2

ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 172 Number 4950 | New York, N. Y., Thursday, October 12, 1950 | Price 30 Cents a Copy

EDITORIAL

As We See It

Members of Congress have gone home to prepare for election day. Events in Korea have created a much less tense atmosphere here in the United States. Some of the heat of a few weeks ago has been dissipated. It would be a good thing if the people were to insist that the world situation as well as the state of affairs here at home be fully, frankly and constructively studied and analyzed during the campaign. Whatever may be the outcome of the Korean struggle—if that is what it is now—there are many weighty issues upon which the Administration and Congress will have to pass during the coming winter, and they should have a definite word from the rank and file of the people of the land to guide them.

Among the tasks that await any responsible government and which must not be neglected is the matter of a most careful review and appraisal of our position in the world of today. That appraisal should include all the many facets of our position, not merely confine its attention to things economic. However, all in all, our willingness, our capacity and our obligation to render economic assistance to the remainder of the world is one of the most vital and one of the most pressing of them all. It would be folly of the worst kind to assume or to permit the remainder of the world to suppose that we can and that we will more or less indefinitely provide it with those things without which it has been doing during the past few years, and indeed (if some ideas are accepted) those things which it has always had to do without, but which, presum-

Continued on page 26

Business Prospects In Tense Situation

By ROY L. REIERSON*

Vice-President, Bankers Trust Co., New York City

In reviewing business outlook as affected by international situation, New York banker foresees slight letdown in business activity in next few months, with no let-up in high level of business or of commodity prices. Looks for heavier military spending to provide underpinning of business, and, together with foreign aid, to take more than 15% of national output. Points out inflationary danger inherent in defense efforts has been intensified by government economic policies and fiscal mismanagement. Upholds consumer and real estate credit controls, but contends quantitative controls of business credit cannot keep inflationary situation in hand.

International developments have remained an important factor in the economic outlook since the end of the war five years ago. In the past three months they have flared up to become the really decisive force in our economy. To appraise even in a general way the prospects for business and for the appropriate fiscal and credit policies, it is necessary to make certain assumptions regarding the international situation.

Roy L. Reierson

Some Basic Assumptions

I shall venture no prediction as to when or whether we shall be confronted with the dreaded all-out Third World War. Should it come, we can be sure that even at best it will last a long time, will be much more costly than World War II, and will involve government regimentation far beyond anything experienced in the last war.

As a basis for this discussion, I believe we may reasonably make a more moderate as-

*An address by Mr. Reierson before the Federal Reserve Forum at the Federal Reserve Bank, Minneapolis, Minn., Oct. 5, 1950.

Continued on page 24

Is Bull Market Optimism Based on Sound Premises?

By ANTHONY GAUBIS

Investment Counselor

Mr. Gaubis foresees possible severe curtailment of demand for civilian goods because of increased tax take, reduction of public spending, and satisfaction of most pent-up demands. Foresees possibility of 40-50% earnings decline in 1951. Cites as long-term bearish influences on securities: (1) High corporate and individual taxes; (2) increased government intervention, and (3) current overstatement of earnings. Says average stock prices will decline 25-50% prior to or after November elections.

Warning signals of a possible and probable major decline in stock prices have been growing in number and intensity during the past few months. As is usually the case when the market has enjoyed a sharp advance, optimism and complacency seem to be the mood of the day, with prevailing opinion again becoming as confident of a further substantial rise in stock prices over the 6 to 12 months immediately ahead as it was in the spring of 1937, during the fourth quarter of 1939, and in May and June of 1946.

Anthony Gaubis

In each of the above periods, the general expectancy of substantially higher stock prices was based primarily on developments which seemed to assure well-sustained business activity for a long time to come, and on monetary developments which were foreshadowing a long-term decline in the purchasing power of the dollar. The outlook for business was considered excellent in the spring of 1937, largely because of the accumulated demands for capital goods resulting from the depression of the preceding six years; in late 1939 and early 1940 our armament program, plus the prospect of greatly expanded exports,

Continued on page 14

NSTA CONVENTION ISSUE READY NEXT WEEK—In addition to the usual issue, the CHRONICLE will publish next week an 80-page special supplement devoted to the Annual Convention of the National Security Traders 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

WARREN A. CASEY

Security Analyst, Hecker & Co., Pittsburgh, Pa.

(Jones & Laughlin Steel Corp.)

A while back one of our more successful investment trust operators suggested that in a selection of securities a balance sheet approach be used. He remarked that if an individual were buying a private business he would certainly start to find out what it was worth by looking at the balance sheet figures. "To my mind," he stated, "that is the soundest approach to every kind of business and to every kind of stock."

Warren A. Casey

When we look at Jones & Laughlin Steel Corp. common stock, we find a book value approximating $100 a share at the present time, as compared with a market value of little more than one-third of that figure. In fact, since the end of 1945, Jones & Laughlin has expended $147,062,284 on plant improvements, the equivalent of better than $56 a share of stock.

The rather remarkable thing about Jones & Laughlin's plant improvement program is the fact that despite this expenditure of $147 million, working capital actually showed an increase of $7,151,978 to $96,422,995 at the 1949 year-end from the figure four years earlier; while senior capital, including preferred stock, rose only $15.8 million. As yet, the investing public seems to be unaware that Jones & Laughlin is the most improved steel producer in the country. No doubt, much of the credit for this stems from the inspiring leadership of Admiral Ben Morcell, who became President in 1947.

During the decade 1940-49, J & L earned a total of $63.18 a share, an average of $6.32 a year. For 1950 earnings are estimated at about $13 a share. During the June quarter, J & L showed what it is now capable of earning under favorable operating conditions, and produced earnings of $4.09 a share, or better than an annual rate of $16. The company intends to continue through 1952 its program having the twin objectives of reducing costs and increasing the output of high profit margin items. Fifteen years ago hot rolled and cold rolled sheet and strip used in the automotive, household appliance and similar "consumer goods" industries accounted for only 1% of total shipments, whereas today these account for 40%. This has tended to keep business steadier during changes in business conditions.

Present steel making capacity of about 4,825,000 tons annually will be increased substantially when the expansion program now under way at the Pittsburgh South Side works is completed early in 1952. The net increase in capacity will be in the neighborhood of 450,000 tons.

Dividend payments will probably remain conservative for the next year or two, although another 5% stock dividend similar to the 1949 payment may be forthcoming this year-end in addition to the regular cash payment at the rate of $2.60 annually.

J & L is practically self-sufficient with respect to raw materials, with iron ore reserves estimated to last 15 to 20 years. It also owns substantial high volatile coking coal properties at the Vesta Mines in Washington County, Pa., only 45 miles from Pittsburgh. Last December the company announced the discovery of uranium in the upper peninsula of Michigan.

J & L should roll along at capacity for sometime ahead under either a war or peace economy. It should be well situated from an excess profits tax standpoint, having a good exemption base whether an average earnings or invested capital method of computation be used. The stock is selling in the lowest ratio to current earnings of all the major steel stocks. Moreover, while most steel stocks have been exceeding their postwar highs of late, Jones & Laughlin is still selling some 13 points under its 1946 high of 51⅛.

HARRY W. FORSDICK

Manager, Investment Research Department, Laidlaw & Co., Members New York Stock Exch.

(General Electric Common)

Selecting "the security I like best" implies to me that practically all desirable investment characteristics should be rolled into one issue. From my viewpoint, this means the issue should obtain some benefits from inflationary price trends and yet not be vulnerable to deflationary forces that certainly are lurking somewhere ahead. Also, operations should be pliable enough to convert a sufficient proportion of products to war-type goods to continue payment of dividends close to present levels. That is a big objective, but I have no qualms about suggesting General Electronic common to fill this lofty niche.

Harry W. Forsdick

Well known are the facts that General Electric is the largest U. S. manufacturer of electrical equipment, producing almost one-fourth of the industry output, and its common stock is one of the highest quality equities with no funded debt ahead of it and with an unbroken dividend record from 1899. These features have helped the common stock to become one of the most widely held equities by institutional type investors but have not been sufficiently helpful for the stock in recent years to sell much above 50, which is only one-half of the 1929 high of 100. In contrast, General Motors common at 54 is selling above its 1929 high of 46 after adjusting for split-ups.

Why should GE common act better in the future? The heart of the company is, of course, new equipment purchases by the utility industry. The decline in the installation of new generating equipment in the 1930s leveled out General Electric's growth in that period but the trend turned moderately upward in the '40s until the postwar year of 1946 when an unprecedented expansion started in an effort to catch up with demands deferred during the war years. Record-breaking installation of electrical generating equipment is expected to continue and, in fact, by 1953 total power productive capacity is scheduled to be two-thirds higher than it was in 1945 and a very high level of expenditures for this purpose is expected until at least 1956 by some utility executives. In brief, GE has resumed its growth.

Growth of sales, which are large now, should not make the company as a whole vulnerable to anti-trust convictions (unlike General Motors, which probably cannot strive aggressively for a larger proportion of industry output in fields it dominates; that is automobiles and diesel-electric locomotives). Outside of the incandescent lamp divisions, which is being sued by the U. S. Department of Justice for restrictions in patent license agreements, GE apparently does not produce a large enough proportion of any major product to be vulnerable to monopoly convictions of "bigness." In fact, the best way to fix General Electric in your mind is to consider it as a family of 15 businesses, each of which has sales in excess of $50,000,000 annually, and which manufactures more than 200,000 products ranging from those used by the largest capital goods manufacturer to the smallest customer.

As mentioned above, the all-around single security should have some protection against both inflationary and deflationary trends. In this respect, General Electric's qualities stem from its balance of operations, believed to be divided almost 50-50 between capital goods lines (including, for example, heavy electric generators) and consumer articles such as incandescent lamps. Before World War II approximately 60% of the company's sales were in the wider fluctuating capital goods division but emphasis upon consumer products has improved the company's ability to resist general downward sales trends encountered in deflationary periods.

As for ability to convert to war-type products and to maintain relatively steady dividends, GE during World War II was an important manufacturer of ship propulsion machinery, electrical apparatus for war ships, electronic equipment including radar and radio, gun controls, etc. Despite heavy taxes, dividends in war years were continued at the 1941 rate of $1.40 through 1944 and were increased to $1.55 in 1945. If the Korean war broadens, the company would be well situated again to produce wartime equipment and if an excess profits tax were enacted with provisions similar to those recently discussed, earnings still should cover the present dividend by a fair margin.

Reflected only to a very minor degree in the balance sheet but perhaps its greatest asset is GE's research activties, which are not

Continued on page 32

Outlook for Foreign Trade

By GEORGE E. QUISENBERRY*
Vice-President, McGraw-Hill Publishing Co.

After reviewing world-wide economic improvement over last year, Mr. Quisenberry contends time has arrived for removal of foreign trade and exchange restrictions. Says maintenance of our level of exports is essential to nation's economy, and refers to increasing imports to U. S. as requiring an offsetting export position. Estimates defense program will reduce U. S. exports around 10%.

As we look around the world—that is, the Free World—we are confronted by a picture of financial and economic well-being and strength. The reversal has been astounding, in the short space of a year. A year ago, many countries were in the financial doldrums. Trade was lagging. Ships were being put back in storage. Inventories were falling off to nothing. Suddenly, there came a wave of currency devaluations that shook the Free World to its very foundations.

Historically, that was exactly one year ago. I am not one of those who believe that currency devaluation was of itself responsible for the change that has been so dramatic. Other and more important forces were at work but, obviously, currency devaluations did remove an important pressure against business restoration.

Actually, the force that turned the Free World around, business and economic, was the restoration of American confidence. We simply decided not to have a depression. We suddenly woke up to the fact that 150 million Americans were not going broke; that these 150 million Americans, with the greatest and most diverse wants the world had ever known, were back in business, whole-heartedly, demanding the things they needed from all parts of the world.

Uncle Sam's economy sooner or later reflects itself throughout the Free World. Our downswings quickly dry up trade abroad. Our upswings, inexorably, reflect themselves in due course everywhere else—most quickly in Latin America, closest area, after Canada, to ourselves in economic ties. But other areas, Europe, Africa, Asia, Oceania, are as certainly affected.

In detailing these things, please do not believe it is done pridefully or boastfully. The sober, inescapable fact is that the most important economic factor in the world today—for good or evil—is the United States.

Other things were happening, of course. The natural forces of recovery throughout Europe were underway, five years after the war's end. It is a fortunate fact that the great bulk of all peoples are builders. They are not destructive, except as they fall under the leadership of power-mad dictators. Give people a half chance and they go doggedly back to work, trying to improve their lot, making life easier and fuller. Recovery has a dynamic character and force, which gathers momentum as it rolls.

Europe was in this stage—that is, Western and Free Europe. ECA came along and is doing its remarkably fine pump priming job. Now that Paul Hoffman is about to retire from the ECA that he has built so well and which has been so helpful in making Europe strong again, I want to propose that you regard Mr. Hoffman as a great American, one of the truly great Americans of this day.

Past Year's Economic Advances

I believe all of you are aware of the tremendous financial and economic changes wrought in the past year. A few facts may be recounted.

(1) A high source estimates that this year the world will draw $2 billion in gold out of United States gold reserves.

(2) We are witnessing a flight of dollars to Canada, with a strong belief that the Canadian dollar will soon be put back to parity. In any event, Canada appears at the peak of all-time prosperity.

(3) Mexico no longer talks about devaluing the peso; the talk rather is of strengthening its value, and Mexico, too, is in the pink.

(4) Cuba, assured large and continued high prices for sugar, joins the coffee and wool countries of Latin America whose economies this year are being improved by hundreds of millions of added dollars.

(5) Brazil's six months trade with the United States was favorable to Brazil, on Brazil's own figures, by the sum of $123 million. This six months' accretion is practically equivalent to all the unpaid dollar commercial debts that a few months ago were a pall on the entire Brazilian economy.

(7) Uruguay, selling huge quantities of wool to the United States, is on the receiving end of a great flight of capital from Europe, estimated in the hundreds of millions.

(8) Argentina, like Brazil, has made a great increase in dollar income this year, quadruple her commercial income of last year. On Argentina's own figures, her sales to Uncle Sam were $103 million in the first six months, principally in wool, hides and tinned meats. Argentina has dollars again.

(9) The British Commonwealth and Empire. It is too early for trade figures, covering exports and imports between this country and all areas of the Empire. But it is obvious that Uncle Sam is now paying out far more dollars to these areas than the purchases of these areas from us. ECA funds are additional. Britain, as you know, had added nearly a billion dollars to her gold and dollar reserves in the nine months ending

Continued on page 28

*An address by Mr. Quisenberry before the Export Managers Club of New York, New York City, Sept. 26, 1950.

INDEX

Regular Features

*Not available this week.

Published Twice Weekly

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

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

Thursday, October 12, 1950

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

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

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

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $45.00 per year; in Dominion of Canada, $48.00 per year. Other Countries, $52.00 per year.

Other Publications

Bank and Quotation Record — Monthly, $30.00 per year. (Foreign postage extra.)

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

Investment Position of Mutual Funds

By DUDLEY F. CATES*

Kidder, Peabody & Co., Members, New York Stock Exchange

Defining investment companies, or mutual funds, as device through which investors pool their money to obtain supervision and diversification, Mr. Cates distinguishes between different types of these organizations. Traces development of investment trusts in U. S. and abroad, and explains rise of "fixed trusts" in U. S. following World War I. Discusses SEC regulation of investment companies along with their organization, management, and mechanics of share selling. Stresses importance of mutual funds management.

Many people are convinced that the investment companies are a development toward which a great deal of the future effort of Wall Street, and these securities business in general, will be directed. I will try to prove that statement in the course of this discussion.

Dudley F. Cates

First of all, to most of you who have been confused by the various terms, "investment companies," "investment trusts," "open-end investment trusts," "closed-end investment trusts," "fixed trusts," and so forth, I will attempt to explain them starting with the Investment Company because it is probably the grandfather of them all.

An investment company is a financial institution through which investors pool their money to obtain supervision and diversification of their investments. Now, the purposes of association for investment are many, and there are companies for nearly all investment purposes.

The other well-known term is "investment trust." This is simply a further definition of an investment company set-up as a trust, as opposed to a corporation.

There have been many investment trusts, but most of the so-called "trusts" are actually companies or corporations. Most of the closed-end "trusts" of the twenties were actually corporations not trusts, but they got the word "trust" from the predecessor development in England.

Two Principal Types

Now, there are two principal types of investments trusts today. One is the "closed-end" investment trust; the other, the "open-end" investment trust, or Mutual Fund.

The closed-end investment Trust is one which attracts at one time a block of capital from a number of people. The Trust issues common shares and preferred stock or debentures against the capital as evidence of ownership or obligation, and the capital is put to work and managed by the directors of the investment company or the trustees of the investment trust.

From that time on the stockholders of the closed-end investment trust simply gain their reward from the endeavors of the management. Shares have a book value, but they are not redeemable. They are bought and sold in the market place. They are traded for what they will bring; sometimes for more than the book value; often for far less. The common shares sometimes sell at extreme discounts from their book value because of prior claims of debentures and preferred stock. That is the case today with many closed-end trusts.

The fact of previous claims on the assets of the company usually adds up to extreme volatility for the closed-end company shares, and it is found that they are often traded between speculators who buy and sell them in anticipation of upward market moves. The important point is that there is no further obligation to the shareholders as far as giving them what the shares are worth.

I am reminded of a story that appeared in the "Reader's Digest" a few months ago about some Shanghai traders. One got hold of a large case of Portuguese sardines ("packed in oil," it said on the outside), quite a find because after the Japanese occupation there was very little imported foodstuffs left in the city.

This case of sardines arrived, probably smuggled, and went to one merchant who they sold it to another, who marked it up and sold it to a third merchant, who sold it to a fourth, and so on. This case of sardines went all over Shanghai being sold and traded. Finally one new fellow, having bought the case, immediately went down to his basement and pried one of the cans open, only to find there was nothing but sawdust in it.

He was a very upset Chinaman, and immediately went after his friend who had sold it to him. He said, "What do you mean by selling me something like this? There is nothing but sawdust in it."

The older, wiser trader said, "Look, you should know more about this business than to open 'trading' merchandise. Remember, it's for profit purposes, not for eating purposes."

Perhaps that is too graphic an illustration, but the closed-end trusts are traded not for what they are intrinsically worth; but for what they will bring.

Now there is the "open-end" investment trust generally known as a Mutual Fund. This term is applied to the "open-end" companies principally because the size of the fund is variable. It expands and contracts. If the amount of sales of shares is greater than the redemptions, the size will expand. If the amount of redemptions is greater than the sales, which happens occasionally, you will have a contracting fund.

The "open-end" investment company is, again, just as the name implies. It is open at both ends. New shares are issued and old shares are redeemed constantly.

The investor goes to the Mutual Fund with his money, and immediately becomes a participant in the assets and the potential profits and dividends of that fund. At any time he may go to the Mutual Fund and withdraw his participation at whatever the dollar value may be at that time.

Now, of course, you have no guarantee of a specific number of dollars being returned from a Mutual Fund. You have only a guarantee that your proportion of the total fund will be returned to you at whatever the dollar value is at the time of withdrawal. That may be at the top of the market, or it may be at the bottom of the market. The point is that a Mutual Fund, under the law, guarantees redemption of shares at the proportionate value which each shareholder's interest bears to the total.

Now, the principle of pooling resources for the purpose of hiring investment talent is not new. It was practiced as long as 150 years ago by people in other countries who in many cases are more mature in their financial thinking than we.

Investment Companies Not New

I am going to read a quick summary of the early history of investment trusts, by Mr. Ferdinand Paternote: "As far as is known, the first investment trust formed in Europe was the Societe Generale de Belgique founded in Brussels in August, 1822. A similar Swiss company was founded in 1849 and a French one in 1852.

"The London Financial Association and the International Finance Society, both formed in 1863, were apparently the earliest British investment trusts.

"Most of the development of the investment trusts of Great Britain occurred after 1879. In this period of formative stage there were comparatively few restrictions placed over the powers of the trust managers. This resulted in speculative excesses and severe losses which followed the panic of 1893." [This could be compared with our panic of 1929 when we too had investment trusts with absolutely no supervision over their policies. The natural speculative craze of that time caught them up and people bid to dizzy heights. When the end came it was tragic. Many of them were out of business, and the closed-end trusts followed the open end too.]

"As a consequence of this, much more conservatism was displayed by the managements with the turn of the century with the adoption of a policy of sounder diversification for investment purposes. Speaking of diversification, it should be noted that the investments of these British trusts generally include securities of foreign companies, giving their portfolios an international scope. For instance, for a long period of time British trusts were heavy holders of American railroad securities and it was not uncommon to find British directors on the boards of these roads. This is in contrast with the policy of our own investment companies which pretty well confine their investments to the North American continent.

"Noteworthy also is the fact that British investment trusts have in the past played a prominent part in underwriting of new issues of securities. The securities, that is debentures, preferred and common stocks of the trusts are widely held. To sum up, these trusts have filled an important role in Great Britain's national financial life, both as vehicles for individual investors and as a source of capital for industrial expansion. They have enjoyed a long period of stability and growth."

Mr. Paternote, didn't bring out the fact that much of the development of America took place as the result of pools of capital brought together by the British and Scottish trusts in the sixties, seventies, eighties, and nineties. This capital was in turn invested in American railroad enterprises, steamboats, tractions, canals, and all kinds of enterprises where there appeared to be some promise of growth. For years, much of the wealth that came back to England and supported that fabulous Victorian middle class was derived from the productive enterprises of America, as well as other countries.

It would never have returned if the English middle class had attempted to invest directly in a continent 3,000 or 4,000 miles away where they had almost no way of managing their individual investments. Sir Robert Fleming and his descendants, developed the vehicle of the investment company, attracting the capital of thousands of well-to-do businessmen and of small people, brought it to America, and managed it competently for the benefit of all concerned.

That was one of the cornerstones of our prosperity, and enabled us to build the railroads and highways and canals of our country where we had a severe shortage of capital.

"Closed-End" Trusts

Now, I am going to deal with the history of closed-end trusts very quickly. The closed-end trusts of this country were started on the pattern of their British forebears. The idea caught on just before the speculative craze of the late '20s, and was subject to many of the excesses that hurt the rest of the securities market.

By 1930 hundreds of them had collapsed. Scores found it necessary to combine with other investment trusts, or to simply fold up and distribute their few remaining assets. Millions of investors in the United States got a pretty sour taste in their mouths from the investment trusts created in that period. I might add that almost all were created by and for the benefit of brokers. It stands to reason that when something is created for the benefit of one group and sold indiscriminately to another group, the latter will suffer. That is exactly what happened.

While the closed-end trusts were mushrooming all over the country, a small group of professional Boston trustees decided in 1924 that there were quite a number of people with moderate amounts of money who couldn't afford to hire these trustees individually to handle their investments, and yet who needed the conservative cautious management which these trustees could give them.

They conceived the idea of a fund into which these smaller people could contribute, and from which they could withdraw, as they needed money. This fund was to be administered and supervised by the trustees in much the same way as they supervised the holdings of many wealthy Boston families. So the Massachusetts Investment Trust was born in a very small way, with, I think, $300,000 or $400,000 of capital and maybe a few score shareholders.

In the twenties the idea of such a conservative, cautious method didn't appeal to many people, and brokers couldn't sell the idea, so growth was slow, and was confined to brokers and dealers who were not completely caught up in the speculative craze. Also, it was helped by lawyers and others in Boston who recommended these particular trustees as being competent managers of funds.

So the Massachusetts Investors Trust, the State Street Investors Trust, and Incorporated Investors were the first three "open-end" trusts in Boston, started in 1924 and 1925. Their growth was small. The more speculative element had nothing to do with them. Many

Continued on page 22

*A lecture given on Aug. 16, 1950, the 17th in a series on Securities Analysis sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

The State of Trade and Industry

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

Total industrial production continued last week to pursue its upward course, resulting in aggregate output being sustained at a level markedly above that of the comparable period of 1949.

In the electric power industry kilowatt power production set another all-time high record and steel output which has been under great pressure from many sources for additional tonnage last week topped its all-time high weekly record for the industry by 9,700 tons of steel ingots and castings, or a total of 1,951,900 tons. The all-time high record set last week, which bettered the peak production of the preceding period, will be surpassed the current week.

Formal priority plans are shaping up, but the steelmakers do not anticipate a heavy additional volume of rated tonnage for rolling before year-end, states "Steel" magazine, this week. Priorities, however, will intensify the stringency in supply. Allowing for reasonable lead time, rated orders for military and atomic energy agencies will not likely come in for scheduling much before December. Civilian emergency requirements, involving particularly freight cars, may run considerably heavier and cut deeply into supplies of important products for civilian consumption, necessitating considerable rescheduling of shipments.

This trade publication also notes that finished steel product prices are moving upward. At least 13 producers, including several larger interests, last week effected advances on one or more products. Steady expansion in the list of those makers revising schedules is expected from here on, though industry-wide, across-the-board changes are not thought likely until the pending wage question is nearer settlement. Conspicuously absent from the current list of those raising prices are units of the U. S. Steel Corp., the paper notes.

Under pressure of steadily rising costs the steelmakers are finding it necessary to make selective forward adjustments in schedules.

A slight decline took place in automotive output last week. The principal factors in the drop were the dearth of car output by Studebaker for the entire week and the shutdown of the General Motors' Kansas City assembly plant for inventory purposes.

On Monday of this week 35 companies, including the United States Steel Corp. and the Bethlehem Steel Co., agreed to open negotiations with the officials of the United Steelworkers (CIO). It has been reported that Phillip Murray, President of the Union, has stated that the steelworkers will attempt to win a "healthy" wage increase. According to other sources this increase would run well over 15 cents an hour.

Two weeks ago the union requested basic steel producers to advance the date of wage negotiations from Nov. 1 to Oct. 9. This means that practically all major companies have now agreed to meet with the union on the earlier date.

It was indicated this week that wage and price controls are being held in reserve for the distant future notwithstanding the fact that the machinery to implement them is close to completion. President Truman over the past week-end announced the appointment of Dr. Alan Valentine, Rochester, N. Y., educator and businessman, as administrator of the new Economic Stabilization Agency.

New curbs on housing credit were imposed by the government to become effective on Thursday of this week. Non-veterans will be required to make cash down payments ranging from 10% on houses costing under $5,000 to 50% on dwellings priced from $24,500 up. Down payments for veterans will run from 5% to 45%. The controls apply only to one and two family houses and not to apartment projects or store or factory construction, for which other regulations are being prepared. These regulations would apply only to homes completed or started after Aug. 3, 1950.

The new restrictions are aimed at cutting the pace of home-building from the present record rate of 1,300,000 yearly to "not more than 800,000" in 1951.

Fitting in with the government's defense program, William H. Harrison, head of the National Production Authority, has recently disclosed that direct allocations of several critical materials by government order will get under way within 60 to 90 days.

Continued on page 29

Effect of Consumer Credit on Business

By ERNST A. DAUER*

Director of Consumer Credit Studies, Household Finance Corporation, Chicago, Ill.

Economist stresses importance of instalment sales of durable consumer goods as giving assurance of sustained mass markets, and contends it is changes in level of such credit rather than outstanding amount which influences business fluctuations. Maintains, in absence of effective coordination of all implements of control, regulation of consumer instalment credit is ineffective as anti-inflation device, unless such regulation is very stringent.

I hope it is as clear to everyone present at this conference, as it became to me, that it is impossible, in the time available, to treat adequately the effect of consumer credit on business fluctuations.

Dr. Ernst A. Dauer

As a first step toward reducing its scope, I am limiting myself to one category of consumer credit, namely: instalment credit used for the purchase of durable goods. To simplify the reference, I am calling this "instalment sale credit" at some points. I am using this term in the manner in which it is commonly understood by the public. I wish to call your attention to the fact that this is a much broader sense than that in which it is used in the Federal Reserve statistics, where it is limited to credit originated by retailers. In a number of cases, when it is necessary to refer to figures, I will refer to the amount of total instalment credit, since there are no readily available figures on the amount of instalment credit used in the purchase of durable goods.

Two categories of consumer credit thus excluded from treatment are: charge accounts and instalment credit for purposes other than the purchase of durable goods. Charge accounts covering the purchase of goods and of services are normally paid within a short period of time after the bills covering them are rendered, and usually involve little or no anticipation of future earnings. The chief variations in the outstanding amounts of such accounts reflect seasonal changes in the volume of sales. From the point of view of our inquiry this morning, such fluctuations are relatively unimportant.

Instalment credit for purposes other than for the purchase of durable goods usually represents credit originated to meet emergencies such as those caused by illness, or sudden or temporary loss of income. The need to consolidate debt may also result from overbuying, failure to plan ahead or careless budgeting. Such credit fluctuates relatively little in amount, and has a much greater social, than an economic, significance.

The remaining category, consumer instalment credit used to purchase durable goods, has grown to a point where it accounts for more than one-half of all consumer credit and more than four-fifths of instalment credit. The volume of new credit granted and the volume of outstandings, fluctuate seasonally with changes in the sale of durable goods. But the seasonal fluctuations are far outshadowed by the cyclical fluctuations. During periods of increasing economic activity volume expands greatly; when business activity, employment, and confidence decline, volume declines greatly.

We are here, because as businessmen active in the consumer credit field, and as citizens interested in the welfare of the country, we wish to examine the significance of those cyclical fluctuations; their importance to the stability of business and employment; and the appropriateness of controlling consumer credit terms as a means of increasing the stability of production, employment and trade.

Growth in Instalment "Sale" Credit

Before proceeding to these questions, it is desirable to review briefly the effects of the growth in instalment sale credit. That growth, essentially all of it within the last 35 years, has brought the outstanding volume to its present total of $10 billion, with new credits granted representing the financing of almost one-half of all durable goods sales. The most rapid growth in the use of instalment sale credit seems to have occurred during the decade of the 20s, but the growth in degree of use, at a reduced rate, may still be continuing.

That impressive growth could not have occurred without the development of the specialized financing agencies offering instalment credit services, and their acceptance by creditors and investors, and acceptance by the general public of the use of the instalment credit device. Simultaneously, the demand for instalment sale credit arose from two factors: on the one hand, the mass production of durable consumer goods; on the other hand, the rise of real incomes above subsistence levels for the mass of wage earners, enabling them to purchase such goods.

That growth in the use of instalment sale credit has had a profound influence upon our economy. Consumer instalment sale credit alone has made possible the widespread acquisition by average families, of the continuing services of major durable goods. That is the unique characteristic of the North American standard of living.

The abundance of goods and services in the U. S. and Canada has resulted from that unparalleled economic progress which can truly be called "The Miracle of North America." That abundance was made possible by large scale production and required the use of machinery of increasing size, cost, and efficiency. But large scale production would not have been feasible or profitable without the **assurance of sustained mass markets.** The average family must use instalment credit in order to purchase **all major durable goods.** Its use has transformed the character of our standard of living.

In transforming the character of our standard of living, instalment sales credit has shifted demand from some non-durable goods and services to certain durable goods. In recent years, we have had a vivid illustration compressed in a short time period of the effect of that sort of shift in demand upon the fortunes of particular companies, industries and products. During the war when durable goods were not available consumer expenditures for luxury goods, for soft goods, for services, were high in spite of the large additions to liquid savings. As soon as durable goods again became available, the luxury goods lines, the restaurant business, the liquor business, the soft goods business—all immediately felt the effects as consumers resumed their prewar spending habits.

It is also correct to say that instalment sale credit has brought about an increase in real income for two reasons: (1) through the shift in demand to the durable articles which increase the efficiency and productivity of their users; (2) through the reduction in prices which mass demand and mass production have made possible. For example, the automobile people tell us that large scale production has reduced prices far more than the carrying charges involved in the use of credit by the consumer.

Significance of Cyclical Fluctuations in Instalment Sale Credit

Let us turn now to the effect of cyclical fluctuations in instalment sale credit. At the outset it is desirable to point out that the downward fluctuations in **credit** have **not** been the result of limitations upon the available supply of consumer credit. Supply of credit has certainly not been a limiting factor during most of the last 20 and, to lesser extent, the

Continued on page 21

*An address by Dr. Dauer before the Consumer Credit Conference sponsored by the University of Illinois and Ten National Consumer Credit Trade Associations, Chicago, Ill., Oct. 6, 1950.

Equity Investments and Savings Banks, 1927-1949

By GEORGE P. MONTGOMERY*
Vice-President, Seaman's Bank for Savings

After reviewing savings banks' concern over inflation, Mr. Montgomery asserts it is up to guardians of public's saving to fight to preserve purchasing power of dollar, and this can only be done by savings banks becoming partners in American enterprise rather than creditors. Reveals list of selected corporation and bank stocks that might be acquired, and concludes, if due care is taken, time of purchase of equity investments is of secondary importance.

Shortly after I started work in Wall Street as a runner, the leading financier of that era, Mr. Morgan, gave me a bit of advice: "Never run after a pretty girl or a trolley car. There'll be another one along in a minute." Forty-five years in the Street has taught me that this advice applies even more urgently to the investing of capital. Never rush to buy because you are told it's good, or cheap, or going up. Investigate first.

G. P. Montgomery

It very soon became apparent to me that the successful investors parked their emotions at about 14th Street every morning on their way downtown. It was decidedly chilling to a boy to observe the changed expressions which these tycoons assumed at about that point on the Third Avenue El, but in time I came to realize that to invest successfully it is essential that one weigh the evidence carefully, past performance and especially future prospects, divorcing oneself as far as possible from those enemies of judgment, hope and fear.

Ever since the philosophy of "Spend and Have" came into vogue the subject of monetary inflation has occupied a large part of my "below 14th Street" thinking. There have been quite a number of occasions in the past 15 years when the trend toward an ever depreciating dollar could have been reversed but now I am firmly of the opinion that no political machine can stay the avalanche. It can only be halted, and I am convinced will be halted, by the determination of the people. A recent cartoon in the New York "Herald Tribune" showed two men standing at a bar, representing respectively, Prices and Wages. Wages is saying, "I'll have to have another to catch up with you," and Prices says, "That puts you ahead of me." An old lady at the end of the bar is asking the barkeeper, "When will the bar close?"

We hear a great deal these days of the legal obligation of savings banks to pay back dollars, the value of which they are not concerned with. This attitude of passing the buck and hiding behind a legality, distresses me greatly and will be of no comfort whatever to our depositors. They put in dollars, each of which would buy, let us say, a bushel of wheat. Should we give back dollars which will buy only a handful of wheat?

The inflation which is taking place in this country at the present time is closely paralleling that in France after the First World War. Both governments used the medium of deficit financing to artificially stimulate the economy. In France, popular clamor put a stop to it in 1928 at which time the franc was stabilized at about 20% of its prewar value.

In central Europe, as you know, it ran its course to the bitter end. In 1914 the Central Savings Bank of Vienna was 97% in mortgages, securities, and loans to public corporations. Due to the post-war inflation in 1922 it was 87% in cash, check deposits, and overdraft credits with only 1% in mortgages. Interest bearing obligations had been paid off in worthless currency.

Ruled by Politicians, Not Statesmen

Inflation once started continues because it is politically expedient, and we are ruled today by politicians, not statesmen. These politicians are very wise in their own trade. They know that the majority of voters feel happier when they buy a $4,000 car (on time) than when they paid only $2,000 for just as good a car. They know that the Chinese coolie feels as rich as Croesus when he pulls out a million dollar bill to buy a bowl of rice. They also know that when the tax take, at present existing rates) is, let us say, $100 billion, the interest on the debt will be insignificant by comparison. They are only concerned with the next election.

I note, however, a rising tide of opposition among the people of this country to the present inflationary trend. The tide is just beginning to set strongly away from such catchwords as "We owe it only to ourselves," and the demand for a return to reason is beginning to sound through the land. It was done before, shortly after the Civil War, and today a much greater proportion of the people are "in the money" and do not like to see it being depreciated, nor do they like to be getting such a small return on their savings. For years we have been seeing the rent for money going down while the rent for houses going up.

It is up to us guardians of savings to fight for a chance to preserve the purchasing power of our trusts, and this can only be done, and at that only in part, through becoming partners in American enterprise rather than creditors.

Equity Investments

The Trust Investment Study Committee of the New York State Bankers Association has made a very thorough and exhaustive study of equity investments. I shall not attempt to give you any of the data or exhibits. The report itself is available at the office of the Trust Division of the New York State Bankers Association at 33 Liberty Street, New York City. A few of the conclusions reached are, I feel, in order:

"First, there is the unmistakable evidence in this state and elsewhere of a strong trend away from restriction of trust investments.

"Next, there is the evidence, from our sampling of the experience of a number of restricted and unrestricted trusts, of a definite income advantage for the unrestricted trusts. This income advantage must be weighed against the wider range of fluctuation in principal value in the unrestricted group, but as there are fluctuations in value for both restricted and unrestricted trusts, we question whether the difference in stability exhibited by the restricted group is sufficient to justify surrender of the income advantage in the unrestricted group. To us it seems that a trustee should have an opportunity to adapt an investment program to the requirements of his beneficiaries."

The Trust Investment Study Committee goes on to divorce savings banks from trust funds for the following reason: "The one requisite which must always be supreme is that there be preserved certainty that every dollar deposited in a savings bank be recoverable in full and in ordinary conditions at the pleasure of the depositor."

Savings banks, however, have been continuously growing institutions for nearly 150 years with a remarkably steady rate of growth, and as far as I have been able to discover, the largest concerted run on a New York Savings Bank amounted to only 17%. If there is any likelihood of extremely heavy withdrawals at one time we are foolish to permit 65% in mortgages and the balance in long-term bonds.

Trust funds do terminate and must either be liquidated or transferred to beneficiaries. This can seldom be done at the pleasure or convenience of the trustee. No consistency there!

Selected Companies

I should like to say a few words about a study of equity investments which was prepared for our committee. The following companies were selected:

Chrysler
General Motors
Du Pont
Union Carbide
Pacific G. & E.
Am. Tel & Tel
Standard Oil of New Jersey
Gulf Oil
International Nickel
Kennecott
Sears, Roebuck
General Foods
International Business Machine
U. S. Steel

The industries were chosen for diversification and the companies because they were leaders in their fields. The period covered, 1927-1949, includes the highest and lowest in recent years, both in earnings and prices.

It is assumed that approximately $10,000 was invested in each of these 14 companies in each year. The price assumed was the mean of each year's range. The total invested in the 23-year period would have been $3,200,000. The market value as at Dec. 31, 1949, $6,200,000, and the average rate of return 7.36%.

Now let us assume a bank of $28,000,000 assets in 1927 with an average annual growth rate of .5%. $140,000 (½ of 1% of this bank's assets as of 1927) invested each year would have grown to 2.35% of the bank's assets in 1932 and to a maximum of 3.95% in

Continued on page 30

*An address by Mr. Montgomery, at the Convention of the Savings Banks Association of the State of New York, Lake Placid, N. Y., Oct. 5, 1950.

Humanizing Annual Reports

By H. GRAHAM SMITH*
President, Stockholders Relations, Inc.

Mr. Smith gives his ideas and precepts in the preparation and dissemination of corporation annual reports. Points out basic purpose of annual report is to tell a story which will be read by stockholders, employees, and the public and investment banking circles, as well as governing regulating agencies. Advocates placing responsibility for preparation of report on one official, and gives recommendations as to report's contents and means of its circulation.

During the past couple of weeks, I have examined the annual reports of a number of telephone companies. It was gratifying to find many of them human and modern; in fact, some of them rank with the best reports of the industrial world — for instance, the 1948 annual report of Pennsylvania Telephone Corporation that was adjudged best in communications field and was awarded the "Oscar" by the "Financial World" in the nationwide annual report competition it has conducted for a number of years.

H. Graham Smith

However, I realize that it would be economically unsound for many of you to prepare more than a modestly designed report. For this reason, I have mentally divided this audience into two classes, comprising:

(1) The company that has only a handful of stockholders, many of whom the management personally knows, located in a small community, and whose reading public may react unfavorably or critically if the company issued an elaborate report.

(2) The larger company having a sufficient number of stockholders and located in the type of community in which satisfactory results could be obtained by properly "merchandising its reports."

I want to make sure that you understand my appreciation of your individual situations and that I realize each of you will be translating the applicability of the suggestions I have to make to your own personal needs. On the other hand, what I have to say may be applied, to a varying degree, to all of the companies represented in this gathering.

Overall Approach

In your approach to the annual report, you might bear in mind its basic purpose, which is to tell a story. Annual reports are somewhat similar to the report card little Willy periodically brings home from school, which tells how he is getting along in reading, writing and arithmetic. The annual report is nothing more or less than a report card showing how the stockholders' dollars have been doing during the past year. If you keep this main fact in mind, it should be helpful in building outward from the financial statement.

Proper appreciation of the different groups of people who will read your annual report is important for you to consider. Try to look at the report in their eyes so as to visualize or anticipate some of the impact or effect it will have upon them. For that matter, take the annual report of another company and place yourself in the position of one of its stockholders. This will enable you to criticize it constructively, with resultant benefit to yourself. Broadly speaking, your annual report will be read or of interest to the following five "publics":

(1) Your stockholders
(2) Your community
(3) Your employees
(4) Investment banking circles
(5) The FCC and your state public utility commission

Due to the differences in values of the foregoing factors, it is not intended to have them appear on this list in the order of their importance. To one corporation, the stockholder may be the greatest factor, while to another, it may be the community.

All of these factors are important and should be taken into consideration at the time of preparing the annual report. They will help you direct particular attention to whatever pressing problem you may have at the time. For example, the management of a corporation may be under fire by a group of stockholders for various reasons. The Board of Directors is in danger of being replaced by members of a recalcitrant group, who in turn if placed in power or control may make changes in management that may be unwise, resulting in a detriment to all of the stockholders. Usually, those conditions arise simply as the result of a misunderstanding that could be dissipated in nearly all cases if it were possible for the management to sit across the desk from the stockholder so they could have an equal opportunity of exchanging views. The most practical means of acquainting your stockholders with the many problems that are now facing management is to do so by means of an informative annual report. That is the place to tell your story in such manner that you will dispel principal misunderstandings and win the support and confidence of your stockholders. You cannot expect small merchants, workers, farmers or even the more financially-sophisticated investors to understand your problems unless you make an effort to place those problems before them in language they can understand.

Your annual report is also the place in which you may extend your hand in good fellowship to your community, the support of which is exceedingly important if you are to prosper. Perhaps you are having or anticipate labor unrest, or are faced with the necessity of raising new money in the near future. A well-prepared annual report will be of assistance in dissipating problems such as these.

Laying the Groundwork

Depending upon your individual personnel facilities, which I understand vary to a great extent, some one individual should be charged with the responsibility of the annual report. If it is a departmental head, this will mean his ability to sub-divide the duties among members of his department. Some of the telephone companies employ outside counsel or an advertising agency to assist them in the preparation of their reports. The employment of this talent does not minimize the good that will result from charging one of your officers or employees with the responsibility I have suggested, because outside counsel cannot be as close to the events

Continued on page 27

*An address by Mr. Smith before the United States Independent Telephone Association, Chicago, Ill., Oct. 9, 1950.

From Washington Ahead of the News

By CARLISLE BARGERON

CLEVELAND—President Truman has occasionally complained that he has a hard time getting capable men to come into the Washington government because of the unfair criticism and downright abuse to which they are subjected by the press. Well, being the very high minded man he is and so concerned about these things, he should give some pause to the dirt in which a man of the refinement and intellect of Bob Taft must wallow to keep his place in public life. Truman is a party to that.

Carlisle Bargeron

I can remember back in the days when the professional drys held sway over our land and it came to the point where decent, respectable men were loath to seek public office. We are, indeed, suffering today from the low level of men who rode to political success on the hypocritical wave of this crowd.

Before the direct primary amendment to the Constitution, our U. S. Senators were elected by the State legislatures, and while it was argued that the legislatures were dominated by rough and tumble political bosses, they seem to have given the country more Senatorial stalwarts, men of high calibre, than it has ever had since. Anyway in those days a man of Taft's refinement and intellect did not have to go through what he has to go through now. Certainly his experience in his campaign for reelection should deter any man of decent sensibilities, any man who does not have the elephant hide of an Al Capone, from striving to "serve the public."

I have heard it for many years and I hear it now, that Taft is an intellectual snob. In fact, the CIO considers that one of its most effective pieces of literature against him is a comic strip which portrays him as having always lived in the lap of luxury. I have serious doubts of its effectiveness, but that is beside the point. To my mind, the fact that Taft is in this campaign, working harder than any CIO laborer, working harder, in fact, than anything the old time industrialist ever imposed on the 12-hour-a-day workingman, taking abuse that I wouldn't take; at the age of 60 when a man of his attainments and financial security figures he is entitled to a little relaxation—to see this man fighting it out shoulder to shoulder against some of the most evil and some of the roughest, even gangster forces of our country, is definite refutation of any snobbery characterizations.

Here is his schedule for just one day: After shaking hands and conferring until 2 a.m. the night before, he is up at 7, reading his mail, talking on the telephone. At 9:15 he holds a press conference. Immediately that is over, he goes over for a television interview at which the interviewers ply him with every question under the sun, many of them silly, some serious. From there he goes to a meeting of women to make a speech. He has another speech at noon before a luncheon club. There follows another television interview and another speech to an afternoon gathering. In between he is consulting with his political lieutenants who are pulling and pushing him this way. At night there is a "major speech" before a bigger gathering. Before this meeting he is visited by the teenagers of a high school journalism class who ply him with questions, make copious notes and then go back and write essays on their interview with Senator Taft. At the conclusion of the night speech, there are other visits which his political advisers tell him he must make, then more conferences with them and to bed at 2 a.m. again. This goes on from day to day. In the past six months, Taft, by running out to Ohio on week-ends and other opportunities from his Senatorial duties which take a good 12 hours a day from him, has been into every county in the State. He is doubling back over those counties now. He will drive up to a small town, often driving his own unpretentious car, and his lieutenants having been advised of the approximate time of his arrival, will have herded a small group together around the courthouse square. He will move among them, shaking hands, then make a talk and invite questions. It is interesting the wide range these questions take, yet I have never heard him evade as so many politicians whom I know do. He seems to go out of his way to be fair.

For example, asked a friendly question as to whether he doesn't think Truman should do this or that, he will say no, he is in agreement with the President on this particular thing, thinks the President has done as well as any man could.

At lunch today, a fairly prominent man, formerly in Congress, told me:

"Of course, I am going to vote for Bob. But he is impossible. The other day, after a meeting I went up to him and said 'Hello Bob.' He said 'Hello John.' Now, my name is Jim. As I said, I'm going to vote for him, but I doubt my wife will."

In the next breath he told me that if the crowd that is trying to knock off Taft succeeds in doing it, there will be little or no more opposition in Congress to the Fair Deal or whatever you want to call it, because the fear of God will be thrown into those who are prepared to do anything to keep their political jobs.

It is a commentary on something. Taft, his mind crowded as it is, is not a glad-hander. To get back to my original theme of why a man of his background could possibly take what he has to take to remain in the Senate, I don't think it is a case of his being so imbued with the spirit of saving the country that he is willing to be a casualty on the battlefields. He likes the feeling of influence which a son of William Howard Taft has attained, in spite of his wealth and position. And insofar as I can see, he thoroughly enjoys fighting it out with the crowd that is after him. Such a man is not a snob, whether he can remember first names or not. Next week, I hope to be able to tell how this campaign shapes up.

O. B. Lighthill Is With Gross, Rogers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—Olaf B. Lighthill has become associated with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

Joins Fabian Staff

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Cal.—Vitaly Tresun is now with Fabian & Co., 9500 Santa Monica Blvd.

Security Exchange—A Government Rather Than Corporate Enterprise

By FRANCIS ADAMS TRUSLOW*
President of the New York Curb Exchange

In reviewing development of the New York Curb Exchange, together with its problems of housekeeping, administration and planning, Mr. Truslow points out, as presently constituted, this organization, besides being a public market, is, within its jurisdiction, a government. Advocates change in system of brokerage compensation which would be at higher rates and by giving discounts to dealers provide place for thousands now in securities business to use facilities of the exchange.

This talk will treat the Curb as a vivisectionist treats a guinea pig. This may be an undignified simile to apply to one of the nation's most important financial institutions, but I am aiming at objectivity, not dignity. The guinea pig suits my aims because it has become the very symbol of objective experiment.


Francis A. Truslow

To a scientist the guinea pig, or *cavia cutleri*, is a rodent domesticated by Indians in the mountains of ancient Peru to provide them with a prolific source of meat; but is now used by laboratories all over the world to speed up their transactions. Any biologist could open up a guinea pig and show you just how its internal organization enables it to do what it does.

For the purpose of this speech the Curb, or New York Curb Exchange, is a market developed by post-Civil War brokers and dealers on the streetsides of old New York to provide a place to buy and sell stocks and bonds; but is now housed in a very complicated building on Trinity Place to which orders are sped electrically from all over the world. Unfortunately, it is not so easy to open up the Curb and show you how its organization balances the requirements of the many human beings whose interests are involved. But that is what I shall try to do.

The guinea pig was bred to do one job and, because of a peculiar capacity necessary to that work, was diverted to its modern use. In an analogous manner the Curb was bred originally as a place where the men who congregated on Nassau Street in the nineteenth century could do their own security trading. Because others needed such a market as the years went by, it was adapted from its initial private use to the wider uses of the public.

This shift in basic use did not occur overnight or even in any particular decade. In fact its full significance is not yet recognized and the shift is still in process. We can only judge it like the slow movements of a glacier by looking back at where it was on dates widely spaced in time.

If we had walked in among the crowd gathered on a downtown curb in 1870, we would have found a wholly individualistic group of men bent on buying what they wanted and selling what they wished to sell. We would have visited a market place of dealers as unorganized as any impromptu street market in a country town. But we would have noted that even in that simple stage prices were being arrived at openly and with many-sided competition.

If, after a 40 year rest, we joined the crowd on Broad Street in 1908, we would have noticed the first signs of several changes. More and more individuals were acting for people who weren't there to act for themselves. Within the street market as a whole a group was beginning to come together as an Association. They had submitted themselves to the first formalities of organization. They had a name, "The New York Curb Agency." They had adopted rules to protect themselves and those they had come to represent from those in the crowd who did not wish to be bound by rules. The usefulness of the market place to others, not directly participating in it, was becoming more obvious.

Another visit in 1911 would have shown the shift moving more rapidly. The associated group within the market was more closely tied together by the first real declaration of written purposes and rules of conduct. A new name was in use "The New York Curb Market Association." Administrative work to further the common objectives was being carried out by part-time officers and employees.

Skipping another decade we could have watched a momentous turn in affairs. This change was not so much signalized by the raising of a common fund and the erection on Trinity Place of a common building to house the market as it was by the choice that was made among the individuals who had been meeting on the street. Essentially each then made his choice between the alternatives of submitting to the authority of a mutual association, or going his own way. Some decided to stay outside and others decided to go "inside" both literally and figuratively.

Curb Becomes a Public Market

By that choice, made 30 years ago, a Rubicon was crossed and the Curb was firmly committed to the process of becoming a public market. No doubt many who went "inside," and many who stayed out, thought of their decision as no more than a business choice made by themselves alone and unrelated to any deeper pressures. That is the way development and change come about in a free society. It was a business choice but the "business" that attracted men to go "inside" with the Curb arose from the usefulness to others of the market facilities which had been started as a private affair. It was a business choice intended to protect that growing public usefulness from those who would not accept rules.

With the acquisition of common property, and the adoption of more explicit rules, came the problems of housekeeping, administration of the common code of conduct and planning for the institution which then took on a life of its own. These were not business problems in the limited sense of decisions to do or not to do depending on the expectation of profit or loss. They were in their essence, and within a limited jurisdiction, problems of government. Ultimately, they could not be answered by the question, "Will the consequence of this action be a profit or a loss?" Too many different human beings were subject to the jurisdiction of this new government which they had formed. An action profitable to some might prove unprofitable to others. Decisions of such an organism cannot be measured by the standards of profit or loss.

Every embryonic government faces tests like the scarlet fevers, measles and mumps of childhood. As and how they survive those tests will determine what they become.

Very early in our Federal history we faced a second war with England to confirm our intention to be independent. Such a war in 1812 meant financial ruin to some of our people, but failure to wage and win held the greater danger of subservience for all. Government, acting for all to the detriment of some, decided on war. The outcome was important; but, at that early stage in the life of our Federal Government, the decision was more important than what resulted.

Only a few years after it was founded, the new born government of the Curb faced a critical test. A group of men, whose representation ran into all corners of the financial community of the early twenties, devised a fraudulent financial scheme which came to be called "bucketing of orders." It would be hard to recreate the conditions in those times so as to see in full measure the nature of this test. The development of our law, the spread of economic knowledge, the recognition of responsibility and the establishment of statistical and organizational controls have been so great in

Continued on page 20

*An address by Mr. Truslow at the Luncheon Meeting of the 33rd Annual Convention of the National Association of Securities Administrators, Detroit, Mich., Oct. 9, 1950.

Dealer-Broker Investment Recommendations and Literature

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

Business Trends—Weekly letter with information on wartime controls, Washington policies, business trends — The Kiplinger Washington Letter, special 13-week subscription for $4.50—Kiplinger Letters, Room 32, 1729 H Street, N. W., Washington 7, D. C.

Domestic Airlines — Analysis — H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Investment Policy in a War-Time Economy—Discussion in October issue of "Investors' Almanac"—Estabrook & Co., 15 State Street, Boston 9, Mass., and 40 Wall Street, New York 5, N. Y.

Natural Gas—Supplemental information on 18 companies—Scherck, Richter Co., Landreth Bldg., St. Louis 2, Mo.

New York City Bank Stocks—Comparison on an analysis of 19 New York City Bank Stocks as of Sept. 30, 1950—Laird, Bissell & Meeds, 120 Broadway, 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.

Preliminary New York Bank Earnings—Nine months of 1950—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Survey—Discussion of market—Abraham & Co., 120 Broadway, New York 5, N. Y.

Undervalued Oil Shares—Study—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Utilities — List of 33 leading utilities, showing how each would fare under heavier taxation—H. A. Riecke & Co., Inc., 1528 Walnut Street, Philadelphia 2, Pa.

* * *

American Chain & Cable Co., Inc.—Analysis—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

C. I. T. Financial Corp.—Brief memorandum — Carl M. Loeb, Rhoades & Co., 61 Broadway, New York 6, N. Y.

Also available is a memorandum on **M. Lowenstein Co.**

Cinecolor Corp.—Memorandum—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Di-Noc Co.—Analysis—Genesee Valley Securities Co., Inc., Powers Bldg., Rochester 14, N. Y.

General Precision Equipment Corp.—Study—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Keyes Fibre Co. — Analysis—Boenning & Co., 1606 Walnut Street, Philadelphia 3, Pa.

International Cellucotton Products Co. — Memorandum — Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill.

Minneapolis - Moline Co. — Analysis—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

National Homes Corp.—Analysis—Kiser, Cohn & Shumaker, Inc., Circle Tower, Indianapolis 4, Ind.

New England Public Service—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available is a memorandum on **Koppers Co.**

Pennsylvania Railroad—Memorandum—Sills, Fairman & Harris, 209 South La Salle Street, Chicago 4, Ill.

Riley Stoker—Circular—Morris Cohon & Co., 42 Broadway, New York 4, N. Y.

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

Shatterproof Glass Corp.—Analysis—Peter Barken, 32 Broadway, New York 4, N. Y.

Southern Union Gas Co.—Memorandum — Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Tazewell County, Va. — Financial statement as of June 30, 1950—Available from W. L. Painter, Treasurer, Tazewell County, Tazewell, Va.

Thermal Research & Engineering Corp.—Analysis—Coffin, Betz & Co., 123 South Broad Street, Philadelphia 9, Pa.

Tobin Packing Co.—Circular—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Tracerlab, Inc.—Analysis—May & Gannon, Inc., 161 Devonshire Street, Boston 10, Mass.

Transamerica Corp.—Analysis—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

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

Benjamin Brooks With Henry B. Warner Co.

PHILADELPHIA, Pa. — Benjamin A. Brooks, Jr., has become associated with the trading department of Henry B. Warner & Co., Inc., 123 South Broad Street, members of the Philadelphia-Baltimore Stock Exchange. Mr. Brooks was formerly in the trading department of E. W. & R. C. Miller & Co.


Benj. A. Brooks, Jr.

Arch C. Graham Joins Edward D. Jones & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Arch C. Graham has become associated with Edward D. Jones & Co., 300 North Fourth Street, members of the New York and Midwest Stock Exchanges.

With Cantor, Fitzgerald

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—Martin A. Fellhauer has been added to the staff of Cantor, Fitzgerald & Co., Inc., Russ Bldg.

Dealer's Responsibility in Recommending Securities

By CLARENCE A. BICKEL*

Vice-President, Robert W. Baird & Co., Inc., Milwaukee
Governor, National Association of Securities Dealers

Asserting suitability of securities to customer's needs is matter of opinion, Mr. Bickel explains complexities of selecting securities for customers and rules and regulations of NASD relating thereto. Cites cases in point and contends a dealer "must do more than refrain from acts of fraud." Upholds work of NASD Business Conduct Committee, but admits dealer's mistakes in judgment must be distinguished from mistakes of motive. Points out improvements can be made in present procedures and requirements of NASD.

In trying to measure the degree of responsibility a dealer has in recommending suitable securities it might be well to determine the law, rule or regulation which imposes this responsibility. I would like therefore, to review briefly the general nature of some of the present securities laws. The Securities Act of 1933, as you know, is primarily a registration and disclosure law. There are no provisions pertaining to the conduct of dealers except Section 11 relating to false registration statements and Section 17 prohibiting any device, scheme or artifice to defraud, the use of false or misleading statements, the omission of material facts or the engaging in any course of business which operates as a fraud or deceit upon the purchaser of a security. I do not believe the responsibility to recommend suitable securities as I shall try to discuss the subject is covered by the provisions of these sections because I can hardly assume that the recommendation of an unsuitable security in itself is tantamount to fraud or deceit. At least it is not specifically referred to in the Act.

Clarence A. Bickel

I have not checked the exact language of all of the State Securities Laws but I am somewhat familiar with the laws of states in which my firm is qualified or registered, namely, Wisconsin, Illinois, Michigan, Minnesota and New York. New York has a fraud statute. The rest are registration statutes which describe the qualifications necessary for exemption or for various types of registration, and supervise the licensing of dealers and their agents. Most of them directly or indirectly classify securities by quality. These laws also have general provisions against fraud but in none of them could I find language which specifically covers the question of Suitability. Again I I do not believe these fraud provisions include suitable recommendations. It is not so defined.

I might add at this point that perhaps it can be argued that these laws are adopted in the public interest and that since unsuitable recommendations are not considered in the public interest the question of suitability is automatically covered. Whether this is or is not the case is unimportant in the ideas I shall express.

In 1934 the Securities Exchange Act became a Federal Law. Section 2, which outlines the purpose of this regulation, states that transactions in securities are affected with a national public interest, which makes it necessary to provide for regulation and control of such transactions by officers, directors and principal securities holders, to require appropriate reports, and to impose requirements necessary to make such regulation and control reasonably complete and effective. The Act includes many provisions for the regulation of the Stock Exchanges and transactions by securities dealers, both in listed securities and in the over-the-counter markets, but no specific reference is made to the question of Suitability. The Act prohibits fraudulent, deceptive or manipulative acts or practices or the making of any fictitious quotation. As originally adopted, Section 15 of the Act gave the Securities & Exchange Commission power over markets other than the National Securities Exchanges. This section was amended in June, 1938, by adoption of the Maloney Act. The title to this Act reads "To provide for the establishment of a mechanism of regulation among over-the-counter brokers and dealers operating in interstate and foreign commerce through the mails, to prevent acts and practices inconsistent with just and equitable principles of trade, and for other purposes." Please note the words "just and equitable principles of trade." The National Association of Securities Dealers was organized in accordance with this Act and its rules of fair practice became effective July 15, 1939. Paragraphs 1 and 2 of Article III of the Rules of Fair Practice read:

"(1) A member in the conduct of his business shall observe high standards of commercial honor and just and equitable principles of trade.

"(2) In recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs."

This language is clear. It is the first time to my knowledge that an attempt was made to regulate and supervise the activities of an industry at such a high standard through a power derived from a Federal or State Statute. An attempt was made to do this voluntarily by the industry in 1934 when the Investment Brokers Association adopted as part of its code:

"Article 3, Section 4—**Investment Recommendations.** Where an investment banker recommends to an investor the purchase or exchange of any security, to have reasonable grounds for believing the security to be acquired by the investor is a suitable investment for such an investor upon the basis of the facts, if any, disclosed by such investor as to its other security holdings and as to his investment situation and needs."

The code was purely voluntary and as far as I could determine no cases were processed under this rule. I understand this provision in the IBA code was the basis for the rule adopted by the NASD.

Therefore, even though the responsibility may not be imposed by any other legal requirement, the obligation of the 2,700 or more securities dealers who are members of NASD to recommend securities to customers that are suitable is one which they have voluntarily assumed by their approval of the Rules of Fair Practice of the Association. They have done so for their mutual benefit to instill confidence of the investing public in the securities industry. If this is to be accomplished the small minority who violate or disregard rules must be held responsible for their acts.

NASD Business Conduct Committee

The NASD, through its Business Conduct Committees, has had placed squarely upon it an obligation to determine whether a member is recommending suitable securities to its customers. This, I believe, is as it should be. Suitability is, and will always be, a matter of opinion and judgment. It can never be reduced to specific language or an exact science. The rules of the Association were written in 1939. What changes have taken place since that time?

(1) We are all aware of the tremendous industrial development and expansion. We need only to look at the plastic and chemical fields—the development of diesel power on a large scale for railroads — television — nylon and other synthetic materials — improvement in domestic appliances —and many others. Entirely new industries have been born. How soon and to what extent will atomic energy change our industrial life?

(2) The break-up of public utility holding companies has made available to the public huge amounts of public utility operating company common stocks.

(3) The extensive offerings of additional common stock through rights to stockholders principally by utility operating companies has been a new development.

(4) The impact of government deficit financing of World War II after 1939 added to the increase in Federal debt incurred during the depression thirties with the necessary resulting control of the cost of money which in turn has resulted in the lowest interest rates in history has had a tremendous effect on the question of Suitability. At the time the rule was written in 1939 investors could buy high grade bonds or preferred stocks with a reasonable rate of return. Today high grade bonds and even high grade preferred stocks are held primarily by institutions because the yields are not attractive enough for many individuals and also because the underwriting discounts or commissions are not large enough to pay the expenses of a dealer to distribute these securities to individuals. Many investors originally bought mortgage bonds. They gradually switched to preferred stocks which in turn were refunded to the point that they were forced to buy common stocks. In my own community Wisconsin Electric Power Company in 1934 had 5% mortgage bonds outstanding and 6% preferred stocks. In 1938 the mortgage bonds were 3½% and the preferred 4¾%. In 1950 the coupon on bonds are 2⅝% selling at par and the rate on its outstanding preferred stock is 3.60% selling currently at 93-94.

(5) The growth of pension and other funds has created a greater demand for suitable securities.

(6) The change in tax rates has had an important effect on security prices which in turn is related to Suitability. A comparison of individual rates for 1937 and 1950 is startling. In 1937 the personal exemptions for a married couple was $2,500, the normal tax 4% and the surtax beginning at 4% on income over $4,000 increased to 17% on the $22,000 to $26,000 bracket, a total of 21% at this level. The present exemption is $1,200 for a married couple, the surtax begins at 20% on the first $2,000 and the combined normal and surtax in the $22,000 to $26,000 bracket will reach about 50% under the proposed new revenue bill.

(7) Inflation of prices since 1938 is a very important factor, principally because of the increased pressure upon investors, particularly those with fixed incomes who try to maintain their living standards at a time when prices are going up, taxes are going up and yields are going down. Using some rough figures as an example an investment of $100,000 in 1937 at 4¾% would produce $4,750. After taxes of 21% (assuming a $22,000 to $26,000 income bracket) spendable income would be about $3,750. Each dollar would be worth 97.4¢ in terms of 1935-1939 prices or a total of $3,655.

Today the comparable rate on $100,000 would be about 3¾% or $3,750. After taxes of 48% (the approximate rate in the same bracket today) the investor would have $1,800 — 1950 dollars worth during 1949 about 59c in terms of 1935-1939 prices or a total of $1,065. Think of it. The investor's spendable income dropped about 70%—from $3,655 to $1,065. These investors must either sacrifice their living standards or the quality of their investments.

I would like to apply this illustration to an actual case from my firm. Mr. and Mrs. R. came to our office on the recommendation of one of our customers. Mr. R. is about 48 years old but as a result of an accident has been incapacitated for life. The couple has $45,000. They live in a trailer.

They told us that the $45,000 was invested in Postal Savings, U. S. Government Bonds, and building and loan stocks, but that the income was not sufficient to cover their living costs, even though they were most frugal. The couple was being forced to take approximately $1,000 a year out of their principal in order to live.

On our suggestion, they liquidated approximately $30,000 of their present investments, keeping approximately $15,000 in U. S. Government bonds. They purchased about $3,000 each in three of the best mutual funds. In addition they purchased one insurance stock, five public utility common stocks, one oil stock and one industrial stock, all of them stocks we consider high quality. The increased income on this approximately $30,000 of investment is slightly more than sufficient to offset the $1,000 a year which they have had to withdraw from their principal.

(8) Our country has gone through five years of one of the greatest and most expensive wars in all history. The resulting inflation has already made it necessary to liberalize laws regarding investments by trustees and institutions. If an attempt had been made in 1939 to state specifically what securities were suitable for certain investors, how practical

Cotninued on page 30

*An address by Mr. Bickel at the Annual Convention of the National Association of Securities Administrators, Detroit, Mich., Oct. 9, 1950.

"Pardon Me, Your Dollars Are Slipping"

By LESLIE GOULD*

Financial Editor, New York "Journal-American"

Financial writer, in calling attention to inflationary trend and its effects in reducing purchasing power of savings, holds it is moral obligation of savings institutions to use efforts to prevent this injustice to thrifty. Favors limited investment in stocks by savings banks, and suggests they have individual combination accounts for savings and investment. Advocates savings banks enter small loan field.

The label on this talk of mine may sound a little facetious — "Pardon Me, Your Dollars Are Slipping"—but what is happening to the dollar —to the public's savings— is no joke.

Leslie Gould

But before getting down to the serious business there is a current Truman story that some of you may not have heard.

It seems Harry Truman was making one of those non-political tours out west, and stopped off for a visit to one of the larger Navajo communities.

There was a big turn out of the braves, and the President was escorted to the platform and introduced as the Great White Father to shouts of "Ungah."

Mr. Truman launched into the usual pattern of telling the Redmen they were the original Americans, and there were more shouts of "Ungah." He said his Administration was really going to do something for the Navajos. Washington would build fine concrete roads where there were now muddy wagon trails. More shouts of "Ungah." Instead of the mud hogans there would be concrete homes with inside plumbing. More shouts of "Ungah."

And so it went with the whole speech. Plenty of shouted "Ungahs." After the President finished, the Chief stepped up and said, "Great White Father, we of the Navajo nation wish to make you a present to show our esteem. We want you to come down to the corral and take your pick of the Navajo ponies."

So the party walked over to the corral, and as the Navajo Chief opened the gate, he took hold of Mr. Truman's arm and said:

"Great White Father, be careful and don't step in the Ungah."

Now, on the leading page of your association's supplement to a certain New York newspaper—unfortunately not mine, the "Journal-American"—there is a small box. It quotes a gentleman to whom I have referred, as follows:

"We should save as much as we can out of current income. It will help hold prices down. It will help every family provide for the future. And it will also help provide investment funds needed to expand production."

In the light of what is happening today to the dollar, I am afraid the Navajos had the word for this.

Nowhere in this statement is there a word about maintaining the purchasing power of the dollar. Nor will you find it in the words of any other of the top brass in the National Administration—nor in the words of those running the city governments and most of the state governments.

Until very, very recently you didn't hear much about this either from those entrusted with the savings of the public—the leaders of the savings banks and the life insurance companies.

A Moral Obligation

There had been—and I am using the past tense—a mistaken theory that these great institutions are concerned with dollars and not in what those dollars will buy at some future time. Technically and legally that is still so. But there is the very real moral obligation to see that the thrifty of this country are not only paid back in the same number of dollars they entrusted, but also in dollars with much the same purchasing power.

Today, I am glad to note, more and more attention is being paid to the moral obligation—the preservation of the dollar's purchasing power.

I realize that in the physical sense there is a limit to what you can do. Savings banks are not investment trusts. They are depositories for cash, and must be ready to pay out on demand the money entrusted to them.

Preceding speakers have gone into that, and the recommendations of Mr. Middlebrook's group may be as far as you can go in diversification of your investments at this time.

Good common stocks do offer a hedge against inflation, and they also bring a higher return on the investment. But they also are risks. Loans, too, can be risks—as was found out in the early 1930s—but not as poor risks as the state banking and insurance departments of that period seemed to view it.

Probably one of the best arguments against socialism and government control of bank and insurance investments was the judgment of these political appointees in the 1930s on New York real estate and railroad securities. Where they could, these agents of government forced sale of real estate and railroad bonds at or around the bottom of the market.

In fact, their policies on liquidation further depressed market values.

Those institutions that were in a position to resist made money for their depositors and policy holders.

Rating Securities

Too much of a fetish has been made of the rating of securities. They are always triple or double A at the top of the market, and rated B or C at the bottom. To put it another way, when these securities were rated as NOT a buy by the slide rule boys, was when they were buys—bargain buys. One of the bigger insurance companies made a lot of money buying rail bonds in that period. Another lost money in selling.

I am not saying that saving bank managements should speculate. That is not the function of your institutions. But there is an obligation to use sound judgment, and it isn't sound judgment to load up on government bonds and similar paper and at the same time give no consideration to the future value of these investments. That policy can prove to be very speculative — maybe disastrously so—if the inflation runs away.

Small Loan Field

As savings banks are now set up there are limits to the kind of investments and loans you can make. It makes no sense to me for the savings banks to be barred from the small loan field. The savings banks, dealing chiefly with the little fellow, are a "natural" for small loans—whether they are for home improvements or to buy a television set, an electric ice box, or an auto. Incidentally, experience has shown these are about the safest type of loans. People seem to meet those obligations ahead of almost everything else.

Not everyone can have a $50,000 a year tax free expense account, so with living costs and taxes what they are, the average citizen finds he has to borrow every once in a while. Where better to go than the savings bank?

Also, in paying off personal loans on the instalment basis, the borrower can develop the savings habit once the loan is paid off. Some people would rather borrow than draw down their savings account—which is not as foolish as it may first seem.

This is a better employment of the thrifty citizen's surplus dollars than financing some political boondoggle, particularly half way around the world. The return on such an investment will also be higher, and it will make for productive jobs for American workers.

There will be objections to this, just as there were to savings banks selling insurance over the counter.

Limited Investment in Common Stock

An expansion of savings bank lending and investment up to say 10% of deposits in common stocks will increase earnings and thus make possible maybe a higher dividend to depositors. But these will not meet the inflation threat, except in a small way.

There isn't a great deal more that saving bank management can do today under present laws in the handling of funds to hedge against inflation and stay banks.

The big effort must come in the field of public education and in furnishing leadership in this fight —and it is a fight. A life or death one for what we popularly call our American way of life.

It is in this field that the savings banks and the life insurance companies have been too timid, or shy, or something.

Vast Number of Savers

There are 7½ million depositors in New York State savings banks with $11,600 million on deposit. In the other 47 states and the District of Columbia savings deposits total $46 billion. In addition there are the 10 million depositors with $12,400 million in savings and loan associations, plus the holders of government savings bonds and insurance policies.

Everyone of these people has a real stake in the preservation of the dollar's purchasing power—but they don't do much about it. Why? Because, they have had no leadership and they haven't been told what's happening to their dollar.

In the last ten years, the purchasing power of the dollar has lost 43%. The 1940 dollar is worth only 57 cents today.

The war may be the chief factor in this, but that cost twice and maybe three times what it should because of government policy. Men were drafted to die on foreign battlefields, but the home front "soldiers," deprived of few if any real comforts, fought it on time-and-a-half pay. If there is another war, it will be on a 40-hour week.

Continued on page 38

*An address by Mr. Gould before the Convention of the Savings Banks Association of New York, Lake Placid, N. Y., Oct. 5, 1950.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The stock market moved to a new peak last week under the influence of favorable business conditions and a growing inflationary psychology.

While the advance has been rather broad, with groups such as automobiles and rails in particular demand, a considerable number of the issues have not been participating in the upward trend.

Developments in Korea and the resulting changes in the economic outlook including governmental restrictions during the past three months have been unfavorable to such groups as instalment finance, building, and television. For similar reasons, tobacco and gold mining shares have recently been neglected.

Most other groups including insurance have recovered from the setback of early July and are now selling near the highs of the year.

The Barron's Insurance Group average made a new high last week of 135.02, compared with a low reached in July of 116.56.

Only a few of the major insurance stocks, however, are selling above the level reached at the end of last year. At that time, dividend increases and extras were being announced and the extremely favorable earnings reports of 1949 were being issued.

Although operations so far this year have been satisfactory, they are not equal to the record results of 1949. Thus, comparisons with last year have not been favorable.

This was undoubtedly one of the more important factors accounting for the narrow range of insurance shares up to the end of June. At that time, international developments caused a sharp decline and the group reached the lowest point of the year.

During the last two months, this group has moved upward and is now close to the high of the current period.

In the following tabulation we show the current price of 24 of larger fire insurance companies compared with the price on Dec. 31, 1949, and the range so far this year. Also shown are the current indicated dividend payment and yield based upon current market.

	Current Market Bid Price	Price Dec. 31, 1950	1950 Price Range High	Low	Indicated Dividend	Yield %
Aetna Fire	$61	$61½	$66	$50¾	$2.00	3.28
Agricultural Insurance	71	70	76½	63	3.50	4.93
American Insur. (Newark)	20⅝	21⅝	22	17¼	0.90	4.36
Boston Insurance	60¾	62½	65¾	51½	2.40	3.95
Continental Insurance	65	62¾	65⅞	50½	2.00	3.08
Federal Insurance	71	67	72	61	2.15	3.03
Fidelity-Phenix	64½	61⅜	65¾	52	2.00	3.10
Firemans Fund	94	92	95	80¾	2.60	2.77
Firemen's (Newark)	21¾	20⅛	23	18½	0.60	2.76
Glens Falls Insurance	48¼	52	53	45	2.20	4.56
Great American	30½	31¾	32	27	1.20	3.93
Hanover Fire	31¾	34	37	28¾	1.60	5.04
Hartford Fire	127	116	127½	104	3.00	2.36
Home Insurance	34½	34¾	37¾	31⅛	1.60	4.64
Insurance Co. of No. Amer.	117½	110	118¼	98½	3.50	2.98
National Fire	61	60½	65½	53	2.00	3.28
National Union	36	37½	39	30	1.60	4.44
Phoenix Insurance	81½	80	85	67½	3.00	3.68
Providence-Washington	31¾	35¼	35½	28¾	1.40	4.41
St. Paul Fire & Marine	105	103	105½	94	3.00	2.86
Security Insurance	32¾	37	38½	29	1.40	4.27
Springfield Fire & Marine	42¾	47¾	48⅜	41½	2.00	4.68
U. S. Fire	64½	66½	69	62½	2.40	3.72
Westchester Fire	20½	22⅝	23	18½	1.00	4.88

In view of the yields currently available on industrial equities, the return afforded by insurance shares may be considered as low. It should be remembered, however, that in most cases current payments amount to only about 60%-70% of the investment income received by these concerns. Also, a large part of the investment income is composed of bond interest and the portfolio of common stocks are generally high quality and well diversified. For these reasons current dividend payments are considered very secure. Indeed, there is reason to expect gradual increases over a period of years.

With dividend payments by industry generally running about 10% ahead of 1949 and with a larger volume of funds invested this year, investment income of the insurance companies has been expanding. Reports on operations for the first six months were especially favorable in this connection.

As the end of the year approaches, many companies will be meeting for dividend consideration and it is expected that many will take favorable action in this regard.

While insurance stocks will not ignore the general trend of the market, it is believed that they should do reasonably well over the balance of the year.

Foreign Investment—A Factor In Solution of East-West Impasse

By DR. MAX WINKLER*

Partner, Bernard, Winkler & Co.
Members of the New York Stock Exchange

Foreign bond expert discusses effect of foreign loans on foreign trade and nation's economy. Says current world tension militates against successful implementation of Point IV, while threat of vast rearmaments endangers standards of living throughout world. Points out backwardness of wide areas reduce effectiveness of propaganda, and concludes future international peace and economic well-being is dependent upon solution of East-West controversy.

Intelligent evaluation of prevailing conditions, as well as of things to come, is difficult, if not impossible without a thorough knowledge of, and intimate familiarity with past happenings. Johann Wolfgang von Goethe, one of the world's great geniuses, substantiates this view in his collected poems, known as the West East Divan, when he reminds us that—

Dr. Max Winkler

Wenicht von drei tausand Jahren
Sich weiss Rechenschaft zu geben,
Bleibt im Dunklen, unerfahren;
Muss von Tag zu Tage leben.

(Who cannot account for what has transpired within the past 3,000 years, remains in the dark, without experience, and must live a day-to-day existence.)

I shall, of course, refrain from taking you that far back. I shall confine my observations to happenings within recent years and the lessons they teach, which most of us seem to have forgotten.

Following World War I, the damage resulting from the conflict had to be made good, and working capital, destroyed in whole or in part because of military activities, had to be replenished.

Since it was generally felt that failure to aid in the rehabilitation of a war-torn world would result in permanent chaos in the realm of economics and finance everywhere, countries in a position to do so, found it desirable, nay necessary, to assist their neighbors. In this respect, the United States, because of superior material resources and because the country had suffered relatively less from the war than other belligerents, played a very prominent role, extending aid and credit to friend and foe alike, on a scale unprecedented in the annals of finance.

Whereas prior to the war, the United States was a debtor nation to the extent of about $5 billion, within less than a decade, we became the most powerful creditor nation on earth, the rest of the world being indebted to us to the tune of $15 billion, exclusive of about $11 billion of political debts, i.e. obligations arising out of governmental loans and credits to allies during the war and to allies and former enemies in the early postwar years.

The exportation of American capital was accompanied by an increase in America's foreign trade and in the level of the nation's business activity.

There are some well-meaning legislators and even businessmen who feel that since America's international activities represent only about 10% of the country's total volume of business, a drastic reduction or even the complete loss of such international activities could not seriously affect the nation's economy. While the arithmetic of the argument is correct, the reasoning is erroneous: **The 10%, more or less, of America's international business represents the country's margin of profit.**

Reliable sources place the nation's total number of employees in enterprises directly identified with foreign business at 6½ to 8½ millions; and the number of those indirectly employed in international business at 1½ to 3½ millions. In other words, the total loss of foreign business could mean an addition of 8 to 12 millions to a normal unemployment population of 2½ millions, the difference between prosperity and depression.

Foreign Loans Must Be Productive

In order to attain their objectives, i.e., to increase domestic prosperity, it is essential that foreign loans be of a constructive and revenue-producing nature. Otherwise, the flow of credit abroad will be accompanied by domestic prosperity, but its cessation will invariably result in a serious setback at home.

It is regrettable that a substantial portion of the proceeds from the sale of foreign loans during the Twenties was of a non-productive character. It is useless to speculate as to where to lay the blame: upon the banker, upon the borrower or perhaps upon the investor himself who refused to heed all warnings in respect of the risks he was assuming. In many instances, new loans were contracted and sold, to repay old loans which, because of their non-productive nature, could not be met or serviced out of the borrower's own economy.

What happened to the economy of America, the principal lender during the Twenties, when she was no longer willing or able to lend any more, is a matter of recorded history. Defaults began to occur with distressing frequency, and the number of foreign debtors who were still meeting their contractual commitments in the early Thirties were, very few indeed.

After the collapse and surrender of the Berlin-Rome-Tokyo Axis, the situation which obtained almost everywhere was even more complex and aggravated than after the defeat of the Central Powers in 1918. The manufacturing and productive capacity of Europe's leading industrial nation was largely destroyed. Most of the continent had been laid waste. The physical damage suffered by Britain, France and the Netherlands was enormous. Japan which had emerged as an important commercial and industrial power after World War I, lay in ruins. The need and the demand for goods and services were greater than ever before and, because of the destruction wrought by the war, the sources from which these goods and services could be supplied, were more restricted than ever.

It was soon realized that world recovery would be seriously impeded, or even rendered impossible, if economic chaos were permitted to reign over wide areas. This much is certain: **No one nation can prosper indefinitely, so long as depression afflicts the land of its neighbors.** It was hoped that the various international and national financial institutions and agencies (such as the International Bank, the International Monetary Fund and the Export-Import Bank) would launch world recovery projects on a large scale to the advantage of all participants. While these agencies have achieved considerable success, their accomplishments would have been much more impressive and constructive, were it not for the intransigence and obstruction on the part of America's former ally in Arms—the Union of Socialist Soviet Republics.

Economic Recovery Depends on Solution of East-West Controversy

To be sure, material progress has been registered on the part of the Western World to combat the expansionist and aggressive policies of the East; however, the fact remains that so long as the world remains divided into two hostile camps, the problem incident upon recovery will not be solved easily, if indeed at all.

It is because of this situation that the Western World, led by the United States, is obliged to spend gigantic sums for defense and preparedness. Prior to the Korean War, euphemistically referred to as a "police action," the United States was spending many billions for defense at home and abroad—about 60 cents out of every dollar collected. These figures do not include interest on debts created in connection with World War II. Because of Korea, America's defense bill is expected to absorb more than double the present outlay for armament, presumably to prevent World War III. According to a U.P. dispatch dated Washington, Sept. 14:

"President Truman is studying a military recommendation for a $40-billion-a-year rearmament-program that would give the United States 90 to 100 groups in the Air Force, 400 warships in the Navy and 20 divisions in the Army . . . the plan drawn up by the Joint Chiefs of Staff . . . is aimed at backing up the United States' worldwide commitments as spelled out by the State Department."

European nations, comprising the so-called Atlantic Pact Community, are expected to make similar increases in their defense expenditure. It may well be doubted whether this is possible without serious damage to their economy—unless, of course, funds for that purpose will be supplied by the United States.

In this connection, it may be of interest to refer to a report to the "Wall Street Journal" from its Paris correspondent on Sept. 15, to the effect that "the fear of runaway inflation as a result of rearmament scares every non-Communist government to death."

The report adds that this "is the one idea made clear at the week-end meetings . . . of the International Bank for Reconstruction and Development and the International Monetary Fund . . . The governors of the two institutions went home without assurance that inflation can be avoided. The highest hopes they cherish is that it can be kept within bounds. And they all are aware that the situation is getting far beyond controls which they can urge or exercise.

The French representative put that menace in a nutshell when he told his colleagues: "One of the greatest dangers arises from the conscious or unconscious temptation to finance works or armaments by the creation of public money with the vain protext that it would be otherwise hard for public opinion to accept the sacrifice inherent in these programs."

Another significant comment was made by Dr. Herman F. Reissig of the Council for Social Action of the Congregational Christian Churches of the United States. After surveying conditions in Western Europe, Dr. Reissig had this to say in the N. Y. "Times" of Sept. 20:

"Few Americans, except those who have traveled extensively in Europe since the war, can have any conception of the "deep human revulsion" with which the average European regards the possibility of more fighting—and even the prospect of directing more money to armament programs."

If, as seems most probable, the European rearmament program is to be financed to a large degree by the American taxpayer, serious heed must be given to the following question: Are America's resources, vast though they are, inexhaustible? It is obvious that IF a way could be found to resolve the existing tension between East and West, without resorting to guns and tanks and bombs of the A and H varieties, expenditure incurred today for destruction, could be employed for constructive projects which would benefit all humanity.

ECA Program Cannot Be Supported Indefinitely

Regardless of the character of the spending, whether under the Military Aid Program or the Economic Cooperation Administration, it is obvious that so long as gigantic sums are made available by the United States, the overall economy of the nation will remain on a high level. It is apparent that such a program cannot be supported indefinitely, unless it is felt that a new conflagration has become inevitable. However, the damage done as a result of the last war, in lives which can never be restored, and in treasure which will never be recovered, is still so vivid as to fill everybody everywhere with profound apprehension.

No less an authority than General Marshall stated that losses in dead and missing suffered by the "Big Five" during World War II, aggregated well over 10½ million. The significance of this alarming total is apparent, if one realizes that in the United States, out of every 10,000 inhabitants, including men, women and children, 21 were reported dead or missing. The corresponding figure for France was 51; for the United Kingdom, 62; for China, 48; and for Soviet Russia, 389.

In other words, Russian losses were 6¼ times as large as those suffered by the United Kingdom, 7¼ times those of France; 8 times those of China and 18½ times those of the United States. Do not these figures suggest that Russia may not, after all, desire to bring about another world conflagration? Are not these figures eloquent enough to show why war should and must be avoided by other nations also, war with all the horror and destruction and degradation which it entails?

Attempts are being made by our government and its spokesmen to convince the rest of the world that the United States is earnestly desirous of preserving peace and that our vast military program is designed to achieve this end for ourselves and our neighbors. It is because of this desire on our part that we are spending billions to aid in the economic rehabilitation of countries requiring aid and wishing to live in peace with their neighbors.

Such aid is being rendered chiefly through the Economic Cooperation Administration. The extent to which America's objectives have been attained is evident from the industrial progress registered by a number of nations which have been the recipients of American aid: Taking 1937 industrial production as a base, the latest figure stands at 134.4, compared with 118.2 for 1949 and 89.1 for 1946. The most impressive gains have been registered by the Scandinavian countries, followed by the Netherlands, Austria, the United Kingdom, Italy, France and Greece, in the order mentioned. What is especially significant is the fact that the Index of Production for Greece stands now at 106 against 87 last year and only 53 in 1946.

What is going to happen to America's economy and to the economy of the Western World, which has come to depend to a very large degree upon United

Continued on page 26

*An address by Dr. Winkler before the National Association of Securities Administrators, Detroit, Mich., Oct. 11, 1950.

Mutual Funds

By ROBERT R. RICH

Distributors Releases New Dealer Manual

A complete "Manual of Procedure" to help dealers interest business men in profit-sharing and retirement plans, and subsequently to set them up, is being distributed nationally by Distributors Group, Incorporated, sponsors of Group Securities, Inc.

"Although the profit-sharing and retirement provisions of the Revenue Act of 1942 have made such trusts possible for the past eight years, interest in them, as distinct from pension plans, has been relatively low until this year," according to Kenneth S. Gaston, President of Distributors Group.

"While we have been active in connection with these trusts since 1943," he stated, "it is only recently that the interest of executives of the smaller or medium-sized company has turned to the very considerable advantages of profit-sharing plans, both to themselves and to their companies.

"Because of this situation, investment dealers are considering promoting the establishment of such plans, but few have the technical traning to do so without help. The purpose of this 'Manual of Procedure' and our 'Standard Plan' indicates what it is necessary to do and shows how to do it, in conjunction with attorneys, to set up these plans."

Republic Retires Stock

The directors of Republic Investors Fund, Inc. today voted to retire, on Nov. 15, the 4,707 shares of 6% preferred stock, series A, $10 par value, and the 10,837 shares of 6% preferred stock, series B, $10 par value at $10.60 per share plus accrued dividends to Nov. 15. The preferred will be retired out of cash on hand and will not necessitate additional borrowing or a change in the present loan arrangements.

Upon the completion of the retirement of the preferred stock, Republic Investors Fund, Inc. will have only one class of stock outstanding; the leverage for the Fund will be obtained through bank borrowing at 2¼%. This action of the directors will mean a substantial saving to the shareholders of the Fund.

Wellington Fund Reports Record Sales

Record sales of Wellington Fund shares for the September quarter and for the first nine months of 1950 were reported today by A. J. Wilkins, Vice-President of W. L. Morgan & Co., national distributors.

Gross sales in the three months ended Sept. 30, 1950, amounted to $10,557,400 and were the largest third-quarter sales in the Fund's 21-year history. They represent an increase of 12% over the sales of $9,422,847 in the like 1949 period.

In the first nine months of 1950 gross sales totaled $37,766,100 and also were the largest for any similar period in the Fund's history. They compare with sales of $23,867,832 in the like 1949 period for an increase of 58.23%.

National Securities Reports Sales Up 90%

Sales of "National" mutual funds continue at record high levels with volume for the first nine months of 1950 reported by H. J. Simonson, Jr., President of National Securities & Research Corporation, New York, at approximately $20,000,000—up 90% from the comparable 1949 period.

As of Sept. 30, 1950, net assets of funds managed by National Securities & Research Corporation were reported at over $78,000,000.

In face of the contemplated excess profits tax, governmental controls and other business dislocations resulting from the defense effort, studies of the Economics and Investment Department of National Securities & Research Corporation indicate that present rate of distributions on issues held in funds where income is the objective, are not likely to be disturbed over the foreseeable future unless a full-scale war with Russia develops.

Fundamental Assets Jump 71 Percent

Fundamental Investors reported total net assets of over $74,000,000 at the close of the third fiscal quarter on Sept. 30, 1950. This figure represents a 71% increase over total net assets of $43,361,171 on the same date a year earlier.

During the same 12 months approximately 7,350 new shareholders were added to the Fund, bringing the total up to 22,835. This figure indicates that 32% of all present shareholders, which include corporations, institutions and fiduciaries as well as individuals, bought their shares within the past year.

Total net assets per share of Fundamental Investors, Inc., on Sept. 30, 1950, amounted to $16.67, compared with $13.64 on Sept. 30, 1949, and $14.93 on Dec. 31, 1949.

Fully Administered Fund Assets Increase 25.6%

Asset value of The Fully Administered Fund, the balanced fund of Group Securities, Inc., was $7.65 per share on Sept. 30, against $6.83 on Sept. 30, 1949.

The total assets of this Fund, which is part of the $75,000,000 Group structure, stood at $5,178,411 on Sept. 30 this year, and $4,123,323 on Sept. 30, 1949.

The increase in the 12-month period, which includes both portfolio appreciation and net increase in shares outstanding, is equal to 25.6%. Of this, about 13.6% was due to net increase in shares and about 12% to increased value of stocks and bonds held for the Fund.

Business Shares Value Up

A 10 year record of American Business Shares, covering the period from Aug. 31, 1940 to Aug. 31, 1950, reveals an increase in per-share net asset value from $2.78 to $3.99. As of Aug. 31, 1950 55% of the company's net assets were invested in common stocks and 45% in bonds and cash.

Knickerbocker Up

Knickerbocker Fund as of Oct. 2 reported net assets equal to $5.53 a share, compared with $4.43 a share on the like date last year. Total assets of the Fund on the respective dates were $13,283,702, compared with $9,198,557.

Growth Grows 22% In Two Months

A 22% increase in total net assets for the two months ended Sept. 30, 1950, was reported today by Growth Companies, Inc., the recently organized open-end mutual fund.

The increase boosted total resources of the fund to $314,388 on Sept. 30, last, from $256,500 on Aug. 1, 1950, when the fund made the first public offering of its shares. In the same period net asset value per share increased 6.3% to $9.57 a share from the initial net aset value of $9 per share.

Johnston Reports

The Johnston Mutual Fund, Inc. as of Sept. 30, 1950 reports net assets of $767,049, equivalent to $27.92 a share, compared with $460,487, or $24.89 a share on Sept. 30, 1949 and $678,630, or $25.70 a share on June 30, 1950.

The Fund's portfolio on Sept. 30, 1950 shows 66.8% invested in common stocks, compared with 57% on June 30, 1950.

FIA Will Pay 1% Dealer Bonus

Directors of Fidelity Investment Associates, Inc. approved a plan this week to pay dealers who sell $25,000 worth or more in any calendar quarter an extra commission of 1% in addition to the regular dealer concession of 6%. The sales charge on FIA is now 8% of the offering price.

Axe-Houghton Up 103%

The directors of Axe-Houghton Fund "B" announce that the net assets of the Fund, on Sept. 30, stood at $14,613,814.54, compared with $7,169,461.69 on Jan. 1, 1950, an increase of 103%. During the same period the net asset value of the shares rose from $14.98 to $16.68, an increase of 11%.

Palmedo to Be Director Of Resources of Canada

Roland Palmedo has been elected a director of Resources of Canada Investment Fund, Ltd., a new Canadian mutual fund with offices in Montreal. Mr. Palmedo is associated with Lehman Brothers.

It Takes Only Ten Years in the U. S.

Vance Sanders, in its latest "Brevits," quotes a West Coast newspaper which had reminded its readers that these startling changes took place in only 10 years:

"13½ million people have died.

"Over 17 million marriages have taken place.

"Over 30 million babies have been born.

"Over one-third of all present families in the U. S. have been formed.

"Out of the 140-odd million people in the U. S. today, 63% do not remember World War I.

"52% do not remember a Republican Administration in the White House.

"48% do not remember what conditions were like before World War II.

"44% are consciously experiencing for the first time a free market in which they can buy what they want from normal assortments."

Auchincloss, Parker Admit 8 Partners

Auchincloss, Parker & Redpath, members of the New York Stock Exchange, announced that eight new partners have been admitted to the firm, three of whom are associated with the New York City office, 52 Wall Street, four with the Washington, D. C., office, 729 15th Street, N. W., and one with the Baltimore, Md., office, Mercantile Trust Bldg.

The new New York partners are Edward H. Gilbert, Jr.; John D. McGeary; and Robert Parsons. The new Washington partners are Edward R. Finkenstaedt; Joseph K. McCammon; Mark Sullivan, Jr; and Millard F. West, Jr. The new Baltimore partner is Lawrence P. Naylor, Jr. Mr. Finkenstaedt has also been admitted to the firm as a limited partner.

Paul Gorham With Garrett-Bromfield

Paul W. Gorham

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Paul W. Gorham has become associated with Garrett-Bromfield & Co., 650 Seventeenth Street, members of the Midwest Stock Exchange. He was formerly with Earl M. Scanlan & Co.

With H. Hentz Co.

H. Hentz & Co., members of the New York Stock Exchange, announce that Julian H. Wilson has become associated with the firm as a registered representative in its uptown office in the Sherry Netherland Hotel.

Canadian Securities

By WILLIAM J. McKAY

The Canadian monetary authorities have been the first to recognize the futility of playing the King Canute role in attempting to resist the advancing tide of inexorable forces. As matters have transpired, Canada in permitting its dollar to find a natural level determined by supply and demand, has not only struck the first decisive blow for exchange freedom, but has also raised the standing and prestige of its already strong currency. In so doing the Dominion has also set a new foreign exchange pattern in two directions. In the first place despite the precepts laid down by the International Monetary Fund, Canada has broken away from the strait-jacket of a fixed parity of exchange. Secondly the sacrasanct $35 world price of gold ordained by the International Fund is no longer officially recognized by Canada.

This important breach of the rigid foreign exchange system formulated by the International Monetary Fund can not fail to have far-reaching repercussions. Despite official protestations to the contrary other countries are unquestionably now commencing to view their foreign exchange situations in a difficult light. Whereas previously there was understandable reluctance on the part of most countries to take any initiative to change a system which they themselves had helped to evolve, the Canadian example now relieves them of primary responsibility for any breakdown of the makeshift postwar international exchange scheme. Countries such as the United Kingdom, Australia, Sweden, and India are also now beginning to realize that it is no longer expedient to attempt to dam the strengthening tide of natural forces. Whether or not the U. S. dollar is in a declining trend due to greater inflationary pressures here than elsewhere, it is an undisputed fact that the U. S. dollar is descending from the peak level established as a result of circumstances arising from World War II. On the other hand due to recent over-devaluation of their currencies, the steady strengthening of their economies, the implications of the current international situation, and the long-range foreign financial policy of the United States, the currencies of these countries in particular are now in a definitely appreciating trend.

As far as the United Kingdom is concerned foreign exchange policy is largely determined by the "terms of foreign trade." At the present time there is little question that in order to comply with such terms the pound should be revalued. As matters stand the cost of British imports is now rising faster than the return from exports. With full employment, moreover, the scope for increasing exports is strictly limited. On the other hand it is becoming increasingly difficult to curb the volume of imports from hard-currency areas as austerity in Britain has already reached the cracking point.

It is difficult to conceive therefore that the United Kingdom will indefinitely continue to dispose of sterling abroad at its present undervalued level and at the same time to pay more for its U. S. dollar imports than is warranted under present circumstances. Perhaps the Canadian initiative in ignoring the arbitrary $35 price of gold will suggest a solution of the problem of South African opposition to sterling revaluation, which probably constitutes the only remaining objection to action in this direction. As in the Canadian case the United Kingdom could agree to purchase the South African gold production at a premium. In addition to overcoming South African opposition to a general revaluation of sterling the United Kingdom would also fortify the exchange backing of the pound by thus securing the major portion of the South African gold production.

In the probable event of a general revaluation or freeing of the British Commonwealth currencies, the Canadian dollar, which has led the way for this logical development, should make still further progress. The way would then be clear for the attainment of parity with the U. S. dollar. It is possible, however, that rapid appreciation to this extent would not be permitted. Consequently it is likely that the current level of 5% will be maintained for some time in order to induce liquidation of short range speculative positions. If such is the case sales of this kind would be doubtlessly absorbed by fresh investment purchases of a more permanent nature since at 5% discount the new free Canadian dollar with its commercial backing is still attractive. In any case there appear to be logical grounds for the supposition that the recent Canadian moves in the field of foreign exchange are in accordance with a preconceived plan that embraces not only the Canadian dollar but other currencies of the British Commonwealth. Now that Canada has set the pattern similar action on the part of other countries of the British family of nations should not be long deferred.

During the week there was continued strength in both the external and internal sections of the bond market but activity was on a more restricted scale than during the period immediately following the freeing of the dollar. The new free dollar advanced sharply to 4½% but finally reacted to 5½% at which level it met with strong support. Stocks were also in steady demand with the paper issues notably prominent in anticipation of an imminent price-rise of pulp and newsprint. Base metals were also firm, among which Consolidated Smelters was especially prominent, but the Western oils displayed a somewhat heavier tendency. The golds in initial dealings displayed hesitancy but finally strengthened as the feeling grew that Canada's recent action constitutes the first step towards a generally higher world-price for gold.

NY Security Dealers Dinner Meeting

The New York Security Dealers Association will hold a general dinner meeting on Thursday, Oct. 19, at 5 p.m., at the Hotel Gramercy Park Roof Garden, 52 Gramercy Park, North, 21st Street and Lexington Avenue.

Members of the Dinner Committee are Richard M. Barnes, A. M. Kidder & Co.; Fred D. Gearhart, Jr., Gearhart, Kinnard & Otis; Charles M. Kearns, Kearns & Williams; J. J. Schwadron, Burke & Co.; Chester H. Tipton, C. H. Tipton Securities Corp.; Melville S. Wien, M. S. Wien & Co., and John J. O'Kane, Jr., John J. O'Kane, Jr., & Co., Chairman. Members of the association, their partners, officers and senior traders will attend.

Sumner Emerson Heads United Hospital Drive

Sumner B. Emerson, partner in the firm of Morgan Stanley & Co., is serving as Chairman of a group soliciting investment banks and stock brokers in behalf of the 1950 United Hospital Fund Drive. Announcement was made by Perry E. Hall, partner in the firm of Morgan Stanley & Co. who is the Fund's Business and Professional Division Chairman. This year the Fund seeks $3,500,000 in order to help 80 member, non-profit, voluntary hospitals in the five boroughs to continue their high standards of medical care.

These institutions, all affiliated with the Fund, last year cared for 548,344 bed patients, including 80,000 newborn, receiving 3,394,000 days of care. Clinic patients in 1949 totaled 541,513, who received 3,000,000 treatments. All these patients were cared for either free of charge or at rates below cost.

Mr. Emerson is a member of the Board of Governors of the Investment Bankers Association of America and is a Trustee of Rutgers University. The 80 member hospitals of the United Hospital Fund dispense care to all regardless of race, creed or the ability to pay. This year's campaign will continue through Dec. 15.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following proposed transfers of Exchange memberships to be considered on Oct. 26:

Palen Nelson (deceased) to Frederick F. Berlinger.

Ray A. Van Clief (deceased) to Charles W. McLaughlin.

Harold H. Weekes (deceased) to Edwin A. Meyer.

Francis S. Page to Eugene V. Fox.

Wallis S. Turner (deceased) to Andrew J. Corcoran.

The Exchange has also announced that it will consider on Oct. 26 Joseph E. Sullivan as proposed alternate on the Floor of the Exchange for Seth H. Baker.

Joins Dempsey-Tegeler

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Edwin T. Kling has become affiliated with Dempsey-Tegeler & Co., 407 North Eighth Street, members of the New York and Midwest Stock Exchanges.

Our Economic Prospects

By ARNO H. JOHNSON*

Vice-President, Director of Media & Research, J. Walter Thompson Company, New York

Research economist traces effects of changes in purchasing power and in American living standards during last decade. Estimates real purchasing power since 1940 has risen 60%. Says our economy is still expanding and a Gross National Product of $330 billion by 1955 can be achieved, which would permit public discretionary spending to be increased by 54%.

The last 10 years, since 1940, have brought about significant changes in the purchasing power and in the standard of living of the American people.

Arno H. Johnson

In this 10-year period of rapid increase in employment, family incomes and notional productivity the American people have failed to protect their new standard of living with life insurance comparable to their prewar protection.

In terms of **"real" dollars** (corrected for inflation) our national productivity in 1950 is 57% greater than in 1940, our standard of living as measured by total personal consumption is 52% greater, the amount being put aside in personal savings is 111% greater, while, in contrast, the total life insurance in force is only 18% greater (also after correction for purchasing power of the dollar).

This condition represents a real opportunity for expansion of life insurance sales because there exists a real need for increased protection in relation to maintenance of the higher standard of living. Further, the bringing of insurance premium payments closer to the prewar relationship to the standard of living can be a powerful influence in the battle against further inflation.

Let's take a look at the present conditions of purchasing power and distribution of families by income groups to see how these will affect the market potential for life insurance sales.

Real Purchasing Power Ups 60% Above 1940

We entered the Korean conflict with business and production in the United States at their highest peacetime level in history and with very good prospects for continued increases in the second-half of 1950 and throughout 1951. The levels of employment, purchasing power, and consumption reached in June, 1950 were quite in contrast with the pessimistic predictions current in the fall of 1949 and spring of 1950.

It now seems obvious that these high levels of 1950 were not just a result of replenishment of inventories after the unnecessary inventory scare of 1949—but rather we had begun to experience that upward surge in the standard of living of the American people that had been a latent possibility and opportunity ever since World War II proved that our productive ability was far in excess of the prewar concepts of living standards and civilian consumption.

We already have gone far beyond what most economists or businessmen believed could be possible in the postwar period. Disposable personal income after taxes in 1950 will reach the annual rate of over $200 billion. About $78 billion of this is dissipated through inflation of prices over the prewar 1940 level and can not add to improvements in the standard of living. After correction for prices, however, the real purchasing power of the aggregate of American consumers in 1950 is 60% greater than in the highest prewar year of 1940 (and 7% over 1949). Currently, therefore, the potential civilian market in terms of physical units of goods or services or in improved quality is 60% above our best prewar levels.

This condition of a major increase in purchasing power did not exist after the end of World War I. In 1920, for example, the real purchasing power of the population was 1% under what it had been in 1913 before the war started; on a per capita basis real purchasing power was 9% lower than before the war. So our economy already has demonstrated that through increased productivity we can have a considerably higher standard of living.

Income Shift Provides Increased Market Potentials

Between 1941 and 1950 there were some very significant shifts upwards in the distribution of families by income groups. About 21 million consumer spending units moved up to the level above $2,000 with an increase in the group from 14,009,000 in 1941 to 34,840,000 in 1950.

Increased taxes, of course, have cut heavily into the incomes of those who have moved above the $2,000 income level. After taking Federal income taxes into account, however, there still exists a startling shift upwards in income groups.

In 1941 only 1,564,000 consumer spending units had incomes over $5,000 before taxes; now 6,240,000 have incomes over $5,000 **after Federal income taxes.** In 1941 there were 5,703,000 with incomes over $3,000 before taxes; now 21,320,000 have incomes over $3,000 after Federal taxes.

When families move up from one income group to the next as rapidly as this there is a substantial increase in discretionary spending power, even after taxes and after applying the present increased costs of living to the basic items that made up the family's former standard of living.

Ordinarily there is a lag in changes in the standard of living. Families do not change their housing, increase their life insurance, move to a better neighborhood, change their social habits or improve their educational level immediately with increases in income.

The mass of our population already lives at standards far above the bare subsistence level of food, shelter and clothing. They could, if necessary, get along and sustain life on very much less than they now buy. They could defer many purchases entirely or for long periods of time, even though for the present they have adequate purchasing power. This fact makes doubly important the psychological factors affecting desire and common wants, and the translation of these wants into active buying demand.

By expanding these wants, selling and advertising can become a major educational factor in step-

Continued on page 39

*Excerpt from an address by Mr. Johnson before the American Life Insurance Convention, Chicago, Ill., Oct. 3, 1950.

Continued from first page

Is Bull-Market Optimism Based on Sound Premises?

were the supporting elements in the optimistic outlook for business activity; while in early 1946 it was quite obvious that the tremendous pent-up demands for goods created by the restrictions on civilian production during World War II would ensure a high level of employment and sales for at least two or three years. At the present time, of course, the optimism as to the business outlook can be traced to the expectations that our rearmament program can be superimposed on the record-breaking demand for civilian goods, which has been supported in large measure by the cumulative expansion of business and consumer borrowing.

It goes without saying that economic conditions are never identical with those of any preceding period, just as no two complicated legal, medical or business problems are exactly the same. Just as a specialist in business management, law, or medicine, who must look for basic similarities (and differences) in past experience, in studying any new problem, the stock market economist must continuously try to single out and appraise the basic similarities and differences between the current situation and those which have become part of the record.

That Inflation Influence

In reviewing the periods mentioned above (as well as the earlier record), we find several common denominators which helped to bring about the optimism that has proved to be so misleading at these important cyclical peaks. The first and most important, to our way of thinking, was the widespread publicity and acceptance of the theory that inflation was taking hold, and that equities, therefore, could be expected to have a further substantial advance from that point on. This type of psychology (or psychosis) seems to develop quite regularly whenever commodity prices have had a very sharp rise within a period of three to six months. **If we take the trouble to look at the record, we find that a sharp advance in commodity prices is a warning or danger signal for the economy as a whole, and the stock market in particular, rather than being a sign that stocks should be purchased.** In late 1936, for example, the U. S. Bureau of Labor Statistics Index of Semi-Finished Goods rose by 8% from September to December, and advanced by an additional 8% by the following March. The New York "Times" Index of Industrial Stock Prices reached a peak in November, 1936, which was not exceeded for almost 14 years, and which was followed by a decline of more than 50% by early 1938. The Dow-Jones Industrial Average reached a peak of 194 in March, 1937, before also experiencing the second largest bear market in the 50-year history of this index.

Again in 1939, commodity prices rose very sharply in the fall of that year, coincident with the outbreak of war in Europe. More recently, in the spring of 1946, we saw a decided revival of inflation talk when price controls began to break down, and commodity prices, after having been relatively stable for four years, started on an upward climb which amounted to more than 8% between January and June of that year, and were to continue to work higher well into 1948. The highs touched by the vast majority of stocks during the first half of 1946 were followed by declines of 40% to 50% or more (with some issues suffering reactions of 75% to 80%) from the levels prevailing at the time that the inflation outlook was supposed to justify progressively higher stock prices. As everyone knows, commodity prices have again risen quite sharply during recent months, with the usual effect on inflation psychology.

Commodity Price Influences

Space does not permit going into the logic between the action of commodity prices as compared with the stock market as a whole, in such periods as 1937, 1939 and 1946. Basically, this correlation seems to be due to the fact that sharp rises in commodity prices both reflect and aggravate maladjustments which are not healthy, and which inevitably have an adverse effect on both demand and corporate earnings. At the same time the increase in order backlogs resulting from forward buying (which usually coincides with or follows a sharp rise in commodity prices) helps to stimulate public demand for equities, just as periods of inventory reduction (as was the case during the first half of 1949) have the reverse effect on unfilled orders and on the psychology of many market analysts and investors.

Reserve Board Influence

Related to the recent increase in commodity prices, are the warnings being given by the Federal Reserve Board that it intends to use its powers to curtail the expansion of credit. Similar warnings were given in late 1936 and in early 1937, when reserve requirements were increased sharply; and in early 1946, when the Federal Reserve rediscount rate was raised from ½% to 1%. In the 1936-1937 period, this warning was dismissed by many market students who were following the then popular theory that six consecutive years of deficit financing made further price inflation inevitable, and the slogan that we had never had a bear market while interest rates were low. The increase in the rediscount rate early in 1946 was also considered unimportant, in view of the imminent collapse of OPA and the reasonable certainty of well sustained business activity because of the pent-up demand for goods. The rise in the rediscount rate announced in August, as well as official and unofficial pronouncements by various members of the Federal Reserve Board are, at the moment, falling on deaf ears, just as were the earlier actions noted above.

Thinking people realize that the Federal Reserve Board is not acting arbitrarily: this group is merely trying to prevent another boom-and-bust cycle of the 1929-1932 type, which would almost certainly give this country another push toward socialism. Both consumers and business loans have been rising at a dangerous rate during recent months, with consumer credits (instalment loans, etc.) increasing at the rate of more than $5 billion a year, and total industrial, commercial, and agricultural loans experiencing one of the sharpest gains on record during the past 12 months. Customers' debit balances of member firms of the New York Stock Exchange have also been rising sharply, with the increase of about three-quarters of a billion dollars, since early 1949, bringing the total borrowings of this type up to the highest levels reached since early 1937. Mortgage indebtedness is also rising at a record-breaking rate, thanks largely to Federal encouragement to John Q. Public to take risks which no banker would have countenanced even in the lush days of the late '20s.

Another warning signal in the current market picture is the very sharp increase in trading activity. A review of the record shows that, as a rule, whenever volume of trading has risen to an average level of about two million shares a day for one or two months, during a period of rising prices, any further advance in the Dow-Jones Industrial Average is likely to amount to 5% or less. (There has been only one exception to this "rule" since 1934.) Examples of this relationship between what has proved to be an indication of overspeculation and subsequent action of the stock market may be seen in the record for the first quarter of 1934; in the last quarter of 1936; in September, 1939; in January, 1946; in May, 1948; and again in April and May of this year. Volume of trading during the past five weeks has again been running at a level which, on the basis of the record, should be a warning to those who would prefer not to maintain substantial commitments in the stock market during periods of possible major declines.

Public Illusion

Still another recent development which makes it doubtful that the current advance will carry much further, is the widespread acceptance of the observation that "war is bullish." As Thomas Edison once remarked, "Most people will go to almost any lengths to avoid thinking." This seems particularly true of the speculative public who, as a group, have a major if temporary influence on the market from time to time. As is true of most unreasoned mass movements, there is a tendency for the public to rally around some slogan or widely publicized observation, no matter how superficial it may be. For example, following the attack on Pearl Harbor, there was a rush to sell stocks during the next few months primarily because the market had a 30% decline immediately following our entry into World War I, and did not recover to prewar levels until about five months after the end of the war. Little attention was paid to the fact that at the time we officially entered World War II, stocks were already selling at substantially below the average levels of the preceding few years. In contrast, the April, 1917, level of stock prices was well in excess of the highest point touched at any time prior to the last quarter of 1915.

During the Spring of 1946, those of us who dared to venture the forecast of a possible 25% decline in the market as a whole were considered unrealistic, in view of the one-sided "thinking" at that time centered around the prospect of well sustained business activity and higher commodity prices with the ending of OPA. After the wide-open break in the market in the late Summer and early Fall of 1946, the so-called public (led, I am afraid, by many of the Wall Street statisticians who had been so extremely bullish in the Spring of that year), decided that a prolonged, 1920-type of decline in stock prices was "inevitable," merely because of the decline which occurred two years following the ending of World War I.

Public Misled

Today, the public is again being led to believe that we only need to look at what happened during World War II to set a course for market policy. ("Wasn't it a mistake to sell stocks during the early months of World War II? Didn't stocks rise by more than 50% from the December, 1941, levels by the time that the Fascist powers surrendered in 1945?") To accept or follow this type of reasoning, it would be necessary to ignore such little details as the rise in our national debt, between December, 1941 and December, 1943, of more than $100 billion, whereas this time (assuming that we are in World War III—a premise which is yet to be confirmed), there is a fair chance that Congress may make a serious effort to adopt a deflationary, pay-as-you-go program through at least 1951. Another little "detail" which it might be a mistake to overlook is that the lows touched following our entry into World War I and II were not witnessed until after our economy had a chance to adjust itself to the principal controls and taxes under which it was to operate for the duration of the war. The "bad news" on the controls in prospect under the new Mobilization Act will probably be withheld until sometime between November and March.

I should like to make it clear, at this point, that I am not certain that we are already in World War III. This may or may not prove to be the case, and at the moment, it would seem to be anybody's guess as to just what our foreign policy is likely to be next week or next month. If the war clouds do show signs of blowing over, we would probably wake up some morning to find out that the inventory readjustment "recession" which followed the elections of 1948 (and gradual efforts of the Federal Reserve Board to tighten credit) was just a small sample of what may be in store for us, now that our pent-up demands for automobiles, household appliances and homes are much closer to being filled than they were two years ago. (There were definite signs that we were getting close to the bottom of the barrel of pent-up demands in the Spring of this year. The Korean episode has resulted in some anticipatory buying which has added to the vulnerability of our economic picture.)

Gross Income May Be Exaggerated

This brings us to another point upon which the current reasoning is too one-sided for comfort. Almost all of the widely circulated projections of earnings' forecasts for 1951 seem to be based primarily on 1950 estimates of pre-tax income, adjusted for higher taxes. No allowance is being made for the effect that changes in the total level of employment have on labor efficiency; no allowances are included for the effect that our relatively rigid wage structure and high break-even points have on profit margins; and even less allowance is being made for the fact that the government can force any company to use its facilities and manpower to at least temporarily concentrate on defense orders carrying potential negotiated profit margins of a very small fraction of those enjoyed this year (partly with the help of inventory profits, which are a factor in any period of sharply rising prices). These estimates also overlook the possible influence on demand for civilian goods because of: (1) a probable $10 to $15 billion increase in the take of the tax collector; (2) a check, and perhaps reversal, of public spending of money borrowed on mortgages or through instalment buying; and (3) satisfaction of most pent-up demands, together with some anticipatory buying because of the recent war scare.

It is much too early to try to make forecasts of earnings' projections for 1951, but recent experience shows that income can fluctuate with uncomfortable and surprising rapidity under current conditions. A little realistic thinking will show that we cannot rule out the possibility of a decline of 40% to 50%, or more, in the earnings of many companies during 1951.

Long-Term Influences

Before bringing this review to a close, I think that it might be well to refresh our memories as to some of the longer-term bearish influences at work in our securities markets. The fact that these forces were overstressed in some quarters, during the periods when it was popular to predict that the extreme low of 160.49 touched by the Dow-Jones Industrial Average in October, 1946, would be decisively broken in 1947, 1948 and/or 1949, does not detract from their basic validity. These factors include the following:

(1) The high level of taxes, particularly on large incomes, not only reduces incentives but also the attractiveness of equities to individuals who are in the best position to take risks. Investors whose incomes are in the 75% to 80% tax brackets, and who feel that a **net** yield (after personal income taxes) of at least 2% is needed to justify taking the risks involved in purchasing and holding equities, are not likely to invest heavily in stocks unless they are available either on a yield basis of 8% to 10%, or at a discount from net quick assets.

(2) With the increased complexity of government regulations, more rigid wage costs, the general attitude of labor, etc., equities are basically less attractive in relation to earnings in reasonably prosperous years, than they were when businessmen had better control over their own operations.

(3) Earnings of most companies may still be considered as being somewhat overstated, in view of the fact that depreciation charges are generally based on original rather than replacement costs.

(4) The unfavorable international outlook, with the possibility of a major assault on our interests at any time, is not conducive to real confidence in this country, particularly in view of our own confused foreign policy.

(5) The 1920-type of postwar readjustment may have been deferred rather than canceled. The all-out military effort of World War II, and the relatively longer duration of that war, resulted in substantially greater pent-up demands than those accumulated during our 19 months of participation in the "War to end wars."

As readers of the "Chronicle" may recall, we consistently held to the view throughout 1947, 1948 and 1949 that the market as a whole was in a buying area when the Dow-Jones Industrial Average was in the 160-180 zone, in spite of points 1 to 4 (and because of number 5) above. Our own arithmetic indicates that the risks in the stock market have been rising, while the additional appreciation possibilities have been diminishing, as the market approached and passed the highest levels touched at any time in the past 18 years, and as we made progressively greater inroads on the pent-up demands accumulated during World War II.

Summary and Conclusion

In summary, it seems reasonable to conclude that the recent strength in the stock market has been due as much to the influence of rising commodity prices on inflation psychology, as on any other factor. The record shows that this is a very dangerous and misleading basis upon which to expect a further substantial advance.

This conclusion would seem to be supported by the danger of a sharp decline in corporate earnings during 1951, regardless of the program for increased government spending. The Korean war has undoubtedly resulted in a great deal of forward buying, by both consumers and businessmen, which has given the public a false picture of current demand and suggests that we have been borrowing from the future, figuratively and literally. Such technical factors as the sharp increase in the volume of trading, and our position in the long-term time cycle, would seem to support the above conclusions. The decline which should get underway either shortly before or, at the latest, immediately after the November elections, will probably be of full cyclical proportions, or somewhere between 25% and 50% in the case of the average stock.

* * *

Addenda

The above summary of our current views on the intermediate or cyclical outlook for stock prices is intended as food for thought, rather than as a dogmatic answer to the extremely important problem of forecasting the stock market cycle. We have purposely avoided any discussion as to the short-term outlook, in view of the dangers that fluctuations over the next few weeks may be dominated by political timing of extremely important decisions affecting the economic welfare. We have also avoided making any specific forecasts as to the extent of the cyclical decline which we believe is in prospect, because of the unusually large number of imponderables upon which little light is likely to be shed until after the new Congress meets in January. Whether the next bear market will prove comparable to that of 1937-1938 (when General Motors, for example, declined from 77 to 25); or closer to the 1946 pattern (when GM, possibly because of the clearly indicated, large pent-up demands for cars, merely declined by 40%); will depend in part on the details of the pay-as-you-go tax legislation which is currently being demanded by almost every important group from the NAM to the CIO.

We fully appreciate that most of our studies have tended to be early rather than late in timing cyclical peaks and troughs, but we sincerely believe that this is the only type of forecasting that has any social justification. Funds invested in equities either for cyclical or semi-permanent holding, during periods of general pessimism (when stocks are usually selling at relatively low levels), tend to help bolster confidence by providing a market for distress stocks; while funds used to compete with the public for equities during the advanced stages of a general rise, consciously or unconsciously help to contribute to the upward spiral. If individuals controlling the growing pension, insurance, endowment and similar funds could see things in this light, they could help to reduce the progressively greater pressures for Socialism which are fed by wide swings in security (and commodity) markets. Over the longer term, and particularly during the three to six months immediately ahead, we believe that a regard for the social implications of the timing of investments in equities will prove profitable, as well as being socially constructive.

Our Cities

By ROGER W. BABSON

Mr. Babson, commenting on movement of population and industry to smaller cities and suburban areas, stresses importance of decentralization as best protection against atomic bombs. Advises smaller towns to form "Decentralization Committees" to canvass manufacturers in large cities for location of plants.

It is an old saying that "every cloud has a silver lining." Certainly, this applies to the bomb scares through which certain big cities are now passing. These scares offer great opportunities to wide-awake small cities.


Roger W. Babson

The figures which have come out show clearly that the largest cities have passed the zenith of population growth within their corporate limits. The indications are that many of the cities have had a distinct decline in rate of increase since 1945, while the suburbs are the greatest winners.

This trend against living in large cities has shown itself in other ways. Some banks and insurance companies are less willing to take loans on business property in such cities. Some investors are selling out their stocks of the public utilities of these vulnerable cities. Real estate operators are feeling the results of the public's fear of living in these big cities with the accompanying increased demand for suburban home and business locations.

Perhaps the most important factor against the big city and in favor of the small city are the official statements of our government that the best protection against atomic bombs is decentralization. Those placing government orders for vital supplies are giving preference to manufacturers who have several decentralized plants. They strongly recommend to those with only one large city plant, that a supplemental plant be built in some small community a reasonable distance away.

Only a few weeks ago a bill was proposed for submission to Congress for an appropriation of $150,000,000 to build a temporary "Capitol" about 60 miles from Washington in the hills of Maryland. The plan was tabled by two groups: (1) Senators from the Central West believe that—in an emergency—the Federal Departments now in Washington should be distributed among the safe capital cities of the Central Western States which already have the facilities for housing these departments. (2) The real estate boards of the big cities—especially Washington—strongly oppose any such move for fear of it starting a real estate panic in these big cities.

Certainly, this offers a great opportunity to the Chamber of Commerce of every small city. Don't be content with forming a "Defense Committee." Also form a "Decentralization Committee," to systematically canvass manufacturers with plants in nearby big cities to consider moving to your city, giving them its advantages and opportunities. There are several ways to do this, but the most practical is as follows:

Hold a meeting of your businessmen and ask each firm to supply the secretary of your new "Decentralization Committee" with the names of concerns in large vulnerable cities from which they buy goods. Then have these big city firms allotted to different local businessmen who will be asked to write on their own letterheads to certain big city firms urging them: first to protect their customers by having a plant in some safe small city; and, secondly, to consider "our city" for such a plant.

It is well for big cities to form defense committees; but no such committee will advise its business concerns to move out. True defense depends upon the activity of decentralization committees of the small and safe cities to urge such moving.

Robt. Garrett & Sons to Take Over Minsch, Monell & Company

Robert Garrett & Sons, of Baltimore, 110 - year - old investment banking firm and pioneer in the development of many commercial and industrial companies in that area, will open an office in New York City on Oct. 16, it is announced. The firm will take over the quarters now occupied by the New York Stock Exchange firm of Minsch, Monell & Co. which will discontinue its business on Oct. 14, 1950.

Robert Garrett & Sons has filed with the New York Stock Exchange for the admission as general partners of William J. Minsch and G. Leonhard Boveroux, present partners of Minsch, Monell & Co. William C. Longua and Harold S. Smith, also general partners of Minsch, Monell, will become Manager of the Maryland firm's New York office and Manager of its municipal department, respectively. John D. Talmage and Bradbury K. Thurlow are retiring as general partners of Minsch, Monell & Co., and will form Talmage & Co., it is understood.

The Baltimore firm was established in 1840 as successor to Robert Garrett & Co., commission merchants founded 20 years previously. Robert Garrett, the elder, and his two sons, Henry Stauffer Garrett and John W. Garrett, were the three original partners. Since its formation, five generations of the Garrett family have been active in the management of the firm, which has long been identified with the growth of a number of prominent national companies.

In 1934, the firm relinquished its private banking activities to continue in the underwriting and distribution of securities as well as a general brokerage business. It holds memberships on the New York Stock Exchange and the Philadelphia-Baltimore Stock Exchange as well as an associate membership on the New York Curb Exchange.

Messrs. Dominick & Dominick, New York correspondents for the firm, will continue to act in that capacity. Present general partners are: T. Stockton Matthews, Edward K. Dunn, George D. List, Harrison Garrett and Ralph L. DeGroff. Robert Garrett is a limited partner.

Formed as a corporation in 1920, Minsch, Monell & Co. changed to a partnership in 1942. Since its organization, the firm has acted in advisory and distributory capacities in connection with the financing of many leading utility and industrial companies. A general investment business has always been conducted by the firm and since joining the New York Stock Exchange in 1944, it has also done a general brokerage business.

Mr. Minsch was President of the firm from the time of its formation until the partnership was established when he became a general partner. Prior to 1920, he was associated with the Lee Higginson & Co for 11 years. A former President of the Bond Club of New York, he also served on the club's Board of Governors for 9 years.

Throughout his business career, Mr. Boveroux has been associated with Mr. Minsch. Coming to Minsch, Monell & Co. in 1922, he was made a general partner in 1942.

More on Sterling Revaluation!

By PAUL EINZIG

Dr. Einzig, again reverting to speculation regarding revaluation of sterling, says it has led to influx of "hot money" and gold into Britain and may lead to development of unwarranted optimism. Warns increase in British gold reserve may be only temporary. Lists a higher cost of living trend as greatest objection to revaluation.

LONDON, Eng.—Speculation on the possibility of an upward revaluation of sterling has gained in strength considerably during recent weeks. The widening of the premium on forward sterling in New York gives some indication of the extent to which business firms are desirous of safeguarding themselves against that possibility. While American importers of British goods want to be on the safe side by covering in advance their future requirements of sterling, British importers of American goods seem to be less anxious than usual to cover in advance their future dollar requirements. A certain amount of "hot money" has found its way to London, some in order to take advantage of the high yield of swapping spot sterling against forward sterling, and some in the hope of making a profit in case of a revaluation.


Dr. Paul Einzig

The announcement of the visit of Mr. Hugh Gaitskell (Minister of State for Economic Affairs and acting Chancellor of the Exchequer during the prolonged absence of Sir Stafford Cripps) to the United States has been largely responsible for the increase of speculation on a revaluation of sterling. It is generally believed that the main purpose of his visit is to discuss this matter with U. S. officials.

Another reason for the strengthening of revaluation rumors has been the appreciation of the Canadian dollar following on its recent liberation. Even though the situation is totally different in Canada, in past experience new currency policies adopted by one country have often proved to be the forerunners of similar decisions by other countries.

The further increase of the British gold reserve, which now stands at twice its pre-devaluation figure, has provided additional argument in favor of a revaluation. Although in this respect there was a note of warning in the quarterly official statement announcing the state of the gold reserve at the end of September, there is widespread optimism about the heavy influx of gold which is expected to continue. The strong position of the raw material exporting Sterling Area countries is an important element in the situation and prospects.

The British Government has done very little to discourage or discredit the revaluation rumors. No official public statement has been issued, and the answer to private enquiries at the Treasury is that His Majesty's Government has nothing to say on the matter. It is understood that, while the government is not considering the idea of a revaluation, the appearance and persistence of rumors to that effect is not at all unwelcome to the authorities. The increase of confidence in sterling is considered beneficial both from the point of view of prestige and also from that of material interests. Having had to put up with the disadvantages of devaluation rumors both before and after the devaluation of sterling on Sept. 18, 1949, the government is pleased that the pendulum has now swung in the opposite direction.

The extent of the influx of "hot money" is not such as to cause embarrassment. It means, of course, that part of the influx of gold is not genuine as it merely represents the counterpart of the "hot money" which is liable to be withdrawn any moment. There is the danger of the development of unwarranted optimism as a result of the gold influx, if it should assume larger proportions. For this reason the government would be wise to offset this factor through a repayment of credits it had obtained from the International Monetary Fund and the Canadian Government.

If, as is widely anticipated, the increase of the gold reserve should continue, and if rearmament ensured a sellers' market for British manufactures, pressure is likely to develop in favor of a revaluation. The recent publication of the Finance Accounts for 1949-50 recalled the extent of the losses suffered through the devaluation in the form of the increase of the sterling equivalent of Britain's dollar debts. This capital loss was £521,046,000 on the loans owed to the United States and £114,586,000 on the loans owed to Canada. The latter item is likely to show a further increase in the next Finance Accounts as a result of the appreciation of the Canadian dollar. A revaluation of sterling in terms of U. S. and Canadian dollars would, of course, reduce the loss on these loans to a corresponding extent. This argument is not likely to carry much weight, however, especially as the bookkeeping value of the Treasury's gold reserve, which was written up as a result of the devaluation, would have to be written down as a result of a revaluation.

A strong argument against a revaluation is the rising trend of the cost of living in Britain. It remains to be seen to what extent it will affect the cost of production, and a revaluation of sterling on the basis of the present purchasing power parities might easily result in an overvaluation if British prices should rise above world prices. Now that the principle of maintaining wages at their present level has been practically abandoned in face of the growing scarcity of labor through rearmament, the risk of such a rise could not be lightly dismissed.

It seems probable that speculation in favor of a revaluation will continue for some time. While, however, widespread anticipation of the devaluation set into motion forces that ended by compelling Britain to devalue, similar anticipation of a revaluation would not be able to produce a comparable effect. The British Government cannot be forced to revalue against its wish in the same way as it was forced to devalue against its wish. Nevertheless, since the ways of governments are inscrutable, it would be bold to rule out altogether the possibility of a change of policy in favor of revaluation.

Increased Taxation Is Unnecessary

By ARTHUR W. MILLER

Wherein it is contended higher tax rates or new sources of revenue are unnecessary now if our great wastes are eliminated, and if our production and economic activity generally are not obstructed by repressive controls and unwise taxes.

Now that our Congress has enacted a new tax bill to yield around $5 billion per annum, isn't it about time to stop, look, and listen?

If, as seems to have been the case, we could, with little or no change in tax rates, have achieved the additional revenues needed by the government for the now foreseeable Defense effort, then it is now surely the part of wisdom to follow the more conservative course; to encourage rather than to discourage sound industry, and so to avoid **decreasing the tax-paying base.**

Furthermore, no patriotic and informed citizen can deny that the well-known wastes in our non-military government establishments should, under present conditions, be cut down as rapidly as possible, and all reasonable economies effected along the lines so frequently and recently demonstrated by Senator Byrd, **before** tax rates are increased. The Senator believes that $5 billion—to $10 billion **per annum** can readily be saved, to the benefit of **all** under wartime conditions.

Certainly, with present extraordinarily high food and farm prices, we ought to be able to cut down on a substantial part of our farm price supports, and we ought to be willing to sell some of our vast surplus food stocks at reasonable prices, instead of giving away, wasting, or destroying them. Surely, also, the Post Office budget should be balanced, thus bringing in more than $600,000,000 additional revenue. And certainly we can **now** cut down on ECA "gifts" to various countries, if we are giving them additional large sums for rearmament! There are further great opportunities for saving in the Veterans' Administration, and in our Public Housing programs, as mentioned by President Truman himself.

Production for Victory

Surely we are all in agreement that wasting money does not win wars! Also, in the long run, **greater production** will do far more to hold back "inflation" and to bring us victory, than any amount of ill-timed or unnecessary taxation! Currently, also, the Federal cash budget is not far out of balance.

In looking at the U. S. Treasury records, we find that the corporate income tax liabilities for the calendar year 1948 were around $2.5 billion higher than in calendar 1949. We find, also, approximately a similar difference in the individual income taxes accruing in the two periods—an aggregate of $5 billion more under the same tax laws.

The Federal Reserve Board index averaged 192 in 1948, and only 176 in 1949. It is now around 205, and may well advance to 210-220 within a year or two. It would, therefore, have been reasonable to expect an **increase** in revenues during the current fiscal year, without any increase in tax rates, of probably **more** than $5 billion, due solely to increased physical volume of business activity. There would also have been some further normal increase due to moderate price advances.

If our economic activity is not discouraged or disturbed by heavier taxes or too much government "control," then it is reasonable to expect a substantial further increase in tax receipts during the **next** fiscal year—probably several billion dollars over and above the current year. Surely, we should not forget that during the first half of 1950 receipts were more than $2 billion greater than the government had been forecasting at a fairly recent period—at any rate, our forecasted deficit was reduced by that amount! Further, for the first 2½ months of fiscal 1951, at the same old tax rates, our fiscal position is some $2 billion better than a year ago!

In addition to the foregoing probabilities, due to changes in our Social Security laws already effective, and due to the further coverage which has been approved, there will be additional cash receipts from this source up to $1.5 billion or more **per annum** and these receipts have always been borrowed back for the current uses of the government when there is not a budget surplus.

Putting all these things together, the reasonable probabilities for **additional** receipts for "Defense" purposes, even under the old tax rates and with a minimum of discouraging controls on the part of the government, would seem to have been approximately, **per annum**, initially and ultimately, as shown in the accompanying table.

$30-$40 Billion for Defense

Our recently enacted tax law **may** add around $5 billion to the above figures, thus making the **additional** amount for "defense" purposes from $18 billion to $27.5 billion. The **total** would be from more than $30 billion to more than $40 billion per annum for **defense.**

The above additional amount is even **greater** than that recently forecasted or requested by either the Secretary of Defense or the President himself, and cannot immediately be spent. Why, therefore, attempt at **this stage** to impose heavier tax burdens?

Under the conditions above outlined, and without any increase in tax rates, our prospective Federal tax revenues should have been above $50 billion per year, or far above the recent war-time **maximum.** To this must be added state and local tax burdens now approaching $20 billion per year. The aggregate would be around $70 billion in tax burdens (direct and indirect), or above 30% of our contemplated national income produced. This is even more than our economy can endure over a period of time, without serious deterioration.

Our flat over-all corporate tax rate, at 45% under the recently enacted legislation, is the highest on record, and will be deeply discouraging to management. Profits vary from industry to industry, and from company to company, even in the same industry, depending upon all sorts of fortuitous conditions, but particularly upon the **capacity** of the **management,** which can never be standardized. In every industry there are concerns which pay identical wages, pay the same

Continued on page 39

From elimination of waste	$5 - $10 billion
From increased business activity	$5 - $8 billion (at least)
From some increase in prices	$1 - $2 billion
From expanded Social Security receipts	$1.5- $2 billion
From plugging minor loopholes and taxing co-operatives	$0.5- $0.5 billion
Total (per annum)	$13.0-$22.5 billion

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Volume and activity have receded somewhat in the government market with quotations also tending to move in a narrower range. Although the refunding is out of the way, Federal continues to rule the roost, determining rates and policy. The bank issues have been well taken again but with decreasing enthusiasm and in smaller amounts. There is still fear that higher short-term rates will be seen in the future and this tends to keep down the size of commitments that are being made in the higher-income eligible obligations. The near-term end of the list has been easier, due in some measure to tight money market conditions.

The tap issues continue to show great stability despite the fact that there are large amounts of these bonds around for sale. There has, however, been some minor shading of quotations in the shorter maturities of the ineligibles. A firm and steady tap market, with a large overhanging supply for sale, is keeping money market operators a bit on the anxious side.

Uncertainty Still Grips Market

The government market again is in one of those in-between periods, which usually bring with them indecisive price movements. The reason for this type of market action is the uncertainties which are prevalent in the money markets. There is nothing new in the picture, it is the same old question as to whether reserve requirements will be increased or the certificate rate will be upped to 1½%. No one has the answers to these questions at hand and there are no clues appearing at the moment which seem to have much significance as to what is likely to develop. The steadiness of short-term rates under the leadership of Treasury bills has given some operators a feeling that the authorities are going to keep interest rates about where they are for a while.

This, however, is only one side of the situation, because there are quite a few shrewd money market followers who believe that not only will the yearly rate go to 1½%, but there will also be an increase in reserve requirements. It is pointed out that the hardening of rates will be a slow gradual process so that disturbances will be kept at a minimum. Accordingly, the current stability in the near-term end of the list is looked upon by this group as just a breather before more pressure will be put on the money markets by the authorities.

Selling Pressure Continues

The intermediate and long eligible 2¼s and 2½s have been under a moderate amount of selling pressure, which still stems from insurance companies. However, price changes have been rather restricted which would ordinarily indicate a drying up of the liquidation. To some extent this is the case, but the weight of opinion now seems to be that the narrow quotation range is due more to a lessening of interest, caused mainly by the uncertainty as to what the future trend of interest rates is likely to be. It is this keeping up the government market on edge which (and it seems the authorities want to continue) has been cutting down purchases of the out-of-town commercial banks. These institutions nonetheless have been making some use of scale orders to acquire the higher-income eligibles.

The tap bonds continue to be steady and stable, although there has been a tendency here and there to shade prices a thirty-second or so, especially among the earlier maturities. Under the sponsorship of the Central Banks these bonds are being kept right where the authorities want them to be. Buying by Federal of the restricted issues is being done in a manner which still leaves quite a few of these bonds overhanging the market. The so-called "Forward Sales" of the ineligibles by large insurance companies are being frowned upon by the Central Banks. What will be done to resolve this situation is giving the financial district much to talk about. There is no doubt the Central Banks are in a position to handle this situation and it will be done the way they want it done when it is believed the time is right. In the interim, many restricted bond buyers are not inclined to do very much, being content, it seems, to sit on the sidelines and observe what the Central Banks will do to remove the sizable blocks of tap bonds that are available for sale.

2½% Yield Believed Tops

There has been considerable question as to whether a 1½% certificate rate would be compatible with a 2½% rate for the longest maturities. The consensus of opinion at this time seems to be that even though the one-year rate might go to 1½%, the longer-term obligations would still show a yield of not more than 2½%. There might, however, have to be a minor adjustment in the prices of the longer outstanding issues.

The partially-exempts continue to be taken out of the market by the large money center banks. The New York City institutions, according to reports, have been the big buyers of these bonds. The 1960-65s have been the leading issue bought by these banks.

Treasury bills still appear to have the center of the stage as far as the shorts are concerned. There has, however, been more interest appearing in the new notes than has been the case recently. Tax loss switching is responsible for some of this activity.

R. E. Crockett Opens

UPPER MONTCLAIR, N. J.—Robert E. Crockett is engaging in a securities business from offices at 329 Park Street.

F. W. Dixon Opens

HENDERSONVILLE, N. C.—Frederick W. Dixon is engaging in a securities business from offices here.

With Minneapolis Assoc.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Harold A. Larson, Wilton B. Larson and Fred E. Meyer have been added to the staff of Minneapolis Associates, Inc., Rand Tower.

With A. A. Tibbe & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Ruth M. Dunlap has joined the staff of A. A. Tibbe & Co., 506 Olive Street.

R. Sims Reeves With Andrews, Posner Firm

R. Sims Reeves has become associated with Andrews, Posner & Rothschild, 60 Wall Street, New York City, members of the New York Stock Exchange, to handle special situations. Mr. Reeves was formerly New York Manager for L. Johnson & Co. Prior thereto he was with Blair & Co., Inc., In the past he conducted his own investment business in New York.

R. Sims Reeves

COMING EVENTS

In Investment Field

Oct. 16, 1950 (Louisville, Ky.)
Kentucky Bankers Association Meeting.

Oct. 19, 1950 (New York City)
New York Security Dealers Association General Dinner Meeting at 5 p.m. at the Hotel Gramercy Park Roof Garden.

Oct. 30, 1950 (New York City)
Wharton School (University of Pennsylvania) Dinner in honor of Bernard F. Gimbel at the Waldorf-Astoria Hotel.

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.

Investment Ass'ns To Hold Conference

BALTIMORE, Md.—A joint conference of the Association of Stock Exchange Firms, Investment Bankers Association of America, and National Association of Securities Dealers, Inc., will be held in Baltimore, Md., on Tuesday, Oct. 24. The morning session will be at the Maryland Club, the afternoon session at the Elkridge Club.

Attendance, which is by invitation only, is restricted at the morning session to two men from each firm where the main office is located in the district (Maryland, District of Columbia, Virginia, West Virginia and North Carolina) and one man from each firm where there is no main office in the territory. This has been arranged so that the conference may result in real discussion.

The evening meeting will be enlarged to include executives of corporations with headquarters in the Baltimore area whose securities are listed on the leading exchanges or traded actively over-the-counter in this territory. Should dealers outside the Baltimore area wish to invite as their guests executives of corporations whose securities are similarly traded in their communities they should communicate with John Redwood, Jr. c/o Baker, Watts & Co., Baltimore.

Arrangements have been made to reserve a number of double rooms at the Sheraton Belvedere Hotel for the night of Oct. 24. As these reservations can be held for a short time only it is urgent that reservations be forwarded promptly to Edward J. Armstrong, c/o Stein Bros. & Boyce, Baltimore. Attendance fee for forums, luncheon and dinner, $15. Forums and luncheon only, $5; dinner, $10.

Charles L. Bergmann, R. W. Pressprich & Co., New York City, will address the morning forum on railroads on "Looking at Both Sides of the Railroad Picture." Francis Adams Truslow, President of the New York Curb Exchange, will speak at the afternoon forum on "A New Rate Structure for the Securities Business." Hon. Harry A. McDonald, Chairman of the Securities and Exchange Commission, will speak on "The Place of the Securities Industry in the Mobilization Effort or Where Do We Go from Here?" Emil Schram, President of the New York Stock Exchange, and Thomas S. Nichols, Chairman of the Board and President of Mathieson Chemical Corp., will be speakers at dinner.

Among those planning to attend are:

Emil Schram, President, New York Stock Exchange.

Albert T. Armitage, President, Investment Bankers Association of America.

John J. Sullivan, Chairman, National Association of Securities Dealers, Inc.

Laurence M. Marks, Vice-President, Investment Bankers Association of America.

Sidney L. Parry, Executive Vice-President, Association of Stock Exchange Firms.

Murray Hanson, General Counsel, Investment Bankers Association of America.

Wallace H. Fulton, Executive Director, National Association of Securities Dealers, Inc.

With J. C. Newsome & Co.

J. C. Newsome & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that James D. Pennefeather has become associated with the firm as a registered representative.

"Fitting Overalls to Dollars"

By ARNOLD GRUNIGEN, Jr.*

Sales Manager, J. Barth & Co., San Francisco
Members New York and San Francisco Stock Exchanges

Mr. Grunigen, defending securities salesmanship and aggressive investment as "fitting overalls to dollars," urges continued publicity work by brokers and dealers. Says real romance weaves itself into the job of securities dealers, and points out investments make jobs for all. Calls attention to increase in women investors and large available funds for current investment.

Montgomery Street in San Francisco senses that you, the investing public, are tired of idle dollars. You are becoming interested in putting yours to work.

Arnold Grunigen, Jr.

We decided that it is up to us to move out of the role of speculator and into the active avenue of spreading America through shares in our multiplied enterprises.

We are the folks who put overalls on your dollars. After the butcher, the baker and the candlestick maker, take theirs, not to mention the tax collector, we would like to aid you in the investment of the balance.

Once upon a time cities, towns, railroads, public utilities and industry needed more dollars than were readily available from banks or individuals. A few hardy souls ventured out with wallets and bags carrying warrants, bonds and notes—and called on banks, institutions and some of the larger private investors. Later, this business grew into what we now have on Wall Street, later to La Salle Street, and still later to Montgomery Street.

Brokers and investment houses were dignified, painfully so, for a long period. Mahogany desks, furrowed brows, moldy buildings, imposing grillwork—this was the setting for investment banking as it came into being. Members of the Advertising Club called and talked "Public Relations" to this august business. "Advertising?" The Street was horrified! We trudged along for a few years—National Socialism appeared as a menace, and then came the most fearsome of all—a policy known as "Let the Government do-it-all."

Alarmed and panic stricken, we remembered the Ad Club's advice, "Do not hide your light under a bushel. When business seems to be going to the dogs, come out of your kennel and bark your wares louder than ever." Our mittens came off; there was no room for "pussyfooters"; the horse was not quite stolen. Our business was a service. The United States could not borrow itself into prosperity. It *was* necessary to preserve free enterprise.

Our "Public Information" program swung into action. We proudly told the nation that *we* fitted "overalls to dollars." We hastened to tell them that our business was one phase of "America at work." Brokers and dealers act as the major step between capital and the user.

Real romance weaves itself into the job of the securities dealer. He sees corporations grow up into the position where they need financing. They avail themselves of it, and then he notes that they grow into the position where they are self-sustaining. They pay off the debt and, finally, finance themselves out of surplus. In the same manner, he sees an individual with an idea or a patent first finance himself out of his own pocket. Later he enlists the assistance of friends, then moves into the realm of bank financing—grows out of that by going to the public with an issue of stocks and/or bonds where the investment broker gets a chance to do a job. Then he often comes out into that wonderful position where he can build plants and additional equipment out of earnings, all without employing any of the mediums of finance whatsoever.

Investment Makes Jobs

This work of ours is interesting because it makes jobs. It assembles capital funds. It often proves to be the source of life-blood for business. It is business that must find volume because profit margins are narrow and overhead is always an item.

Utilities such as the one whose picture will be shown tonight (P. G. & E. Co.) are now a mass of lakes, dams, tunnels, powerhouses, poles, wire conduits, etc., but we first knew them when they were dreams, lines on paper, then, when the dollars were raised from investors, like you here tonight, the dream was realized.

There is romance in helping one California company raise $330,000,000 in five years, 1946/51, for its construction program. It is interesting to balance the capital set-up properly between bonds, preferred and common stock.

Increase of Women Investors

Before I leave romance, don't think that we have not noted the large majority of women on our prospect lists. It signifies a growing interest of women in investment. Women own about 70% of this nation's wealth. Life insurance tables show women have longer life expectancy than men and many women, as we know, are left with investment problems. An article recently in the New York Stock Exchange magazine stated that most companies seemed to have more women stockholders than men. As one financial writer recently wrote, "Everyone who handles investments is impressed by the fact that the women of America constitute the 'property class'." I have a couple of examples of this. Sears, Roebuck & Co. state that 43% of their stockholders are women, 30% men, 10% are joint tenancy and the balance are institutions. In our own Pacific Gas & Electric nearly 41% of the stockholders are women, only 27% are men, 21% are held in joint tenancy with the balance held by institutions.

America never had so much money to invest as she has today. We must spread America among Americans.

Parents, fathers and mothers, here, is a "tip." See to it that every high school and college student in your home gets a share of America for birthdays and Christmas.

Nothing works so well! When your boy and girl get an annual report, a stockholder's proxy, not to mention that wonderful thing called a dividend check, they understand graphically how America works.

We are in the fourth half-century of our beloved country's history.

The first half-century was spent in building. We made the Declaration of Independence effective.

The second half-century saw the first steps in national development, financed by individual capitalists.

In the third half-century, we outran the resources of individuals. Long distance transmission lines, highways and aviation came along.

Here we are in the fourth half-century. It began in 1923. We are at the half-way point. How are we doing?

Some 78 million have insurance policies. Over 60 million have savings accounts. Only some 10 million own stocks or bonds other than government securities.

The best American, humanly speaking, is the one who has a stake in our business and industry through *direct* ownership. The great desire of my associates in thousands of financial shops throughout the country is that Mr. and Mrs. America will walk into our stores for a financial lesson.

We Want to Keep Our Capital Moving

Here is America. Here is what we want to keep. The farmer's land, his livestock, his machines, they are capital. The merchant's store, the goods on his shelves and the truck that delivers them are capital. The tools of the skilled mechanic are capital. Everything that contributes to the production and distribution of goods is capital. A capitalist isn't just a banker or a manufacturer. We all belong. We invite you to join formally through the direct ownership of equity stocks in America's corporations.

Disciplined private business needs to be better understood. The stock brokerage and investment business falls into that category. We welcome your interest in this phase of "America at Work." Such interest is what will keep us in the "American Way."

Inflation, which haunts us today, in a very real way, means death to fixed incomes. It was never so important for you and me to understand something of economic fundamentals. Very serious days are upon us.

So, know your financial institutions, their customs and purpose. Knowledge and understanding of our functions will prove helpful. Sound financing spread among banks, insurance companies, schools and colleges, as well as to the private investor, builds the nation. A clear picture of the investment machinery in your financial district makes you a better champion of "private enterprise"—in ours, the most wonderful country in the world.

Money wants work, wants a job. Let's get the green light lit for private capital. We readily admit that we want to stay on the job of—"fitting the overalls to the dollars."

ODE TO THE BONDMAN
(Written by Edgar A. Guest in 1928)

"Who are the boys with stylish hats?—The Bondmen
Who always put on pearl gray spats?—The Bondmen
Who speak a language somewhat strange?
And use such terms as 'yield' and 'range'
Picked up along the stock exchange?—The Bondmen
Who are the boys with snappy ties—The Bondmen
The lads with yearning in their eyes?—The Bondmen
Who come and go and come once more. And line up at my office door
And wait on me from nine to four?—The Bondmen
Who oftenest call and longest stay?—The Bondmen
Who always have nice things to say?—The Bondmen
Who whisper with no show of mirth:
'This is the greatest buy on earth!
Take just ten thousand $ worth!'?—The Bondmen
Who won't believe that I am broke—The Bondmen
Who think my debts are all a joke?—The Bondmen.
Yet, who my great ambitions spur,
And feed my hopes it may occur.
Some day? I'll be their customer?—THE BONDMEN."

*A lecture by Mr. Grunigen given under auspices of San Francisco Stock Exchange in conjunction with the Adult Educational Program of the San Francisco Public School System, San Francisco, Cal., Oct. 3, 1950.

Charles Foster Glore

Chicago Banker and Art Patron Passed on at 62.

Charles Foster Glore, partner of the Chicago and New York underwriting investment firm of Glore, Forgan & Co., died last Friday in St. Luke's Hospital, Chicago.

Charles F. Glore

In 1912 Mr. Glore and Marshall Field formed the firm of Marshall Field, Glore, Ward & Co. which was later succeeded by Field, Glore & Co. and in 1936 by Glore, Forgan & Co. the present firm.

Mr. Glore served as a Major of Infantry during the first World War and was on General Pershing's staff. He was Illinois Chairman of the British War Relief Society during World War II and in 1946 was named a Commander of the British Empire. Mr. Glore was a trustee of the Art Institute in Chicago for a quarter of a century and he was active as a director in several corporations.

Mr. Glore's associate partners in Glore, Forgan & Co. were J. Russell Forgan, Halstead G. Freeman, Edward Francis Hayes, Wright Duryea, John F. Fennelly, Rudolph E. Vogel and John W. Pope.

Propose Formation Of Talmage & Co.

Formation of Talmage & Co., as members of the New York Stock Exchange, is proposed to become effective on Oct. 16, 1950, it is announced. Principals in the new firm will be John D. Talmage and Bradbury K. Thurlow, both of whom are at present general partners of Minsch, Monell & Co. which will be dissolved Oct. 13. Talmage & Co. will specialize in portfolio management as well as conducting a general brokerage business.

A member of the New York Stock Exchange since 1940, Mr. Talmage became a partner of Minsch, Monell & Co. in 1944. He is a trustee of the Williamsburgh Savings Bank and several charitable organizations.

Mr. Thurlow became associated with Minsch, Monell in 1947 as a security analyst. He was made a partner in June, 1950. A graduate of Harvard University, Class of '46, where he was admitted to Phi Beta Kappa, Mr. Thurlow has written articles for several financial publications. He is a member of the New York Society of Security Analysts.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Manufacturers Trust Co., New York, is distributing in limited quantity copies of its new 1950 Income Tax Withholding Chart book. This book contains a series of charts covering standard payroll periods and shows the amount of Federal income tax to be withheld from salaries or wage payments made on and after Oct. 1, 1950. Unlike the "wage bracket tables" contained in the new Revenue Act, these figures are based on the "exact computation" or "percentage" method of calculation, and make it possible for an employer to make deductions based on such methods from the tables, without going through the mathematical computation prescribed in the law.

* * *

John E. Dewhurst, Donald A. Halliday and George A. Wick have been appointed Assistant Secretaries of the **United States Trust Co. of New York,** Benjamin Strong, President, announces.

* * *

Walter Hartmann of Havana, Cuba, has been elected a Vice-President of the **American Trust Co. of New York,** it is announced by Harvey L. Schwamm, President. He will be the bank's Cuban representative. Mr. Hartmann is President of the investing firm of Cia de Inversiones Harla S. A., Havana, and Treasurer of Cia de Financimiento Cidac S. A., Havana, an automobile finance company. He is also President of Cia Importadora de Autos y Camiones S. A., Havana, general agents for Chrysler and Plymouth cars and Fargo trucks in Cuba.

* * *

The Industrial Bank of Commerce of New York announces the opening of new and enlarged banking quarters at 26 South Broadway, Yonkers, N. Y., on Oct. 9.

* * *

At the regular meeting of the directors of **The National City Bank of New York** on Oct. 10, Grenville B. Winthrop, Jr. was appointed an Assistant Vice-President. He was formerly an Assistant Cashier. Mr. Winthrop became associated with the Farmers' Loan & Trust Company in 1922 and joined The National City Bank of New York when that company merged with the Bank in 1929.

* * *

George D. Busher, Vice-President of the Eugene J. Busher Company, Inc., a real estate organization, has been elected a Trustee of **The Bronx Savings Bank of New York.** Mr. Busher, a graduate of Dartmouth, is also a Vice-President of the Bronx Board of Trade and is associated with various other organizations.

* * *

The absorption of the **Home Bank & Trust Co. of Darien, Conn.,** by the **Stamford Trust Co. of Stamford, Conn.,** became effective on Sept. 29, when the Darien bank became the Home Bank Office of the Stamford Trust. An item regarding the proposed merger appeared in our Sept. 7 issue, page 907.

* * *

The Portland Trust Co. of Portland, Conn., having been absorbed on Sept. 29 by the **Riverside Trust Co. of Hartford, Conn.,** is now known as the Portland Branch of the Riverside institution. Details of the plans were given in these columns on July 20, page 260.

* * *

As the result of a stock dividend of $125,000 and the sale of $25,000 of new stock, the **First National Bank of Meadville, Pa.,** has increased its capital as of Sept. 25 from $250,000 to $400,000, it is learned from the Oct. 2 Bulletin of the Office of the Comptroller of the Currency.

* * *

The Fort Wayne National Bank of Fort Wayne, Ind., announces the sudden death on Oct. 1 of Russell G. Ayers, Vice-President.

* * *

On Nov. 9 a special meeting of the stockholders of the **Sears Community State Bank of Chicago** will be held to vote on the question of increasing the capital from $1,200,000 to $1,600,000 through the issuance of new stock; the plans are to increase the stock from 48,000 to 64,000 shares, par $25. The additional shares, it is learned from the Chicago "Journal of Commerce" of Oct. 6, will be offered to stockholders at $40 on the basis of one share for each three held. The same paper said:

"The bank, which is in the Sears, Roebuck & Co. mail-order plant at Homan Avenue and Arthington Street, was established in 1931. On Sept. 30 the bank showed deposits of $75,500,000, an increase of more than $8,000,000 since Dec. 31, 1949."

* * *

Effective Sept. 18, the **Farmers First National Bank of Minooka, Ill.,** was placed in voluntary liquidation following its absorption by the **First National Bank of Joliet, Ill.** The Minooka bank had a capital of $25,000. An item bearing on the taking over of its deposits by the Joliet bank appeared in our Aug. 17 issue, page 641.

* * *

An addition of $50,000 to the capital stock of the **Farmers National Bank of Webster City, Ia.,** has been brought about by a $50,000 stock dividend, the capital thereby being raised from $50,000 to $100,000 as of Sept. 19.

* * *

The **First National Bank of Lafayette, La.,** has been larged from $400,000 to $500,000 by the sale of $100,000 of new stock. The increased capital became effective Sept. 22.

* * *

Laurence Tharp, Vice-President in charge of the trust department of the **Anglo California National Bank of San Francisco,** has been elected a member of the Executive Committee of the Trust Division of the American Bankers Association. This is the highest national organizational body in the trust field. Mr. Tharp's term will run for three years.

* * *

L. E. (Lew) Williams, veteran Oregon banker and a Vice-Pres. of the **United States National Bank of Portland, Ore.,** retired on pension Sept. 30 after more than 40 years in banking. Announcement of Mr. Williams' retirement was made by E. C. Sammons, President. A native of North Wales, Mr. Williams came to the United States in 1906. Locating in Utica, N. Y., he worked there for a few months, and in 1907 went on to California. In July, 1910, he went to Portland where he entered the employ of the Security Savings and Trust Bank; in 1920, he joined the old Ladd & Tilton bank in Portland. He was Manager of the foreign trade department when Ladd & Tilton was consolidated with the United States National Bank in 1925. Mr. Williams was named an Assistant Cashier and Manager of the United States National's foreign department in January, 1930. In 1939 he was appointed an Assistant Vice-President and in 1948 became a Vice-President. He made two trips to Europe visiting correspondent banks of the bank. Mr. Williams was President of the Portland Chapter of the American Institute of Banking in 1922, when the first national convention was held in Portland.

* * *

An increase in the capital of the **National Bank of Washington, at Tacoma, Wash.,** from $1,125,000 to $1,875,000 by the sale of $750,000 of new stock, became effective on Sept. 18.

Richard F. Abbe With Shields & Co.

Richard F. Abbe has become associated with Shields & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, in their bond department. Mr. Abbe was formerly with Wertheim & Co. and prior thereto conducted his own investment business in New York City under the firm name of Richard F. Abbe Company.

Richard F. Abbe

City Nat'l Men Address Gatherings; Unge, Vice-Consul

KANSAS CITY, Mo.—Edward F. Lyle, Vice-President and Comptroller of City National Bank & Trust Company, Kansas City, Mo., will be one of the speakers at the State meeting of the Kentucky Bankers Association, Oct. 16, in Louisville. Mr. Lyle is the outgoing President of the National Association of Bank Auditors and Comptrollers.

Cyril J. Jedlicka, Vice-President and head of the City National's instalment loan department, was a speaker at the meeting of the Central Kansas Lumbermen at Salina, Oct. 11.

Bror W. Unge, manager of the Foreign Department of City National Bank & Trust Company of Kansas City, Mo., has been named Vice-Consul of Sweden for Missouri.

Gosta Oldenburg, Consul-General for Sweden, made the appointment at a meeting of the International-Trade Club in Kansas City, which club Mr. Unge was active in forming.

Mr. Unge, a native of Sweden, has been connected with the bank for five years and for 20 years was in the import-export business. Also he has been a teacher of economics and foreign trade in several colleges.

Ronald Smith Heads Bache Foreign Dept.

Bache & Co., 36 Wall Street, New York City, members New York Stock Exchange, announce that Ronald D. Smith has become associated with the firm as manager of its foreign department.

Jacques Coe, Partner

Seth H. Baker, member of the New York Stock Exchange, will become a partner in the Exchange firm of Jacques Coe & Co., 39 Broadway, New York City, on Oct. 15.

The Recent U. S. Gold Outflow

John F. McKiernan, Director, New York office of U. S. Department of Commerce, says change in international payments situation is chiefly responsible for reversal of trend and not fear of advance in gold price of dollar.

At a monthly round table Conference of the Foreign Credit Interchange Bureau, held in New York City on Oct. 4, John F. McKiernan, Director of the Regional Office of New York City of the United States Department of Commerce, gave an official explanation of the recent movement of gold from this country. According to Mr. McKiernan:

John F. McKiernan

"The basic reason for the loss of gold by the United States in recent months has, of course, been our overall balance of payments situation. For the past year the amount of dollars made available by the United States through imports of goods and services, Government aid, private remittances and the outflow of private American capital has exceeded the amount of dollars used by foreigners to purchase goods and services from us. Essentially there are only three things the foreigners could do with these dollars: (1) leave them on deposit in American banks; (2) use them to buy American capital assets (especially short-term United States Government securities); or (3) buy gold.

"Gold has traditionally been the most preferred form for holding international financial reserves. Although this preference has been considerably lessened since the first World War by the development of the gold exchange standard—under which countries held United States dollars or other convertible currencies in place of gold—there is still a preference in many countries of the world for holding gold in preference to any other type of liquid asset. Thus at any time when the conditions of the United States balance of payments are such that foreign countries are receiving more dollars than they are spending, there is a tendency to convert the excess into gold. During the war, for instance, the four years 1942 to 1945, foreign countries purchased from the United States about $2.7 billion worth of gold in addition to increasing their short-term assets in the United States by about $4.1 billion. During the nine months ended June 30 (statistics for the third quarter are not yet available but based on preliminary indications the trend continued) foreign countries bought about $400 million in gold from the United States while increasing their short-term balances here by about $800 million. It appears that during the third quarter these proportions may have been reversed and that the gold purchases substantially exceeded the increase in short-term dollar balances, but it should be noted that there was still an increase in foreign-owned dollar holdings during the third quarter.

"The opinion has been expressed in many quarters that the gold outflow has been the result of a fear that at some future time the price of gold might be raised by the United States; that is the dollar might be devalued. While, of course, there is no way of appraising the strength of this motive in the recent movement, it would seem significant that the holdings of dollar balances as such (either in the form of deposits or United States Government securities) are still much larger than they would need to be if they were being held merely as working balances. Moreover, as indicated above, gold has always been purchased by certain foreign countries at a time when they were able to increase their gold reserves. Thus the quantitative effect on recent gold movements of any 'dollar scare' must be relatively insignificant."

Pacific Power & Light Common Shs. Offered

For the first time since the company was founded in 1910, common stock of Pacific Power & Light Co. was made available to the general investing public yesterday (Oct. 11) with the offering of 1,078,744 common shares, at $14 per share, by a nationwide underwriting syndicate headed jointly by Lehman Brothers, Union Securities Corp. and Dean Witter & Co.

The shares do not constitute new financing by Pacific Power & Light Co. and the company will receive none of the proceeds from the sale. The stock is part of the shares purchased last February from American Power & Light Co. by a group of 16 investors represented by A. C. Allyn and Co., Inc., and Bear, Stearns & Co. The purchasing group at that time acquired the entire outstanding issue of Pacific Power & Light Co., all of which was owned by the parent company, American Power & Light Co. Certain members of the purchasing group have decided to retain their holdings totaling 671,256 common shares of Pacific Power & Light Co. which comprises the balance of the 1,750,000 common shares issued by the company.

Pacific Power & Light Co. is an operating public utility engaged primarily in the generation and sale of electricity in the states of Oregon and Washington. It also supplies steam heating service in Portland, Ore., and Yakima, Wash., and water service in Prineville, Ore. The area in which the company furnishes electric service approximates 8,600 square miles, with an estimated 1950 population of 750,000. On July 31, the company furnished electric service to 142,814 customers. A total of 91 communities is served, the larger communities being Yakima and Walla Walla, Wash., and Portland, Astoria, Bend and Pendleton, Ore.

A dividend of 27.5 cents a share on the common stock was paid on Sept. 25, 1950. It is the present intention of the management of the company to recommend to the board of directors the declaration of a quarterly dividend on the common stock in December, 1950, at the same rate paid on Sept. 25, last.

Wood, Gundy Co. Chicago Branch

CHICAGO, Ill.—Wood, Gundy & Co. announce the opening of a Chicago office at 105 West Adams Street, under the management of Harcourt Vernon.

Robert von Stein

Robert H. von Stein died at the age of 69. Mr. von Stein, before his retirement, had at one time been with Charles A. Stoneham & Co. and E. H. Clark of New York City.

Foresees No Early Treasury Deficit Financing

Aubrey G. Lanston & Co. estimates based on Federal receipts and expenditures, there will be no need for large offering of Treasury securities until middle of 1951.

Answering the question "Is large Treasury financing likely in the near future," Aubrey G. Lanston & Co., Inc., specialists in government securities, place the time not earlier than May or June of 1951 and "possibly not until after that." The basis given for this prediction follows:

Aubrey G. Lanston

"The huge appropriations for national defense have carried with them the implication that the Treasury might have to engage in large-scale deficit financing. A careful estimate of Treasury receipts and expenditures through June 30, 1951, clearly indicates, however, that the Treasury should not need to make large cash offerings of Treasury securities until May or June, 1951.

"This estimate takes account of the additional receipts from the tax legislation already enacted and further assumes that (1) holdings of savings notes and savings bonds will not be dislodged to any appreciable extent during this interval either from increased fears of a reduction in the purchasing power of the dollar or from uncertainty as to the stability of Treasury security prices; and (2) expenditures under the presently-authorized defense program will reach a $30 billion per annum rate at the end of June, 1951. In reaching the latter projection, we simultaneously found that we had set a figure of $20 billion for defense expenditures for the fiscal year. Other expenditures were placed at $24 billion, and total expenditures, therefore, were $44 billion. The resulting *budget* deficit for the year ending on June 30, 1951, came out between $1 billion and $2 billion.

"One of the principal sources of error in such estimates at this time is the unpredictable situation with respect to net sales or redemptions of savings bonds and notes. For savings bonds we assumed that the present rate of attrition would continue and that the Treasury might receive, between now and Dec. 10, $750 million from its special offering of series F and G bonds. In connection with savings notes, which provided the Treasury with nearly $900 million net during the first six months of 1950, we assumed that redemptions for the rest of the fiscal year would about offset new purchases. The difference between these estimates for savings bonds and savings notes and the actual history of the period will not change the *budget* deficit, but such difference will change the Treasury's *cash* position in a corresponding degree.

"Distributing our estimates by quarters, we concluded that a low point in the Treasury's balance would be reached in the middle of December. It appears, however, that the Treasury should be able to go through this period without offering additional securities for cash and without finding its general fund balance below $2 billion on Dec. 15. If this proves to be correct, the chances of large deficit financing by the Treasury prior to May or June, 1951 would appear to be remote. Again it is necessary to insert that one of the most difficult problems confronting debt management will be the balance that is struck between sales and redemptions of savings bonds, and our prior conclusion here is very definitely predicated on no materially adverse change in this balance.

"A resolution of the differences between the Treasury and the Federal Reserve might be followed by some change in the terms set for savings notes or the introduction of a new note which would cause such borrowings by the Treasury again to become an important source of Treasury cash. Shortly after the elections, moreover, Congress is scheduled to consider another increase in taxation. If taxes are increased again, the Treasury may gain funds at a faster rate than that allowed for, and this probably would be true even though Congress at the same time approves an enlargement in the defense program. Thus, we could find as we approach May and June, 1951 that large cash offerings to the general market will be further deferred.

"What meaning does this carry for us? Assuming as we did above that there is no sudden loss of confidence on the part of the public generally in Treasury securities or in the purchasing power of the dollar, the prospect of no large cash offerings of new Treasury securities should have the following results:

"(1) There should be a return of confidence and some buoyancy in the prices of restricted bonds.

"The prospect of no large cash offerings of such securities, together with the expected decline in the availability of mortgages and other nongovernment investments, in time should restore a balance in the supply and demand of restricted 2½% bonds such that the Federal should find purchases unnecessary and perhaps be tempted to resume its selling of these same securities. If the Federal withstands this possible temptation, funds should accumulate, against which offerings of long-term bonds might be made by the Treasury not for the purpose of raising cash but for refunding short-term securities held largely by commercial banks. The successful sale of such bonds, whether in marketable or nonmarketable form, would be facilitated if the prices of the longer 2½% restricted bonds were closer to 102 than to 101.

"(2) The achievement of stability and buoyancy in the restricted 2½% bonds would facilitate the development by the Federal Reserve of wider fluctuations in short-term Treasury securities.

"The achievement of stability and buoyancy in the restricted 2½% bonds would make it possible for the short-term rate to increase further than would otherwise be the case. Under the circumstances the Treasury might be amenable to the maintenance of fluctuations in short-term rates of a different character than those which have taken place heretofore. For example, the Treasury might agree with the Federal that a 1⅜% financing rate for certificates was satisfactory but at the same time be willing to see such securities fluctuate within a range of 1.30% to 1.42% in contrast with past practices which would require that the one-year rate be maintained in the open market with a price to the seller of not less than 1.37%. To the extent that the market gained knowledge that this type of fluctuation did not necessarily signal some new and higher short-term Treasury financing rate, the existence of a stable or buoyant market in restricted 2½% bonds would indicate the possibility that the Treasury might issue new long-term bonds and use the proceeds to retire short-term securities held largely by commercial banks. The prospective loss to the commercial banks of earning assets through refunding might reduce the amount of Federal support that was necessary in the short-term market.

"(3) Stability and buoyancy in restricted 2½% bonds would not mean comparable stability in intermediate and longer bank-eligible Treasury securities.

"In World War II the corporate tax rate was 40%, excluding the excess profits tax. The latter, while applicable to banks, was not an effective tax on bank earnings because banks obtained substantial reductions in their excess profits tax liability through the acquisition of large amounts of partially-exempt Treasury bonds. Thus the return available from taxable Treasury securities was reduced in most instances by only the 40% rate. This enabled bank investors to obtain a return after taxes of 0.53% on one-year Treasury securities, 1.20% on 2% bonds acquired at par, and 1.48% at the average price prevailing for bank 2½s of 1967-72. These net returns after taxes enabled the banker to shift from one-year securities to those optional in eight years and more than double his after-tax income. If the banker were willing to shift from one-year securities to the 23-year term of the bank 2½s, he nearly tripled his income.

"The corporate tax rate today is 45% and may be increased further. The pattern of interest rates starting at roughly 1.35% for one-year money and running to 2.20% for bank 2½s is obviously much flatter and therefore offers less inducement for banks to extend. When, however, consideration is also given to the impact of higher taxes, we find that even at present rates the banker who extends from one year to six years raises his income by only one-fourth.

"The term of bank 2½s has been shortened to 17 years, and a shift from one-year securities to such bonds raises the banker's income after taxes by less than two-thirds, compared with a tripling of his income in the earlier period. Naturally, any increase in tax rates will further limit these gains. Moreover, any increase in the short-term rate also would limit these gains, unless longer-term bonds drop substantially in price.

"Finally, instead of being faced with a lack of new bank-eligible securities, commercial banks will find the supply and demand situation sharply reversed beginning 19 months from now. Thus the commercial banker who may be tempted to seek an increase in income by shifting into the longest bank-eligible bonds could find that the impact of increasing supplies of such securities would produce a loss substantially greater than the gain in income to be achieved during the next year and a half."

Gilchrist, Bliss Co.

Gilchrist, Bliss & Co., members of the New York Stock Exchange, will be formed as of Oct. 19, with offices at 488 Madison Avenue, New York City. Partners will be George Gilchrist, Frank E. Bliss, the Exchange member, and Ernest Jellinek, general partners. Limited partners will be W. W. Goldsborough, Jr., Odette Patton and Karel Myzenbeek. Mr. Bliss has recently been active as an individual floor broker and prior thereto was a partner in Jacquin, Bliss & Stanley.

Railroad Securities

Favorable Rail Dividends

The anticipated wave of favorable railroad dividend news has started, and additional increases in regular rates and/or extra distributions are expected to dominate the news from now until late in the year. First Seaboard Air Line came along with an increase in the regular rate from $0.50 to $0.75 quarterly. Next, and considered long overdue by many followers of railroad securities, Santa Fe went on a regular $2.00 quarterly basis against the $1.50 rate that had been in effect since 1942. At the same time the directors continued the $2.00 year-end extra of recent years. The latest to fall in line with a more liberal distribution has been St. Louis-San Francisco.

St. Louis-San Francisco has been out of bankruptcy only a couple of years and so far no regular rate or policy had been established with respect to common dividends. Early in 1949 an initial common dividend of $1.00 was declared and that was the only payment made during the year. No further action was taken until May, 1950, when $0.50 was declared, payable in mid-June. At the time no assurance was given that this could be considered as an established regular rate. Last week two dividends of $0.50 each were declared, both payable Dec. 15 to holders of record Dec. 5. One of the $0.50 dividends was characterized as an extra. As a result, the general feeling is that the stock may now be considered on a regular $0.50 semi-annual basis, with extras to be paid when, and if, justified by earnings and prospects.

The stock responded sharply to the dividend announcement. Before the end of the week it had advanced to 18, up more than 80% from the 1950 low of 9⅞. This is the best level at which the new stock has sold since it was initially listed on the New York Stock Exchange in 1946. During the interim since listing on a when-issued basis the low was 5⅛ registered in 1947. Now that a regular dividend policy has been established, it is expected that the shares will attract an increasing investment following. Despite the wide appreciation already witnessed many railroad analysts still consider the stock attractive at these levels.

St. Louis-San Francisco went through a drastic reorganization a few years ago, emerging with fixed charges of only about $3,000,000 compared with close to $12,000,000 for the old company. Income bond interest on emergence from bankruptcy was roundly $2,100,000. Subsequent retirements have reduced the contingent interest requirements while fixed charges have been increased moderately through issuance of equipment trust obligations. Total fixed charges and contingent interest now amount to $5,600,000 annually. These requirements would absorb less than 5% of revenues at the 1949 level. The preferred issue ($5.00 dividend cumulative to the extent earned) is small—only 618,597 shares. There are 1,241,157 common shares.

In the years prior to World War II 'Frisco had consistently been a relatively high cost operation—its margin of profit year-by-year ran below the average for the industry as a whole. During the war years its efficiency record ran just about on a par with that of all Class I carriers. In recent years, however, reflecting money spent on the property during trusteeship and the subsequent diesel program, it has forged ahead of the industry average. In 1949 it carried 13% of gross through to net operating income before Federal income taxes, compared with the Class I average of 11%.

Improvement in operating efficiency has continued in the current year. The transportation ratio for the seven months through July was more than three points below the like 1949 interim and the total operating ratio was cut by 5½ points. At the 1949 revenue level each point in this ratio is equal to $0.91 a share of common stock, before income taxes. Gross for the seven months was slightly higher than a year earlier and with expenses under strict control common share earnings reached $1.57 before sinking and other reserve funds. A year ago earnings on the same basis were only seven cents. For the full year earnings, before funds, should amount to at least $4.00 a share.

Bond Club of Los Angeles Elects

LOS ANGELES, Calif.—Results of the election of officers and directors of the Bond Club of Los Angeles for the 1950-51 club year were announced at a meeting of the Stock Exchange Club, presided over by Ralph E. Phillips, Dean Witter & Co., retiring President of the Bond Club.

F. Stuart Roussel, Vice-President of First California Company, was named President of the Club. Stevens Manning, manager of the municipal and investment departments of Paine, Webber, Jackson & Curtis, was elected Treasurer; and Curtis R. Bingham, partner of Bingham, Walter & Hurry, was named Secretary. The Vice-President and committee members will be announced later.

Murray Ward, Hill, Richards & Co., and Curtis H. Bingham are two new directors on the board which includes Ralph E. Phillips; F. Stuart Roussel; Charles F. Sill, Francis I. duPont & Co.; J. Earle Jardine, Jr., William R. Staats Co.; Jo M. French, Blyth & Co., Inc.; John A. Carter, Jr., Vance, Sanders & Co.; and Stevens Manning.

The highly successful program of activities in the 1949-50 club year, which included talks by nationally and internationally known authorities, and a field day at the Bel-Air Country Club, were summed up by Ralph E. Phillips, retiring President, who said the club now has 280 members.

With King Merritt Staff

DALLAS, Tex.—Frank Taylor Ford, Jr., is now affiliated with King Merritt & Co., Inc., Reserve Loan Life Bldg.

Joins King Merritt

John F. McDavitt is associated with King Merritt & Co., Inc., 22 East 40th Street, New York City.

Francis H. Kendall

Francis H. Kendall, Vice-President of Minot, Kendall & Co., Inc., Boston, and a member of the Boston Stock Exchange, died on Sept. 30.

Public Utility Securities

By OWEN ELY

Portland General Electric

Portland General Electric Co., the oldest and largest electric utility in Oregon, has a fully integrated all-electric system serving 43 cities and towns. In the City of Portland the company competes with Pacific Power & Light Co., with identical rate schedules; in the competitive area, PGE serves about three-quarters of the residential customers and half the commercial customers. The company also serves Salem, State capital, and an important trading and distributing center for a large part of the fertile Willamette Valley.

The Pacific Northwest has about 3% of the nation's population and 40% of the hydro-electric power resources, developed and potential. Inasmuch as practically all public and private power systems in the area are tied together in a single grid, which constitutes the Northwest Power Pool, the future of Portland General Electric is closely related to further power development in the Columbia basin.

The company generates about 32% of its own power through seven hydro-electric plants and three steam plants, and purchases about 68% from the Northwest Power Pool and from the Bonneville Power Administration (which distributes at wholesale the power produced at the Bonneville and Grand Coulee dams). The availability of low-cost hydro energy encourages heavy use of electricity by Portland General Electric's residential customers, with the result that average residential use (4,990 kilowatt-hours in 1949) is three times the national average, and costs less than half the national average cost.

The development of the aluminum business in the northwest (a very heavy user of electricity), the rapid increase in population, and the high residential use resulting from cheap electricity, have resulted in an increasingly heavy demand in the area, but this year's favorable water conditions and the new power available from Grand Coulee have relieved the situation. By 1953 the government's big McNary Dam should be completed, and this and other Federal hydro developments will substantially increase the available power resources.

Portland General Electric's capitalization as of July 31, 1950, was as follows:

	Amount	Percent
Notes payable	$2,000,000	2.6%
Funded debt	44,000,000	58.0
*Common stock and surplus	29,916,776	39.4
	$75,916,776	100.0%

*1,250,000 shares of no par value.

Utility plant account is carried on the books at original cost. The company's common stock is held by approximately 15,500 shareholders, predominantly on the Pacific Coast, but representing all 48 states, U. S. territories and several foreign countries.

The earnings record has been as follows in the past decade, as reported by Standard & Poor's:

	Millions of Dollars Gross Revenues	Millions of Dollars Net Income	Earned per Share
1950 (12 months end. Aug. 31)	$22.6	$3.4	$2.68
Calendar Years:			
1949	20.8	2.8	2.24
1948	18.8	2.6	2.61
1947	16.7	2.6	2.60
1946	15.2	2.6	2.60
1945	14.8	2.0	1.97
1944	13.4	2.0	1.96
1943	13.1	1.8	1.81
1942	11.5	1.9	1.91
1941	10.5	1.6	1.60
1940	10.3	1.3	1.28

The company's accounting over the past decade has been a little complicated. One question is whether the interest on depreciation reserve, which amounted to $558,000 in 1949, should be considered as a fixed charge or added to the depreciation allowance. Another complication was the arbitrary "reservations of income" ordered by the State Commission—debits in 1946-47 and a credit ($225,000) in 1949; these might more properly have been handled as profit and loss items.

The sharp improvement in earnings for 1950 was principally due to better hydro-electric conditions in the northwest. Earnings for the calendar year have been estimated at around $2.80 a share based on a 38% tax rate, or perhaps $2.65 with a 42% rate. On this basis the $1.80 dividend rate seems fairly well secured against possible inroads of excess profits taxes in 1951. While weather hazards and possible lack of firm power from Bonneville must always be kept in mind, one "advantage" of heavy taxes on income is that they help absorb other adverse factors in earnings.

The company's construction budget for 1950 of about $6.5 million is virtually all for transmission and distribution, with no increase in production capacity. Financing of the program through 1950 and well into 1951 is being handled through a bank credit arrangement, with a maximum of $7 million available at 2⅜%. Additional financing, which may include sale of common stock, will be necessary on or before maturity date of May 1, 1952, to pay up loans negotiated under this arrangement.

Regarding public power, the company made the following statement recently: "The public utility companies in Oregon operate in a more favorable atmosphere, as far as public ownership is concerned, than the companies in Washington. While it is true that the State of Oregon has a peoples' utility district law, it is vastly different from that of Washington. Since 1932, a total of 55 peoples' utility districts in Oregon have proceeded in preliminary organization to a point of being voted upon. Of these, 43 were defeated by a majority vote and 12 were organized, of which 8 are now inactive. Of the 4 that are active, 2 were formed to take over the properties of West Coast Power Co., which was willing to negotiate for the sale of its properties. In other words, only two operating PUDs in Oregon were formed of their own initiative. Only one district, which is inactive, has been favorably voted on in the area served by PGE."

Portland General Electric is currently selling over-counter at around 25½ to yield 7.1%.

Continued from page 8

Security Exchange—A Government Rather Than Corporate Enterprise

the last 30 years that one takes them for granted, and only an immense effort of imagination can remove them and adjust to an era without them. Who can look up Park Avenue today and see a sooty stretch of railroad tracks?

However, back there about 30 years ago, the new born Curb—the then resented new element in a fiercely competitive business—faced Jones and Baker and its first big test. It could have said: "The proof of fraud is too intricately hidden to be sure." It could have used the excuses, "This is not our responsibility—we are just a market place—others are stronger and better placed to handle such matters." But it did not dodge the issue. It faced the test of whether or not it was in fact, as well as in form, a government, and it drove Jones and Baker from the market place. It made many enemies and moved forward in the process.

Again, in 1925, it faced the question of whether it would permit assessable mining shares to continue to be dealt in in its market. Here was no easy question of fraud but one of deeper policy and self denial in the larger good. The Curb acted. It removed over 80 issues from its market.

Other tests came, were met and passed as the years went by. I remember one in 1934, because that was when I first became involved. In those days, public and political pressures directed at speeding up the process of change came to a head in the passage of the Securities Exchange Act. Coincident with the birth of that law, Colonel Lockwood and the Governors of the Curb asked me to become their legal assistant. They assured me that, despite the problems which the new law would inevitably create, they were unanimous in their intention to make it work and in their approval of its objectives. For 16 years that assurance has held good.

Curb Exchange Is a Government

So out of the past the Curb has grown and given proof of the correctness of a basic fact which must be understood as a fundamental in Exchange organization. That fact was stated succinctly in a report prepared for the Curb Governors a dozen years ago:

"The Exchange is not a commercial or industrial organization. It is, within its limited jurisdiction, a government. In addition to furnishing and running a modern securities market place, the Exchange makes rules and policies and requires their observance. In the making and enforcement of laws, by which members and firms have voluntarily agreed to be bound, all those who will be subject to those laws should be represented."

Before we leave the past and turn to what has resulted from it, there is one statistical comment which may demonstrate how far the once private market of General Grant's day has been diverted to its modern, public use. For several years members have reported to the Curb each week the daily volume of their transactions, and the various capacities in which they acted in making sales and purchases on the Curb. From these reports we know the percentages of our volume attributable to the transactions of members acting as brokers for customers, members acting as traders on the floor or in their offices, and members buying and selling in the discharge of their assignments as specialists and odd-lot dealers. Averaged over the last ten years the volume on the Curb has been 85% the result of customers' orders, 9% transactions by member specialist-odd-lot dealers; 4% transactions by members, their firms and partners sent to the floor from their offices, and 2% transactions by members trading on the floor.

A Public Market

It is a basic fact that the Curb is a public market dependent for its existence on its use by the customers of members in all parts of the world.

I doubt that the Peruvian Indians, who taught fecundity to guinea pigs to prevent a meat shortage, foresaw that the capacity to have little guinea pigs would in time become more important than their edibility.

I doubt that the men who long ago casually assembled to buy and sell on the street curb, foresaw that some day a market would result from their individual needs and fill the different needs of people thousands of miles apart.

If I have been able to recreate some feeling for the process through which the Curb is moving, then the bare bones of its present organization will take on for you the significance they hold for me.

Being a government in the tradition of a people who demand a free government, the Curb must, and does, rest on a structure of administration which can reflect through changing policies and men in charge the changing will of all of the elements which it governs. At the top of the organization are the elected Governors so classified as to insure that specialists, commission brokers, nonmember office partners and all the elements into which our complex business subdivides will have a voice. The attempt is also made, through three public Governors on the Board, to afford representation to those outside the jurisdiction of the Curb.

But in devising the form of representative government, experience has taught us that the procedures for obtaining the men to run it are more important than the form. The Russians have, in form, the very model of a representative government; but their procedures for manning the organization make a farce of the form. So the Curb relies on an elaborate procedure of mandatory competitive election of a nominating committee to provide a slate of candidates, and then throws in the added protection of competitive candidacy by simple petition.

As chosen and successively renewed—one third each year—the Board of Governors is the final authority in our government. Being a representative form of government, we have diligently protected the Board against encroachment upon its authority to act or not act, just as we have been careful to provide those who are governed convenient procedures for changing the members of the Board when they no longer represent the will of the majority. We have established the right in those governed to change the Governors, but not the right to command their decisions.

All this is a very natural pattern of representative government, but it is not the full extent of the pattern at the Curb.

No governmental organization can be fair and representative, unless it provides a means by which those who are its citizens and subjects can take a daily part in its operations and insures that they do so by giving them responsibilities. You cannot hire government without running the risk that you will lose the essential habit of taking a personal part and being personally responsible. In a relatively small organism like an exchange, government can, of course, be hired; but if it is, and even if it is very good, the loss of direct member participation will inevitably diminish its authority. It may also diminish the energetic spirit which comes only from participation and without which no organism can have a vibrant life.

On the other hand, government solely by committee, or in a worse form, by daily town meeting, won't function. The danger of this alternative is specially present in the peculiar circumstances of an exchange where there are hundreds of citizen-owners a large proportion of whom assemble on the floor every day. Anyone who lives with an exchange will understand the man who said, "It is like running a big corporation with a stockholders' meeting going on all the time."

Many years ago, the Curb faced the choice between excessive member participation (in those days we have 17 or more member committees engaged in the operation of the exchange) and the other extreme of administration by an employed staff common to corporate organization. Both extremes had their faults and the pattern which has grown from the Curb's decision on this issue is based on its belief that it is essentially a government, and not a corporate enterprise, but that it must be an efficient government.

Categories of Administration

From this decision a balance has been struck in the administration of its duties. The work of the Curb falls under four main headings:

(1) Administration—which includes matters of housekeeping, personnel, money and accounts;

(2) Securities—which includes the admission and removal of securities from trading, rulings on their deliverability and maintenance of information on them;

(3) Transactions on the floor; and

(4) Conduct of member offices.

The form of our organization is tied to these four functions and the job is split between the permanent administrative staff of the exchange and the standing committees of the Board. A standing committee in each field of work provides direct member, and nonmember partner, participation at the grass roots of policy. The administrative staff is subdivided into three divisions (for this purpose transactions on the floor and in the offices are linked for greater efficiency) with each responsible for the administrative work in one of the main areas of operation.

To centralize responsibility, to provide a working balance between committees and staff, and to insure against inconsistencies in daily policy, the office of President was created. Subject only to the Board of Governors, the President appoints and is a member of the committees and appoints and removes officers and other employees, represents the exchange outside its jurisdiction, and has authority to call and examine all who are within its jurisdiction.

In practice this form of organization has worked well in the reconciliation of the extremes of over-cumbersome participation by members in their government, on the one hand, and loss of responsibility through too limited participation, on the other.

In one other field the organization of the Curb has developed its own solutions. When, as sometimes happens, a matter requiring discipline arises and is too involved or too grave to be handled by summary hearing and fine, it is at once referred to a permanent Business Conduct Committee consisting of three members of the Board. This Committee performs the examining functions of a grand jury and prefers its charges, where guilt may exist, to the full Board for trial. The members of this committee make the presentation to the Board, but they are disqualified from any participation in the Board's deliberations or decisions on those charges.

This is, in broad outline, the governmental organization which is known as the "Curb." It is a far cry from the street gatherings of the last century.

It may also be a far cry from what it will be a century hence. But it seems to me that the changes of the future are more likely to arise in the citizenship of the Curb's jurisdiction and the use to which its market place is put than in its form of government.

The continually retreating future has left and continues to leave an unbroken trail in Curb affairs. The present and the past of the Curb is, and has been, a process of transformation from an essentially private market in its origins toward an increasingly public market in its moving present. Along that path we have seen a few men, rather haphazardly doing their own business, change into a large, organized and disciplined group largely devoted to the execution of orders for others. We might also have noted the ways in which the group of individuals had widened out to include partners, spread further through the creation of associate memberships and opened the associate membership to corporations.

Advocates Change in Brokerage Compensation

At your meeting in Richmond last year, I stated my personal view that the Exchanges were limiting their use and their usefulness by clinging to a system of brokerage compensation which is no longer adjusted to the public business which supports them and which is far too low to spread the ownership of American enterprise as far as it can and should be spread. I also stated my belief that, by establishing a rate structure which would provide a place for the thousands of people now in the securities business, but not now associated with Exchanges, our Exchanges could become the market places for the whole industry and not just for parts of it.

Many have agreed with these views in the intervening year and many have disagreed. It would be foolish to expect that they will be accepted quickly. But looking from the past into what can be reasoned out of the future, I think acceptance will some day come and with it another stride will have been taken toward a securities market which is not only ready to serve but does serve the whole securities industry and the vast public which could be its customers.

With King Merritt

NORMAN, Okla.—Donald Neil Frye is now connected with King Merritt & Co., Inc.

Continued from page 5

Effect of Consumer Credit on Business

last 30 years. Instead, the fluctuations in instalment sales credit have been derived from, and directly related to, the fluctuations in the demand for durable goods. (During 1942-45 the decline in use of instalment sale credit was the result of the wartime absence of durable goods.)

Dr. Kisselgoff has just most ably treated the subject of the demand for consumer credit, so there is no need for me to say more about it.

It is generally conceded that fluctuations in instalment sale credit do not initiate changes in business fluctuations. Available statistics indicate that the several measures of instalment sale credit volume reach their peaks after the peak in business activity, and may also turn upward after the low point in business activity.[1]

The significance of the fluctuations in instalment sale credit arises from the fact that its use—like the use of any credit—may be said to exaggerate fluctuations in business activity. It does so, because its use increases the purchasing power of the individual and of the economy, when looked at over a short period of time. The **total amount of credit** granted during a year is used by individuals to purchase particular articles to be paid for out of future income. For the economy as a whole, that total is offset by the repayment of credit previously granted. It is generally stated, then, that the **net increase** in instalment sale credit during any particular period of time (such as a year) is an addition to the purchasing power of the economy and a stimulating force during that period of time. Conversely, when repayments exceed new credit granted, the **net decrease** is assumed to be a depressing force.

It is more precise to say that the **net increase** in outstandings is only a first approximation, and that it overstates that simulating force. It overstates the increase in consumer demand for goods because part of the net increase in credit is offset by savings of other consumers in the economy. Stated differently, consumer demand is increased only to the extent that the money supply is increased. From a practical standpoint that means that any increase in consumer credit which is accomplished without an increase in borrowings from banks does not represent a stimulating force.

The increase in consumer credit outstandings of the major sales finance companies and small loan companies, for example, has been financed to a considerable extent in recent years, by the sale of preferred stock or debentures to insurance companies; it may be presumed that these purchases represent funds saved out of current income by policyholders. Some increase in consumer instalment credit was financed through the withholding of dividends from stockholders, thus representing current savings on their part. Furthermore, some portion of the increase in consumer instalment credit has been financed through stock flotations which have been purchased out of current income of individuals. Furthermore, the record from 1929 to 1941 shows that expansion in outstandings of the specialized financing agencies was accomplished to some extent by use of idle cash balances. For these reasons we are justified in concluding that the **net change** in outstandings is only a first approximation of the effect of consumer instalment credit upon the economy.

Quantitative Importance of Instalment Credit Changes

But, if we take the **net change** in instalment credit, even though it is an overstatement, how important has it been quantitatively?

In recent years the disposable personal income of the United States, that is the income after taxes of consumers, has been about $190 billion. The increase in instalment credit has been about $2 billion per year. Therefore, the direct inflationary effect, if any, of instalment credit has been in the magnitude of about 1% of disposable personal income per year.

The net change in total consumer instalment credit was never more than 1.5% of disposable personal income, in any of the years from 1929 to 1949, except for the sharp decline in the first war year, 1942. Thus, as an inflationary, or a deflationary force in the economy, total instalment consumer credit has had a very small, almost negligible, direct effect.

Of course, there are some indirect effects as well, but even if we assume that the total effect is three times the direct effect, instalment credit changes are relatively minor as compared with the total changes in income produced by Federal fiscal operations or by all economic forces combined.[2]

I have said nothing about the size of instalment credit outstandings. I am sure everyone in this audience is aware that as an inflationary or deflationary force in the economy, that is a matter of no importance. It is the net change, alone, which exerts an inflationary or deflationary influence.

Alleged Effects

It was alleged in the Twenties that consumers would become so over-indebted that a depression would lead to widespread failure of the consumer credit agencies. Consumer credit was sound; the losses in the early thirties, though substantially above normal, were absorbed in an orderly fashion. That argument has not been repeated in recent years.

Instead, it has been emphasized that in a period of declining income, repayments on existing contracts curtail the spending by consumers for other goods, thus intensifying the downswing. This appears to be a plausible argument because when we look at a single individual we see that repayment of an instalment indebtedness prevents him from spending his entire current income on goods. If then the individual's income is curtailed, the effect upon his current expenditures is intensified.

But, let us ask, for the economy as a whole, how important was the decrease in instalment credit from its peak of $3.2 billion in 1929 to $1.5 billion at the end of 1932? The decrease over the period averaged about one-half billion dollars per year. Now in those years the gross national product decreased from $104 to $58 billion, disposable income declined from $82 to $48 billion; and personal consumption expenditures from $79 to $49 billion. The annual decrease in instalment credit in those years ranged between ½ of 1% and 1% of the various income measures. Stated differently, the decrease in instalment credit amounted to from 3 to 6% of the annual decrease shown in these various income measures. It appears clearly absurd to say, therefore, that the repayment of outstanding credit is a significant drag upon the purchasing power of the community and an important intensifying factor in the downswing of a cycle. The degree of contraction in consumer credit which occurred was so small in comparison with the contraction in expenditures for consumer durable goods, and in expenditures for producer durable goods and construction, that it appears ludicrous to single it out as the intensifying factor to be regulated by government.

I have recently had my attention called to a thorough statistical study which bears on this question. It was published by Harvard University and prepared by Dr. Arthur R. Tebbutt, now dean of the graduate school at Northwestern University. His study shows conclusively that, on the whole, in terms of **physical volume**, sales of consumers' goods held up very well through 1931 and that the decline in the exceedingly depressed year of 1932 was not drastic. Sales of producers' goods, on the other hand, suffered unprecedented declines during that depression period. Use of housing, and sales of autos and radios were in an intermediate position. This study disposes of the popular misconception that repayment of instalment credit in that depression intensified declines in the sales of food, clothing, furniture and furnishings, for example.[3]

There is one additional fact that I wish to point out. There is no evidence to show that businessmen, generally, relax instalment sale credit terms in a period of high business activity, or that they tighten them in a period of reduced, or declining, business activity. Instalment sale credit has been equally available in either period. But in periods of high business activity, people have utilized it. It is correct then to say that the use of instalment sale credit permits a larger sale of durable goods in periods of high business activity. In periods of reduced business activity, it has been the unwillingness of consumers to buy or borrow — and their ability to defer purchases—which has restricted demand. It is not correct, therefore, to say that instalment sale credit reduces the sale of such durable goods during periods of reduced business activity. Therefore, the intensification of fluctuation in durable goods sales which can be attributed to the use of instalment sale credit is solely on the up-side.

Appropriateness of Consumer Credit Controls

Now let us answer the question, is the control of consumer credit terms an appropriate and effective method of reducing business fluctuations? By requiring higher down payments and shorter terms in a period of active business it is possible to decrease the demand for major durable goods. It is impossible appreciably to stimulate the demand for major durable goods, or stimulate an increase in instalment credit, through lower down payments and longer maturities during a downswing. Relaxation of terms is ineffective when people lack confidence in the future, when there is a significant amount of unemployment or fear of widespread unemployment.

There are those who feel that cutting down of the "peak" output of durable goods is desirable even if the "valley" is not filled in. However, that would provide only an insignificant contribution to the smoothing of business fluctuations. The fluctuations would still be very large because all purchases of consumer durable goods, like the capital expenditures of business, are controlled primarily by confidence in the future. It must not be forgotten that it is the durability of durable goods, and hence the postponable character of the demand for them, which causes the fluctuations.

There are far more important implements for controlling cycles which the Federal Government can exercise, such as the tax policy and other fiscal operations of the Treasury, the timing of public works expenditures, farm policy as embodied in the price support program, and financial policies in the field of urban housing. **In the absence of effective coordination of such implements of control,** regulation of consumer instalment credit must be ineffective, **unless** such regulation is very stringent. (If down payments were increased to approach 100% in prosperity, for example.) In that event, the effect can be only to reduce the demand for durable goods during prosperity, without increasing the demand appreciably in a depression. The result is merely a lowered average level of industrial production and employment, and a lower-than-necessary standard of living.

If we are realistic, we recognize that the proposals permanently to regulate consumer credit are born of frustration. They are born of the unhappy dilemma faced by those charged with administration of monetary and credit policy. The huge Federal debt and the attitude toward it of Treasury officials prevents use of the traditional instruments of credit control. This causes politicians and technicians alike to grasp at minor or popular tools and prompts them to use other powers, regardless of how ineffective they may be.

Regulation During Wartime Emergencies

It would be inappropriate to conclude without some reference to the current situation. What is the place of consumer credit controls in wartime, or in a period in which a large proportion of our productive resources must be devoted to guns and not to automobiles?

It has already been pointed out that stringent down payments and shortened repayment periods can reduce the demand for durable goods. The 1941-42 experience showed, however, that direct allocation of materials and priorities were necessary to transfer productive resources promptly.

As an anti-inflation device, consumer credit control is a pitifully weak weapon in the face of mounting defense expenditures and administration-encouraged wage-price spirals. Consumer credit control has been a politically acceptable device which gives the appearance of grappling with the problem. One of its chief dangers lies in deluding Congress and the public into believing that it and the other half-way measures adopted to date constitute effective controls.

1 The measures rererred to are: (1) the volume of new credit granted within a given period of time; (2) the volume of credit outstanding at a particular time, which is the residual obtained after subtracting repayments from the credits granted; and (3) the net change in outstandings from time to time. Each of these fluctuate and their fluctuations are interrelated, but their turning points differ.

2 Professor Haberler considers only the direct effect, and rejects the use of total effect in his analysis (*Consumer Instalment Credit and Economic Fluctuations*, New York, National Bureau of Economic Research; 1942. pps. 79-80) because its magnitude cannot be satisfactorily arrived at.

3 Arthur R. Tebbutt "Behavior of Consumption in Business Depression," Harvard University, Bureau of Business Research, Business Research Studies No. 3, Boston, Mass.

Lovett Retires

Robert A. Lovett retired from partnership in Brown Brothers Harriman & Co., New York City, on Sept. 30.

King Merritt Adds

PETALUMA, Cal.—Marcus May has been added to the staff of King Merritt & Co., Inc.

Continued from page 4

Investment Position of Mutual Funds

brokers knew they were sound, but they couldn't sell them.

In 1928 one or two more were started, principally by investment counsel firms which realized the convenience of managing funds for the benefit of their smaller clients. Then there began here and there around the country other open-end trusts which were a reversal of the crazy building-up of capitalization that complicated so many of the closed-end trusts. These funds have, with two exceptions, only one class of capital stock, and no debt obligations.

In 1930, 1931 and 1932 there was a natural revulsion against what was called professional management. The investors said, "We saw what happened to management. We want no part of it." So various firms developed an alternative. They said, "We will eliminate management entirely." They then created a different kind of trust, known as the "fixed trust," also closed-end. They said, "We will select a list of 25 or so of the finest stocks, put them in a portfolio, and guarantee to stockholders an interest in this portfolio. We'll have New York Central, American Telephone, and many other "blue chips." So these lists of stock were peddled around the country as "fixed trusts," with which nobody could tamper. You bought an interest in one of these trusts and the world was yours. All the benefits and nearly all the dividends came to you. There was no management involved.

Well, a few years went by and some of the railroads went under. Then the Public Utility Holding Company Act was enacted, and several of the big utility companies long considered "blue chips" also went under. With the railroads and utilities selling down in the basement many of the "fixed trusts" looked pretty tattered. Whole sections of their portfolios lost substantial value. People suffered the inevitable disillusionment of having no management at all to go with their "blue chip" diversification.

So, with the closed-end trusts of the '20s you got too much management and not enough understanding of the diversification of capital structure and assets. Next, you got sound diversification but no management, which wasn't good either. These trusts finally went into disfavor. I think the last were issued in 1937 and 1938, and practically none have been issued in the last decade. The few outstanding shares are gradually being repurchased.

All through the '30s there were new mutual funds or open-end investment companies being created. The growth was steady because, as people became disillusioned with one or another type of investment, the word got around that these mutual funds, these open-end investment trusts, had never failed to pay dividends or to redeem their shares on demand, and that was considered a pretty good thing.

By 1940 their assets were about $450 million, and they had around 300,000 shareholders. Today their assets are something over $2 billion. There are slightly more than 100 open-end investment companies or Mutual Funds, and their shareholders number close to 900,000.

The growth in the number and variety of funds has been steady. It continues despite the fact that the Securities Act of 1933 put them all under registration. Why? Because they continue to issue new shares, and new securities coming into the market must be registered for a period of one year. Since investment companies continue to issue new shares indefinitely, they are, in effect, in perpetual registration. It puts them under the requirement of filing a yearly registration statement with the SEC, and of delivering a prospectus with any offering of shares.

By the late 1930s the public was upset by what had happened to the earlier types of trusts, and a demand was made on Congress to regulate all of them. After several years of committee meetings and hearings and so forth, legislation was passed known as the Investment Company Act of 1940. This now governs some of the operations of all investment companies. It does not govern the policies of management except in a very general way. It requires that they state a policy and stick to it. It requires that there be no inexperienced or dishonest people on the boards of directors. It requires a certain amount of diversification for each investment company, and so forth. It is a sound piece of legislation.

In addition to the Securities Act of 1933 and the Investment Company Act of 1940, there are the various state securities laws under which the various funds must be registered. They govern the sale of securities within the states, and are known as "blue sky" laws. These laws govern the type of securities that can be sold in the various states and the methods by which they may be sold.

Investment Company Organization and Management

I should like to explain briefly about the organization and management of investment companies. The management of an investment company is rather similar to that of any corporation. Their management consists of a board of directors that decides the general policy of the company. Then there are officers who handle the technical details, and carry out the policies laid down. They usually include some investment experts, some legal experts, tax experts, and so forth.

The principal activity of any investment company is careful investigation of securities with a view to purchasing the best values obtainable, within a given framework of purpose or objective. You have a research staff of people who go out and make field visits to companies in which they invest, sit down and talk to the officers, come back and check their reports against the reports of dozens of top brokerage houses, and on the basis of a continuous stream of information coming from many sources, they decide what securities to buy.

Decisions are made from two standpoints: First, the absolute and, second, the relative. Now, the absolute is decided, of course, on the basis of "Is this company a good company? Does it do its job properly?" The relative aspect is, "Is this company as good as all the companies within the industry, or is the industry as attractive as similar industries?"

The **relative** value of securities is something about which non-professional investors have little understanding. They overlook the fact that to buy a name, a product, or a service, is only the beginning. The best stock in the world can be overvalued and can be a very poor purchase. People can consistently lose money on General Motors, American Telephone, U. S. Steel, or General Electric, or they can consistently make money if they know **when** to buy. Funds rarely buy any individual company unless the relative attractiveness of comparable issues has been checked.

The individual non-professional doesn't begin to scratch the surface of buying values. Those in the business of investment trusts try to bring to bear all of the tools known to the trade, the statistical services, the bulletins, the reports and the glossy-covered pamphlets, plus the ingenuity and impartiality of a group looking at investments from an objective standpoint.

Responsibility to Shareholders

The management of any fund has one responsibility only, and that is to its shareholders. It is not dependent on commissions, nor does it have to please individual holders of individual company issues.

Now, I mentioned before that the management draws on advice from many sources. As a shareholder in a mutual fund, I can say that I benefit from the advice of not just one or two investment firms, or one or two statistical services, but from a great many. Moreover, there is not a brokerage firm in New York City that isn't anxious to give the very best advice at the very first opportune moment to these really important customers, the Mutual Funds.

It is important to remember this when comparing the services that an individual brokerage firm offers to its smaller clients. I find that **composite**, group judgment applied to market opinions coming from many different sources usually produces better long-term results than a single judgment from one source pitted against that of many others.

What the funds offer to investors is the **group judgment** of relative values available in the whole field of investment, and applied to a particular portfolio. I might add here that Mutual Funds are an amazingly democratic kind of investment, because whether one's investment is $50 or $5,000 or $5,000,000, one receives exactly the same quality of management supervision, constant attention, and convenience that every other investor in the fund receives. Moreover, each receives the kind of investment counsel service in many funds which is normally made available to wealthy people, and which is almost always made available to institutions, insurance companies, trust companies, charitable institutions, college endowments, and so forth. Needless to say, the small individual investor couldn't begin to afford the kind of service that he receives through a Mutual Fund unless his investment were a minimum of $100,000, and even with $100,000 he could afford only one investment counsel. Investors with $5,000 can buy two, five, or ten different investment management services through Mutual Funds.

Mechanics of Share Selling

Now I will tell you also a little about the mechanical aspects of fund selling, which is my business. The funds are set up as organizations managing portfolios for the benefit of many investors. There has to be some organization to interest potential investors in what they have to offer. They must bring the product to the potential buyer. It is rarely, if ever, to the interest of a brokerage firm to eliminate a trading account and substitute shares of a supervised and managed Mutual Fund involving only one initial commission, and where there will be no more brokerage commissions or profits from the sale of underwritten securities, so it is natural that Mutual Funds must seek out investors who do not have trading accounts, or those who have not been too successful in trading.

The funds have to pay someone to sell their shares. There is, after all, a world of difference between having customers come to you and having to go out after them. The latter is much more difficult, consumes much more time and energy and should be better paid.

A simple analogy is found in the life insurance business. Few life insurance salesmen will admit having had any of their clients voluntarily walk in and say, "I want some life insurance," and yet everybody **needs** life insurance, but it has to be sold. Of course, it carries a very healthy premium for the remuneration of the salesmen who sell it. The average is 15%. That is justified since it represents a long-term program.

A man usually combines, through life insurance, a certain amount of protection and a certain amount of investment. It can be done in varying quantities, but the point is that he is buying the investment and protective services of an insurance company from the salesman, and paying for it.

In the selling of Mutual Funds, there are wholesale and retail organizations. The wholesale organization is the "selling arm" of a fund. Its job is to prepare literature, make up sales presentations, and go around to the thousands of retail investment dealers throughout the country to interest them in the management, the record, and the policy of their particular fund. They must convince these thousands of dealers that this particular fund is good for their clients, that it is saleable, and that it will not bring grief and headaches to the firm or its clientele.

As I mentioned, there are more than 100 different mutual funds competing every day in the market place for the favor of retail dealers, and, of course, for the favor of their customers. It is a highly competitive business, and naturally each fund is on its mettle to do the best job it can within the bounds of its investment objective, and it is on its mettle to produce the most attractive sales literature and to do the best job of helping the retailer make the sale.

The wholesaler has to be paid for that effort. The wholesaler receives about ¼ to ⅓ of the total "markup," or sales charge. The other "selling arm" includes the retailers. Kidder, Peabody and Company is a retailer of mutual fund shares; so are hundreds and hundreds of other dealers, both members and non-members of the various exchanges around the country.

Our policy has been to serve clients with investment company shares rather than to "peddle" shares. In other words, we endeavor to attract clients to the idea of fund investing, and then we attempt to analyze their objectives and requirements and long-range purposes. Finally, we select from among the scores of funds available that fund or group of funds which best fit a client's requirements. You might say it is a limited form of financial counseling service for which we are paid through the sale of the fund shares.

We receive about ⅔ to ¾ of the sales charge normally included in the price of shares. Of course, we forfeit the right to reinvest that money from time to time because we have sold these clients an interest in a complete investment account under continuous, "third party" management, directed toward achieving a given investment purpose.

Types of Mutual Funds Available

I have touched on the matter of types of Mutual Funds available, and now I will go into that a little more fully. It is a big subject.

Let me say that the securities market represents all shades and varieties of risks, and many degrees of income. The Mutual Funds cover most of those variations. Some are very conservatively invested so that people purchasing their shares will not run the risk of too violent price fluctuations. Others are less conservatively invested in less well-known securities where there is potential profit with, of course, a commensurate degree of risk.

Then there are those funds whose objective is good steady income. Now, that may be 6%, 5%, 4% or less. It may be achieved in a number of ways. It may be achieved by purchasing a cross-section of preferred stocks, or of a vertically integrated portfolio of bonds, or it may be achieved through purchasing a selected group of common stocks. It can be done in dozens of ways.

Then there are the specialty funds. There are funds invested wholly in television, in chemical, and in steel stocks, and in the growing electronic fields. There are others interested only in securities of companies having advanced research and development facilities. There are funds which invest only in companies having marked growth characteristics. There are blends of many types, but in every case the investor can determine from the sales literature and from the official prospectus what the firm is buying, and the long-term objective of the management.

I should explain about the prices of shares of the various open-end funds. They are carried every day in leading newspapers under the heading, "Investment Companies." You will notice a bid and an asked price. The bid price is normally the asset value per share, and the asked price is the asset value per share plus the sales charge. Unlike other securities, these bid and asked prices are fixed. If investors need their money, they redeem their shares at the current bid price. There are no differences and no concessions, except for volume purchases. That is of great benefit to small investors or unsophisticated investors unfamiliar with securities markets.

The difference between the bid and asked price is normally between 6 and 8¾%. As I explained before, about ⅔ goes to the retailer and ⅓ to the wholesaler.

It has been objected that in purchasing funds the offering price is high. Well, any product with a seemingly high price tag has to be looked at in terms of what it gives the buyer. Is it worth the money? What are you getting? Probably the simplest explanation of what you get is this:

When you buy a fund you get the immediate protection, or "insurance," of **wide diversification** over many securities, so that no matter if tomorrow or next week or next month any one or two or even ten stocks held were to drop sharply, the wide base of **many** securities would protect your principal against any important erosion or loss. That is the immediate protection.

If you don't think that principle is important, then you don't agree with the insurance companies which immediately diversify your money over scores and scores of different bonds regardless of the high quality of one or three or a dozen. They may diversify over hundreds of bonds. The same thing is true of Savings and Loan societies. They diversify your money over hundreds of mortgages, not two or three or a half dozen, because loans can go sour in the course of time. The portfolios of institutions, college endowments, and so forth are also diversified over many securities. It is a protective measure, and it is very important. Remember that we are talking about investment, not speculation.

Now, we have examined the immediate protection of wide diversification. The ultimate protection is the management which comes with your fund. That is the gyrocompass in this investment "ship," which otherwise would sail any course that the economic wind and weather happened to take her along. Management produces ultimate protection through its ability to make the changes in the portfolio whenever they are indicated in the best interests of the sharehoder.

Importance of Management

The results of management become evident over a period of time. They reflect the difference between a haphazard selection of stocks bought without definite purpose, and a carefully selected, continuously supervised list of securities purchased with a fixed objective in mind. The results of management, however, only become evident over a period of time.

I want to mention one point that a lot of people are interested in, so-called "dollar cost averaging." The idea is that since we cannot predict how the market will fluctuate we can at least take advantage of market fluctuations by investing equal dollar amounts at stated intervals, thereby purchasing more shares when the market is low, and fewer shares when market prices are high.

The reason this method is particularly sound in the case of Mutual Funds is that the shares of most Mutual Funds are practically indestructible. They move with the market, but they all move at different rates of speed and to greater or lesser degrees.

There is another aspect of investing in which Funds play an important part; that is, formula timing. It is particularly workable with mutual fund shares because formula timing calls for the mechanical balancing out of speculative securities against conservative securities at different phases of the market. If you know that the securities you are buying are **really** conservative, and if you know the other securities are **really** speculative, you can work your formula timing without the added hazard that you may have picked the wrong securities for the job.

Regarding the tax aspects of Mutual Funds, I should say that they act as conduits. They receive dividends and interest from scores and scores of securities usually held by a custodian bank. This dividend and interest income is distributed, after expenses, to the shareholders by check quarterly or semi-annually. Expenses usually run between .4% and .9% of average net assets during the year; or, to put it another way, between 7 and 15% of the gross investment income.

Now, how does that break down? The standard investment counsel fee all over the country amounts to ½ of 1% of the principal amount being supervised with some reduction on larger amounts. The same is true with Mutual Funds. The additional expenses of the custodianship, registration, legal fees, taxes, and so forth usually amount to 3 to 5% of the gross investment income, in return for which the shareholder has a complete investment account with almost none of the headaches. His tax problems are greatly reduced. He receives one notice at the end of the year advising him what distributions were from the investment income and what from capital gains, and he simply multiplies the number of shares he owns by that amount and enters it on his tax return. That is the end of his capital gains and losses problem. All the physical custodianship of the many, many securities in which he has an interest is handled for him. All the dividends, all the split-ups, the split-downs, the proxies, are voted or handled for him by impartial, professional managers.

He doesn't have to buy additional investment advice or subscribe to statistical services. He doesn't even have to follow the newspapers. He is completely free to apply himself to his own business because he has hired specialists to handle his investments.

"Compounding of Earnings"

There is one interesting feature about Mutual Funds which makes them particularly attractive to investors. Many Mutual Funds offer automatic reinvestment of dividends into new shares. That means a "compounding of earnings." It is a convenient method of building an estate over a period of years. It eliminates the temptation to spend a number of small dividends as they are received. It gives to investment a purpose instead of allowing it to be a kind of haphazard enterprise.

There are also interesting plans for regular investment of savings whereby a person who does not have a large block of capital, but does have a regular income, can set aside as little as $50 or even $25 a month and have it immediately invested and completely managed—an investment plan for achieving a given objective.

There must be 10 potential investors for every one who has enough money to come into the market and make block purchases. With savings bank interest rates as low as they are, the idea of putting extra money to work more productively in a flexible investment yielding a higher rate of return is very attractive. We have found it so, and we have sold hundreds of smaller clients on that idea.

One common objection to funds is that they don't do any better than some of the recognized averages. One of the interesting things about certain of the averages is that they don't do as well as some of the other averages. Dow-Jones averages often don't do as well as Standard and Poor's averages, and vice versa. Of course, nobody owns these averages, they are pure syntheses. They are created in order to get an idea of where the general market is going. One thing is sure, however, and that is that each "average" will act differently simply because the issues which compose them are different.

It happens that certain funds whose objective is appreciation have, over a period of time, consistently outperformed most of the averages. They can't help it; they have management applied to diversify investment portfolios, and naturally they will do better than the averages. Others do better when the averages are going down and worse when the averages are going up because they are heavily weighted with conservative bonds or preferred stocks which do not move as rapidly as common stocks. These, of course, are not reflected in any common stock averages.

Some peoplpe like to compare the movement of funds with the cost-of-living index, but it is an unfair comparison unless you are using those funds whose purpose is to give some degree of protection against the higher cost of living. Then there may be some purpose, but so many other factors are involved that it is not really valid to do so.

As a matter of fact, if you analyze the Bureau of Labor's Cost of Living Index, you will find that it isn't an accurate reflection of the cost of living. It is heavily weighted on the down side by reason of rent control; the index showed no increase in that item, and yet foodstuffs, clothing, houses, and many other important day-to-day items have doubled and even tripled in the last 10 years, whereas the Bureau of Labor's Index has gone up only about 65%.

The **real** comparison is in how well the investor who is buying funds might do, or did do, by himself. One of the authorities in this business, Mr. H. G. Carpenter, reviewed hundreds and hundreds of clients' portfolios, and he makes the unequivocal statement that less than 10% of them did as well as the Dow-Jones Industrial Average and even less than 10% did as well as the Dow-Jones Composite Averages.

Large Market for Shares

It seems to me that we have a very large market among 90% of investors, because we can show on the basis of records going back as much as a quarter of a century that many funds consistently outperform the standard averages, as I mentioned before.

It is my contention that all **non-professional** investors should at least consider the ownership of mutual fund shares. Why? Because Mutual Funds bring to their investments the professional supervision which they cannot obtain elsewhere without having a large amount of capital.

This is an age of specialization. As you know, there are thousands of securities from which to choose. It takes more than the mind of one person or a few people or even a small organization to do a really competent job of investment selection day in and day out, year in and year out.

For that reason an investor would do well to consider whether a proven management with a demonstrable record of achievement isn't a better substitute than his own judgment, which is too often based on lack of information or lack of time in which to acquire such information.

Moreover, I believe that the two factors which have plagued investors for years and have disillusioned many thousands of potential investors, have been undersupervision and overtrading, or a combination of both. Most mutual funds give protection and adequate supervision at all times to **all** investors, regardless of the amount of shares they own. They are interested in doing the best job for their shareholders and achieving a record which will make their shares more saleable in the future. It stands to reason that there will be no more trading in a mutual fund portfolio than is necessary to produce good results.

The Mutual Funds, of course, are not members of exchanges. They have no direct interest in the amount of brokerage developed. It has been suggested that some of them "churn" their portfolios in order to produce commission business, which in turn will make the sale of Mutual Funds attractive to those dealers who can use the commission business. I have found very little evidence of it, and in the one or two suspect cases I know that such "churning" has resulted in poorer performance records which have brought far more grief to the managements than would have been the case if they had not tried to develop the additional commission business.

Mutual Fund retailers cannot sell poor management. It is obvious that one cannot sell a fund that has not done well over five, ten, fifteen, or twenty years, or sell it in competition with a fund that has done well, so the idea of too many commissions is pretty well exploded when you look at it from a practical standpoint.

A Mutual Fund Department

I understand that "blowing one's own horn" is permissible so I am going to tell you about the Mutual Fund Department of Kidder, Peabody and Company. We set up almost two years ago a sort of pilot plant at our uptown office to find out, first of all, how to sell Mutual Fund they would appeal, and what type of clients needed them, and how shares, and to which customers we could best interest this clientele.

As a Stock Exchange member firm, all of our salesmen must pass an examination before they are permitted to sell Mutual Funds. They are not on a commission basis; they are paid a straight salary adjusted from time to time according to the volume of business they do. This is exactly the same procedure followed by some of the other houses which do not take to the idea of fund selling.

We think we have competent people. They are, almost without exception, fully registered to sell all securities. We have three former bank officers, two former investment counsel officers, and several refugees from other firms who did not understand the need and importance of Mutual Funds. So we have, I think, a pretty competent group of salesmen whose understanding of funds is sufficient so that they can go to any sophisticated investor and explain the principles and sell fund shares. They can do it, and have done it, and are doing it today.

We advertise in the newspapers, as you may have seen, in an endeavor to tell people what Mutual Fund investing is all about. We tell them by mail, in person, and over the telephone what they can achieve through Mutual Funds that they may or may not be able to achieve in other ways. Our customers are of all types and sizes. We have extremely wealthy clients; we have very small investors. We have institutions; we have a labor union; we have several pension trusts that are considering buying Mutual Fund shares; a number of religious organizations whose endowments are not large enough to warrant hiring investment counsel direct, but which still feel the need of having that kind of competent management available to supervise their holdings.

The very wealthy investors come to us disillusioned by their own lack of temperament and ability to trade securities. Not everyone has the tough fiber and cold-blooded competence necessary to be a successful trader. Others come because they don't have the time to spend on an adequate amount of research into the securities that they hold.

I had one executive for whom I prepared a $200,000 portfolio who has three brokerage firms and one investment counsel. He said, "You don't know how inexpensive this is going to be for me! I have had a great deal of expense, but now I can tend to my own business at which I can make more money." He recognized the fact that it is a lot easier to make money in your own business, at which you are a professional, than it is to invest and keep the value in a business at which you are only an amateur. Investing is a very intricate business, probably the most intricate there is.

Then, there are the small investors, and I will go right down the line—the laborer who comes in with $50 stuck away in his jeans who says, "I know nothing at all about investing. What should I do? I hear that XYZ is good; should I buy it?" It has often been the practice to say, "Why, sure, if you like it, step right up and buy it. We'll be glad to sell it to you." No advice, no determination of what the investor can afford or the degree of risk he can undergo, the objective he has in mind, or any guarantee that he will be advised in the future as to the time to sell his selection.

Securities Salesman's Corner

By JOHN DUTTON

Recently I saw a letter from a salesmanager to his men and in it he admonished them to make 10 to 12 calls a day even if they had to go it, "cold canvass." This was in a specialized field, too, the same sort of situation as in the securities business where everyone you meet isn't a prospect—in fact where only one out of maybe fifty to a hundred are prospects. I think that salesmanager made an admission of his own incompetence. He should never have placed his men in a position where they had to make cold canvasses—not in his kind of business anyway.

Now it is probably sound enough to try the house-to-house, and office-to-office routine if you are selling something every one can use. In fact, I even knew of a young lady during the depression who was told there were no jobs around. She started in at the top of a New York office building and before she got to the bottom she not only had a job offered to her but three of them. The law of averages will work. But if a salesman in the securities business has to go out looking for prospects instead of having his office do this job for him, he is wasting his valuable time and energy in prospecting when he should be out selling. It is false economy to send out salesmen without leads. It is up to the salesman to qualify them, it is true, but at least there should be some interest aroused, some basis for a contact, some possibility of a need to be satisfied.

This does not mean, of course, that salesmen should just shut their ears and eyes and let their firm do all the prospecting. Every good salesman can prospect from his customers, he can prospect among his acquaintances, he can ask his friends for leads, all to the good. I once knew a fellow who was in the moving business. He moved a lot of people into and out of town. Every time he brought in a load of fine furniture and put it up in a good home in the financially elite part of town, he would tell a certain securities man the name of his customer. Once in a while the securities man got him a customer, too. It is strange where you can get leads on possible customers if you only look for them. But this is only part of the job. A salesman who has an alert advertising and promotion campaign behind him, which is producing more prospects than he can handle, is going to make money for his firm, as well as himself.

The reason this is so is very simple. In addition to **time** the other most valuable asset of any salesman is his energy. If you are out knocking around making 10 to 12 calls a day on cold canvass in the vain hope that you may run into someone who might be a possible security buyer, you are going to be a pretty tired boy when the time comes to do your selling. A tired salesman is a dull salesman. And in this business your brain has to be working all the time even if your mouth should sometimes take a rest. Any man who is physically tired can't do his best selling securities.

There are some retail security dealers on the other hand who are obtaining enough leads for their men. In one case I know where out of every ten leads followed by the proper pre-mailing and pre-telephone approach, the result is seven interviews. Out of seven interviews three sales are made. Three out of ten; not a bad average, and it certainly proves that it pays to advertise if you have a good plan and know how to obtain interested inquiries.

Continued from first page

Business Prospects In Tense Situation

sumption, namely, that the international environment will continue fundamentally unfavorable and may become even more tense as time goes by, but that we shall not be involved in a general war in the near future. Indeed, a period of surface calm may follow the rapid events of the past few months. Even so, the rearming program already announced is not likely to be slowed down, and our preparedness efforts will be intensified within the next few months.

The Business Outlook

Even before the Korean war, the economy was operating close to capacity and near its postwar peak. The outbreak of the war naturally accentuated this boom. Retail sales spurted phenomenally, business orders for merchandise were stepped up rapidly, and plant and equipment programs were revised upward. Competition for raw materials became keener and their prices rose sharply. Unemployment declined, labor shortages appeared, and another wave of wage increases spread swiftly. Consumer credit, mortgage credit, and commercial loans all showed large increases. Industrial production reached a new postwar high.

Near-term Prospects — Despite the increased military program, it is possible that we may experience some temporary decline in the rate of business activity in the next few months. Our economy is still producing civilian goods at a record rate. Part of the boom in durable goods represents buying that, except for the Korean war, would have been spread over a longer period. The reimposition of Regulation W and the tightening of real estate credit will further curtail the demand for consumer durables and housing. Also, now that scare buying has subsided, some business inventories may become top-heavy when deliveries are received on the recent large orders. This may mean some cutbacks in new orders. With the radically improved war situation, the present inflationary psychology of the public may subside. All these factors may combine to bring about some letdown in the current feverish rates of business activity and bidding for commodities.

Underlying Trends — However, there is little likelihood of such a letdown leading to any significant or protracted decline in either the volume of business or in the general level of commodity prices. For the near term, consumer and business buying will help to sustain the economy; as the months pass, the military program will increase in tempo and insure a high rate of business activity.

The war boom of the past three months has reflected increased buying by consumers and business rather than by Government. Government spending has not yet increased; in fact, it is running below last year. Nonetheless, personal income is already rising as the result of wage increases, higher employment, longer hours, and larger overtime payments. The recent tax increase will retard only slightly the growth in personal income available for spending. Then, too, consumer buying will continue to be supported by the large and widely distributed holdings of cash, bank deposits, and Government bonds. In the case of business, spending will be stimulated by the high rate of activity, the necessity of tooling up for war orders, and the opportunity provided in the recent tax law for accelerated charging off of defense facilities. All these factors will provide an underpinning for business in the months ahead.

As time moves on, the direct effects of the military program will be felt in growing measure. So far this fiscal year, we have been spending at the annual rate of about $17 billion for defense, including military and economic aid abroad. This spending is due to rise at an accelerating rate through 1952 at least. Within the next two years, the great rearmament effort on which we are now embarked is almost certain to involve annual expenditures of $30 or $40 billion. It may involve much more. It is impossible to forecast exactly how fast expenditures will be stepped up, or what the ultimate size of the program will be. Much will depend on how seriously the public appraises the international situation and how willing it is to accept the burden of a tremendous defense program.

Military spending and foreign aid are now taking about 6% of our national output. Two years from now, even with a vigorous defense effort, the share may be no more than 15%. This would be substantially less than the 45% devoted to the military at the peak of World War II. However, the current program is being imposed upon a civilian economy already operating at capacity. Consequently, the prospective rise in defense spending is great enough not only to assure full employment, but also to bring us face to face with the problem inevitably associated with such an effort, namely, how to cope with inflation.

The Threat of Inflation

The inflationary danger inherent in the defense effort is compounded by the fact that for many years the government has been deliberately following inflationary policies. This inflationary bias is reflected in the long record of deficit spending, in the price support programs, in the loan and guarantee operations, and in labor policy. These contributed to the postwar rise in prices even though consumer and business buying were held down somewhat by the recollection of the price adjustment of 1920-21 and the expectation that some price corrections would be forthcoming in the not too distant future. With the outbreak of war in Korea, this feeling was replaced by the memory of wartime shortages and the fear of a fairly continuous rise in prices and living costs. The war boom of the past three months strikingly illustrates the sensitivity of consumer and business psychology to the inflationary implications of the current situation.

Inflationary pressures are already chronic. Unless we adopt effective policies, they are likely to grow. As the military program increases over time, the production of civilian goods will be curtailed. Simultaneously, consumer income will rise sharply, while restraints upon spending are likely to be much less effective than in an outright war economy. The well-known wage-price spiral, which could not be completely suppressed even by the fairly tight controls of the recent World War, will probably continue with vigor. Unless private spending can be curbed in some way, and wages and prices kept from rising, the result will be a continuous growth in the cost of our military program and a serious erosion of the purchasing power of the dollar.

The recent price rises have led to widespread demands for direct controls, especially price fixing, allocations, and the like. Controls of this kind, however, are no cure-alls by themselves. Admittedly, we may not be able to dispense with direct controls, and if they are courageously employed to halt the inflationary wage-price spiral, they can contribute much to economic stability. It must be recognized, however, that such controls involve meticulous and detailed regulation of a myriad of prices and transactions. They present a tremendously complicated and expensive job of administration and enforcement. They interfere with the free exercise of choice by consumers and businessmen, and in less than an outright war economy, they will not remain popular for long. Without broad public cooperation, such controls are very likely to break down.

Furthermore, direct controls do not really go to the heart of the inflation problem. While heralded as a means to stop inflation, their effect is largely to suppress its symptoms. Consequently, the foremost objective of any anti-inflation program should be the energetic application of so-called indirect controls, which operate through fiscal and credit policies. Such controls do not directly interfere with the individual's freedom to spend his disposable income as he chooses, but if well-conceived, they can effectively reduce personal and business spending, curb credit expansion, and restrain inflation at its roots. For this reason, they deserve our main attention. Also, the tools employed here are matters of everyday, bread and butter interest to the banking fraternity.

Fiscal Policy

Fiscal policy is the cornerstone of an effective anti-inflation program. It is one of the few devices by means of which the growth of underlying inflationary pressures can be prevented or restrained. An appropriate fiscal policy is a prerequisite to an effective credit policy and will reduce the need for direct controls. Contrariwise, failure to adopt sound fiscal policy greatly impairs the usefulness of other indirect controls and leads to increasing political pressure for direct controls.

Budget Outlook—We are starting a great military program with the Treasury budget in precarious balance in the face of peak levels of employment and income. On a cash basis, the current fiscal year may possibly show a small Treasury surplus. With the passage of time, however, military expenditures will rise faster than receipts and the Treasury position will deteriorate.

With this prospect, it is unnecessary to belabor the point that government expenditures, both defense and nondefense alike, should be subjected to the most critical scrutiny. In recent years government expenditures have increased sharply in support of activities and programs which are not essential to our preparedness effort. These programs can be cut back. There is ample room to reduce non-defense expenditures provided only we have the courage and the will to do it. However, in view of the large forthcoming rise in military spending, it is evident that if we are to pursue a sound fiscal policy, we cannot stop with a reduction in non-defense spending; we must undertake substantial increases in taxes as well.

Tax Policy — One requirement of an appropriate tax policy is that additional taxes should bite into consumption. Increases in individual income taxes, which cannot be passed on, are much more effective than higher corporation taxes which are frequently transferred to consumers in higher prices, the very thing we are trying to prevent. Increases in the tax burden must be generally distributed over the population; they cannot be limited in their impact to the middle income groups and the well-to-do, but must be designed to reduce mass purchasing power. Even liquidating the middle classes through confiscatory taxes would not solve the problem of inflation.

A sales tax would have the multiple advantage of raising large amounts of revenues, hitting directly at consumer spending and distributing the burden broadly over the population. However, there are many political obstacles to its enactment at the present time. High excise taxes on civilian goods likely to be in short supply would also be most appropriate. These would transfer purchasing power to the government in tax receipts, instead of having it dissipated in the form of higher prices and in under-the-counter transactions.

Higher corporation taxes have great political appeal, but their economic impact is frequently undesirable in an inflationary period. In the sellers' market of a war boom, such taxes can be passed along fairly easily. Even if met out of profits, it is doubtful whether higher corporation taxes restrain business expenditures for inventories or plant and equipment. An excess profits tax is open to even greater criticism on economic grounds. Not only is it difficult to devise and administer on an equitable basis, but it frequently encourages profligate business spending and thus adds to the pressure on prices. In spite of the economic logic, however, there is strong political agitation for the imposition of an excess profits tax. It is to be hoped that if such a measure is adopted, care will be taken to minimize the deficiencies and inequities inevitably associated with a tax of this kind.

Debt Management Policy — Another phase of fiscal policy is the management of the public debt. Here the major objective should be to curb the prospective increase in the money supply. This can be achieved by placing as much of the government debt as possible outside the banking system.

The utmost vigor should be applied in selling government securities to the general public. During the last war, individuals purchased about $50 billion, largely in the form of savings bonds. Now and in the near future, however, it may be more difficult to sell substantial amounts of these obligations. The anticipated shortage of civilian goods and the price outlook are not conducive to the purchase of savings bonds; on the contrary, they seem to stimulate redemptions. The recent disconcerting record shows that purchases of savings bonds have declined while redemptions have risen.

Some have recommended higher interest rates or other changes in the features of savings bonds to stimulate their sale. Such suggestions are worthy of consideration even if the changes recommended are not likely to be very effective at the present moment. Looking ahead, as civilian goods become scarcer, individual savings are likely to rise, and there may be more funds available for the purchase of bonds. However, sales of savings bonds in the long-run will depend upon the success or failure of the fight against inflation. If we fail to come to grips with the inflation problem, the Treasury may find it increasingly difficult to induce the average man to buy securities the real value of which he perceives to be constantly dwindling.

A related phase of an anti-inflationary debt management policy is to sell government securities to institutional investors. As in the case of individuals, institutional investors too may be reluctant to increase their holdings of governments significantly over the near future, although for different reasons. As long as new mortgages, corporate obligations and municipal securities are available, institutions will prefer such issues because of their more attractive yields. Later, however, as residential building is curtailed and other non-Federal capital outlays decline, institutions will have substantial amounts available for investment in government obligations.

Fortunately, the Treasury will probably not be required to raise new funds until about the middle of 1951, by which time other demands for capital will have declined, thus simplifying to some extent the problem of selling securities to non-bank investors. Nevertheless, this does not relieve the monetary authorities from their current responsibility to offset inflationary pressures and to pave the way for sound future financing. Continuous efforts should be made to hold down the bank-held portion of the Federal debt while taking steps to tap savings as they accrue.

Credit Policy

Until about a generation ago, credit policy was held in high esteem as a device for dealing with cyclical fluctuations in business activity and prices. In recent years, its deficiencies and limitations have become apparent, and increased attention has been focused on the use of fiscal policy. In the present situation, if we are to prevent the growth of inflationary pressures, we must start with a sound fiscal policy. Only if this is done can credit policy make a contribution to an anti-inflation program.

Credit Policy Under Inflation—The expansion of credit in an inflationary period puts the borrower in possession of purchasing power which he can use to compete for scarce goods. For that reason, the consensus among economists is that some measures should be taken to restrain the expansion of credit.

Traditionally, such measures would be undertaken through the use of so-called quantitative credit controls, such as higher interest rates and open market operations designed to reduce member bank reserves. These have the purpose of limiting the general availability of credit and increasing its cost. Under present conditions, however, greater emphasis is placed upon the use of qualitative controls, which impose restrictions upon particular types of credit, as for example, margin requirements, regulation of consumer credit and of real estate credit. By these means, it is intended to curb the extension of credit to the private sector of the economy without increasing the cost of government borrowing.

Qualitative Credit Controls — There seems to be general agreement that consumer and real estate credit should be limited by raising down-payments and shortening maturities. Initial steps in this direction have been taken, and Regulation W is making itself felt, although the recent tapering off in the demand for consumer durable goods also reflects some decline in scare buying. Civilian production is still at very high levels, and the problem is to restrain demand without cutting it below the available supply. That is why we must expect periodic revisions in Regulation W, with a gradual tightening of standards as supplies of civilian goods decrease.

In the case of housing credit, lending standards in the postwar years were progressively liberalized by government policy. Recently, some steps have been taken to reverse this trend, but further action will probably be necessary to achieve a real tightening. Here, again, the demand for new housing should be progressively reduced to a level commensurate with the available supply of labor and materials.

Quantitative Credit Controls— When credit expansion becomes widespread, qualitative controls alone cannot be relied upon to keep the situation in hand, and it becomes desirable to employ quantitative controls in an effort to reduce the availability of credit to all types of borrowers generally. For this purpose, the familiar tools are increases in rediscount rates and reserve requirements, open-market sales by the Federal Reserve System, and moral suasion. In appraising their effectiveness, however, certain limitations need to be kept in mind.

There has been considerable discussion in recent months of the possibility of an increase in reserve requirements of member banks. Changes in reserve requirements are not a desirable instrument for day-by-day operations in the money market. Rather, their use should be limited to coping with basic factors which produce wide changes in the reserve position of the banking system. Their impact is harsh; they affect all banks of a class alike regardless of differences in lending policies or loan behavior. An increase in reserve requirements would bear especially heavily upon the central reserve city banks, which in recent years have lagged in the growth of deposits and earnings. In the aggregate, under present conditions, the only important effect of higher reserve requirements would be to transfer government obligations from the member banks to the Federal Reserve banks. As long as the Federal Reserve banks must continue to be ready buyers of government securities, an increase in reserve requirements would not restrict lending for the great majority of banks, and consequently would be of little or no value as an anti-inflation measure.

Furthermore, the effective use of quantitative controls entails, as a corollary, a rise in interest rates. Today, however, the huge size of the public debt precludes the use of credit controls in a manner that would cause substantial changes in interest rates. Such action is estopped, not only because of the problems such fluctuations would raise for the Treasury, but also because of their unpredictable impact on the economy in general and financial institutions in particular. Admittedly, the use of drastic measures of credit control has not always been an unqualified success. All too frequently such action has brought excessive credit contraction and deflation, and has raised problems perhaps as serious as those it was intended to remedy.

The Interest Rate Controversy— Because an increase in interest rates would affect not only private borrowers but also the Treasury, a conflict has arisen that has periodically complicated the problem of credit control ever since the end of the war. During the inflationary postwar years of 1947 and 1948, the Federal Reserve wanted to tighten credit and increase its cost to private borrowers. At the same time the Treasury was reluctant to accept the resulting higher yields on short-term governments because this would increase the carrying cost of the debt and might complicate the problem of refunding. In addition, the Treasury doubtless felt that modest increases in short-term money rates would only slightly restrain the demand for loans or the willingness of commercial banks to make them.

In retrospect, it seems a fair conclusion that this complex controversy was resolved reasonably satisfactorily. Albeit reluctantly and at too slow a pace, the Treasury did accede to the desires of the Federal Reserve, short-term money rates were measurably increased, and the differential between long and short-term rates was narrowed. Although bank credit expanded substantially, there is no evidence that it contributed significantly to inflation. The rapid increases in real estate and consumer credit were unavoidable in view of the boom in housing and in durable goods. The rise in business loans simply reflected the high levels of prices and business activity. There was no widespread use of bank credit for speculative purposes.

In August, however, the long smoldering disagreement between the Treasury and the Federal Reserve burst into flame. The Federal Reserve expressed concern over the inflationary prospects, announced an increase in rediscount rates, and stated that it was prepared to use all the means at its command to restrain further expansion of bank credit, consistent with the policy of maintaining orderly conditions in the government securities market. But at the same time, the Secretary of the Treasury announced his decision to limit refunding issues to the same terms offered in June and July.

Thereupon the Federal Reserve allowed rates on outstanding short-term Treasury issues to rise. Consequently, most holders sold their maturing obligations to the Federal Reserve, which made available short-term issues from its portfolio at yields higher than on the new refunding issue. Other holders turned in their maturing issues for cash rather than accept the refunding issue.

In gauging the significance of this incident for the future course of interest rates, it should be emphasized that the areas of agreement between the Treasury and the Federal Reserve appear to be greater than those of disagreement. Both authorities concur in the need for maintaining orderly conditions in the government securities market, and both have agreed on defending the 2½% rate on long-term issues. Differences have been confined to short-term rates. Should strong inflationary pressures persist, we should expect the Federal Reserve to press for a further rise in such rates and increased reserve requirements, which would revive the controversy. However, the disagreement has been modest, as exemplified by the fact that the recent controversy revolved around a difference of approximately ⅛ of 1%. It is futile to expect any diminution in the degree of management and control over the money market. Thus, we may anticipate a continued low level of interest rates, with restrictive action limited to modest and relatively minor moves.

Appraisal of the Controversy— Nevertheless, this controversy does raise some important points of principle. For one, the reluctance of the Secretary of the Treasury to acquiesce in any tightening of the money market may well serve to confirm the already widespread and growing belief that government policy has an inherent inflationary bias and that any efforts to cope with inflation will be half-hearted at best. A minor increase in the short-term rate, even though its effect on the aggregate credit situation would have been very limited, would at least have notified the public that the Treasury was ready to use some of its powers to fight inflation. The proposed modest rate increase would have been a small price to pay for this, especially as it would not have caused any widespread repercussions in the government securities market or any embarrassment to the Treasury's refunding program.

Another consideration is that the economics of the situation favor the Federal Reserve point of view. There is no denying the strength of the inflationary pressures that followed the outbreak of war in Korea. The Federal Reserve authorities realized the inadequacy of small increases in short-term rates under such circumstances, but unless we accept the thesis that central banking policy is now obsolete, they unquestionably had a real responsibility to press at least for the limited action open to them.

Finally, and most importantly, the incident has spotlighted an unfortunate lack of cooperation between two vitally important agencies and points a very real moral for the future. In times of great strain and uncertainty, even small disagreements between the Treasury and the Federal Reserve are undesirable and may be hazardous. It would be a serious error, and certainly not in the national interest, to make the Federal Reserve subservient to the Treasury. It would be equally serious to have the Federal Reserve operate independently of the Treasury or to adopt policies contrary to those of the Treasury.

Fiscal and credit policies are closely interrelated, and differences between the fiscal and credit authorities should not remain unresolved. However, these differences cannot be settled through legislative fiat or overriding administrative directive. What is needed is close and continuous liaison, beginning at the staff level, between the personnel of the Treasury and that of the Federal Reserve System, to the end that each may be fully conversant with the problems, points of view, and proposals of the other. If this can be attained, the authorities should be able to resolve their differences without carrying them into the market place in a critical period.

Conclusions

Regardless of recent heartening developments in Korea, we face many years of uneasiness and strain at home and abroad. The great rearmament effort now slowly getting under way appears to underwrite a long period of full employment, high business activity, and rising personal income. But beneath these symptoms of prosperity, it portends scarcities and shortages, less goods for the civilian market, and mounting upward pressure upon prices. Thus we face a seriously inflationary situation.

Initial efforts to restrain private spending and price rises have taken the form of slightly higher taxes and some mild credit restrictions. The government is certain to take further steps, but these measures are likely to meet with no more than partial success. A really courageous and realistic tax policy faces obvious political impediments. In its absence, credit policies can be of only slight effectiveness. And even if fiscal and credit measures were energetically applied, they would still be unable to cope with such developments as the government-supported wage-price spiral, which is probably the most potent inflationary force in our economy today.

As increased defense efforts get under way, the situation will call for some direct controls. Specific controls will be required to assure that scarce materials are channeled into military production in adequate amounts. Furthermore, if the wage-price spiral is to be retarded, even if it cannot be stopped, the government will probably find it necessary to adopt a comprehensive program of fact-finding boards, price fixing, and some restraint on wage increases. However, it is probable that even direct controls will be applied unevenly and will not prevent a gradual increase in money wages, living costs, and the expense of doing business.

Unfortunately, all the controls and other anti-inflation apparatus which the government will muster are not likely to go to the root of the inflation problem. The disconcerting fact is that even without the defense program, our economy has already become swollen with inflationary pressures. Government policies devised in earlier years to combat deflation and unemployment have been carried forward into the postwar era of inflation and full employment. In the fields of fiscal policy, labor relations, agriculture, housing and in many other sectors of our economy, government policies have nourished and fostered inflationary forces for many years. Their undisturbed continuation is supported by numerous vested interests which, short of the discipline imposed by all all-out war, will be extremely difficult to dislodge.

All these forces and pressures compound the inflationary problems posed by the rearmament effort. Consequently, controlling inflation means more than simply containing the effects of increased military outlays. It involves the much more difficult task of curbing the underlying inflationary tendencies which have become an established part of our economy. The task is formidable, and complete success is probably an unrealistic expectation. Yet concentrated efforts must be made, and they must produce substantial results. Otherwise, we face the prospect of continued and serious inflation, a host of complex controls, and a degree of government regimentation which will seriously interfere with the attainment of a militarily strong and economically sound America in a troubled world.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK BOWLING SCORES

The Security Traders Association of New York (STANY) Bowling League got under way at the Ten Pin Alleys, 23 Park Row, on Sept. 7, inaugurating its 12th year of league competition.

The turnout this year was larger than in any previous year. The League has 12 teams of five men and one alternate. All bowlers are members of STANY. Bowling starts at 5:30 p.m. every Thursday. Visitors are always welcome. "Hoy" Meyer (Gruntal & Co.) is Chairman.

The standings October 5th:

TEAM—	Won	Lost
Leone (Capt.), Krasowich, Reilly, Pollack, Gavin	7	2
Serlen (Capt.), Gersten, Gold, Krumholz, Young	6	3
H. Meyer (Capt.), Smith, Farrell, A. Frankel, LaPato	6	3
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	6	3
Burian (Capt.), Manson, King, Voccoli, G. Montayne	6	3
Hunter (Capt.), Lytle, Reid, Kruge, Michels	5	4
Krisam (Capt.), Bradley, Montayne, Weissman, Gannon	5	4
Mewing (Capt.), Klein, Flanagan, Manney, Kelly	3	6
Greenberg (Capt.), Sullivan, Cappa, Wechsler, Siegel	3	6
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	3	6
Donadia (Capt.), DeMaye, O'Connor, Whiting, Workmeister	2	7
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	2	7

Well, Let's Be Sure!

"The combined efforts of the United Nations to rebuild Korea is an important step forward. It is not only as an earnest of our intentions, but shall be a practical example of what can now be done on a cooperative basis to help people raise themselves up from poverty, disease and hunger.

Dean G. Acheson

"In this one place, ravaged by the consequences of a ruthless aggression, the United Nations can demonstrate all that it has learned about helping people to build better lives for themselves, to educate their children and keep them well, to grow more food, to prosper and enjoy the fruits of their efforts.

"What the United Nations will be able to do in helping the people of Korea to rebuild their country will be watched with keen interest by the people of many other countries, whose need is for development aid.

"The Korea recovery effort can be an inspiring example. Others may see what can be done, and draw from this project the courage and the knowledge to make their own lives better."—Secretary of State Acheson.

Well, let's be sure:

(1) That it is really the United Nations and not merely Uncle Sam that undertakes all this,

(2) That care is taken not to impose alien ideas, customs and habits of life upon the Koreans, and

(3) That Koreans understand that in the end only they themselves can do much to improve their lot.

Continued from first page

As We See It

ably, it wants. It would be folly for many reasons, one of them being that we could not, even if we would, carry any such load indefinitely.

Taking Stock

Perhaps, the first of our many tasks is to take stock of our own situation and reach a decision as to the degree in which we are prepared to go into this business of playing Santa Claus. The work might well begin with some realistic study of the extent to which our resources and our willingness to work make it possible for us to do any such thing without denying ourselves things which we insist upon having. Failure to come to grips with this vital question could scarcely fail to win enemies, not friends for us in many parts of the world. Neither could it well fail to bring on a condition of inflation here at home which could harm us all almost as much as actual war. We are much too inclined to "be generous," and to permit ourselves to be misled with the folly that the way to keep eternally prosperous here at home is to give away prodigiously of our substance. We deceive ourselves when we think that by producing vast amounts of goods and sending them abroad gratis we are enriching ourselves.

Cries are heard demanding the we rearm many other countries in substantial part, and at the same time "raise the plane of living" of hundreds of millions of other people in order to "stem" communism. There is no doubt that communism, under the direction of the Kremlin, is on the march, that it intends to spread itself all over the world, if it can, or that it delights in fishing in troubled waters. Many, many people in many countries seem all too easily to suppose that all they need to do in order to escape the misery to which they have been subjected is embrace this aggressive doctrine called communism and strip the provident of their possessions. It is also true that as against such appeals as this, talk of freedom is not particularly interesting to many of these peoples, particularly those who have never known freedom in any event. Of course, Kremlinism would in the end not better their economic lot, but on the contrary worsen it. But this they do not now know, and hence the appeal of the insidious communistic doctrines to so many in so many lands.

All Must Contribute

But there is a limit to which we can, even with our great productive genius and our vast resources, succeed in combating all this by supplying wanted goods or services. The fact of the matter is that if all the people of the world are to have more of the good things of life, then all the people of the world must bear their full share in the production of the goods and services which taken all together make up the good things of life. Ordinary charity, even if dressed up and disguised in this way and that, is not likely to prove particularly helpful over any long period of time. Effort to teach many of these people of the world how they may produce for themselves these things they need (although they may not always realize that they need them) is certain to prove a patience-trying and tedious task. If we are to be successful in combating communism throughout the world, we must be careful not to waste our substance where it will do the least good. It is very doubtful if we — any of us — have sat down carefully to review this aspect of the situation and to arrive at sane and realistic conclusions.

It may be that more careful and realistic study has been given the purely military side of all this. In any event, it is of the greatest importance that we do just this same sort of thing before committing ourselves to enormous military expenditures all over the world. Certainly this is no time to neglect our military strength. The times are too uncertain, and despite all the palaver of the day, this is a time when military might seems to count as never before. But ours must be the right kind of military might at the right places, and the obtaining of that might and its maintenance must not be permitted to sap our economic strength, upon which modern military might of long endurance squarely rests. To put the matter in a somewhat different way, we must decide where our manpower can be most effectively used in protecting the nation and our way of life. It is certainly conceivable that we could weaken not strengthen our position by keeping too many men under arms, for example, or by devoting too much of our energy to the manufacture of arms.

There is also the vital question as to how our efforts of these sorts are to be financed in order that they do the least in the way of striking at the efficiency and productiveness of our industry and the reasonableness of our living. Until a somewhat more definite and dependable indication is forthcoming of the amounts involved, it is obviously impossible to do more than call attention to certain basic principles which must not be violated. One of them is that since we already have in the economic system a substantial "inflationary potential" as a result of World War II blunders, we must be particularly careful not to permit expenditures to outrun actual tax receipts. Sale of Government obligations to sop up savings and prevent inflation is a snare and a delusion. Under our system all that is accomplished is to postpone the evil day. Another is that taxes must rest upon those who spend if we are to avoid pouring funds into markets where goods to match them do not exist. That means all of us, the poor as well as the rich.

Here are some of the issues which should occupy us between now and election day.

Continued from page 11

Foreign Investment—A Factor In Solution of East-West Impasse

States aid, upon expiration of ECA, is difficult to tell. It is possible that the co-called Point IV program which calls for American economic and financial assistance to undeveloped and underdeveloped areas, may afford a solution. However, can such a program be launched on a worldwide scale with the hope of success, so long as the world remains tragically divided and its peoples remain in the grip of fear over a new catastrophe? How can anyone seriously engage in rehabilitation or development anywhere, so long as fear persists that what is built today may be destroyed tomorrow?

Or shall we abandon all hope and become reconciled to the idea that the only solution resides in the continuation for an indefinite period, of a rearmament program, expending all, or most of our substance, for non-productive projects? Shall we reconcile ourselves to the thought that we must continuously live with crisis? On this point, it may be of interest to quote Gen. Omar N. Bradley who, according to the "Herald-Tribune" of Sept. 24, had this to say:

"Now it appears that our normal way of life, for many years to come, may be tension and sacrifice. The ominous shadow is upon us, and we face the fact that a large part of our income and effort will have to be devoted to preparations for defense."

It may well be doubted whether the majority of the American people who are men and women of good will, are prepared to accept such defeatism as the only way out. Those who insist that a solution can NOT be found, must be rejected as men unfitted to guide our destinies, and replaced by those who can. There must be among our 160 million, men with sufficient vision and intelligence to find a way HOW to resolve the crisis.

Our efforts to export the American way of life to all parts of the world is, of course, a most laudable ambition. Equally noble is our aim to teach the rest of the world the worth of our free enterprise system, the principles of American democracy, tolerance and freedom. With more than two billion non-Americans in the world, the magnitude of America's task is indeed a Herculean one.

There are three principal media through which contact may be established with America's neighbors, across the Atlantic, across the Pacific, south of the Rio Grande, in Africa and Australasia. These media include: the press, the radio and the movies. Of the more than 2,300,000,000 people to be reached, well over half, or 1,204,000,000 are illiterate.

Effect of Propaganda

An examination of the possible effects of the various American propaganda media upon the rest of the world in the light of the foregoing facts, may be of interest:

Daily Papers: While the circulation of daily newspapers in North America amounts to 275 for each thousand inhabitants of that area, there are only 10 for each thousand inhabitants in Africa, 23 for each thousand Asians, 67 for each thousand South Americans, 167 for each thousand Australasians and 207 for each thousand Europeans.

Radios: While there are 412 radio sets for each thousand men, women and children in North America, or almost one set for each two inhabitants, there are only five sets for each thousand inhabitants in Africa, nine for each thousand Asians, 52 for each thousand South Americans, 93 for each thousand Europeans and 83 for each thousand Australasians.

Moving Pictures: While in North American motion picture houses there are 71 seats available for each thousand inhabitants, there are only three seats for each thousand Asians, five for each thousand Africans; 33 for each thousand South Americans; 34 for each thousand Europeans and 63 for each thousand Australasians.

Illiteracy in the world is still alarmingly high, amounting to 525 for each thousand inhabitants. Asia heads the list with 767 per thousand. Africa is a close second with 674, followed by South America with 629, Australasia with 542. In Europe, illiteracy is lowest, with only 69 per thousand. European figures are exclusive of Russia.

For every thousand inhabitants throughout the world, the circulation of daily newspapers is only 95; the number of radio sets, 70; and that of moving picture theatre seats, 20. From these figures it would appear that propaganda via the press could be most effective in Europe and Australasia, less effective in South America, and least effective in Asia and Africa, where it is needed most. Propaganda via the radio would appear to have little effect in Asia and practically none in Africa and could not do much good elsewhere. Through the movies, American propaganda could not, for the time being at least, accomplish much in Asia or Africa. It would seem to be able to achieve some results in Australasia and somewhat less in Europe and South America.

Those charged with directing American propaganda activities abroad, will do well to examine closely these statistics. One of the cardinal principles of effective propaganda is not a policy of denouncing ideologies which are abhorent to us, and to assume that the only way successfully to fight them is through the use of force. Ideas can be defeated only by better ideas. One is profoundly impressed by a recent statement by the Archbishop of Canterbury and Primate of All England, Dr. Geoffrey Fisher, to the effect that "The tensions created by Communism cannot be dismissed merely by denunciations. . . . We who can see the black tyranny of its creed fully revealed, naturally denounce it, but we must frankly realize that in the Far East it can easily be seen not as a tyranny, but at present as a liberation. It does, indeed, offer in certain conditions . . . a release from social evils too long and too unheedingly accepted." And speaking of the Far East, one may to advantage cite a Chinese proverb: Do not curse the darkness. Light a candle.

It is sincerely hoped that those who are charged with guiding our destinies will heed Dr. Fisher's sound advice, realizing at the same time that America's strength and material prosperity can and shall be of decided aid to our neighbors, as is so aptly stated by that master in diplomacy, Charles Maurice de Talleyrand, in a somewhat paraphrased version: *"Les vrais interets des Etats-Unis ne sont jamais en opposition avec les vrais interets du monde."* (The true interests of the United States are never in conflict with the true interests of the world.)

If we accept and cling to this kind of political philosophy, we shall contribute materially towards the promotion of international peace and the genuine and lasting material well-being for all Americans, warranted by the vastness of our country's resources and the industry and energy of our people.

We may even witness the fulfillment of the poet's dream:

And not by Western windows only,
When dawn is born, comes in the light.
Eastwards, too, lights rise, though slowly;
Let West join East and the World'll be right.

Men of good will everywhere hope and pray that this may come about.

The prospects are encouraging. In this very city, a little over two weeks ago, on Sept. 26, the Trustees of the Ford Foundation announced that the major activities would be directed, *inter alia*, to the mitigation of tensions which now threaten world peace; the development among the peoples of the world of the understanding and conditions essential to permanent peace; the improvement of the standard of living and the economic status of peoples throughout the world; and the elimination of restrictions on freedom of thought, inquiry and expression in the United States and the development of policies and procedures best adapted to protect these rights in the face of persistent international tension.

So long as there are men and institutions in this country devoted to the attainment of noble and constructive objectives, we are justified in viewing the future with confidence and optimism.

Continued from page 6

Humanizing Annual Reports

as they occur as someone who is directly identified with the company. On the contrary, the data compiled by the company employee will be of material assistance to your outside counsel. If the company has its own Advertising Department, so much the better, as that department is a "natural" for undertaking all phases of the job in collaboration with the president, comptroller and other officers who are normally expected to undertake appropriate sections of the report. It must be remembered that a company's Advertising Department is chiefly concerned with the preparation of copy for consummation by the public and cannot be expected to be familiar with all of the aspects of the annual report, particularly with fiscal and operating problems.

Although the president of a company is usually the final authority and can be expected to receive any criticism that may arise from a report, in too many instances he assumes practically the entire responsibility, which may result in embarrassing delays for the printers and others who have to deal with the mechanical aspects of producing the report.

The preparation of an annual report should begin on the first day of the year the report will bear, and should continue throughout the year. As early as he can do so, the President should determine in which direction the report should be emphasized, whether it will contain one running theme or be directed to several themes. For example—if the president foresees the necessity of new financing during the next year, he will have the report pay particular attention to renabilitation, new buildings, equipment and expansion; stories or pictures of excessive damage to equipment caused by storms will serve to remind the reader of some of the hazards that are beyond the control of management; if rate increases are to be petitioned during the following year, the annual report could stress the rise in costs, plant investment, small return, maintenance costs, etc., laying heavy stress upon the necessity of rendering good service to the community. Labor, another important aspect of the Humanized Annual Report, should be allotted sufficient space to tell its story. Length of service of employees, number, sex, pension funds, retirement plans, insurance, profit-sharing plans, union contracts and matters of like importance to employees are suggested subjects.

Employee Readership

Will the same report be given to the employee, as well as the stockholder? A few of the companies represented in this gathering may be giving this question consideration. The subject of a separate employees' report is a moot question upon which there are many arguments, both pro and con. Actually, very few corporations have produced good employee reports due to the many difficulties attendant, such as "talking down to" or making the employee feel as though the annual report the stockholders receive is too complicated for him to understand. Corporations that publish employee magazines or other regularly issued employee publications have in them an excellent medium for telling the annual report story. Last fall during a forum in Montreal, a number of questions were asked as to the overall advisability of issuing a separate report to employees. The consensus of opinion was not to do so in view of the dangers I have outlined. Before you decide upon the type of report to prepare, you must first appreciate the importance of determining whether or not it will be sent to your employees and their union officials.

Contents of the Report

For the same reason magazines and periodicals use covers to attract readership, your annual reports should also be dignifiedly attractive and pleasing to the eye. The cover should plainly state the name of your company, together with the year. Although illustrations are optional, a great many corporations decorate the covers of their reports with photographs or other forms of illustration, that show at a glance in what business the company is engaged.

If the report will consist of 20 pages or more, it should contain an index. Whether it is a small report or a large one, all subjects should be plainly headed so as to enable the reader to recognize them at a glance.

The great majority of people, in their anxiety to find out whether their investment made or lost money during the year, look for that information as soon as they open a report. For this reason, it is advisable to give the information as early as possible in the report in a page of "Highlights." All figures, including profit and loss statements and balance sheets, should be listed on a comparative basis to enable the reader to determine increases or reductions in the items this year, as compared to last.

It is considered good practice to confine the president's message to one page if it is at all possible to do so. This amount of space is usually ample to allow the chief executive to give a brief account of his stewardship including, if he so desires, a special message upon one or more subjects. The president should make an effort to use plain ordinary English if he wishes to give his message the qualities of homeliness and friendliness. Short sentences help, as they do in any good business communication. The use of trite phrases such as "I beg to report" is to be avoided; also, the president should not be anxious to boast of his knowledge of legal phrases by the use of "aforementioned, ultimo, proximo," etc. The message should be written by the president himself in order to project his personality to the reader to the best of his ability.

Be sure that the report is printed in type that is large enough to be plainly read by elderly people. During the course of making a number of calls upon individual stockholders for a client corporation located in the eastern part of the country, I have had the experience of hearing this suggestion from several of them. When the president learned of this criticism, he readily agreed and during subsequent years, larger type has been used. This is a small matter, but one which may be of importance.

The balance sheet, which is a subject equally as important in the construction of an annual report as the profit and loss statement, should be stated in a simple, readable manner. All of the items on the balance sheet should appear opposite figures comparing them to the previous year. Do not have more footnotes to the balance sheet than are absolutely necessary. It will also be helpful to endeavor to simplify as much as possible the wording of these notes. The "Financial World," a weekly magazine published in New York City, conducts a contest each year to select the best annual reports of each industry. All of the annual reports that have won awards in the "Financial World" annual competitions, regardless of the business in which the companies were engaged, have a simply stated balance sheet, as this is one of the factors the Board of Judges considers in making awards.

Before leaving the subject of the balance sheet, a word should be directed toward the certificate of the auditors that should be reproduced in the report. Although certified public accountants are employed, usually by authority of a resolution of the Board of Directors, many of them will, upon request, address their certificate of audit to the stockholders rather than to the Board of Directors or to the corporation. This is helpful in Humanizing the Annual Report. It makes the stockholder feel more important.

The body of the report may contain appropriate pictures, drawings, photographs or charts, as desired, connected with each other by descriptive narrative. Graphic illustration is frequently used to describe disposition of the revenue and the operating dollars, as well as the number of telephones in service, local service, toll service, miscellaneous service, number of employees, average length of employment, wages, salaries, and taxes paid. I personally like simple pie or bar charts which make themselves clear without the need of a written explanation to tell what the picture is about. The value of graphic illustration is proved by the Chinese proverb that one picture is worth 10,000 words.

For the benefit of your statistically-minded stockholder or the investment adviser, it is helpful to have the report include figures extending over a period of five, ten or more years that will tell the story of your growth factor. If you decide to include the figures for a given number of years in your report, you must be prepared to accept the fact that some years may not have been as profitable as others; in fact, some of them may have been genuinely disappointing. If you are willing to accept the burden of reporting all factual information to your stockholders, you must also be able to take the criticism and answer the questions that may follow. You will find there will be very few criticisms because the public admires a management which follows a policy of furnishing them with complete facts, letting the chips fall where they may. That is one of the best means you have at your disposal to build confidence of the general public, as well as of your stockholders. If you stop to realize that many of the people who will read the report, in fact, the most careful readers, will be people who advise others about investments, you will appreciate the value of using adequate statistical information.

A good telephone company annual report usually contains a map showing the territory served, exchanges, toll lines and other helpful data.

Merchandising the Report

The annual report is a useful medium in public relations if it is sent to people other than stockholders and employees, such as State and local Congressmen, Senators, Representatives, municipal officers from the Mayor on down; banks, insurance companies, securities dealers and brokers, libraries, high schools and institutions of higher education. It will assist in familiarizing all these people with their local telephone company to bring them closer to you than they are now. It should assist you to prepare your community for the acceptance of higher rates when you find them necessary. It will make them more cognizant and prideful of a local business that many of them take for granted.

It will not be difficult for you to prepare a special annual report mailing list of individuals and institutions. In order to be effective, this list must accurate. Therefore, it should be checked annually for changes of location and revision. You will have other opportunities for using your special mailing list in connection with interim reports, if you make them, and pamphlets or other communications which you may issue from time to time.

You should not overlook the opportunity of mailing copies of your annual report to the newspapers and magazines in your territories as well as appropriate financial publications in other parts of the country, particularly in large financial centers. This is good advertising with a resultant enlargement of the perimeter of your friends in an easy, economical manner.

"Financial World" Statistics

The investing public has experienced a continued expansion in the number of corporations using the modern form of corporate reporting. Although we like to look upon our present stage of annual report development as a financially-enlightened era, it is interesting to note the progress corporations have made in this direction during the past 10 years. My authority for the figures I am about to give you is the July 5, 1950 issue of the "Financial World." Mr. Weston Smith, Executive Vice-President, reports, in the issue to which I refer, that of the annual reports examined in 1940, only 6% of the total number could be classified as modern. However, in that year, the trend was rapidly gaining momentum, as 16% were reported as improved over the previous year, but a surprisingly high 78% remained unchanged. Compare these figures with those of 1949 in which Mr. Smith reports 52% modern, 28% improved and only 20% remaining unchanged. From these statistics, you will note that great strides in modernizing annual reports have been achieved in the past 10 years, but it is regrettable that the managements of many corporations continue to refuse to take their rightful part in the parade of progress. The stockholders of what we may aptly term "backward corporations" may show their dissatisfaction when it is too late for their managements to rectify the situation.

Expense

It does not necessarily follow that a good report is an expensive report. Questions have been asked about the average cost of a good annual report. You will appreciate that a number of factors are to be considered, since the average cost per copy of an elaborate, expensive report issued by a corporation with a very large number of stockholders may be less than the average per copy cost of a very modest, inexpensive report issued by a corporation with only a few stockholders. Figures on this subject have been compiled on various occasions, but due to the reasons I have stated, prove absolutely nothing. It is useful, however, for a corporation to know the per copy cost of its own annual report and compare it to the per copy cost if it were to increase substantially the number of copies for the purpose of improving upon the merchandising of the report. It is sufficient to say that a company should issue a report in keeping with its size and the extent of its proposed readership, but with the greatest emphasis placed upon what is between the covers. Have your report tell a factual story, the whole story, in a simple, human manner, illustrated, if desired. A small company may have a report that is equally as good as a large company, eliminating the matter of elaborateness.

In General

In these troubled times of ours, it is the duty of corporate management to use, among other methods, the annual report to tell the story of capitalism. If our present form of free enterprise that we have enjoyed since the establishment of our democracy is to continue, management must assume this mantle of its responsibility in reporting to the American investing public. Most states have enacted statutes that make it mandatory for a corporation to report at least once a year to all of its stockholders. While it is true the statutory requirements regarding the contents of the reports are simple with which to comply, the management that is on its toes goes much farther than required in its efforts to win the confidence and friendship of its various publics.

Your stockholder public is important to you for obvious reasons. If your annual reports succeed in educating your stockholders to the reasons for certain of your capital requirements, you may expect their support for charter amendments that may require the affirmative vote of two-thirds of your shares. You will thus avoid the embarrassing position in which certain companies have found themselves when they have had refinancing or new financing arranged for, only to have the execution of their plans prevented by their failure to obtain a sufficient vote from the stockholders.

The importance of your community public cannot be overemphasized. This public is your bread and butter and if uninformed, cannot be expected to remain silent when rate increases are proposed. Your annual report will help to give them a better understanding of the important part your company plays in the life of the community.

Your employee public is able to go a long way to enable you to either stay on the profit side of the ledger or suffer a loss. Good morale and *esprit de corps* may be accomplished by having this one of your publics properly recognized in the annual report.

The investment banking circles constitute a public from which you may eventually be required to seek active assistance. Make yourselves known to these people and to the investment advisers by sending them copies of your annual reports so should the time ever come when you are required to approach them, they will be at least familiar with your name. Those of you to which this public is particularly important will benefit by going a step farther by making the personal acquaintance of these people.

The FCC and your States' PUC's, as publics, wield what is commonly known as the "Big Stick." You undoubtedly cultivate the individual members of these regulatory bodies as closely as you feel it in good taste to do so. If you do not now mail them copies of your annual report, I would suggest doing so in the future.

Be mindful of all of your various publics when you prepare your annual report.

With Conrad, Bruce

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Miomir P. Illitch has become affiliated with Conrad, Bruce & Co., 530 West Sixth Street. He was formerly with Blair & Co.

With Pacific Company

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Mary T. Townsend has been added to the staff of Pacific Company of California, 623 South Hope Street, members of the Los Angeles Stock Exchange.

Continued from page 3

Outlook for Foreign Trade

June and is getting the pound, at $2.80, in an unassailable position.

(10) The Continent of Europe. It may now be said that Free Europe is now looking with impunity upon the end of ECA in 1952, with dollar requirements largely certain. Exceptions, of course, are Greece and Austria which certainly will not be out of the woods. It is likely that even Italy will be on her own by that time. On present outlook, all other nations should be able to handle remaining dollar problems through the International Bank, the International Fund, the Export-Import Bank or other normal agencies.

Time does not permit further detailing of the world's upward economic sweep. But review world commodity markets, prices and American buying, and you must quickly conclude that nearly all parts of the world either are back to fine prosperity or are en route.

Time for Ending Trade Discriminations

As we shall see, there is every reason to believe this favorable position will endure at least for several years. This suggests that the time is here for high level vigorous pressure for ending the trade and financial discriminations that have been foisted upon us in so many places. We have condoned much because of the dollar shortage.

We have agreed to numerous practices in many countries that run counter to our basic belief in equality of treatment in international trade. We have shut our eyes to evasions and subterfuges. We have made no outcry at discriminations that should be abhorrent to all of us. As a matter of fact, the discriminations often were suggested by Americans in the first place.

Exchange controls are standard equipment in numerous countries where the need has passed or is passing. In some places, exchange control is exercised more as a political payoff than for the best interest of the country itself. I hasten to add that such misuse of exchange control affects only certain countries, not all, and that in numerous areas exchange control is scrupulously maintained for the highest of objectives. But it cannot be denied that exchange and export-import controls offer great opportunity for favoritism and political payoff. That such controls are capable of mismanagement is a compelling reason for their amelioration as promptly as possible.

Unfortunately, we cannot escape criticism for our frequent acquiescence in the erection of discriminatory barriers. In times of real financial shortage, as was the case a year or so ago, it was perhaps any port in the storm. But those conditions have changed and under foreseeable circumstances over the next few years, the stringencies of controls will become less and less and we should proceed against them with all possible haste and pressure. The dollar shortage period has passed. Uncle Sam already has condoned too much.

Security for the free world prompts us to demand the greatest possible freedom of trade between them. We are cracking down on Greece, reducing ECA funds until Greece puts her economic house in better order. I am not suggesting that we crack down similarly on other nations, particularly some of our best friends who are not in the ECA orbit. But I am suggesting that a major diplomatic and economic objective of the United States should be to end discriminations aimed at this country. Also, we should seek lessening of exchange and import restrictions among the Free World. The plea that dollar shortages are acute is no longer true; to scramble a figure of speech, dollars are pouring out of the ears of many nations. And with our needs so acute and so compelling, I can see little likelihood of change in that favorable position for years.

Let's now bring this whole thing down to our foreign trade. Why do we have a foreign trade anyhow? Approach that question not from the standpoint of the individual exporters and importers, whose living is at stake, but rather from the standpoint of America's national interest. Does America's foreign trade today serve a useful purpose—useful to the country as a whole? Or, rather, are you—the export managers of this country—transacting a business, selling things abroad, that hinders America's best national interest? Do you, in foreign trade, contribute to America's development? Do you, through your daily work, further the American goal of freedom and security?

Those are pretty big questions to answer. Be certain of one thing, however: in the months and years to come, your business will be increasingly a strong weapon in furthering Uncle Sam's foreign program and aims.

In the first instance, your job is primarily that of paying for the things Uncle Sam needs and must have from overseas—for security, for the maintenance of the civilian economy. It's just that simple. The goods you export pay for the things we import. Without you, Uncle Sam wouldn't satisfy his needs. Gold won't buy them for long. Actually, if we want coffee and hides, we pay for them with automobiles, power generating equipment, highway building machinery, health products, etc. I don't mean that we barter directly so much cement making machinery for so many tons of sugar. We buy and sell in dollars, but sooner or later, the dollars for our imports are returned to pay for exports. It's just that simple.

Trade—A Two-Way Street

Other nations will not sell us for very long merely on the promise that at some time in the future, we will sell them the goods they want, the things they need for their economy now. Trade and business is a two-way street. Goods must pass both ways. Trade can't be only inbound. It must be outbound just as surely.

Perhaps it is a novel idea that you export managers are a cog in a machine working for Uncle Sam's best national interest. Well, perhaps that hasn't long been the case. We have never had 150 million people before. We have never before had such needs for imported products. Uncle Sam today is producing a far smaller percentage of his total requirements than ever before. We have never had a tremendous arms job to do before, except in the time of full war. But as of today and tomorrow, Uncle Sam and his 150 million people have the most astronomical needs and requirements that have ever been dreamed by any nation or group of people.

Write your own ticket as to how many billions of dollars Uncle Sam will spend abroad in the next year, the next five years, for strategic materials. I am convinced that however much we obtain, we will still want more.

Then, equally fantastic, and probably much greater in detail, will be imports for the maintenance of our civilian economy, now roaring along at the highest pitch ever attained. Again I say, write your own ticket, on such things as coffee, wool, sugar, hides, cocoa, bananas, essential oils, drugs and raw products, fibers, non-ferrous metals, tin, petroleum, oil, industrial diamonds, asbestos, natural rubber, etc. It would take all afternoon merely to read the list.

Uncle Sam is less self-contained than ever before. You know that vast expenditures are being made for developing new iron ore sources in Venezuela, Labrador, Liberia, and you know that much more is being spent in Cuba, Brazil, Chile. Iron ore is now being brought to the States in 25,000-ton ore ships, never before dreamed of in size. Now there is talk of carriers handling 40,000 tons in a single load.

Iron ore is dramatic. Many other things are equally dramatic. At one time, Uncle Sam produced most of the wool he needed here at home. Now, it's less than a third. Note the booming wool markets in Australia, New Zealand, Uruguay, Argentina, South Africa. Not long ago, wool at Sydney reached almost $6,000 a ton.

These are typical and of the utmost significance. But now suddenly we have great additional import requirements, piled on top of a normal advancing economy. Not only do we have the defense and security program. But then, with shortened supply at home, we may see a vast accretion of new and expanded imports, perhaps largely from Europe, to "fill the chinks" in our domestic economy. Perhaps we will be able to meet some of our steel shortages with European steel imports. Cement is a tight supply item and it's beginning to roll across the Atlantic.

I won't prolong this listing. We must pay for many other American requirements abroad. The dollar outpouring will be not only for the imports of goods and products but for many other invisibles—scenery, touring, security, humanitarian, for foreign investments, royalties, etc.

Now, actually, you are the men who must pay for all these things we want from abroad. You do it by shipping overseas to all the Free World—those things that people want—capital goods, durable goods, consumer goods.

If we export, we will receive in return tin, rubber, manganese, sugar, etc. If we do not export—if we merely pass out gold or promises to pay sometime in the future—we will not obtain full cooperation from abroad in filling our needs.

Problem of Expanded Production in Latin America

A great problem is to get expanded production in Latin America of badly needed strategic and essential supplies. Remember what happened in World War II.

At the Rio Conference in 1942, Uncle Sam asked all-out production from Latin America, promising in return that Latin America would share equally with our domestic economy in available supplies of civilian materials and products.

That was the promise. But the promise was not implemented for nearly two years and, actually, Latin America got very little from us until after the war's end, when prices had shot upward and were far higher than the level on which we had purchased Latin America's products. Then, of course, we were in full war and there was reasonable basis for our actions. But there is not full out war now; it may be doubted that Latin America will react cordially and fully merely on promises.

Remembering back, recall how Latin America was unable to come fully into this market until after the war, in the greatest scramble for materials and goods ever known. I cannot prove it but I hold it a very tenable belief that the postwar inflation was caused, or greatly accelerated, by the grey and black markets, both for domestic and export, on every hand. Had it been possible to handle supply more normally, and more in line with national needs and national interest, it is quite likely that inflation both here and abroad might have been far less. Perhaps we can do a better job this time.

Let's weigh our course carefully. I personally am deeply disturbed by rumors and whisperings that I hear on various sides, about government procedures to curb exports and about manufacturers' reluctance to ship exports. I submit if this course is followed neither government nor industry would be working in America's best interest.

Proposed is not business as usual, in disregard of the fact that we are building the military machine, here and abroad, to make secure the American way of life and to underpin the Free World. The meaning rather is that international trade, maintained as a two-way street, is a basic policy in the implementation of America's foreign policy in these troubled days.

Some Suggestions

Now, let's try to formulate a basis for a suggested Washington approach to our export trade, remembering, of course, that we are not discussing the Iron Curtain countries and the munitions of war are not involved.

(a) *Export Control*—Apply export control only if there be applied similar domestic controls.

(b) *Export Allocations*—Set up no official export quotas or allocations unless there are similar domestic quotas or allocations.

(c) *Price Control*—Export control should not be utilized as a price control device except if there be similar price control in domestic. This precept was violated by export control after the Congress voted out OPA and when it was obvious that Congress wanted the free price mechanism to control trade. In other words, export control should not be utilized for purposes not likewise sought in the domestic supply.

(d) *Paper Work*—Export control, since its inception in 1940, has involved itself in the dreariest of gobbledegook, reversing itself from week to week, changing its form, its direction and its directives with every wind and writing such confused orders that even it did not know the answers. Many exporters ask that export control be coordinated so that paper work be held to the barest minimum.

In other words, governmental policy should be to maintain as free a flow of goods to our allies and friends as possible. No attempt should be made to "sweat" civilian shortages out of export. For example, cut steel exports by no more than the percentage by which domestic civilian supply is cut. Reduce exports and domestic by the same percentages. Thus, we give our friends abroad equal treatment, as we promised at Rio de Janeiro in 1942.

We may well ask also that we have export control officials this time who have seen foreign traders in the flesh—that is, who knew something about shipping, import-export work in general, not just impractical people motivated often by strange and astonishing ideas. If there are questionable or hair-line decisions, let's answer them by permitting the exports, not by banning them as heretofore.

In these and similar ways, our friends and allies will cooperate fully with us in providing the many things we need and must have. Perhaps it is not too much to ask for a high level pronouncement of this policy under appropriate circumstances.

Thus, we are proposing a policy that export share proportionately with the domestic market. The implementation of such a program probably lies more directly in the lap of industry than it does with government. In general and except under special circumstances, private industry rather than government will perform the day-to-day task of parceling out short supply between export and domestic. Obviously, such manufacturers will be under the strongest pressures to allocate all to domestic, diverting little or none to export.

As is so often the case, the wheel that squeaks the loudest gets the grease and there will be great clamor, often unthinking, from domestic sources. Export cannot talk as loud as domestic. We may count upon the fact that some elements of the country—uninformed politicians and isolationist newspapers—will again parade the same old dreary wail about robbing the domestic economy to supply the juicy export trade. That we had before; will have again.

These things we will have to withstand as they arrive. Certain industries are, of course, so well based in export and have such well established export tradition that they undoubtedly will equally share between domestic and export. But elsewhere, it is our job—yours and mine—to point out to industry the national requirement for maintenance of our export business equally with domestic.

Each of you must work to obtain that understanding in your own organizations and wherever else you can point out that domestic shortages should not be sweated out of export. Then, we should ask that the great business groups present this case to their members. Such bodies as the National Association of Manufacturers, the Chamber of Commerce of the United States, the National Industrial Conference Board and others, including industry associations and groups, should tell of these necessities, pointing out that foreign trade, under foreseeable conditions, is on a "must" basis such as never before.

Two fine foreign trade groups will soon meet here in annual convention. First is the Export Advertising Association on October 5. Shortly thereafter the National Foreign Trade Council will bring hundreds of export people to New York, the end of next month. May I respectfully suggest that these great bodies thoroughly discuss this most impelling problem at as high level as possible.

Perhaps manufacturers will rather broadly set up export allocations or quotas. That is one device which has numerous drawbacks but is better than nothing. In this connection, shortly after the war's end, I conducted a survey covering 179 American manufacturers in a broad cross-section of industry. Of the 179, nearly two-thirds, 64% to be exact, reported that they then had company export quotas. These quotas ranged from 2% to a high of 40%, averaging about 10%, most basing sales on the prior export pattern.

One-third of the manufacturers did not then have export quotas of any sort but most of this third reported their products were not then in short supply and hence they had no need of this device.

Perhaps it is unnecessary, but may I suggest that American manufacturers exporting scarce supply items in the months to come scrutinize their export buyers with extreme care. Stick to your old established channels. Make every effort to prevent shipments from falling into fly-by-night, opportunistic hands. Shun sales to political favorites; insist with all possible means at your command to keep trade in its normal accustomed channels.

Further, insist, wherever possible, that ultimate sale prices abroad be held as low as possible. Part of the reason for sharing our scarce supplies with our friends abroad is to attack inflation. These considerations are well within our province, I am sure.

In closing, no hard and fast estimate can be made as to the degree that shortages will develop. My own guess is that civilian supplies will be more largely available than is often threatened. But that is a guess. Our arms program and its necessities will tell the story.

Defense Impact on Exports

I have lately seen a careful estimate of the defense impact on civilian and export supplies for the year beginning this month compared to 1950. Twenty-six major factors were reviewed and the median reduction guessed for all was between 10 and 11%.

But that is a statistical figure. Actually, the shortages ranged all the way from a maximum of 25% to an increase in one product of 21%. Radios would be down 25%, passenger cars 21, trucks 20, wheel tractors 10, refrigerators 20, steel 10 off, copper 15 off, etc.

You will be interested and surprised by the guess that the 21% increase in production is guessed for whisky.

These months are crucial for America's foreign trade. It seems most certain that never before has its maintenance been so necessary in the development of America's foreign policy and as aid in the maintenance of a Free World. I bespeak the consideration of both government and industry, for the greatest good of ourselves and our friends and allies, in this great struggle against the power-mad police states endeavoring to enslave the world.

William C. Sawers Opens

(Special to THE FINANCIAL CHRONICLE)

LONG BEACH, Calif.—William C. Sawers is engaging in a securities business from offices at 2236 American Avenue.

J. A. Hogle Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Thomas F. Nichols has been added to the staff of J. A. Hogle & Co., 507 West Sixth Street.

Two With E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Richard D. Heise and Roy C. Speer are now connected with E. F. Hutton & Company, 623 South Spring Street.

Joins Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—William Nedelcoff has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

LeRoy D. Owen Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—LeRoy D. Owen is engaging in a securities business from offices at 621 South Hope Street.

Joins Shearson, Hammill

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Linwood F. Martin has joined the staff of Shearson, Hammill & Co., 618 South Spring Street. He was formerly with First California Company.

Joins Cruttenden Staff

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb.—Alma R. Empfield has joined the staff of Cruttenden & Co., Trust Building.

E. E. Henkle Adds

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb.—J. Lloyd McMaster has been added to the staff of E. E. Henkle Investment Co., Federal Securities Bldg.

Continued from page 5

The State of Trade and Industry

Among the first materials to be covered by this program, he stated, would be copper, aluminum and brass.

Steel Operations Scheduled at Highest Levels in History of Industry

Steel users this week are anxiously awaiting the outcome of wage "talks" between Big Steel and the United Steelworkers, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. They know that their own material and wage costs will be significantly affected by these talks. The steel workers, who are asking 23 cents an hour or more, will probably turn down a cost-of-living offer of five cents or six cents. Steel users know that a big wage increase would mean substantially higher steel prices.

Confusion in steel circles over the issuance of DO priorities and their effect on steel mill schedules is rampant this week. This confusion will continue since the order was hurriedly written and left many obvious questions unanswered.

Some sources believe it is a makeshift arrangement to tide Washington over until after the elections. Its final shape will be a modified form of controlled materials plan. Industry believes that advice from the steel task force will prove a potent factor in molding the plan into workable shape, states this trade authority.

Defense orders are snowballing more every day, although most of them are not yet carrying the DO priority symbol. Besieged by customers who want to know where they stand for next year, steel producers expect to open their first-quarter (1951) books next week, this trade magazine points out.

Reports of heavy inventories at some steel users' plants appear to have come from mushrooming gossip about a small number of actual cases. Steel stocks of most manufacturers are far from large. Some are literally working from freight cars and trucks. Others have shut down their plants. Still others have had to cut the number of people on the work force as stocks dwindled.

Despite efforts to stamp it out, the gray market is flourshing. Some flat-rolled steel has brought as much as 19½ cents per pound ($390 per ton). Biggest support is coming from small steel users who haven't been able to get enough steel from regular sources. The conversion market is also tighter this week, with ingots and slabs almost unobtainable. Several more firms have raised prices of some steel products, "The Iron Age" notes.

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 101.6% of capacity for the week beginning Oct. 9, 1950, compared to 101.2% a week ago, or a rise of 0.4 point.

Production of raw steel to be produced the current week will be higher than ever before.

This week's operating rate is equivalent to 1,959,600 tons of steel ingots and castings for the entire industry, compared to 1,951,900 tons a week ago. A month ago, based on new capacity, the rate was 99.6% and production amounted to 1,921,000 tons; a year ago, based on the smaller capacity then prevailing, it stood at 9.3% and 172,000 tons. The low output a year ago was due to a strike then in progress.

Electric Output Advances to New Historical High Point

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 7 was estimated at 6,513,707,000 kwh., a new historical high record for the industry, according to the Edison Electric Institute.

It was 10,699,000 kwh. higher than the figure reported for the previous week, 1,063,810,000 kwh., or 19.5% above the total output for the week ended Oct. 8, 1949, and 32,075,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings for Latest Week at Highest Level Since October, 1948

Loadings of revenue freight for the week ended Sept. 30, 1950, totaled 879,985 cars, according to the Association of American Railroads, an increase of 9,789 cars, or 1.1% above the preceding week.

The total for the latest week was the greatest for any weekly period since October, 1948, the Association notes.

The week's total represented an increase of 221,857 cars, or 33% above the corresponding week in 1949, but a decrease of 28,881 cars, or 3.2% 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 179,698 units, compared with the previous week's total of 187,030 (revised) units and 148,443 units a year ago.

The drop reflected the lack of car output by Studebaker for the entire week and the closing of General Motors' Kansas City assembly plant for inventory, Ward's said.

More passenger cars have been built in United States plants thus far in 1950 than in all 1949, the industry's best previous production year, Ward's stated. It's estimate for output by the end of last week is 5,142,000 cars compared with 5,126,060 in the full 12 months of last year.

Total output for the current week was made up of 145,688 cars and 25,909 trucks built in the United States and a total of 5,978 cars and 2,123 trucks built in Canada.

For the United States, output was 171,597 units, and in the like week of last year 141,032.

Business Failures Advance in Latest Week

Commercial and industrial failures rose in the week ended Oct. 5 to 154 from 148 the week before, states Dun & Bradstreet, Inc. Of last week's casualties, 119 had liabilities of $5,000 or more as against 109 in the preceding period. For the like week a year ago there were 182 failures, of which 145 had liabilities of $5,000 or more. Small casualties, those with liabilities under $5,000, dipped to 35 from 39 and compared with 37 in the corresponding week of 1949.

Food Price Index Registers Sharpest Weekly Decline in Over a Year

Marking the third successive weekly decline, the wholesale food price index, compiled by Dun & Bradstreet, Inc., dropped to $6.50 on Oct. 3, the lowest level since July 25, when it stood at $6.49. The index fell 11 cents, or 1.7% from the previous figure of $6.61 for the sharpest weekly decrease recorded in over a year. The latest index of $6.50 represents a loss of 2.8% from the high of $6.69 touched on Aug. 29, but it is still 9.1% above the $5.96 of June 20, just before the start of the Korean war. At this time last year the index registered $5.65.

The index represents the sum total of the price per pound of 31 foods in general use. Its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Turns Higher in Closing Sessions

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved irregularly during the week and turned upward in final sessions to close at 290.72 on Oct. 3. This compared with 290.08 a week ago and with 244.69 on the like date of last year.

Grain markets on the Chicago Board of Trade continued the irregular pattern of recent weeks although fluctuations were confined to narrow limits.

Closing prices of most grains averaged somewhat higher than a week ago.

Considerable cautiousness was in evidence as trading volume dropped to the lowest level for over three months. Wheat and corn were unsettled and easy in the early part of the week on the prospect of an early termination of the Korean war. Strength in late dealings, particularly in corn, was attributed to unfavorable weather conditions in the main corn belt. Marketings of spring wheat continued in good volume, but the country movement of corn was small as farmers held back on shipments of old corn with the movement of new corn several weeks away.

Spot raw sugar prices held unchanged but futures trended downward in sympathy with the world market which suffered the severest declines of the past few years.

Domestic cotton prices were depressed during most of the week as the result of liquidation stimulated by favorable developments in the war situation. The market rallied on the closing day to wipe out all of the early losses, aided by fears that another tropical storm was approaching the cotton belt. Early weakness was attributed to uncertainty over possible acreage allotments and marketing quotas, the favorable war news and reports of some slowing down in demand for cotton textiles.

Trade Volume Adversely Affected by Warm Weather and New Credit Controls

Nationwide retail buying, despite widespread fall promotions, dipped slightly in the period ended on Wednesday of last week. Unseasonally warm weather and uncertainty over the new credit controls and foreign events were considered contributory factors, Dun & Bradstreet, Inc., reports in its total summary of trade. Overall dollar volume remained moderately above the level of the comparable 1949 week, however.

The buying of clothing was especially depressed by the prevalence of uncommonly high temperatures. Shoppers for the most part concentrated upon budget dresses, sports attire and haberdashery. While there was a decline in the purchase of women's coats, belted cashmere models were popular in some localities following intense promotions. There was a rising call among shoppers for children's clothing in scattered vicinities.

A mild drop-off in the consumer buying of large appliances and floor-coverings helped bring about a decline in the dollar sales of house-furnishings last week.

Total dollar volume continued to be appreciably above the level for the similar 1949 period.

Housewares and some items of furniture were eagerly sought by shoppers in scattered parts of the country.

Total retail dollar volume in the period ended on Wednesday last week was estimated to be from 4% to 8% above a year ago. Regional estimates varied from last year's level by these percentages:

New England and East +2 to +6; South +1 to +5; Midwest +3 to +7; Northwest +4 to +8; and Southwest and Pacific Coast +6 to +10.

Wholesale buying rose in the nation during the week and dollar volume of orders was moderately above the level for the corresponding period of a year earlier. The total number of buyers attending various wholesale centers dipped very slightly from that of a week ago, while it was apprceiably above last year's figure.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 30, 1950, rose 6% from the like period of last year. An increase of 10% was recorded for the previous week from that of a year ago. For the four weeks ended Sept. 30, 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 was featured by promotional sales. Gains were reported by several stores, but the overall result was one of spottiness with the average increase for the week estimated at 5 to 10% above one year ago.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Sept. 30, 1950, advanced 6% from the like period of last year. In the preceding week a rise of 14% (revised) was registered from the similar week of 1949. For the four weeks ended Sept. 30, 1950, an increase of 8% was noted and for the year to date volume advanced 1% from the like period of last year.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

The "minor setback" I wrote about in last week's column came early this week and the rumors of ". . . more to come . . ." spread up and down Wall Street. Before you start thinking that I've changed my opinion, let me hasten to add that I don't think the current up move is over.

* * *

Part of the decline early this week was due to the full confirmation of the Dow theory that both averages (rails and industrials) shall follow each other's actions in making new highs. There was a time when such a confirmation would start the ball rolling. Under present day conditions with mutual funds as the biggest buyers (or sellers) this no longer applies. Yet, some of the remnants of this belief are still present. The public buys on Dow theory confirmation; the funds, and others of large means, sell.

* * *

From what is the current market: industrials 230; rails 68.83, a rally should develop. I don't think this first rally will get very far. It is interesting to note, however, that during the decline certain groups, e. g., television and motion picture stocks, have reacted less than the market. The supposition is, therefore, that on subsequent rallies, which may appear weak for some stocks, will be anything but that for the issues that have refused to react with the general market.

* * *

Here and there are stocks that look lower before going higher, oddly enough the automotive issues are in that category. At the same time the utilities that I mentioned last week, didn't participate at all in the recent rise or the more recent decline.

* * *

A few paragraphs back I said I didn't think the first rally will get very far. Obviously that means a new decline is expected. I don't believe, however, that such a decline will go under the recent lows, though there may be exceptions.

* * *

About ten months ago when the water shortage hit New York City, I suggested Neptune Water Meter, on the Curb, as a stock with more than casual interest. Stock was then selling about 20. It is now better than 40.

* * *

The Korean war has resulted in a flock of victories for the UN forces and the general feeling is that all tension has lessened. From where I sit it is merely a breather. There'll be more crises and industry instead of slowing up will remain in high gear. Declines will come, but so far I can't see any end to the anticipated rally.

[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.]

Joins Kenneth Hill

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—John V. Flanagan is now associated with Kenneth B. Hill & Co., 80 Federal Street. He was formerly with Clayton Securities Corp. and Frederic C. Adams & Co.

Business Man's Bookshelf

Mature Collective Bargaining—Prospects and Problems—John A. Stephens — United States Steel Corp. of Delaware — U. S. Steel Corp., 71 Broadway, New York 6, N. Y.—Paper—Copies on request.

Policies and Controls in a War-Burdened Economy—Chamber of Commerce of the United States of America, Washington 6, D. C.—Paper—25¢ per copy (lower prices for quantity orders).

Continued from page 6

Equity Investments and Savings Banks, 1927-1949

1946. Show this to a bank examiner and he would quite properly ask, "What would the asset value have been in 1932?"

All right! Let us assume that all these equities hit their lows as of July 1, 1932—this just to make the picture as black as possible. The book value as at that date would have been $840,100. The deficiency market below book $588,400. The decline in market value would only have decreased the asset value by 1.65%. With 50% of our assets in governments a drop of 3% in the government market would have the same effect.

Mr. Examiner has another question. What would you have done for income in 1932? The answer to that one is also quite satisfactory. The income from this account in 1932 would have been $24,213, or 2.88% on the $840,000 invested—a rate which compares favorably with present-day yields on governments.

Bank Stocks as Investments

An identical study was made of bank stocks, using 14 representative banks in New York, Chicago, and Philadelphia:

National City
Chase
Chemical
Bankers Trust
Bank of N. Y. & Fifth Ave. Bank
Bank of Manhattan
Central Hanover
U. S. Trust
First National (N. Y.)
Continental Illinois
Philadelphia National
Corn Exchange National (Philadelphia)
First National (Chicago)
Corn Exchange (New York)

Let us see how the banks compare with industry:

	Industry	Banks
Amount invested	$3,200,000	$3,100,000
Deficiency, 1932 (Mkt. below book)	588,000	544,000
Income 1932	2.88%	*3.42%
Average return (1927 to 1949)	7.36%	3.94%
Mkt. value, Dec., 1949	6,200,000	†3,100,000

*The banks win. †The bank stocks failed to increase in value because of declining interest rates which affected earning power.

Comparisons of stock behavior in inflationary periods are hard to arrive at. Industrial areas of France and Germany were devastated by wars on their home grounds but it is a historical fact that as costs go up profits go up to an even greater extent. Management is just as profit conscious as labor. Let us take the automobile business. I do not have the exact figures, but automobile prices have more than doubled since 1939. Let us see what has happened to earnings:

GENERAL MOTORS
(000s Omitted)

	1939	1949	Increase
Net	$236,433	$1,191,000	403%
Dividend	150,320	351,380	134
Earnings plowed back	23,027	292,126	1,168
Profit per dollar of sales before deprec.	$0.21	$0.23	

CHRYSLER
(000s Omitted)

	1939	1949	Increase
Net	$47,851	$221,437	363%
Dividend	21,756	45,687	110
Earnings plowed back	15,124	86,483	472
Profit per dollar of sales before deprec.	$0.19	$0.15	

The above study necessarily presupposes that after the securities had been selected the investment went forward in a purely mechanical way. In a study of this sort it is impossible to inject either judgment or emotion and I very much doubt that any of us, even if we had the cash, would have had the intestinal fortitude to invest in these stocks in 1932 and 1933. It does, however, demonstrate to me conclusively that if due care is taken in the selection of equity investments the time of purchase is of secondary importance.

And so I ask you to give very serious consideration to the question: "Should we or should we not purchase partnerships in American enterprise?" I do not mean trading to secure profits in the stock market. It is merely a partnership with the power of withdrawing at any time conditions either on a company or an industry appear to render that course the part of prudence. As it was so aptly put in Harvard vs. Amory, "Do what you will, the capital is at hazard."

Continued from page 9

Dealer's Responsibility in Recommending Securities

would the rule be today? Perhaps an ultra-conservative investor who bought high grade fixed income securities in 1938 made a most unsuitable investment in the light of the experience since that time.

(9) The threat of further inflation is becoming a general topic of conversation by the man on the street. This is only natural with the present world instability and the threat of World War III. It is only human that people try to protect themselves and their thinking sometimes becomes violently warped in their attempts to do so. I am sure we are all currently confronted with many novel ideas for protection against inflation.

Suitability—A Matter of Opinion

I say again Suitability within certain limits, is a matter of opinion. In all fairness let us look at some of the problems a dealer has to solve as well as the dealer's responsibilities.

(1) I would estimate that there are between 6,000 and 7,000 stock issues listed in Standard & Poor's weekly stock guide. There are about 5,000 bonds listed in the same company's weekly bond guide. That is over 11,000 issues. This list is by no means complete. Moody's Industrial Manual for 1939 listed 71 basic industries which does not include Electric Light & Power, Manufactured Gas, Natural Gas, Mixed Gas, Insurance, Sales & Finance, Banking and Railroads, to say nothing of the many forms of open-end investment companies. It is inconceivable that any security dealer, no matter how large his statistical staff and certainly no agent of a dealer alone can know but a small fraction of the issues outstanding. It is impossible therefore for any dealer to know exactly the most suitable security that a customer should buy and, what is just as important, to know exactly when a customer should sell a security which may have become unsuitable.

(2) Consider the difference of opinion which exists among informed statisticians of the merits and demerits of various industries to say nothing of specific companies. I recall an address given recently by a very successful and able analyst and investor in which he gave many reasons why he did not recommend the purchase of so-called "blue chips" as compared with other less active and less known stocks.

(3) Consider the strong likes and dislikes, the prejudices, of even informed individual investors who will not buy a certain security no matter how attractive or suitable it may be—we have all had someone say "I just don't like railroad securities" or "insurance stocks" or the securities of some other industry.

(4) Keep in mind the natural urge—gambling instinct if you please—which constantly tempts people to press for more than a reasonable rate of return and growth — an urge for trading which is difficult to discourage. It is natural for them to want to buy a stock that is sure to go up in price—but one that has no risk. It is only natural for them to be impatient. If the stock doesn't go up quickly they frequently want to sell it and try something else. Some of the most difficult people to handle are those who want to trade constantly.

(5) Again referring to the matter of threatened inflation, I would like to give an example of the present confused investment picture. A conference of investment dealers upon the subject of investment trusts or mutual funds was held in New York in August. About 600 dealers and sponsors attended. The conference was addressed by Sumner H. Slichter, professor of business administration at Harvard University. Some of Professor Slichter's remarks will be of general interest and here they are as reported in the "Journal of Commerce," Aug. 29, 1950.

In discussing the investment problems of the smaller saver in this period of rising prices, who has been in the habit of putting his savings into banks, the post office, or savings bonds, he said:

"In a period of rising prices these outlets for savings are obviously unsuitable and are ordinarily to be avoided. Buying homes may partly solve the savings problem of some persons. Of course real estate is not a highly liquid asset and the small saver may lose much of his principal by picking real estate of poor quality. Stocks of well established and well managed companies may also be a solution. Unfortunately many small savers are not well qualified to select securities.

Perhaps the government will come to the rescue of the small saver by bringing out a government savings bond payable in dollars of constant purchasing power —in other words, payable in a fixed amount of purchasing power rather than a fixed number of dollars. If the government does not bring out such a security, the safest investment for the small saver is the shares of well managed investment trusts."

Perplexing Time to Recommend Securities

I am certain of one thing. In all of my experience in the business I do not know of a time that presented as many perplexing and diverse problems in recommending securities as we face today. A few short months ago many railroad securities were literally considered "dogs." On Sept. 12 the rail group reached a 19-year high.

A dealer's most valuable asset is his reputation and the results realized by his customers. It is just plain common sense for a dealer to recommend suitable securities. In determining what is suitable he should, and in my opinion it is his responsibility, to consider:

(1) Income status of the buyer—
(a) Substantial income
(b) Moderate income
(c) Low income
(d) Income entirely from investments
(2) The wealth of the buyer—
(a) Wealthy
(b) Middle Class
(c) Lower Class
(3) The diversity of his investments, that is, other security holdings of the buyer particularly in large blocks.
(4) The purpose of the investment—
(a) Long-term investment of savings or excess funds.
(b) Short-term investment to be held for a particular purpose or for a particular period of time.
(5) The age and intelligence of the buyer—
(a) Well informed on investments or busines matters.
(b) Relatively uninformed.
(6) Any unusual financial needs of the buyer.

Obviously the dealer cannot know all of these things accurately and he is not usually in a position to ask about all of them specifically but it is expected that a dealer or agent with reasonable experience in the securities business should be able to judge the type of buyer he is dealing with and know how to inform himself sufficiently of enough of these facts so he may use reasonably good judgment in recommending securities. The securities business is built upon the faith and confidence our customers have in us. I believe customers have the right to expect sincerity and good faith in return for their faith and confidence in the dealer.

Some Standards in Selecting Securities

Regardless of the many problems a dealer has in judging and selecting securities there are some standards which he can apply. For example—securities of a new enterprise which has no past record of operations or earnings would obviously not be a suitable security to recommend to a person relatively uninformed in securities matters with a moderate income no matter how optimistic the estimates might be of the success of the enterprise. An investment by a person in such circumstances should be in a security issued by a company with a satisfactory record of operations at least three years or more and usually a reasonably steady dividend record.

It would not be reasonable to offer shares of an open-end investment trust to an investor if the funds are to be invested for only a period of a year or two. The load paid by the investor will substantially reduce or exceed the net income which can be expected from the trust.

A dealer recommending a security for the investment of a substantial part of the wealth of a middle class person should give some consideration to the marketability of the security. I do not mean that the security must be listed on a stock exchange. That in itself does not always assure marketability. The security should have a reasonably active market either listed or over-the-counter because marketability may be important if such an investor must raise funds in an emergency.

About three years ago I was appointed to serve on a finance committee of a religious institution that began accumulating funds to build a proposed high school. The other members of the committee are active or retired businessmen, certainly above average in their general knowledge of investments. I was asked for advice regarding the investment of the funds then on hand and currently being raised. That was about 1947. Building prices seemed high because of the postwar building boom then in progress. The Committee believed that other parishes would join in the project soon and that possibly the building project could get under way within two or three years as soon as building conditions eased up. It was easy to remember 1920 and the collapse in prices then. I gave the Committee the yield on Series F bonds, which no one was too happy about. They all agreed that such a fund should be highly liquid. I explained the yield and load of an open-end balanced fund and the number of years the investment would have to be held to permit the yield to offset the load. They didn't care much for that. I suggested several very high grade common stocks but the Committee could easily picture the criticism that might be leveled at them if stock prices should drop substantially. The final answer was the purchases of Series F bonds. Four years have passed. The other parishes have not yet joined in the project. It now appears it may be some-time before the project can begin. Stock prices have risen substantially. So have building costs. The Dow-Jones Industrial average in 1947 (the average of the monthly high and low prices) was a high of 186.9. The same average on Sept. 15, 1950 was about 224, an increase of about 20% from the 1947 high. An index of construction costs in terms of 1913 prices, shows 1947 average costs of 413.2. On August, 1950 this figure was 520.6, an increase of 26%. If the funds had been entirely invested in good common stocks, and the Committee could have done as well as the industrial average the fund **would almost** have kept pace with the increase in building costs. It may appear that the conservative approach of the Building Committee and my own attempt to be on the safe side of the recommendation is not working out too well. Now the problem is even more difficult. Is this the time to change and switch a part of the fund to common stocks? I do not believe it is the responsibility of our finance committee to make this decision. We cannot be expected to protect the purchasing power of the fund. The members of the institution, I believe, must make that decision. We are expected to preserve the dollars in the fund unless instructed to the contrary.

Another account was handled by one of our representatives a little differently, and more successfully. In this case, however, the fund was established by certain individuals who decided to try to protect the purchasing power of the fund.

The ——— Memorial Hall Fund came to us in 1942 with a fund of $250,000 with which to build a Memorial Hall. Due to war conditions, it was not possible to build the building at that time and they could not tell how long a period might elapse before construction.

The fund was invested approximately $100,000 in U. S. Government Bonds, mainly Series G and Series F; approximately $50,000 in short-term, high-grade corporate and municipal bonds, and approximately $100,000 initially in railroad securities, partly stocks and partly discount bonds.

At the present time this fund is still invested approximately $100,000 in government bonds and $50,000 in other short-term high-grade bonds. The fund owns 24 common stocks, diversified by industry, including such stocks as:

American Cyanamid
Allied Chemical
Celanese Corporation
Colgate-Palmolive-Peet
Eastman Kodak
Food Machinery & Chemical
Kansas City Power and Light
Kimberly Clark
National Fire Insurance
Phillips Petroleum
Standard Oil of Ohio
Wisconsin Electric Power

These common stocks are currently worth approximately $235,000, as compared with the cost of $100,000 and the entire building fund which started in 1942 at $250,000, is now $385,000. This fund has more than kept pace with the rise shown by the index for construction costs.

On the other hand, I do not believe it necessary for the dealer to insist upon his own recommendations in handling the accounts of informed investors. Since choosing an investment is so much a matter of judgment, informed investors presumably are in just as good a position to judge as a securities dealer. If, however, the dealer has information which even the informed investor cannot be expected to know, I believe the dealer should use reasonable diligence in advising his customer of these facts. For example, an investor may be fully informed on investment matters, he may know all about open-end investment trusts, what they are, how they operate, etc., but he may not know that the load on the trust he is buying is considerably less if the amount of the purchase is $25,000 or more. In my opinion, it is the responsibility of the dealer to tell him. After the dealer has done so it is up to the investor. If he wants to diversify his investment by buying more than one fund I believe it is his business so long as he knows the facts.

Business Conduct Cases

What has been the experience of the NASD since 1939 in business conduct cases involving this rule on suitability. The picture is not very clear. Most of the cases relating to suitability also involved other matters, such as excess activity or churning, excessive spreads, prices not reasonably related to market or other types of violations. That is not unusual. The questions are somewhat inter-related. A dealer who deliberately recommends unsuitable securities can likewise be expected to encourage excess trading or churning.

I would like to review briefly the high spots of a few of the cases that have been decided by the Association and the final decision in each of them.

In one complaint the cause of complaint was churning of a discretionary account, unsuitable recommendations and unfair prices. The account was established with total investment of about $15,000. This did not represent a substantial part of the total wealth nor was the investor dependent upon income from the account for support. The wealth of the individual was estimated at $60,000 to $75,000. On a total investment of $15,000 the account in two and one-half years had sales aggregating about $149,000 and purchases of about $150,000. The net income to the dealer was $6,400 in profits and about $4,000 commissions, a total of a little under $10,400. Profit margins were from 3.3% to 10.9% based on cost and a high of 8.2% based on market. The rate of profit admittedly was based upon the amount of appreciation on the securities sold. There was evidence that the investor had trust and confidence in the dealer and almost always acted upon his recommendation. The committee decided that there were violations of the rules, that the dealer did not observe high standards of commercial honor because prices were not reasonably related to current market and therefore not fair and that there was excessive turnover which also was contrary to high standards of commercial honor. No violation was proven conclusively on the question of suitability in the opinion of the National Business Conduct Committee although the District Committee did so find. No violation was proved that the purpose of the recommendations was entirely for profits to the dealer and not for the best interests of the account, and therefore the committee decided there was no **proof** of specific wrongful intent on this point. The District Committee imposed a fine of $500 and costs which was upheld by the National Committee.

Another complaint alleged violations of Sections 1, 2 and 4 of Article III of Rules of Fair Practice and referred specifically to four accounts. The first account which aggregated in excess of $75,000 was that of an elderly man of substantial means with some, but not extensive, experience in securities matters. The account opened with a large number of listed securities of high grade investment type. The listed securities were eventually sold and the proceeds reinvested in unlisted securities of semi-investment or speculative type although they also included some conservative bank and insurance stocks. In eight months the account turned over ten times. The profits to the dealer were over $30,000 and to the customer over $8,000. In many instances the stock of an insurance company was traded for the stock of another insurance company for no apparent reason except profits to the dealer. Activities in other accounts were substantially the same although the size of the accounts varied. The committee found the dealer guilty of the violation of Section 2 which is the rule referring to suitability in two of the accounts, violation of Section 1 in three of the accounts and a violation of Section 4 in two of the accounts. The District Committee imposed a fine of $2,000 and costs and a suspension of one week.

Another complaint involved transactions with customers in various investment trusts. The practice was to sell shares immediately after dividends had been received and to buy other trusts just before the dividends were to be paid. This of course resulted in substantial activity in the accounts with resulting substantial profits to the dealer. The District Committee found that the dealer had violated Sections 1 and 2 of the rules because the switch recommended by the dealer was not for the best interest and suitable for the customers on the basis of the facts disclosed by such customers as to their other security holdings and to their financial situation and needs. The District Committee found the dealer guilty and imposed a suspension from membership in the Association for a period of one year. The dealer appealed to the Board of Governors. The National Business Conduct Committee reviewed the evidence and affirmed the District Committee's decision. The dealer appealed to the SEC. The SEC in turn upheld the Association.

Another very interesting case involved two causes of complaint under Sections 1 and 2 of the rules. The one customer was a charitable institution with a portfolio of about $1,350,000. The complaint charged that the dealer in recommending the purchase, sale and exchange of securities did not have reasonable grounds for believing in their suitability and that the conduct of the dealer was inconsistent with high standards of commercial honor and just and equitable principles of trade. The institutional account had transactions exclusive of government securities in a two-year period of almost $4,000,000. The dealer realized substantial profits. Approximately 200 different securities were sold to or purchased for the account by the dealer. The complaint also involved an account of an individual customer which had a portfolio of approximately $205,000. Transactions for an 18-month period aggregated about $413,000. The dealer realized substantial profits. The District Committee had reviewed the case, found the dealer guilty and assessed as penalty a fine of $7,500. The dealer filed application for review with the National Business Conduct Committee. At a review hearing the Treasurer of the institution and the individual account in the second cause of complaint appeared. The evidence disclosed that the institution was operated by a Board of Trustees composed entirely of women. The Board had legal counsel. The institution had a full-time Treasurer who had served for a number of years and was responsible for the handling of the investment portfolio. The Treasurer appeared reasonably informed as to security transactions and the investment and re-investment of funds. In the past she had served and was serving on various Boards and finance committees of charitable organizations with considerable sums to invest and over the past six years had been exposed to a great deal of investment opinion and information. The investment policies and objectives were formulated by the Board. The Board was not dominated by the dealer or its representatives. The Board had adopted a policy of capital appreciation largely for the purpose of recouping capital losses which had occurred in the account during the depression years. The institution had commitments for life incomes to certain donors at a 6% rate, therefore its objective was to secure a high yield so that it would not deplete the principal of its fund. The Treasurer recognized the risk involved and appeared willing to assume it in an endeavor to obtain the desired objectives. The dealer had substantially all of the securities business for this account for at least 15 years. The dealer made recommendations in writing and in accordance with the institution's investment policies as the dealer knew them to be. The recommendations were reviewed by the President of the dealer. Not all suggestions were accepted. At times the Treasurer suggested various securities. The account was not discretionary either in name or in fact. No transactions were ever effected without prior approval of the customer. The appreciation in the account for the two-year period amounted to more than the appreciation would have been had there been no transactions. The second cause for complaint was substantially similar with the exception that the account involved was that of an individual.

The National Business Conduct Committee thoroughly studied the exhibits and the records and did not agree to the charge of excessive trading or unsuitable recommendations. This committee stated that while they did not wish to infer that they were in accord with the investment policies of the account or the actual recommendations made, it was their opinion that the charitable fund had the right to invest its funds in any way it sees fit as long as investment policies are arrived at by independent judgment and the risks involved are known to it. The committee found the velocity of transactions to be high but that in and of itself in a non-discretionary account cannot be said to prove excessive

Continued on page 32

Continued from page 31

Dealer's Responsibility in Recommending Securities

trading and improper recommendations. There was no charge of fraud, deceptive practices or unfair prices. The committee decided that the burden of showing that the dealer did not have reasonable grounds for believing he was recommending suitable securities is on the complainant and they did not feel that this burden was sustained. Therefore, based upon the complete record, National Business Conduct Committee concluded and recommended to the Board of Governors that the penalties imposed by the District Committee in the first cause of complaint be reversed and that the complaint be dismissed and sustained the decision of the District Committee in dismissing the second cause for complaint.

Through all of the business conduct cases I have reviewed or have participated in runs the unmistakable attitude of the Business Conduct Committees of the Association in different parts of the country that a dealer or his agent must do more than refrain from acts of fraud. He must be sincere in his recommendations. One other observation can be made after reviewing these cases. It appears to be rather difficult to mislead a committee of responsible persons experienced in the securities business. They do not seem to be misled by insincere excuses on the one hand or on the other hand by technical observances of the rules which in substance are violations. Nor do they seem to be misled by complaints from security holders which are merely an attempt to blame someone because a security has dropped in price. The obvious motive of the dealer as determined by all of the surrounding circumstances and the general nature of the overall business practices of the dealer apparently are given considerable weight. The Committees do not seem to be anxious to take action against the dealer because of isolated cases which are difficult if not impossible to judge. Peculiar circumstances at times may create every evidence of an unsuitable recommendation or some other violation of the Association's rules. I might illustrate by an example which happened to me during the past few months.

An acquaintance of mine is a hard working capable machinist. He is in partnership in a machine shop which has been quite successful. His business is probably worth from $50,000 to $100,000, he owns a modest home, and lives in a normal middle-class manner. It might illustrate his business methods by stating that he has had a partnership for years but has never had any kind of written partnership agreement. He had a few thousand dollars to invest. He wanted a good return on his investment, no risk and insisted that anything I would recommend would be alright. I selected several stocks including an insurance stock which I liked particularly. He bought it on March 23 at 17⅝. Since the general level of securities prices seemed high I recommended it as a good defensive stock. Along came the Korean situation. The reverse of my expectations happened — insurance stocks were considered peace stocks and as a result dropped in price, this one to 15½. I wasn't concerned because I knew he had a good stock—but he wasn't very happy. He read the quotations regularly. Six weeks later a foreign company announced an offer to buy 70% of the outstanding stock of this insurance company provided they could buy it within a period of 45 days at a price of $22 or less. The stock immediately was 20½ bid, 22 asked. I called him to tell him of the offer but he didn't like to take a short-term gain. He wanted me to tell him whether I thought the offer would eventually become effective. I assured him I did not know but that if it were a certainty the bid would be practically 22 so it might be well for him to sell and buy one of the other insurance stocks that had not recovered much of the decline in price. He told me he didn't like insurance stocks and that I should sell the stock he had at 20½ and that he would keep the funds for awhile. Eight days later Packard Automobile Company advertised their new models. The next morning he called me. He liked the looks of the new car in the newspaper ad and would like to buy 200 shares of Packard. His reasoning was that a stock selling at 4¾ couldn't drop much in price so he didn't have as much to lose. I tried to point out that he had just as much to lose whether he bought a stock at 4¾ or at 40 or at some other price. I don't think I impressed him. After much conversation he told me he still liked the picture of the new car and asked me to enter an order to buy 200 shares of Packard at 4¾ which I did. I have nothing against Packard as a stock or against the company or against the car. I just didn't think that he was buying the most suitable security for his needs. Let us see what could easily happen. If the market on Packard should drop severely it is conceivable that he might complain. Then let's look at the record after my conversation with him has long since been forgotten. The record shows that I sold him a good stock and that five months later I traded him out at a small profit to him and switched into a low priced stock which someone might assume was entirely unsuitable as proved by the decline in its market value. The record would look bad. That is why I say that it is difficult to judge by an isolated case!

Summary

I would like to summarize these thoughts with a few conclusions—

(1) Dealers and agents have an obligation to recommend suitable securities and to the best of their ability do so.

(2) Suitability is substantially a question of judgment and cannot be defined in specific terms.

(3) Dealers and agents have a serious and difficult problem in trying to use good judgment in recommending securities and therefore mistakes in judgment must be distinguished from mistakes of motive.

(4) That I would rather be judged by a committee of persons active in the securities business who know and face the same problems because I believe they are best able to judge the actions and motives of other dealers and the seriousness of any guilt. At present the NASD is the only agency I know of that has the responsibility to enforce rules of suitability.

(5) The entire pattern of a dealer's recommendations and transactions must be judged and not an isolated account or transaction unless the evidence of guilt is beyond question of doubt.

(6) A security is not unsuitable merely because the market price for it has dropped. It is very easy to be influenced by hindsight but unfortunately the securities dealer has no crystal ball and cannot know what is going to happen when he must make his decisions. At no time was this ever more true than today.

I would like to present an entirely different thought which I think is important. I have talked a great deal about the protection of the investor. Let us not forget that the problem of raising adequate funds to enable industry to expand and develop is another important factor in our economy. It might be possible for us to regulate our industry to the point that investors would take little risk because no security would be sold except a few high grade long outstanding securities. If we do, just where will the money come from for the normal expansion which our economy needs? We cannot stifle these developments through security regulation which is too severe. We have heard over and over that the small investor must be looked upon as the source of these funds because high tax rates make it almost impossible for persons with large incomes to accumulate the funds required by industry. Too severe judgment of the recommendation of securities dealers may discourage reasonable recommendations and in the long run do more damage to all industry than the harm prevented.

There is another thought that I would like to express. None of us liek to be regulated whether in our private lives or business lives. We know, however, that regulation is necessary and we can only ask that it be reasonable. I am sure that I personally would not wish to go back to conditions as they existed in 1928 when I entered the business. I think that by and large the industry has made a lot of progress. I am sure we can make some improvements in present day procedures and requirements but I do not believe any of us want to see them change to permit the types of abuses that did exist.

Continued from page 2

The Security I Like Best

restricted to the company's varied businesses but actually embrace all fields. Laboratories of many companies are limited to applying known information in developing products; but GE scientists probe into fundamentals and come up with original information which is used to develop new products or improve old ones. Because the rapid pace of industrial life in the U. S. makes many products obsolete in a relatively short period, this lofty research policy has paid off, for GE, as a leader in research in atomic energy, jet propulsion and electronics, seems assured of maintaining its strong trade position regardless of major changes in its present products.

GE's laboratory is not only the largest but is considered the greatest repository of engineering and scientific knowledge in the U. S. After many years of "putting in" vast sums and great efforts in basic research, the company apparently has reached the stage in its growth where it can safely "take out" more of its stored-up knowledge. One way this knowledge is emerging is in the form of new or improved products such as the first nuclear reactor power plant; gas turbines for electric power generation and locomotive propulsion, as well as for airplane propulsion in the form of jet engines; more economical steam turbines; motors and controls for high speed strip steel rolling; silicose products having properties like rubber and oil; the first completely automatic home washing machine; television transmitters and receivers; marine radar, and a "heat pump" which acts as a year 'round air conditioning system. While the company continues to market its products on a quality rather than a price basis, it has been much more realistic in its pricing during the past few years and produces items which compete strongly in most price brackets.

All of these features are of limited value to most investors unless benefits are received in the form of dividends. General Electric's prewar dividend policy was very liberal with almost all of its reported earnings being paid out. Because of expansion needs the proportion of earnings distributed as dividends declined to around 45% in the 1947-49 period but payments of $2.80 a share this year might be almost 55% of estimated earning power of $5 a share. This upward trend should continue, for the company, having embarked early on its postwar expansion, tapered off extra expenditures in 1949. In other words, the holder of GE common apparently also has arrived at the "take out" stage. At the present price of 48 the yield is a liberal 5.8%.

In brief, General Electric common is the closest candidate for being "all things to all people," in my opinion.

EDWARD FRANCIS HAYES

Members New York Stock and Chicago Stock Exchange
Partner, Glore, Forgan & Co.
N. Y. Curb Exchanges and

(North American Refractories Co.)

As this is written the Dow Jones industrial average is above 230 and one, therefore, proceeds with caution in the discussion of values in the current market. The writer believes, however, that the refractories industry can well bear examination and consideration at this level of the market.

Edward F. Hayes

For the benefit of those not familiar with the industry I would say that it manufactures fire brick and affiliated heat-resisting products. These products save heat and are able to withstand very high temperatures. They are used by a diversified list of consumers such as steel companies, glass factories, chemical plants, oil refineries and many other stable industries. The refractories industry is now over 100 years old.

The best known among the publicly owned companies are the following:

Harbison Walker Refractories Co.
General Refractories Co.
Laclede Christy Co.
North American Refractories Co.

The common stock of the first two named companies are listed on the New York Stock Exchange, and that of the third company is listed on the New York Curb. The common stock of North American Refractories is traded in over-the-counter.

Currently, Harbison Walker is selling at 25½ and pays dividends of $2 per share per annum; General Refractories is selling at 29⅛ and also pays dividends of $2 per share per annum. Laclede Christy sells at 15⅛ and pays a dividend of $1.40 per share per annum. The investment manuals contain detailed and pertinent information regarding the operation and finances of the first three named companies. Space limitations of this article do not allow for a detailed discussion of them.

North American Refractories Co. has a compact operation with 10 plants located in Pennsylvania, Ohio, Kentucky and Missouri, readily accessible to the steel industry and other customers. It makes primarily both fire clay refractory brick and silica refractory brick. Its reserves of raw material (clay and ganister) are believed to compare favorably with the industry as a whole.

The North American Refractories Co. has a very simple capitalization consisting of $850,000 3½% debenture notes due serially up to Dec. 15, 1962, and 198,457 shares of common stock. The reported net earnings for 1949 were equal to $2.19 per share and, for the first half of 1950 are equal to $1.65 per share, or at the annual rate of $3.30 per share (these periods included strikes in both steel and coal). As of June 30, 1950, the balance sheet showed that the common stock had a net sound book value of $29.64 per share, of which $12.48 were represented by net quick assets. The company was recapitalized in 1947, at which time it initiated dividends at the rate of 15 cents per share quarterly, which rate was increased to 20 cents per share quarterly commencing with the Oct. 15, 1950, payment.

The demand for steel products is such that week after week the steel mills report operations at higher than their rated capacity. This, in turn, has created a corresponding demand for refractory brick. There probably is a shortage of refractory manufacturing capacity right now, and one judge of the situation advises that the trade today could absorb a larger capacity if it were available. The outlook for the refractory manufacturer almost speaks for itself.

North American Refractories common stock sells around 10½, showing a satisfactory return of 7.62% at the current dividend rate. It does not appear overpriced in view of the excellent balance sheet, earnings statements and the favorable prospects for the refractory business.

With Bailey & Davidson

(Special to THE FINANCIAL CHRONICLE)

FRESNO, Cal. — William L. Warner is now affiliated with Bailey & Davidson, 2133 Fresno Street.

Joins Hayden, Miller

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Theodore A. Gaskell has become associated with Hayden, Miller & Co., Union Commerce Bldg., members of the Midwest Stock Exchange.

Three With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—Hobart S. McAlister, Richard B. Putney and Patrick H. Sheedy have been added to the staff of Dean Witter & Co., 632 South Spring Street.

Joins Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Cal. — John T. Berdan is with Merrill Lynch, Pierce, Fenner & Beane, 575 East Green Street.

With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Cal.—Aubrey A. Devine, Jr., has been added to the staff of Dean Witter & Co., 38 South Los Robles Avenue.

With Davies & Mejia

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Cal. — Jay C. Germain is with Davies & Mejia, 919 Tenth Street.

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. 15	101.6	101.2	99.6	9.3
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 15	1,959,600	1,951,900	1,921,000	172,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Sept. 30	5,903,450	5,894,050	5,759,630	4,949,650
Crude runs to stills — daily average (bbls.)	Sept. 30	¶6,051,000	5,982,000	6,109,000	5,493,000
Gasoline output (bbls.)	Sept. 30	19,624,000	19,726,000	20,171,000	18,381,000
Kerosene output (bbls.)	Sept. 30	2,471,000	2,355,000	2,310,000	1,812,000
Gas, oil, and distillate fuel oil output (bbls.)	Sept. 30	8,460,000	7,816,000	7,825,000	6,962,000
Residual fuel oil output (bbls.)	Sept. 30	8,306,000	8,356,000	8,219,000	7,514,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 30	104,383,000	104,739,000	105,563,000	103,895,000
Kerosene (bbls.) at	Sept. 30	27,849,000	27,632,000	25,670,000	27,196,000
Gas, oil, and distillate fuel oil (bbls.) at	Sept. 30	76,734,000	75,079,000	69,179,000	83,495,000
Residual fuel oil (bbls.) at	Sept. 30	42,330,000	42,319,000	41,437,000	67,955,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 30	879,985	870,196	852,321	658,128
Revenue freight received from connections (number of cars)	Sept. 30	730,562	725,840	707,459	539,609
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 5	$287,974,000	$244,811,000	$256,077,000	$152,400,000
Private construction	Oct. 5	157,407,000	130,015,000	192,884,000	78,779,000
Public construction	Oct. 5	130,567,000	114,796,000	63,193,000	73,621,000
State and municipal	Oct. 5	84,842,000	104,382,000	59,434,000	58,537,000
Federal	Oct. 5	45,725,000	10,414,000	3,759,000	15,084,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 30	11,425,000	11,410,000	11,020,000	1,784,000
Pennsylvania anthracite (tons)	Sept. 30	1,037,000	956,000	961,000	68,000
Beehive coke (tons)	Sept. 30	149,000	*126,600	149,400	3,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Sept. 30	320	*322	310	302
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 7	6,513,707	6,503,008	6,028,527	5,449,897
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Oct. 5	154	148	145	182
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 3	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Oct. 3	$49.19	$48.80	$46.61	$45.88
Scrap steel (per gross ton)	Oct. 3	$40.67	$40.67	$40.58	$26.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 4	24.200c	22.575c	23.450c	17.325c
Export refinery at	Oct. 4	24.425c	24.425c	24.425c	17.550c
Straits tin (New York) at	Oct. 4	106.500c	103.750c	97.500c	96.000c
Lead (New York) at	Oct. 4	16.000c	16.000c	15.000c	14.250c
Lead (St. Louis) at	Oct. 4	15.800c	15.800c	14.800c	14.050c
Zinc (East St. Louis) at	Oct. 4	17.500c	17.500c	15.000c	9.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 10	101.60	101.64	101.86	103.99
Average corporate	Oct. 10	115.63	115.43	116.02	115.04
Aaa	Oct. 10	119.82	119.82	120.63	120.84
Aa	Oct. 10	118.80	118.60	119.41	119.00
A	Oct. 10	115.04	115.04	115.63	114.27
Baa	Oct. 10	109.06	109.06	109.24	116.56
Railroad Group	Oct. 10	111.62	111.62	112.00	109.42
Public Utilities Group	Oct. 10	116.22	116.22	116.61	116.41
Industrials Group	Oct. 10	119.00	119.00	119.82	119.41
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 10	2.38	2.38	2.36	2.21
Average corporate	Oct. 10	2.87	2.88	2.85	2.90
Aaa	Oct. 10	2.66	2.66	2.62	2.61
Aa	Oct. 10	2.71	2.72	2.68	2.70
A	Oct. 10	2.90	2.90	2.87	2.94
Baa	Oct. 10	3.22	3.22	3.21	3.36
Railroad Group	Oct. 10	3.08	3.08	3.06	3.20
Public Utilities Group	Oct. 10	2.84	2.84	2.82	2.83
Industrials Group	Oct. 10	2.70	2.70	2.60	2.68
MOODY'S COMMODITY INDEX	Oct. 10	465.4	466.2	478.3	336.6
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 30	253,120	219,191	317,217	262,601
Production (tons)	Sept. 30	236,422	229,731	229,360	193,515
Percentage of activity	Sept. 30	103	101	100	89
Unfilled orders (tons) at	Sept. 30	714,877	700,166	729,058	365,609
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 6	137.6	137.0	134.2	127.4
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. 23	29,636	30,825	26,210	18,841
Number of shares—Customers' total sales	Sept. 23	884,732	946,453	787,256	555,001
Dollar value	Sept. 23	$42,249,065	$42,115,213	$34,170,449	$21,200,032
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Sept. 23	33,796	35,401	26,575	24,446
Customers' short sales	Sept. 23	265	451	223	241
Customers' other sales	Sept. 23	33,531	34,950	26,352	24,205
Number of shares—Customers' total sales	Sept. 23	964,241	1,024,499	765,272	668,105
Customers' short sales	Sept. 23	10,843	16,032	8,657	9,024
Customers' other sales	Sept. 23	953,398	1,008,467	756,615	659,081
Dollar value	Sept. 23	$38,356,289	$39,598,731	$29,381,396	$21,092,564
Round-lot sales by dealers—					
Number of shares—Total sales	Sept. 23	354,040	344,910	267,270	331,540
Short sales	Sept. 23				
Other sales	Sept. 23	354,040	344,910	267,270	331,540
Round-lot purchases by dealers—					
Number of shares	Sept. 23	272,110	293,560	258,960	188,010
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 3	168.9	169.4	167.7	152.3
Farm products	Oct. 3	179.1	180.2	179.5	161.3
Grains	Oct. 3	167.4	165.3	168.2	159.0
Livestock	Oct. 3	224.6	233.5	239.6	202.8
Foods	Oct. 3	175.3	177.4	177.2	159.0
Meats	Oct. 3	246.7	257.5	260.0	218.4
All commodities other than farm and foods	Oct. 3	160.2	159.4	156.5	145.0
Textile products	Oct. 3	162.7	*161.9	152.8	138.2
Fuel and lighting materials	Oct. 3	134.9	134.9	134.7	130.1
Metals and metal products	Oct. 3	177.1	176.4	174.7	167.4
Building materials	Oct. 3	223.1	221.3	218.2	189.8
Chemicals and allied products	Oct. 3	129.9	129.2	125.2	116.3

*Revised figure. ¶Includes 475,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN PETROLEUM INSTITUTE—Month of July:			
Total domestic production (bbls. of 42 gallons each)	185,019,000	175,586,000	158,297,000
Domestic crude oil output (bbls.)	170,017,000	161,332,000	145,818,000
Natural gasoline output (bbls.	14,985,000	14,237,000	12,468,000
Benzol output (bbls.)	17,000	17,000	11,000
Crude oil imports (bbls.)	15,076,000	14,931,000	13,258,000
Refined products imports (bbls.)	9,900,000	10,203,000	6,078,000
Indicated consumption—domestic and export (bbls.)	200,623,000	190,030,000	177,855,000
Increase—all stocks (bbls.)	9,372,000	10,690,000	‡‡222,000
AMERICAN ZINC INSTITUTE, INC.—Month of September:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	71,057	73,399	70,368
Shipments (tons of 2,000 lbs.)	75,241	79,355	70,228
Stocks at end of period (tons)	10,267	14,451	85,028
Unfilled orders at end of period (tons)	69,062	76,847	35,009
COAL OUTPUT (BUREAU OF MINES)—Month of September:			
Bituminous coal and lignite (net tons)	46,751,000	49,983,000	*19,783,000
Pennsylvania anthracite (net tons)	3,862,000	*4,417,000	2,114,000
Beehive coke (net tons)	579,000	*646,100	29,600
COKE (BUREAU OF MINES)—Month of Aug.:			
Production (net tons)	6,401,391	*6,359,566	5,200,900
Oven coke (net tons)	5,755,254	5,854,975	5,154,600
Beehive coke (net tons)	646,137	*504,591	46,300
Oven coke stocks at end of month (net tons)	825,223	*816,008	2,026,800
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters prior to Sept. 16)	1,510,577	------	2,695,465
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of August:			
Cotton Seed—			
Received at mills (tons)	219,721	128,307	352,959
Crushed (tons)	228,284	177,800	207,023
Stocks (tons) Aug. 31	275,937	284,500	278,434
Crude Oil—			
Stocks (pounds) Aug. 31	42,176,000	47,667,000	40,908,000
Produced (pounds)	72,162,000	57,790,000	64,805,000
Shipped (pounds)	85,971,000	64,341,000	79,440,000
Refined Oil—			
Stocks (pounds) Aug. 31	97,930,000	167,553,000	72,590,000
Produced (pounds)	78,244,000	59,523,000	71,986,000
Consumption (pounds)	155,211,000	118,382,000	142,409,000
Cake and Meal—			
Stocks (tons) Aug. 31	121,179	136,002	52,759
Produced (tons)	104,675	80,988	94,081
Shipped (tons)	119,498	108,346	107,271
Hulls—			
Stocks (tons) Aug. 31	72,965	73,634	84,793
Produced (tons)	54,617	43,146	48,136
Shipped (tons)	55,286	51,224	58,235
Linters (running bales)—			
Stocks Aug. 31	51,565	*64,877	103,600
Produced	68,236	*49,261	63,105
Shipped	81,548	*58,183	96,278
Hull Fiber (1,000-lb. bales)—			
Stocks Aug. 31	157	134	658
Produced	180	177	148
Shipped	157	164	338
Motes, grabbots, etc. (1,000 pounds)—			
Stocks Aug. 31	1,576	2,386	5,437
Produced	1,321	967	1,363
Shipped	2,131	1,907	3,275
METAL PRICES (E. & M. J. QUOTATIONS)—Average for Month of September:			
Copper (per pound)—			
Electrolytic domestic refinery	22.900c	22.272c	17.325c
Electrolytic export refinery	24.299c	22.499c	17.550c
Lead (per pound)—			
Common, New York	15.800c	12.926c	15.050c
Common, St. Louis	15.600c	12.726c	14.854c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	72.750c	72.750c	73.214c
Silver, London (pence per ounce)	63.500d	63.500d	52.298d
Sterling Exchange (Check)	$2.80000	$2.80000	$3.43929
Zinc (per pound)—East St. Louis	17.100c	15.052c	10.005c
Tin (per pound)—			
New York Straits	101.250c	102.194c	102.087c
§§New York, 99% min.	100.250c	101.194c	101.087c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$84.200	$78.000	$72.800
¶Antimony (per pound) (E. & M. J.)	34.300c	27.928c	41.780c
Antimony (per pound), bulk, Laredo	31.020c	24.648c	38.500c
Antimony (per pound), in cases, Laredo	31.520c	25.148c	39.000c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$97.200	$75.189	$69.000
†Cadmium (per pound)	$2.29000	$2.15000	$2.00000
‡Cadmium (per pound)	$2.39300	$2.22500	$2.07500
§Cadmium (per pound)	$2.49600	$2.30000	$2.15000
Cobalt, 97%	$1.80000	$1.80000	$1.80000
Aluminum, 99% plus, ingot (per pound)	17.860c	17.500c	17.000c
Magnesium, ingot (per pound)	22.580c	22.500c	20.500c
**Nickel	48.000c	48.000c	40.000c
PORTLAND CEMENT (BUREAU OF MINES)—Month of August:			
Production (bbls.)	21,884,000	20,709,000	18,715,000
Shipment from mills (bbls.)	25,144,000	23,167,000	23,633,000
Stocks (at end of month) (bbls.)	9,588,000	12,840,000	14,381,000
Capacity used	99%	94%	87%
RAILROAD EARNINGS — CLASS I ROADS (ASSOCIATION OF AMERICAN RRS.)—Month of August:			
Total operating revenues	$889,796,085	$771,660,954	$742,772,250
Total operating expenses	626,264,865	578,610,150	587,640,579
Operating ratio—per cent	70.38%	74.98%	79.11%
Taxes	$126,476,664	$94,034,726	$75,320,380
Net railway operating income before charges	122,064,180	84,059,998	65,403,262
Net income after charges (est.)	96,000,000	59,000,000	39,000,000
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION —Month of July (000's omitted):			
Savings and Loan associations	$489,745	$489,751	$308,880
Insurance companies	142,517	135,918	82,146
Banks and Trust companies	302,001	301,137	194,728
Mutual Savings banks	100,379	96,758	62,323
Individuals	193,878	202,846	162,125
Miscellaneous lending institutions	242,292	239,059	157,238
Total	$1,470,812	$1,465,469	$967,440

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.o.b. Port Colburne, N. S., U. S. duty included. §§Tin contained. ‡‡Decrease—all stocks (bbls.).

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Aeronca Mfg. Corp., Middletown, Ohio
Oct. 2 (letter of notification) $50,000 of 4% convertible promissory notes and 50,000 shares of common stock (latter to be reserved for conversion of notes on basis of 1 share for each $1 unit of notes). **Price**—$2.12½ per $1 unit of notes. **Underwriter**—Greene & Ladd, Dayton, O. **Proceeds**—For working capital. **Office**—Municipal Airport, Middletown, O.

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.

• Allied Petroleum Corp., Los Angeles, Calif.
Oct. 6 (letter of notification) 8,155 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To drill well and for working capital. **Office**—704 Subway Terminal Bldg., Los Angeles, Calif.

• Alumitape Sales Corp., Los Angeles, Calif.
Oct. 2 (letter of notification 86,550 shares of common stock of which 76,300 shares are for the account of the company, 6,000 shares for the account of Schuck Mfg. Co., Inc., and 4,250 shares for the account of Arthur G. Holmes. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To purchase additional machinery. **Office**—5404 Alhambra Ave., Los Angeles, Calif.

• American Loan Co., Indianapolis, Ind.
Oct. 2 (letter of notification) 3,000 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share) and accrued dividends. **Underwriter** — Cities Securities Corp., Indianapolis, Ind. **Proceeds**—For working capital.

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 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. Statement effective Oct. 4.

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.

• Blue Ridge Corp.
Oct. 4 (letter of notification) 2,533 shares of common stock (par $1). **Price**—At the market. **Underwriter**—None. **Proceeds**—To American Cities Power & Light Co., the selling stockholder. **Office**—60 Broadway, New York, N. Y.

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.

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.

• Carolina Casualty Insurance Co., Burlington, North Carolina
Oct. 2 (letter of notification) 50,000 shares of class B (non-voting) common stock (par $1) to be offered to present stockholders on basis of one share for each five shares held. **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To increase capital stock and surplus.

• Cherry Petroleum Corp., Carson City, Nev.
Oct. 6 (letter of notification) 100 shares of common stock (no par). **Price**—$1,500 per share. **Underwriter**—None. **Proceeds**—To Lauren D. Cherry, the selling stockholder. **Office**—Virginia and Trukee Bldg., Carson City, Nev.

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, and will not be extended. **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.

• Columbine Drilling Corp., Denver, Colo.
Oct. 6 (letter of notification) 300,000 shares of common stock (par one cent). **Price**—10 cents per share. **Underwriter**—None. **Proceeds**—To drill well. **Office**—554 Santa Fe Drive, Denver, Colo.

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. Statement effective Oct. 3.

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.

• Copeland Refrigeration Corp., Sidney, Ohio
Oct. 4 filed 150,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—Baker, Simonds & Co., Detroit, Mich. **Proceeds**—To five selling stockholders.

• Cormac Records, Inc., Santa Ana, Calif.
Oct. 3 (letter of notification) 98,000 shares of common capital stock (par 25 cents) to be offered in exchange for a like amount of $1 par common stock of Artist Records (a California corporation), on a share for share basis. **Office**—518 So. Main St., Santa Ana, Calif.

• Cribben & Sexton Co., Chicago, Ill.
Oct. 2 (letter of notification) 1,000 shares of common stock (par $5). **Price**—$4.50 per share. **Underwriters**—David A. Noyes & Co. and Swift, Henke & Co., Chicago, Ill. **Proceeds**—To Robert C. Caldwell, a director, the selling stockholder.

• Crown Finance Co., Inc., N. Y. City (10/16)
Oct. 9 (letter of notification) $200,000 of 5% subordinated debentures due 1980. **Price**—At par. **Underwriter**—Hodson & Co., Inc., New York. **Proceeds**—To reduce debt, for expansion and for general corporate purposes. **Office**—50 Church Street, New York 7, N. Y.

Dayton Power & Light Co.
Sept. 13 filed 50,000 shares of common stock (par $7) to be sold to employees. **Price**—$26.25 per share for first six month period and at a fixed price based on New York Stock Exchange for each succeeding 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. Statement effective Oct. 4.

• Drayer-Hanson, Inc., Los Angeles, Calif.
Oct. 3 (letter of notification) 255,033 shares of common stock to be offered to present stockholders. **Price**—At par (40 cents per share). **Underwriter**—None. **Proceeds**—To pay creditors' claims and for working capital. **Address**—P. O. Box 2215, Los Angeles, Calif.

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.

• Farrington Manufacturing Co., Boston, Mass.
Oct. 6 (letter of notification) 4,300 shares of 5½% preferred stock (par $50) and 4,300 warrants covering 8,600 shares of class A common stock (par $10), to be offered in units of one preferred share and one warrant to purchase two shares of class A stock. **Price**—$56.50 per unit. **Underwriter**—None. **Proceeds**—For corporate purposes. **Office**—76 Atherton Street, Boston, Mass.

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. Statement may be withdrawn. It was reported on Oct. 5 that company has completed purchase of El Monte plant.

• Fosgate Citrus Concentrate Cooperative, Forest City, Fla.
Oct. 2 (letter of notification) 2,500 shares of class B preferred stock and 500 shares of class A common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For construction of cooperative citrus concentrate plant.

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. (10/25)
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.

Hamilton Fire Insurance Co., Philadelphia
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.

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.

● **Illinois Power Co., Decatur, Ill. (10/25)**
Oct. 5 filed 150,000 shares of cumulative preferred stock (par $50), and 200,000 shares of common stock (no par). **Price**—To be filed by amendment. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane and The First Boston Corp. **Proceeds**—For payment of short term bank loans (to amount to $9,000,000 at Oct. 15) and for new construction.

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 share 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.

● **Kansas Gas & Electric Co., Wichita, Kan. (11/13-11/20)**
Oct. 10 filed 75,000 shares of common stock (no par) and 45,000 shares of cumulative preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) for both issues: Blyth & Co., Inc. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane and Kidder, Peabody & Co. (jointly); Lehman Brothers; (2) on common stock only: Glore, Forgan & Co.; (3) on preferred stock only: White, Weld & Co. and Shields & Co. (jointly); Halsey, Stuart & Co. Inc. **Proceeds**—To pay construction costs, amounting to about $19,500,000 through 1952. **Offering**—Expected in November, the common on the 13th and the preferred on the 20th.

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.

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.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100) **Proceeds**—To be used to redeem, at $110 per share plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

● **Louisiana Power & Light Co. (11/14)**
Oct. 10 filed $10,000,000 of first mortgage bonds, due Nov. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); Blyth & Co., Inc.; Harriman, Ripley & Co., Inc.; Shields & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; W. C. Langley & Co., The First Boston Corp. and Glore, Forgan & Co (jointly). **Proceeds**—For construction program. **Bids**—Expected to be received up to noon (EST) on Nov. 14.

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.

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.

● **McKendry-Wallace, Inc., Buffalo, N. Y. (10/14)**
Oct. 6 (letter of notification) 20,000 shares of 5% non-convertible cumulative preferred stock (par $10) and 40,000 shares of common stock (par 1c) to be offered in units of one preferred and two common shares. **Price**—$10.02 per unit. **Underwriter**—None. **Proceeds**—To purchase showcases and costume jewelry and for operating and working capital. **Office**—631 Seneca Street, Buffalo, N. Y.

● **Mercantile Acceptance Corp. of California**
Oct. 5 (letter of notification) 1,395 shares of first preferred stock, 5% series. **Price**—At par ($20 per share). **Underwriter**—Guardian Securities Corp. of San Francisco. **Proceeds**—For corporate purposes. **Office**—333 Montgomery Street, San Francisco, Calif.

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.

NEW ISSUE CALENDAR

October 14, 1950
McKendry-Wallace, Inc. — Pfd. & Com.

October 16, 1950
Crown Finance Co., Inc. — Debentures
Monarch Radio & Television Corp. — Common
Niagara Alkali Co. — Common
Packard-Bell Co. — Common
Rochester Gas & Electric Corp. — Common
Thermal Research & Engineering Corp. — Common
Trad Cabinet Corp. — Common

October 17, 1950
Associated Telephone Co., Ltd. — Bonds
Nepera Chemical Co. — Common
New Bedford Gas & Edison Light Co. 11:30 a.m. (EST) — Notes
Standard Railway Equipment Mfg. Co. — Common

October 18, 1950
Chesapeake & Ohio Ry. noon (EST) — Equip. Trust Ctfs.
Chicago, Milwaukee, St. Paul & Pacific RR. noon (CST) — Equip. Trust Ctfs.

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. — Pfd. & Com.
Northern States Power Co. — Preferred
Tennessee Gas Transmission Co. — Pfd. & Com.

October 25, 1950
Hagerstown Gas Co. — Common
Illinois Power Co. — Pfd. & Com.
Wabash RR. noon (EST) — Equip. Trust Ctfs.

October 30, 1950
Milwaukee Gas Light Co. 11 a.m. (EST) — Bonds & Debs.

October 31, 1950
Montana Power Co. — Debentures
Niagara Hudson Power Corp. — Bonds

November 13, 1950
Atlantic City Electric Co. — Bonds
Gulf Power Co. — Preferred
Kansas Gas & Electric Co. — Common

November 14, 1950
Louisiana Power & Light Co. noon (EST) — Bonds
Norris Stamping & Mfg. Co. — Common

November 20, 1950
Kansas Gas & Electric Co. — Preferred

November 27, 1950
Kansas Gas & Electric Co. — Bonds

December 4, 1950
Minnesota Power & Light Co. — Common

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.

Milwaukee Gas Light Co. (10/30)
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. 30 at office of parent, 165 Broadway, New York, N. Y.

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.

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 next week.

Montana Power Co. (10/31)
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.

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. (10/17-18)
Sept. 28 filed 490,000 shares of common stock (par $2). **Price**—To be filed by amendment (probably around $12.75 per share). **Underwriter**—Reynolds & Co., New York. **Proceeds**—To five selling stockholders. **Business**—Production of Anahist and other pharmaceuticals. **Offering**—Expected Oct. 17 or 18.

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 at office of company, 10 Temple Street, Cambridge, Mass. Statement effective Oct. 5.

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. Statement effective Oct. 5.

● **Niagara Alkali Co., New York City (10/16)**
Oct. 9 (letter of notification) 7,500 shares of common stock (par $10) of which 700 shares are to be sold to employees. **Price**—$30 per share to public and $28 per share to employees. **Underwriters**—G. H. Walker & Co., New York, and Hamlin & Lunt, Buffalo, N. Y. **Proceeds**—For general corporate purposes.

● **Niagara Mohawk Power Co. (10/31)**
Oct. 4 filed $40,000,000 of general mortgage bonds, 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

Continued on page 36

Continued from page 35

1966 (latter dependent upon approval of merger of two companies by SEC and FPC), and for construction, additions and betterments.

Norfina 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.

● **Norris Oil Co., Ventura, Calif.**
Oct. 4 (letter of notification) 675 shares of common stock (par $1). **Price**—$4.50 per share. **Underwriter**—None. **Proceeds**—To Halvern L. Norris, a director, who is the selling stockholder. **Office**—182 W. Ramona St., Ventura, Calif.

Northern Illinois Coal Corp., Chicago
May 10 (letter of notification) up to 2,000 shares of common stock (no par) to be sold at the market price (between $20 and $22 per share) by T. Howard Green, a Vice-President of the company. **Underwriter**—Faroll & Co., Rogers & Tracy and Shields & Co., Chicago.

● **Northern Illinois Corp., DeKalb, Ill.**
Oct. 2 (letter of notification) 7,200 shares of $1.50 cumulative preferred stock (no par) to be offered in exchange for 7,200 shares of 5% cumulative preferred stock of Friendly Finance Corp. on a share for share basis. **Purpose**—To acquire additional control of latter, of which Northern Illinois Corp. now owns 96% of the outstanding common stock.

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
Sept. 15 filed 396.571 additional shares of common stock (par $8) being 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. **Price**—$28 per share. **Underwriters**—Lehman Brothers and Bear, Stearns & Co. **Proceeds**—For construction program and to increase investment in common stock of Pennsylvania Power Co., a subsidiary. Statement effective Oct. 4.

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.

Packard-Bell Co., Los Angeles, Calif. (10/16-21)
Sept. 20 filed 135,666 shares of capital stock (par 50 cents). **Price**—To be filed by amendment. **Underwriters**—Hill, Richards & Co., Los Angeles, Calif. **Proceeds**—To two selling stockholders. **Business** — Manufacturing and sale of television, radio and phonograph combinations. Expected next week.

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 stockholders at rate of one new share for each four held on Oct. 13; rights to expire Oct. 31. **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.

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.

● **Shirlington Cooperative Department Store, Inc.**
Oct. 4 (letter of notification) 6,000 shares of common stock. **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds** — To liquidate indebtedness and for working capital. **Office**—4025 S. 28th St., Arlington, Va.

Sierra Pacific Power Co.
Sept. 1 filed 24,716 shares of common stock (par $15), 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. 20. **Underwriters**—Stone & Webster Securities Corp. and Dean Witter & Co. **Price**—$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. Statement to be withdrawn.

● **Southern Airways, Inc., Birmingham, Ala.**
Oct. 2 (letter of notification) 35,766⅔ shares of common stock. **Price**—At par ($3 per share). **Underwriter**—None. **Proceeds** — To activate airline routes covered by CAB certificate No. 98. **Office**—Municipal Airport, Birmingham, Ala.

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. (10/17)
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.

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 Nov. 6, unless extended. **Exchange Agent**—The National Bank of Commerce of Houston, Texas. Statement effective Sept. 22.

● **Tennessee Gas Transmission Co. (10/24)**
Oct. 10 filed 250,000 shares of common stock (par $5) and 100,000 shares of cumulative preferred stock (par $100). **Price**—To be filed by amendment. **Underwriter**—Stone & Webster Securities Corp. and White, Weld & Co., New York. **Proceeds**—For expansion program. **Offering**—Expected about Oct. 24.

● **Tennessee Valley Life Insurance Co., Jackson, Tenn.**
Oct. 6 (letter of notification) $130,000 par value of capital stock, of which $30,000 is to be issued to present policy-holders without charge, and the remaining $100,000 to be offered to policyholders at $1.50 per share. **Underwriter**—None. **Purpose**—To convert company to a stock life insurance company.

● **Thermal Research & Engineering Corp. (10/16)**
Oct. 4 (letter of notification) 34,155 shares of common stock (par $1) to be offered to common stockholders, on basis of one share for each four shares held. **Price**—$3 per share. **Underwriter**—None. **Proceeds**—For expansion and working capital. **Office**—1218 Chestnut Street, Philadelphia, Pa.

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.

● **Tracerlab, Inc., Boston, Mass.**
Oct. 6 (letter of notification) 4,205 shares of common stock (par $1). **Price**—At the market. **Underwriter**—None. **Proceeds**—To William E. Barbour, Jr., the selling stockholder. **Office**—130 High Street, Boston 10, Mass.

● **Trad Cabinet Corp., Marlboro, N. J. (10/16-21)**
Oct. 6 (letter of notification) 1,198,000 shares of common stock (par 1c). **Price**—25 cents per share. **Underwriter**—Tellier & Co., New York, N. Y. **Proceeds**—To purchase land, plant and equipment and for working capital. Expected week of Oct. 16.

● **Trand Mining & Leasing Co., Denver, Colo.**
Oct. 6 (letter of notification) 200 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For mine operation and working capital. **Office**—394 So. Vine Street, Denver, Colo.

Union Investment Co. of Detroit (Mich.)
Sept. 11 filed 55,865 shares of common stock (par $4), offered to common stockholders of record Sept. 29 at the rate of one share for each three shares held, with oversubscription privilege; rights to expire on Oct. 18. **Price**—$7.75 per share. **Underwriter**—McDonald-Moore Co., Detroit. **Proceeds**—For general corporate purposes.

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, to retire outstanding bonds and for 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. Statement withdrawn Oct. 4. Arrangements have been made to place privately with a group of insurance companies $3,000,000 of 3% 15-year debentures.

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.

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 Nov. 15 on approving a new issue of not to exceed $435,000,000 of convertible debentures (to be offered to stockholders) and an increase in authorized capital stock from 35,000,000 to 45,000,000 shares, 3,000,000 shares of the additional stock to be offered to employees of the company and its subsidiaries. Financing expected some time during the first six months of 1951. **Proceeds**—For expansion program.

● **Atlantic City Electric Co. (11/13)**
Oct. 9 it was announced that company is planning to file later this month with the SEC a registration statement covering $18,400,000 of new first mortgage bonds due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp. and Smith, Barney & Co. (jointly); Harriman Ripley and Co., Inc.; Kidder, Peabody & Co.; Blyth & Co., Inc. **Proceeds** — To redeem a like amount of 3¼% first mortgage bonds due in 1964. **Bids**—Expected to be received up to Nov. 13.

Carolina Power & Light Co.
Oct. 3 it was reported that this company will be in the market, probably in December, with an offering of $15,000,000 of new bonds. Previous debt financing placed privately. If competitive, probable bidders are: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and First Boston Corp. (jointly); Kidder, Peabody & Co.; Lehman Brothers; Equitable Securities Corp. Proceeds will be used for expansion program.

● **Chesapeake & Ohio Ry. (10/18)**
Bids will be received up to noon (EST) on Oct. 18 at company's office in Cleveland, O., for the purchase of $7,950,000 equipment trust certificates, fourth series of 1950, dated Nov. 15, 1950 and due $265,000 semi-annually from May 15, 1951 to Nov. 15, 1965, inclusive. 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 of equipment trust certificates, series MM, to be dated Nov. 1, 1950 and mature in semi-annual instalments of $181,000 each from May 1, 1951 to Nov. 1, 1965, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., Inc. and Lehman Brothers (jointly). **Bids**—To be opened at noon (CST) on Oct. 18 at company's office, Room 744, Union Station Building, Chicago 6, Ill.

Cleveland Electric Illuminating Co.
Aug. 1 it was reported that company this fall may issue and sell an issue of preferred stock, of which 495,011 shares of no par value are presently available, stockholders on April 25 having increased the authorized amount to 750,000 shares from 500,000 shares. The proceeds are to be used for construction program. Probable underwriter: Dillon, Read & Co. Inc. if negotiated sale.

Colorado Fuel & Iron Corp.
Sept. 22 it was announced company has purchased a 175-acre tract of land adjoining its Wickwire Spencer Steel division plant at Buffalo, N. Y., for the purpose of expansion. Traditional underwriter: Allen & Co., New York.

Consolidated Edison Co. of New York, Inc.
May 15, Ralph H. Tapscott, Chairman, said the company will require approximately $90,000,000 of "new money" through the sale of securities. No permanent financing is contemplated before this fall, however, and current expenditures are being financed by short-term loans, of which $16,000,000 are now outstanding. It is anticipated that $257,000,000 will be needed for the construction program over the next four years. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; First Boston Corp.

Consolidated Lobster Co., Inc.
Aug. 11 it was stated that company plans to offer additional capital stock (no par) for subscription by stockholders. At April 30, 1950 there were outstanding 34,393 shares out of 47,000 shares authorized.

Dostal Foundry & Machine Co.
Sept. 12 it was reported company plans to sell in mid-October 84,000 shares of common stock. **Underwriters**—Smith, Hague & Co.; George McDowell & Co.; and R. H. Johnson & Co.

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.

● **Eureka Williams Corp.**
Oct. 4 it was announced stockholders will vote Oct. 31 on increasing authorized common stock (par $5) from 600,000 shares to 1,000,000 shares so that company may be in a position "to act promptly by broadening the scope of business and operations." Traditional underwriters: Hornblower & Weeks and Kebbon, McCormick & Co.

● **Facsimile & Electronics, Inc.**
Oct. 2 stockholders of this company (formerly Finch Telecommunications, Inc.) voted to create an authorized issue of 400,000 shares of class A convertible stock (par $1), all or part of which are to be publicly offered in the near future. **Price**—$2.50 per share. **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—To repay indebtedness to RFC and for working capital.

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. (11/13)
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 rate, and to issue and sell an additional 40,000 shares of new preferred stock to provide a portion of the funds required for its expansion program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. **Exchange Offer**—Tentatively scheduled to be made Nov. 14; to expire Nov. 27. **Bids**—Expected to be opened on Nov. 13. **Registration**—About Oct. 16.

Gulf States Utilities Co.
Sept. 26, Roy S. Nelson, President, said company plans to issue and sell 70,000 shares of a new series of preferred stock (par $100) at competitive bidding in November, subject to approval of stockholders and FPC. Probable bidders: Stone & Webster Securities Corp.; Lehman Brothers and Equitable Securities Corp. (jointly); Union Securities Corp.; First Boston Corp.; Blyth & Co., Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Carl M. Loeb, Rhoades & Co., and Lee Higginson Corp. (jointly).

Hussman Refrigerator Co.
Oct. 6 stockholders approved creation of $1,600,000 preferred stock. Proceeds will be used to redeem 14,840 outstanding shares of $2.25 cumulative preferred stock, no par value, and for general corporate purposes. To be placed privately at par with Penn Mutual Life Insurance Co.

● **Illinois Power Co.**
Oct. 5, it was announced that company plans $30,000,000 of new, future financing (in addition to the sale of 150,000 shares of cumulative preferred stock, par $50, and 200,000 shares of common stock no par value, filed with SEC on Oct. 5—see above), in order to finance, in part, its construction program for the next three years.

Iowa Southern Utilities Co.
April 26 company said to plan sale of first mortgage bonds to finance part of its $3,200,000 construction program for 1950. Probable underwriter: The First Boston Corp.

Johansen Brothers Shoe Co.
Oct. 25 stockholders will vote on proposal to issue and sell $350,000 of 4% sinking fund debentures due 1960. Proceeds to retire outstanding 3½% debentures and for other corporate purposes. Traditional underwriter: Stifel, Nicolaus & Co.

Kansas Gas & Electric Co. (11/27)
Sept. 21 the directors tentatively approved the sale to the public of 75,000 shares of new preferred stock (par $100), of 45,000 additional shares of common stock (no par) and $5,000,000 of first mortgage bonds. The dividend rate on the preferred stock has not yet been determined. **Underwriters**—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane and Kidder, Peabody & Co. (jointly). **Proceeds**—To pay construction costs, amounting to about $19,500,000 through 1952. **Offering**—Expected about Nov. 27. Registration statement for stocks filed Oct. 10 (see above).

● **Metropolitan Edison Co.**
Oct. 9 it was reported company plans to issue and sell in December $5,250,000 of new first mortgage bonds and 20,000 shares of preferred stock (par $100). Proceeds would be applied toward the retirement at maturity of approximately $1,250,000 of 5% non-callable (assumed) bonds of York Haven Water & Power Co., and the balance toward expansion program. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; First Boston Corp.; Carl M. Loeb, Rhoades & Co.; Drexel & Co.; Kuhn, Loeb & Co.; Kidder, Peabody & Co.; White, Weld & Co. (2) For preferred: Drexel & Co.; Harriman Ripley & Co., Inc. and Union Securities Corp. (jointly); Smith, Barney & Co. and Goldman, Sachs & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co. **Registration**—Expected to be filed about Nov. 1.

Michigan Consolidated Gas Co.
Aug. 7 it was announced company contemplates permanent financing will be consummated before maturity (Feb. 20, 1951) of proposed $25,000,000 bank loans which will include, during 1950, $20,000,000 of first mortgage bonds due 1975 and 428,574 shares of common stock for $6,000,036, and the sale in 1951, of about $10,000,000 of preferred stock. **Underwriters**: For bonds and preferred to be determined by competitive bidding. Probable bidders (1) For both classes: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly). (2) For bonds only: Halsey, Stuart & Co. Inc. **Proceeds**—To pay off short-term bank loans and for new construction costs. The additional common stock will be sold to American Natural Gas Co., parent. Bonds expected this month and preferred early in November.

Michigan-Wisconsin Pipe Line Co.
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock. Previous debt financing was placed privately.

MidSouth Gas Co.
July 31 it was announced that this newly organized company may issue and sell publicly $2,800,000 of common stock and place privately with institutional investors $6,900,000 of 20-year 3⅝% first mortgage bonds, the proceeds to be used in connection with the acquisition of the gas distribution properties of Arkansas Power & Light Co., 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. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kidder, Peabody & Co.; Lehman Brothers. Proceeds for construction program. **Bids**—Expected to be received up to noon (EST) on Dec. 4. Registration with SEC planned for Nov. 1.

● **Mississippi River Fuel Corp., St. Louis, Mo.**
Oct. 4 it was announced that plans to finance the installation of additional compressor units on the company's pipeline system in Arkansas and Missouri will be supplied later. The estimated cost of the new facilities is $5,500,000. Previous bond financing was arranged for privately through Union Securities Corp., who also acted as underwriter for a common stock issue in April of this year.

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.

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.

● **Norris Stamping & Mfg. Co. (11/14)**
Oct. 9, it was reported that early registration with SEC is expected of about 190,000 shares of common stock. **Underwriters**—William R. Staats Co. and A. C. Allyn & Co. **Proceeds**—To selling stockholders.

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. Probable underwriters: Harriman Ripley & Co., Inc.; Smith, Barney & Co.

● **Pennsylvania Electric Co.**
Oct. 4 company was reported to be planning the issuance early next year of about $10,000,000 new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co.; Harriman Ripley & Co., Inc. Proceeds are to be used to finance construction program.

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 bid-

Continued on page 38

Continued from page 37

ders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Lehman Brothers (jointly); Kidder, Peabody & Co.; Union Securities Corp.

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 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.

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 Eastern Transmission Corp.**
Oct. 9 it was announced company plans to raise approximately $40,000,000 of equity money, which would be supplemented by approximately $70,000,000 of first mortgage pipe line bonds (latter may be placed privately). **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—For expansion program. **Increase in Capitalization**—Stockholders will vote Nov. 3 on authorizing 600,000 shares of preferred stock (par $100) and to increase the common stock from 6,000,000 to 7,500,000 shares.

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.

Toledo Edison Co.
May 9 it was announced that the company plans to issue and sell $7,500,000 additional first mortgage bonds in December, 1950, and probably additional common stock sometime during 1951, the proceeds to be used to complete expansion program. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co.; Kidder, Peabody & Co., White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); First Boston Corp. and Glore, Forgan & Co. (jointly); Lehman Brothers, Harriman Ripley & Co., Inc., Bear, Stearns & Co. and Carl M. Loeb, Rhoades & Co. (jointly); Smith, Barney & Co.; Union Securities Corp.

● **United Gas Corp.**
Oct. 6 it was reported company will probably sell between $100,000,000 and $125,000,000 of new bonds before end of this year, the proceeds to be used to finance construction of 1,130 miles of pipe line, which, it is estimated will cost approximately $115,000,000.

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." The initial financing has been arranged for privately, with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation.

● **Wabash RR. Co. (10/25)**
Bids will be received by the company at 44 Wall St., New York 5, N. Y., up to and including 12 o'clock noon (EST) on Oct. 25 for the purchase from it of $3,315,000 equipment trust certificates, series C, to be dated June 1, 1950, and to mature in 15 annual instalments from June 1, 1951-1965, inclusive. This will be in addition to $5,220,000 principal amount of series C issued earlier this year. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Lehman Brothers and Lee Higginson Corp. (jointly); Salomon Bros. & Hutzler.

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). **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.

Weymouth Light & Power Co.
Sept. 18 company applied to SEC for authority to issue and sell 16,298 shares of capital stock (par $25) to its stockholders. New England Electric System, the parent, proposes to acquire 16,227⅓ shares and any shares not subscribed for by minority stockholders. **Price**—$35 per share. **Proceeds**—To repay bank loans and advances and for construction.

Wilcox-Gay-Majestic Corp.
July 14 it was announced that in connection with acquisition by Wilcox-Gay Corp. of Garod Radio Corp. and Majestic Radio & Television, Inc., Wilcox-Gay-Majestic Corp., the new company plans public offering of 500,000 shares of common stock (par $1). **Underwriter**—Gearhart Kinnard & Otis. **Proceeds**—For working capital. Expected in October.

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.

Worcester County Electric Co.
Sept. 25 a plan was filed with the SEC, the FPC and the Massachusetts Department of Public Utilities providing for the merger with this company of seven other subsidiaries of New England Electric System, following which Worcester County proposes to issue and sell $12,000,000 of first mortgage bonds to retire bank loans of the companies participating in the merger. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; First Boston Corp.; Harriman Ripley & Co., Inc.

Continued from page 10

"Pardon Me, Your Dollars Are Slipping"

There is no 40-hour week in Russia.

Normally after a war, there is a short boom and then a period of deflation which restores some, but never all the prewar balance. This readjustment was just starting, when due to the blundering of our foreign policy and poor defense management, we are off on another big spending program.

Will We Have a 25-Cent Dollar?

Another and maybe worse inflation is being imposed on that of the last 10 years. If by any chance there should be a third world war, the dollar is going to be a 25-cent or less coin. That is not a very happy prospect for your customers — the thrifty savers.

Some further inflation can not be avoided because of the damage that has already been done, but it can be held in check if the public becomes properly aroused. That, as I see it, is part of the job of those managing the public's savings. To furnish leadership and to educate the thrifty—who, I think, are still in the majority—although you wouldn't think so from the election results.

I wonder how many people who bought savings bonds 10 years ago realize what has happened to their dollars. They put up $75 then and this year get $100. But that $100 will only buy $57 in terms of what could have been bought in 1940. That is a loss in purchasing power of $18 on 1940's invested $75, even after the $25 payment in interest.

Now, if that person had bought 1⅗ shares of General Motors, he would have received $56.40 in dividends and his 1⅗ shares would be worth $160, or a total of $216.40 vs. the $100 in savings bonds. In terms of 1950 purchasing power, his General Motors investment would be worth $123.34 vs. $57 in savings bonds.

If he bought U. S. Steel, the story would be nearly the same. His 1 3/10 shares of U. S. Steel would have paid $54.27 in dividends and the stock would be worth $152.10, or total of $206.37. In purchasing power in terms of the 1950 dollar, it would be worth $117.63.

That is the picture as to the real worth of the two kinds of savings. Take the matter of income. To get $1,000 a year income from a savings bank account, a person would have to have $50,000. In high grade corporate bonds, around $39,000, and in gilt-edged preferred stocks $26,000, but in high grade common stocks only $15,000.

Must Arouse Public

There isn't much point in putting money in a savings bank or in government bonds, unless the brakes are put on the inflation, and this means arousing the public as to what is happening to their dollar.

Otherwise, the only reason for saving money is to meet some emergency as a medical bill—beyond that the saver is really speculating, and on the losing end. As for government bonds, the only reason for buying is patriotism. Certainly not for preserving capital, nor for income.

Combination Savings and Investment Account

For the savings banks, it may be that you will have to go beyond your present program as to common stocks. That is to offer depositors a dual plan—part savings and part investment—the latter being some form of mutual trust run by the banks and without the "load" of the present such vehicles. Depositors' funds so set aside for investment could be pooled.

Times have changed, and you have recognized that in the savings banks by offering over-the-counter cheaper life insurance. To add a method of hedging savings against inflation through some medium of investment other than in a passbook would seem to me to round out that program of service to your customers.

The rich man doesn't need protection. He can hire it and can in many ways protect himself. The unthrifty citizen—the one living on borrowed money or on relief—also doesn't need protection from inflation. In fact, he has nothing to lose, and maybe his debt will be wiped out by inflation.

Little Saver—The Forgotten Man

The thrifty citizen—the little fellow who is the customer of the savings bank and the holder of life insurance policy—is the forgotten man or woman of today. No one seems to worry much about him. Yet he and his family are the backbone of this country. They are the ones who made this country. Their thrift has provided much of the money for the development of our industries and the expansion of the American way of life. They are the ones who will be hurt the most—if not wiped out—in any severe inflation.

Cash is no hedge against inflation. Nor are government bonds, yet a large part of the deposits in savings banks and more so in commercial banks are invested in government bonds. A savings bank depositor if he wanted to put his money in government bonds could do so on his own and in most cases get a higher return than a bank will pay on his deposit.

The reason I toss out this idea of adding another service for the thrifty—in offering some form of investment hedge as well as a place to put money away to meet an emergency—is that if you don't, you may start losing your customers. They may seek another "tailor," and I think that will be bad—both from the standpoint of the savings bank and also from that of the customer—the saver. I think the savings banker has a higher sense of public obligation than some of the peddlers of stock, and I mean in that connection some of the sellers of these open-end investment trust shares, now so popular.

Educating Public on Inflation

Before I sit down, I would like to go back to the matter of educating the public as to what is happening to their money. This is a field that has been too long neglected by everyone—and we in the newspaper business have generally been slow on this, too.

This educational program should be non-partisan, non-political. In fact, the strongest advocates of a sound government policy are two Democrats—Senators Byrd of Virginia and George of Georgia. They are not New Dealers. I don't think the thrifty people — the savers — who are really in the majority—would be either if they knew the full score.

Take the matter of interest rates the savings banks pay and the dividends to life insurance policy holders. These are low because the government is rigging the money market to keep down the interest rates on the money it must borrow. These rates set the cost on all other borrowed funds.

This is a fraud on the public and private business. For the savers—the thrifty people—the cheap money policy is costing billions of dollars a year in interest return on prime investments and on bank savings accounts. For industry, the cheap money policy plus the tax laws makes the raising of equity capital too costly, so these enterprises go into debt. Interest on bonds and bank loans is deductible before taxes while dividends on stock are payable after taxes. When bond money can be obtained from 2¾% to 3½% against a 6 to 9% cost on stock—dividends are yielding that much today—few companies are going into the equity market.

This is a problem on which the banks should be taking the lead, to show just what this cheap money is doing.

Wrapped up with it is the squandering of tax money by all divisions and branches of government, Federal, State and local.

Like this not-so-cold war between the East and the West, it is time for right-thinking Americans to take sides and stand up and be counted.

Our Reporter's Report

The complexion of the investment market underwent little significant change during the past week. Equities continued to outrun bonds in the race for investors' favor in the corporate field while the bulk of trading activity in the fixed term market again was centered in the municipal, or tax-exempt list.

Seasoned corporate bonds maintained a firm tone and improved in spots, notably some rail issues, but by and large the volume of dealings was not especially impressive. There was further evidence of levelling off in the Treasury list, but investors, while naturally pleased with the greater degree of stability, were disposed nontheless to adopt a waiting attitude pending some inkling of what the Treasury has in mind for its year-end refinancing program.

Sustained dearth of new corporate debt issues had a two-fold influence in the market's position. First it proved helpful in turning investors' attention to unsold balances of more recent issues. And to that extent the situation was somewhat better. The balance of Tennessee Gas Transmission 3s remaining in dealers' hands is now reported just above $4,500,000.

Whittling away of these backlogs has been quite general during the week with the result that only nominal amounts of other such offerings remain unsold, as for example about $1,000,000 of Utah Power & Light and a small amount of Virginia Electric Powers recent new issue.

Cutting Into Municipals

The prime feature of the week has been the further heavy reduction scored in the so-called municipal "blue list." Scarcely a fortnight ago the unsold accumulation of these issues among dealers was close to $205,000,000, a record figure.

But, since the enactment of the new and higher tax bill designed to finance the Korean expedition and necessary rearmament, the tax-exempt features of these bonds has turned the situation in that market.

With a retroactive corporate excess profits tax now a certainty when Congress returns, fresh fuel was added to the fire and on the rush buying yields have been trimmed measurably.

A recent calculation on the amount of unsold municipals puts the figure at about $135,000,000 and observers insist that the bulk of the reduction is represented by bonds taken "off the Street."

Kaiser Steel Corp.

Bankers engaged in advising Kaiser Steel Corp., on its impending financing and working out the basis by which the company aims to raise $125,000,000 are still on the Coast.

The operation is expected to reach market along toward the end of the month, probably around Oct. 24, and on latest reports will involve $60,000,000 of long-term debt plus $25,000,000 of short-term debentures, both designed for institutions, along with $40,000,000 of stock to be offered to the public.

Latest word in the "Street" is that bankers handling the deal are confident of the over-all success of the program, presumably basing their convictions on preliminary interest showing for the equity portion.

Cooperation

Corporate borrowers frequently are stubborn even when it may prove to their disadvantage. But occasionally calmer heads prevail to the benefit of all concerned.

The latter happens to be the case where two public utility companies had big issues scheduled for the same day, Oct. 31 next. Milwaukee Gas Light Co., planned to open bids for $33,000,000 of bonds and debentures that day with Niagara Mohawk Power Corp., scheduled to sell $40,000,000 of mortgage bonds and Montana Power Co. $10,000,000 the same day.

The two major issues are just large enough to call for sizable banking aggregations which likely would have cut into the number of bids if both went the same day.

But Milwaukee Gas Light has decided to put its offering ahead a day to Oct. 30, thus easing the strain and assuring more aggressive bidding.

Continued from page 16

Increased Taxation Is Unnecessary

price for their raw materials, and sell at the same price, but whose profits range from very high, on the one side, to actual losses, on the other. Over a reasonable period of time, higher profits are realized by the **more efficient operators**, under our modern competitive system. To discourage the efficient in times like the present, would be particularly disastrous.

And, surely, under any foreseeable conditions, we should avoid an **Excess Profits Tax** as being inconsistent with an economy of free people, in that it penalizes initiative and efficiency, discourages prudent management, destroys thrift, encourages waste, and increases costs to the Government and to the public generally. As was so clearly explained by former Secretaries of the Treasury Carter Glass, David Houston, and Andrew Mellon, the excess profits tax, from its very nature, can have no other effect. Clearly, it conduces to **inflation** rather than prevents it.

Also, personal income tax rates are now so high as to be almost confiscatory in the upper brackets. To raise these rates further, as is now being urged by many, would certainly dry up the only real sources of "venture" capital, choke business expansion, discourage enterprise, and slow down the whole economy, to such an extent that higher general tax rates might well yield smaller aggregate revenues than the present rates. Little is now left to tax in the high brackets. Hereafter, **lower** brackets **must** be the only fruitful source of further **personal** income taxes.

Finally, if worst should come to worst, and our legislators **insist** on still higher taxes, whether or not warranted, then probably the taxes least restrictive to any defense effort would be some further extension of **excise or sales** taxes — thus discouraging consumption of things needed in the military effort—and leaving some freedom of choice and action to the individual taxpayer. Also, such taxes, by discouraging some civilian buying, would help to hold prices down — a desirable anti-inflationary tax in war-time!

Walston, Hoffman Adds

(Special to The Financial Chronicle)

SAN FRANCISCO, Cal.—Ralph J. Jarvis is now with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Continued from page 13

Our Economic Prospects

ping our families up from one standard of living to the next.

Life Insurance Potential 2½ Times Greater Than Prewar

A detailed and careful government study (summarized in U. S. Department of Labor Bulletin No. 822) analyzed life insurance premium payments by consumer spending units—families and single individuals — according to money income groups before taxes for the year 1941. In that year 67% of the 39,287,000 consumer spending units reported premium payments for life insurance and annuities and average expenditures per family for life insurance ranged from $7.82 in income groups below $500 per year to $620.46 in the income group above $5,000. The overall average was $79.76 per family or a projected total of $3.1 billion.

If families in each income group now were to protect their present standard of living in the same degree as families in that income group did in 1941 the potential market for life insurance now would be 2½ times as great as in 1941 (or $7.9 billion as a figure comparable with the $3.1 billion projected in 1941).

This is based on the present distribution of consumer spending units by income groups after Federal income taxes. The distribution after Federal income taxes is taken as the most conservative measure of the changed living standards.

This projection assumes that since the average family with $3,000 to $5,000 income before taxes in 1941, for example, spent $144.76 in life insurance premiums to protect this standard of living, a family in 1950 with $3,000 to $5,000 income after Federal income taxes should be able and willing to spend $144.76 per year for life insurance to protect this present standard of living as adequately as the 1941 family did. But now there are 15,080,000 potential buyers in the $3,000 to $5,000 group compared with 4,139,000 in 1941. Most of the families which have moved up into this higher income group have not changed their life insurance protection accordingly —they still carry the amount of insurance which they had when their income was much less.

We Can Have An Expanding Economy and Still Be Sound

For years we have been underestimating the market potentials in America. In the "Mature Economy" days we planned on a future of heavy unemployment and a leveling of the standard of living. It took a world war to prove our productive ability—a productive ability that if utilized in peacetime could support a standard of living double the 1940 standard, and at least a third better than our present level.

The present conflict, while it may temporarily convert an important share of some industries to production for war, cannot alter the basic fact that Americans must learn to live a third better than at present within the next five years. Otherwise they will not be taking advantage of even the minimum opportunities that are within their reach.

We can have an expanding economy soundly based on increased productivity. There is evidence that within five years America could support a peacetime production of over $330 billion (in terms of 1950 dollars—without inflation) through improved living standards, providing the desires and demands for changes in the standard of living by the mass of our population can be made insistent.

GNP of $330 Billion by 1955 Can Be Achieved

A simple measure of our proven potential is our wartime productivity per capita. In terms of constant 1940 dollars our per capita productivity increased from $770 in 1940 to $1,235 in 1944 (Real Gross National Product divided by population). A similar per capita productivity for our expanded population, estimated at 162,000,000 in 1955, could mean a Gross National Product of $330 billion five years from now at the present value of the dollar, and could provide the purchasing power for a peacetime standard of living approximately ⅓ higher than in 1950. This $330 billion would compare with a Gross National Product of $101.4 billion in 1940 and $257.4 billion in 1949.

To reach this level of over $330 billion of production by 1955 seems well within the possible growth in productivity from present levels. It would mean an increase of about 3% per year over 1949 in productivity per capita which is not out of line with our past experience.

Actually this goal of productivity per capita for 1955 should be considered a minimum since it assumes reaching only a level attained in 1944 when our tools of production were woefully obsolete and inefficient following a long period of depression and limited expenditures for new plant and equipment. In the 5-year period (1936-1940) prior to World War II only $28 billion was spent for new plant and equipment. Now our equipment for production has been improved by the expenditure of three times as much in five postwar years—$86 billion in the period 1946-1950.

But, even this minimum level of production and its accompanying increase in purchasing power, while entirely possible of attainment, will remain only a dream unless the demand is created for the goods and services we can produce. This demand cannot be legislated, or created by government deficits—it must come voluntarily through a change in the standard of living as a result of education and the creation of new desires through advertising and selling.

Personal Consumption Expenditures vs. Our Productive Ability

To match our productive ability, the total consumer market for goods and services would have to expand by 1955 to over $235 **billion** or ⅓ greater than in **1949**. ($142 billion in terms of constant 1940 dollars, which would be double the 1940 level.) It would take this kind of expansion in domestic markets to provide an outlet for the goods and services we can produce.

Compared with 1949 markets the demand for nondurable goods would have to increase from $98.9 billion to $120.0 billion in current dollars, services and housing would need to increase in demand from $51.1 billion to $85.0 billion, and the market for durable goods would need further expansion from $24.4 billion to about $30.0 billion. In addition the $250 billion of disposable personal income after taxes created by the possible 1955 national production level could provide annual personal savings of about $15 billion, or four times the 1940 level of **$3.7** billion.

Thus, our indicated ability to produce does provide substantial opportunities for expansion in the standard of living of our population.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—By all odds the second greatest worry of the Truman Administration today is whether the American people two, three, and four months from now will support an expensive military program if there is no big fighting going on some place. After Nov. 7, this will probably be the greatest worry of the Administration.

Congress passed the Defense Production Act while American troops were getting pushed back by the Korean Reds and the military issue was in balance. While the people were still worrying, Congress also passed all the appropriations for expanding the military establishment and the forces of the Atlantic Pact nations, the $5.1-billion foreign arms aid program hardly getting any opposition.

Pay day is yet to come, and it will not come until all the outward evidence of great danger has passed—always barring the possibility that the Reds do not turn loose their hordes somewhere else. For it will not be until well into winter before Congress and the country begin to really pick up the ticket in the form of very much higher taxes and enveloping controls over economic life.

There is the tax bill, for instance. Any idea that, barring a fresh war, an excess profits tax can be passed between Nov. 27 and the time Congress quits for the holidays, is uniformly regarded as sheer nonsense. This means that EPT and higher income, excise, and all other taxes will be debated and considered probably throughout the winter and spring. Meantime the Korean war will have passed farther and farther back into history, and any wide public feeling of either danger or urgency will have passed.

While the tax bill is under way, controls will finally begin changing the pattern of life from civilian toward military production. Some of the first limitation orders — barring production of some "non-essential" goods and limiting materials for others—might even be issued before the year end.

Meanwhile, the supplemental military program, adding another $10 to $15 billion to U. S. military preparations, will have started through the legislative grinder. Finally, long before that time the top diplomatic and military planners will have reached a conclusion on how much additional must be spent to arm the Indonesians, the Arbians, the Filipinos, and others outside and additional to the Atlantic Pact. The public will have learned that in addition to the $5.1 billion appropriated for the first year of Atlantic Pact arming, a four-year program will require a further $12 billions.

So by winter or early spring the public will begin to comprehend that the Federal government is going into the spending business in a year or so by some $70 billion, and perhaps more. Even before the 1951 tax increases are passed, if indeed they are passed, the public will be on notice that 1952 means another tax increase, and perhaps also 1953.

This worry is bothering the Administration more than is indicated by any public comment. This is probably the most common subject of talk among high officials, who are trying to dope out the outlook for themselves. It goes much deeper, of course, than the President's off-hand press conference crack to the effect that his worry was that some no-good Congressman might try to cut back the military program.

Actually, Administration officials sincerely think that they intend to go through with the military program on the scale announced and projected. "Abdul Ben" Truman's sweet dream of peace, with a flock of B-36's distributed around to visit instant vengeance upon the Reds whenever they started something, has been shattered. The Truman Administration has finally agreed that it is "how many divisions" that counts, that what troops and Navy and aircraft which can be brought to bear where and just when, are all that count in stopping the Kremlin's appetite for the world's real estate.

Many wonder, however, how long it will be during the 1951 session of Congress before maybe the Truman Administration will again be pushing compulsory health insurance, another boost in public housing, and so on.

* * *

It is said one explanation for the inability of the National Production Authority to get a precise picture of military requirements for scarce materials is the difficulty the Administration has in determining exactly how much it wants to give in weapons to foreigners, and in how many areas aside from the Atlantic Pact. Nevertheless, NPA officials hope that shortly they will get a requirements picture for the first and second quarters of 1951.

* * *

Very quietly the staff of the Congressional Joint Committee on Internal Revenue is working up an "excess profits tax on individuals." The idea is that individual income for some period shall become a base, and that income earned above this would be subjected to a penalty tax.

This obviously is not aimed at the higher income tax brackets, which already are nicked by the "progressive" income tax. It would catch money from self-employed and professional people whose business and earnings might be boosted. It just might catch the aristocrats of organized labor, who are merrily getting their pay boosted in anticipation that after election the Administration will then clamp on price and wage controls, although few hope that such a deal would put wage earners in the position of paying a proportionate cost of the war.

Then, again, an "excess profits tax on individuals" just might be a handy little antidote to those "liberals" who think there is no limit to corporation income taxation.

* * *

There is considerable gossip in industrial circles that when Mr. Truman decides, after finding a Price Director, to apply price controls, that he will find a way under the Defense Production Act to apply these at the raw material and wholesale levels.

It is asserted that DPA does not require the President to impose wage controls unless he applies price controls at the retail level. Thus if he can figure it is legal to apply controls short of the retail levels, he will avoid having to impose wage controls.

* * *

Senators who know the inside of the RFC situation are simply astounded at the President's step of "appointing" to the RFC board three of the five members whose nominations were ignored by the Senate Banking and Currency Committee before the recess. Two of the other nominees were hold-overs, so technically did not need to be reappointed.

When a committee completely ignores an entire slate of nominations for an agency, and the Senators are members of the President's own party, that usually suggests that the Senators see something gravely wrong with the qualifications of those nominees, from the viewpoint of the legislators.

Nevertheless, the President got himself a ruling from the Attorney General that the present recess of Congress was, for appointment purposes, a situation between one session of Congress and another. So he made recess appointments of the three new nominees. And the President was further advised that he need not resubmit the ignored nominations until 40 days after the 82nd Congress, to be elected Nov. 7, meets.

It is a matter of public record that one of the appointees is being sued in Federal Court for usury, and while the Senators do not pass judgment on the issue, they do not feel that Congress should prejudge the suit by confirming him. The RFC sub-committee of the Senate Banking Committee currently is investigating the fact that one of the nominees is a Vice-President of a corporation which is or was in debt to the RFC to a total of $300,000 at the time of his nomination.

Even though Mr. Truman may not plan to resubmit the nominees ignored until the new Congress meets, the Senate Banking Committee is not expected to sit by and let these gentlemen hold office without looking into the situation.

If there is not serious trouble between the committee and the President with substantial embarrassment to the latter, it will only be because the Democrats on the committee decide to be kind to the President. There probably would have to be some good reason for such kindness, such as say, the dropping of these appointees—but fast.

(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

"Don't you have ANY ambition? Frittering away your time in Yale when you could be making a financial success of yourself as a bricklayer or a car washer!"

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made on Sept. 20 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $48,160,000 of 1.65% consolidated debentures dated Oct. 2, 1950, and due July 2, 1951. The issue was placed at par.

The proceeds, together with $7,675,000 cash in treasury, were used to retire $55,835,000 of debentures maturing Oct. 2, 1950.

As of the close of business Oct. 2, 1950, the total amount of debentures outstanding will amount to $557,050,000.

Executives Named To Dinner Committee By Harold Stassen

Appointments to the Wharton School Dinner Committee have been announced by Pres. Harold E. Stassen of the University of Pennsylvania.

Among the members of the banking and financial profession named to the committee are Christopher J. Devine, President, C. J. Devine & Co.; Harold C. Mayer, partner in the firm of Bear, Stearns & Co.; Edward F. McGinley, Vice-President, Chemical Bank & Trust Co.; Miller Moore, Vice-President, The Commercial National Bank & Trust Co. of New York; S. Allen Pippitt, Second Vice-President, Chase National Bank, and Dean J. Wells, Vice-President, Central Hanover Bank & Trust Co.

The dinner, in honor of Bernard F. Gimbel, will be held on Monday, Oct. 30, at the Waldorf-Astoria Hotel.

Leonard Rees With Hugh Johnson & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Leonard M. Rees has become associated with Hugh Johnson & Co., Inc. of Buffalo, N. Y. He was formerly Vice-President of Saunders, Stiver & Co.