wins Golf Tourney

A golf team representing Merrill Lynch, Pierce, Fenner & Beane won the 22nd Charles Hayden Memorial Golf Tournament Sept. 28 at the Baltusrol Golf Club, Springfield, N. J. Scoring a winning low net score of 315, the team was composed of Caryl Sayer, Captain, John Humm, George Stanley and J. Sedlmayr. Teams from 30 securities firms participated in this year's match.

Teams representing Clark, Dodge & Co. and Dominick & Dominick took second and third place respectively, with scores of 316 and 317.

Individual honors for low net score went to James Osborne of Dominick & Dominick with a score of 68. Low gross honors went to Andrew Peck, Jr., of Clark, Dodge & Co., and Charles Snow, of Cohu & Co., who tied with a 75 apiece. The "Kicker's Handicap" prize this year was awarded to George Hamilton of Dominick & Dominick.

Continued from first page

Our Current National Scene

ered that the sacrificial cooperation of the free peoples of the earth had become a practical necessity. This nation was then dividing an inadequate supply of goods with a hungry and bankrupt world. We were doing this not merely as an act of generosity, but as the best guaranty that freedom would return to many friendly countries where bankruptcy and starvation had laid the groundwork for the rise of the despotism of Communism.

Through all these years, we sought for ourselves and for peoples everywhere the ultimate objective of peace among men and improved standards of living for all, with the hope that a long era of progress and happiness for mankind lay ahead.

Lurking in the shadows of those years were the evil designs of a powerful nation bent upon world conquest and the subjugation of all free peoples to the dictates of a supreme police State. At Yalta, Teheran, and Potsdam, and even at San Francisco, we could not make ourselves believe that the door was closing on the aspirations of mankind for a world of peaceful cooperation. The tragic facts of an irrepressible conflict between slavery and freedom since have become clear, and today we find no choice but to devote our lives and fortunes to the preservation of freedom and to combating the forces that would destroy it.

Constructive Contribution of U. S.

We have answered this challenge by taking positive action on many fronts. This nation has made a constructive contribution by initiating steps in the field of international finance to realign currencies and stabilize international exchange. Through the Marshall Plan, we have contributed to the rapid economic recovery of many free countries. Through the application of the Truman doctrine, we have taken our stand by the side of free peoples throughout the world in erecting barriers to the advance of Communism. Finally, we have provided military support to the United Nations to stop the onrush of the Kremlin-inspired Communist hordes of North Korea in their effort to conquer their own fellowmen and destroy this outpost of freedom in Asia.

It is in this setting that we examine the national scene, that we evaluate our strength and our weaknesses, and prepare to multiply our effectiveness to win a contest that may determine the destiny of mankind.

This nation faces the difficult years ahead with varying degrees of adequacy to meet the compelling needs of the world situation. The first move must be to subordinate our economic and social life to the demands of military adequacy. Whatever the military needs may be, they must and will be provided. The American people will be satisfied with no less answer.

The United States is well prepared with the most prodigious productive machine that the world has ever known and with vast potentialities as yet unrealized. Geared to the demands of a world conflict and directed to the defense of freedom, the nation's output of food and goods and services can surpass the rest of the world. On the score of productive capacity in competition with other nations, we have little to fear.

On the financial front, we are not as well situated. The present Federal debt, less cash in the Treasury, of $252.4 billion compares with a net debt, less cash, of $46.6 billion on June 30, 1940, preceding the defense program prior to World War II. Thus, the enlarged defense program starts with an increased Federal debt of $206 billion, as compared with 1940. The size, the character, the ownership, the cost of carrying, and the management of that debt overshadow all other facts in the nation's financial life. Every other financial consideration in the economy must be subordinated to the considerations of the public debt. The financial integrity not only of government but of every business and of every citizen in this country depends upon the integrity of debt. Supported as it is by the productive capacity of this nation and by the confidence of the American people in the ability of government to service and manage the debt, its size is not our chief concern. It is the management of the debt that is of prime importance. Many, varied, and intricate are the considerations for its proper management. They include the greatest degree of skill, the keenest knowledge of effects, and the highest concept of public interest. The chief officer charged with the responsibility for the management of the public debt is the Secretary of the Treasury. The financial stability of government and of the economy of the nation is influenced by the character, the integrity, the capacity, the courage, and the devotion to national welfare of the man who occupies that position. This nation is more than fortunate that the one who carries that responsibility in these difficult times is a man who enjoys the well earned confidence of all, the Honorable John W. Snyder. So long as he is Secretary of the Treasury, the American people have the full assurance that the public debt will be managed not only with understanding and competence, but without fear or favor. It will also be managed in the interest of the welfare of the American people rather than for any special benefit of any group or class.

Present Heavy Government Spending

In addition to the necessities of managing the public debt, the nation is confronted with the present large current expenditures of government. Now arises the practical necessity of making additional outlays for national defense that may soon run to some $20 billion or more per year. Raising this money through Federal taxes will not be easy. Federal taxes produced net budget receipts in the fiscal year 1950 of $37 billion, as compared with net budget receipts of $5.4 billion in the fiscal year 1940 — an increase of about 600%. In both of these years, government expenditures exceeded receipts. By contrast, during that same ten-year period, gross national product, national income, and total personal income payments have increased less than 175%. Thus, the tax burden has increased more than three times as much as income has increased.

The immediate question is to what extent the projected additional outlay should be covered by additional taxes. Public sentiment strongly demands that additional taxes be levied to cover the cost of additional defense outlays to the fullest extent possible. Promptly after calling for additional military outlays, the President of the United States requested Congress to levy additional taxes promptly to cover a portion of these outlays, with certain levies to become effective as quickly as possible and with others to follow. Congress acted with dispatch. An "interim" tax bill has been enacted which takes an immediate bite out of 1950 income. It will produce additional revenue quickly and capture for the government some of the increased income of individuals and corporations resulting from the defense program. At the same time, it reduces disposable personal income.

Another and larger tax program is required to provide the balance of the revenue needed for the defense program. In addition to taxes for revenue, there is unanimity of opinion that extra profits attributable to the military program should be diverted to the Treasury. There is also a considerable body of opinion which believes that profits of corporations, as reflected by their rate of earnings during the past few years, are "excessive" and, if continued, a large share should go to the government.

For the years 1946-49, inclusive, corporate earnings before taxes were more than five times as large as during the years 1936-39, inclusive. Net income after taxes was more than four times as large in comparing these two periods. In some cases, indications are that corporate earnings in 1950 will be higher than for any one of the preceding four years.

Corporate Incomes—A Target for Revenue

There is substantial justification for some of these large increases in corporate earnings, but total corporate income has reached such proportions as to become a fair target for increased tax revenue. In formulating any additional program to tax what the public may consider "excessive" profits of corporations, the fact should not be overlooked that all corporations have not shared alike in increased income during the past four years. In 1949, for example, the ratio of net income to net assets of "leading manufacturing corporations" averaged 13.8%. However, the average rate of return of various groups ranged from 3.3% to as high as 30.8%, and with an even greater variation between individual corporations. The average rate of return on net assets of corporations engaged in mining and trade averaged above 13% in 1949, whereas the return to corporations engaged in finance and in service was 9.4%; in public utilities, other than railroads, 8.7%; and in the case of Class I railroads, 3.2%. These figures reflect the difficulty of developing any equitable formula by which so-called "excessive" corporate income might be taxed at a relatively high rate.

The idea of war profiteering is obnoxious to the American people. The demand is that such profits be prevented if possible; and if not, that they be taken by the government through some plan of taxation. However, the machinery by which such objective may be achieved without serious injustice to other taxpayers is difficult to design. We should profit by the experience of the last excess profits tax law and eliminate some of the areas of uncertainty to taxpayers and to government as to the amount of taxes due under the law. We should also avoid any stimulation of wasteful practices that would result in substantial losses of tax revenue.

Unless such a structure is most carefully designed, serious injustice will result; and the damage to the corporate structure in this country will be severe.

Large Incomes Already Heavily Taxed

In the field of personal income tax, the problem is also difficult for the reason that large incomes are already taxed at what seems to many to be excessively high rates. Furthermore, the preponderant portion of total income received by individuals is in the lower income brackets. In a chart filed by the Treasury Department with the Senate Finance Committee on Aug. 2, 1950, it was shown that of the total surtax net income received by all taxpayers at the 1950 level of income, 88% is received by those having a surtax net income of less than $6,000. It is evident, therefore, that any large increase in revenue from personal income tax must come in substantial measure from the lower and middle income groups. It is clear that there are practical limits to further increases in the rates of tax on personal income of all groups. At best, such increases will involve heavy sacrifices on the part of most taxpayers.

Present estate and gift tax laws should be re-examined. These tax laws do not produce a reasonable amount of revenue, nor can they be administered equitably. A properly integrated and revised estate and gift tax program offers possibilities for substantial additional revenue.

Excise Taxes Require Re-examination

The entire field of excise taxes requires re-examination. Many adjustments of rates are indicated. Under the recent tax bill, a few items have been added; and there may be others that should carry a share of the tax burden. There are, no doubt, some cases in which a higher excise tax rate would not only produce additional revenue but, at this time, would serve the purpose of restricting civilian purchases of material needed in the defense program.

There are some presently exempt commercial and business operations that should be taxed not only for the revenue produced but also to insure that all enterprise operated for profit and in competition with tax paying business will carry a fair share of the tax burden. Although I am opposed to the further encroachment of Federal Government on the rights of states and local governments, it would seem that there is no justification of the exemption from Federal income tax of income from further issues of municipal securities.

It is clear that we are confronted with the necessity of adding more and heavier tax burdens to a structure already overloaded. Every tax avenue should be explored. At the same time, the greatest care should be exercised that the burden should not become so great as to destroy enterprise itself and the incentive to work and produce and to save and invest. The task of evolving such a program will require skill of a high order and should command a full degree of cooperation between government on the one hand and taxpayers on the other.

The financial requirements for adequate defense and for possible military action constitute a great unknown as to amount of money required and as to the period over which heavy demands will be made. At the moment, it would appear that for some years ahead such additional requirements may exceed $20 billion a year. Assuming a moderate increase in the volume of production and a substantial decrease in Federal spending for nonmilitary purposes as compared with fiscal year 1950, the additional tax burden that will enable the Federal Government to meet present military demands and operate on a pay-as-you-go basis will not be too great for our economy to stand, provided there is an equitable distribution of the load. However, in the event of an all-out war, military demands would likely require expenditures beyond possible current revenues. This would raise new problems of deficit financing.

Control of Inflation

Out of the increased production required for the enlarged defense program and out of the financing of the expenditures involved arise one of the most difficult problems with which we are confronted; namely, the control of inflation. I regard the protection of the integrity of the value of the dollar as a primary obligation of the government, of banking, and of the public. The preservation of a sound dollar is essential to the accomplishment of all other objectives. This constitutes the most difficult area with which we have to deal, because here arise conflicts with some of the basic springs of human action in which the self-interest of individualism expresses itself on every front. It is but natural that the individual should seek to increase his income through additional wages, that the farmer should try to increase his income through higher prices, and that the businessman should want to increase his profits through wider margins of profit on the goods he sells. Government controls are distasteful to the American people, and yet here is an area in which the objective of restraining inflationary forces cannot be achieved except through the stern hand of government control. The Congress has recognized the necessity for such controls and has given the President of the United States vast powers, far beyond those immediately needed, to take steps necessary to contain inflationary pressures.

This area of human action is controlled not merely by physical actions of cause and effect, but is largely psychological. The widespread panic buying by consumers following the Korean outbreak arose from no shortage of goods, but from a fear that was a product of experience in World War II. The very thought of a possible shortage of an item sends masses of people into hysterical buying beyond their current needs. The expectancy of increased prices sends the speculators into the markets for goods they do not need but on which they hope to reap exceptional profits. Part of the task, therefore, is one of education and persuasion. To the fullest possible extent, voluntary controls should be used. There is need not only to exercise self-restraint but to make known to everyone that unnecessary purchases of goods and services create the disastrous conditions that we seek to avoid. Fortunately, the American people have accumulated during the past four years an unusual supply of durable consumer goods; and a reasonable reduction in available supply of such goods need not incur any widespread hardship. The nation is fortunate in its abundant supply of foodstuffs and in the greatly increased capacity to multiply food production through the intelligent use of commercial fertilizers and good farm practices. The goods needed for the present defense effort can come, for the most part, from the increased production that is available from the better utilization of the labor supply, and through increased mechanization and efficiency in production methods. The requirements of the current situation indicate that for some time ahead there will be needed only a moderate diversion from the production of civilian goods to the military.

A possible threat to maximum production could come from ill-advised and unwarranted demands on the part of the leaders of organized labor that might result either in an inflation of labor costs or a stoppage of essential production, or both. Any evaluation of the national economy to be realistic must recognize that the greatest concentration of economic power in this nation is now in the hands of the leaders of organized labor. At the nod of a head, a single one of them can paralyze the production or distribution of goods. Such power is so great as to challenge even government itself. The President of the United States has called on labor and management to avoid wage increases that would lead to an inflationary spiral and to join in the further consolidation of industrial peace. In his economic message to Congress on July 26, 1950, transmitting the midyear economic report, the President said: "Work stoppages in vital industries are something we simply cannot afford under present conditions."

Credit Controls

To a large extent, inflationary pressures may be contained on the credit and financial front. Several actions have already been taken in these fields and there are further opportunities. The present housing boom can be cooled off rapidly by restrictions of credit for housing, including increased down-payments on new housing. Here is an area in which government itself is directly and indirectly the largest dispenser of credit and has within its means the power to reduce one of the most serious present inflationary pressures. We look to government to set the example that it asks others to follow.

In the general credit field, it has long been recognized that an effective control of loans to business may be used to dampen inflationary pressures. Speculative loans and other loans to finance unneeded material and supplies have no place in an inflationary economy. Increasing interest rates on loans has long been regarded as a deterrent to excessive borrowing. However, this is an area in which there is less freedom of action under the realities of our present large national debt, and its ownership, than would be possible under other conditions. So long as the commercial banks have 41% of their assets in the form of U. S. Government securities, for which, in the public interest, an

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Our Current National Scene

orderly market must be maintained, there is a severe limitation on any action that may be taken by the Treasury Department or by the Federal Reserve System to raise interest rates.

We should not overlook the fact that under the conditions of the size, the nature, and the maturities of the Federal debt, the determination of interest rates on government securities and to a large extent all other interest rates is almost completely under the power and control of the United States government and its instrumentalities, including the Federal Reserve System. It is unlikely that in the foreseeable future there will be or can be a return to a so-called free money market.

The Federal Reserve System is charged under the law with certain duties of credit control. The System has three principal powers with which to fulfill these duties. One of them is to determine rediscount rates. Under present conditions, with bank rediscounts in relatively small volume, raising rediscount rates by Federal Reserve banks serves little more than as a warning gesture. Likewise, under existing conditions, increasing reserve requirements of banks accomplishes little more than to transfer earning assets from the commercial banks to the Federal Reserve Banks. Present laws as to bank reserves were not designed for a financial structure that has changed to a large extent since their enactment and, therefore, produce an inequitable formula for setting up reserve requirements.

The effectiveness of open market operations of the Federal Reserve is also severely limited because of the practical considerations of the size and rates of interest of the Federal debt, the distribution of its ownership, and the continuous necessity for refunding a large part of it. At most, only minor rate changes can be made. Such small changes, however, may have serious repercussions on debt management operations while producing only a slight effect in reducing the demand for loans by business and industry.

The controlling fact is that open market operations cannot be divorced from public debt management. There snould be the greatest degree of harmony between the two even though the objectives may be somewhat different; and if conflict arises, the stern necessities of financing the government and managing its debt must, in the greater public interest, take precedence.

We may well question whether or not under the present conditions of the size of the public debt and the substantial ownership of government securities by commercial banks, as well as the strong financial position of the banking system, the present powers of the Federal Reserve System enable that system to discharge its full responsibilities of credit control.

Under recent legislation, the Federal Reserve System has been given certain additional credit control powers, including the regulation of consumer credit. Rather mild restraints have now been imposed in this highly inflationary field, but they can be increased if needed. Another power deals with what is presently the most inflationary field in size and volume, credit for housing. This power is shared with an executive agency of government. The extent to which this power will be exercised and the effect in reducing the volume of construction remains to be seen.

Commercial Bankers' Responsibility

In the current situation, commercial bankers have a grave responsibility of containing inflationary credit to the fullest extent possible, through individual and voluntary action in making loans. The American Bankers Association as well as bank supervisory agencies have urged that this be done. The ABA might well repeat its fine performance of 1948 when it conducted an effective campaign for the voluntary reduction of loans by banks that might contribute to inflation. Through the judicious exercise of credit powers, bankers can do much to avoid conditions that will make more difficult the task of the Federal Reserve System. They should not unwittingly give support to those who believe that the independence of the Federal Reserve System should be taken away through government ownership and operation and that the Government should be financed, without interest, by its own central bank.

In his radio message on Saturday night, Sept. 9, President Truman called on the American people to exercise self-restraint, to increase production by working harder and longer hours, to avoid increases in prices and profits, to limit wage demands to any rise in the cost of living, to reduce expenditures to actual needs, to accept some reduction in our standards of living, and to save a larger part of current income. Here is a brief and simple formula under which the needs of the hour can be met, and met in such a way as to minimize the needs for government control and at the same time yield the most in the preservation of our freedom of individual action. Here again, and particularly in reducing non-military expenditures, we look to government to set the example for all to follow.

If the American people could be induced to tighten their belts and save a larger portion of their current income and withdraw more of it from the spending stream, most of the current inflationary problems would be solved. This is a field in which the bankers of the country performed a notable service throughout World War II and since. The needs for increasing savings are greater now than ever before and, in particular, for increased purchases of Government Savings Bonds. The ABA can and should again render outstanding public service in this field, as was done during World War II.

Road Ahead Not Easy

As we are beginning to move into a semi-war economy, under the threat to the survival of freedom throughout the world, with a prospective reduction in the volume of civilian goods, with a substantially heavier tax burden, and with our young men and women being called into military service, the road ahead is not fair nor easy. Comes now the test of a free people who have enjoyed the blessings of democratic government, of opportunity for achievement and the satisfactions of a high standard of living. Are the American people willing to sacrifice some of the comforts of easy living and part of their opportunities for the accumulation of wealth as the price of creating the national strength needed to overcome the forces that would enslave the world?

Perhaps we must now discover how much of our individual freedoms we can surrender in a common effort, without losing them; how far can we bend democratic processes without destroying them. The unquenchable forces of liberty and freedom are far more effective in destroying Russian Communism than the armed might of opposing nations.

The tragedy of the century is that the designs of Communist dictators would make impossible of realization the new vision and hope of the peoples of the earth for the greatest progress and development in human welfare within the shortest period of time in the history of man. The potentials of production have yielded many secrets unknown to man until recent years, and the atomic age that lies ahead beckons the ingenuity of man to multiply those potentials to the benefit of the human race. In the present world conflict, this vision may seem to be merely a dream, but its realization requires only three conditions. The first of these is peace on earth and goodwill toward men. The second is the organization of governments throughout the world under the freedoms of democracy that will release the springs of individual action and provide incentives for maximum effort. The third is national and international integrity under which capital and people with "know-how" may move freely to, in, and from any nation without risk to life or property. Mankind must not give up that dream, no matter through what valleys of blood and sacrifice it must fight to achieve the mountain tops beyond. The goal is there. To reach it is the challenge of the ages. I believe that the people of this country, under God's direction, will shoulder the burdens of this hour and, with other friendly nations, preserve and strengthen liberty and justice under law throughout the world.

Donald Stephens to Be Cruttenden Partner

Donald B. Stephens

CHICAGO, Ill.—Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges, will admit Donald B. Stephens to partnership on Oct. 11. Mr. Stephens was formerly with Paul H. Davis & Co. as Manager of the Trading Department.

Investment Women of San Antonio Elect

SAN ANTONIO, Texas — The Investment Women of San Antonio organized this past May for the purpose of broadening their knowledge of the investment business and to further friendship and cooperation through association with women in the same business.

On Sept. 18 the following permanent officers were elected for the ensuing year:

President—Mrs. Pauline Johnston, Volz, Carswell & Co.

First Vice-President—Miss Olga Kocurek, Rauscher, Pierce & Co.

Second Vice-President — Miss Eithel Evans, Columbian Securities Corp.

Recording Secretary—Miss Loraine Hislop, Bache & Company.

Corresponding Secretary — Mrs. Marion Walker, Dittmar & Company.

Treasurer—Mrs. Virgie Elkins, M. E. Allison & Company.

Misses Mildred Guinn of the Texas National Corporation and Ann Lagleder of Russ & Company were elected as members-at-large to serve on the Executive Board.

H. H. Dewar of Dewar, Robertson & Pancoast; John M. Crane of Merrill Lynch, Pierce, Fenner & Beane; Edward D. Muir of Russ & Company; Edward T. Volz of Volz, Carswell & Co.; Elmer A. Dittmar of Dittmar & Co., and Louis J. Kocurek of Rauscher, Pierce & Company have accepted an invitation to assist the newly ventured club and to act in an advisory capacity.

George Nelson With S. F. Morris, Jr. Co.

George Nelson has become associated with Stuyvesant F. Morris, Jr. & Co., 40 Exchange Place, New York City, brokers and dealers in unlisted securities. Mr. Nelson for 20 years was with George Nelson Co. and for the past five years with Schwabacher & Co.

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As We See It

tion for him will, of course, be much what it was after World War II. He will want to head a movement to "get our boys back home" not only from Korea, but from training camps and all the rest. It is the more modern form of a return to "normalcy" which swept the country in Harding's day.

False Notions

We shall not undertake today to say what ought to be done in the premises. That is a tough question. Its answer should be based upon a good deal of information which the American public does not have. What we feel no hesitancy in saying is that this is the time for us to rid ourselves of some of the false notions which so badly betrayed us five years ago, and which tend to cling persistently to life. The idea that somehow the philosophy of the Kremlin was more closely akin to ours than that of the Hitlers, the Mussolinis and the Japanese, is now not very widely held, so far as we can see. We should suppose that this particular type of nonsense would scarcely be due for revival at this time regardless of the developments during the next few months.

There are a number of misconceptions, however, which cling to us. Recent developments may even have strengthened some of them. There can be no doubt that the events of the past few weeks in Korea have cost the Kremlin much prestige in Asia. It could scarcely be otherwise. It is possible that ours has risen in proportion. If there is anyone who supposes, however, that because of this the teeming millions of Asia have now become more enamoured of what we call democracy and individual freedom, and more willing, not to say eager, to apply it to their own affairs, he is indulging in wishful thinking. The fact is that most of these peoples have not the faintest conception of what it is that we preach (and practice more or less) in the name of democracy, and if they had any such idea they probably could not at present at least make much headway in adapting it to their own needs.

The fact of the matter is, of course, that much the same is true of many other lands. In some of these the trend of thought is very definitely toward an economic system which is much more like the Communist (sans Kremlin) concept. Great Britain, for so long a leading exponent of individualism, is leaning very definitely in that direction. We should have a little difficulty in building a purely logical defense of our support if we had to base it upon the claim that we were trying to save "democracy" as we have known it and preached it for a century and three-quarters. Germany, of course, has never been able to make democracy work very well, and at heart does not believe in it. And so the story goes. We would do very much better to consider ourselves as struggling to stem the tide of Kremlinism and Kremlin aggression, so far as trying to win the "minds of men" in other countries of the world is concerned.

Facts Are Facts

Another plain truth that we should tell ourselves without blinking is that we must face the world as it is, and not try to pretend that facts are not facts. When the Bolsheviki took over in Russia and for years thereafter, most of the rest of the world, and in particular the United States, insisted upon ignoring the fact that this group of revolutionaries had firmly and permanently (or as permanently as anything in history is) placed themselves in control in that vast sprawling land. After long years we and the other peoples of the world came to the conclusion that such a policy was ostrich-like, and changed it—at least in outward form. There can be little doubt that these years of foolishness are in part responsible for the current attitude of the Kremlin.

For a good while now we have been doing much the same sort of thing with respect to Communist China. Let there be no misunderstanding. We have no admiration for communism, no matter where it is found—no more than we had or have for Hitlerism, or any of the other strange "isms" of the past decade or two. We have very little idea how well anyone could "do business" with the Communist leaders in China. It would appear highly probable that their rather long Kremlin tutelage would make any dealings with them difficult, to say the least. But what we do wonder about is just what do we gain by pretending that China either is or again soon will be in the control of any other element. We wonder also whether our rather unrealistic attitude on this question is not likely, if not soon remedied, to have untoward consequences.

Finally, we cannot afford to dismiss lightly or to ignore the suspicion that many foreign peoples have of our intentions as respects their territory or their affairs. We may, ourselves, know in our own heart that we do not covet any of the territory of Asia, or wish to obtain any "concessions," or any of the rest that goes with colonialism. We doubtless are fully convinced of our own sincerity when we insist that we must keep possession of the Pacific islands, or at the very least have strong bases on them, in order to defend ourselves from Asiatic aggressors. But what about the Asiatics who for centuries have all too often been held in some sort of bondage by the Western powers? We sometimes wonder whether, if the conditions were reversed, we should not feel just about as the Asiatics do on this score.

The time has come for plain thinking and plain speaking about these things.

Auchincloss, Parker To Admit Partners

WASHINGTON, D. C.—Auchincloss, Parker & Redpath, 729 15th Street, N. W., members of the New York and Washington Stock Exchanges, and other Exchanges, will admit to partnership on Oct. 11 Edward R. Finkenstaedt, Edward H. Gilbert, Jr., Joseph K. McCammon, John D. McGeary, Lawrence P. Naylor, Jr., Robert Parsons, Mark Sullivan, Jr., and Millard F. West, Jr. Messrs. Gilbert, McGeary and Parsons will make their headquarters in the firm's New York office; Mr. Naylor in Baltimore.

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An Anti-Inflation Program

stricted, for example, commodities made of copper, aluminum, steel, rubber, and so on. Civilian supply in general also may have to be reduced if the increased requirements of defense production exceed the rate of growth of the productive power of the economy. Thus, despite total increases in production, the civilian supply cannot be expected to show much increase, and is likely to show decreases.

Civilian demand on the other hand may be expected to increase. Each dollar of increased production is reflected in a dollar of increased income which, in the absence of preventive measures, is available for spending. In the second place, if consumers expect shortages or rising prices, they may seek to use their savings as a source of spending power, and to borrow for the purpose of buying durable consumer goods and housing. Businessmen, anticipating the increase in governmental and private buying, seek to expand their inventories and enlarge their facilities. All of these elements combined point to demands for civilian goods and services substantially in excess of supply. In the absence of preventive steps, the result would inevitably be price inflation. It is the kind of price rise that would likely become a price spiral, since higher prices would lead to higher wage demands and larger incomes generally, which, in turn, would lead to still further demand, higher prices, and so on. There is evidence that this process has already started.

Dangers of Further Inflation

Any large or continuing rise of prices would be a major blow, especially coming so soon on the heels of the price increases during and after World War II. Inflationary price rises would increase the money cost of the defense effort. They would change the distribution of wealth and incomes. They would impair the relative and absolute economic positions of those persons and institutions which have relatively fixed incomes or own assets of fixed money value. The members of the armed forces, millions of persons living on pensions and insurance, and other millions receiving salaries and wages that move slowly would be particularly hurt. Educational and charitable organizations would face a discouraging exaggeration of the tremendous problems which wartime and postwar inflation have placed upon them. The distortion of incomes caused by inflation would channel production into unusual and unsustainable patterns, thus sowing the seeds for later depression. Public morale would be deeply shaken by the shock of a declining value of money. There would be danger that eventually —fortunately, in other countries it has usually been long delayed— there might be a failure of public confidence in the future of the dollar, with disastrous consequences.

It is imperative, therefore, that there be the strongest possible resolve within the executive branch of the Government, in the Congress, and by the public that extensive inflationary price rises shall not happen again. There must be better understanding of why they happened before. And there must be a willingness for business, agriculture, and labor to see the rosy outlook of rising money incomes fade out into the grimmer picture of hard realities.

Three Ways in Preventing Price Rises

There are three general ways of preventing inflationary price rises. The first is to prevent incomes from rising. This is the principal function performed by price controls, including wage controls. Increases in the prices of products and the factors of production are increases in the incomes of the sellers. Direct controls of the prices prevent those incomes from rising. In the process, of course, market forces are interfered with and damage may be done to the functioning of the economic structure. Still, the method has worked in the past, and is one of the kit of tools that must be kept ready at hand in case other methods fail.

A second method of forestalling inflationary price rises is to prevent current incomes, past savings, and newly created credit from being spent. Controls on credit help to achieve this result. Allocations and rationing may also be used in appropriate circumstances. It is very important also to persuade the people that it is in their interest and the public interest to save more and spend less. But forestalling inflationary price rises through prevention of spending presents a threat of future inflation when the barriers to spending are lowered.

The third method of preventing inflationary price rises is by increasing taxes. Higher taxes not only supply revenue, they also withdraw funds from persons and businesses and thus cut down their ability to spend.

It may require all three of these general methods applied in every way that can be devised to prevent inflationary price rises from occurring. It should be stressed that none of the methods creates the burden of the defense program. That burden rises from the requirement that resources and manpower be withdrawn from the production of civilian goods and services at the same time that money incomes are being enlarged by increases in total production. The three methods of forestalling inflationary price rises have as one of their purposes preventing the burden of the defense program from being cruelly and unfairly distributed through inflation.

The distribution of burdens through inflation has sometimes been compared favorably to the distribution of burdens by certain forms of taxation. There is this important difference. Taxes can be reduced when the need for them declines. But once the price and cost structure has become integrated at a higher price level, any effort to achieve a substantially lower price level is likely to result in unemployment and depression, causing greater social losses than the social gains which lower prices would confer. The only way to cure an inflation is to prevent it.

Higher Taxes Now No Economic Burden

The method of preventing inflationary price rises on which I wish to concentrate is that of increasing taxes. Let me emphasize again that an increase of taxes in a time like this does not create any new economic burdens. The defense program has created them already. All that the higher taxes do is to distribute the financial burden at once and finally. Taxation is superior to other methods of preventing inflationary price rises in important respects. It does not interfere with the operation of market forces. It does not present the threat of future inflation. It distributes the the financial burden at the same time the economic burden must inevitably be borne. It protects the men and women of the armed forces from the ironic unfairness of fighting a war and coming home to pay for it too. Taxation is the normal method of providing funds for government expenditures. In the absence of very good reasons, the total cost of the defense program should be paid as we go, out of current revenue.

To hold to this view that we should pay as we go, it is of course necessary first to accept the economic belief that taxation is an effective anti-inflationary measure. If there are any doctrines that economists universally believe, this is surely one of them. Yet, during the last war, it was maintained by many people, including some members of Congress, that the appropriate way to fight inflation was by price control and that the function of taxes was the narrow one of raising revenue. The recent quick reaction of the public in demanding general price controls at the outset of the Korean crisis may reflect a continuation of that view. We may recall also that in the controversy over tax reduction in 1947 and 1948, some members of Congress maintained that taxation was inflationary rather than deflationary.

The financing problems of the defense emergency are different from those of a period of major war. The volume of governmental expenditures in a major war absorbs a very large fraction of the total national effort. Taxes in sufficient amount to pay the full cost would have had to be so large that incentives to produce, to take risks, and to manage might have been so impaired as to seriously interfere with winning the war. Taxes should have been much higher during World War II, but I doubt if the economic limit would have been high enough to permit balancing the budget then. The prospective defense effort, however, seems likely to place far less than full wartime pressure on the economy. In my opinion, there is no reason to believe that the level of taxes required to balance the budget will be so high as to exceed the economic limit. What we seem to face is a kind of superboom economy in which there can and should be a substantial surplus of revenues over expenditures in order to hold down total private expenditures, which are being fed by savings as well as by current incomes. This is perhaps a counsel of perfection.

At this point you may have two questions in mind: First, whether it is proper to talk of higher taxes without also seeking to reduce government nondefense expenditures and second, why it is necessary to labor the point about pay-as-you-go finance since everyone seems to agree with it.

Of course, we should make every effort to reduce government expenditures. There is no excuse for inefficiency in government at any time. Efficiently run government programs may be worth what they cost, more than they cost, or less than they cost. The last, of course, should not be undertaken. But determining the worth of governmental programs to various segments of the public is an economic and even a philosophical problem of no small dimensions. It will be agreed, however, that some programs which are clearly worthwhile in a period of relaxed peace may have to give way when the pressure on the economy of defense requirements rises as it is rising today. I do not recall knowing anyone who does not recognize this effect of changing times on the importance of governmental programs. Of course, opinions differ about how important certain programs are. I am sure that anything you can do to reduce expenditures on government programs that have a low priority will be more widely appreciated in Washington than you may believe. Government programs are not spawned by a few willful men. They result from pressures by large groups of the public. Our political system is not well adapted to resisting such pressures. The effort to reduce government expenditures which do not promote the productive power and public morale of a defense economy is laudable, but we should not expect too much to come from it.

The general acceptance today of paying for the defense effort through current taxes represents a great advance in public sentiment over that existing 10 years ago. In 1940 a very small defense program was financed by borrowing which was to be repaid over a five-year period. I hope the advance represents a permanent gain. The reason I place great emphasis on the desirability of paying for the defense effort as we go is that I fear that while general agreement on this policy is a very desirable development, it may not be rooted in very deep earth.

Borrowing vs. Taxes

Almost everyone is for pay-as-you-go. The test is whether you or I will still be for pay-as-you-go when we see the taxes and rates that will be required to achieve that result. As I recall, when the Revenue Bill of 1943 was under consideration, not a single important organization of businessmen, farmers, or workers was in favor of higher taxes, despite the fact that in the fiscal year that had just ended, budget receipts were less than 30% of expenditures. I fear that when the American public sees what is involved in paying for the defense program through taxes, there are influential groups which will discover that there are other, "better" ways of financing the defense effort, i.e., borrowing.

Even noninflationary borrowing does not postpone the total economic burden; it postpones only the allocation of the financial burden. Postponement of the financial burden means that in the future either higher taxes or inflation will extract the price which was avoided during the defense period. Borrowing is appropriate in a short and intense period of all-out effort. But for the long pull at a level considerably less than that of all-out war, there seems little sense in trying to postpone the financial burden to still a longer run. Psychologically there is some value in the mirage of postponement; when taxes pass some very high point, it may be necessary to resort to this mirage. But we should not use it unless it becomes imperative. Putting off the financial load until later eases the present pain, and we live forever hopeful that somehow someone else will bear the taxes later. But we, the public as a whole, will either bear the taxes or bear the inflation. It is better to bite the bullet now, while the threat is upon us. The long pull, whether it lasts five years or a generation, is not the kind of time to be piling up even a noninflationary type of debt.

Pay-as-you-go does not mean simply pay some time within a year or two or three. It means literally collecting the money not later than the time it is spent. Indeed, since inflationary pressures are running ahead of increased expenditures, the use of taxes to fight inflation calls for the largest practicable tax increase at the earliest possible moment, even if collections exceed expenditures. The tax law which was passed and signed last week is an excellent start. If taxation is to achieve its maximum usefulness in fighting inflation, this law must be followed up with other tax increases as soon as Congress is in a position to consider them.

There is no time here to consider the pros and cons of the various kinds of taxes. Two forms of taxation, however, deserve special attention because they do more than withdraw purchasing power from the private sector of the economy. Special excise taxes can play a part in meeting a particular problem of economic stabilization, that of especially scarce goods. Even if the problem of general inflationary pressures were completely solved through taxation or otherwise, there would remain certain commodities which would be unusually scarce because raw materials or plant facilities were diverted to the defense effort. Commodities made of steel, rubber, aluminum, and copper, for example, are in this group. If the production of civilian goods containing these materials were reduced to practically zero, the problem could be met as it was in World War II by means of rationing and by allowing shelves to become bare. But with relatively large amounts still being produced, there will be shortages, but not sufficiently severe shortages to permit the problem to be handled in these ways. Price increases would, of course, equalize demand and supply. But such price increases would enlarge profits without justification, and these profits would perform no useful economic function. Indeed, they would be an invitation to demands for wage increases in particular industries, which, in turn, would produce a lack of balance among wages and tend to lead to general wage increases throughout industry. It is accordingly desirable that price increases on commodities in short supply go not to private persons or business but to government. Heavy excise taxes sufficiently high so that resulting price rises would absorb excess demand are a possible method of achieving this result. Such taxes were proposed in 1941 and 1942, and minor use was made of them. The all-out war then made them relatively less useful than they would be in a period of rearmament.

The Excess Profits Tax

Another tax with special purposes is the excess profits tax. Its special purpose is to secure general public cooperation and sharing in the sacrifices and restrictions of the emergency. An economist reasoning from the assumptions and with the logic of economic theory might conclude that there is no place in the tax system at any time for an excess profits tax. Very high marginal tax rates undoubtedly impair incentives, especially the incentive to efficient and low-cost production. But there is another side to the question. Willingness to give one's best efforts, to work overtime, to avoid work stoppages—these have an important bearing on production and productive efficiency. The excess profits tax has become a widely recognized symbol of the sincerity of the community effort to prevent a few persons and businesses from profiting unduly out of the common emergency. I believe that even most businessmen, on whom it directly falls, recognize that achievement of a high level of public morale and of willingness on the part of millions of persons to work and sacrifice requires the passage of an excess profits tax. There can be no doubt that the designing of a fair excess profits tax is an extremely difficult task, but even if the design is not a complete success, the economic benefits to be expected from such a tax outweigh the drawbacks in a war or a defense emergency period.

Dangers of Tax Shifting

If taxation is to be successful as an anti-inflationary measure, the effects of tax increases must not result in compensatory increases in the incomes of those on whom the tax is intended to fall. Otherwise the tax would fail to achieve its anti-inflationary goal since it would not reduce spending. This principle has various applications: for example, in measuring wages under contracts which base wage increases on increases in the cost of living, if this principle is applied, the gross wage would be used rather than the take-home wage after deducting income tax increases. Similarly tax increases which enter into the cost of living would be excluded when the index of cost of living was computed for the purpose of applying wage agreements. The principle also applies in the calculation of parity prices for farmers. Under the principle, tax increases would not enter into the computations of prices paid by farmers. The implications of the principle are clear also with respect to the excess profits tax. Measurements of excess profits would be based on profits before taxes rather than on profits after taxes, at least so far as tax increases are concerned.

The problem of what to do in the face of the prospective defense program is largely one of unpleasant alternatives. They are, of course, not altogether alternatives. It will undoubtedly be necessary to use in some degree all or nearly all the methods available to fight inflation. It is important to understand that the higher taxes are raised the less necessary it is to resort to the other, less desirable, methods of preventing inflation—up to the point where taxes exceed their economic limits. There is no royal road for bringing the economy safely through the strains of the coming defense program. It will take all of the understanding that we have, all of the self-restraint we have, and a great deal of willingness to accept onerous deprivations and burdens if we are to avoid damaging inflation.

In a democracy, the people govern. We want it that way, although it means many headaches. But government by the people will not work unless we have a responsible public. A responsible public at this time is a self-restrained public. It is a self-restrained public in more than its buying practices. If important segments of the American public are going to assume that they must be protected against sacrifice, if they insist that their incomes after taxes must be kept sufficiently high to maintain their accustomed levels of living in a period when total civilian production declines, then there is no remedy except to impose compulsory controls. A calm view of the situation, a better understanding of the economics involved, a readiness to accept sacrifices even though someone else on the economic landscape may not be sacrificing as much—these are marks of maturity. If maturity generally exists, the problem of achieving economic stability and growth in a defense economy will be reduced to a minimum.

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The State of Trade and Industry

an unprecedented $66,000,000 increase in July. Instalment credit increased $411,000,000 in August, compared with July's $500,000,000 record.

* * *

For the first time in a period of 11 years the Canadian dollar on Monday of this week, free from controls, moved 5% higher in terms of the United States dollar. Over the past week-end the Canadian Government announced that it was removing controls from its dollar to allow it to find its own level in the money markets of the world.

At the close of business on Monday last, it brought 95 cents in United States currency, against 91 cents on Friday of the previous week. Varied repercussions on the Canadian economy are looked for as the Canadian dollar moves toward parity with the United States dollar.

* * *

The number of new business incorporations in the United States during August reached a total of 7,303, only slightly above the 7,191 (revised) for July, according to the latest tabulation by Dun & Bradstreet, Inc. Last month's aggregate of 7,303 compared with 6,828 in August a year ago, or an increase of 7.0%.

The same source reporting on business failures points out that such casualties increased 13% in August to 787, but did not return to the high level of the first five months of this year. Although casualties were below the comparable 1949 total they exceeded any other August since 1941.

While the number of casualties increased in August, the aggregate current liabilities involved dipped to $18,448,000, reflecting a considerable decline in large casualties both from the preceding month and the comparable month of 1949.

Mild increases in the number of failures took place during August in manufacturing, retailing, and construction.

Steel Output to Top All-Time High Weekly Record

This week it looked certain that the steel industry faced a wage increase and a price increase. Even if it finally means another fact-finding board in steel Phil Murray will press for a substantial raise in steel wages, according to "The Iron Age," national metal-working weekly. He is expected to turn down a 5c or 6c offer which has been set as the maximum which some large steel firms will go without raising steel prices.

Steel firms already have absorbed heavy cost increases which have not yet shown up in earnings reports. There are: aluminum, copper, lead, zinc, scrap, pig iron, paper, alloys and other items which make up the steel bill. If labor wins a husky increase (the last one was in 1948) steel prices might rise as much as $6 to $8 a ton. Even the wage stabilization board will recognize labor and material increases as demanding a compensating price rise, this trade authority states.

Another compelling factor to keep steel firms earnings up is that only from them can the industry get the major part of funds needed to expand by almost 10 million tons by the end of 1952.

Priorities are now being given all defense orders. But these priorities will not tell clearly which order comes first. Appointment of a steel division head in the NPA will help some. But this is a far cry from the modified controlled materials plan which will emerge when the present one falls on its face from confusion, declares "The Iron Age."

Some steel people privately say that flat-rolled percentage for defense and indirect defense may reach 40 to 45% of the total by next May or June. Statements from Washington belittling the effect of defense on steel production can be accepted, this trade paper asserts, with several pinches of political salt.

Steel companies are not fooling about stamping out the gray market. One Pittsburgh steel consumer has already been caught flat-footed and his steel cut off.

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 101.2% of capacity for the week beginning Oct. 2, 1950, compared to 100.7% a week ago, or a rise of 0.5 point.

Production of raw steel is set the current week to exceed the high record attained in the previous week.

This week's operating rate is equivalent to 1,951,900 tons of steel ingots and castings for the entire industry, compared to 1,942,200 tons a week ago. A month ago, based on new capacity, the rate was 98% and production amounted to 1,890,100 tons; a year ago, based on the smaller capacity then prevailing, it stood at 8.2% and 151,000 tons. The low output a year ago resulted from a steel strike.

Electric Output Reaches New All-Time High Point

The amount of electrical energy distributed by the electric light and power industry for the week ended Sept. 30 was estimated at 6,503,008,000 kwh., a new historical high record for the industry, according to the Edison Electric Institute. In the comparable week a year ago the country was in the throes of a two-week coal strike and an impending steel strike.

It was 45,978,000 kwh. higher than the figure reported for the previous week, 981,770,000 kwh., or 17.8% above the total output for the week ended Oct. 1, 1949, and 1,054,454 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings for Latest Week Greatest Since November, 1948

Loadings of revenue freight for the week ended Sept. 23, 1950, totaled 870,196 cars, according to the Association of American Railroads, an increase of 3,989 cars, or 0.5% above the preceding week.

The total for the latest week was the greatest for any weekly period since November, 1948, the Association notes.

The week's total represented an increase of 208,728 cars, or 31.6% above the corresponding week in 1949, but a decrease of 38,396 cars, or 4.2% below the comparable period of 1948.

Auto Output Exceeds Six Million Units for 1950

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 185,529 units, compared with the previous week's total of 188,451 (revised) units and 160,731 units a year ago.

The six millionth vehicle of the year for U. S. plants was completed on Friday last, with no indication of a coming letdown in the record production pace, Ward's said.

Total output for the current week was made up of 152,083 cars and 24,286 trucks built in the United States and a total of 6,744 cars and 2,416 trucks built in Canada.

For the United States, output was 176,369 units, and in the like week of last year 144,285 units.

Business Failures Drop for Fifth Consecutive Week Below 1949

Commercial and industrial failures declined to 148 in the week ended Sept. 28 from 155 in the preceding week, according to Dun & Bradstreet, Inc. For the fifth consecutive week, casualties were below 1949 when 181 occurred, but they remained above the 1948 total of 112. Concerns failing were 44% less numerous than the 264 of the prewar 1939 week.

Manufacturing failures dropped to 26, the lowest level this year, while retailing and commercial service also declined. Casualties among wholesalers and construction contractors rose in the week. Construction failures were the only group to exceed a year ago. While retail casualties dipped slightly from 1949, other lines showed a more marked decline.

East North Central States casualties dropped to 11, their lowest number since 1948; the Middle Atlantic, New England and West South Central States also show declines. In the Pacific States failures rose to 48 from 32. In other areas, casualties increased by one or remained unchanged. More failures were reported than last year in the Middle Atlantic, Pacific and Mountain States, but sharp declines took place in all other regions. New England casualties dropped to one-half their 1949 total and East North Central and West South Central to one-third.

Food Price Index Registers Sharpest Drop in 3 Months

In the first appreciable drop since before the start of the Korean War, the wholesale food price index, compiled by Dun & Bradstreet, Inc., fell 6 cents last week to $6.61 on Sept. 26, from $6.67 the week before. It compared with $5.67 on the corresponding date a year ago, or a rise of 16.6%.

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 Moves Downward After Registering New Two-Year High Level

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved in a narrow range last week. The index turned downward after touching a new high for more than two years on Friday of the preceding week, closing at 290.08 on Sept. 26. This compared with 289.88 in the period ended Sept. 19, and with 245.14 a year ago.

Grain prices on the Chicago Board of Trade finished with moderate net losses for the week after fluctuating within narrow limits.

Trading was up slightly over a week ago, totaling 166,030,000 bushels, or a daily average of 27,700,000 bushels, the latter comparing with 25,000,000 the previous week, and 34,300,000 in the same week last year. Domestic and export demand for cash wheat remained slow. Rapid progress was reported in the harvesting of Spring wheat, while seeding of Winter wheat was said to be moving along favorably.

Flour prices were steady to slightly lower in moderately active trading. A somewhat better volume developed in Spring wheat flours as a result of cheaper offerings of some mills. Export buying of flour remained dull. Manufacturer demand for cocoa was slow. A downward trend in prices reflected the re-entry of British West Africa as a seller of cocoa to this market and favorable war news from Korea which resulted in considerable liquidation at the close. Coffee prices in both spot and futures markets turned easier as demand slackened and offerings from Brazil increased. Roasted coffee prices were stronger, however, with many roasters announcing an upward adjustment of 3 cents a pound.

Commission house selling forced lard prices lower. Output of lard continued to expand, aided by increasing market receipts of hogs. The latter also trended lower as did fresh pork prices.

Cattle receipts in Chicago were the largest of the year with prices holding fairly steady throughout the week.

Domestic cotton prices trended generally upward last week although some irregularity developed at the close due to the favorable war news and the easiness shown in other commodities. Spot market activity increased with sales in the ten spot markets reported at 326,900 bales for the week, compared with 253,100 the week before, and 381,400 in the corresponding week a year ago. Domestic mill buying showed improvement and there was a strong demand from foreign sources. Farmers were offering quite freely for this time of year but the movement into trade channels was slowed by rains and wet weather which have retarded harvesting in some areas of the belt. Cotton spindles during August were operated at the record high rate of 140% of capacity, based on a five-day, 80-hour week. This compared with 111% in July, and 103% in August a year ago. Cotton textiles continued firm and active with substantial bookings reported into the second quarter of 1951.

Trade Volume Off Slightly as Buying Declines in Some Areas

Retail buying dipped slightly in the period ended on Wednesday of last week, as the high level of consumer sales declined in some areas. The aggregate dollar volume continued to be moderately above the level for the comparable week a year ago, Dun & Bradstreet, Inc., reports in its current summary of trade.

Shoppers bought slightly more apparel the past week. as cold weather in many parts of the country helped to stimulate interest in suits and coats. While the dollar volume of dresses was not appreciably modified, requests for formal models were slightly more numerous than formerly. In male apparel, haberdashery was in prominent demand; also sold in increased quantities were sports slacks and footwear.

Housewives purchased about the same amount of food last week as in the week before; dollar sales volume for the nation was slightly above the level of a year ago. The fairly high interest in fresh and frozen fruit was maintained. There was a moderate dip in some types of canned food.

The over-all dollar volume of house-furnishings decreased very slightly the past week; it was moderately above the level for the similar 1949 period, however.

Both large and small appliances were eagerly sought by shoppers. There was a decline in the call for lamps, tableware, and dining-room furniture in scattered localities. There was a slight seasonal rise in the buying of children's toys and indoor games.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 5 to 9% above the volume of a year ago. Regional estimates varied from last year's level by the following percentages:

New England and Pacific Coast +5 to +9; East +6 to +10; South and Northwest +2 to +6; Midwest +3 to +7 and Southwest +7 to +11.

There was little change in the volume of wholesale ordering during the past week. Total dollar volume rose moderately above the level of the corresponding week in 1949. While the number of buyers at various wholesale centers dipped slightly from a week ago, attendance was slightly higher than in the similar 1949 period.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 23, 1950, rose 10% from the like period of last year. An increase of 17% was recorded for the previous week from that of a year ago. For the four weeks ended Sept. 23, 1950, sales showed a rise of 10% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Retail trade in New York last week reflected little adverse effect from recently imposed credit restrictions. Activity characterized retail buying, but percentagewise, the increase over a year ago was slightly under the previous week.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Sept. 23, 1950, advanced 13% from the like period of last year. In the preceding week a rise of 9% was registered from the similar week of 1949. For the four weeks ended Sept. 23, 1950, an increase of 6% was noted and for the year to date volume showed no change from the like period of last year.

Public Utility Securities

By OWEN ELY

Southern California Edison Company

Southern California Edison serves an area of about 18,000 square miles in 10 counties of central and southern California (excluding Los Angeles), with a population of about 3,000,000. The company also sells power wholesale to other utilities—Pacific Gas & Electric, San Diego Gas & Electric, California Electric Power—and a number of municipalities. Some of the largest cities served are Long Beach, Santa Monica, Alhambra, and San Bernardino (served jointly with California Electric Power). The company's territory includes the main farming and citrus fruit region, and a large amount of electricity is sold for irrigation pumping, refrigeration plants, packing houses and canneries. Other important industries are oil production and refining, the movies, steel, furniture, airplane manufacturing, oil tool equipment and automobile assembly. In addition the tourist and resort business is important. Revenues in 1949 were divided as follows: residential 32%, rural 9%, commercial 21%, industrial 22%, and wholesale and miscellaneous 16%.

In 1949 the company produced about 30% of its power requirements from hydro plants and 43% from steam; it also purchased 25% hydro power from the Hoover Dam (with which it has a long-standing contract) and 2% was purchased elsewhere. Steam power is now more important to the company than previously—in 1945 it supplied only 10% of the total power, compared with 43% last year.

The company's capital structure was as follows as of Aug. 31:

	Millions	Percent.
Mortgage bonds	$203	43%
Preferred stocks	90	19
Preference stocks (conv. into common stock)	52	11
*Common stock and surplus	126	*27
	$471	100%

*Elimination of intangibles would reduce the common stock equity to 25%.

The company's earnings and dividend record (as reported by Standard & Poor's) has been somewhat irregular in recent years:

Year:	Earned Per Share	Dividends Paid
1950 (12 months ended Aug. 31)	$2.92	*$2.00
Calendar Years:		
1949	3.19	1.75
1948	2.03	1.50
1947	2.05	1.50
1946	1.94	1.50
1945	1.72	1.50
1944	1.68	1.50
1943	1.44	1.50
1942	1.59	1.75
1941	2.38	1.75
1940	2.27	1.90

*Current annual rate.

The principal reason for the depressed share earnings of recent years was the change-over in cycle frequency which was finally completed in 1948 (in that year the amount charged was $11,250,000, equivalent after potential tax savings to about $1.83 a share). These heavy costs have not yet been completely written off on the company's tax books and this fact may serve the company in good stead next year, when a heavy charge might greatly reduce excess profits taxes. However, figures on the unamortized balance are not available.

The company now has to contend with another special cost item. The important Long Beach station has settled or "subsided" about 10 feet in the last 12 years as a probable result of the removal of oil and gas, the station being almost at the center of the oil field. The management has finally decided that the large conduits (one 22 feet in diameter) used for water cooling and discharge must be moved in order to ease the underground pressure. This would cost some $5 million, of which $2 million is being accrued in the 1950 calendar year while the remaining $3 million (to be expended over the next two years) may be spread over a longer period. The present $2 million charge is equal to about 47 cents a share. The company has grossed $16 million and netted about $9 million from the oil fields, it is reported, so they are still "ahead of the game."

Construction is costing about $39 million this year and the company expects to spend about $50 million next year. In 1951 they will add 84,000 kw. in new steam capacity. They have also acquired a site for another steam plant near the Kaiser Steel Company adjacent to San Bernardino, which eventually will have three 100,000 kw. units (there is no definite time schedule for construction). No financing appears necessary over the near-term future.

President Mullendore, who recently made an address before the New York Society of Security Analysts, estimates calendar year earnings for 1950 at about $3 after adjustment to a 42% tax basis and after deduction of the $2 million charge for "subsidence" (without current benefit of tax savings).

Am.-Can. Uranium Stk. Offered at $3.50 a Shr.

First International Securities Co., Inc., New York, on Oct. 3, publicly offered 500,000 shares of common stock (par 10 cents) of American-Canadian Uranium Co., Ltd. at $3.50 per share.

The net proceeds are to be used to explore, prospect and develop the company's lands on which there have been indications of the existence of pitchblende. The company is directing its exploration program in the Goldfields and Fond-du-Lac areas of northern Saskatchewan, Canada, primarily for uranium, and if justified by the results of such exploration, intends to develop those properties indicating economic possibilities.

The corporation was organized on Sept. 20, 1949 in Delaware and presently has issued and outstanding 2,416,666 shares of common stock.

Inflation Control

F. Raymond Peterson says taxes must be increased and war conducted as far as possible on pay-as-you-go basis. Says, if additional funds are needed, bonds should be taken by nonbank investors.

In a statement issued to the press on the eve of the Diamond Anniversary Convention of the American Bankers Association in New York City, F. Raymond Peterson, retiring President of the organization and Chairman of the Board of the First National Bank and Trust Company of Paterson, N. J., outlined steps that should be taken to control inflation.


F. Raymond Peterson

According to Mr. Peterson, we should pay for the war on a pay-as-you-go basis, to the extent that that is possible. Taxes must be increased, and he lauded the prompt enactment of the interim tax bill.

With respect to an excess profits tax, Mr. Peterson stated that should the Korean War be of long duration such a levy would be "one means of siphoning off excess business income which may accrue as a result of the war." He then called attention to the fact that the subject of an excess profits tax would be discussed in detail by A. L. M. Wiggins, one of the speakers at the convention. (Full text of Mr. Wiggins' speech starts on cover page.—Editor.)

Government nonmilitary expenditures should be reduced, Since it stands to reason that the mounting war expenditures should be counterbalanced by reduction in other expenses, Mr. Peterson asserted. If funds in addition to tax revenues are needed, he added, the government raise such funds from nonbank investors, corporations, and other institutional investors and, most important of all, from individuals who should be encouraged to buy and to hold as much of the government debt as it is possible to spread out among them. This is sound financing, he declared, because it educates millions of citizens in what is sound debt management and good government financial housekeeping. At the same time, it siphons off purchasing power which might otherwise flow in the market and force prices upward.

As to the question of interest rates, Mr. Peterson said that the classical procedure for preventing inflation is to raise interest rates. But he cautioned that the government has to finance war as cheaply as possible, so it is a difficult conflict to resolve.

He contended that if the government is to succeed in spreading out the debt, it must first convince the public that it is exercising economy and taking all of the anti-inflationary steps it can to preserve the purchasing power of the dollar.

Credit Controls

There should be credit controls in certain fields of lending, Mr. Peterson agreed, particularly the housing field where the government itself has made extremely easy credit terms. The government has taken only moderate steps in this field to the extent of increasing down-payments on homes 5%. It should go farther. Mortgage lending is still being stimulated by guaranties. It is inflationary to encourage more and more people to bid competitively against each other in buying homes at a time when men and materials may be required elsewhere. If down-payments are increased and government guaranties on lending are cut back, the volume of lending will be reduced. The banks will welcome such a step and are prepared to do their part in reducing the inflationary use of credit.

This also applies to business credit, Mr. Peterson added. "On July 17," Mr. Peterson said, "I wrote a letter to all our association members asking them to appraise the credit needs of every one of their customers to be sure that they are taking care of all real needs for production credit and, on the other hand, to make sure that bank credit is not used to stimulate an inflationary tendency or to finance speculative purchases. My letter met with a wholehearted response. We undertook a program of voluntary credit control in 1948 with great success. The banks were congratulated by the President and the Congress on their demonstration of self-discipline. They can do it again."

About Consumer Credit

In the field of consumer credit, it was argued by the retiring ABA President that banks are operating well within the terms prescribed in Regulation W when it was reimposed a week ago. "We have pledged our cooperation to the Federal Reserve Board in its administration of this regulation. We have assured the Federal Reserve Board that we will again educate the public and other lenders in regard to the regulations."

"I think we should realize," Mr. Peterson continued, "that this consumer instalment credit regulation can be a double-edged sword. It is introduced as an anti-inflation measure to protect all of us, but it does tend to deprive the poorer man of rights enjoyed by the more prosperous man. The man with cash for a one-third down-payment can still buy, while the man without that much cash will be prevented from buying. With a large-scale war, Regulation W could be ineffective. In World War II it was not effective. The durable goods that are sold on time were not made. There were no automobiles, refrigerators, and so on to buy."

Regarding price controls, Mr. Peterson said they usually lead to black markets. If purchasing power could be siphoned off by taxation, thrift and sustained saving to the extent that the pressure on prices would be relieved and prices would not rise, the problem would be solved. The question of wage controls, he added, is related to the question about price controls. Siphoning-off purchasing power implies that we do not siphon it off by taxes and then destroy the anti-inflationary effect of that action by permitting upward spiral of salaries and wages. It would seem to me that the country has a right to ask wage and salary earners at home no less than it asks of those who go to foreign lands to fight. The biggest favor we can do the soldiers while away is to preserve the purchasing power of the dollar.

"Unfortunately," the ABA President concluded, "it seems to be chiefly the soldier that gives all in time of war. There are always many at home who seize upon war as an opportunity to impro their own position and lift the own standards of living. If t organized groups at home a going to use the Korean War as a opportunity to plunge in and g theirs, wage and price contro will become as necessary to sa the country economically as t army is necessary to save it mil tarily."

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The Business Outlook During Warm Wartime

on prices as they would in a normal period.

The government will soon be asking for more money and for more manpower. The labor market will get tighter, and labor costs will continue to rise. Buyers have heavy commitments, and in some cases are a little worried. But sellers have a big backlog of orders, and are under no immediate pressure to make sales.

Textiles in the General Economy

Textiles will benefit from the inflation of income and demand during the present defense period, just as they did during the last war. But it will be some time yet before growing scarcities of automobiles and appliances will cause the average family to spend more of its income for textiles and apparel.

During the last war, production of consumers' durable goods was cut off almost completely for several years. Income, however, kept on going up. And so did the sales of textiles, apparel and other items that were still available.

Supplies of textiles and apparel, in unit volume, were also limited by military demands; and there were price controls. But production moved up to higher price lines, and dollar sales reached abnormally high levels in relation to income.

Something like this will happen again if there is a war. It may happen sooner or later as the defense economy expands, even if there isn't a war. But it won't happen right away. It won't happen this year, and it probably won't happen in the first half of next year. By midyear, however, it seems likely that the time will be near when textiles will be helped by reduced output of other items.

A few minutes ago I emphasized the fact that the present schedule of defense production and rearmament was due to be stepped up sharply during the next six months. I believe this to be true. But we must remember that appropriations for defense go up more rapidly than actual spending for defense; that production lags behind orders, and that orders lag behind appropriations.

Under present schedules, it will be some months yet before defense is taking more than 5% of total output. It will probably be late next year, barring another incident, before this is raised to 10 or 15%. But the percentage will run higher in some industries at an earlier date. And I suspect that we may be in sight of a 10 to 20% curtailment in some of the durable goods industries some time in the first half of 1951. At that point or a little later, textiles and apparel will begin to get some overflow of money that would otherwise be spent in durable goods markets.

Textile Supplies Big

Between now and then, however, the retail sales outlook for textile apparel items is hardly sensational.

There should be some gain in retail volume in most of the textile-apparel departments, since income shows a rising trend. B these gains will probably b modest, at least through ne Spring. And if allowance is mad for the general increase in textile apparel prices, unit volume wi show very little change.

But production of yarns an fabrics has continued to ris There is not much doubt that textiles at the moment are being produced somewhat more rapidl than they are being consume Inventories are rising again and have no doubt that many of yo will experience some anxiou moments between now and nex spring.

During that period, frankly, am afraid that the position of th converter will be rather uncomfortable.

Your customers have not ha sensationally good business. Retail sales in many of the important apparel departments have been slow. Except for a fev items, there was no run of pani buying on textiles. And reailers having extended their commitments heavily on items where there was a run, and on mos hardlines, are being very carefu in other departments.

So your customers are not, i most cases, having particularly good business.

Moreover, many of your customers are quoting prices to retailers based on the average price they have paid for fabrics. And that average price is lower than the price at which you cold now sell them the same fabrics, if you are to make any profit at all.

Your customers, therefore, are even slower to buy than their customers. They will continue to fill orders out of present fabric stocks as long as then can. When they have to buy more fabrics, they will have to raise their selling prices. And when this happens, they will probably meet some resistance from retailers.

Meanwhile, you, as converters, have to buy from the strongest element in a market that is, for the time being, in a somewhat weak position.

The mills, generally, are in a strong position.

They are well sold through the fourth quarter, and to a moderate extent into the first quarter of next year. There is no chance of price reductions at the mill level, which would help the garment trades with their pricing problems in the next two or three months.

Furthermore, the mills know how important it is for the converter to "keep his positions." Allotments are announced by the mill, and the converter can take them or leave them. You may feel strongly that you can't sell those allotments at a reasonable profit in the next few months. But you have the practical problem of assuring yourselves a supply of fabrics, and I believe that most converters will decide that this is the most important consideration.

As I implied above, I believe the present defense period as a whole will be a profitable one for the textile-apparel trades. But that will be true rather for the later part of this period than it is ow. And for the converter. I am ankly afraid that it will be ther tough going in the next w months, or through the Spring riod.

I would like to conclude this scussion by pointing out the eat importance at the moment demand trends. I daresay that e converters making the best owing during the next few onths will be those who are ert to these changes.

For example, the high price of ool is obviously going to help crease the demand for spun ayons and mixtures. There are pportunities there for the con- erter, which shoud be more prof- able than much of the business other departmens, such as ess fabrics.

Even in departments such as ress fabrics, however, there will e great variations in results. At etail, higher price lines had be- un even before Korea to make somewhat better showing. This as continued since, and I think ere is not much doubt that trend ill be extended further.

Now, I recognize the fact that here is not enough business for ll converters in the higher priced ress lines. But in other depart- ents, too, there is more activity n some lines than others, and hat is what you must try to rec- gnize and turn to your advan- age.

Have you fully recognized tne hift of demand to casual gar- ents, and what this implies for he types of fabrics in use? Such uestions have to be raised and nswered.

Do you recognize fully some of he inflexibilities of yarn and mill roduction? What effects will here be on the supply of other arns and fabrics as the demand or high-tenacity yarn increases? For what types of fabrics will achinery become a limiting fac- tor? What influence will the va- riation in profit margins, and changing labor cost factors, have on the supply of different fabrics?

We recognize that the present slow period may continue for a time, and that there are difficult operating problems, especially for converters. But even during this slow period, there will be active demand, and possibly some scarcities, for individual fabrics.

Your job, I feel strongly, is to seek all possible advantages from these shifts in demand, to have constantly before you questions of the type I have raised here, and to search constantly for intelligent and unbiased answers. In a period in which the outside uncertainties are real, accuracy of the information you have about the complex facets of your own industry will have great value.

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The Outlook for Interest Rates

terest of the country, World War II was unnecessarily expensive, and a much larger percent of the costs should have been paid by taxes. The postwar period has been one of steady decline in the value of money, rising prices and costs as a result of the pent-up inflation resulting from the war financing.

The inflation of World War II has not been absorbed by the present high prices and costs, and the excess supply of money and credit has kept money rates at abnormally low levels. To finance another war economy with inflation from these high levels could be disastrous to the American dollar as well as our whole economic system of private enterprise. The Federal Reserve Board is entirely right in its memo to the Joint Committee on Economic Report when it advises the curtailment of civilian spending, drastic restrictions on consumer and commercial credit and the financing of the national defense program on a pay-as-you-go basis. Taxes will help to curb inflation. But the largest beneficiaries of the defense program are the workers who pay the lowest taxes. A large measure of inflation from the defense spending cannot be restrained unless the taxes cover all classes and include a broad excise tax or sales tax. If the government must borrow to finance the defense program, the borrowing should be from the investors and not from the banks. This method of borrowing perhaps will require some sort of a forced saving system. It would be possible to finance the government's needs by high taxes, covering all earnings and expenditures and by forced savings without resort to more bank credit inflation and at the same time restrain interest rates from rising, but this will require management, tax policies, and savings-investment policies which would not make good politics for those who must appeal to the working classes for support.

The most expensive taxation which hits everyone is inflation. Next to the national defense itself the government's most important obligation is to keep a sound dollar and increase the buying power of that dollar.

The outlook for money rates depends on the government policies. More inflation through bank credit could cause a sharp increase in money rates by causing a flight from the dollar.

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

The policy of the Federal Reserve Board as outlined in its memo to the Joint Committee on Economic Report is sound but should have been applied years ago. How can we return in a short time to sound monetary and economic conditions after so much inflation, non-essential debt and abuse of credit? It seems to me the policy advocated now should have been applied during the last war and certainly without limit or favor in the postwar period. But we must work with conditions as we find them in this emergency. We cannot undo the mistakes of the past or the recent postwar period which make the present task of monetary management and defense financing doubly difficult. If we could only set back the calendar to 1945 and wipe out a large part of the unhealthy expansion of instalment financing, the easy credit policy in financing housing, and the artificially controlled money rates which have contributed so largely to the present high prices and shrinkage of the purchasing power of the dollar. To restrict these inflationary practices now will hit many businesses hard and create unforseen maladjustments. Without firm and careful control of the money markets, these restrictions will cause money rates to rise and may create black markets in the money market. I think we may have some practical lessons in money values, business interrelations and the psychology of people.

The Federal Reserve Board's idea of money market policy and control at this time seems to me summarized by Mr. M. S. Szymczak, a member of the Board, in an address Aug. 29, when he said: "It is my belief that the proper method of dealing with our immediate inflationary situation is to adopt a coordinated program of monetary policy, fiscal and debt management policies, and a system of selective priorities and allocations of strategic materials. The cornerstone of our anti-inflation program must be bold fiscal measures including across-the-board increases in personal and corporate income tax rates, selective excise taxes, and taxes on war profits and speculation. Financing the expanded military budget cannot be limited to the taxation of wealthy individuals and business enterprises if it is to be useful as an effective anti-inflationary measure. It must restrict spending, and most spending is done by the vast number of individuals and families with low and middle bracket incomes. In an emergency situation like the present, our tax changes must be designed primarily to meet the danger of inflation.

"In addition to higher taxes, the government should make every attempt in its debt management policies to tap as large a volume of available private investment funds as possible. Concerted efforts should be made to sell non-marketable bonds and tax savings notes to individuals, businesses and non-bank financial institutions, thus absorbing money that would otherwise be spent on current consumption or on new private investment. Such a program would not only absorb redundent funds but would also make it possible to reduce the volume of government financing through banks, which is highly inflationary."

This is a deflation policy. After far too much inflation, deflation usually brings lower interest rates. But in this case, if the government's large needs are financed by taxes and the absorption of funds from non-bank borrowers, it is possible that money will become scarce and interest rates rise. But if rates tend to rise too much, a little inflation of the supply could be applied and the rates eased.

It seems to me that the Treasury will make money rates and debt management policy for the emergency and those of you who have to be guided by money rates will do well to follow carefully the policies of the Treasury as they unfold.

Rosenbaum, Proskauer & Russhon Is Formed

Francis F. Rosenbaum, Richman Proskauer, and George Russhon, all members of the New York Stock Exchange, formed the partnership of Rosenbaum, Proskauer & Russhon, 160 Broadway, New York City, on Oct. 1. Mr. Rosenbaum has been active as an individual floor broker. Messrs. Proskauer & Russhon were in partnership under the firm name of Proskauer & Russhon.

N. Y. Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of the late Hurlbert C. Elmore to Harry D. Diamond will be considered Oct. 11.

Transfer of the Exchange membership of the late George W. Carpenter to Joseph Mindell will be considered on Oct. 11.

Tom Larkin Back at Desk

Tom Larkin, Manager of the Trading Department for Goodbody & Co., 115 Broadway, New York City, members of the New York Stock Exchange, has returned to his desk after a fishing trip to the Laurentian Mountains, Quebec, Canada. Reports are that the fish were plentiful.

Byron Forster

Byron R. Forster, of Shields & Co., New York City, died at the age of 60, following a heart attack.

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Observations . . .

intricate than operating in tangible goods. Not only the holder of bonds, on whom inflations have wrought havoc in the form of both capital shrinkage and loss of purchasing power, but the shareholder as well has found the difficulties insuperable. In the overall picture, stocks have given much better protection than bonds or cash, but have lagged far behind the concurrent rises in commodity prices, or the degrees of currency depreciation. Thus, in France, at the time of the currency stabilization of 1923, stock prices had risen to only 250% of their 1913 prewar level against 800% for wholesale prices; in Germany, from 1913 to 1923 stock prices offset only one-fifth of the commodity price rise. In other words, in France the stockholder's position deteriorated by about 45%, and in Germany by 35%.

Unpredictable Selectivity

But it was in the wide diversity of their behavior, whose specifications were unpredictable, that common stocks presented their major difficulty. The equities of public utilities, railroads, banks, steel and automobile companies acted poorly. On the other hand, mining companies, chemicals, oil producers, textiles, and casualty and fire insurance companies, generally did comparatively well in Germany, Italy and France.

Europe's Second World War Experience

A somewhat similar pattern of inadequate inflation-protection by European equities has existed during the period surrounding World War II. In France the rentier has been ruined —a government bond price decline of 40% combined with a 17-fold increase in his cost of living has in effect inflicted on him a capital levy of over 90%. The holder of common stocks, faring considerably more poorly than the owners of rural land or gold, has nevertheless thereby been able to retrieve 66% of the concurrent rise in his living costs.

In Great Britain, between 1938 and the present, while the cost of living has risen by 92% and the wage-earner has gained in real income, consols stand unchanged, while stocks have risen by 32%. Since 1945 and the subsequent advent of the Labor Government plus a devaluation, the equity shareholder has suffered a 10% shrinkage in his capital, while his cost of living has risen by 25%.

Following is the comparative performance of inflation in the economy and the concurrent course of fixed interest and equity prices, in various countries from 1938-1950:

Monetary Expansion, Cost of Living, and Security Price Changes 1938-1950

	Money Supply,	Cost of Living,	Bond Prices, Percent	Stock Prices,	Proportion of Cost-of-Living Rise Offset by Stock Rise,
Italy	+5100%	+4800%	+ 5%	+1665%	35%
France	+1200	+1800	—40	+1000	56
Belgium	+ 270	+ 250	— 2	+ 78	31
Argentina	+ 610	+ 160	+22	+ 450	280
India	+ 340	+ 190	— 5	+ 45	24
United Kingdom	+ 200	+ 92	— 4	+ 32	35
Sweden	+ 200	+ 67	—23	+ 12	18
U.S.A. 1938-'49	+ 225	+ 68	+ 4	+ 21	31
1938-'50	+ 250	+ 73	+ 2	+ 50	68

The United States Experience

In this country no consistent correlation has been evidenced between monetary expansion and commodity price increases on the one hand, and common stock price rises on the other. In fact, in the late 1920s the converse occurred; the wildest bull stock market occurring in the face of a stationary commodity price level. In the mid-1930s concurrent credit and stock market expansions took place. But since 1938 the traditional divergence has been constant, during both short and long periods. Over the period 1939-1948 (terminating before the start of the 50% advance of the current bull stock market) wholesale prices rose by 100% and the cost of living by 71%; yet stocks, via the Dow-Jones Industrial Average, rose only by 16%. Over the entire period to date which takes in the past 12-month stock rise, stock prices have risen considerably less than the cost of living, 50% versus 73%.

Similar divergence occurred during shorter periods. Between 1937 and 1942 an appreciable expansion in the money supply was accompanied by a 50% decline in share prices. Post-OPA, when inflation really took hold in the economy, stock prices broke sharply and remained depressed. Between June, 1946 and 1948, wholesale prices rose 40% and the cost of living 30%, but the stock averages fell by 10% net.

No Flight From the Currency Here

The basic conclusion is to be drawn that in the United States the behavior of neither the investing nor the non-investing public has been motivated by real fear of the currency, of the same kind or degree which have obtained in Germany, France and Italy. Rather has our situation resembled the British situation, as demonstrated after the 1949 devaluation. At most short-term investors have sought to suit their policies to anticipation of some further dollar depreciation, usually (as now) by way of rationalizing their speculation *after* exciting market rises; while the lay community has griped about the "high cost of living."

The absence of fear-of-the-currency as a stock market determinant here is quantitatively demonstrable by the reasonable valuation of equities based on the ordinary standards of appraisal existing now, even after the 50% rise. The shares of all dividend-paying listed companies, so many of which are selling at less than their net-quick-liquidating as well as book values, are at a level yielding over 7%. Even the "blue chippy" shares comprising the Dow-Jones Index are selling at the low price-earnings ratio of 7.8 and a dividend yield of 5.6%. (In France and England good stocks have consistently yielded 3-4%.)

With such earnings and asset margins existing to cushion the potential effects of adverse business and political forces, it must be clearly evident that today's investor in common stocks is paying no premium whatever for their anti-inflation protection. Hence, irrespective of its demonstrated shortcomings, that component may be considered an added gift whose "price is right."

* * *

Hence, the answer to the question posed in the head of this article—namely, whether the investor should buy stocks as a hedge against inflation—is that he should indeed put part of his funds into equities, but not *primarily* as a weapon to combat potential inflation.

Chase Dinner Honors Staff Long in Service

More than 1,250 of the 1,469 men and women of the staff of the Chase National Bank with 25 or more years of service attended a dinner in their honor Oct. 4, 1950 in the grand ballroom of the Waldorf-Astoria. Winthrop W. Aldrich, Chairman, and Percy J. Ebbott, President of the bank, will be hosts and speakers at the dinner, which will be followed by a program of entertainment.

Attending this sixth annual dinner for the first time will be 173 members of the staff who reached their 25th service anniversary in 1950. Of the total of 1,469, which represents almost 20% of the staff, 1,388 are in New York and 81 are in overseas branches. Among them are 218 women.

Two members of the Loan Department, Max Freismuth and Peter S. Roggeman, Assistant Cashier, have the longest service records at 49 years and 48 years, respectively. Berhardina Jehli of the Addressograph Department, in her 41st year in the bank, has the longest service record among the women. Three brothers on the bank's staff, Elmer, Franklin and Samuel Merz, have total service of 106 years.

Of the 687 retired employees now receiving pensions under the Chase plan, the longest service record is held by Joseph E. Silliman, now 86 years old, who was on the staff 52 years. Oldest living retired employee is John A. Petersen, 98 years old. The present average age of the 687 pensioners is 70, with 26 years as the average period of service.

Sheehan Vice-Pres. of Doremus & Co

William J. Sheehan, form head of creative work in th Boston office of Doremus & Com pany, has rejoined the agency a Vice-President, William H. Long, Jr., Doremus President, announced.

William J. Sheehan

Leaving Doremus & Company in 1935 he became director of public relations and advertising for Eastern Gas and Fuel Associates, Boston. In 1946, he resigned from this po sition to open his own office as consultant in advertising and pub lic relations.

For the past year he has bee associated with the firm of Sel vage & Lee, New York an Washington consultants in indus trial public relations.

Consumers Power Stk Offered at $28 a Share

The Consumers Power Co. o Oct. 4 offered 510,470 shares o common stock to its commo stockholders for subscription a $28 per share at the rate of on share for each 10 shares held b stockholders of record Oct. 3 1950.

Warrants are being mailed t stockholders, and carry the privilege of over-subscription at the same price per share, subject to allotment. The warrants are to be traded on the New York Stock Exchange. They expire at 3 p.m. (EST) Oct. 19. The shares issued in this offering will receive the next quarterly dividend of 50c per share, payable Nov. 20 to stockholders of record Oct. 27.

Morgan Stanley & Co. is acting as Dealer-Manager, and may purchase rights and offer stock to dealers during the subscription period and pay a commission of not over 75c a share. Soliciting dealers will receive 40c a share for shares taken up under rights or through over-subscription where the stockholder indicates the dealers solicited the subscription. It is provided, however, that no soliciting dealer will be paid over $400 with respect to any single warrant holder.

Proceeds will be used for the acquisition of property and for carrying on the current construction program which includes the addition of 350,000 kilowatts in new steam generating capacity, of which 180,000 kilowatts are now in operation, and an additional 170,000 kilowatts will be installed in two units at the new Justin R. Whiting Plant on Lake Erie, near Monroe, Mich. Proceeds will also be used to pay off temporary bank loans in the principal amount of $7,500,000 incurred for such purposes.

Webb Richards Joins Denault Co. Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Webb Richards has become associated with Denault & Co., Russ Building. Mr. Richards was formerly a partner in Pearson-Richards & Co. and prior thereto was with Mason Bros. & Stephenson, Leydecker & Co.

F. I. du Pont Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Charles A. Baggott has become affiliated with Francis I. duPont & Co., 722 South Spring Street.

Continued from page 12

Mutual Funds

about "war-babies" is particularly rampant among average investors, many of whom certainly lack the judgment, ability and reserves for "in-out" operations. "Brevits" said:

"A good illustration of the problems in September, 1939, faced by investors is given in the following table which shows that while the Dow, Jones Industrial Average changed only one cent in the aggregate from September, 1939, to January, 1945, the percent change in the price of each of the individual stocks which comprise the average varied from a loss of over 30% for United Aircraft to a gain of 142.7% for Loew's, Inc.

Change 9/22/39 to 1/2/45

	%
Loew's, Inc.	+142.7
Goodyear	+ 79.0
National Distillers	+ 59.2
Sears, Roebuck	+ 34.7
Johns-Manville	+ 25.9
Standard Oil of Calif.	+ 23.7
General Motors	+ 19.4
International Harvester	+ 15.1
Eastman Kodak	+ 13.2
Stand. Oil of New Jersey	+ 12.7
Woolworth	+ 10.6
Westinghouse	+ 8.5
Chrysler Corp.	+ 6.8
Texas Company	+ 4.5
American Tel. & Tel.	+ 2.1
General Foods	+ .3
Corn Products	— 3.7
General Electric	— 3.9
Procter & Gamble	— 4.9
National Steel	— 11.8
Union Carbide & Carbon	— 12.4
duPont	— 14.0
American Tobacco B	— 14.6
American Can	— 19.4
Allied Chemical	— 21.7
U. S. Steel	— 22.7
International Nickel	— 25.2
American Smelting	— 28.2
Bethlehem Steel	— 28.2
United Aircraft	— 30.5
Dow, Jones Ind. Av. 152.57	152.58

"A curious thing about the above figures is the fact that if an investor had tried on the basis of cold logic to select the stocks which might be expected to benefit the most by war conditions, he would have been almost 100% wrong."

With Cruttenden Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Thomas H. Stanton is with Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

Continued from page 11

News About Banks and Bankers

THE PUBLIC NATIONAL BANK AND TRUST COMPANY, NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	513,358,225	506,777,840
Deposits	471,514,164	465,475,550
Cash and due from banks	125,739,966	119,740,706
U. S. Govt. security holdings	109,251,250	156,453,757
Loans & bills disct.	243,485,537	198,541,284
Undivided profits	8,324,088	7,964,967

* * *

THE COMMERCIAL NATIONAL BANK AND TRUST COMPANY, NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	208,069,584	214,791,343
Deposits	171,175,453	183,460,534
Cash and due from banks	48,530,544	58,687,492
U. S. Govt. security holdings	84,791,679	93,882,108
Loans & discounts	58,511,509	45,403,942
Surp. & undivided profits	14,729,007	14,649,602

* * *

J. HENRY SCHRODER BANKING CORPORATION, NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	103,580,005	88,947,406
Deposits	75,243,056	61,915,375
Cash and due from banks	10,245,248	7,634,645
U. S. Govt. security holdings	55,399,713	47,203,371
Loans and bills discounted	12,177,646	8,532,101
Surp. & undivided profits	3,518,213	3,512,917

* * *

SCHRODER TRUST COMPANY, NEW YORK

	Sept. 30,'50	June 30,'50
Total resources	$39,714,463	$39,357,989
Deposits	34,203,809	33,841,319
Cash and due from banks	8,554,050	9,163,239
U. S. Govt. security holdings	22,220,945	23,047,683
Loans and bills discounted	7,862,946	6,029,472
Surp. & undivided profits	2,768,754	2,762,906

* * *

CLINTON TRUST COMPANY, NEW YORK

	Sept. 30,'50	June 30,'50
Total resources	$27,322,177	$27,189,610
Deposits	25,300,754	25,175,833
Cash and due from banks	6,287,327	5,879,951
U. S. Govt. security holdings	12,305,936	13,624,992
Loans & bills discounted	6,866,727	5,821,158
Surp. & undivided profits	945,365	936,203

* * *

NATIONAL CITY BANK OF NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	5,209,097,814	4,966,232,069
Deposits	4,823,894,308	4,593,527,436
Cash and due from banks	1,300,558,046	1,164,389,432
U. S. Govt. security hldgs.	1,711,027,802	1,860,934,857
Loans and bills discounted	1,500,435,838	1,333,230,909
Undivided prof.	56,079,891	54,411,829

* * *

CITY BANK FARMERS TRUST COMPANY, NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	133,225,754	128,824,274
Deposits	99,223,220	95,071,485
Cash and due from banks	22,448,822	17,285,468
U. S. Govt. security holdings	89,610,125	89,036,314
Loans & bills disct.	1,010,771	4,559,056
Undivided profits	10,640,671	10,558,459

* * *

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	4,864,416,007	4,697,749,012
Deposits	4,448,165,040	4,298,936,909
Cash and due from banks	1,302,922,651	1,199,628,369
U. S. Govt. security hldgs.	1,492,793,271	1,671,781,138
Loans and bills discounted	1,587,141,192	1,404,655,407
Undivided prof.	51,750,814	49,795,882

* * *

GUARANTY TRUST COMPANY OF NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	2,749,679,129	2,764,198,625
Deposits	2,312,110,134	2,335,396,908
Cash and due from banks	589,402,962	569,365,278
U. S. Govt. security hldgs.	993,379,420	1,079,906,759
Loans and bills discounted	992,078,627	982,767,057
Undivided prof.	75,111,116	73,969,698

* * *

BANK OF THE MANHATTAN COMPANY, NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	1,209,120,087	1,170,652,037
Deposits	1,102,807,978	1,069,344,043
Cash and due from banks	332,315,176	303,361,292
U. S. Govt. security hldgs.	288,276,360	323,431,804
Loans and bills discounted	466,677,007	427,794,657
Undivided prof.	15,418,411	14,914,091

J. P. MORGAN & CO. INC., NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	671,822,030	642,224,470
Deposits	593,305,153	567,026,334
Cash and due from banks	165,297,631	141,583,768
U. S. Govt. security holdings	197,154,588	253,330,511
Loans & bills disct.	213,927,640	180,923,758
Undivided profits	11,753,219	11,358,897

* * *

BROWN BROTHERS, HARRIMAN & CO., NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	247,654,523	237,106,734
Deposits	209,959,297	200,662,027
Cash and due from banks	56,297,596	51,555,421
U. S. Govt. security holdings	50,072,585	59,029,511
Loans & bills disct.	70,001,824	53,892,839
Capital and surplus	14,065,284	14,045,284

* * *

GRACE NATIONAL BANK OF NEW YORK

	Sept. 30,'50 $	June 30,'50 $
Total resources	117,647,648	118,119,254
Deposits	101,838,127	98,799,874
Cash and due from banks	34,593,678	34,649,242
U. S. Govt. security holdings	43,931,184	44,002,982
Loans & bills disct.	27,157,344	28,784,102
Surp. & undivided profits	4,838,127	4,738,283

* * *

Charles J. Stewart, President of **The New York Trust Company,** at 100 Broadway, **New York,** announced on Oct. 3 the appointments of Dozier N. Fields and Lloyd Lowndes to be Assistant Trust Officers of the company.

* * *

The Quarter Century Club of the **Central Savings Bank** in the **City of New York** held its fourth annual dinner on Oct. 4 at Luchow's Restaurant. James T. Lee, President of the bank, presided. Three new members—Ernest Stadelmann, Arthur J. Edison and Irving Moritz—received gold membership pins and $50 Savings Bonds. Otto Strippel, a Trustee, Vice-President and Treasurer of the bank, holds the club's service record, having been with the bank for 46 years. Other members with long service records include Carl Cordes, Assistant Vice-President, 43 years, and Frank P. Austin, 44 years.

* * *

BROOKLYN TRUST COMPANY, BROOKLYN, N. Y.

	Sept. 30,'50 $	June 30,'50 $
Total resources	242,539,105	244,069,821
Deposits	224,527,605	226,091,750
Cash and due from banks	66,777,975	62,180,383
U. S. Govt. security holdings	114,122,333	124,045,701
Loans & bills disct.	36,847,422	36,085,870
Undivided profits	1,986,944	1,839,584

* * *

RHODE ISLAND HOSPITAL NATIONAL BANK OF PROVIDENCE, R. I.

	June 30,'50 $	Dec. 31,'49 $
Total resources	141,800,401	151,536,770
Deposits	124,731,894	135,396,167
Cash and due from banks	29,010,603	30,583,759
U. S. Govt. security holdings	61,979,532	80,876,492
Loans & bills disct.	45,245,098	35,113,421
Undivided profits	2,303,154	2,234,868

* * *

RHODE ISLAND HOSPITAL TRUST COMPANY, PROVIDENCE, R. I.

	June 30,'50	Dec. 31,'49
Total resources	$87,869,398	$92,215,553
Deposits	66,538,274	69,990,705
Cash and due from banks	1,479,958	4,776,162
U. S. Govt. security holdings	52,921,804	57,510,736
Loans & bills disct.	16,738,740	13,582,282
Guaranty fund and undivided profits	3,715,407	3,651,314

* * *

The board of directors of **West Side Trust Co., of Newark, N. J.,** gave a dinner on the evening of Sept. 27, at the Green Brook Country Club, in honor of the three senior officers of the bank, Ray E. Mayham, Chairman of the Board of Directors and President, Thomas C. Wallace, Executive Vice-President, and Morrison J. Feldman, Vice-President, who are completing 30 years of service with the bank this year. Each of the guests of honor was presented with an engraved silver bowl and a copy of a resolution adopted by the directors. A review of the activities of Messrs. Mayham, Wallace and Feldman is contained in a booklet issued by the bank under the title "30 Years in Banking With West Side Trust Company, 1920-1950," and in its sketch of Mr. Mayham's banking career it states in part:

"He has served as President of the Newark Clearing House Association and the Essex County Bankers Association, also as a member of the State of New Jersey Banking Advisory Board on appointment by the Governor. Among Mr. Mayham's many other banking activities, he has served as Chairman of a number of important banking committees, and has frequently complied with requests to write articles on banking and business questions for newspapers and financial publications, his articles for the annual financial review of one paper having appeared regularly for the past 13 years."

We may note here that the "Chronicle" is indebted to Mr. Mayham for articles prepared for and published in our publication.

CORN EXCHANGE NATIONAL BANK & TRUST COMPANY, PHILADELPHIA, PA.

	Sept. 30,'50 $	June 30,'50 $
Total resources	300,412,354	288,613,830
Deposits	274,236,374	262,712,761
Cash and due from banks	73,289,978	68,794,034
U. S. Govt. security holdings	102,361,810	109,557,044
Loans & bills disct.	94,595,749	79,903,943
Undivided profits	3,369,215	3,247,836

* * *

THE PHILADELPHIA NATIONAL BANK, PHILADELPHIA, PA.

	Sept. 30,'50 $	June 30,'50 $
Total resources	779,159,477	762,882,245
Deposits	708,682,154	692,136,835
Cash and due from banks	231,290,929	203,501,987
U. S. Govt. security holdings	255,959,310	313,510,950
Loans and bills discounted	183,973,649	150,786,256
Undivided profits	12,238,165	11,812,564

* * *

The election of Hubbard G. Buckner as a Vice-President of the **First National Bank of Louisville, Ky.,** was reported in the Louisville "Courier-Journal" in its Sept. 16 issue, by that paper's Financial Editor, Sol. Schulman. Mr. Buckner, who has been President of the Louisville Public Ware-

Continued on page 48

Housing Securities Formed As Clearing House for Mtg Loans

Housing Securities, Inc. is a new corporation formed to provide liquidity and broaden the market for FHA and VA loans. Its headquarters are at 250 Park Avenue, New York City.

Home builders throughout the country have been faced with varying problems, but none so acute as the inability of their mortgagees to find a steady investment market. Investment institutions were anxious to buy good loans; mortgage companies were eager to sell; but to date there has been no common meeting place or clearing house.

Housing Securities, Inc. is intended to provide such a national clearing house. A completely private venture, Housing Securities stockholders were recruited from the National Association of Home Builders and are limited to 50 shares of non-negotiable stock, so that no person or group shall control the company. It is also felt that this will insure the continuation of the corporation as an agency to stabilize the market for Governmental insured and guaranteed mortgages.

Officers and directors are: President, Thomas P. Coogan, Miami, Fla.; First Vice-President, Nathan Manilow, Chicago, Ill.; Second Vice-President, George S. Goodyear, Charlotte, N. C.; Vice-President, Spencer F. Williams; Secretary, Joseph Meyerhoff, Baltimore, Md.; Treasurer, R. G. Hughes, Pampa, Texas.

Directors: David D. Bohannon, San Mateo, Calif.; Alan E. Brockbank, Salt Lake City, Utah; Franklin L. Burns, Denver, Colo.; W. W. Caruth, Jr., Dallas, Texas; Henry F. Fett, Detroit Mich.; Emanuel M. Spiegel, New Brunswick, N. J.; V. O. Stringfellow, Seattle, Wash.

General Counsel is Herbert S. Colton, Washington, D. C.

With Riter & Co.

Riter & Co., 40 Wall Street, New York City, members of the New York Stock Exchange and other leading exchanges, announce that John F. Van Vranken, formerly with Paine, Webber, Jackson & Curtis, is now associated with the firm.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The decisive turn of events in Korea, which brought with it the feeling that the inflation may not gain momentum, has had a favorable effect upon the government market. Also the refunding has been taken care of, without too many casualties, and the opinion in some quarters is there may not be an immediate change in reserve requirements. If the Central Banks are not going to continue to tighten the money markets and there is to be no upping of reserves, the government market has, it seems, pretty well discounted what has taken place up to this point. The market action of the intermediate and long bank issues appears to indicate that some operators believe this could happen. There has been better buying of the banks' issues, in the last week, than has been the case for some time.

The tap bonds have been as steady as the "old gray mare," under the guiding hand of the Central Banks. It is now being said again that the most liquid obligation in the government market (from the bills on out) is the Victory Loan issue. The shorter end of the market has been more stable, but it is being watched very closely for clues as to the future course of interest rates.

Treasury Bills Most Popular

The bank issues continue to hold the center of the stage. This is attributed to the great activity which accompanied the sizable refunding operation, and the uncertainty which has been created by Federal's stiffening of interest rates. The eligible list is divided into two parts, with the shorts, due to their important place in the fall refunding, accounting for most of the volume in the market recently. There has been and still is considerable switching and swopping about in bills, certificates and notes with the Central Banks the focal point in these exchanges. With the Treasury's refunding out of the way, it would not be surprising if there were a let-down in the short-term end of the list. Quite a few investors are inclined to wait and see what is going to happen to the near-term rates, before they get too enthusiastic about making sizable commitments in certificates and notes. It seems as though Treasury bills will be the security which for the time being will be most popular among the liquid-conscious buyers.

Intermediates May Be Vulnerable

The intermediate and longer end of the eligible group is still giving the market a fillip in volume, although at times these securities move about as far as quotations are concerned without too many of these issues changing hands. The 1956 maturities have been under pressure because there has been sizable liquidation in these securities by large life insurance companies. This selling appears to be about over, which accounts in some measure for the improved market action of these obligations. However, the all-important factor as far as the 1956s are concerned is the future action of the Central Banks on short-term rates. If it is to be a 1⅜% yearly rate, these issues are attractive. On the other hand, if the 12 months' rate is to go to 1½%, and there is to be an accompanying increase in reserve requirements, the 1956/58s and the 1956/59s are in a vulnerable position at prevailing prices.

Longest Taxables Being Liquidated

The longest taxable bond has not been without more than a passing amount of liquidation from non-bank investors. There has also been a significant but not telling amount of short selling in this issue. As was the case in the intermediate maturities of the banks, the large life insurance companies have been getting out of the September 1967/72s. Whether this liquidation is over or has just subsided for the time being is an open question in the market. Nonetheless, there is not likely to be many more of these bonds, which will be sold by non-bank investors, because from available figures, the bottom of the barrel is more than in sight. As to the buyers, according to informed sources, the Central Banks have been in there keeping the market in the September 1967/72s orderly. How many may have been bought by Federal is a matter of considerable conjecture. Yet the opinion in some financial quarters is that the Central Banks have acquired quite a few of the longest bank issue in the recent market unsettlement. According to advices, scale buying has been the next most important factor in support of the most distant bank obligation with the out-of-town commercial banks by far the leading acquirers of this security. The large money center institutions have not been active in either the middle or the longs, aside from the partially exempt 2¾s, which still have appeal to these banks. The short-term end of the list is where the deposit banks have been doing most of their business.

Restricteds In a Vacuum

In contrast to the moving about of the intermediate and longer eligibles, the tap bonds, especially the Vics, have been almost motionless, because of support by the Central Banks. These securities are under the sponsorship of Federal and, for the moment at least, are being pegged. There is no question about the Central Banks' ability to hold the restricted issues at whatever level they desire. This has been proved in the past, it is being proved again now. There are large amounts of the ineligibles yet to be sold by non-bank owners, mainly the large life insurance companies.

Buying in the tap issues, according to reports, is principally with the Central Banks because the other buyers, the life insurance companies and savings banks, are sellers. There seems to be no immediate change in this position of non-bank owners because they have other commitments which are more attractive than Treasury obligations. A more regimented economy which is definitely in the making could alter this condition in the future.

Continued from page 47

News About Banks And Bankers

house Co., was formerly a Vice-President of the **Louisville Trust Co.**, it is stated.

The appointment of Francis R. Kelly, a Newark, N. J., lawyer, as General Manager of the **Home Loan Corporation** was announced at Washington on Sept. 19. United Press advices stated that he succeeds J. S. Baughman, who recently became President of the Federal National Mortgage Association.

* * *

The Citizens National Bank of Bentleyville, Pa., was placed in voluntary liquidation on Sept. 19, having been absorbed by the **Peoples City Bank of McKeesport, Pa.** The Citizens National, according to the Sept. 25 issue of the Bulletin issued by the Comptroller of the Currency, had a capital (common) of $50,000.

* * *

At a special meeting called by Lawrence F. Stern, President, the directors of the **American National Bank and Trust Company of Chicago** on Sept. 27 authorized a 33⅓% stock dividend, which would increase the bank's capital from $3,000,000 to $4,000,000, subject to approval of stockholders and the Comptroller of the Currency. The plan, to be submitted to stockholders at a special meeting on Oct. 11, provides for the issuance of 10,000 shares of common stock on the basis of one new share for each three shares held by stockholders of record on that date. The funds for the dividend would be taken from undivided profits and reserves. American National's last capital increase occurred in November, 1946 when 5,000 shares of common stock was issued as a dividend and 5,000 were sold to stockholders at par of $100 per share, increasing the bank's capital from $2,000,000 to $3,000,000. The surplus account of the bank was increased last November from $4,000,000 to $5,000,000. With the completion of the proposed additional increase in capital stock, the capital, surplus and undivided profits will be in excess of $10,000,000. Deposits of the bank now total approximately $240 million.

* * *

Harold G. Townsend, who has served **The Trust Company of Chicago, at Chicago, Ill.**, as President since 1933, joined the **La Salle National Bank of Chicago** as Vice-President and Trust Officer on Oct. 2. In taking this step, Mr. Townsend joins others of his Trust Company associates who have moved to La Salle's trust department during the process of liquidation of The Trust Company of Chicago. The major portion of the trust accounts of this company have been moved to the La Salle bank as successor trustee and Mr. Townsend now joins the group of former officials of the company in the handling of these accounts. Mr. Townsend is a graduate of Beloit College and Harvard Law School and has served the former school as President of its alumni association. A member of the American, Illinois and Chicago Bar Associations, Mr. Townsend practiced law before entering the trust business.

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Effective Sept. 13, the **First National Bank in Dodge City, Kansas**, increased its capital from $150,000 to $200,000 by a stock dividend of $50,000.

* * *

Through a stock dividend of $100,000, the capital stock of the **Peoples National Bank of Greenville, S. C.**, has been enlarged from $200,000 to $300,000, as of Sept. 20.

* * *

The **Rogers National Bank of Jefferson, Texas**, was placed in voluntary liquidation on Sept. 18, having been succeeded by the **First National Bank of Jefferson**, the issuance of a charter for which on Aug. 22 was noted in these columns Sept. 14, page 1010.

* * *

The new $12,000,000 capital of the **United States National Bank of Portland, Ore.**, increased from $10,000,000 by a $2,000,000 stock dividend, became effective Sept. 15. Details of the plans for the enlargement of the capital were given in our issue of July 20, page 260.

Investment Planning For Women

"Investment Planning for Women" will be the subject of two elementary courses of lectures at the Hotel Barbizon for women. One series will be given on 12 Tuesday afternoons from 2 to 3 and the other 12 on Wednesday evenings from 8 to 9 starting Oct. 18.

Geo. F. Shaskan, Jr.

All lectures will be in non-technical language and will be designed to interest and inform the uninitiated. They will show the average woman how to get at financial facts, how to understand the figures in earnings statements and balance sheets. Proven rules of investment will be laid down. Upon completion of the lectures those attending should have a good basic understanding of the inner workings of Wall Street and investments generally. A previous lecture series was held last Spring under the same sponsorship.

The courses will be given by George F. Shaskan, Jr., partner of the New York Stock Exchange firm of Shaskan & Co., and by special guest lecturers.

With Sutro & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Kenneth E. Campbell has become associated with Sutro & Co., 275 North Canon Drive. He was formerly with Shields & Co. and Buckley Brothers. In the past he was an officer of Fox, Castera & Co.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Conrad E. Jaman has become affiliated with Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

Joins Dean Witter Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Carl Morton has been added to the staff of Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Join Kenneth E. Goodman

(Special to THE FINANCIAL CHRONICLE)

SHEBOYGAN, WIS. — Magnus Brinkman and Walter R. Schmidt have become associated with Kenneth E. Goodman & Co., 6-7 North Eighth Street.

Joins Wilson-Trinkle

(Special to THE FINANCIAL CHRONICLE)

LOUISVILLE, Ky. — Louis F. Hoeck, Jr. is now associated with Wilson-Trinkle Co., Louisville Trust Building.

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. 8	101.2	100.7	98.0	8.2
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 8	1,951,900	1,942,200	1,890,100	151,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Sept. 23	5,894,050	5,938,330	5,699,480	4,932,550
Crude runs to stills — daily average (bbls.)	Sept. 23	‡5,982,000	5,983,000	6,197,000	5,377,000
Gasoline output (bbls.)	Sept. 23	19,726,000	19,628,000	20,263,000	18,152,000
Kerosene output (bbls.)	Sept. 23	2,355,000	2,175,000	2,272,000	1,910,000
Gas, oil, and distillate fuel oil output (bbls.)	Sept. 23	7,816,000	8,314,000	7,559,000	6,555,000
Residual fuel oil output (bbls.)	Sept. 23	8,356,000	8,160,000	8,543,000	7,419,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 23	104,739,000	104,305,000	105,793,000	103,262,000
Kerosene (bbls.) at	Sept. 23	27,632,000	26,577,000	24,829,000	26,615,000
Gas, oil, and distillate fuel oil (bbls.) at	Sept. 23	75,079,000	74,136,000	65,841,000	81,414,000
Residual fuel oil (bbls.) at	Sept. 23	42,319,000	42,208,000	41,697,000	68,143,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 23	870,196	866,207	*838,429	661,468
Revenue freight received from connections (number of cars)	Sept. 23	725,840	696,740	*692,683	560,917
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Sept. 28	$244,811,000	$238,899,000	$342,486,000	$163,897,000
Private construction	Sept. 28	130,015,000	144,425,000	222,705,000	94,216,000
Public construction	Sept. 28	114,796,000	94,474,000	119,781,000	69,681,000
State and municipal	Sept. 28	104,382,000	85,998,000	97,357,000	63,388,000
Federal	Sept. 28	10,414,000	8,476,000	22,424,000	6,293,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 23	11,410,000	*11,275,000	10,980,000	1,984,000
Pennsylvania anthracite (tons)	Sept. 23	956,000	923,000	959,000	37,000
Beehive coke (tons)	Sept. 23	127,100	*152,700	143,800	4,700
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Sept. 23	321	*367	288	292
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Sept. 30	6,503,008	6,457,030	6,459,386	5,521,238
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Sept. 28	148	155	143	181
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Sept. 26	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Sept. 26	$48.80	$46.61	$46.61	$45.88
Scrap steel (per gross ton)	Sept. 26	$40.67	$40.75	$40.92	$27.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Sept. 27	22.575c	22.700c	22.225c	17.325c
Export refinery at	Sept. 27	24.425c	24.425c	24.425c	17.550c
Straits tin (New York) at	Sept. 27	103.750c	102.500c	104.000c	103.000c
Lead (New York) at	Sept. 27	16.000c	16.000c	14.000c	14.750c
Lead (St. Louis) at	Sept. 27	15.800c	15.800c	13.800c	14.600c
Zinc (East St. Louis) at	Sept. 27	17.500c	17.500c	15.000c	10.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 3	101.64	101.65	102.17	103.93
Average corporate	Oct. 3	115.43	115.43	116.22	114.85
Aaa	Oct. 3	119.82	120.02	120.84	120.84
Aa	Oct. 3	118.60	118.60	119.61	119.00
A	Oct. 3	115.04	115.04	115.63	114.08
Baa	Oct. 3	109.06	109.06	109.24	106.56
Railroad Group	Oct. 3	111.62	111.81	112.00	109.42
Public Utilities Group	Oct. 3	116.22	116.02	116.80	116.22
Industrials Group	Oct. 3	119.00	119.00	120.02	119.41
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 3	2.38	2.37	2.34	2.21
Average corporate	Oct. 3	2.88	2.88	2.84	2.91
Aaa	Oct. 3	2.66	2.65	2.61	2.61
Aa	Oct. 3	2.72	2.72	2.67	2.70
A	Oct. 3	2.90	2.90	2.87	2.95
Baa	Oct. 3	3.22	3.22	3.21	3.36
Railroad Group	Oct. 3	3.08	3.07	3.06	3.20
Public Utilities Group	Oct. 3	2.84	2.85	2.81	2.84
Industrials Group	Oct. 3	2.70	2.70	2.65	2.68
MOODY'S COMMODITY INDEX	Oct. 3	466.2	468.6	469.5	342.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 23	219,191	207,785	211,075	192,289
Production (tons)	Sept. 23	229,731	231,325	228,119	202,374
Percentage of activity	Sept. 23	101	100	100	91
Unfilled orders (tons) at	Sept. 23	700,166	714,466	645,496	356,741
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Sept. 29	137.0	136.4	132.2	128.0
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. 16	30,825	19,828	24,254	20,147
Number of shares—Customers' total sales	Sept. 16	946,453	592,738	739,100	595,563
Dollar value	Sept. 16	$42,115,213	$26,141,879	$32,232,118	$23,482,936
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Sept. 16	35,401	21,884	25,672	23,865
Customers' short sales	Sept. 16	451	294	138	218
Customers' other sales	Sept. 16	34,950	21,590	25,534	23,647
Number of shares—Customers' total sales	Sept. 16	1,024,499	612,186	729,705	661,842
Customers' short sales	Sept. 16	16,032	10,832	4,855	7,754
Customers' other sales	Sept. 16	1,008,467	601,354	724,850	654,088
Dollar value	Sept. 16	$39,598,731	$23,424,479	$27,433,501	$22,057,937
Round-lot sales by dealers—					
Number of shares—Total sales	Sept. 16	344,910	201,450	223,030	247,300
Short sales	Sept. 16				
Other sales	Sept. 16	344,910	201,450	223,030	247,300
Round-lot purchases by dealers—					
Number of shares	Sept. 16	293,560	202,020	271,430	219,630
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Sept. 26	169.4	*169.8	167.2	152.4
Farm products	Sept. 26	180.2	181.3	179.5	160.2
Grains	Sept. 26	165.3	166.0	167.7	158.4
Livestock	Sept. 26	233.5	235.3	249.4	199.1
Foods	Sept. 26	177.4	179.0	176.5	158.9
Meats	Sept. 26	257.5	259.9	263.8	220.8
All commodities other than farm and foods	Sept. 26	159.4	159.2	155.4	145.3
Textile products	Sept. 26	162.2	161.1	149.6	138.0
Fuel and lighting materials	Sept. 26	134.9	134.9	134.5	130.6
Metals and metal products	Sept. 26	176.4	176.0	174.8	168.5
Building materials	Sept. 26	221.3	221.8	216.1	190.0
Chemicals and allied products	Sept. 26	129.2	*128.6	124.0	116.2

*Revised figure. ‡Includes 549,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES):			
Production of primary aluminum in the U. S. (in short tons)—Month of July	63,518	60,400	55,777
Stock of aluminum (short tons) end of July	15,529	14,500	53,809
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of August:			
New England	$34,639,026	$31,662,778	$18,591,131
Middle Atlantic	94,483,771	87,269,536	75,053,692
South Atlantic	49,473,698	44,119,420	31,569,172
East Central	124,262,683	118,101,739	82,925,164
South Central	101,389,778	99,571,771	53,695,921
West Central	35,749,481	47,404,159	23,193,921
Mountain	19,413,134	13,793,625	7,639,760
Pacific	91,586,462	83,655,330	54,741,047
Total United States	$550,997,973	$525,578,358	$347,409,808
New York City	37,858,882	37,123,541	41,341,128
Outside of New York City	513,139,091	488,454,817	306,068,680
BUSINESS INCORPORATIONS (NEW) IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of August	7,303	*7,191	6,828
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of August 15:			
All items	173.0	172.5	168.8
All foods	209.0	210.0	202.6
Cereals and bakery products	175.5	171.3	169.4
Meats	257.5	256.0	239.5
Dairy products	182.7	179.5	184.9
Eggs	183.1	164.3	222.2
Fruits and vegetables	194.7	220.8	201.9
Beverages	328.8	304.4	208.8
Fats and oils	158.9	141.3	144.0
Sugar and sweets	187.7	176.0	176.5
Clothing	185.9	184.7	187.4
Rent	124.8	124.4	120.8
Fuel, electricity and refrigerators	140.9	139.5	135.8
Gas and electricity	97.0	97.0	97.1
Other fuels	194.4	190.9	183.1
Ice	147.4	146.6	141.1
House furnishings	189.3	186.4	184.8
Miscellaneous	158.1	156.2	154.8
COPPER INSTITUTE — For Month of August:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	89,207	*85,378	62,279
Refined (tons of 2,000 lbs.)	108,465	96,734	85,577
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	112,083	95,983	90,739
Refined copper stocks at end of period (tons of 2,000 lbs.)	50,952	48,266	217,167
COTTON AND LINTERS — DEPT. OF COMMERCE—RUNNING BALES:			
Lint—Consumed month of August	807,840	610,555	663,008
In consuming establishments as of Aug. 26	1,144,250	1,307,560	676,397
In public storage as of Aug. 26	4,568,889	4,847,009	3,946,465
Linters—Consumed month of August	149,279	112,358	137,412
In consuming establishments as of Aug. 26	151,425	207,170	228,433
In public storage as of Aug. 26	137,119	163,701	47,549
Cotton spindles active as of Aug. 26	20,540,000	20,525,000	19,745
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters prior to September 1)	863,633	------	1,247,576
COTTON SPINNING (DEPT. OF COMMERCE):			
Spinning spindles in place on Aug. 26	23,031,000	23,007,000	23,407,000
Spinning spindles active on Aug. 26	20,540,000	20,525,000	19,747,000
Active spindle hours (000's omitted) August	9,711,000	7,284,000	8,267,000
Active spindle hours per spindle in place Aug.	516.7	408	377
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100) Month of August:			
Adjusted for seasonal variation	335	362	283
Without seasonal adjustment	281	282	238
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—Month of July (000's omitted)	22,636,887	22,694,422	19,948,627
Revenue from ultimate customers—month of July	$412,436,800	$414,734,400	$375,372,300
Number of ultimate customers at July 31	44,087,312	43,923,668	41,954,866
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of July:			
All manufacturing (production workers)	12,140,000	*12,070,000	11,212,000
Durable goods	6,592,000	*6,598,000	5,896,000
Nondurable goods	5,548,000	*5,472,000	5,316,000
Employment indexes—			
All manufacturing	148.2	*147.5	136.9
Payroll indexes—			
All manufacturing	367.2	*361.9	312.8
Estimated number of employees in manufacturing industries—			
All manufacturing	14,763,000	*14,667,000	13,757,000
Durable goods	7,976,000	*7,968,000	7,255,000
Nondurable goods	6,787,000	*6,699,000	6,502,000
FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL CONSTRUCTION—Month of August:			
Contracts closed (tonnage)—estimated	250,910	*272,514	98,953
Shipments (tonnage)—estimated	173,053	*140,864	182,868
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of August:			
Earnings—			
All manufacturing	$60.28	*$59.21	$54.66
Durable goods	64.09	*63.05	57.74
Nondurable goods	55.78	*54.65	51.31
Hours—			
All manufacturing	41.2	*40.5	39.1
Durable goods	41.7	*41.1	39.2
Nondurable goods	40.6	*39.8	38.9
Hourly earnings—			
All manufacturing	$1.463	*$1.462	$1.398
Durable goods	1.537	*1.534	1.473
Nondurable goods	1.374	*1.373	1.319
HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE (AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION)—Month of August:			
Factory sales of washers (units)	381,452	282,261	323,789
Factory sales of ironers (units)	42,700	25,100	32,300
Factory sales of dryers (units)	32,318	23,588	5,526
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of August:			
*Total number of vehicles	818,092	706,672	657,664
Number of passenger cars	682,782	595,067	557,370
Number of motor trucks	134,853	111,208	99,850
Number of motor coaches	457	397	444

*Revised.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Activated Fertilizer Corp. of Washington
Sept. 28 (letter of notification) 100,000 shares of non-assessable class A common capital stock. **Price**—At par ($1 per share). **Proceeds**—For plant expansion and general expenses. **Office**—737 Peyton Building, Spokane, Wash.

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.

Arkansas Power & Light Co.
May 23 filed 155,000 shares of cumulative preferred stock (par $100). **Proceeds**—To be applied 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.

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.

• Brager-Eisenberg, Inc., Baltimore, Md.
Oct. 2 (letter of notification) 6,032 shares of common stock (par $1) to be offered to stockholders. **Price**—$22 per share. **Underwriter**—None. **Proceeds**—For corporate purposes. **Office**—Eutaw and Saratoga Streets, Baltimore, Md.

• C. B. Supply Co., Odessa, Wash.
Sept. 29 (letter of notification) 5,000 shares of common stock (par $25), 500 shares of preferred stock, series A (par $100) and 1,000 shares of preferred stock, series B (par $100). **Price** — At par. **Underwriter** — None. **Proceeds**—To pay notes and loans and for working capital.

California Electric Power Co. (10/24)
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. **Bids**—To be opened at 10:30 a.m. (EST) on Oct. 24 at Bankers Trust Co., 16 Wall St., New York, N. Y.

• California Electric Power Co. (10/24)
Sept. 28 filed $2,000,000 of debentures due 1960. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. **Proceeds**—To finance, in part, construction program of company and its subsidiary, Interstate Telegraph Co. for 1950 and 1951. **Bids**—To be opened at 10:30 a.m. (EST) on Oct. 24 at Bankers Trust Co., 16 Wall St., New York, N. Y.

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.

• Colorvision, Inc., Los Angeles, Calif.
Sept. 28 (letter of notification) 54,000 shares of common stock, with sale to be limited to former stockholders of Richard Thomas Enterprises, Inc. and Thomascolor, Inc. (10,600 shares to be issued to Harold Less and 38 members of a syndicate in exchange for assets of Thomascolor, Inc.) **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To complete purchase of Thomascolor and for working capital. **Office**—9200 Exposition Boulevard, Los Angeles 34, Calif.

• Commercial Discount Corp., Chicago, Ill.
Sept. 22 (letter of notification) 2,630 shares of $3.50 prior preferred stock. **Price**—At par ($50 per share). **Underwriter**—Julien Collins & Co., Chicago, Ill. **Proceeds**—For working capital.

• Commonwealth Natural Gas Corp. (Va.)
Sept. 22 (letter of notification) 28,800 shares of common stock (par $5). **Price**—$10.25 per share. **Underwriters**—Scott & Stringfellow, Richmond, Va., and others. **Proceeds**—To purchase shares of common stock (par $50) of Portsmouth Gas Co.

• Consolidated Engineering Corp. (Calif.)
Sept. 28 (letter of notification) 200 shares of common stock (par $1) to be issued upon exercise of stock option. **Price**—$5 per share. **Proceeds**—For working capital.

• Consolidated Engineering Corp. (Calif.)
Sept. 26 (letter of notification) 200 shares of common stock (par $1) to be issued upon exercise of option by H. J. Boucher. **Price**—$5 per share. **Proceeds**—For working capital.

Consumers Power Co.
Sept. 22 filed (by amendment) 510,470 shares of common stock (no par) offered to 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**—$28 per share. **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.

• Cooperative Grange League Federation Exchange, Inc., Ithaca, N. Y.
Sept. 28 filed 500,000 shares of common stock to be sold to cooperative members. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To reduce obligation to Cooperative G.L.F. Holding Corp. **Business**—Farm cooperative.

• Cooperative G. L. F. Holding Corp., Ithaca, New York
Sept. 28 filed 25,000 shares of 4% cumulative preferred stock to be sold to patrons of Grand League Federation Exchange. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To reduce bank debt. **Business**—Property holding and financing instrumentality for G.L.F. Exchange, farm cooperative.

• Cordillera Corp., Seattle, Wash.
Sept. 28 (letter of notification) 100,000 shares of fully-paid and non-assessable common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—To develop and operate mining properties. **Office**—902 Seaboard Building, Seattle 1, Wash.

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.

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.

• Dickson (R. S.) & Co., Inc., Charlotte, N. C.
Sept. 29 (letter of notification) 250 shares of 5% cumulative preferred stock (par $100), 8,000 shares of voting common stock (par $10) and 1,000 shares of non-voting class B common stock (par $10). **Price**—At market. **Underwriter**—None. **Proceeds**—For working capital. **Office**—701 Wilder Building, Charlotte, N. C.

• Emmart Packing Co., Louisville, Ky.
Sept. 28 (letter of notification) 3,249 shares of common stock. **Price**—$40 per share. **Underwriter**—None. **Proceeds**—For plant improvements.

• Equity Discount Corp., Seattle, Wash.
Sept. 26 (letter of notification) 2,000 shares of preferred stock (par $50) and 20,000 shares of common stock (par 10 cents) to be offered in units of 10 shares of common stock and one share of preferred stock, with subscription of not less than 100 shares of preferred and 1,000 shares of common. **Price**—$51 per unit. **Underwriter**—Promoter of proposed company. **Proceeds**—For organization expenses and working capital. **Office**—1210 East 75th Street, Seattle, Wash.

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.

General Radiant Heater Co., Inc.
May 3 filed 170,000 shares of common stock (par 25¢) **Price**—$3 per share. **Proceeds**—For plant and warehouse, advertising research, working capital, etc. Temporarily postponed. Amendment may be filed.

Government Employees Corp., Washington, D.C.
Sept. 26 filed 30,000 shares of capital stock (par $5), to be offered to stockholders of record Oct. 31 on the basis of one share for each share held; rights to expire Nov. 20. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For additional capital funds. **Business** — Automobile financing.

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.

• Hagerstown (Md.) Gas Co.
Sept. 28 filed 32,000 shares of common stock (par $1.25). **Price**—To be supplied by amendment. **Underwriters**—Harrison & Co., and Walston, Hoffman & Goodwin, of Philadelphia, Pa. **Proceeds**—To a selling stockholder.

Haile Mines, Inc.
Sept. 19 (letter of notification) 100,000 shares of common capital stock (par 25 cents) 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. (10/10)
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.

• Hamilton Fire Insurance Co., Phila. (10/9)
Oct. 2 (letter of notification) 64,000 shares of capital stock (par $5). **Price**—$4.50 per share. **Underwriter**—Jenks, Kirkland & Co., Philadelphia, Pa. **Proceeds**—To increase capital and surplus in order to offer additional lines of insurance, including automobile casualty and liability coverage.

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.

James Manufacturing Co. (10/10)
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.

• Kaiser Steel Corp., Fontana, Calif. (10/24)
Sept. 29 filed 1,600,000 shares of preferred stock (no par) and 800,000 shares of common stock (par $1) to be offered in units of one preferred share and one-half

hare of common stock. **Price**—To be filed by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—From the sale of the units, together with $60,000,000 to be received from private placement of an issue of first mortgage 3¾% bonds due 1970, and $25,000,000 from banks, will be used to retire $91,082,990 RFC loans and for expansion program.

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.

● **Kipling Syndicate, Fresno, Calif.**
Sept. 25 (letter of notification) $131,200 of units (64 of $1,000 each and 48 of $1,400 each), each unit representing an interest in mineral rights in Arizona property leased by the Syndicate. **Underwriter**—John Edward Stuler of Phoenix, Ariz. **Proceeds**—To develop oil lands. **Office**—Fulton-Fresno Bldg., Fresno, Calif. This offering is to replace fourth offering of $57,600 of units, which has been withdrawn.

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.

● **Loc-Bloc Machine Co., Portland, Ore.**
Sept. 28 (letter of notification) 500 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—622 S. E. Grand Avenue, Portland 14, Ore.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100). **Proceeds**—To be used to redeem, at $110 per shart plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

Loven Chemical of California, Newhall, Calif.
May 31 (letter of notification) 282,250 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—Floyd A. Allen & Co., Inc., Los Angeles, Calif. **Proceeds**—To buy land, build a plant and equip it to produce so-called "impact" plastics. **Office**—244 S. Pine St., Newhall, Calif.

● **Marken & Bielfield, Inc., Frederick, Md.**
Sept. 22 (letter of notification) 2,250 shares of common stock (par $10). **Price** — $15 per share. **Underwriter**—None. **Proceeds**—To purchase printing equipment and pay bank loans. **Office**—West Seventh Street, Frederick, Maryland.

McDonnell Aircraft Corp., St. Louis, Mo.
Sept. 27 filed 40,000 shares of common stock (par $1). **Price**—At market (estimated at $35.50 per share) to be offered over-the-counter. **Underwriter**—Brokers and/or dealers may be underwriters. **Proceeds**—To five selling stockholders.

Metropolitan Brick, Inc., Canton, Ohio
Aug. 29 (letter of notification) 50,820 shares of common stock 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.

● **Milwaukee Gas Light Co. (10/31)**
Oct. 2 filed $27,000,000 of first mortgage bonds, series due 1975, and $6,000,000 of sinking fund debentures due Nov. 1, 1970. **Underwriters**—To be determined by competitive bidding. Probable bidders: 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** — From sale of bonds and debentures, together with $3,000,000 to be received from sale of new common stock to American Natural Gas Co., the parent, will be used to pay off $13,334,000 outstanding 4½% first mortgage bonds due 1967 and $4,050,000 of 2¾%-3% serial notes and $6,100,000 of bank loan notes; to retire $2,000,000 of 7% cumulative preferred stock, series A (par $100); and for construction program. **Bids**—To be opened at 11 a.m. (EST) on Oct. 31 at office of parent, 165 Broadway, New York, N. Y.

NEW ISSUE CALENDAR

October 6, 1950
Pacific Power & Light Co.—Common
Vanadium Corp. of America—Debentures

October 9, 1950
Family Finance Corp.—Common
Hamilton Fire Insurance Co.—Common
Utah Power & Light Co., noon (EST)—Bonds

October 10, 1950
Hallicrafters Co.—Common
James Manufacturing Co.—Common

October 11, 1950
Ohio Edison Co., 11 a.m. (EST)—Common

October 16, 1950
Monarch Radio & Television Corp.—Common
Nepera Chemical Co.—Common
Rochester (N. Y.) Telephone Corp.—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.
Chicago, Milwaukee, St. Paul & Pacific RR., noon (CST)—Equip. Trust Ctfs.
Standard Railway Equipment Mfg. Co.—Common

October 23, 1950
Tide Water Power Co.—Common

October 24, 1950
Alabama Power Co.—Preferred
California Electric Power Co., 10:30 a.m. (EST)—Bonds
California Electric Power Co., 10:30 a.m. (EST)—Debentures
Kaiser Steel Corp.—Preferred & Common
Northern States Power Co.—Preferred

October 25, 1950
Wabash RR.—Equip. Trust Ctfs.

October 30, 1950
Montana Power Co.—Debentures

October 31, 1950
Milwaukee Gas Light Co., 11 a.m. (EST)—Debentures
Milwaukee Gas Light Co., 11 a.m. (EST)—Bonds

November 13, 1950
Kansas Gas & Electric Co.—Common

November 14, 1950
Louisiana Power & Light Co.—Bonds

November 20, 1950
Kansas Gas & Electric Co.—Preferred

November 27, 1950
Kansas Gas & Electric Co.—Bonds

December 4, 1950
Minnesota Power & Light Co.—Common

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) 1,000,000 shs. 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. (10/16)
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 week of Oct. 16.

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: Halsey, Stuart & Co. Inc.; Blyth & Co.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); Lehman Brothers. **Proceeds** — To repay bank loans and for 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.

Nash-Finch Co., Minneapolis, Minn.
Sept. 11 (letter of notification) 3,000 shares of common stock. **Price**—From $17 to $20 per share. **Underwriter**—J. M. Dain & Co., Minneapolis, Minn. **Proceeds**—To Finch Investment Co.

● **Nepera Chemical Co. (10/16-21)**
Sept. 28 filed 490,000 shares of common stock (par $2). **Price**—To be filed by amendment. **Underwriter**—Reynolds & Co., New York. **Proceeds**—To five selling stockholders. **Business** — Production of Anahist and other pharmaceuticals. **Offering**—Expected week of Oct. 16.

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**—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.

Norlina Oil Development Co., Washington, D. C.
March 28 filed 600 shares of capital stock (no par.) To offer only sufficient shares to raise $1,000,000 at $5,000 per share. No underwriter. Proceeds to be used to explore and develop oil and mineral leases. Statement effective May 22.

Northern Illinois Coal Corp., Chicago
May 10 (letter of notification) up to 2,000 shares of common stock (no par) to be sold at the market price (between $20 and $22 per share) by T. Howard Green, a Vice-President of the company. **Underwriter**—Faroll & Co., Rogers & Tracy and Shields & Co., Chicago.

Northern States Power Co. (10/24)
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. **Bids** — Tentatively scheduled to be opened Oct. 24.

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 Oct. 30, 1950. **Underwriters**—To be determined by competitive bidding for purchase of unsubscribed shares, plus such number—not in excess of 39,657—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. (10/6)
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. (Oct. 2, it was announced amount involved will be 1,078,754, as certain stockholders have decided not to sell their holdings). **Underwriters**—Lehman Brothers, Union Securities Corp., handling books, and Dean Witter & Co. **Price** — To be filed by amendment. A public offering price is anticipated of $14 per share. **Offering**—Expected tomorrow (Oct. 6).

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**—

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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.

• **Reliance Electrical & Engineering Co.**
Sept. 26 (letter of notification) 20,000 shares of common stock (par $5) to be sold to employees under an Employees Stock Option Plan. **Price**—At the market, less a discount. **Proceeds**—For working capital. **Office**—1088 Ivanhoe Road, N. E., Cleveland, O.

Rochester (N. Y.) Telephone Corp. (10/16)
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.

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.

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.

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.

• **Shakespeare Co., Kalamazoo, Mich.**
Sept. 27 (letter of notification) 3,083 9/10 shares of common stock (par $5). **Price**—$16.25 per share. **Underwriter**—Smith, Hague & Co., Detroit, Mich. **Proceeds**—To John W. Shakespeare of Centralia, Ill., the selling stockholder.

Sierra Pacific Power Co.
Sept. 1 filed $2,500,000 of 3⅜% debentures due Oct. 1, 1975 and 24,716 shares of common stock (par $15), the latter issue being 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 Oct. 19. **Underwriters**—For debentures: Kidder, Peabody & Co., who were awarded this issue on Oct. 3 on their bid of 100.791. Underwriter for stock: Stone & Webster Securities Corp. and Dean Witter & Co. **Price**—For stock, $21 per share. **Proceeds**—To pay bank loans and to finance new construction. Statement effective Sept. 25.

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.

• **Skiatron Corp.**
Sept. 28 (letter of notification) 20,000 shares of common stock. **Price**—75 cents per share. **Underwriter**—Frank C. Moore Co., New York. **Proceeds**—To Arthur Levey, President, the selling stockholder.

• **Smart & Final Co., Los Angeles, Calif.**
Sept. 25 (letter of notification) 7,000 shares of common stock to be offered to employees of company. **Price**—$6.50 per share. **Underwriter** — None. **Proceeds** — For working capital. **Office**—4510 Colorado Blvd., Los Angeles, Calif.

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 Discount Co., Atlanta, Ga.
Sept. 18 (letter of notification) $191,500 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.

Standard Railway Equipment Mfg. Co. (10/18)
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.

• **Technical Fund, Inc., San Francisco, Calif.**
Sept. 28 filed 680,375 shares of common stock (par $1). **Price**—To be based on market value of portfolio securities. **Underwriter**—Technical Fund Distributors. **Business**—Investment trust.

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. (10/23-28)
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. **Offering**—Expected week of Oct. 23.

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 this month.

• **Union Telephone Co., Blair, Neb.**
Sept. 25 (letter of notification) $100,000 of first mortgage 3¾% bonds. **Price**—At 103%. **Underwriter**—Wachob-Bender Corp., Omaha, Neb. **Proceeds**—For dial conversion and other corporate purposes.

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 Application to withdraw this statement was filed Sept. 28. In the interim arrangements have been made to place privately with a group of insurance companies $3,000,000 of 3% 15-year debentures.

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**—To be received up to noon (EST) on Oct. 9 by company at Room 1854, No. 2 Rector St., New York 6, N. Y. Statement effective Aug. 30.

• **Vanadium-Alloys Steel Co.**
Sept. 28 (letter of notification) 2,500 shares of capital stock (no par) to be offered to employees. **Price**—About $38.50 per share. **Proceeds**—For working capital.

Vanadium Corp. of America (10/6)
Sept. 14 filed $5,000,000 of convertible debentures, due Oct. 1, 1965. **Price**—To be supplied by amendment. **Underwriter**—Kidder, Peabody & Co., New York. **Proceeds**—For plant modernization.

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.

• **Woodland Chemical Corp., New York**
Sept. 28 (letter of notification) 240,000 shares (par 10 cents). **Price**—$1 per share. **Underwriter**—To be named by amendment. **Proceeds**—For merchandising and advertising program and working capital. **Business**—Manufacturers of toiletries. **Office**—69 West 46th Street, New York, N. Y.

Prospective Offerings

American Telephone & Telegraph Co.
Sept. 20 it was announced stockholders will vote No 15 on approving a new issue of not to exceed $435,000 000 of convertible debentures (to be offered to stocl holders) and an increase in authorized capital stock fro 35,000,000 to 45,000,000 shares, 3,000,000 shares of tl additional stock to be offered to employees of the con pany and its subsidiaries. Financing expected some tin during the first six months of 1951. **Proceeds**—For ex pansion program.

• **Carolina Power & Light Co.**
Oct. 3 it was reported that this company will be in tl market, probably in December, with an offering of $15 000,000 of new bonds. Previous debt financing place privately. Proceeds will be used for expansion progran

Chesapeake & Ohio Ry. (10/18)
Sept. 25 it was reported company is expected to se about Oct. 18 an issue of $7,950,000 equipment trus certificates. Probable bidders: Halsey, Stuart & Co. Inc Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

• **Chicago, Milw., St. Paul & Pacific RR. (10/18**
Oct. 2 it was announced company will issue $5,430,000 equipment trust certificates, series MM, to be dated No 1, 1950 and mature in semi-annual instalments of $181 000 each from May 1, 1951 to Nov. 1, 1965, inclusiv Probable bidders: Halsey, Stuart & Co. Inc.; Salomo Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harrima Ripley & Co., Inc. and Lehman Brothers (jointly). **Bid**—To be opened at noon (CST) on Oct. 18 at company office, Room 744, Union Station Building, Chicago 6, Il

Cleveland Electric Illuminating Co.
Aug. 1 it was reported that company this fall may issu and sell an issue of preferred stock, of which 495,01 shares of no par value are presently available, stock holders on April 25 having increased the authorize amount to 750,000 shares from 500,000 shares. The pro ceeds are to be used for construction program. Probabl underwriter: Dillon, Read & Co. Inc. if negotiated sal

• **Colorado Fuel & Iron Corp.**
Sept. 22 it was announced company has purchased a 175 acre tract of land adjoining its Wickwire Spencer Stee division plant at Buffalo, N. Y., for the purpose of ex pansion. Traditional underwriter: Allen & Co., New York

Consolidated Edison Co. of New York, Inc.
May 15, Ralph H. Tapscott, Chairman, said the compan will require approximately $90,000,000 of "new money through the sale of securities. No permanent financing i contemplated before this fall, however, and current ex penditures are being financed by short-term loans, o which $16,000,000 are now outstanding. It is anticipate that $257,000,000 will be needed for the construction pro gram over the next four years. Probable bidders: Hal sey, Stuart & Co. Inc.; Morgan Stanley & Co.; Firs 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.

• **Eastern Gas and Fuel Associates**
Sept. 7 SEC authorized Koppers Co., Inc., to acquire 563,347 382/1,000 shares of new common stock of Eastern Gas (21.8%), pursuant to latter's plan of recapitalization subject to the condition that Koppers sever its relationship with Eastern and its subsidiaries by disposing of all shares of the new common stock of Eastern. Sale reported not imminent. Latter's financial adviser is The First Boston Corp.

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.

Florida Power & Light Co.
June 9 stockholders approved creation of 50,000 shares of $4.50 cumulative preferred stock (par $100). These shares are soon expected to be offered to finance part of construction program which is expected to require approximately $25,000,000 new capital through 1952.

Georgia Natural Gas Co., Albany, Ga.
Aug. 2 filed new application with FPC for authority to construct a 335-mile pipeline system in Georgia and Florida to cost about $5,100,000, which would be financed through issuance of first mortgage pipe-line bonds and the sale of common stock. Previous application was withdrawn.

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 Power Co.**
Oct. 2 company requested SEC authorization to issue and sell or exchange 11,026 shares of new preferred stock to refund the 11,026 outstanding shares of $6 cumulative preferred stock (no par) at a lower dividend

te, and to issue and sell an additional 40,000 shares of ew preferred stock to provide a portion of the funds quired for its expansion program. **Underwriters**—To determined by competitive bidding. Probable bidders: lyth & Co., Inc.; Kidder, Peabody & Co. and White, eld & Co. (jointly); Salomon Bros. & Hutzler; Harri- an Ripley & Co., Inc. Expected before end of year.

Gulf States Utilities Co.
ept. 26, Roy S. Nelson, President, said company plans issue and sell 70,000 shares of a new series of pre- rred stock (par $100) at competitive bidding in No- ember, subject to approval of stockholders and FPC. robable bidders: Stone & Webster Securities Corp.; ehman Brothers and Equitable Securities Corp. (joint-); Union Securities Corp.; First Boston Corp.; Blyth & o., Inc.; Glore, Forgan & Co. and W. C. Langley & Co. ointly); Carl M. Loeb, Rhoades & Co., and Lee Hig- nson Corp. (jointly).

Hussman Refrigerator Co.
ct. 6 stockholders will vote on creating $1,600,000 of eferred stock. Proceeds will be used to redeem 14,840 tstanding shares of $2.25 cumulative preferred stock, par value, and for general corporate purposes. To be laced privately at par with Penn Mutual Life Insurance o.

Iowa Southern Utilities Co.
pril 26 company said to plan sale of first mortgage onds to finance part of its $3,200,000 construction pro- ram for 1950. Probable underwriter: The First Boston orp.

Johansen Brothers Shoe Co.
ct. 25 stockholders will vote on proposal to issue and ll $350,000 of 4% sinking fund debentures due 1960. roceeds to retire outstanding 3½% debentures and for ther corporate purposes. Traditional underwriter: Stifel, icolaus & Co.

Kansas Gas & Electric Co. (11/13-20-27)
ept. 21 the directors tentatively approved tne sale to e public of 75,000 shares of new preferred stock (par 100), of 45,000 additional shares of common stock (no ar) and $5,000,000 of first mortgage bonds. The divi- end rate on the preferred stock has not yet been de- rmined. **Underwriters**—To be determined by com- etitive bidding. Probable bidders: (1) For all three sues: Blyth & Co., Inc. and First Boston Corp. (jointly); nion Securities Corp.; Merrill Lynch, Pierce, Fenner nd Beane and Kidder, Peabody & Co. (jointly); (2) n preferred and common: Lehman Brothers; (3) on ommon stock only: Glore, Forgan & Co.; (4) on pre- rred stock only: White, Weld & Co. and Shields & Co. jointly); (5) On bonds only: Halsey, Stuart & Co. Inc. **roceeds**—To pay construction costs, amounting to about 19,500,000 through 1952. **Offering**—Expected in No- ember, the common on the 13th; preferred on the 20th nd the bonds on the 27th. Registration statement ex- ected to be filed soon.

Louisiana Power & Light Co. (11/14)
ept. 12 it was reported the company is expected to be the market for about $10,000,000 of bonds around mid- ovember. **Underwriters** — To be determined by com- etitive bidding. Probable bidders: Halsey, Stuart & Co. nc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, eabody & Co. (jointly); Kuhn, Loeb & Co. and Lehman rothers (jointly); Blyth & Co., Inc.; Harriman, Ripley Co., Inc.; Shields & Co. and White, Weld & Co. (joint-); Salomon Bros. & Hutzler; W. C. Langley & Co., The irst Boston Corp. and Glore, Forgan & Co. (jointly). **roceeds**—For construction program. **Bids**—Expected to e received up to noon ((EST) on Nov. 14. **Registration** —Expected Oct. 10.

• **Louisville Gas & Electric Co.**
ug. 29, SEC was notified that Standard Gas & Electric o. plans to sell its holdings of 137,857 shares of com- on stock (no par) of Louisville Gas & Electric Co., and se the proceeds to retire $2,250,000 of bank notes. robable bidders: Lehman Brothers and Blyth & Co., nc. (jointly); First Boston Corp.; Glore, Forgan & Co. nd W. C. Langley & Co. (jointly); Merrill Lynch, ierce; Fenner & Beane, White, Weld & Co. and Union ecurities Corp. (jointly). Expected in near future.

Michigan Consolidated Gas Co.
ug. 7 it was announced company contemplates per- anent financing will be consummated before maturity Feb. 20, 1951) of proposed $25,000,000 bank loans which ill include, during 1950, $20,000,000 of first mortgage onds and $6,000,000 of common stock, and the sale, in 951, of about $10,000,000 of preferred stock. **Under- riters**: For bonds and preferred to be determined by ompetitive bidding. Probable bidders (1) For both lasses: Halsey, Stuart & Co. Inc.; White, Weld & Co. nd Lehman Brothers (jointly); Smith, Barney & Co. nd Blyth & Co., Inc. (jointly). (2) For bonds only: alsey, Stuart & Co. Inc. **Proceeds**—To pay off short- erm bank loans and for new construction costs. The ad- itional common stock will be sold to American Natural as Co., parent. Bonds expected this month and pre- erred early in November.

Michigan-Wisconsin Pipe Line Co.
uly 25 company received SEC authority to borrow not ore than $20,000,000 from banks. A permanent financ- ng program provides for the elimination of these bank oans prior to their maturity, July 1, 1951, and such pro- ram will include the issuance and sale of $12,000,000 dditional bonds and $3,000,000 of additional common tock. Previous debt financing was placed privately.

MidSouth Gas Co.
uly 31 it was announced that this newly organized ompany may issue and sell publicly $2,800,000 of com- on stock and place privately with institutional investors 6,900,000 of 20-year 3⅝% first mortgage bonds, the roceeds to be used in connection with the acquisition f the gas distribution properties of Arkansas Power & Light Co., which was authorized by SEC on Sept. 7. Initially it is planned to sell $800,000 stock and $1,500,000 of bonds. **Underwriter for Stock**—Equitable Securities Corp., T. J. Raney & Sons and Womeldorff & Lindsay.

• **Minnesota Power & Light Co. (12/4)**
Oct. 3 company announced it plans to issue and sell early in December, 150,000 additional shares of common stock. **Underwriters**—To be determined by competitive bidding. Probable bidders: First Boston Corp. and Blyth & Co., Inc. (jointly); White, Weld & Co.; Kidder, Peabody & Co.; Lehman Brothers. **Proceeds**—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.

New England Power Co.
April 24 it was estimated that about $37,000,000 new financing will be required to pay construction costs estimated at $40,000,000 for 1950 to 1952. Present plans are to issue this Fall $10,000,000 bonds and 70,000 to 80,000 shares of preferred stock. Probable bidders: (1) For bonds—Halsey, Stuart & Co., Inc. (2) for bonds and preferred: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; (3) for preferred: W. C. Langley & Co.

• **New Hampshire Electric Co.**
Sept. 7 company applied for authority to issue 15,000 shares of $4.50 preferred stock (par $100) and 140,000 shares of common stock (no par) which are to be exchanged for presently outstanding 150,000 shares of common stock (no par) held by New England Gas & Electric Association. Latter plans to dispose of this investment prior to Sept. 1, 1951.

• **Niagara Mohawk Power Corp.**
Sept. 28 company applied to SEC for authority to issue and sell $40,000,000 of general mortgage bonds, series due Oct. 1, 1980. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; First Boston Corp. **Proceeds**—To pay off $20,000,000 of bank loans, to refund $15,689,000 of Niagara Falls Power Co. first and refunding mortgage bonds, 3½% series due 1966 (latter dependent upon approval of merger of two companies by SEC and FPC), and for construction additions and betterments. Expected in November.

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.

• **Oklahoma Gas & Electric Co.**
Sept. 28 a plan was filed with the SEC, which provides, in part, for the refunding of the outstanding $6,500,000 5¼% cumulative preferred stock (par $100) with an equal par amount of preferred stock having a lower dividend rate "as soon as the transaction becomes economically sound," and to finance part of the company's construction program by the issuance and sale of additional common stock. Stockholders will vote early in November on changing each of the 1,076,900 shares of $20 common stock now outstanding to two shares of common stock, $10 par each; and on changing the 825,000 shares of authorized but unallotted shares, $20 par, of 4% cumulative preferred stock to 165,000 shares of $100 par cumulative preferred stock. An underwriting syndicate headed by Harriman Ripley & Co., Inc. in April, 1948, offered publicly the 5¼% preferred stock issue.

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.

Public Service Electric & Gas Co.
April 17 stockholders approved the issuance of $90,000,000 new bonds for the purpose of refunding $50,000,000 3⅛% bonds due 1965; $10,000,000 3¼% bonds due 1968; $15,000,000 3% bonds due 1970 and $15,000,000 bonds due 1972. Probable bidders: Halsey Stuart & Co. Inc.; Morgan Stanley & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); First Boston Corp.

Roosevelt Mills, Inc., Manchester, Conn.
July 20 company was reported to be negotiating with a group of underwriters for a public stock offering of about $150,000 of additional capital stock at $1 or $2 per share. There are presently outstanding 1,381 shares of stock, which are closely held.

San Diego Gas & Electric Co.
July 31 it was reported that the company's original plan to issue between $8,000,000 and $10,000,000 of bonds late this year may be changed to preferred stock, depending upon market conditions. If negotiated, Blyth & Co., Inc., may handle financing. If competitive, probable bidders are: Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Salomon Bros. & Hutzler. Proceeds would go toward construction program.

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 California Edison Co.**
Sept. 27, W. C. Mullendore, President, announced that company will have to raise $50,000,000 in new capital within the next 18 months to finance its 1951 construction program. Total financing may involve $55,000,000 in new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Shields & 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.

United Gas Pipe Line Co.
July 25 filed with FPC for authority to build 1,130 miles of new lines in Texas, Louisiana and Mississippi at a cost of about $110,000,000, including new facilities. It is probable that the bulk of this new capital will be raised through the public sale of new securities.

• **United States Pipe Line Co. (Del.)**
Sept. 25, it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." Adequate financing has been arranged for, it was said. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation.

• **Wabash RR. (10/25)**
Oct. 2 was announced company is planning to issue $3,255,000 equipment trust certificates, to mature annually on June 1 from 1951 to 1965, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Harirs, Hall & Co. (Inc.); Lehman Brothers and Lee Higginson Corp. (jointly); Salomon Bros. & Hutzler. **Bids**—To be opened on Oct. 25.

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 Pacific RR.**
Sept. 5 it was announced company plans issuance and sale of $22,000,000 3% first 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).

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Proceeds—To retire $10,000,000 first mortgage 4% bonds and $6,133,000 convertible income 4½% bonds due 2014, and over $5,000,000 "new money." Expected about middle of November.

● **Wisconsin Public Service Corp.**

Sept. 27 company applied to Wisconsin P. S. Commission for authority to issue and sell $4,000,000 first mortgage 30-year bonds and $2,250,000 additional common stock. **Underwriters**—For bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Robert W. Baird & Co. (jointly); Kidder, Peabody & Co.; Union Securities Corp.; Equitable Securities Corp.; Otis & Co.; Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler; A. G. Becker & Co.; Carl M. Loeb, Rhoades & Co.; Harris, Hall & Co. (Inc.). Common stock will be sold to Standard Gas & Electric Co., the parent. **Proceeds**—To repay $3,300,000 bank loans and to finance construction program.

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 500,0 shares of common stock (par $1). **Underwriter**—Gea hart Kinnard & Otis. **Proceeds**—For working capit Expected in October.

● **Worcester County Electric Co.**

Sept. 25 a plan was filed with the SEC, the FPC and t Massachusetts Department of Public Utilities providi for the merger with this company of seven other su sidiaries of New England Electric System, followi which Worcester County proposes to issue and sell $12 000,000 of first mortgage bonds to retire bank loans the companies participating in the merger. Probab bidders: Halsey, Stuart & Co. Inc.; Lehman Brother Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabo & Co.; First Boston Corp.; Harriman Ripley & Co., In

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The Security I Like Best

many years. A 10% interest is held in the company developing the large ore deposits recently discovered in Labrador, which are expected to start producing in 1956. The company is in a strong position in regard to coal reserves.

The present capacity of Armco's ten steel plants is now 3,800,000 tons, but this will be increased 400,000 tons by the end of the year by additions to its main Middletown plant costing about $12,000,000. It is considered the lowest cost producer of stainless steels and has about 20% of the nation's capacity. Profit margins compare favorably with the industry average.

STATISTICS

	Total Assets	Net Sales	Net Working Capital	Earned Per Share	Common Dividend
	Millions of Dollars				
1949	314.7	341.4	107.2	$7.68	$2.50
1948	316.2	382.6	112.5	7.96	2.00*
1047	248.8	311.7	76.8	6.20	1.66
1946	227.1	231.9	82.6	4.47	1.04
1941	189.1	169.2	55.8	2.68	1.16
1940	157.0	112.4	49.5	1.63	.21

*Plus 20% stock dividend.

1950 EARNINGS

1st quarter	$2.98
2nd quarter	3.48
Six months	$6.46

These half-year earnings are the highest reported for any steel company with the exception of Youngstown Sheet & Tube, whose shares sell at 93. Full year earnings are estimated at $10.60 on a 45% normal tax basis. If an excess profits tax is enacted, using average postwar earnings, Armco should be able to maintain its present $3 annual dividend and report earnings which would be large in relation to its present selling price.

Labor relations have always been friendly and in the recent steel strike operations carried on at 53% of capacity.

Despite expenditures of nearly $100,000,000 on plant improvements since the end of the war, the Dec. 31, 1949 balance sheet disclosed a strong financial position:

Current assets	$155,200,000
(Cash items, $59,100,000)	
Current liabilities	48,000,000
Net working capital	$107,200,000

Earned surplus — income retained in the business—stood at $80,554,000.

Investment Status

Armco will appeal to those able to assume a prudent risk to obtain extraordinary capital gain possibilities and higher dividend income. It is the type commonly called "businessman's risk" (Fitch rating B). But for those willing to venture into such a situation, it offers ownership in a rapidly growing enterprise with aggressive management. Its investment quality has been improved by its postwar program of expansion and modernization.

Under an extended period of national rearmament it should be able to operate under as high a rate of profits as permitted by the tax laws. The earnings of the past three years testify to its ability to earn well under peacetime conditions.

Capitalization

Funded debt	$64,290,000
$4.50 cumulative convertible preferred ($100 par, convertible into 2.55 shs. of common to 1952, now selling at 108)	200.000 shs.
Common stock ($10 par)	3,909,352 shs.

As the common sells above 39¾ it will cause conversion of the preferred, which is redeemable at $103.50 through July 15, 1950; $103 afterwards.

JOHN P. MURRAY

Investment Counsel, Boston, Mass.

(Pittston Company)

At the risk of seeming offensive to many investment counselors, and security analysts, I would like to say that in my opinion anyone who has one security as a *permanent* favorite has much to learn about the management of investment funds. It is only at the present time, therefore, and at present relative prices, that Pittston Company to me appears to hold unusual merit on a speculative basis. The stock is deflated, at approximately one-half its price of two years ago; earnings are increasing and could prove substantial in relation to previous peaks for the company; it is in a position to benefit from an interest in substantial natural gas reserves which to date have proven an expense rather than an asset and, for those fearful of immediate inflation (the writer is not) it has tremendous raw material resources through its subsidiaries.

John P. Murray

Pittston is primarily a holding company, approximately 50% owned by Alleghany Corporation, and, through subsidiaries, is engaged in the mining of bituminous coal; operation of retail stores at mines; wholesaling and retailing of anthracite and bituminous coal and other fuels; general trucking —through the former U. S. Distributing Corp.—and warehousing.

Its retail coal subsidiaries own a number of retail coal yards in New York and Boston. The equipment of its subsidiary, U. S. Trucking Corp., consists of approximately 700 units of trucks, trailers, tractors, armed service and passenger cars. It also has nine garages in and around New York City, two leased in fee, six leased, and one owned on leased land; and nine leased terminals—seven in New York City and one each in Boston and Buffalo.

But, to me, the reason for favoring Pittston, and its principal attraction, is its subsidiary, Clinchfield Coal Corp. At their present relative prices the purchase of Pittston appears to be a cheap way to obtain an interest in Clinchfield Coal. This latter corporation has outstanding 750,000 shares of common stock, which sells on the New York Curb in the low 30's. Pittston owns approximately 447,000 shares, or 59.6%, of this common stock.

These holdings at present markets are worth approximately $15,000,000 which is equal to about $25 a share in terms of the 608,957 shares of Pittston common now outstanding. With Pittston now in the mid-20's, it is obvious that for little or nothing additional it is possible to buy an equity in the many other activities of Pittston. Both stocks fluctuate closely together. For example, in 1948, Clinchfield reached up to as high as 51 and at that time Pittston sold at 46½.

Clinchfield Coal operates bituminous coal mines in southwest Virginia and West Virginia and owns approximately 300,000 acres estimated to contain over one billion tons of mineable and merchantable coal in reserves.

Until recent years, this company had a very mediocre record despite its tremendous reserves. In 1944, Pittston Corp. obtained control, since which time it has undergone a marked physical rehabilitation. Over $11,500,000 was expended for additions and improvements to property, plant and equipment, for opening of new mines and modernization of existing operations. In 1945, production was only 1,940,000 tons but has since increased materially. The peak thus far reached was in 1948 when 3,156,000 tons were produced. Last year, 2,989,000 tons were produced. However, there were only 158 working days in unionized coal mines in 1949, out of a total of 298 possible working days. It is estimated that at capacity, production would be at an annual rate of 5,000,000 tons.

A tribute to the high order of managerial ability is furnished by the fact that last year Clinchfield's production declined only 5.3% from 1948, although total coal production in the U. S. declined approximately 28%, while the sales of one the better known and outstanding companies in the bituminous coal industry, Island Creek Coal, showed a decline of 14%, comparing last year with 1948.

Marked earnings improvement has been shown over the last few years. In 1945, only $1.15 a share was reported; in 1946, $1.05; but in 1947 earnings climbed to $4.60 and in 1948 were $5.51 a share. In the latter year, dividends totaled $3.30 a share.

For 1949, however, reflecting labor difficulties and lower coal prices, results were only $1.95 a share while dividends paid totaled $1.25 a share. For the first half of this year, earnings have amounted to $1.18 against $1.30 a share in the same months of last year. Results from coal operations should be much more profitable during the current half of the year and should find further reflection in dividends than the 50-cent extra recently declared.

Clinchfield also holds promise of larger earnings from natural gas. The company began drilling on its properties for natural gas in 1948. Last year, such expenditures—which incidentally are tax deductible—amounted to $210,000 or 28 cents a share. By March of this year, five wells had been completed. The 1949 annual report, dated March 25, 1950, stated: "Seven additional wells are now being drilled and a total of approximately 20 wells should be completed by the end of the current year."

The 1949 annual report further stated: "No revenue will be derived from the sale of gas until enough wells have been completed to produce a quantity of gas sufficient to permit negotiation of favorable sales contracts." The company is evidently proceeding with drillings at an accelerated pace, with the report for the first half of 1950 showing drilling expenses at $159,000 against only $81,000 for the same period of last year.

Another factor adding to the speculative attraction of this company is that one of the country's leading chemical companies recently completed a nationwide survey to determine location for a proposed new $50,000,000 plant and there is good reason to believe that location finally will be on a tract of 2,000 acres in Russell County, Virginia, on land owned by Clinchfield Coal. This could mean much to Clinchfield as an outlet for both its coal and its natural gas.

All in all, the stock of this growing coal company is quite attractive, on a speculative basis, in anticipation of improved results from coal operations, increased earnings from its recently discovered natural gas, and finally, further possibilities for expanded earnings should the chemical company actually locate on Clinchfield's land.

With C. H. Wagner Co.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, La.—Luther A. Brewer is now associated with C. H. Wagner Investment Co., 126 Carondelet Street.

With Stone & Webster

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Robert F. Tranchin has become affiliated with Stone & Webster Securities Corporation, 49 Federal Street.

Business Man's Bookshelf

Social Crisis of Our Time, Th —Wilhelm Ropke—University o Chicago Press, 5750 Ellis Avenu Chicago 37, Ill.—cloth—$3.50.

What About Communism?—Arthur M. Schlesinger, Jr.—Publi Affairs Committee, Inc., 22 Eas 38th Street, New York 16, N. Y.—paper—20c.

Two With Waddell & Reec

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—L. Jay Gardiner and Maude E. Jones ar with Waddell & Reed, Inc., Barkley Building.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

HOMESTEAD, Fla. — Mont J. Baker is with Waddell & Reed, Inc. of Kansas City, Mo.

Joins Gordon Graves

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla. — Claude F. McMaster is now associated with Gordon Graves & Co., Shoreland Arcade Building.

With F. D. Newman Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Howard Williams has become connected with Frank D. Newman & Co., Ingraham Building.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, Fla.—Paul J. Sullivan has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, 568 Central Avenue.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, Fla.—Manuel Dittenheimer is with Waddell & Reed, Inc., of Kansas City.

With Waddell Reed Staff

(Special to THE FINANCIAL CHRONICLE)

FT. WAYNE, Ind.—Wilfred H. Bryant is associated with Waddell & Reed, Inc., of Kansas City, Missouri.

Joins A. G. Becker Co.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, Ind.—Karl A. Stegemeier has become affiliated with A. G. Becker & Co. Incorporated, Circle Tower.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

RICHMOND, Ind. — Robert A. Crye has joined the staff of Waddell & Reed, Inc.

Our Reporter's Report

The current dearth of new debt fferings is tending to build up a rmer foundation for the resumpion of such financing as it develps in the weeks ahead. At the oment there is nothing in the ay of large-scale corporate debt ndertaking in the cards.

Meanwhile, this condition is not without its good side, since the bsence of new issues is providing n opportunity for the marketing f loose ends of recent issues which were slow in moving out o ultimate holders.

The improvement was touched ff a fortnight ago when Cleveand Electric Illuminating Co.'s ew issue, which had given all ndications of being a "slow-mover," suddenly "caught fire" nd was taken up quickly.

Since then the improvement has spread rapidly to the municipal market where the so-called "blue list" had been mounting steadily for weeks. But the passage of the new Revenue Act, creating a demand for tax-exempts, appears to have taken care of that situation.

In fact close market observers report that this week has witnessed a steady and substantial cutting down of the large unsold backlog that had been hanging over the market.

Demand for tax-exempts has served to take large blocks of municipals "off the Street," in the parlance of the trade, and has been reaching down through the list into the revenue classifications.

Treasury's Narrower

Although high quarters are not inclined to accept reports of a "meeting of the minds" between the Treasury and the Federal Reserve as well-founded, the fact remains that there has been a settling down in the government security market.

With Congress away until after the elections next month, little can be expected so far as the Treasury - Reserve imbroglio is concerned unless the agencies involved can find a common ground.

But since both work more or less directly under the hand of the Congress, it has been suggested that perhaps the national Legislature should step into the situation and seek to iron out the difficulties.

Corporates Cleaning Up

Corporate new issues are reported to be cleaning up, that is the remnants of recent undertakings. The situation here has been helped by the hiatus in new issues, the steadier tone in Treasurys and, in some cases, shading of original offering prices.

While it is still possible to pick up lots of a few recent offerings, by and large, the picture has been straightening itself out to the satisfaction of all concerned.

Meanwhile, potential investors with funds available find themselves more or less forced to comb the list of existing securities to fill their needs since the new issue calendar reveals nothing in the way of new material immediately in sight.

Kaiser Steel Next

The next really substantial new financing due on the market is now being put together for the Kaiser Steel Corp., and only a portion of this will reach the public offering stage.

With an overall total of $125,000 of new money being aimed at, the bulk of this or some $85,000,000 will go to institutions. Bankers are now at work on the Coast, setting up the deal.

Indications are that insurance companies will take some $60,000,000 in long mortgages, and the banks about $25,000,000 in short-term debentures, probably three to five and one-half years.

The balance would be raised through the sale of $40,000,000 of equities, consisting of units of preferred and new common stock.

Southern Co. Stock

One of the biggest stock deals in months came to market this week when Southern Co., organized to take over the southern properties formerly held by the liquidated Commonwealth & Southern Corp., sold one million shares of new common to bankers.

Five groups sought the shares, with the winning syndicate paying the company $10.9501 a share with the next bidder offering $10.842. The winning group repriced the stock at $11.25 a share for public offering, less 20 cents a share to dealers.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

LA JUNTA, COLO.—James M. McBeth is connected with Waddell & Reed, Inc., of Kansas City, Mo.

T. K. Fulcher Opens

(Special to THE FINANCIAL CHRONICLE)

WASHINGTON, D. C.—Thomas K. Fulcher is engaging in a securities business. He was formerly with R. H. Johnson & Co.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

MURRAY, Ky.—William E. Dodson is with Waddell & Reed, Inc.

E. E. Mathews Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—James N. McNamara has been added to the staff of Edward E. Mathews Co., 53 State Street.

Slayton Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Austin R. Knauss has been added to the staff of Slayton & Company, Inc., 408 Olive Street.

With First Trust Co.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—Virginia L. Glantz and Mary F. Tous have been added to the staff of the First Trust Company of Lincoln, Trust Building.

J. W. Kirkner Opens

EAST ORANGE, N. J.—John W. Kirkner is engaging in a securities business from offices at 72 North Munn Avenue.

Says Treasury Balks Inflation Controls

October issue of New York Federal Reserve Bank's "Monthly Review" contends success of recent Treasury's refunding operations was achieved at expense of Federal Reserve's major objective to curb expansion of commercial credit.

The review of the money market in September, contained in the October issue of the "Monthly Review" published by the Federal Reserve Bank of New York, ascribes the failure of the Reserve System to carry out its major function of restraining the expansion of bank credit to the Treasury's low interest rate policy as exemplified in its recent refunding operations. According to the "Monthly Review":

"Developments in the money market during the past month reflected, in addition to seasonal influences, the partial working out of the effects of the decisions taken in August by the Federal Reserve System and the Treasury in the fields of monetary policy and debt management, and the continuance of inflationary conditions in the economy. Since Aug. 18, when these decisions were announced, the System has achieved a certain measure of success in attaining its objectives. Short-term money rates rose during this period, narrowing the spread between the yields on short and long-term Treasury issues and increasing the cost of both Federal Reserve and commercial bank credit. At the same time, despite a great deal of churning about, orderly conditions were maintained in the Government security markets; there were no wide and sharp movements of prices and the Treasury's refunding offer was not endangered. Furthermore, the System's readiness to purchase Treasury securities called or maturing on Sept. 15 and Oct. 1, and to accept the new notes issued in exchange, kept the volume of Sept. 15 redemptions for cash will within the limits of the Treasury's existing balances. However, the success of these security operations was achieved at the expense of the System's other and major objective of restraint on the further use of Federal Reserve resources for the expansion of commercial bank credit. Thus, during the past month another 800 million dollars of Treasury securities were added to the quarter of a billion dollar increase in the System's holdings that occurred in the latter part of August. True, the entire expansion during September came in the final week of the month and reflected temporary money market conditions which may be expected to reverse themselves in subsequent weeks. But a portion of the increased Federal Reserve credit has been absorbed in the added reserve balances required as a result of the new credit extended by the banking system—one billion dollars of increased loans in the first three statement weeks of September for the weekly reporting member banks alone, on top of a 360 million dollar increase in the latter part of August.

"Associated with the System's operations in connection with the Treasury's refinancing was a very heavy churning of funds and securities which was related in large part to sporadic sales of called or maturing issues to the System by banks outside the largest financial centers and by nonbank investors, and in part also to lags in the reinvestment of funds. The irregular movement of funds and securities produced sharp fluctuations in the System's total holdings of Government securities and in the reserve positions of the member banks, particularly of banks in the larger cities, including New York City. These fluctuations at times interfered with the maintenance of sustained anti-inflationary pressure on the volume of bank reserves."

Rejoins Geo. K. Baum

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo.—Joseph M. Crowe has rejoined the staff of George K. Baum & Co., 1016 Baltimore Avenue. He has recently been with Goffe & Carkener, Inc.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—One of the first-rate political mysteries of the year is why the Administration has refrained from crowing from the housetops, on the TV and national radio hook-ups, and in every facet of the press, about the astoundingly brilliant character of the Inchon invasion.

In brief, this invasion is regarded by high-placed military men as one of the most brilliant operations in U. S. history. Its success has been so complete as to provide a "natural" for the Administration to crow about. If the Administration has a false modesty about taking political advantage, then that, indeed, is news. On the other hand, it is just possible that some of the fumblers in the government have not sufficient military background to comprehend the deliverance their military officers have given them.

There are several reasons why this operation was brilliant.

In the first place, it was carried out with a speed which very few would have believed possible. It may be doubted that the most informed, even in military quarters, would have seriously believed that such an invasion could be pulled and pulled successfully if they were told about it, say, as recently as the middle of July.

Any military operation normally requires weeks to plan, and more weeks to assemble the thousands of diverse stores of materials, the arranging of ship schedules, and so on. Usually, also, it requires some special training of the troops to be committed.

Yet this invasion was pulled in September, when U. S. forces had been engaged only a little over two months in Korea. Hence the whole planning of the invasion, the assembling of men and materials, and its launching must have been done in less than two months. Actually, it was planned and begun in just about three weeks, something virtually without military precedent.

The best dope is that this spectacular operation was the work of "unification of the defense forces in the field." Of course, there always was this practical unification in the field long before Mr. Truman got mule-set on "unification" of the departments in Washington, but Democratic political bigwigs would have no trouble selling the idea to the moron trade that this operation was somehow due to Mr. Truman's unification.

Another spectacular aspect of the Inchon affair was its risk. None of the reports from the beachhead indicate that the U. S. forces went there with the whole range of paraphernalia of an invasion, with the variegated assortment of materials such as were employed against dangerously hostile beachheads in the last stages of the Pacific war.

So, presumably the risk had to be taken that the beachhead was not defended beyond opposition which could be reduced for the most part by naval surface and aircraft bombardment. If this advance assessment of the risk had proved to be wrong, the invasion force might not have reached shore without sufficient damage to impair its prospect of moving forward promptly enough and taking its interior land objectives.

Another element of risk was the assessment of the forces of the enemy inland. If these had been bigger than gauged, the forces landed would have been insufficient, and there would have been a disaster.

Still another element of risk is suggested by stories from Korea, to the effect that many of the troops sent into this vital operation lacked the training they would normally be given.

Finally, the greatest risk of all was in withholding troops for this endeavor when the southern front was held so apparently precariously. It would have availed little to commit the limited troops then available for this additional operation behind the Red lines if in the meantime the Reds had been able to eliminate the southern U. S. lines and turn upon the small forces, relatively, invading from Inchon.

If the Administration ballyhooed this Inchon operation it might be able to dissolve much of the appearance of unpreparedness and gross ineptitude which struck everyone with so much pessimism in the earlier stages of the campaign. Or, the Administration might use the Inchon affair to argue that it really was not as poorly prepared as it appeared to be, but was disposing its troops available with utmost cunning.

In any case this superb operation obviously caught the Reds without their breeches. It happened so fast that the Russians probably had no time to think about how to counter it, thinking their problem all along was what to do sometime later when the Red Koreans were driven to the 38th parallel. It also happened so fast that it was a success, even though the enemy had received advance intelligence shortly before the operation and apparently could do little more than send Russian submarines to follow and report on the UN forces heading for Inchon.

While Truman and his cohorts could crow about this thing, Republicans and conservative Democrats conversely could note that but for their opposition to so heavy reliance upon the Air Force high level atom bomb defense, there would have been fewer Navy ships and fewer Marines to do the job.

* * *

One of this capital's oldest authorities on the laws of citizenship, immigration and similar matters was asked whether, in his opinion, the "anti-commie" bill was in fact a good bill or a poor bill.

In the main, he said, it is rather faulty legislation and many of the complaints made of it by Mr. Truman are well taken. "But to understand this bill," he explained, "you've got to realize that it was written by Congress with none of the cooperation Congress should have had from the Executive departments in drafting legislation.

"In a sense," said this observer, who wants to remain anonymous, "the anti-commie bill must be regarded as a reflex action from a Congress which for 18 years has been aware that the Communists within must be stopped, but who, for 18 years, have run into nothing but frustration from the Administration, varying from open scorn of the Dies Committee to covert efforts to sabotage restrictions upon commies."

* * *

When A. Lee Wiggins, chairman of the Atlantic Coast Line Railroad, and chairman of the Bank of Hartsville, S. C., spoke last week before the American Bankers Association, he discussed inflation and credit and taxes.

His views on taxes take on added significance, however, and were largely overlooked, because so few people realize that Mr. Wiggins, a former Under Secretary of the Treasury, is advising and assisting Treasury Secretary Snyder as a consultant in drafting the new tax program.

In order to list Mr. Wiggins' views, these are briefed from the speech and abridged sharply to show the main points as follows:

(1) Current large business profits are pretty much fair game for taxation.

(2) Profits attributable to the military program (i.e., "war profits") will be taxed.

(3) The war profits or "excess profits" tax must be framed carefully since many types of business, like railroads and utilities, have not shared in the profits of the last few years as fully as other activities, and returns vary from one company to another within any industry.

(4) Since 88% of the income is earned by persons in the $6,000 and less brackets and personal income tax rates already are regarded as excessive, personal income tax increases will have to hit the middle and lower income groups.

(5) Some presently tax-exempt businesses (presumably cooperatives, savings and loan associations, mutual savings banks) should be taxed not only to raise revenue but because they operate for profit in competition with tax-paying businesses.

(6) Even though higher excise tax rates on some items will diminish sales this presumably will be necessary to restrict civilian use of materials needed by the military effort.

(7) There is no justification for exemption of income from future issues of municipal securities.

(8) State and gift taxes should be reexamined and offer "some possiblities" of aditional revenues.

[See cover page for full text of Mr. Wiggins' address.—Ed.]

* * *

"Close pricing" and re-pricing on military contracts will be enforced upon all procurement officials of the new Defense Department hierarchy backs up the Munitions Board.

A directive of this character to all procurement officials was worked out by the Board just about the time of the shake-up in the Defense Department. The Board has authority to enforce such a policy, provided it has the firm backing of the Secretary of Defense.

Under this policy a greater effort will be made to utilize fixed price contracts without escalator or re-determination clauses. Where the price initially is high there will be provision where practicable for re-pricing.

This policy is designed not only to avoid the agonies of renegotiation. It is based also on the theory that to the extent that initial careful pricing of contracts can be worked out, it will avoid the inflationary expansion in costs that no recapture of "excessive profits" by renegotiation can prevent.

At the same time the directive insists that close pricing must be fair to the contractor as well as to the government.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"—And it's equipped with an adjustable line that can be bent down when the income tax inspector comes around!"

Union Securities Adds Nimmo to Staff

Union Securities Corporation, 65 Broadway, New York City, announced that Alfred L. Nimmo has become associated with the municipal bond department of the firm. Mr. Nimmo formerly was with Glore, Forgan & Co.

N. Y. Hanseatic Corp. Adds to Staff

John James Canavan has become associated with the New York Hanseatic Corporation, 120 Broadway, New York City, in their Unlisted Trading Dept.

C. G. Rives III With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

SHREVEPORT, LA.—Claude G. Rives, III has become associated with Merrill Lynch, Pierce, Fenner & Beane, 608 Edwards Street. He was formerly an officer of Wheeler & Woolfolk, Inc., in New Orleans.