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EDITORIAL

As We See It

Before we go off the deep end in this matter of the curtailment of consumer credit, it would be well to pause long enough to be sure what we are doing. The fact of the matter is, of course, that what is known as consumer credit (that is instalment credit, charge accounts, and the like made to individuals who wish to buy some of the ordinary comforts or conveniences of modern life) may or may not *per se* be particularly inflationary in its effect. Certainly it may be less inflationary than some of the other practices which seem to pass unsuspected.

First of all, let it be carefully remembered that the enlargement of consumer credit may not in any way increase the volume of funds which can be brought to bear upon the markets. If directly or indirectly the funds thus placed at the disposal of the consumer are currency or deposits brought into being for this purpose in the process of extension of bank credit, the process is, of course, definitely inflationary in nature. It may well be questioned, however, whether even this lending is more inflationary than that involved when a commercial bank (to say nothing of the Federal Reserve) buys a government bond or other obligation. Indeed it is obvious that one is fully as inflationary as the other, the chief, if not the only, real difference being that the inflationary force may in the first instance be felt in a different market for the most part.

Funds Pass to Public

But, of course, when the government spends the proceeds of such borrowing, the funds pass into the hands of the general public. Purchasing

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Peak Bull Market Is Still to Come!

By KENNETH WARD*
Delafield and Delafield
Members, New York Stock Exchange

In reviewing background and technical position of stock market, Mr. Ward sees, despite contradictory factors in price trends, a continued upward movement. Explains use and limitations of charts in stock market analysis. Foresees undiminished attraction for equities because of inflationary trend, and contends Dow-Jones averages are likely to reach a new high between 235 and 240, though there may be brief setbacks. Lists desirable stocks.

The penalty anyone pays for constantly writing about the market, or in this case forecasting, is that sooner or later he is asked to stick his neck out publicly and express an opinion before an audience. I thank you for the honor and especially for listening.

Recently I felt a little like Daniel Boone when he was asked if he was ever lost in the wilderness. After some hesitation he replied, "No I was never lost, but once I was confused for three days." Who of us during these past few years with such erratic markets and constantly changing news will not admit to confusion at some time or other? I certainly am no exception, for nowhere is pride of opinion more expensive than in the stock market and any opinion I express to you today is with the humbleness that has developed through making many costly mistakes.

My basic hope and motive in forecasting the market is to be on the winning side more often than on the losing side, and in that connection I need and use all the financial tools and yardsticks at my disposal. Let me say at the start that if I happen to be right on any prosnostication I expect no credit or recognition, but expect to be adequately blamed if wrong. I find that the public have the unhappy human faculty of reminding you of all mistakes, even some of those made years ago. I am dividing this talk into three parts: first some brief remarks on market background; second some comments

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*A talk by Mr. Ward before the Association of Customers' Brokers, New York City, Oct. 17, 1950.

Economic Problems of A Defense Economy

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

Maintaining most important economic problem is to accelerate production, Dr. Slichter sees: (1) need for greater technological research; (2) retention of older workers; and (3) higher rate of capital investment. Advocates no ceilings on general prices, but upholds indirect controls as theoretically effective in keeping prices down. Contends, however these controls, under union domination, cannot be applied drastically. Says keeping inequities of inflation to a minimum is a major problem.

I

Where is the economy headed and how will savings institutions be affected by current trends?

The economy is engaged in a production contest with Russia that will last for an indefinite period—perhaps five years, perhaps ten years, or even longer. The quickened contest with Russia is having the immediate effect of causing the United States to raise its expenditures on defense and foreign military aid in the next year to about $30 billion a year—about double the amount planned before the Korean War. Expenditures on defense and military foreign aid will be roughly 11% of the net national product and over 12% of the national income. It is interesting to note that Emanuel Shinwell, British Minister of Defense, speaking before Parliament last summer, estimated that Russia is spending about 13% of her national income on military purposes. No one knows how much will have to be spent on defense and foreign military aid two or three years from now. The projected increase in the armed forces to three million men may turn out to be too small. Fur-

Prof. S. H. Slichter

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*An address by Dr. Slichter before Fall Management Conference of the National Savings and Loan League, New York City, Oct. 16, 1950.

NSTA CONVENTION ISSUE OUT TODAY—Section Two of today's "Chronicle" constitutes an 80-page special supplement devoted to the Annual Convention of the National Security Traders Association at Virginia Beach, Va.

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

H. THEODORE BIRR, JR.
President, First California Co., San Francisco, Calif.
(Bank of America, N. T. & S. A.)

One of the foremost requirements of a good security is assurance of regular income payments. In addition, such a security should, to some degree, afford maintenance of the investor's purchasing power. This is especially requisite these days as the march of inflation leaves its ugly imprint on the economic sands of our time. Viewed in the light of foregoing background, this writer selects the capital stock of Bank of America, N.T. & S.A., as a security suited to the times.


H. T. Birr, Jr.

Here are the facts behind the selection: During the past six years the Bank of America stock has had seven increases in the cash dividend rate in addition to stock dividends of 66⅔% in 1945, 20% in 1949 and a 2-for-1 stock split in 1950.

The cash dividend increases, stock dividends and stock split are the end results of good earning power. The latter, in turn, is a direct reflection of an alert and aggressive management taking advantage of the growth of industry and population in California during the past 15 years—particularly the years since 1940.

It is interesting to note that 100 shares, purchased in January 1940 and producing cash dividend of $240 on an annual basis, would have grown to 400 shares by October 1950 with a current annual cash dividend of $640. Accordingly, the annual income has increased by 166⅔%. What is even more interesting is the fact that the adjusted cost of the shares acquired in 1939, after giving effect to the rights received in 1950, would be $3,400; whereas, the approximate market value of the shares today would be $10,600. The original investment has, therefore, increased by 211.7%.

The conclusion is inescapable, therefore, that the stock of Bank of America is an ideal security at this time for growth and liberal income based upon its past performance.

PAUL O. FREDERICK
Partner, Paul Frederick & Co., New York City
(Puerto Rico Water Resources Authority Elec. Revenue Bonds)

Being a dealer in tax-exempt securities, it is natural that the security I like best would fall in this category. The Puerto Rico Water Resources Authority Electric Revenue Bonds under provisions of the Acts of Congress now in force are exempt from both Federal income and State taxation. Bonds are now offered at yields ranging from 2.25% for 10-year maturities to 2.75% for 30-year maturities. To equal this return, an investor in the 50% tax bracket would have to invest in taxable securities yielding 5.50%. All indications now are that taxes will be even higher so, therefore, tax exemption should be increasingly valuable, and the fact that these bonds are exempt by Act of Congress might be important at some later date.


Paul O. Frederick

The Puerto Rico Water Resources Authority was organized in 1941 by Act of the Puerto Rico Legislature. It owns most of the electrical generating and distributing properties on the Island, serving an area of 3,435 square miles and a population of over 2,200,000 people. The growth and improvement of the economy of Puerto Rico during the past 15 years have been extraordinary and is a story in itself.

As far as the bonds are concerned, they are amply secured by pledge of the revenues of the Water Resources system. Sales have increased from 173,000,000 kilowatt-hours in 1942 to 404,000,000 kilowatt-hours in 1950. Net income has increased from $2,412,000 in 1942 to $5,725,000 for year ending April, 1950. This was better than two times bond charges. The general credit of Puerto Rico is exceptionally good. Neither the government nor any of its 77 municipalities nor any of its agencies has ever defaulted or been delinquent in its obligations. There has never been a foreclosure of a single Federal Housing Authority loan in the Island, and nearly $100,000,000 of such loans are outstanding.

Puerto Rico itself is a part of the United States, and its people are United States citizens. The Island has a long record of stable government and democratic order. While previously the Governor was appointed by the President of the United States, he is now elected by the people of Puerto Rico. The President of the United States appoints the Auditor of Puerto Rico and the Justices of the Supreme Court of Puerto Rico, and a District Federal Judge. Decisions from the local courts may be appealed to the Federal Circuit Court in Boston and, in last resort, to the United States Supreme Court. The Island Legislature is elected by direct vote of the people for four years. All Acts passed by the Legislature are required to be reported to the Congress of the United States, which has reserved the power and authority to annul them; this authority has, however, never been exercised.

Some people have expressed the fear that Puerto Rico will eventually sever its political ties with the United States and, therefore, their obligations will be those of a foreign government. There is little basis for this fear as the association of Puerto Rico with the United States is too beneficial to the Island from an economic view; Puerto Ricans are proud of their United States citizenship.

GEORGE GARFIELD
Partner, Garfield & Co., New York City, Members of New York Stock Exchange and Other Exchanges
(International Silver)

The stock I like best is International Silver because:

In 3 years and 9 months they have paid $26.50 cash dividends. Reasonable probability of maintenance of $6 annual rate. Capitalization small: 364,792 common shares; 200,000 preferred. Preferred pays $1.75, presenting total burden of $350,000. This requires but the skimming of a small amount of cream in an enterprise averaging $60,000,000 annual sales for the last four years.

Good will for products superb (1847 Rogers, Holmes & Edwards, International Sterling brands). Advertising good. Management by men who have a personal identification with the company to a high and admirable degree.

Labor relations among the best in the United States. Almost a paternalism in the relations between the company and the community in which it "lives" (Meriden and Wallingford, Conn.).

Products were classifiable as luxury in prewar era. Rise in standard of living has absorbed them as necessaries. Amazing increase in marriages and births, upsetting all the pat theories of vital statisticians, promises sustained good business for years. Second and third generation Americans are better buying potential than older. "Heirloom" attitude towards tableware supplanted by use and decor attitude.

Potentialities for extension of field of operations substantial.

Progress within company in efficiency of production has been continuous, resulting, among other things, in no rise in prices in almost 10 years, a veritable phenomenon in commodities. The company has no funded debt and has evidently been able to defray the costs of improvements and new plants within its capital framework, obviating borrowing and improving the leverage of the common stock all the time.

Review of the business chart compels the conclusion that though an old company it is still a "growth" situation. Range of net sales in the '30s was from $7.54 million to $17 million; range in the '40s was from $23 million to $68.57 million.

The '50s seem to augur well. Naturally the course of this business is, like any other, tied in with the course of the general national and international economy.

The last few years the domestic company has not even included its Canadian earnings in its state-

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Is the Bull Market Coming to a Pause?

By ALFRED HECHT

Partner of Hecht & Co., Members New York Stock Exchange

Mr. Hecht contends that stock prices will experience a setback. Later a firm base will be established not to be broken for a long time. Says it might take a year for new highs.

The so-called "public," which was cautious during the past bull move, is now a buyer of securities. Businessmen are accumulating inventories of an alarming size, thus driving prices up. Such overconfidence bears in itself the seeds for a technical recession.

Alfred Hecht

This year big inventory profits are created by the present inflationary move, and this in turn might bring on sharply increased taxes and more government intervention plus measures intended to stop runaway markets. The fear of higher taxation in 1951 might bring on heavy profit-taking during the rest of this year in the stock market. It is likely that in many cases 1951 earnings will be substantially lower. This and the combined threat of retroactive excess profit taxes and higher personal income taxes might cause a more conservative dividend policy.

Higher business and personal taxes are in the making. Special profit taxes will pay for part of the rearmament program. Even if the complicated foreign situation should ease somewhat, taxes must be raised. Normal business cannot start until the scare buying done by business since the Korean crisis is absorbed; that buying spree started an artificial boom. Housewives hoarded sugar, coffee, canned goods, nylons and sheets; men bought tires, ordered automobiles, home freezers, refrigerators and washing machines. Many tried to beat stiffer credit terms and are loaded up with debt which delays the normal buying power till Mr. and Mrs. Consumer have caught up again.

This hoarding and advance buying made for an entirely artificial inventory situation and has exhausted much personal and corporate buying power. Our production capacity can amply take care of the implements of war under the preparedness program.

All this does not look like a bull motive on top of an existing boom. The panic buying of last July and August anticipated to a considerable extent the normal seasonal pickup of business generally experienced later in the year. But things get used up, and it will not take too long to absorb these inventories, especially with employment at such high gear, stockpiling, and a busy armament industry.

Stock markets discount good and bad news in advance. If I were allowed to look into the crystal ball, a market bottom will loom in early spring and a double bottom may be attained again in June of next year. During this period security prices should find a firm base not to be broken for a long time. Then the short-lived bear move or normal reaction, whichever you prefer to call it, will be over and the normal growth advance should continue.

Investors who depend on and do not wish to lose their income, might be consoled by the idea that after the excesses are taken care of, normal conditions will rule again. The market has hardly reflected the accumulation of assets by many corporations since 1940, the rehabilitation and improvements of industrial properties which is only beginning to show in increased earnings, and a more liberal dividend policy towards the stockholders. While the short swing speculator and trader wants to take advantage of such technical setbacks, the investor might wait out such a period.

A strong economy and full employment will in time absorb the unwarranted forward buying which has taken place. The necessity for military preparedness and a big standing army will help to keep employment and taxation on a high level. All this carries within itself the elements of prosperity, inflation and — a stock market boom. Maybe someday peace with teeth in it will be established.

It is an old story that people shy away from buying in declining markets and some people will feel when the market advance starts again next year that it is unwarranted, forgetting normal growth conditions. After the impending reaction the highs of the Dow-Jones averages of this year can be expected to be surpassed. It might take a year but it would mark the beginning of a very big bull market. Possibly this market will be based on peace, prosperity, currency inflation, or change of Administration. Nobody can see so far ahead, but when the 1950 highs are eventually surpassed, it surely will mean that the inflationary spiral of the market is on again and the market will ascend to new unprecedented highs.

Whitney Curry Opens

BRADENTOWN, Fla.—Whitney Curry is engaging in a securities business from offices at 224 North 18th Street, West. He was formerly with Tripp & Co.

T. H. Eddy Opens

RENO, Nev.—Thomas H. Eddy is engaging in a securities business.

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Articles and News

MORE ARTICLES IN SECTION TWO

Section Two of today's "Chronicle," devoted to the recent Annual Convention of the National Security Traders Association at Virginia Beach, Va., includes the following articles:

Regular Features

*See Mr. May's article on page 14 in today's Second Section.
**Column not available this week.

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

What's Ahead for Business?

By Q. FORREST WALKER*
Economist, R. H. Macy & Co., Inc.

After reviewing main features of business trends, prominent retail economist predicts, due to momentum of present expansion, business will be good during balance of year, but may experience intermediate slackening in first quarter of 1951. Holds sharp rise in prices since Korean hostilities, though disturbing, may be partially curbed, and if our economic affairs are managed properly, no dangerous inflation appears likely in foreseeable future. Looks for some shortages, but says defense expenditures will not exceed 10% of gross national product.

Under present conditions, sound appraisal of the business outlook is exceptionally difficult. Complex political, psychological and economic forces are now shaping the future trend of business. We cannot now assess the combined effect of these forces with any great degree of assurance. The mass hysteria which developed so quickly after the Korean landings has been followed by deepening doubts about the longer future. We have been exposed to a deluge of private and official opinion about business prospects. Much of this opinion has been of a highly emotive character. It has contributed substantially to our fears and anxieties. The initial shock still lingers and our perspective is dimmed. It is not easy to maintain an objective point of view. We know that purely random factors may upset the most carefully considered business judgments. But businessmen must make judgments and somewhere between the extremes of current opinion we must find a prudent course.

Q. Forrest Walker

To analyze business prospects, we must make certain assumptions. For purposes of this discussion, it has been assumed: that there will not be a World War III; that the grand strategy of our enemies will be to pursue, with patience and cunning, various tactics designed to undermine our strength at home and abroad; and that we will have the wisdom to plan and execute effective counter-offensives without destroying our basic freedoms, or the primary sources of our great moral and economic strength. It is further assumed that the direct monetary outlay for this program will not greatly exceed the projected annual rate of $30 billion by June 1951. Until our defense plans are more definitely matured, nothing more than a qualified, short-range judgment can be attempted.

Main Features of Business Trend

It is desirable to review briefly some of the main features of the general business trend prior to the opening of hostilities in Korea. Revival started in the mid-summer of 1949. In July of that year, the Federal Reserve index of industrial production was 163, the lowest monthly figure since February 1946. Eleven months later, this index was about 21% higher. During the first half of 1950, and particularly in the second quarter, the revival rapidly picked up momentum, due principally to phenomenal increases in new construction and automobile output. From January to July 15 (on de-seasonalized basis), personal income payments, supplemented by the veterans' insurance dividend, increased moderately; retail sales including automobiles rose about 8%; department store sales advanced about 6%; and wholesale prices advanced about 4%.

Several months before the outbreak of Korean hostilities, many business observers were disturbed about the general character of this revival, particularly the lavish use of credit to finance residential building and the rising total of consumer credit used to purchase automobiles, television sets, appliances and other goods. There was growing doubt about our ability to maintain the then current rates of expansion for any protracted period. The average citizen, riding around in a newly acquired automobile, could personally view the residential boom. It was tangible evidence of the business prosperity he heard about on the radio or read about in the newspapers. If there were scattered signs of pending readjustments to more normal levels, they were not ordinarily deemed very significant. Then came Korea and the expansion received a fresh impetus.

Hysterical Buying

What has happened since June 24, 1950, is now familiar history and typical of all such periods. Frightened consumers rushed out to buy items which were in short supply in World War II. For the four weeks ended July 1, 1950, department store sales were about 5% greater than in the corresponding period of 1949, and in the succeeding four weeks, the gain was 30%. Thereafter, the rate of increase slowed down; and the most recent four-week period shows a gain of 10%. To replace depleted stocks, merchants bought heavily and outstanding orders rose sharply. Similarly, manufacturers of hard and soft consumer goods and capital equipment hurried to rebuild their inventories. Backlogs for raw materials, semi-finished and finished goods mounted rapidly. Our production index rose, and, in September, it was at the highest level since the mid-summer of 1945. During the third quarter, automobile production and new construction continued at a record-breaking pace.

Prices of sensitive raw materials scored large advances, but lately have eased moderately. The BLS index of wholesale prices is now about 7.8% higher than on June 20, 1950. From June 15 to Aug. 15, the consumer price index advanced 1.6%.

Passage of the Defense Production Act of 1950 armed the President with broad powers to invoke such economic controls as may be deemed necessary to meet present and future needs. Inventory control has been established over a list of critical materials; steps have been taken to ensure priority of defense orders; Regulation W has been reinvoked to curb instalment buying. Some restraints on real estate credit have been approved and others are in the making. Efforts are being made to curtail the speculative use of bank credit. Congress has acted promptly to pass a new tax bill; but, in the face of a great national emergency, it has showed no comparable zeal to eliminate unnecessary public spending, reduce or postpone other non-defense expenditures and divert these billions to urgent defense needs.

In an endeavor to look ahead, prospective defense expenditures command first attention. Congress has more than doubled defense appropriations; but we are told that defense spending may not reach a $30 billion annual rate before next June. If this estimate proves to be correct, perhaps we cannot expect much more than a $6 to $8 billion increase in direct defense outlays during the balance of fiscal 1951. Very probably, the main impact of increased defense spending will come in the second quarter of 1951. It now appears likely that the Federal cash budget will show a large surplus in the first quarter of 1951 and we may possibly still be in the black next June.

National Income Increase May Be Moderate

When we consider the magnitude of the tax bite and the prospective increase in defense expenditures, the net addition to the income stream may be less than we have generally expected. Natural corrective forces, supplemented by credit controls, suggest the early return of more normal rates of automobile production and new residential construction. The momentum of the present expansion indicates that business will be good during the balance of the year, but we may experience some intermediate slackening in the rate of business activity during the first quarter of 1951. It is important to remember that we are not now confronted with the situation we had in 1940 when the official statistics showed about 8,000,000 unemployed and production was some 35% less than it is at the present time. In physical terms, expansion possibilities appear more limited.

The sharp rise in commodity prices since the beginning of Korean hostilities is deeply disturbing. Very probably, many of these extreme advances will be corrected, but somewhat higher prices than prevailed before Korea will doubtless persist for a considerable period. If we manage our economic affairs properly, no dangerous inflation appears likely in the foreseeable future. As yet, there has been no real test of acceptability of the higher prices that must be asked when low-cost stocks are worked off and current costs are reflected in selling prices. We may expect that customer resistance will be keen and buying highly selective. Many producers and distributors are likely to find that they have bought too much and paid prices that are too high for profitable conversion and resale.

It is particularly encouraging to note the increased emphasis which is now being given to monetary and credit measures to restrain expansion. The current issue of the Federal Reserve Bulletin contains a brilliant article of this problem. This study comments on price and ration controls as follows:

"It is relevant to note, however, that an adequate mechanism for such a set of controls does not now exist. Even if the establishment of an adequate mechanism could be accomplished within a reasonable period of time, I do not believe that direct controls are the present answer to our immediate inflation problem. They deal only with effects and not with basic causes. The basic cause of our inflationary problem is continuing rapid credit and monetary expansion, abetted by current government deficits which threaten to grow larger and larger.

"Some people look upon direct controls as a practically painless way of meeting the emergency financial problem. No more serious error could be made. There is no painless way of controlling inflationary pressures. Either we meet them head on and overcome them or we wage a losing rear guard action against them. If the fuel of inflation is provided, all that direct controls can do is to drive the inflationary pressures under ground and to postpone some of their effect.

"Therefore, even if direct controls eventually become necessary, broad basic monetary and fiscal measures will be essential to make them effective. . . ."[1]

Will Experience Some Shortages

On the physical side, present defense plans appear unlikely to reduce the normal supply of civilian goods very substantially over the near future. There will be particular shortages here and there, but, by usual standards, the aggregate supply of civilian goods will remain very large. In monetary terms, defense expenditures will probably not reach an annual rate of 10% of our gross national product until toward the middle of next year.

Moreover, consumers are now well stocked, heavily in debt for recent purchases and supernumerary income appears to have been somewhat reduced. If we can trust the figures, liquid assets in private hands are still very large; but these resources will doubtless be handled more prudently than they have been in the very recent past.

Retail sales normally move in relation to changes in disposable personal income. On this basis, a very conservative guess for the fourth quarter would be an increase of about 7 to 8% in department store sales. Some forecasters foresee much larger increases. For the first half of 1951, the gains in disposable income are likely to be moderate and sales may show only small gains compared with the same period in 1950. The retail trades will probably do better in the second quarter than in the first quarter.

In summary, then, and subject to the assumptions we have made, general business should continue good during the balance of this year, ease moderately in the first quarter of 1951 and pick up a little in the second quarter. Prices should decline somewhat as current distortions are corrected, but they will probably average moderately higher than prior to Korea. Credit controls should ease current inflationary pressures. Retail trade should register a substantial gain in the last quarter, slacken moderately in the first quarter of 1951 and improve a little in the second quarter of 1951.

*Remarks of Mr. Walker at the Panel Discussion of the Boston Conference on Distribution, Boston, Mass., Oct. 17, 1950.

1 M. S. Szymczak: "Monetary Policy in a Free Economy," *Federal Reserve Bulletin*, Sept. 1950, p. 1116.

Howard Buffett Runs For U. S. Congress

Howard Buffett

OMAHA, Neb.—Howard Buffett, President of Buffett & Co., is running for Congress on the Republican ticket.

R. S. Dickson Adds

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Walter L. Hogan, Jr. has been added to the staff of R. S. Dickson & Company, Inc., Wilder Building.

Joins Blyth Staff

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg.—Reuben D. Getz is now with Blyth & Co., Inc., Pacific Building.

The State of Trade and Industry

Nation-wide industrial production held to the postwar high level of the week before. Steel output continued to rise last week, having attained another all-time high record in the industry's long history, and it is scheduled the present week to surpass it.

A slight recession in automotive production occurred the past week, but Ward's Automotive Reports state that most auto makers have assured themselves of sufficient steel to continue unhindered operation for the remainder of the year, with only two producers suffering from acute shortages of the metal.

Further steps were taken last Friday by the Federal Reserve Board to tighten instalment credit restrictions imposed on Sept. 18. These new credit curbs went into effect on Monday of this week and were accompanied by protests of businessmen against the government's action. Chairman McCabe explained the action by saying it was taken because "underlying inflationary forces are unabated."

Maury L. Nee, Chairman of the Department of Commerce's Retail Industry Advisory Committee, said the Federal Reserve Board, which on Friday announced a stiffening of its consumer credit control Regulation W, "showed an amazing lack of judgment in view of facts as they exist in retail business today." Fred O. Haller, President of the National Automobile Dealers Association, asked the board to rescind its new regulation on autos because car sales "are already suffering severe curtailment as a result of previous Regulation W terms."

Under the stiffened instalment buying regulation, the minimum down payment on automobiles will remain at 33⅓%, but the balance will have to be paid off in 15 months instead of 21 months. The down payment on television sets, radios and major household appliances will be increased from 15% to 25% and the payoff time cut from 18 months to 15. The down payment on furniture will be boosted from 10% to 15% and the payoff limit slashed from 18 months to 15.

With respect to the steel wage situation, an early increase in steel wages is predicted by the magazine "Steel." The metal-working weekly says a rise in steel prices will follow hard on the heels of increased wages. The United Steelworkers will get a substantial wage boost although it will be considerably less than the 25 cents an hour that its leaders are said to be asking for bargaining purposes. The magazine says the union will be happy to settle for 15 cents an hour, or slightly less than 10% of present hourly earnings. Under today's conditions, the magazine states, the producers are not going to haggle too long over the amount of wage boosts. If the union is at all reasonable, an early settlement is likely.

However, says "Steel," all producers agree that a price increase on steel products is bound to follow the wage increase, adding a 10% wage boost would cost producers close to $250,000,000 a year.

On Monday of this week, during a three-hour session with CIO steelworkers and officials of the United States Steel Corp., Philip Murray, union head, in his own words asked for a "healthy and substantial" wage increase. John A. Stephens, Vice-President of United States Steel, who led his delegation, made the comment that "we got their proposals and were coming back on Oct. 27 to talk about them." Negotiations were recessed until Oct. 27, a few days before the Nov. 1 date when talks could have started under the steel-union contract. They started in advance of the contract date at the union's request.

Of interest to shareholders and the public alike is the news that dividend disbursements thus far this year are averaging approximately 8% above the payments of 1949. With the year-end close at hand in which heavy final declarations are made, the prospects appear reasonably certain that total stockholders' payments this year will be lifted to the highest level on record.

A current release from the U. S. Department of Labor reveals that non-farm employment in mid-September reached the highest level in United States history with the probability of higher levels

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Building Outlook and Loanable Funds

By AUGUST IHLEFELD*
President, Savings Banks Trust Company

Mr. Ihlefeld foresees reduced supply of new mortgages as result of recent curbs on mortgage credits. Holds mortgage investments, because of higher income yields are more desirable for thrift institutions and urges savings banks to step up mortgage lending. Advocates widening geographical areas for mortgage investments for savings banks as well as permission to savings banks to make joint loans on large structures.

Stimulation of home building was a primary objective of the Government's economic policy before the outbreak of the Korean war. A record volume of residential construction was sought, both to improve living standards and to assure full employment and prosperity.

August Ihlefeld

The chief stimulus used to achieve this objective was the whittling down of cash and regular amortization payments required of home buyers. Under the FHA insured mortgage program, low-priced small homes could be bought with a down payment of only 5%. Under the VA guarantee program, it was possible to finance the purchase of a small home without any initial cash payment whatever. In the case of multifamily properties lowering of interest rates and lengthening of the mortgage term were the stimulants applied.

This policy of reducing or eliminating the cash down payment and spreading amortization over an increasingly long period of years was outstandingly successful in stimulating residential construction. In the first eight months of this year, 988,000 new dwelling units were started in the United States. This was an annual rate of almost 1,500,000 dwellings, nearly 50% more than the previous high record reached in 1949.

A Decline in Building Sought

The Korean war, and the large-scale rearmament program to which it has given rise, have brought about a reversal of the Government's policy towards residential construction. A substantial decline in the volume of residential construction is now sought, to lessen demand for materials and labor in this field. Such a cut in new home building is scheduled to play an important part in combating inflation during a period of greatly expanded armament expenditures.

The chief curbs that are being used to reduce new home building are increases in the cash down payments required, a shortening of maximum maturities, and the setting of minimum amortization requirements for new building. The Board of Governors of the Federal Reserve System has already established restrictions applicable to 1 and 2 family homes, effective Oct. 12. Regulation X specifies minimum cash down payments ranging from 5% to 50% and limits the term of mortgages to 20 and 25 years for one and two family houses commenced after Aug. 3.

Larger cash down payments required on insured and guaranteed mortgages since July 19 by the VA and FHA, and other steps taken to tighten mortgage lending, did not reduce the volume of new construction immediately. The Bureau of Labor Statistics reports that 141,000 new dwelling units were started in August, which was very close to the record rate of the preceding three months. But this is not surprising, considering that the higher down payment and other requirements applied only to mortgage loans covered by applications received on and after the specified dates. Large backlogs of applications and pending loans were not affected.

A time lag occurs, therefore, between the increase in required down payments and other steps taken to tighten mortgage lending terms and achievement of the desired reduction in the volume of home building. However, applications for VA guarantees and FHA insurance of home mortgages did decline sharply in September, and it is generally anticipated that we shall see a substantial drop in new residential building in the period ahead. The decline may be intensified by higher prices for building materials and by uncertainties as to the ability to get all needed supplies and equipment on time to avoid costly delays in completing building projects.

A decline in the volume of new construction, and consequently in the supply of new mortgages that will be available to thrift institutions, is in prospect. The various governmental authorities are in position to force such a decline later, even if steps taken so far should prove inadequate. Under the regulation of real estate construction credit authorized by the Defense Production Act of 1950, down payments can be increased still further and other provisions of mortgage loans tightened so as to restrict new building more, should the current regulations fail to produce the results desired by the Federal Reserve authorities. It has been suggested that 800,000 to 850,000 dwelling units should be the maximum annual rate, while rearmament proceeds at the expected pace.

A Diminishing Mortgage Supply

A decline in the volume of new mortgages that will become available to financial institutions is inevitable with any such contraction in building activity.

In the first six months of this year, the supply of new mortgages was of unprecedented proportions. The Federal Reserve Board estimates there was a net increase in the first half of the current calendar year of almost $3 billion in the mortgage debt outstanding on 1-4-family homes. This compared with an increase in such debt for the full year 1949 of $3.7 billion.

A smaller mortgage supply will reflect both a decline in the volume of new residential building that the restrictions will bring about and the larger down payments required on the homes that will be built. There is also a possibility that the high level of production and employment and of personal incomes may swell mortgage amortization payments and payoffs to some extent.

Thrift institutions have looked to real estate mortgages as their major investment outlet so far this year. In the first half of 1950, life insurance companies, mutual savings banks, savings and loan associations and commercial banks all together have increased their mortgage portfolios by $3.8 billion. This absorbed a large part of the new investment funds available.

Mutual savings banks alone accounted for $887 million of the net increase in mortgage loans during the first eight months of 1950. Since deposits in the mutual savings banks of the country rose by $570 million during this period, obviously mortgages have provided an outlet for more than the entire deposit gain.

Despite the flurry of withdrawals from savings accounts that accompanied the summer scare buying wave, it is quite likely that the upward trend in resources of savings institutions will be resumed. For one thing, personal incomes are considerably greater, even after allowing for higher taxes. Secondly, some consumers goods may be in reduced supply, and the new consumer credit curbs now in effect may discourage buying of costly durable items. True, some savers will withdraw more funds to make the higher required down payments

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*An address by Mr. Ihlefeld before the Annual Convention of the Savings Banks' Association of Connecticut, Whitefield, New Hampshire, Oct. 16, 1950.

Pros and Cons of Direct Placement

By FRAZAR B. WILDE*

President, Connecticut General Life Insurance Company

After tracing trend toward greater private placement of corporate bonds, life insurance executive holds test of its advantages will come in next serious business depression. Cites current advantages and disadvantages of direct borrowing, and contends continued upward trend of private placement will injure present investment machinery and be extremely harmful to the economy. Points our direct placement gives some encouragement to over-borrowing by corporations, and estimates in 1949, twenty-two life insurance companies purchased directly about three-fourths of corporate bonds issued.

The subject of direct placement of securities is not new to this audience. Several presentations have been made by previous speakers who have addressed this group. Literature in the financial field and in other areas has developed numerous points of view concerning this relatively new system of raising capital funds.

Talking about this new method can justify our time and attention today only because it has grown to such large proportions. Within the last 15 years this system of channeling capital funds from lenders to borrowers without use of the traditional mechanism of the market place has developed from transactions involving a few hundred millions to present annual aggregates exceeding $2 billion.

Most direct placement financing has been developed with the cooperation of life insurance companies. This naturally has raised questions from institutions and individuals who have not been participants. This group includes the other types of insurance companies, college endowments, hospitals, trust departments of banks, pension funds, etc., but it also includes a most important segment of the life insurance industry itself—the smaller companies. It is a fact that the overwhelming bulk of direct purchases, in dollar volume, has been made by the big companies.

Another group that is vitally concerned is the investment banking fraternity. While many direct sales are negotiated through investment bankers, that business as a whole has lost considerable ground as a distributor of securities. Naturally, then, the investment bankers wonder what the end result will be for their business.

While it is difficult to be impartial in discussing direct placements, this paper will attempt to treat the subject objectively. We shall not try to place any final evaluation upon it. We do propose to highlight briefly some of the results which have flowed from this new method of finance and to present arguments which have been offered in support of the practice and in criticism of it.

The Growth of Direct Placements

It has been estimated[1] that between 1900 and 1933 about $1 billion of corporate bonds out of a total of nearly $37 billion were distributed by direct placement. This is about 3% of the total. Since 1934, however, there have been only two years in which the proportion placed directly fell below 20% (see Table I) and for 1948 and 1949 the proportion was over 50%.

Many explanations have been offered for the phenomenal increase in popularity of direct placements. Two reasons seem the most important to mention here. One is the enactment of the Securities Act in 1933. There can be little doubt that the registration procedure with its elaborate requirements of audited figures and complete disclosures made a very bad impression on corporate treasurers and boards of directors. The cost of compliance with the registration procedure, when added to the charge the investment banker had to impose for distribution and the further problem of delay and of timing the sale of securities, made many corporations unwilling to register, and they sought other methods of raising funds.[2]

It is doubtful whether registration is currently a serious deterrent to public offerings and it may even be questioned whether such an attitude on the part of businessmen ever was justified, but this is not the point. The fact is that they went in another direction and developed the direct placement route. This method, in contrast with SEC registration and public offering, was so simple that corporate treasurers were delighted. With what appeared to them to be a minimum of red tape, legal hazard, expense and delay, they could deal with one agent or one company and close the transaction without regard to the hazards of marketing an issue at a certain price on a certain day.

The other principal reason for the growth of direct placements is the change which took place in the demand for high-grade corporate bonds and the supply of them available.[3] At the end of 1930 the admitted assets of all life insurance companies were about $18.9 billion, as compared with long-term corporate debt outstanding of $51.1 billion. By the end of 1948 the debt figure had dropped to $49.6 billion, while life insurance company assets had jumped to $55.5 billion, or $6 billion more than the total amount of such outstanding indebtedness. Thus the supply of high-grade corporate bonds available to the life companies, in relation to their assets, suffered a very sizable diminution. The resulting seller's market meant that issuers of high-grade corporate bonds no longer needed to reach the small investors in order to sell their securities; the large institutions would take virtually all they could get; and the distributive services of investment bankers seemed to be unnecessary. Hence the increased popularity of the direct placement.

While of these two reasons for the growth of the device should be given the greater weight probably is not too important. What is important is the impact of the phenomenon on various segments of the economy.

Impact on the Issuer

Certainly to the issuer the economy, simplicity and speed of direct placement are most important factors. Underwriting commissions are eliminated completely, although in many instances a fee is paid to an investment banker or some other agent for his advice and for bringing the parties together. The cost of registration, which includes not only the registration fee but the fees of attorneys, accountants and others and substantial printing expense, is avoided. Other economies arise during the life of the issue: trustees' fees may be lower; there is not necessity for listing on the stock exchanges; transfers and exchanges and the publication of redemption notices are practically eliminated.

SEC registration is not only expensive; it is cumbersome and time-consuming. The waiting period between the time the statement is filed and the date it becomes effective, when coupled, as it sometimes is, with a market clause in the underwriting commitment, places the issuer at the mercy of adverse changes in market conditions. In the direct placement, the issuer deals directly with a single buyer, or at most a very small group, and can obtain a final decision in short order. The lending institution has no reason to condition its commitment on the behavior of the market because, unlike the investment banker, it expects to hold the issue to maturity.

The direct placement offers a flexibility that is very attractive. The terms of the deal and the provisions of the indenture are subjects of direct negotiation between borrower and lender and can be tailor-made to fit the circumstances. If at a later date an emergency or unforeseen conditions warrant a modification of the covenants, the issuer will have the advantage of dealing with a financially experienced investor whose self-interest can be counted upon to promote expeditious treatment and an equitable agreement. On the other hand, the difficulties in obtaining consents from scattered holders of publicly distributed securities are common knowledge.

The borrower may also be attracted by the opportunity the direct sale offers to avoid public

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*A paper presented by Mr. Wilde at the Financial Section of the American Life Convention, Chicago, Ill., Oct. 6, 1950.

1 Fraine, *Direct Sale of Security Issues*, 16 Jour. of Amer. Assoc. of Univ. Teachers of Insurance, No. 1, p. 40 (Mar. 1949).

2 See Reeves, *Slamming the Door on the Small Investor*, Nation's Business, Nov. 1940, p. 17.

3 Professor Fraine (see note 1, *supra*) has contended that this was the chief reason for the rise in private placements. The statistical comparisons in this paragraph are taken from his paper but more recent figures have been substituted. Debt figures are from the 1950 World Almanac and life insurance company assets from the 1950 Life Insurance Fact Book.

TABLE I

Corporate Bonds* Placed Directly and Offered Publicly, 1934-1949

(Millions of Dollars)

Year—	All Bond Offerings	Placed Directly	Offered Publicly	Percent Placed Directly
1934	372	92	280	24.7
1935	2,225	385	1,840	17.3
1936	4,029	369	3,660	9.2
1937	1,618	327	1,291	20.2
1938	2,044	691	1,353	33.8
1939	1,979	703	1,276	35.5
1940	2,386	758	1,628	31.8
1941	2,389	811	1,578	33.9
1942	917	411	506	44.8
1943	990	369	621	37.3
1944	2,670	778	1,892	29.1
1945	4,855	1,004	3,851	20.7
1946	4,882	1,863	3,019	38.2
1947	5,036	2,147	2,889	42.6
1948	5,973	3,008	2,965	50.4
1949	4,890	2,453	2,437	50.2

*Bonds, notes and debentures.

Source: Financial Analysis Section, SEC.

From Washington Ahead of the News

By CARLISLE BARGERON

There is no subtlety in the Dewey-Stassen-Eisenhower play and it should occasion little surprise. The only surprise is in the timing.

Ever since Governor Dewey was pulled back into the New York gubernatorial race the understanding has been in Washington political circles that the purpose was not to run him again for the Presidency but to use him to head off Taft.

Carlisle Bargeron

The thought in these same political circles was that he would come to the Republican Convention in 1952 as a candidate for the nomination but with the purpose of deadlocking the Convention and bringing about Eisenhower's draft. This machinery would have obviated the necessity of the General's declaring himself or discussing the matter at all in the intervening two years. Now, he seems to have been pitched headlong into the arena and pre-Convention politics, for the next two years, will center around him.

The strategy which I have discussed depended, of course, upon Taft's winning his fight for reelection in Ohio next month and in such a way as to make him again a Presidential contender. A telling argument against him has long been that "Oh, undoubtedly he is the ablest man in the Senate, genuine and of undoubted integrity, but he is not a vote-getter."

His Ohio race should answer that question once and for all. Ohio is a composite of the country as a whole; all of the elements which figure in a national election are present in the State's Senatorial campaign. The State is highly industrialized, the CIO has as much power there as anywhere else; Ohio has all the racial and minority groups of any other State, it has the agricultural group. So there could not be a better testing ground.

This writer has just returned from a week's visit out there, part of which time I travelled with the Senator as he toured through the autumn countryside. During the trip, I sought to learn from people who should know, what the outcome will be, and also engaged in some sampling of voters.

It is my conviction that he will win easily, by more than 100,000. Some of his closest advisers, men who keep their feet on the ground and who are not accustomed to day dreaming, think his majority may run over 200,000. There is none of the pessimism among his entourage, none of the uneasiness which is felt by his well wishers in the East. I may be wrong, they may be wrong, but this is the most honest report I can give.

Jumping Joe Ferguson, Taft's opponent, is not making the campaign that was expected of him. His success in the past, one that gave him the reputation as an unbeatable vote-getter, rests upon his unpretentiousness, his getting around and shaking hands and kissing babies. He made no pretense of discussing issues.

But in this campaign, the CIO has taken over his campaign lock, stock and barrel and they are trying to take him out of character and put him up on a high statesmanlike plane. After all, he isn't running for auditor now. They write speeches for him which he doesn't understand and it seemed to be generally apparent when I was out there, that the people know he doesn't understand them. As the principal speech writer, the CIO has employed Charlie West, who was in Congress in the early New Deal and permitted himself to be prevailed upon to run for the Senate against Honest Vic Donahey.

When Honest Vic washed him up, Roosevelt gave him a job in Harold Ickes' Interior Department. Ickes summarily dismissed him and Roosevelt tried to place him elsewhere. He didn't seem to fit in and presently he disappeared from the Washington scene, a casualty, a lot of us felt, to the backbiting that characterizes the Washington gang. Seemingly, he has been working for the CIO ever since, giving, as an ex-college professor, some polish to its guttural voice.

Anyway, Jumping Joe under these auspices, has not been averaging more than three speeches a week and he gives the impression of having lost heart in his work.

So let's assume Taft is coming through handsomely in his fight. It means that the Eisenhower promoters have got to reckon with him in 1952. This does not mean he will seek the nomination himself. He has said, in fact, that he will not be a candidate and there is no doubt of his sincerity on this. In 1940 he spent his own money and worked hard only to deadlock with Dewey and have the nomination go to Willkie. In 1948 he went after the nomination again only to have Dewey fairly walk away with it. But his attitude does not preclude his friends organizing a campaign for him and doing their darndest. And if he proves in Ohio that he is a vote-getter, you can rest assured that Middle Western and Southern delegations will tumble to his banner like duck-pins, so that regardless of whether he is the Presidential nominee or not, his voice will have to be harkened to.

In this situation, the pre-Convention fight of the next two years would have been between him and Dewey. Now it would seem, quite clearly, that it is between him and Eisenhower. It does not look, therefore, as if Dewey and Stassen have done the General a good turn by jumping to him so soon. The General, in fact, might well ponder a statement once made by Sherman. Elaborating upon his famous refusal to run for the Presidency in 1884, he wrote to a relative:

"If I ran for President I'd wake up some morning and find all over the newspapers that I'd poisoned my grandmother. Now you know I never saw my mother's mother, but the newspapers would say I killed her and prove it."

The Prospects for American Industry

By ADMIRAL BEN MOREELL*

President, Jones & Laughlin Steel Corporation

Steel leader, ascribing America's industrial progress to "favorable climate" and urge of free, fair and dynamic economy, maintains in Britain intervention of government to protect faltering industries destroyed competitive urge, and resulted in inability to compete in world markets. Sees as cloud in our outlook: (1) inadequate replacements; and (2) insufficient prices to cover replacements and higher costs. Defends steel industry's pricing policies.

To appraise the prospects for American industry, we should look at the past to determine, if we can, what has been accomplished and the reasons for it. It is no secret that the American Industrial structure is the wonder and envy of the world. Starting from scratch, with an almost complete agricultural economy, we have, during the past hundred years, become an industrial giant. With one-sixteenth of the world's people and an even smaller proportion of the labor force, the United States produces well over one-third of the world's goods.

Ben Moreell

What governing factors made this possible and to what extent are those factors still present? More important: What is the prospect that those factors will continue into the future?

It has been said that we have been blessed with great natural resources and this, in itself, would account for our progress. But there are many parts of the world which are more richly endowed than we are. Our people, I believe, have no more innate intelligence than the people of the countries whence they came. Nor do we work harder. Many other peoples work longer hours and expend more human energy than we do.

I believe there is a basic factor which largely accounts for the superior industrial progress and well being of our people. It is difficult to define it precisely. I think of it as a "philosophy of living"; or, what might be called "the things we believe in."

We have had in this country a "climate" which is conducive to progress. By climate I do not mean the weather. I refer to those conditions of human relationship which promote maximum progress of our economic and social institutions. Here in America we have believed that the individual should have full freedom to pursue his own life in his own way, consistent with a similar freedom for every other individual. We believed, too, that the individual must be responsible, for better or for worse, for the effects of his own decisions and his own acts.

The establishment of this climate was no accident. The record is clear that most of the people who came to this country in the early days did so to escape the coercions and restraints on their freedoms which existed in their mother countries. And the record is equally clear that when the founding fathers established our government they did so with clear intent and to take advantage of the great power to achieve which lies in each individual and becomes active when he is allowed free exercise of his God-given gifts.

*An address by Admiral Moreell before the Regional Technical Meeting of the American Industrial Steel Institute, Pittsburgh, Pa., Oct. 11, 1950.

The founders of our government were known as "liberals." What kind of liberalism did Washington, Jefferson, Madison, Franklin and their colleagues believe in? There have been many attempts to define it. Often, in recent times, we find the definition adapted to meet the political needs of the moment, as, for example, when modern proponents of centralized state power refer to themselves as "Jeffersonian Democrats." I believe the essence of the philosophy of our founders is best conveyed by the statement of Thomas Jefferson: "That government governs best that governs least." They believed that the individual had the strength of character to guide him to honorable conduct and that his moral fibre would grow stronger, more resilient and more durable if he were permitted to exercise it under a condition of maximum personal liberty. The essential factors for maximum growth were considered to be individual liberty with corresponding individual responsibility.

Under this concept each person had the right to be protected in his life, his liberty and his possessions. And so, to do this most effectively he banded together with others to organize and support a common force to protect those rights. This common force they called "government." And, except for certain limited functions intended to benefit everyone equally, they limited government to this basic purpose.

It follows, then, that in a free society the power of government is a provisional trust granted by the individual, and is revocable at will. It follows, too, that representative and responsible government is the creature of the people. Its powers should be limited basically to those which it must have to fulfill its basic mission.

Our Government, a Preventive Mechanism

Our founding fathers looked upon government essentially as a preventive mechanism, i. e., a mechanism to *prevent interference* with the liberties of the individual by any other individual or group.

Coincident with individual freedom and responsible government, we established the practice of free competition in industry. In this respect our economy, with its aversion to cartels and monopolies, differs markedly from the economies of most other countries. There have been abuses, of course; but the general pattern of American industry was that of a free field and no favors. The fact that, by and large, our system has been successful is attested by the great growth of individual business enterprises and the facility with which anyone could enter a new business.

As a result of this favorable climate, the innate talents of many individuals with ambition, resourcefulness, inventive genius and ingenuity have been released. We have been able to multiply man's productivity by the utilization of machines, with the result that our citizens not only have more, but they are called upon to exert less energy to produce it.

The urge of free and fair competition has made us willing to scrap old machines before they have lived out their useful lives, to introduce new methods and processes and to go into new fields. We were able to establish a vigorous, dynamic industrial economy, which worked to the social advantage of all of our people.

The Case of Britain

One wonders what would have been the result if we did not have this individual freedom to venture and to risk in a free competitive economy on a basis of individual responsibility. Perhaps it will be profitable to examine what has happened in Great Britain.

At the turn of the century Britain was a great industrial giant. The output of her factories was carried to the far corners of the earth in British bottoms, financed by British banks and insured by British underwriters. But even before World War I, England began to slip. The economic devastation of two world wars and the human losses contributed greatly to the industrial decay. But the failure to recover from these blows was due to the decline in the spirit of enterprise, accompanied by the restrictive policies of labor, management and government.

British industrial management has been prone to seek the assistance of government in dividing up the market, holding up prices and "holding an umbrella" over the least efficient. The London "Economist" in October, 1945, stated:

"British industrialists, with a few notable exceptions, have never been 're-equipment minded.' The general attitude towards plant replacement before the war was to scrap a machine only when it could no longer do the job for which it was originally designed. Only rarely was the question asked whether a new machine could do the job better and more economically than an existing one; or whether a new plant layout involving, say, two new machines instead of three, would do the job more economically."

The most plausible explanation for this lack of British response to developing technology, notwithstanding British eminence in the natural sciences, was given by the British economist, Professor John Jewkes, in an article entitled "Is British Industry Inefficient?", when he says: "It is true that some industries lagged behind in dealing with their problems but in the main they were industries which were seduced by government, Labor and Conservative alike, to meet their difficulties by restriction of output and the maintenance of the inefficient."

A more popular version of the same explanation is found in the London "Economist" editorial entitled "The Carrot and the Stick," published in June, 1946:

"The human donkey requires either a carrot in front or a stick behind to goad it into activity. . . . The whole drift of British society for two generations past has been to whittle away both at the carrot and the stick, until now very little of either is left. It is the passion for equality—excellent in itself—that has removed the carrot. The rewards of success have not merely been shrivelled, they have been poisoned, since commercial success itself has been turned, in the eyes of wide circles of society, into a positive disgrace. There is a conspiracy of labor, capital and the state to deny enterprise its reward. . . .

"The process of removing both the carrot and the stick has culminated in the extraordinary circumstances of today. Shrunken as were the incentives and sanctions of prewar days, they have now, for the time being, vanished completely. Nobody gains anything from activity or suffers anything from inactivity. There is hardly a flavor of carrot or a shadow of the stick. And yet we wonder why the donkey does not break into a trot. . . .

"In 1939 it was an extreme rarity to find a manufacturing industry where anything approaching genuine competition prevailed, where no control was exercised over either prices or the scale of production or the conditions of sale — and such exceptions as existed before the war will be bound to have disappeared at its end. . . .

"The British businessman has in the last quarter-century found ways and means of removing the stick from his back. The growth of trade associations, or price-fixing and market-sharing devices—the whole apparatus of protection, in fact—is inspired by nothing so much as by the desire to prevent the bankruptcy of the inefficient—even if, thereby, the progress of the efficient is also impeded."

A recent report by an American correspondent on the nationalization of the British steel industry states:

"The British steel industry is reasonably efficient by European standards. There's another thing people in America overlook: The government has really had a hand in the steel industry ever since the depression of the thirties. The British steel industry cried for help back around 1931 or 1932. They asked for a big tariff on other people's steel. In return, they let the government in the business as a partner. It all goes back to a fundamental point. The British are more concerned about dividing up the market than they are about 'new markets'."

Use of Power of Taxation

The intervention of government to protect faltering industries destroyed the competitive urge. Government protection to one group of citizens can be granted only at the expense of another group, and in order to do it, government must exercise force. It must use the power of taxation to take from those who have for the benefit of those who have not or who want more than they have.

With respect to the destruction of incentive which results from excessive taxation and deficient depreciation policies, etc., a recent report on technological stagnation in Great Britain has summed up the course of developments as follows:

"Ever since World War I, taxation has fallen with extreme gravity on those sections of the national income that supply the capital funds of industry—especially its risk capital—namely, corporate earnings and the larger personal incomes. . . .

"Apart from its erosion of savings and incentives through excessive rates, the tax structure has long hampered re-mechanization by its treatment of allowances for depreciation. The recognition of obsolescence has been grudging and inadequate."

From 1896 to 1918 no allowance for depreciation of industrial buildings was permitted in the tax return. From 1918 to 1945 there was allowed 1% per annum. In 1945 it was raised to 2%.

The inevitable result of these private and government policies has been the accumulated impairment of Britain's ability to compete in world markets. This has held until the emergence in this postwar period of a new spirit of enterprise, cooperating through the Marshall Plan with American industry for adaptation of our "know-how" to their problems. Yet these efforts have been in part nullified and are continually threatened by their governmental policies of nationalization and constriction of investment and

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The Frear Bill

By HON. J. ALLEN FREAR, JR.*

U. S. Senator from Delaware

After describing provisions of his bill, introduced in Senate on Aug. 8, 1949 (S. 2408), which would require large corporations whose securities are not listed on exchanges to make public reports and to be subject to disclosure, proxy, and insider-trading rules, Sen. Frear maintains measure would increase venture capital investment. Claims bill would remove unequal application of present securities laws. Says bill would curb corporate practices which depart from business norm, and claims fears that measure means more bureaucratic government controls are unwarranted. Denies bill will burden small business.

EDITOR'S NOTE: In a letter accompanying the text of his address, Senator Frear advised the "Chronicle" of his intention to reintroduce the so-called "Frear Bill" in Congress early next year. "Because of the pressure of other legislative matters," the Senator wrote, "it was not possible to have this bill considered by the full memberships of the House and Senate" in the recent session of Congress.

On Aug. 8, 1949, I introduced a bill—S. 2408—designed to compel the adoption of certain basic standards for the protection of investors in large corporations. Briefly, that bill would apply to all large corporations with substantial public interest—defined as those with at least $3 million of assets and 300 security holders—the disclosure, proxy, and insider-trading provisions which have been part of the working code of listed and specially regulated companies for many years under the Securities Exchange Act of 1934 and other acts.

Sen. J. A Frear, Jr.

These provisions require financial statements reflecting an accurate picture of the financial condition of the business to be filed annually with the Securities and Exchange Commission; they require proxy solicitations to disclose essential information about the matters to be voted upon at the meeting; and they require insiders to report any trading they may do in their company's securities and to pay back to the company any short-term profits made from such trading. Purely because of an historical inadvertence, which I described when I introduced the bill, only corporations subject to either the Securities Exchange Act, the Public Utility Holding Company Act, or the Investment Company Act, are today required to comply with those provisions. S. 2408 proposes to remedy this historical inadvertence and extend these standards to all companies similarly situated.

When I introduced S. 2408, I invited comments from all interested persons. The response to this invitation was most gratifying. I received thousands of letters which have assisted me in reaching a conclusion upon the merits of the various provisions of the bill. These letters, and the testimony presented at the hearings upon the bill, which were held in February, have convinced me that the need for such legislation is clear and imperative.

However, the Banking and Currency Committee, as everyone knows, was continuously faced with one piece of urgent legislation of tremendous national importance after another, and because the Committee felt this legislation required a considerable amount of study and the time element was not as important as was the case with such legislation as rent control, housing, price and production control, it was decided the Subcommittee should further study the legislation with a view to action on it one way or the other next session.

I therefore plan to reintroduce the measure as sson as the next Congress meets. In the meantime, I should like to discuss certain matters brought to light during the hearings as well as by various independent inquiries I have made, so that there may be adequate opportunity, in the interval before the next Congress meets, to consider and discuss the legislation in the light of this information.

The "corporation" is today a well established instrument of our economy. I believe the great majority of corporate officials recognize their offices are public trusts. Consequently, the corporate device is today a legitimate and effective instrument for obtaining large supplies of capital to further business enterprise. If it is to remain such, I believe it essential that the confidence of investors be maintained and corporate responsibility be made the law of the land. S. 2408 is designed to accomplish this purpose.

Dearth of Venture Capital

Industry, the Executive, and members of this Congress have all repeatedly expressed concern over the dearth of venture capital. There must be a continuous flow of such capital if we are to continue our present dynamic business expansion, with its consequent prosperity for all segments of the population. Nevertheless, in spite of some $200 billion of liquid savings available for investment, only a small portion is used to purchase equity securities. In the popular mind, common stocks, especially of lesser known enterprises, are often associated with speculative risk—and indeed, as to those companies which are operated behind a veil of nondisclosure, the gambling instinct may be the only impelling force toward equity investment.

But we cannot finance our economy with the equity capital it needs by appeals to the gambler's instinct. It seems to me as plain as a pikestaff that such capital will not be supplied unless there are reasonable assurances that the persons who furnish the money will be kept informed as to its use. Yet, at present under certain circumstances, management may, and in many instances does, ignore its stewardship obligation to render a true account of the business and it thereby closes off one of the most important means of stimulating interest in the development of the business—publicity. Except when stockholders resort to expensive litigation, management's freedom to follow purely selfish impulses is largely unrestricted when the company's securities do not happen to be subject to the Securities Exchange Act, the Public Utility Holding Company Act, or the Investment Company Act. S. 2408 is designed to provide the assurances necessary to keep open the pools of public capital.

It is not without significance that the 1949 survey of consumer finances sponsored by the Board of Governors of the Federal Reserve System disclosed that the most important deterrent to investment in common stocks is a lack of familiarity. Familiarity may be acheived only by open and free disclosures of the important factors affecting financial health. Distrust and reluctance to invest breed in an atmosphere of secrecy. S. 2408 is designed to remove these barriers between the investor and his corporation.

Even among experienced, sophisticated financial advisers and analysts there appears to be a reluctance to commit large sums to the care of corporate management which does not make the minimum complete disclosures I have mentioned. I recently saw a compilation of the common stocks held by investment companies. The 50 favorite stocks, which represented 36% of their entire common stock portfolio, were all stocks of companies subject to the requirements of the Securities Exchange Act. Of course, a large portion of the remaining portfolio also consisted of the stocks of registered companies, leaving a relatively minor fraction of holdings of unregistered securities. The testimony of the representative of the National Association of Investment Companies in support of S. 2408, the former Governor of Maine, Mr. William T. Gardiner, appears to confirm my observation.

Of interest in this connection is the report prepared by the Trust Investment Study Committee of the New York Bankers Association. This study was begun in 1946 and completed in 1949. It recommended legislation, which has since been adopted by the New York Legislature, for the revision of the list of securities in which trust companies might place the funds committed to their care to include bonds and stocks "listed for trading upon an exchange registered with the Securities and Exchange Commission as a national securities exchange." The report states:

"We do require, however, that all bonds other than railroad bonds, which are exempt from the registration provisions of the Securities and Exchange Commission because their issuance must be approved by the Interstate Commerce Commission, must be obligations which have registered securities with the SEC. The reason for this provision is not that registration with the SEC guarantees quality, but that it does insure the availability and release of adequate information."

Would Remove Unequal Application of Present Laws

I believe that all responsible trustees of other people's money must agree with the basic aims of the legislation. There may be some differences of opinion concerning the scope of the bill and its precise language—these I intend to adjust where necessary—but I have heard no attempt to justify the random character and unequal application of the present laws. If it is in the public interest to require corporations to inform their security holders about such matters as their present financial condition, the background of the persons proposed by management as directors, and the trading in securities of the corporation by management, it seems to me that this information should also be

Continued on page 28

*Address by Sen. Frear in U. S. Senate, Sept. 19, 1950.

NSTA Notes

SECURITY TRADERS CLUB OF ST. LOUIS

Edward H. Morfeld

W. T. Kitchen

B. L. Schlueter

C. F. Corley

Elliot H. Stein

Eugene V. Koch

The Security Traders Club of St. Louis is holding its annual election party this evening at the Tower Room of the Congress Hotel. Since no opposition slates were filed, the new officers will be those nominated by the nominating committee:

President: Edward H. Morfeld, Morfeld, Moss & Hartnett.
First Vice-President: W. T. Kitchen, Scherck, Richter Co.
Second Vice-President: B. L. Schlueter, Newhard, Cook & Co.
Third Vice-President: C. F. Corley, C. J. Devine & Co.
Secretary: Elliot H. Stein, Mark C. Steinberg & Co.
Treasurer: Eugene V. Koch, St. Louis Union Trust Co.

Members of the committee in charge of the party are Edward H. Morfeld, Morfeld, Moss & Hartnett, Chairman; Ernest D. Willers, Boatmen's National Bank of St. Louis; Vincent C. Weber, V. C. Weber & Co.; and L. Jay Tenenbaum, Peltason, Tenenbaum & Co.

Dealer-Broker Investment Recommendations and Literature

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

Canada and the Provinces—Comparative condensed statements of the Government of Canada and the Provinces for fiscal year 1948-1949—A. E. Ames & Co., Ltd., 320 Bay Street, Toronto, Ont., Canada.

Canadian Situation—Analysis—William Blair & Co., 135 South La Salle Street, Chicago 3, Ill.

Investors Iron Curtain—Brief illustrated booklet for investors containing charts illustrating a few of the varied problems of investment and highlighting some of the business trends of the last 80 years—United States Trust Co. of New York, 45 Wall Street, New York 5, N. Y.

Marginal Stocks—List of low-priced highly speculative issues—Bache & Co., 16 Wall Street, New York 5, N. Y.

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.

New York City Bank Stocks—Comparative figures at Sept. 30, 1950—First Boston Corp., 100 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.

* * *

American Cyanamid Co.—Memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

American Cyanamid Co.—Report—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Also available is a bulletin on **Georgia-Pacific Plywood & Lumber Co.**

Bank of America—Folder entitled "Growing Yield from Bank of America Stock"—First California Co., 300 Montgomery Street, San Francisco, Cal.

Christiana Securities Co.—Analysis—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Cleveland Cliffs Iron Co.—Analysis—Walston, Hoffman & Goodwin, 35 Wall Street, New York 5, N. Y.

Also available are analyses of **Eastern Air Lines, McDonnell Aircraft Corp., Rayonier, Inc.**, and **Standard Railway Equipment Manufacturing Co.**

Cinecolor Corp. — Analysis — Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Cal.

Columbia Broadcasting System, Inc.—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Consolidated Paper Corp. Ltd.—Analysis — James Richardson & Sons, 347 Main Street, Winnipeg, Man., Canada, and 80 King Street, West, Toronto, Ont., Canada.

Domestic Finance Corp.—Card memorandum — Smith, Burris & Co., 120 South La Salle Street, Chicago 3, Ill.

Flying Tiger Line, Inc.—Supplemental report—Fahnestock & Co., 65 Broadway, New York 6, N. Y.

Heyden Chemical Corp. — Bulletin — Gerstley, Sunstein & Co., 120 South Broad Street, Philadelphia 7, Pa.

Hickok Oil Corp.—Bulletin (for security dealers only)—John C. Kahn Co., 1108 16th Street, N. W., Washington 6, D. C.

Kroy Oils Ltd.—Bulletin—Nesbitt, Thomson & Co., Ltd., 355 St. James Street, West, Montreal, Que., Canada.

Placer Development, Ltd.—Information—John R. Lewis, Inc., 1006 Second Avenue, Seattle 4, Wash.

Also available are data on **U. S. Finishing Co.** and **Washington Gas & Electric Co.**

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.

Schwarz Engineering Co.—Analysis—Shafft, Snook & Cahn, Russ Bldg., San Francisco 4, Cal.

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

Standard Oil Co. of Indiana—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

The Merit of Fire & Casualty Insurance Stocks — Brochure including pertinent facts of 25 selected companies — Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Trailmobile Co.—Brief analysis —Stifel, Nicolaus & Co., Inc., 105 West Adams Street, Chicago 3, Ill.

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

Also available is an analysis of **Simplex Paper.**

Western Maryland—Bulletin—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Western Maryland Railway — Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a leaflet of current **Railroad** developments.

E. E. Mathews Adds

(Special to The Financial Chronicle)

BOSTON, Mass. — George W. Donovan has become connected with Edward E. Mathews Co. 53 State Street.

COMING EVENTS

In Investment Field

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. 24, 1950 (Baltimore, Md.)

Southeastern Group of Investment Bankers Association Annual Meeting at the Maryland Club.

Oct. 26, 1950 (New York City)

New York Group of Investment Bankers Association Annual Meeting at the Hotel Pierre.

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.

Trad Cabinet Stock Offered by Tellier

Tellier & Co. is offering as a speculation 1,198,000 shares of common stock of Trad Cabinet Corp. at 25 cents per share. The proceeds from the sale of these shares will be used for working capital, for the payment of obligations for the purchase of plant and equipment, and for the purchase of additional land.

Trad Cabinet Corp. was organized to help meet the demand for television cabinets, particularly for the 16, 19 and 21 inch picture tubes. Trad Television Corp., Victor Trad and George Trad are the principal stockholders of Trad Cabinet Corp., and because of this association, the latter company will be assured, at least for the present, of selling its entire output.

Nebraska Bankers Annual Convention

OMAHA, Neb.—The Nebraska Bankers Association held its 53d annual convention at the Paxton Hotel, Oct. 11 and 12.

International Trade in A Defense Economy

By A. W. ZELOMEK*

Economist, International Statistical Bureau, Inc.

Predicting a real peaceful settlement of international issues is most unlikely, Mr. Zelomek contends current economic situation has no precedent and no markets will escape uncertainties. Says despite changing dollar position, British exchange controls will continue, and holds price inflation is aided from abroad, but price spiral cannot continue indefinitely. Holds dollar is basically strong and that there will be a marked increase in future world trade.

During the last few months, the international political and economic scene has changed drastically—not because of Korea, but because of the American decision to stop further Russian expansion and to prepare for a war emergency.

A. W. Zelomek

Before that, there had been a number of Russian moves in satellite countries, or in areas which the Russian Empire wanted to incorporate into its "sphere." We called this the "cold war." It was fought only with propaganda or diplomacy, and Moscow expected the same thing to happen when the march into South Korea started.

Now, however, Moscow must know beyond all doubt that it plays with fire, that the United States is rearming, that it will not continue its economy on a "business as usual" basis.

The great questions are:

Will Moscow wait until the United States is fully rearmed and the Western powers are better prepared for war than they are right now? Or will Russia strike while the United States armaments program is still largely uncompleted?

It is certain that the men of the Kremlin will debate this problem. There will no doubt be different factions advising Stalin, some to provoke war now and others to continue with "policies as usual"—cold wars, inner political penetration of border areas, but no direct war with the United States if it can be avoided.

My personal view is that Stalin will be reluctant to provoke war in the immediate future. But he will act in a number of areas where he believes that he can win successes without provoking an all-out war. I refer in particular to Indo-China, Burma and Iran. Germany, however, will be the last and most important link in a chain of actions which are probably planned now.

I am afraid that a real peaceful settlement of these great issues is most unlikely. It does not seem to be possible to agree on compromises with Moscow which will be kept by Moscow, and which would create a new "balance of power" system similar to the one which produced several decades of peace before the first World War.

I hope I am wrong, and I certainly believe that we now have a better chance of preventing an ultimate war than we had only a few months ago. But even though these longer term uncertainties cannot now be predicted, we can draw a conclusion that will have immediate value.

We now enter a period in which armaments and preparations for war will change conditions of trade, marketing methods and market situations all over the world, and in particular in the United States. This *will not* be an all-out war economy. As a matter of fact, the amount of additional defense spending at the current rate is not overwhelming—not in America and even less in Western Europe. But spending will be stepped up, and government controls or priority ratings will channel production and investments into those spheres which contribute to defense and to armaments.

*An address by Mr. Zelomek delivered before the Export Managers' Club New York City, Oct. 10, 1950.

Economic Situation Has No Precedent

This kind of "defense economy," which is some kind of partial war economy, where elements of a peacetime economy still survive but where the "normal business cycle" cannot become effective, may continue for some time. It may, in fact, last for years. But we can never be sure during this period when some incident may necessitate immediate conversion to a total war economy. Preparedness for this uncertainty will be an important factor in the economy. Where before it would have required 6 to 12 months to convert to a full war economy, we now prepare ourselves to make such a transition within one, two or three months.

We may remain "at peace" for a long time. But the act of maintaining "war readiness" will make our economy different from that either of a real war period or a true peace period.

No Markets Will Escape Uncertainties

We shall therefore live for some time under conditions for which there is no precedent.

Some spheres of activity will be completely dominated or controlled by the government. Some markets will be subject to government intervention. Other markets will be free, or almost free, to operate "as usual." But even the least affected activities, the most normal markets, will be subject to many uncertainties, possible switching to controls, and to conditions where old supply channels will be shut off, or where orders cannot be fulfilled.

These uncertainties will affect practically all contracts with private enterprises for private consumption, particularly in industries whose products have a potential strategic importance, which may be ordered by the government, or where productive capacities may suddenly be needed for the fulfilment of government contracts.

Defense Difficulties

I wish to be outspoken about the difficulties the United States will have with its defense program, in a world which does not consist merely of two "blocs"—the East and the West.

The Eastern bloc is totally controlled by one power center. All economic and political trends in satellite countries must conform with policies made in Moscow.

But Washington cannot play a similar role in the Western world. The democratic power of persuasion or moral influence will not create complete unity. As a matter of fact, the Western world is at present less united or unified than it was at the time of Nazi aggression.

Sometimes we get too rosy a picture about the unity of the Western world and the achievements of the Marshall plan, or of Western defense planning.

In Western Europe—and also in many other countries—there is a strong undercurrent in favor of "neutrality," of an attempt to stay out of an East-Western conflict, even though the benefits of American aid are gladly accepted. In fact, such help almost becomes a tribute the United States must pay for "goodwill." And even this "goodwill" is not a guarantee that individual countries will follow in peace time the policies we may think most desirable.

Changing Dollar Position

It is true that the dollar deficits of Western European countries, especially of Britain, have disappeared. Britain has been able to build up large gold and dollar reserves. These reserves are twice as great now as they were before the run that almost emptied Britain's dollar funds last Fall.

The dollar gap in the trade balance was closed some time ago. But we should note an interesting fact:

Britain's increase in dollar and gold reserves has come largely from the price increase for international commodities, which happen to be largely sterling commodities. Great Britain has been and still is able to control most of the dollar or hard currency receipts of sterling raw material producers. I refer especially to the Malayas, Ceylon and Africa. The higher dollar price American producers are now paying for imported raw materials is the main reason for the "solution of the dollar problem" for Britain. As a matter of fact, British exports have been a secondary factor in the improvement of Britain's dollar balance.

British Controls to Continue

This may be the real reason why British financial experts are almost unanimous in their opinion that foreign exchange controls should not be removed, even if dollar and gold reserves should continue to increase. Britain's trade position, in fact, has depended on a continuous dollar scarcity within the sterling bloc, and on strict foreign exchange controls.

British industrialists will now insist on large-scale production of peacetime products which are competitive with dollar products and which the United States will be unable to supply in sufficient quantities. Thus Britain may expect to recover a great deal of its former competitive losses. This may help the balance of payments and the dollar reserves of Britain. But the great question is:

How long can British industries which are especially competitive with American (and also with German) industries, rely on unique and temporary advantages unless a third world war brings a complete new shift of world economic forces?

The British themselves cannot answer such a question, any more than we can. Meanwhile, however, the shift of American production in response to the new demand for armaments puts British competitive producers in a position where they will have another period of profitable easy sales.

Price Inflation Aided from Abroad

The price spiral which inflates dollar values cannot continue. But it is most unlikely that the dollar will ever again become worth what it was worth before.

Large funds will be used to acquire strategic commodities.

Continued on page 20

Missouri Brevities

American Investment Co. of Illinois, operators of a nationwide chain of consumer loan offices, has placed privately with a group of institutional buyers, $15,000,000 of 15-year 3% sinking fund debentures due Sept. 1, 1965, the proceeds of which will be used to retire a like principal amount of outstanding short-term notes and commercial paper. Net earnings of the company in the nine months ended Sept. 30, 1950 were $3,230,561, compared with $2,881,375 in the corresponding period a year ago, according to Donald L. Barnes, President, after preferred dividend requirements, the latest nine-month earnings were equal to $2.08 per share on 1,447,506 shares of common stock outstanding, compared with $2.13 per share on 1,203,805 shares outstanding at Sept. 30, 1949. The company announced that two-thirds of its convertible preference stock had been converted into common shares prior to Sept. 30, 1950, the date on which the conversion rights on the two series were reduced from 1½ and 1¼ shares for one to a share-for-share basis. Of the original 168,425 shares of series A $1.25 convertible preference stock, only 86,674 shares remained.

* * *

Charles W. Metcalf, President of **Clinton Foods, Inc., St. Louis**, on Oct. 10 announced that his company has sold for investment to Wm. E. Levis, industrialist and chairman of the executive committee of the Owens-Illinois Glass Co., Toledo, Ohio, an issue of 10,000 shares of 4½% cumulative convertible preferred stock at par, $100 per share, with an option to purchase an additional 40,000 shares at par.

* * *

Approximately 85% of the common stock of **United Brick & Tile Co., Kansas City**, has been acquired by American-Marietta Co. through issuance of shares of the latter on a share-for-share basis. This brought total holdings of United Brick stock to 92% of the 118,125 shares outstanding, leaving less than 8,000 shares in the hands of the public.

* * *

Of the $300,000 of 4½% convertible debenture notes due Oct. 1, 1962, which were offered to the common stockholders of **Crown Drug Co., Kansas City**, of record Aug. 31, 1950, at par and accrued interest, $220,000 principal amount was taken by stockholders and friends, leaving $80,000 in the treasury to be probably sold to some dealer in one block. Roger W. Babson and family are said to be the largest stockholders. The Crown Drug Co. for the fiscal year ended Sept. 30, 1950, had sales slightly in excess of $13,000,000 as compared with $13,734,328 for the preceding 12 months' period.

* * *

On Oct. 6, **F. S. Yantis & Co., Inc.** publicly offered 134,416 shares of common stock (par $1) of **Chase Candy Co., St. Louis**, at $2.75 per share. These represented the unsubscribed portion of the 147,861 shares offered to common stockholders of Chase (other than F. S. Yantis & Co.) for subscription at $2.50 per share and are part of a block of 200,000 shares purchased from the company on June 29, 1949 by the underwriters at $2.50 per share, the proceeds being used by Chase to increase its working capital.

* * *

Kansas City Power & Light Co. reports for the 12 months ended Aug. 31, 1950 total operating revenues of $30,502,640, and net income after taxes of $4,455,413, compared with $29,362,183 and $4,617,109, respectively, for the preceding 12 months' period. After deducting dividend requirements on the preferred stock, the balance applicable to the common stock was $3,755,413 for the year ended Aug. 31, 1950, against $3,934,887 for the 12 months ended Aug. 31, 1949.

* * *

The stockholders of **Hussmann Refrigerator Co., St. Louis**, on Oct. 6 approved a proposal to create an authorized issue of 50,000 shares of new preferred stock, par $100 each. Of this issue, 16,000 shares with a 4% dividend rate, will be sold to the Penn Mutual Life Insurance Co. The Hussmann company will use the proceeds to redeem on Nov. 15, next, all of the 14,840 outstanding shares of $2.25 cumulative preferred stock at $53 per share, plus accrued dividend of 56¼ cents per share.

* * *

Consolidated net sales of **Dazey Corp., St. Louis**, for the year ended June 30, 1950 were $2,494,538, which compared with $1,817,266 for the 11 months ended June 30, 1949. Profit after taxes amounted to $257,208, or $1.22 per common share, as against $28,648, or three cents per share, for the 1949 period. At June 30, 1950, the company had paid off $214,500 of its RFC loan, leaving

$100,000 which is carried by its bank at a reduced rate of interest, completely releasing the RFC three years prior to the final maturity of the loan. The $100,000 subordinated loan to stockholders also was paid in full. The Boatmen's National Bank also extended to the Dazey Corp. a revolving credit under which the corporation can borrow from time to time through June 30, 1952, amounts not to exceed a total of $200,000 at an interest rate of 2½%. A cash distribution of 75 cents per share was paid Sept. 29, 1950 on the preferred stock against accumulations, to stockholders of record Sept. 15. This was exactly one-half of the total accrual to Oct. 1, 1950. It is expected that the balance will soon be cleared up.

* * *

Oberman & Co., Jefferson City, clothing manufacturers, reports sales of $6,197,000 for the nine months ended Aug. 31, 1950, compared with $6,476,000 for the same period in 1949.

* * *

Edison Bros. Stores, Inc. for September reported sales of $6,983,680, compared with $6,491,353 for the same month last year. For the first nine months of 1950, sales totaled $53,318,393, as against $54,263,374 for the corresponding period in 1949.

* * *

Sales of **Western Auto Supply Co. (Mo.)** during September, 1950, were $14,253,000, compared with $11,874,000 in the same month last year, an increase of 20%. For the nine months ended Sept. 30, 1950, sales totaled $114,301,000 against $48,253,000 in the corresponding 1949 period, a gain of 29.5%. The company in September this year had 268 retail units, while wholesale accounts numbered 2,586.

* * *

Mid-Continent Airlines, Inc. for the month of August reported a net profit, after adjustment of Federal income tax accruals to the higher rates provided in the new Revenue Act, of $32,215 compared with $35,417 for the same month last year. For the eight months ended Aug. 31, 1950, net was $220,089, as against $227,456 for the corresponding period of last year.

* * *

Anheuser-Busch, Inc., St. Louis, has declared an extra dividend of 20 cents per share in addition to the usual quarterly dividend of 25 cents per share, both payable Dec. 1 to stockholders of record Nov. 2.

Manganese Securities Offered by Greenfield

Greenfield & Co., Inc., N. Y. C., will offer next week $150,000 of 6% income sinking fund debentures, due Dec. 31, 1960, and 15,000 shares of $1 par common stock of U. S. Manganese Corp. in units of one debenture of $100 face value and 10 shares of common stock at $100 per unit. Of the 6% interest on the debentures, 3% is fixed and 3% will be contingent upon production.

The company was incorporated in Arizona on Jan. 17, 1950, and is principally engaged in the business of mining and milling manganese ores. It also engages in the purchase and sale of manganese and tungsten ores.

The corporation owns mining rights in five properties, namely, Steamboat, Turner, Branch, Buzan-Beard and Manganese King Mines in Arizona, which have a total of 29 unpatented lode mining claims.

The net proceeds from the sale of the 1,500 units will provide funds for the expansion of milling facilities, increased production and additional working and operating capital.

Economic Outlook for Retailing

By DR. JULES BACKMAN*
Professor of Economics, New York University, School of Commerce, Accounts and Finance

Maintaining that the stimulus in third quarter business activity reflected anticipations of government spending rather than government spending itself, Dr. Backman predicts price inflation will continue dominant home-front problem. Forecasts consumer incomes will expand and hence entail higher retail sales and profit margins.

One of the most important factors contributing to the large upsurge in sales immediately after the Korean invasion, was the fear that this war would develop promptly into a total war. Many consumers and businessmen, remembering the shortages of World War II, rushed pell mell to protect themselves against similar shortages this time. Despite the many statements that we had ample food supplies, for example, a rush for many foods developed. Orders poured in for all types of hard goods as consumers attempted to meet their demands for this year, or possibly next year and the year after, before production of these items was discontinued. The various announcements that our total spending for war would be $30 billion and possibly $40 billion, were viewed as mere starting points, rather than as possible overall appraisals as to what would be involved.

Jules Backman

As the weeks rolled by, and it became increasingly apparent that Russia was not joining the fray on a full scale basis, so that total war might be avoided at this time, the pressure for immediate purchases was reduced sharply. Thus, for example, department store sales, which ran more than 40% over a year earlier for a couple of weeks in July, have subsided to gains of 10 to 15% and less. In light of the fact that the recession of 1949 reached its low point in the late summer of that year, and that business activity was already moving sharply upward before the Korean war, it is apparent that all of this gain cannot be contributed to the war situation.

With our success in Korea, many people are beginning to believe that if there is to be all out war, it will not take place at this time. As a result, they realize that many types of products which were not available during World War II, will continue to be produced. The effect has been a subsiding of the pressures for immediate delivery and the need to reappraise our problem within the framework of the presently contemplated expenditures. In my analysis, I shall assume that we will spend between $30 and $40 billion a year on our armaments program, and that this rate of spending will be continued after the final completion of the Korean episode. As part of this assumption, it must be recognized that this rate of spending will not be achieved until the middle of next year or later, and that its direct impact upon supplies and prices will not be felt immediately. I recognize, of course, that the development of new war incidents could change this picture and result in new states of hysteria, as well as sharp accelerations of the presently contemplated program.

*An address by Dr. Backman before National Association of Music Merchants, New York City, Oct. 17, 1950.

The Price Picture

It is useful to review what has happened and what is happening to prices, incomes, and business activity as the starting point in our effort to look ahead. Considerable emphasis has been given by many persons to the sharp rise in spot commodity prices since the Red invasion of South Korea. Many persons, including labor leaders, have been identifying this rise in spot prices with a rise in living costs. Actually, living costs have risen only nominally, and about in line with what would be expected during this period. Much of the confusion concerning the magnitude of price changes arises because of the failure to distinguish between three price indexes reported by the U. S. Bureau of Labor Statistics:

(a) *Daily index of 28 spot commodities.* This is a highly sensitive index of raw material prices which fluctuates much more than other wholesale or retail prices.

(b) *Wholesale price index.* This index measures price changes for almost 900 commodities. It usually fluctuates more than retail prices, but less than the index of spot commodities.

(c) *Consumers' price index.* This measures the changes in the costs of food, clothing, rent, housefurnishings, etc.

The facts may be summarized as follows:

(1) From June to the middle of September, these indexes rose as shown below:

	Percent
Spot prices	+ 26.1
Wholesale prices	+ 8.0
Consumers' prices	+ 1.7

A moderate reduction in spot prices and wholesale prices has taken place since the middle of September. Spot prices, in line with past experience, have risen far more than other prices. They also declined far more from the 1948 peaks. The recent increases have largely reversed the decline of 1948-1949. In fact, after the recent increases, the three indexes have returned close to the 1947-1948 peaks.

	1947-1948 Peak	Recent Peaks	% Change
Spot prices	353.0	332.8	— 5.7
Wholesale prices	169.8	169.7	— 0.1
Consumers' prices	174.5	173.0	— 0.9

(2) The spot index fell much more than the other two indexes in the 1948-1949 recession. Despite the recent publicity, it has not risen as close to the earlier postwar peaks as have wholesale prices and retail prices.

(3) It is particularly important to note that the general wholesale price index has risen only 8%. Consumers' prices usually increase much less than wholesale prices and hence an overall rise of modest proportions is indicated for retail prices on the basis of experience to date.

(4) Food prices account for about two-fifths of the cost of living. According to the Bureau of Labor Statistics, retail food prices have risen 1.3% since June. All authorities are greed that our food supplies are ample and that we face no significant supply problems in this area. This is a very important fact when changes in living costs are being considered. This latter fact is particularly important to music merchants since large rises in food prices tend to reduce the amounts available to buy less essential items, including the products handled by your stores.

Current Level of Economic Activity

At the outbreak of the Korean war, the economy was already operating at boom levels. This is an important distinction from the situation prevailing in 1940, when we began preparing for World War II. Thus, total industrial production by June had reached a new postwar peak, total national income was close to peak rates of 1948, and total salaries and wages were at a new high level for the postwar period. Only farm income was significantly below the peaks reached earlier in the postwar period. It was on top of this boom-time level of business activity, that our new war economy had to be superimposed.

During the third quarter, business activity continued to expand. However, this expansion was not due to an increase in war spending. It may come as a surprise to many of you to find out that from July to September, the first three months of the current fiscal year, total war spending was actually $278 million *less* than it was in the corresponding period a year ago. The combination of lower spending for war, a reduction in spending by the Veterans' Administration, and a moderate increase in budgetary receipts, had the effect of enabling the government to operate in the black to the extent of approximately $300 million during this same period. These figures make it clear that the stimulus in business activity in the third quarter reflected primarily the anticipations of government spending, rather than government spending itself.

Where did the funds come from? The available data indicate several sources. Redemptions of Series E bonds increased substantially to almost $400 million in August. This was $124 million greater than new sales. In the three months, July to September, redemptions exceeded new sales by $278 million. Consumer credit was also expanded with the July increase, the largest in the postwar period. Finally, there were undoubtedly some unspent balances of the G.I. insurance refunds which were spent.

As our thinking is modified from the fear of total war to the impact of a 10 to 15% war economy, the nature of this third quarter business rise takes on a new complexion in terms of its significance for the future. It is becoming increasingly probable that part of this activity represented a borrowing from business activity in the months ahead.

To sum up the present situation: Even before spending for war purposes has shown any significant change, we find ourselves at the peak of the biggest peacetime boom-boom we have ever experienced. Clearly, any expansion in war production will mean reductions in other types of production from the present level. It will mean a reduction below the level of June in many fields, including some in which you have a vital interest, including television, radio, and various types of musical instruments.

The Inflation Problem

In the months ahead, price inflation will continue to be the dominant problem on the home front. Expanding incomes and decreasing supplies of goods will create inflationary pressures. The increase in taxes, imposition of credit controls for instalment purchases and housing, sale of cotton holdings by the government, the announcement that all controls will be taken off cotton production next year, and that the production goals will be liberalized for other commodities, all are steps in the right direction.

However, these steps do not go far enough. We need a further increase in taxes. It is not improbable that some of these revenues will be derived from higher excise taxes along with higher income and higher corporation taxes. There is also required an additional tightening up of instalment credit, a liberalization of the conditions under which the Commodity Credit Corporation can sell surplus farm products, and an intensive drive for savings.

We also have to keep within bounds the wage increases which are now being demanded and which have the three-fold inflationary effects of: (1) increasing consumer spending power at a time when a decrease is required; (2) increasing manufacturers' costs so that pressure for price increases develops; and (3) reducing the tax yield to the government because wage dollars pay lower taxes than do profit dollars.

To the extent that we adopt the measures suggested, the pressure on prices will be reduced. If we fail to adopt these measures, the pressure on prices will be increased next pear. Price control is not the solution for our problem. I don't think that price control can be very effective in the absence of the powerful moral compulsion and emotional pressures attending an all-out war. Price fixing doesn't attack the causes of inflation. It deals only with the effects.

Outlook for Disposable Income

It is against the foregoing background that the outlook for retailing must be considered. The most important single factor determining the level of retail sales is the income after taxes available to consumers, so-called disposable income. It seems clear that disposable income will continue to increase. The main elements in this expansion may be summarized as follows:

(1) Rising employment, longer hours of work and higher wage rates will mean an increase in labor income. Workers in manufacturing industries averaged less than $55 weekly in 1949, about $57 in the first half of 1950, and above $60 a week now. Further increases are certain under the impact of higher wage rates and longer hours, at premium pay. The increase in withholding taxes, which went into effect Oct. 1, will act as a partial offset to this expansion in labor income. However, it will not fully offset it.

(2) Government spending will be increasing steadily during the next year. War spending, which was at the annual rate of less than $14 billion in the third quarter of 1950, will reach a rate of spending of approximately $30 billion by next June.

(3) Agricultural incomes have once more begun to expand under the impact of good crops and higher prices. Thus, during the first half of 1950, cash receipts of farmers were 9% *below* the same period of last year. Since the Korean War, they have been running equal to or more than last year. The liberalization of crop production goals in an environment of high consumer incomes is bound to be reflected in higher farm incomes, if Mother Nature cooperates in the production of larger crops. This means a significant pick-up of business in the rural areas.

(4) Business spending on new plant and equipment has been increasing under the stimulas of the expansion in business activity earlier this year and the demands

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Tax Increases and Tax-Exempt Bonds

By CURTIS ter KUILE*

Security analyst contends the course of municipal bond prices, barring unforeseen conditions, will be upwards, because of hike in Federal income tax rates.

Since the start of the Korean War it has been evident that the United States Government would be forced to raise income tax rates to meet the heavy additional financial burden. In anticipation of such an increase the prices of many tax-exempt bonds have risen, resulting in a decrease of the average yield of 20 20-year municipal bonds from 2.20% on July 15 to about 1.90% at present.

Curtis ter Kuile

Congress has now passed the new tax bill. The new rates for individuals are not very much higher for the balance of 1950 but increase about 14% for the year 1951, which is the year for which taxpayers will have to make careful provision. In that year a single person with no dependents and in the $25,000 bracket will have to pay a tax of $9,796, whereas he would have to pay only $8,600 under the present law. Under the same conditions a person in the $100,000 bracket will have to pay $66,798 instead of $58,762.

In cases where a substantial portion of a taxpayer's income is derived from investments it is possible to effect savings by switching taxable securities to bonds which are tax-exempt. As an example: a person in the $50,000 bracket holding a 2.50% bond has a net return after tax of only 1.20% even under the present law. By an exchange of the 2.50% taxable bonds to State of New York bonds having a tax-exempt yield of 1.80% a net gain of 0.60% may be obtained. Carefully selected tax-exempt revenue bonds will provide a yield of from 2.40% to 2.90%. In addition it should not be overlooked that bonds issued by municipalities or authorities in New York State are not only exempt from Federal but also State income taxes. This same exemption is obtainable in Connecticut, Pennsylvania and other States where income taxes are imposed. Moreover municipal bonds issued in Alaska, Hawaii, also Puerto Rico are exempt from Federal and State income tax, no matter in which State the holder resides.

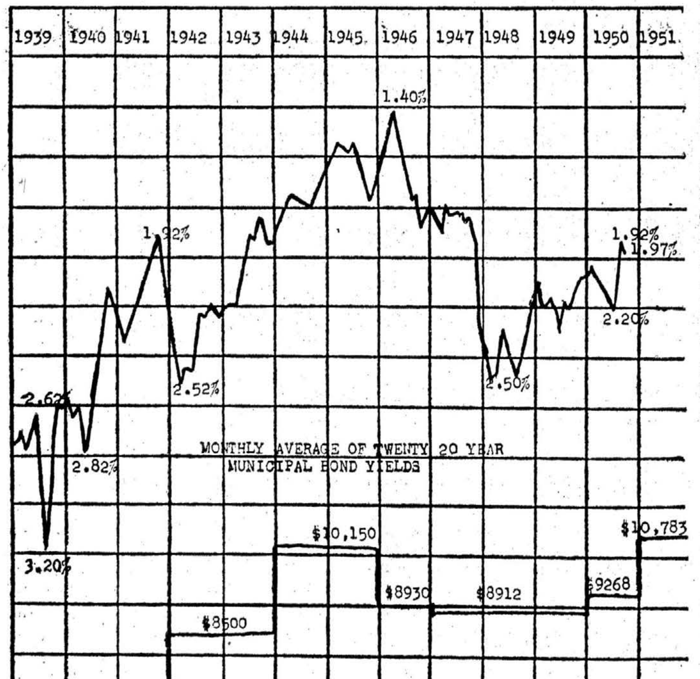
There is shown herewith two graphs. On the first one the writer has plotted the (Dow Jones) monthly average of 20 20-year municipal bond yields for the period from January, 1939 to date. This chart shows the action of the municipal bond market during certain critical times. It will be noted that the average yield dropped from 2.62% in June, 1939 to 3.20% in the following September, due to the outbreak of World War II. An abrupt rise from 2.82% to 1.92% followed the announcement of heavy Federal income tax increases. Then after Pearl Harbor the curve dropped rapidly to 2.52%. Additional taxation pushed the curve up to an all-time high of 1.40% in April, 1946, after which the realization that the end of the war would surely force a tax reduction steadily pushed the curve down to a 2.50% yield. However, the Marshall Plan expenditures, subsidies for farmers and other heavy demands on the Treasury caused the curve to foretell the possibility of another increase in taxation. Then suddenly came the Korean War followed by the President broadcasting a demand for higher taxes. This caused the curve to rise from a 2.20% level to a 1.92% average yield.

The second graph shows the number of actual dollars of Federal income tax paid by a single taxpayer with no dependents and who is in the $25,000 surtax bracket. Certain factors of considerable importance may be observed by a close inspection of this second graph. To begin with, it discloses clearly the tremendous rise in taxation due to the World War II; in this example the tax rose from $2,070 in 1939 to $10,150 in 1944, or almost five times over. It also tends to show that when taxes are once raised to a high level it is exceedingly difficult to bring about any substantial reductions. The most important disclosure produced by a comparison of the first and second graphs has to do with the evident lag between the time of an income tax boost and the final effect of such a boost on the average prices of municipal bonds. It is easy to recognize from these graphs that municipal bond prices did not attain their highest levels for any particular move *until a year or possibly two years after the tax increase* which produced that move.

From the above discussion it would appear to be reasonable to assume that there is a definite relation between income tax rates and the yields of tax-exempt bonds. Also that municipal bond prices tend to rise, and their yields drop, for a period of years after each increase in income tax rates. If this theory is admitted then there can be little room for doubt that the upward move in tax-exempt bonds as a result of the 1950 tax bill has only just begun. After all, our hypothetical taxpayer is going to have to pay $10,783 in income taxes for the year 1951, against $10,150 for the year 1945. Yet the average municipal bond yield curve stands at 1.97% today, while it got up to a 1.40% basis following the 1944-1945 tax boost.

Although it is always possible that other entirely unforeseen conditions may arise to alter the course of the municipal bond market, nevertheless the writer is firmly of the opinion that the prices of tax-exempt bonds are due for a gradual but important advance, perhaps even up to a point where the average yield will be down to the 1.40% figure which was obtained in the spring of 1946.

*The writer, who is connected with Hallgarten & Co., New York City, is a graduate mechanical engineer, Cornell University. He has been engaged in engineering and the investment business for many years and is a member of the Cornell Engineering Society and the New York Society of Security Analysts.



A. N. McGeoch, Jr. With Milwaukee Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, Wis.—Arthur N. McGeoch, Jr. has become associated with the Milwaukee Company, 207 East Michigan Street. Mr. McGeoch was formerly co-manager of the Milwaukee office of Harris, Upham & Co. Prior to serving in the U. S. Navy during the last war he was in the investment business in New York City.

Midwest Exchange Member

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange has elected to membership Henry J. Blackford, partner of A. M. Law & Company, Spartanburg, South Carolina.

Connecticut Brevities

The **Niles-Bement Pond Co.** has purchased the land and buildings occupied by its subsidiary. The Potter and Johnson Co., in Pawtucket, Rhode Island. The plant includes about 265,000 square feet of factory space. Potter and Johnson, which was purchased in 1949, employs 260 people currently, but anticipates reaching 300 by the year-end and possibly 450 to 500 later.

* * *

La Pointe — Plascomold Corp. has purchased a three-story factory in Windsor Locks that was formerly occupied by Medlicott Corp. The plant contains 105,000 feet of floor area. At the present time the company is producing television antennas and accessories in a plant at Unionville. In about 60 days operations will be transferred to Windsor Locks, where it will be possible to more than double the current production rate.

* * *

On Oct. 3, **Connecticut Power Co.** placed privately an issue of $10,000,000 first and general 2¾% mortgage bonds, series F, due Oct. 1, 1980. The proceeds will be used to call on Nov. 2 the series A, B and C bonds in the amount of $7,030,000 and for the current construction program.

* * *

Holo-Krome Screw Corp., a subsidiary of Veeder-Root, Inc., plans to build an $80,000 addition to its plant in Elmwood. Holo-Krome manufactures hollow cap and set screws.

* * *

United Aircraft Corp. has taken over the government-owned plant at Southington that was used by the Pratt and Whitney Division during World War II. The plant had been idle since it was declared surplus at the end of the war. It is expected that manufacture of engine parts will begin in several months.

* * *

On Sept. 30, **Jenkins Bros.** called for redemption its 7% preferred stock at $105 per share and accrued dividends. The remaining equity capitalization consists of two classes of common stock.

* * *

At a meeting on Sept. 22 the stockholders of **Capewell Manufacturing Co.** authorized the acquisition of the business of The Armstrong Manufacturing Co. and the company has since exercised its option to purchase. It is believed that the acquisition of the line of Armstrong-Bridgeport pipe tools will strengthen the manufacturing and selling position of Capewell.

* * *

New Haven Clock & Watch Co. has taken down $1,055,000 of its $1,800,000 RFC loan, which it has used to pay off $455,000 to bank creditors for release of mortgage liens, payment of debts in the amount of $300,000 and increase working capital by $300,000. The remaining $745,000, which is to be used for plant modernization and improvements, has not yet been used. Operations for the first seven months of 1950 showed a loss of $228,000, well below that of the corresponding period of 1949, but September was expected to show the first operating profit in many years.

* * *

Scovill Manufacturing Co. was among the companies purchasing an interest in Continuous Metalcast Corp., a new company being formed to own the rights in this country and in Canada to a process for continuous casting of metals. The 10% interest of Scovill was obtained at a cost of $120,000.

* * *

Directors of **First National Bank and Trust Co. of Bridgeport** and **of Shelton Trust Co.** have agreed to terms of a merger between the two banks. If approved by stockholders, holders of Shelton Trust will be offered 20 shares of First National or $300 in cash for each share. After the merger the Shelton bank would be operated as a branch of First National. This will be the ninth merger that has taken place between Connecticut banks during the past year.

* * *

Stockholders of **Stamford Trust Co.** will meet Oct. 20 to vote on a recommendation of the directors to increase the capital from $700,000 to $1,000,000. If approved, the company plans to issue 12,000 new shares, $25 par, at $50 a share. Recently the bank acquired the Home Bank and Trust Co. of Darien through purchase of its 4,000 shares at $260 a share. The new bank will be operated as a branch.

Rejoins First Boston

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—William D. Hilton has rejoined the staff of First Boston Corp., 231 South La Salle Street. He has recently been with Coffin & Burr, Inc.

With E. W. Ackley

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — J. Parnell Thomas, Jr. has become associated with Edward W. Ackley & Co., 30 State Street.

With Hamilton Managem't

(Special to THE FINANCIAL CHRONICLE)

DENVER, Col.—Blan P. Dysart, Jr., Clara C. Lievens, Blanche Sink and Frank W. Tester have joined the staff of Hamilton Management Corp., Boston Bldg.

Will Arm to Fight Aggression: Truman

President, in San Francisco address, says victory in Korea will cause no relaxation of rearmament program. Assures Asiatic free nations of full support against Communist aggression and denounces imperialistic tactics of Soviet Russia. Denies any territorial designs by U. S.

President Truman

President Harry S. Truman, in a broadcast address on Oct. 17, at San Francisco, following his conference with Gen. Douglas MacArthur at Wake Island, asserted that the victory of the UN forces in Korea will not alter present plans of the United States to increase armaments to fight communistic aggression. He pledged the support of the United States to all nations in the struggle to maintain their independence, particularly those in the Far East, and also launched a bitter attack on the imperialistic policies of Soviet Russia.

The complete text of the President's address follows:

I have just returned from Wake Island, where I had a very satisfactory conference with Gen. Douglas MacArthur.

I understand that there has been speculation about why I made this trip. There is really no mystery about it. I went because I wanted to talk to Gen. MacArthur.

There is no substitute for personal conversation with the commander in the field who knows the problems there from first-hand experience. He has information at his fingertips which can be of help to all of us in deciding upon the right policies in these critical times.

I went out to Wake Island to see Gen. MacArthur because I did not want to take him far away from Korea, where he is conducting very important operations with great success. Events are moving swiftly over there now, and I did not feel he should be away from his post too long.

I have come back from this conference with increased confidence in our long-range ability to maintain world peace.

At Wake Island we talked over the Far Eastern situation and its relationship to the problem of world peace. I asked Gen. MacArthur for his ideas on the ways in which the United States can most effectively assist the United Nations in promoting and maintaining peace and security throughout the Pacific area.

We discussed Japan and the need for an early Japanese peace treaty. Both of us look forward with confidence to a new Japan which will be peaceful and prosperous.

Gen. McArthur told me about the fighting in Korea. He described the magnificent achievements of all the United Nations forces serving under his command. Along with the soldiers of the Republic of Korea these forces have now turned back the tide of aggression. More fighting men are coming from free nations all over the world. I am confident that these forces will soon restore peace to the whole of Korea.

We Americans naturally take special pride in the superb achievements of our own soldiers, sailors, Marines and airmen. They have written a glorious page in military history. We can all be proud of them.

It is also a source of pride to us that our country was asked to furnish the first commander of United Nations' troops. It is fortunate for the world that we had the right man for this purpose—a man who is a very great soldier—Gen. Douglas MacArthur.

The United Nations actions in Korea is of supreme importance for all the peoples of the world.

For the first time in history the nations who want peace have taken up arms under the banner of an international organization to put down aggression. Under that banner, the banner of the United Nations, they are succeeding. This is a tremendous step forward in the age-old struggle to establish the rule of law in the world.

The people of San Francisco have shown that they appreciate the importance of United Nations as a vital force in world affairs. I am told that in this area alone 71 organizations are celebrating United Nations Week.

The United Nations was established here in this very building five years ago. It was founded in the hope and in the belief that mankind could have just and lasting peace.

Today as a result of the Korean struggle the United Nations is stronger than it has ever been. We know now that the United Nations can create a system of international order with the authority to maintain peace.

When I met with Gen. MacArthur we discussed plans for completing the task of bringing peace to Korea. We talked about the plans for establishing a "unified, independent and democratic" government in that country in accordance with the resolution of the General Assembly of the United Nations.

It has been our policy ever since World War II to achieve these results for Korea.

Peace and Rehabilitation in Korea

Our sole purpose in Korea is to establish peace and independence. Our troops will stay only so long as they are needed by the United Nations for that purpose. We seek no territory or special privilege. Let this be crystal clear to all—we have no aggressive designs in Korea or in any other place in the Far East or elsewhere.

No country in the world which really wants peace has any reason to fear the United States.

The only victory we seek is the victory of peace.

The United Nations forces in Korea are making spectacular progress. But the fighting there is not yet over. The North Korean Communists still refuse to acknowledge the authority of the United Nations. They continue to put up stubborn, but futile, resistance.

The United Nations forces are growing in strength and are now far superior to the forces which still oppose them. The power of the Korean Communists to resist effectively will soon be at an end.

However, the job of the United Nations in Korea will not end when the fighting stops. There is a big task of rehabilitation to be done. As a result of the Communist aggression Korea has suffered terrible destruction. Thousands upon thousands of people are homeless, and there is serious danger of famine and disease in the coming winter months.

The United Nations is already extending relief to ease the suffering which the Communist invasion has brought about, and it is preparing to help the Koreans rebuild their homes and restore their factories.

General MacArthur and Ambassador Muccio gave me a vivid picture of the way in which the process of reconstruction has already begun. Railroads are being restored, bridges are being rebuilt, and public utilities are beginning to function.

Will Use All Our Resources

We will use the resources of our Army and our Economic Cooperation Administration to meet the immediate emergency. We will give our strong support to the United Nations program of relief and reconstruction that will soon be started. The United States will do its full part to help build a free, united and self-supporting Korean republic.

In a very real sense the unity of the free nations in meeting the aggression in Korea is the result of a firmly held purpose to support peace and freedom—a purpose which the free nations have pursued together over the years.

The name "United Nations" was first used in the dark days of the second World War by the countries then allied to put down another aggression.

From that day until this, the cause of peace has been strengthened by an active policy of cooperation among the free nations. It is not by chance but as a result of that steady policy that 53 members of the United Nations rallied immediately to meet the unprovoked aggression against the Republic of Korea.

It has been as a part of that same policy and common purpose that we have joined during the past five years in building up the strength of the peace-loving forces of the world. We have contributed to this end through the Marshall Plan in Europe and through economic assistance in many other parts of the world. We have also contributed to this end through military aid to countries threatened by aggression. All around the world the free nations have been gaining strength.

We have to recognize that, as we have moved steadily along in the postwar years, our policy of building a peaceful world has met constant opposition from the Soviet Union.

Here in San Francisco five years ago we hoped that the Soviet Union would cooperate in this effort to build a lasting peace.

But Communist Imperialism would not have it so. Instead of working with other governments in mutual respect and cooperation, the Soviet Union attempted to extend its control over other peoples. It embarked upon a new colonialism — Soviet style. This new colonialism has already brought under its complete control and exploitation many countries which used to be free. Moreover, the Soviet Union has refused to cooperate and has not allowed its satellites to cooperate with those nations it could not control.

Obstructions of Soviet Russia

In the United Nations, the Soviet Union has persisted in obstruction. It has refused to share in activities devoted to the great economic, social and spiritual causes recognized in the United Nations Charter. For months on end it even boycotted the Security Council.

These tactics of the Soviet Union have imposed an increasingly greater strain upon the fabric of world peace. Aggression and threats of aggression, aided and abetted by obstructionism in the United Nations, have caused grave concern among the nations which are honestly seeking peace. The response of the free world to the aggression in Korea has given those nations new confidence. But events in Korea have also made it more apparent than ever that the evil spirit of aggression is still abroad in the world. So long as this is true, we are all faced with a clear and present danger.

Today, we face a violent and cynical attack upon our democratic faith, upon every hope of a decent and free life — indeed, upon every concept of human dignity. Those who support this evil purpose are prepared to back it to the limit with every device, including military force.

Russia's Vast Armies

The Soviet Union and its colonial satellites are maintaining armed forces of great size and strength. In both Europe and Asia their vast armies pose a constant threat to world peace. So long as they persist in maintaining these forces and in using them to intimidate other countries, the free men of the world have but one choice if they are to remain free. They must oppose strength with strength.

This is not a task for the United States alone. It is a task for the free nations to undertake together. And the free nations are undertaking it together.

In the United Nations, Secretary of State Acheson has proposed a plan for "uniting for peace," to make it possible for the General Assembly to act quickly and effectively in case of any further outbreak of aggression.

In our own country, and in cooperation with other countries, we are continuing to build armed forces strong enough to make it clear that aggression will not pay.

Our military establishment moved the necessary men and supplies into Korea, 5,000 miles away, in an amazingly brief period of time. This remarkable accomplishment should not delude us into any false sense of security. We must be better armed and equipped than we are today if we are to be protected from the dangers which still face us.

We must continue to increase our production for military purposes. We must continue to increase the strength of our armed forces — Army, Navy and Air Force. We must devote more of our resources to military purposes, and less to civilian consumption.

All this will be difficult, and it will exact many sacrifices. But we are aware of the dangers we face. We are going to be prepared to meet them. Let no aggressor make any mistake about that. We value our independence and our free way of life in this country and we will give all that we have to preserve them. We are going ahead in dead earnest to build up our defenses. There will be no letdown because of the successes achieved in Korea.

As we go forward, let us remember that we are not increasing our armed strength because we want to. We are increasing our armed strength because Soviet policies leave us no other choice. The Soviet Union can change this situation. It has only to give concrete and positive proof of its intention to work for peace. If the Soviet Union really wants peace, it must prove it—not by glittering promises and false propaganda, but by living up to the principles of the United Nations Charter.

Wants Proof of Soviet Peace Aims

If the Soviet Union really wants peace, it can prove it—and could have proved it on any day since last June 25—by joining the rest of the United Nations in calling upon the North Koreans to lay down their arms at once.

If the Soviet Union really wants peace, it can prove it by lifting the Iron Curtain and permitting the free exchange of information and ideas. If the Soviet Union really wants peace, it can prove it by joining in the efforts of the United Nations to establish a workable system of collective security—a system which will permit the elimination of the atomic bomb and the drastic reduction and regulation of all other arms and armed forces.

But until the Soviet Union does these things, until it gives real proof of peaceful intentions, we are determined to build up the common defensive strength of the free world. This is the choice we have made. We have made it firmly and resolutely. But it is not a choice we have made gladly. We are not a militaristic nation. We have no desire for conquest or military glory.

Our national history began with a revolutionary idea—the idea of human freedom and political equality. We have been guided by the light of that idea down to this day. The forces of Communist imperialism dread this revolutionary idea because it produces an intolerable contrast to their own system. They know that our strength comes from the freedom and the well-being of our citizens. We are strong because we never stop working for better education for all our people, for fair wages and better living conditions, for more opportunities for business and better lives for our farmers. We are strong because of our social security system, because of our labor unions, because of our agricultural program. We are strong because we use our democratic institutions continually to achieve a better life for all the people of our country.

This is the source of our strength. And this idea—this endlessly revolutionary idea of human freedom and political equality—is what we held out to all nations as the answer to the tyranny of international communism. We have seen this idea work in our own country. We know that it acknowledges no barriers of race, or nation, or creed. We know that it means progress for all men.

The international Communist movement, far from being revolutionary, is the most reactionary movement in the world today. It is violently opposed to the freedom of the individual, because in that Communist system the state is supreme. It is equally opposed to the freedom of other nations, because in that Communist system it is Soviet Russia which must be supreme.

Far East More Than Military Problem

When Gen. MacArthur and I discussed the whole problem of peace in the Far East, we recognized that this is far more than a military problem.

Today, the peoples of the Far East, as well as peoples in other parts of the world, are struggling with the false revolution of communism. Soviet communism makes the false claim to these peoples that it stands for progress and human advancement. Actually, it seeks to turn them into the colonial slaves of a new imperialism. In this time of crisis we ask the peoples of the Far East to understand us as we try to understand them. We are not trying to push blueprints upon them as ready-made answers for all their complicated problems. Every people must develop according to its own particular genius and must express its own moral and cultural values in its own way.

We believe that we have much in common with the peoples of the Far East. Their older civilizations have much to teach us. We hope our new developments may be helpful to them.

We know that the peoples of Asia cherish their freedom and independence. We sympathize with that desire and will help them to attain and defend their independence. Our entire history proclaims our policy on that point. Our men are fighting now in Asia to help secure the freedom and independ-

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Leavitt & Bry to Admit

Leavitt & Bry, 61 Broadway, New York City, members of the New York Stock Exchange, will admit Eugene V. Fox to partnership on Oct. 26. Mr. Fox will acquire the Exchange membership of Francis S. Page.

Mutual Funds

By ROBERT R. RICH

Assets of Mutual Funds at Record High But Sales-Repurchases Ratios Mixed

The march of mutual funds is stronger than ever, with new high records in total assets and sales of shares, according to figures just released by the National Association of Investment Companies. Total assets, which have increased every year since 1941, reached a record of $2,354,340,000, an increase of $380,793,000 over Dec. 31, 1949, and $599,180,000 since Sept. 30, 1949.

Sales of new shares amounted to $383,439,000 for the first nine months of 1950, while net sales, after redemptions, were $185,477,000. Gross and net sales for the same period last year were $259,676,000 and $192,740,000, respectively.

Both the common stock funds' group and balanced funds' group reversed a nine-month decline in the ratios of sales to repurchases. The ratio for the 44 common stock funds of sales to repurchases was 2.12 this last quarter, compared with 1.34 for the second quarter of 1950.

The ratio for balanced funds has jumped to 4.32 this last quarter compared with 3.17 in the second quarter of 1950.

The bond and specialty group, which contains 26 funds, have failed to reverse the decline in sales-repurchase ratios which began in the third quarter of 1949. The ratio this last quarter was .89, compared with 1.10 in the second quarter. However, one must be cautious in accepting these figures, since they apply only to the aggregate and therefore cannot be accepted as representative of the behavior of any particular specialty or bond fund.

Ratios of Sales to Repurchases, by Quarters*

January 1, 1949, to September 30, 1950

Fund Group:	No. of Funds in Group	3rd Quarter 1950	2nd Quarter 1950	1st Quarter 1950	4th Quarter 1949	3rd Quarter 1949	2nd Quarter 1949	1st Quarter 1949
Common Stock	44	2.12	1.34	2.58	3.71	6.39	6.12	4.23
Balanced	28	4.32	3.17	4.54	5.10	7.05	5.74	5.48
Bond & Specialty	26	.89	1.10	1.48	1.61	2.38	1.58	1.72

*Figures are number of times sales exceed repurchases.

Funds Tackle Inflation Story

In a forthright and imaginative fashion, three funds this week attacked the problem of inflation and the investor.

Parker Corporation, in its letter, demonstrated the insidious effect of inflation with a sample family food bill. Comparisons were made in a table with the average price of 15 staples in 1939-41 and for every year since. The price jump from $8.85 in 1939-41 to $19.80 in 1949 is an effective story for every breadwinner and housewife.

Vance Sanders, in its latest **Brevits,** pointed out that "over the short-term, the performance of stocks, or for that matter any investment subject to fluctuations in value, may deviate substantially from the trend of the cost of living. One of the reasons for this is, of course, that common stock values are more sensitive to general business conditions and prospects than are the costs of goods and services. The long bull market from 1923 to 1929, for instance, was characterized by a large increase in common stock values and dividends which far outstripped the rather moderate increase in commodity prices. . . .

"Nevertheless, history shows that over a long period of time, if acquired at a reasonable average cost by making purchases at different levels of the stock market, representative common stock values and dividends have constituted an effective hedge against reductions in the purchasing power of the dollar."

Taking 100 as a base, Vance Sanders illustrates that since 1933 the cost of living index has risen to 178.38, the rate of income return on Massachusetts Investors Trust has risen to 194.52, assuming the acceptance of capital gains distributions in additional shares of stocks, and the asset value of MIT shares has risen to 169.55.

Distributors Group is releasing a revised edition of its popular World War II pamphlet, **"Inflation."** Its explanation of the inflationary process is simple, clear and cogent. In conclusion, the excellent pamphlet states, "You can protect your scale of living only by placing your savings in the kind of things that can advance in price as the general price level advances. Such things are goods and services whose value is not fixed in relationship to the dollar. Cash and bonds, contracts for the payment of stated amounts of dollars, will retain their quoted values in dollars, but the buying power is what you use your dollars for. Common stocks represent ownership of goods and services. Of all forms of marketable securities they offer the best prospect of offsetting, over a period of years, advances in the price level of the things you have to buy. However, they must be selected with great care."

No more important problem today faces the investor and non-investor alike than that of inflation. His savings of war and prewar years, his investments in fixed obligations, the higher taxes on a present income that may not have kept pace with rising prices in the past decade have become a profound problem in the rapid disintegration of their worth.

Of course, there is no real guarantee that the value of funds' shares will rise with the general price level—as there is no real guarantee that the sun will rise tomorrow—but, "on balance," and over the long term, and in the light of the historical record, one can demonstrate a lesser risk in funds' investments than in fixed obligations . . . despite the Kondratieff cycle.

Eaton & Howard Balanced Fund Reports

Eaton & Howard Balanced Fund report to shareholders dated Sept. 30, 1950, shows assets at a new high of $59,285,133, an increase of $8,660,795 since the beginning of the year. Shares outstanding total $2,049,163 compared with 1,865,204. Asset value per share is $28.93 compared with $27.14 at the beginning of the year. 19.8% of the Fund is invested in Government and corporate bonds, 18.0% in preferred stocks, and 60.8% is invested in common stocks; 1.4% is held in cash. Largest common stock holdings are in the power and light, oil, insurance and natural gas industries.

Eaton & Howard Stock Fund Reports

Eaton & Howard Stock Fund Sept. 30 report to shareholders shows assets increased over 70% since the beginning of the year. Assets now total $5,501,862 compared with $3,189.671 at the beginning of the year. Shares outstanding increased during the nine-month period from 175,057 to 275,162 and asset value per share increased from $18.22 to $19.99. 80.5% of this rapidly growing Fund is invested in common stocks, 2% in corporate bonds and 17.5% is invested in U. S. Government securities or is held in cash. Largest common stock holdings are in the oil, power and light, rayon and textile, natural gas, retail trade, and insurance industries. Holdings in these industries total 43.6% of the Fund.

Knickerbocker Up 81%

Karl D. Pettit, President, reports that Knickerbocker Fund has advanced to $13,560,000, from $7,499,865, an increase of 81% from the low of the market last year to Oct. 7, 1950.

Commonwealth Up 90%

As of Sept. 30, Commonwealth Investment Company's net assets were $21,692 618 — reflecting a growth of 90% since the beginning of the year.

Sales for the first nine months of 1950 amounted to $10,533,400, compared with sales of $3,645,700 in the first nine months of 1949, representing a gain of 189%.

Commonwealth's portfolio on Sept. 30 was diversified among 302 different securities and distributed as follows:

Common stocks, 63.5%; preferred stocks, 19.7%; corporate bonds, 4.3%; U. S. Government

Open-End Statistics—Sept. 30, 1950*

98 Open-End Funds
(000's omitted)

Total Net Assets

	9-30-50	6-30-50	12-31-49	9-30-49
44 Common Stock Funds	$1,120,465	$1,000,665	$942,952	$835,149
28 Balanced Funds	675,318	608,337	540,932	479,752
26 Bond & Specialty Funds	558,557	506,917	489,663	440,259
98 Total	$2,354,340	$2,115,919	$1,973,547	$1,755,160

Sales

	3rd Quarter 1950	2nd Quarter 1950	1st 9 Mos. 1950	1st 9 Mos. 1949
44 Common Stock Funds	$51,345	$47,579	$159,564	$110,284
28 Balanced Funds	42,055	43,540	132,395	88,532
26 Bond & Specialty Funds	26,267	32,207	91,480	60,860
98 Total	$119,667	$123,416	$383,439	$259,676

Repurchases

	3rd Quarter 1950	2nd Quarter 1950	1st 9 Mos. 1950	1st 9 Mos. 1949
44 Common Stock Funds	$24,187	$35,458	$83,155	$19,979
28 Balanced Funds	9,727	13,734	33,780	14,568
26 Bond & Specialty Funds	29,611	29,214	81,027	32,389
98 Total	$63,525	$78,406	$197,962	$66,936

Net Sales

	3rd Quarter 1950	2nd Quarter 1950	1st 9 Mos. 1950	1st 9 Mos. 1949
44 Common Stock Funds	$27,158	$12,121	$76,409	$90,304
28 Balanced Funds	32,328	29,806	98,615	73,965
26 Bond & Specialty Funds	— 3,344	3,083	10.453	28,471
98 Total	$56,142	$45,010	$185,477	$192,740

	3rd Quarter 1950	2nd Quarter 1950	1st 9 Mos. 1950	1st 9 Mos. 1949
New York Stock Exchange Volume (No. of shares—not dollars; ooo's omitted)	121,616	135,496	373,505	176,775

*Figures compiled by National Association of Investment Companies.

bonds, 3.2%; net cash and receivables, 9.3%.

Affiliated Fund Reports

Report of Affiliated Fund Inc. for the last quarter of the company's fiscal year reveals asset value per share of $4.36 as of Sept. 30, 1950, compared with $3.80 per share as of Sept. 30, 1949. Net assets of the Fund, as of Sept. 30, 1950, were $106,474,631.

Chemical Fund Income Rises Sharply

Thirty-six leading chemical companies, represented in the portfolio of Chemical Fund, Inc., show an average gain of 20% in dividend declarations during the first nine months of 1950 over the similar period of 1949, according to the Fund's quarterly report issued to shareholders today (Oct. 16). In the first half of the current year a gain of 16% was registered.

Of the 20 companies which paid larger dividends in the first nine months, 12 paid amounts ranging from 25 to 100% more than in the previous year.

Net income of the Fund for the nine months totaled $836,543, exclusive of gain or loss on sales of investments. Net income for the first nine months of 1949 amounted to $617,736.

Total net assets of Chemical Fund, Inc., on Sept. 30, 1950, amounted to $33,764,037 represented by 1,969,053 outstanding shares. This compares with net assets of $31,554,236 on June 30, 1950, represented by 1,967,975 shares. Net asset value at the close of the third quarter, taking the portfolio at market value, was $17.14 per share compared with $16.03 per share three months earlier.

Continued from page 11

Economic Outlook for Retailing

arising since the start of the Korean War. Spending in this area is once more reaching its postwar peak and will provide important support to incomes in an area which was an important contributing factor to the 1949 recession.

This brief summary indicates that consumer incomes will continue to expand and hence provide the basis for higher retail sales. Under ordinary circumstances, we could rest our analysis at this point. Today, however, there is another problem which must be considered. Will we have the goods to meet consumers' demands?

Outlook for Supplies

I should like at the outset to give you a few figures concerning the rate of production and net imports of certain basic commodities now, in 1949, and in 1944 when the wartime peak usually was reached in most instances, (in tons):

	1944	1949	2nd Quar. 1950 (Annual Rate)
Steel products	63,300,000	58,400,000	73,600,000
Refined copper	1,713,000	1,204,000	1,600,000
Slab zinc	934,000	942,000	1,024,000
Refined lead	690,000	767,000	1,000,000
Aluminum primary	877,000	690,000	900,000
Tin	44,000	96,000	118,000

Source: "Survey of Current Business," September, 1950, p. 12.

Two interesting points emerge from this table:

(1) Except for copper, we now have available larger supplies for each of these products than we did at the peak of World War II.

(2) The spread was even wider as compared with 1949 for three products, (steel, copper, and aluminum).

Since so much emphasis has been given to the probable shortage of steel, let us examine briefly the supply situation for that product. The current rate of production is more than 10 million tons in excess of the 1944 rate and 15 million tons above the 1949 rate. It has been estimated that the war effort will require 6% of the total annual output or less than 5 million tons. If this estimate turns out to be accurate, we will still have 10 million tons *more* steel available for civilian consumption than we had in 1949 and about 5 million tons more than we had for all purposes during the war. Even if the requirements are doubled, as has been estimated in some quarters, there will still be close to a record quantity of steel available for civilian use. I recognize, of course, that for some special types of steel the situation will be much tighter than indicated by these overall figures. Nevertheless, these data do not suggest a significant cut in steel supplies. In addition, it must be kept in mind that the steel industry is now in the process of expanding capacity of ingots by some 10 million tons, a program destined for completion during the next two years.

One other point should be noted in connection with the steel situation. During the past four years, 29 million tons of steel were lost because of strikes. This was an average of almost 8 million tons a year. We could meet all or a substantial part of our defense requirements and still have as much steel as we have had for civilian purposes, if there are no strikes.

The situation is similar for other basic commodities. What these data suggest is clear. Although cutbacks below recent output levels for some products will be substantial, we face a moderate reduction in *total* civilian supplies from the amount available at the peak of the 1950 boom. We still have available quantities which by all past standards, will provide sizable supplies for consumers.

Let me state it differently. Currently, the gross national product is running at an annual rate of $282 billion. An increase in war spending by $15 to $25 billion would still leave $257 to $267 billion available to meet the various other government, consumer, and business demands. The magnitude of this figure emerges when it is compared with the gross national product in recent years.

1939	$91,300,000,000
1944	213,700,000,000
1947	233,300,000,000
1948	259,100,000,000
1949	255,600,000,000

Total gross national product less the projected increase in government spending would still be greater than the 1949 total and close to the 1948 total. This comparison presents the situation in its least favorable light, because a further increase in gross national product above the $282 billion seems certain. Moreover, the net increase in government spending may be smaller than indicated because of reductions in government expenditures for agriculture, housing, veterans' administration, etc. This latter development would mean a larger value of goods and services for civilians than indicated by the total figures. Of course, this difference reflects, in part, rising prices.

These overall data make it abundantly clear that in the aggregate there can be fairly close to a record quantity of goods available for sale although sharp reductions can take place for particular items.

Some Unfavorable Factors

The analysis presented is a favorable one. However, there are several factors which may affect the situation adversely to a moderate degree in the next few months. These factors may be summarized as follows:

(1) The change in psychology from the fear of total war to the problem of adjusting to a 10 to 15% war will act to reduce the amount of forward buying and hoarding by business and by consumers. Already, there has been some easing of wholesale prices of basic materials in response to this situation.

(2) Part of the buying during the third quarter clearly was of the anticipatory type. In the absence of any new war incidents, it is logical to expect that this buying represented in part a borrowing from future sales. Within the framework of a 10% to 15% war economy, we will still continue to produce a substantial volume of automobiles, houses, electrical appliances and other durable goods. As this fact becomes increasingly clear, it should be reflected in a reduced urgency to buy, and hence in the volume of current sales.

(3) Tighter controls on housing credit and various types of installment credit will mean lower sales of the products involved. That this is not as calamitous as it sounds, will become apparent when it is remembered that automobile and housing sales have been at stratospheric levels. Many students of this problem, including myself, felt that some reduction in activity was to be anticipated in these areas, apart from the Korean situation. A reduction forced by our war production, therefore, will provide a corrective which should be healthy for the economy.

Conclusion

The impact of these developments upon retailers will depend pretty largely upon the types of goods they handle. It seems clear that income after taxes in the hands of consumers is going to be at record high levels. Retail sales are closely related to the level of such incomes. Record high levels of disposable incomes mean record high levels of retail sales. However, not all departments will share in these record sales. In those areas where the encroaching war production results in curtailment of supplies, some falling off must be expected. In other departments, increases may be expected.

If the past provides us any guidance, there is little basis to anticipate a curtailment in retail margins under these conditions. Retailers have had a long and successful experience in adjusting their overall mark-ups to meet such situations. During such a period, price cutting may be expected to decrease, thus contributing to the overall margin. In light of these factors, it seems to me that on balance retailers can face the future with considerable optimism.

Public Utility Securities

By OWEN ELY

Northern States Power Company

Northern States Power Company of Minnesota and its subsidiaries furnish electric service at retail to 489 cities and towns, and at wholesale (directly or indirectly) to 114 additional communities. Some 420 of these (including the Twin Cities) are located in Minnesota, 118 in Wisconsin, 21 in North Dakota, and 44 in South Dakota. The total population served is about 1,840,000. With annual revenues of $79 million, the system is the largest in the west central area.

Principal business activities in the areas served are agriculture, dairying, milling, meat packing, and manufacturing, the last being very well diversified, principally in the lighter lines.

Approximately 89% of revenues reflect electric sales, 8% gas, and 3% heating, water, telephone, and miscellaneous. About 82% of electric output is generated from steam, and the balance from hydro, with a small amount purchased. Of the electric revenues, 40% is residential and rural, 27% small commercial and industrial, 21% large commercial and industrial, and 12% wholesale and miscellaneous.

The parent Minnesota company is free of state-wide regulation, there being no commission in that state. System residential revenues per kwh. (2.92c) approximate the national average, and the average residential use (2103 kwh. per annum) exceeds the national average figure. The high percentage of residential and rural sales helps to stabilize the company's operations. However, while the area served is heavily agricultural in character and in prewar days was not especially noted for growth characteristics, Northern States Power's revenues have gained 50% in the postwar period, and system net income has more than doubled.

Capitalization of the company and its susbidiaries is as follows, adjusted for pending sale of $17.5 million new preferred stock and the proposed payment of $10 million bank loans:

	Millions	Percentage
Long-Term Debt	$133	49
Preferred Stock	66	24
Common Stock Equity (11,083,000 shares)*	73	27
Totals	$272	100

*Excluding all reported intangibles.

The consolidated earnings record in the past decade has been as follows:

	Revenues (Millions)	Net Income (Millions)	Share Earnings*
12 months to July 31, 1950	$78.6	$13.4	$1.04
Calendar Years:			
1949	75.6	13.4	1.04
1948	67.9	10.0	.91
1947	60.9	9.6	.90
1946	55.1	10.1	.93
1945	53.1	6.2	.50
1944	49.1	6.4	.52
1943	46.6	6.5	.54
1942	44.0	6.4	.52
1941	42.6	7.9	.69
1940	40.0	7.9	.69

*Based on 9,527,000 shares in the years 1940-47, the number of reclassified shares issued in connection with the dissolution of the holding company, Northern States Power of Delaware.

Complete 1950 figures are not available, but in the calendar year 1949 depreciation allowance approximated 9% of revenues and maintenance expense 6.3%, or a total of 15.3%—about an average ratio. In the 12 months ended July 31, 1950 14.6% of gross revenues was carried down to the balance for common stock, a favorable percentage as compared with some other large companies such as Consolidated Edison, Public Service Electric & Gas, Consolidated Gas of Baltimore, Detroit Edison, etc.

Earnings this year have been somewhat handicapped by the adoption of a non-contributory funded pension plan effective Jan. 1, 1950. Of the total contributions to be made during 1950 (amounts in future years will be somewhat less) some $2,075,000 is chargeable to operating expenses. Considering Federal income taxes at rates specified in the 1950 Revenue Act, together with state income taxes, the net operating cost for this calendar year will be $1,137,000 (of which about $700,000 was incurred in the 12 months ended July 31). This amount is equivalent to about 10c a share on the 11,083,000 shares of common stock now outstanding. Current preferred stock financing, and the retirement of $10 million 2% Notes, will mean a net increase in charges ahead of the common stock by about $600,000 a year, or about 5c a share.

Dividends have been paid on the common stock at the rate of 70c per annum since the stock came into the hands of the public about two years ago. It has been selling recently on the Stock Exchange around 10⅞ (range this year 13-10) to yield about 6½%.

Edwin P. Schmidt With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Edwin P. Schmidt has become associated with E. F. Hutton & Company, Board of Trade Building. Mr. Schmidt since 1913 has been associated with Clement, Curtis & Co.

Keizer Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Marshal Molay has become connected with Keizer & Co., 19 Congress Street.

Jury Rules that Chester de Willers Died A Natural Death

Chester E. de Willers did not take his own life in a Stony Brook cottage last winter a jury ruled yesterday in a Mineola Supreme Court at Long Island, N. Y., and his widow, Mrs. Mildred H. de Willers of Rockville Centre, is entitled to collect on his $20,000 life insurance policy.

After deliberating a half hour, the panel of ten men and two women returned a unanimous decision last night in favor of Mrs. de Willers in her suit against a Philadelphia insurance company.

Mr. de Willers, 50, and then a resident of 5 Clent Road, Great Neck, was found dead of illuminating gas poisoning Jan. 4 in the kitchen of his summer cottage on Oakfield Road, Stony Brook.

The insurance firm refused to pay the cash to Mrs. de Willers, beneficiary in the policy which her husband took out in 1949, citing a clause which voided the policy if Mr. de Willers committed suicide within two years.

She insisted the death was accidental, a viewpoint upheld by the jury which heard the case before Justice Cortland A. Johnson.

Goldman, Sachs & Co. Arranges McKesson & Robbins Private Loan

McKesson & Robbins, Inc. consummated the borrowing of $22,000,000 from ten institutions on Oct. 13 under loan arrangements made through Goldman, Sachs & Co. earlier this year. The notes evidencing the loan have a final maturity on Oct. 1, 1975 and an interest rate of 2.80%.

The proceeds are being used to retire the company's $15,000,000 issue of $4 cumulative preferred stock, which was called for redemption on Oct. 15, and for additional working capital.

Lehman Corp. Elects

Stockholders of The Lehman Corp. at their annual meeting held in New York today, elected as directors: Arthur H. Bunker, Curtis E. Calder, J. Herbert Case, Lucius D. Clay, I. J. Harvey, Jr., Thomas A. Morgan, B. Earl Puckett, Alexander Sachs, Harold V. Smith and the following six partners of Lehman Brothers: Robert Lehman, Allan S. Lehman, Monroe C. Gutman, Wm. J. Hammerslough, John M. Hancock, and Paul M. Mazur.

Alvin W. Pearson and Dorsey Richardson, Vice-Presidents of the corporation, were also reelected as directors.

The appointment of Price, Waterhouse & Co. as Auditors of the corporation for the current fiscal year was also ratified.

Hamilton Management

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Mrs. Lucile A. Bibin, Arnold J. Mosbek and Eldridge S. Norton have been added to the staff of Hamilton Management Corporation, Boston Building.

Sills, Fairman Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—LeRoy B. Murdock has become affiliated with Sills, Fairman & Harris, Incorporated, 209 South La Salle Street, members of the Midwest Stock Exchange.

Joins Courts & Co.

(Special to THE FINANCIAL CHRONICLE)

NEWNAN, Ga. — Thomas M. Johnson, Jr. has become affiliated with Courts & Co., 22 Greenville Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

An irregular market with indecisive price movements and light volume seems to be the way traders and investors are sizing up the immediate or near-term outlook for Treasury obligations. As has been the case, Federal continues to completely dominate the money markets in its fight against inflation, and this has not generally made for sizable operations by either bank or nonbank investors. Despite the uncertainty over higher interest rates and larger reserve requirements, many money market followers believe quotations of certain eligible issues have quite fully discounted these developments. The 1952/54s and the 1956/59s are being carefully watched for a buying spot when, as and if the aforementioned events should take place. The near-term bank issues that are selling below 100 are attracting some buying from those that have been doing tax loss selling.

The ineligibles continue to move in a very narrow range but on somewhat reduced volume. Sellers are in the majority, but are not making too much progress in getting rid of their bonds.

Short-Term Rate Trend Upward

The government market continues to assume a defensive attitude because the same uncertainties are present in the situation, which have been there since the split between the two authorities, over the level of interest rates. The recent refunding (September-October) brought this disagreement out into the open, and it resulted in the early fall operation being one of the greatest "flops" in our financial history. Federal, because of the need to curb the forces of inflation in the interim period, before more direct controls go into effect, has been raising interest rates. The Central Banks are assuming in no uncertain way their responsibilities to defeat the inflationary trend and this may even bring about higher interest rates, especially in the short-term sector.

So far, slightly firmer short-term rates have not affected loans, which are still in an uptrend, partly due to seasonal factors and partly because of higher costs, which creates a need for larger working capital. Will a 1½% yearly rate retard the demand for loanable funds? A certificate rate of 1½% is the highest that is looked for by most followers of the money markets. There is considerable question as to whether or not another ⅛% rise in the yearly rate will have any appreciable effect upon loans. Nonetheless, the upping of near-term rates is a warning by Federal that they intend to use all the forces at their disposal to curb the inflationary trend. More credit can be neutralized by an increase in reserve requirements, and there has been more than a little talk about this being done.

Credit Reduction Measures

With Regulation X in force and Regulation W further strengthened there should be a greater limiting of the credit which has been going into housing and durable consumers' goods. Although it is still early to indicate there may even have to be more restrictive action taken under these and other regulations and there seems to be no reason to believe the authorities will be hesitant about doing such a thing. Higher taxes, allocations and other measures should be effective in controlling the inflationary forces. Putting all of them together, that is, the direct controls, may mean there will be less need for higher interest rates as a force in retarding the inflationary spiral. If direct controls are used properly there should be less demand for loans and mortgages. Likewise state, municipal and corporate flotations would probably be decreased. Under such conditions, money rates are not likely to continue to firm. It is quite possible the money markets may revert to the status which was in vogue during the war period. There might even be an easing in rates and institutions would again be seeking the government market as an outlet for surplus funds.

If this should eventually be the case, the Central Banks would again be sellers of Treasuries, especially the longs, to insurance companies, savings banks and others. The usual charges would no doubt be exacted by Federal from these institutions, in the form of higher prices (maybe a point or more) collected for the trouble of acting as safekeeper of the bonds which they sold them usually at the bottom of the market.

Market Uncertainty Continues

While the economy is getting ready for more stringent regulations which will be coming quite soon (very shortly after the elections) the money markets continue to be nervous, under complete domination by Federal. The fear of higher short-term rates keeps the intermediate and long bank issues on the defensive. This is in spite of the feeling that some issues have fairly well discounted higher near-term rates. Then there is the uncertainty over reserve requirements which may be upped any time. This would bring some temporary selling into the longer eligible sector of the market because a great many deposit banks just do not have the necessary shorts to dispose of in order to take care of increased reserve requirements.

The ineligibles continue to be stable under selective and limited support by the Central Banks. There are sizable amounts of the tap issues which are seeking a home, but Federal, the main large-scale buyer, has not yet seen fit to do very much about eliminating these securities from the market.

With Laird, Bissell

PHILADELPHIA, Pa. — Laird, Bissell & Meeds, members of the New York and Philadelphia-Baltimore Stock Exchanges, announce the association with them in their Philadelphia office, Lincoln-Liberty Bldg., of Herbert M. Weiner as a registered representative.

Laird & Co. to Admit

WILMINGTON, Del.—Laird & Co., Nemours Bldg., members of the New York and Midwest Stock Exchanges, will admit Hugh C. Wallace and Hugh R. Morrison to partnership on Nov. 1. On the same date, E. C. Stollenwerck, limited partner, will become a general partner.

Celebrate Hallgarten Centenary

Maurice Newton (right), senior partner of the firm of Hallgarten & Co., investment bankers, receives congratulations from Emil Schram, President of the New York Stock Exchange, on the firm's commemoration of its 100th anniversary. One of the oldest investment houses in the United States, Hallgarten & Co. was founded Oct. 17, 1850, as a modest foreign exchange business. The firm became a member of the New York Stock Exchange in 1881, and has been a major factor in the financing and development of many of the country's great industrial and railroad companies. The centenary was marked by a reception at the Waldorf-Astoria Hotel Tuesday afternoon at which partners of the firm were hosts to leaders in the financial, industrial, railroad and commercial fields.

At the present the firm has six partners, a majority of whom are direct descendants of one of the early partners of the founders. Partners of the firm include: Maurice Newton, Harry H. Moore, Donald S. Stralem, Leonard D. Newborg, Pierre Stralem and Frederick M. Peyser who in his early years in Wall Street was a member of the "Chronicle's" editorial department. The firm maintains European offices in London and Geneva.

Continued from page 13

Will Arm to Fight Aggression: Truman

ence of a small nation which was brutally attacked.

We know that the peoples of Asia have problems of social injustice to solve. They want their farmers to own their land and to enjoy the fruits of their toil. That is one of our great national principles also. We believe in the family-size farm. That is the basis, of our agriculture and has strongly influenced our form of government.

We know that the peoples of Asia want their industrial workers to have their full measure of freedom and rising standards of living. So do we. That is the basis of our industrial society in this country.

We know that the peoples of Asia have problems of production; they need to produce more food and clothing and shelter. It is in this field that we can make a special contribution by sharing with others the productive techniques which we have discovered in our own experience.

We are not strangers to the Far East. For more than a century our missionaries, doctors, teachers, traders and businessmen have knit many ties of friendship between us. If we can be of help, we are ready to offer it—but only to those who want it. Through the Economic Cooperation Administration, Point IV and in many other ways we are trying to help the peoples of other countries to improve their living standards. We will continue these programs in cooperation with the United Nations. Even as we undertake the necessary burdens of defense against aggression, we will help to expand the work of aiding human progress. Otherwise, measures of defense alone will have little value.

Seeks Full Partnership With Asiatic Peoples

We seek full partnership with the peoples of Asia, as with all other peoples, in the defense and support of the ideals which we and they have written into the Charter of the United Nations. This is the partnership of peace.

I have spoken to you tonight about some of the things which all of us are thinking about as we press ahead to finish our job in Korea. At a time when our forces under Gen. MacArthur are locked in combat with a stubborn enemy, it is essential for us to understand what our broad purposes are and see clearly the kind of world we seek to build. As your President, I realize what it means to the homes of America to have the youth of our land called to meet aggression. These are the most solemn decisions and impose the heaviest responsibility upon those who must make them. I have told you tonight why we must do what we are doing. We hate war, but we love our liberties. We will not see them destroyed. We want peace, but it must be a peace founded upon justice. That American policy is as old as our republic, and it is stronger today than ever before in our history. We intend to keep it that way.

Guideposts and Procedures In World Bank Loans

By ORVIS A. SCHMIDT*
Assistant to Director, Loan Dept.,
International Bank for Reconstruction and Development

Mr. Schmidt, in stressing ability of World Bank to adopt an impartial attitude by weighing merits of individual projects and applying same objective standards to prospective borrowers, lays down as principal guideposts in making loans: (1) loans must be for productive purposes; (2) loans to private enterprises must be guaranteed by a government, or central bank, or other comparable agency; (3) there must be reasonable prospects for repayment; and (4) borrower must be unable to finance in private market on reasonable terms. Points out risks inherent in international banking, and describes procedures in investigating, granting and supervision of loans.

As regards the basic organization and capital structure of the International Bank for Reconstruction and Development, Mr. Sommers has no doubt pointed out that the Bank is an international cooperative lending institution consisting of some 48 different member nations. We are hence in a slightly different position than other lending organizations in that we are dealing primarily with our own stockholders.

Orvis A. Schmidt

Our position as an international organization puts us at an advantage in comparison with a national organization. The international character of the Bank is indicated by the fact that there are some 30 different nationalities represented among the Bank's technical staff, and the 14 members of the Board of Directors represent all 48 members. No country need feel that there are political implications attached to its dealings with the International Bank.

We are, therefore, well placed to inquire objectively, to assess and weigh the merits of proposals submitted to us.

Secondly, the fact that all member countries are, in effect, guarantors of all obligations of the Bank—since the Bank may call on the capital subscribed by all members to make good any losses—enhances the ability of the Bank to adopt an attitude of impartiality, of weighing the merits of the individual projects, and of applying by and large the same objective standards to all of our prospective borrowers.

Mr. Sommers has explained the capital structure of the Bank, and pointed out that only a small part of the Bank's capital structure has been paid in; namely, 18% in the currencies of our members and 2% in gold or dollars. This means that we are able to lend not merely in the currency of any one particular country, but in the currency of many member countries. There are some limitations that Mr. Sommers has already explained.

The fact I want to touch on is that 80% of the capital is not paid in but consists, in effect, of a guarantee by the member countries to put up that much if it should ever be needed to make good any losses of the Bank.

In setting up the Bank, provision could have been made whereby its loans would be made only out of funds subscribed by its member governments and with the Bank having no authority to borrow in the private market. But the complete reliance upon government funds might have diminished the Bank's independence. Had that been done, the Bank would have been relieved of the task of raising money in the market.

Since the Bank has been established with its capital not fully paid in, the Bank must raise most of its funds in the private market. The Bank must, therefore, be far more conscious of the standards applied in the private market than an organization would have to if it were merely lending out money that had been given to it by governmental appropriation. And the private market, in turn, is going to watch the operations of the Bank far more closely and be more willing to work with it in promoting a healthy international flow of capital.

Some Guideposts

The Bank has been set up for the purpose of assisting countries to finance worthy projects, and to do so in a manner that will stimulate the flow of private capital and contribute to the development of its members. The character of the Bank's operations and its objectives will become apparent from some of the guideposts that were set down in the Bank's charter — guideposts which the Bank is instructed to follow in developing its loan policy. The following are the more important of such guideposts:

(1) The Bank's loans must be for productive purposes. As the Bank's title indicates, it was designed to assist the war-torn countries in reconstructing and the underdeveloped countries in developing their economies. That is how we get the name, International Bank for Reconstruction and Development.

As such, the Bank must apply a somewhat broader test than merely the profitabilty of a project. A project may be submitted to the Bank which the sponsors can show would be profitable, would pay off, but if it does not meet the further test of contributing to the country's reconstruction or development, the Bank would not consider financing such a project. For example, somebody might be able to show that a gambling casino might be a very profitable venture, and might pay very handsome dividends, yet it is not the kind of project that the Bank would consider financing.

Generally, the projects which the Bank considers are those which will contributed to the development of a country in two ways: (1) the project in itself must be productive, must produce something that is needed, or enable something to be done that ought to be done to advance the country's development; and (2) if a project tends to stimulate private capital to undertake other productive projects, that makes it even more attractive, because one of the broad objectives of the Bank is to try to bring about conditions under which private capital can participate along with Bank loans in fostering the development of the country.

The amount that the Bank can lend, although apparently large when you recite it as a figure, is relatively small when you compare it with the amount of capital that can flow if we succeed in enlisting the aid of private capital. Thus, in looking at projects, we attempt to find those which will be productive in this broader sense.

(2) Loans not made to member governments must be guaranteed by the government, the central bank, or some comparable agency acceptable to the Bank, of the member country in which the projects are located. That does not mean that we can lend only to governments. We can lend to any private group or organization, and we have lent directly to private companies. It does mean, however, that when a loan is made to a private company, or a private group, the government must guarantee the loan.

The next two guideposts are interesting, particularly when you consider them together. The third is that there must be reasonable prospects for repayment of the loan, and the fourth is that the borrower must be unable to finance the project in the private market on reasonable terms.

At first blush there seems to be some contradiction in the two, which vanishes, however, when you give the matter a little thought.

Turning to the first of these two, that "there must be reasonable prospects of repayment" means that we are not a giveaway organization; we are lending money in the expectation that it will be repaid, and that the interest and other charges on it will be paid. Consequently, we have to examine the merits of each case, consider the ability not only of the country to service a loan for that purpose, but also of the borrower to carry out the project successfully.

You may ask: If you are satisfied that there are reasonable prospects for repayment of the loan, how can you be sure that the next criterion is satisfied, namely, that the borrower is unable to finance the project in the private market on reasonable terms?

Difficulties in Private International Investment

The answer is that in the world today there are many risks of a type which the World Bank can bear, but which private lending institutions are not in a position, or willing, to bear. And it was to finance sound projects, from which private capital is deterred because of such risks, that the Bank was created.

First, there are the risks inherent in international lending as such—risks of loss through nationalization of property, inability to transfer funds, or (in some areas) of the outbreak of war. While the World Bank must also be conscious of these types of risks, it is in a better position than most private investors to evaluate them and to protect itself against them.

Secondly, there are many kinds of projects which are deserving, which are sound, which look as though they will pay off, but which may take a long time before they will begin to yield enough returns to satisfy the private lender.

In discussions I have had with representatives of the private capital market, they have often referred to a project and said: "Yes, it is a very good project. It ought to go forward. But that is the kind of thing that takes a 20- or 25-year operation, and we aren't in a position to wait that long."

Another kind of operation which the Bank may undertake, but which private capital is reluctant to undertake is the kind where the amount of capital needed to make the project a success is larger that most private groups or any private *consortia* may want to invest. You may, for example, have a coal mine as a project. Everybody agrees it will produce coal, and that it is in an area where there is a market for it. But in order to get a coal mine you may have to have a railroad and a port. And for the coal to be mined you have to do not just a coal-mining project, but a coal-mining-railroad-port project. Such a type of project may fall into both categories, in that it may not only take a lot of capital but may also be the kind of project that will only pay off over a long period of time.

Thus, as you see, the requirement of reasonable prospects of repayment is not inconsistent with the requirement that the borrower be unable to finance the project on reasonable terms in the private market.

The latter requirement also shows that the Bank is not set up to compete with private lending, but rather to supplement it. If somebody comes to the Bank and says, "Look, we have a good project, and we can get financing in the private market, but we would rather do it with you," why, that isn't the kind of thing we would undertake. We try not to take business away from private lenders. On the contrary, we try, at every stage, to handle operations in such a way as to increase the amount of private lending—to make our loans in such a way that they will increase the amount of capital the private market is willing to lend.

The fifth of the guideposts set forth in the Articles of Agreement is that the Bank is to finance only the foreign exchange costs of a project, except in "exceptional circumstances." The "exceptional circumstances" are in quotes.

Provision of Local Currency

This means that, as a general rule, we require the sponsor of the project (the borrower) either to provide the local currency himself or to raise it locally.

To make it absolutely clear, let me give you an example. In almost any kind of project you can divide the costs into two main categories: (1) the costs of imported goods, materials and services; and (2) the costs of goods, materials and services that are procured locally.

Take a hydroelectric plant, for example. You've got to buy the site, that is the land or water rights, which would ordinarily be paid for in the currency of the country. You will have to pay for the services of local labor. Men who are going to build the roads and who are going to do work in the construction of the plant will be paid in local currency. Possibly the country has a cement plant that can furnish the cement that you are going to need. Those are the local currency costs of the project.

On the other hand, if it is an undeveloped country, it probably cannot produce the turbines, the transformers, the insulators, the wire, and things of that type. Those will all have to be imported. Furthermore, they may have to import technical skills necessary to build the dam and supervise the installation of the equipment. Those would be regarded as the foreign exchange costs of the project.

Now, if the Bank were to consider making a loan to finance a project of the type I have just referred to, we would ordinarily lend to cover the costs of the imported material and services—the turbines, the generators, the wire—and require the borrower to raise the local currency needed to pay for the costs of tne site, the labor, the locally procured materials.

Very often the foreign exchange costs are half, or less, of the costs of the entire project. Sometimes they are more.

The reason for this requirement is that when you come to pay off an international loan you have what you might regard as two critical stages. The first stage is that of earning the local currency and the second is the purchase with that local currency of the foreign exchange that is needed to service the loan. To the extent that capital is locally raised, you have to meet only the first stage; namely, acquiring the local currency. Thus, projects which may successfully pass the first stage may nevertheless give rise to defaulted loans because of the inability to acquire with local currency the foreign exchange needed to repay the loan.

Loans to Germany After World War I

I think the best example I can give is the case of Germany after the first world war. Very substantial amounts of capital were poured into Germany for the purpose of financing individual projects, and I think if you examine the record you will find that, by and large, the loans were successful to the extent of passing the first critical stage; namely, most of the projects were a success in that the particular enterprises were able to operate as going businesses in Germany and to earn enough reichsmarks to pay the interest and amortization on the loans that were made. But when all of these various borrowers came to the foreign exchange market to buy the dollars, the sterling, or the Swiss francs that were needed in order to service these loans, the foreign exchange wasn't there, the loans went into default, and the reichsmarks were deposited in various blocked accounts.

The general policy of lending to cover only the foreign exchange costs tends to limit the size of the country's foreign debt and make it easier for the country to service the foreign obligations that it undertakes.

Looking at it in another way, if a country's ability to service debt is less in terms of foreign currency that in terms of local currency, it can finance more projects if it restricts the borrowing for each project to as small an amount of foreign currency as is necessary.

There is, of course, the "exceptional circumstance" clause. As yet the Bank has not done any local currency financing under this clause, but it is a possibility that is not to be ruled out. There will be cases in which the Bank decides it is justified in not limiting its loan to the foreign exchange costs of the project.

The last of these guideposts to which I am going to refer is one that requires the Bank to satisfy itself that the equipment procured with the loan is actually used in the project. This gives rise to our policy commonly referred to as end use supervision.

The actual implementation of this policy is as follows: Unlike many loans that have been made in the past, our loans do not result in the transfer to the borrower in cash of the amount of money loaned. Instead, the Bank agrees to finance the procurement of a "list of goods" needed in the project.

This "list of goods" is a list of materials, equipment, and services that are to be financed out of the Bank's loan. The funds lent by

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*A talk by Mr. Schmidt on Aug. 1, following the tenth lecture by Mr. Sommers in a series of 17 on The New York Securities Markets and their operations sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

Advertising of Securities

By LOUIS ENGEL*

Advertising Manager, Merrill Lynch, Pierce, Fenner & Beane

Stressing widespread ownership of securities as having personal, political, social and economic importance, Mr. Engel places as primary objective in advertising more securities owners, and selling by dealers for gain as secondary consideration. Refers to redistribution of wealth due to progressive rates in taxation, thus requiring investors in lower income brackets to furnish larger portion of equity capital. Says advertising and selling securities involves ethical problems as well as mass selling, and asserts there is a growing desire for knowledge of securities.

The advertising and selling philosophy of Merrill Lynch, Pierce, Fenner & Beane rests on one simple premise: We believe it is desirable from every point of view—personal, political, social, and economic—for everyone to own securities who can afford it. We believe such people should have a direct ownership interest in Acerican business.

Louis Engel

That proposition seems so self-evident that it needs no demonstration, but simply by way of documentation it might be noted that unless we in the securities business can induce the people of America to invest their funds in stocks and bonds, industry is likely to find itself hard up for new capital in a not too distant future.

This is one result of the economic revolution which has taken place in this country—a revolution which has in no sense of the word yet run its course. Partly because of the application of the tax laws and partly because of the rise of a militant labor movement that has demanded a larger share of the national income, there has been, as everyone knows, a vital redistribution of wealth. It is no exaggeration today to describe the millionaire as the vanishing American. Even the number of those who might be described as moderately rich or "well off" has declined drastically.

As a consequence there are few large reservoirs of private wealth which business can expect to tap in raising the risk capital it needs for continued growth and expansion. Instead, business must look for its capital to the people of moderate income — hundreds of thousands of them.

And you cannot expect these people to put their money at risk unless they have first become familiar with the concept of securities through the ownership of stocks and bonds now outstanding —the securities of such corporations as General Electric, General Motors, U. S. Steel, du Pont and the hundreds of others listed on the big exchanges.

So the primary objective of all our advertising is to sell the idea of owning securities, primarily common stocks. Only secondarily are we interested in selling the services of Merrill Lynch.

Problem of Reaching New Class of Investors

The problem of interesting a new class of potential investors in the ownership of securities is a problem of impressive proportions. If you will indulge a few statistics I should like to try to give you some of the dimensions of that problem.

First, for instance, let's go back to that fundamental problem, the redistribution of income in this country, and see exactly what has happened.

In 1929, there were 39,000 individuals who reported incomes of $50,000 a year or more, and the money this group had left after they paid their taxes—what you might call their spendable income—aggregated a little over $5 billion.

Now, by the end of the war, thanks to the general increase in national income, the number of people in the over-$50,000 category had actually increased—from 39,000 to 42,000 individuals. But significantly, the amount of money those presumably rich people had left after payment of taxes had declined by 60%. It dropped from $5 billion down to $1¾ billion.

That's half the picture. Now let's look at what happened to the people of moderate income—those in the $5,000 to $10,000 income bracket.

In 1929, they numbered some 650,000 and their aggregate income after taxes was about $4½ billion. By 1945, the number of individuals in this $5,000 — to — $10,000 income bracket had almost tripled, rising from 650,000 to 1,800,000. And, most dramatic of all, their aggregate income after taxes had more than doubled, jumping from $4½ billion to $10½ billion.

A Wholly New Income Class

That's why I say that the investors of tomorrow have got to be drawn from a wholly new income class. Business will have to get its capital not from a few people of great wealth but from a great many people of moderate wealth. And the securities business is going to have to gear its operations to that concept or delegate its financing function to the insurance companies, the banks, or the government—an eventuality that would be a most unhappy one as far as the health of our capitalist economy is concerned, for it would mean that a sharp brake would be applied to the development of new business and the expansion of old business into new fields. In effect, there would be no more venture capital.

How well is the securities business doing in meeting the challenge of the times—in getting the man in the street, the average man, to invest in securities?

The answer can be put in one word: Badly.

The evidence of that failure has been supplied by the Federal Reserve Board in its continuing survey of the ownership of consumer assets, which shows that only 9% of the income units of this country—meaning either families or individuals—own corporate stocks or bonds. In contrast, 48% of the units own their own home and 78% own life insurance.

It may be pointed out that we need not be too much concerned about that low figure for security ownership, because people in the lower income brackets neither can nor probably should own stocks.

But we should be very much concerned about the showing of those at the level of $10,000 or more income a year, for the great bulk of these people obviously can afford to own securities. And what do the Federal Reserve Board data show for these families and individuals? Well, it shows that less than half of them —46% to be precise—own corporate stocks and bonds. Why, you may ask, have the other 54% not become investors?

I realize that in these days of rising prices and apparently endless charges against every man's pocketbook, income may well be a faulty index to available cash—available for investment, that is.

But the Reserve Board has covered that angle of the situation too, and its findings on this point are even more disheartening. Of those whose liquid assets — cash or government bonds—total $5,000 or more, just one-third own corporate securities.

Market a Sizable One

From these data, it is apparent that the market which the securities business has to sell is indeed a sizable one.

It is not only a large market; it is also an uninformed market. Perhaps I should say it is a large market **because** it is so uninformed. Certainly the relationship between non-ownership of securities and the public's lack of information about them is clear and unmistakable.

For instance, when the Federal Reserve Board undertook to measure the attitude toward common stocks of those with $5,000 or more annual income, it found that a quarter readily admitted their lack of familiarity with common stocks; another third simply said they were "afraid," which was tantamount to saying they were uninformed, and almost another third either had no comment or gave various reasons for not owning stocks, all of which also clearly reflected a lack of understanding about securities.

More recently, the Stock Exchange has undertaken a definitive study to measure the public's attitude toward securities. For this job, it retained the Public Opinion Research Corporation, managed by Dr. George Gallup and Dr. Claude Robinson.

For the purposes of the survey, which was national in scope, Drs. Gallup and Robinson undertook to distinguish between the informed and the uninformed public. They set this dividing line about as low as possible by deciding to classify as "informed" those who knew enough about the Stock Exchange to know that stocks were bought and sold there. But even so, barely two-thirds of the public—68% to be exact—were able to qualify as "informed."

To get some idea of just how popular stocks and bonds were among these more enlightened people, the Public Opinion Research Corporation asked them just how they would invest money if they had some extra cash, and to make the problem as easy as possible it listed six possible channels of investment—government bonds, corporate bonds, stocks, life insurance, real estate, and savings banks.

Since those questioned were not restricted to a single choice — many picked three or four—the answers add up to more than 100%. Here are the types of investment and the proportion of the people who favored each.

Government bonds	83%
Life insurance	67
Savings banks	43
Real estate	42
Stocks	16
Corporate bonds	13

In an effort to determine just how much solid information and discrimination might be behind these selections, the research agency then put its question in

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*An address by Mr. Engel at the 33rd Annual Meeting of the National Association of Securities Administrators, Detroit, Mich., Oct. 11, 1950.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The records of operating earnings of the New York City banks for the period ending Sept. 30, 1950, have been issued during the past two weeks.

Most of the institutions reported an increase in the income received from loans. Fees and commissions were also higher. For most of the banks' interest on U. S. Government securities was unchanged or slightly lower. The results of these various changes were a good gain in gross earnings.

Operating expenses were also higher. Salaries and wages increased as did other operating expenses.

The combination of these factors was, in general, a moderate gain in operating earnings before Federal taxes.

Because of the increase in corporate tax rates, which became effective Oct. 1, many of the banks indicated on their reports that an adjustment in the tax account had been made to provide for the increased tax liability.

In spite of this, however, 9 of the 12 principal banks in the City which report operating earnings showed an increase in per share figures for the nine months ended Sept. 30, 1950, as compared with the corresponding period of a year ago. Among those which do not report operating earnings, the results indicated by changes in the undivided profits account and dividend payments showed a similar trend.

Securities profits among those institutions which report them varied considerably. Although there was no marked trend a considerable number of the banks showed modest gains in this category of profits.

Summarized below are the earnings results of 17 of the larger banks in New York City for the nine months ended Sept. 30, 1950, compared with those of a year previous. Where the institution does not report operating earnings the indicated results are shown.

	Operating —Earnings—		Securities —Profits—		Total —Earnings—	
	1950	1949	1950	1949	1950	1949
Bank of Manhattan	‡	‡	‡	‡	*$1.60	*$1.52
Bank of NY & 5th Av.	‡	‡	‡	‡	*15.76	*14.94
Bankers Trust	$1.87	$2.26	$0.01	$0.14	1.88	2.40
Central Hanover	‡	‡	‡	‡	*4.50	*4.50
Chase National	1.78	1.69	0.28	0.17	2.06	1.86
Chemical Bank	2.21	2.15	0.29	0.17	2.50	2.32
Commercial National	2.17	2.42	‡	‡	‡	‡
Corn Exchange	3.88	3.85	‡	‡	‡	‡
First National	‡	‡	‡	‡	*59.00	*53.16
Guaranty Trust	12.75	13.51	0.15	0.08	12.90	13.59
Irving Trust	1.07	1.02	‡	‡	‡	‡
Manufacturers Trust	3.79	3.48	‡	‡	‡	‡
Morgan, J. P.	11.45	10.55	0.32	4.20	11.77	14.75
†National City	2.52	2.40	0.32	0.09	2.84	2.49
New York Trust	5.16	4.71	0.01	0.05	5.17	4.76
Public National	3.32	3.08	0.58	0.03	3.90	3.11
U. S. Trust	‡	‡	‡	‡	*30.30	*31.45

*Indicated earnings. †Includes City Bank Farmers Trust Co. ‡Not reported.

Considering the forces at work in the banking field during the past nine months and the difficulties of bringing part of the increase in gross through to net earnings in the face of an increase in taxes, the showing made by banks so far is relatively favorable.

Although there has been a sharp increase in commercial loans so far this year, a considerable proportion of the gain has occurred during the last few months. Consequently, the full benefit of the larger volume has not as yet been reflected in the income account. There is also the fact that higher interest rates which became effective in August and September did not help the earnings reported at the end of September.

For these reasons we would expect results for the final quarter of the year to show a substantial improvement. While the imposition of credit restrictions, including higher reserve requirements, may limit the gain, final comparisons are expected to be generally favorable.

Street Club Holds Luncheon Meeting

CHICAGO, Ill. — The Street Club, a group of young bankers and investment men, will hold its first luncheon meeting of the 1950-51 season today, Oct. 19, in the Georgian Room of Carson, Pirie Scott & Co., with Harris Ward, Secretary of Commonwealth Edison Co., as speaker.

Appointed Manager of Paine, Webber Dept.

MILWAUKEE, Wis.—Gilbert M. Vonier has been appointed manager and F. O. Breitengross assistant manager of the investment department of Paine, Webber, Jackson & Curtis, 605 North Broadway. Mr. Vonier succeeds the late W. Brock Fuller.

Needed: A Tough Policy To Stop Inflation

By MARRINER S. ECCLES*
Member, Board of Governors, Federal Reserve System

Former Federal Reserve Chairman asserts direct controls to prevent inflation, such as rationing, price and wage controls, only conceal and postpone inflationary results of inadequate fiscal and monetary action. Says more reliance should be placed on functional economic stabilization through monetary and credit controls, adequate tax program and effective debt management policy.

One must face today's world and its future with hope but without too much expectation. Events have moved very rapidly these past few years. Three years ago, with our sole control of the atomic bomb and control of the sea and air, we could have enforced a peace settlement in Russia with little risk of war. Since then Russia and her satellites have gained enormously in economic and military strength. The Communist blitz in South Korea has made all of us reshape our thinking as to the kind of a world we are likely to live in during the next decade. Fears and uncertainty of war lay in the back of many of our minds prior to June 25. The events of that day and succeeding days have brought them sharply to the foreground. Nor will the end of the war in Korea mean the end of our present emergency. It has just begun and means the building up and maintenance of a large military establishment and helping other countries to do the same for many years to come.

Marriner S. Eccles

Two main problems face us in this emergency. First, we must rapidly build an adequate defense program. Second, we must develop a tough economic program at home to stop inflation. Both of these programs must be designed and carried out so as to get the maximum efficiency out of our economy.

As for the rearmament program, Russian agression can be stopped if we call their hand and convince them that we will aggressively resist further tyranny and conquest. This means that (1) we must utilize all of our resources and labor as effectively as possible; (2) we must devote as much of our national product to defense expenditures as we can afford; and (3) we must obtain the maximum cooperation of friendly nations and win the support of neutral nations.

Two Principal Programs

Of equal importance to a rearmament program is an economic program designed to assure financial stability at home. Two principal programs have been advanced in recent months to stop the inflation. The first involves a comprehensive harness of direct controls including price and wage fixing and rationing of goods. The second involves functional controls, principally fiscal and credit measures designed to reduce the volume of purchasing power available to the public and increase the purchasing power of the government.

Inflation stems from an excess of purchasing power over the available supply of goods and services. Only by adequate fiscal and credit measures can such excess be prevented. Direct controls —wage and price fixing, rationing, etc.—do not prevent inflation. They only conceal and postpone inflationary results of inadequate fiscal and monetary actions. They deal with symptoms rather than disease itself. They sugar coat the inflation so that the public's will to accept the required program is weakened and destroyed.

The cornerstone of functional controls must be based on fiscal measures, principally higher taxes, but also lower nonmilitary spending and an effective debt-management policy. A prolonged period of defense preparedness like the one we face must be financed on a pay-as-you-go basis if the purchasing power of the dollar is not to depreciate further. This involves not only very high taxes but much greater efficiency and economy in the spending of public money as well as the closing of all of the tax loopholes and an enforced collection of all of the taxes due the government.

An adequate tax program must be combined with a restrictive monetary and credit program if a functional economic stabilization program is to work in stopping inflation. People must not be allowed to bolster, through additional borrowing, their spendable incomes that have been reduced by higher taxes. Likewise wages and salaries should not be increased to offset increased taxation because they are either added to prices and made for inflation, or they are deducted from profits and thereby reduce the government's needed tax revenue and defeat a pay-as-you-go policy. However, it would be difficult, if not impossible, to adopt the needed restrictive monetary and credit policy for the public if the government runs large deficits instead of adopting a pay-as-you-go fiscal policy.

Money and Credit Controls Needed

Basically, monetary and credit controls are needed to stop the growth of bank credit. This is the source of the money supply which is already excessive and therefore the basis of inflation. This cannot be done voluntarily by nearly 15,000 competitive banks. Therefore, the Federal Reserve should be free to use such powers as it has and be given adequate additional authority to use if necessary to stop further credit inflation.

A tough program of fiscal and credit measures is an absolute essential for an effective economic stabilization program in the current situation. However, it must be accompanied by a limited number of selective direct controls, such as those on certain scarce materials and facilities and a vigorous program to induce people to save. A large volume of new savings by individuals and businesses is required to finance the capital goods and housing needs of a growing economy. However, they should not be expected to do this without assurance that the future purchasing power of the dollar will be protected. It has already been permitted to depreciate far too much in its value. The dollar is worth but 58 cents in purchasing power today as compared to ten years ago.

If a broad and strong functional economic control program is not adopted promptly and put into effect vigorously, either the inflationary spiral is bound to continue or without question it will be necessary to impose a straitjacket of objectionable direct controls and restrictions. Either development would be calamitous.

Inflation injures most those least able to bear injury. It strikes at the core of democratic capitalism. It destroys the strength and moving force of our economic system. It must be stopped. An extensive system of direct controls would not only seriously impair the functioning of our economic system but would also lead to the weakening and eventual destruction of the very foundation of social and economic life that we are seeking to preserve in our defense against Russian Communism.

*An address by Mr. Eccles at the Banquet of the 17th Biennial Congress of the Cooperative League of the U. S. A., Chicago, Ill., Oct. 12, 1950.

N. Y. Stock Exchange New Adv. Campaign

Commencing Oct. 17, the New York Stock Exchange will enter a new phase of its national advertising campaign. The purpose is to discuss basic information designed to bring about a broader understanding of what common stocks are and the function they perform.

The first newspaper advertisement is appearing in 380 dailies of 292 cities. Two additional newspaper ads will appear this fall. There will be one magazine advertisement.

A supplementary influence on the Exchange's decision to engage in this educational program came from the booklet entitled "Investment Facts About Common Stocks and Cash Dividends," which the Exchange and member firms issued in October, 1949. Requests for this publication have exceeded the 1,200,000 mark.

The advertising of the Exchange developed in 1949 and carried into June of this year presented actual case histories of individual and family investment undertakings in common stocks.

Merrill Lynch Opens New Midtown Office

Merrill Lynch, Pierce, Fenner & Beane have opened a new office in midtown Manhattan. Located at 1407 Broadway, the new office will be managed by Murray M. Grossman, Winthrop H. Smith, Merrill Lynch, managing partner, announced.

It is the nationwide investment firm's third New York office, and the first it has opened in New York City since Merrill Lynch, E. A. Pierce and Cassatt merged with Fenner & Beane in 1941.

The new office is staffed by eight registered representatives of the New York Stock Exchange and other Exchanges. Besides Mr. Grossman, they are: Jerome A. Dreyfuss, Leonard O. Fischer, Sol R. Gold, Percy C. Healy, Oscar Isaacson, Kenneth S. Lester and Harry Spitzer. By coincidence, seven of the eight were born in New York City; Sol R. Gold is the single exception.

With J. A. Rayvis

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Frederick Rodewald has become associated with J. A. Rayvis Co., Inc., Langford Bldg. He was formerly with Blair F. Claybaugh & Co.

Schwabacher Adds Two

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—Richard G. Kinscherf, Jr., and Oliver A. Ryder are with Schwabacher & Co., 600 Market Street at Montgomery, members of the New York and San Francisco Stock Exchanges.

Taxes, and More Taxes!

By ROGER W. BABSON

Asserting "we all should know where our tax dollars are going and whether they are wisely spent," Mr. Babson calls attention to astonishing number of taxes in Federal tax structure. Says, in view of more and higher taxes coming, it is time for public to be alert and see that government money is not spent for unnecessary things and that no groups or classes be supported at expense of public.

It is amazing that so many millions of people in this "land of the free" have so little idea or concern as to what is done with their hard-earned cash after paying it to the government in taxes. The American people have acquired a reputation for having made democracy work as neither it nor any other system of government has thus far worked in the history of the world. Yet, few of our citizens really know much about how the government spends or what benefits the people actually receive from this vast sum of money.

Roger W. Babson

We all should know where our tax dollars are going and whether they are being wisely spent. Our children should know more about money matters, especially as they concern Congressmen as they make appeals for re-election. If more Congressmen had a better understanding of the value of a dollar and a better appreciation of true social welfare, it would not be so easy for bureaucratic parasites to waste our money.

The Tax Load

In view of the coming elections, I will confine myself here to Federal taxes and expenses, though much of what I mention might just as well be applied to state and local government taxes and expenses. Federal taxes have been increasing since the early part of the present century. Naturally, the national growth created the need for expanding our government expenditures; but unfortunately, as government grew bigger, individual and corporate incentive and initiative have been steadily undermined. This has been the fault of our Congressmen.

A review of our Federal tax structure would reveal an astonishing number of taxes, still in effect, which were enacted as "temporary" measures, throughout the past 50 years. The most recent examples are the obnoxious excise taxes placed on the statute books early in World War II. Our Congressmen have added to the tax burden slowly so as to attract a minimum of unfavorable public attention. Now they try to sell us the idea that all these increases were necessary steps in the process of our coming of age as a nation. This is not true.

Time to Be Alert

Now the bureaucrats are asking for more billions of dollars and already are framing laws which will make it possible for Uncle Sam to help himself to a much larger share of your income and mine. In these days of inflated values, it costs a great deal to carry on a military campaign even in the area as limited as Korea. Thus, I suppose we must be resigned to this demand for more taxes. Let us not, however, be so carried away by the tension of the times that we surrender any more of our hard won liberties and rights to the bureaucrats. Let us make our Congressmen responsible to us in fact as they are in theory.

Indifference was chiefly responsible for our getting into the jam in which we now find ourselves as far as taxes are concerned. We were too ready to agree to the imposition of additional tax burdens in years past because we were high-pressured or cajoled into thinking there was no other course open to us. Businessmen, who knew better, contented themselves with merely denouncing our tax policies, and their protests were largely ignored. I hope we will all be more realistic about taxes in the future and that we will make our voices heard and our wills felt in the coming elections. If we fail to do this, we shall certainly lose more than our dollars in the critical times ahead.

No Money for Unnecessary Things

I do not approve of handing over much of the country's cash to support certain groups or classes of the people at the expense of all the people. That is undemocratic. It is also financially dangerous, especially when we need all our money for productive things. I am not against moderate farm supports for basic farm products, but I am opposed to the indiscriminate use of tax dollars which tends to make dairy or potato farmers a favored class.

A foolhardy farm support program might not break the country financially, in the years ahead, but eventually it could lead to the enslavement of the farmers themselves. New and higher taxes we shall probably have. They need not be much higher if each of us will take the time to impress upon those who are now up for election the acute need for drastic cuts in nonessential Federal spending.

Southeast'n IBA Group To Hold Annual Meet'g

BALTIMORE, Md.—The Southeastern Group of the Investment Bankers Association of America will hold its thirtieth annual meeting on Tuesday, Oct. 24, at the Maryland Club, Baltimore.

A committee consisting of Edward K. Dunn, Robert Garrett & Sons, Baltimore; Richard A. Bigger, R. S. Dickson & Co., Charlotte, N. C.; James H. Lemon, Johnston, Lemon & Co., Washington, D. C., and Roderick D. Moore, Branch, Cabell & Co., Richmond, Va., have presented the following slate:

Chairman—W. Peyton May, Investment Corp. of Norfolk, Norfolk, Va.

Vice-Chairmen — W. Carroll Mead, Mead, Miller & Co., Baltimore, and John C. Hagan, Jr., Mason-Hagan, Inc., Richmond, Va.

Secretary-Treasurer—Leroy A. Wilbur, Stein Bros. & Boyce, Baltimore.

In addition, the committee nominated Jonathan G. Gullick, Interstate Securities Corp., Charlotte, N. C., for election to the Executive Committee for a three-year term. Edward K. Dunn, and Walter S. Robertson (Scott & Stringfellow, Richmond) will serve as ex-officio members of the Executive Committee.

Canadian Securities

By WILLIAM J. McKAY

Now that the smoke has begun to clear following Canada's dramatic action in the field of foreign exchange, it can be said that it has certainly produced no undesirable repercussions. On the contrary the beneficial results have probably exceeded all expectations. Despite earlier scepticism, the cost of living has already commenced to decline, and to this extent at least, revaluation of the currency as a deflationary measure has been clearly justified. On the other hand the expected wave of liquidation of Canadian holdings on the part of foreign holders has failed to materialize. In fact, at the higher level of the Canadian dollar there are as many new purchasers as sellers of Canadian internal securities. This category of investment had been supposed to have attracted the greatest volume of "hot money," but there is now reason to believe that the total of purely speculative security transactions has been greatly exaggerated.

If such is the case, there appears to be reason to question the official comment made at the time of the announcement of the freeing of the dollar to the effect that the move had been virtually forced by an overwhelming influx of U. S. speculative funds. This ostensible reason for a step of such importance at no time appeared fully convincing. Subsequent developments and significant exchange rumors emanating from other countries of the British Commonwealth tend to confirm the belief that Canada's recent action constitutes the first step in a preconceived currency plan that embraces all currencies within the British realm of influence.

As the strongest currency unit of the group, the Canadian dollar was well fitted to play the role of guinea-pig for the new exchange experiment. The Dominion also would be the logical choice for interpreter to this country and the International Monetary Fund in connection with any British scheme of this nature. It is hardly surprising therefore that despite categorical official denials there have been persistently strong rumors of impending currency developments in other sections of the British Commonwealth.

Whereas only a few months ago any suggestion of an upward revaluation of the pound would have been ridiculed, there is a growing conviction in most of the world's financial centres that sterling revaluation is now only a question of time. In the absence of a concerted British exchange scheme it is also strange that Australia has so long deferred the logical step of raising its currency above its present undervalued level. If such a plan does exist it would be reasonable to suppose that any move directly affecting sterling would be initiated by the United Kingdom.

It is likewise logical to anticipate that the timing of any action on the part of the United Kingdom will be largely determined by the success of the Canadian experiment. Another factor that might also have a bearing on the situation is the reconciliation of the International Monetary Fund to the new principles of exchange involved as a result of the Canadian departure from previously accepted practice. In this connection it is also interesting to observe that Canada is now discussing with the Fund the question of the continuance in 1951 of the subsidy paid by the Canadian Government to gold producers. It is believed in unofficial circles that the Dominion Government envisages an eventual payment of at least $40 an ounce to domestic producers. Thus it is also left to Canada to resolve the burning question of the maintenance or the breakdown of the sacrosanct $35 official world price of the yellow metal.

In any event it appears that momentous developments in the field of foreign exchange are now in the making. Canada has struck the first blow for the freedom of the exchanges and the abolition of wartime restrictions and controls that since the war have only stifled the natural growth of world commerce. It now remains to be seen to what extent other countries will follow this constructive example. The mere anticipation of events has already led to a striking increase of confidence in the pound; materialization of present beliefs can only contribute still further to a more natural balance of world trade and the end of exchange artificiality.

During the week there was a lull in activity in both the external and internal sections of the bond market and prices were mostly unchanged. The new Canadian dollar was slightly firmer at 5¼%, and despite the greatly increased turnover since the freeing of the dollar its fluctuations have been curiously restrained. The freeing of the Canadian dollar in London likewise produced a narrowing of quotations. There is thus additional confirmation of the fact that the transition from bureaucratic restriction to freedom based on the play of natural forces can be accomplished with a minimum of disorder. In contrast to the strength displayed in other sections, the corporate-arbitrage market was weaker at 10½%-9½%. Stocks, after earlier buoyancy with the industrials and base-metals touching new all-time highs, subsequently reacted. Demand continued however for paper issues on the $10 per ton increase in newsprint, and the base-metals and golds were also well maintained.

With Southern Securities

(Special to THE FINANCIAL CHRONICLE)

SAVANNAH, Ga.—John L. Connelly has been added to the staff of Southern Securities Corp., Liberty Bank Building.

Continued from page 10

International Trade in A Defense Economy

which must be stockpiled by the U. S. and which come largely from soft-currency areas. It is unlikely that the pressure to bring foreign prices down will be very effective. Monetary measures applied by Washington authorities, on the other hand, may depress a number of domestic prices. By making credit money more expensive and by restricting private speculation or stockpiling, Washington may temporarily influence domestic price trends. But movements on international commodity markets will not be greatly affected.

Old war-time agreements on international allocations cannot be revived. The war allies of World War II do not feel that another war emergency is already approaching. Their immediate interests seem to be in conflict with the American attempt to cheapen sterling export commodities.

It is most unlikely that the soft currency sellers of hard currency commodities will voluntarily restrict sales, merely to make these commodities available to the United States below the level of unrestricted "free market" or auction prices.

Russia will support the upward price spiral. She will seek to stockpile large amounts of strategic materials. She has the gold, and therefore also the dollars, necessary to go on a buying spree. She may also pay with sterling exchange.

Russian buying policies will also serve a political aim: to curb supplies of strategic materials for the United States or to make them more expensive.

Russia, too, is an exporter of raw materials. She therefore has a financial stake in higher prices. A united front of the Western commodity exporters against Russia will not be acceptable to most of them, even if they belong to the "Western sphere."

Washington may protest — but not too much.

A number of influential advisors in Washington, D. C., will consider the rise of sterling prices for hard currency export goods as a "present from heaven." They had assured Congress that the dollar problem of soft currency countries would be solved at the end of the Marshall Plan. They would have been greatly embarrassed if the dollar crisis had continued. The dilemma has now been solved. The soft currency areas will get increased dollar earnings without "grants-in-aid" or credits, which would have required Congressional approval.

Foreign dollar difficulties have temporarily been solved—almost too easily. The advance in foreign prices adds to the pressure on the Administration to "roll back" commodity prices. But the only practical result will probably be that a further upward spiraling of prices will be stopped sooner or later by domestic price controls.

The Far East Situation

We may now enter a period where many people will believe that a new basis for stable peace with Russia can be achieved, after having made it clear to Stalin that he miscalculated the American reaction to Korea.

It is quite possible that we shall hear more about peace talks and that Moscow will encourage such discussions. I personally believe that a peace arrangement on Korea is unlikely.

In China, on the other hand, the Communist Government will have terrific difficulties. It must seek to strengthen its central police and administrative machine. A real peace agreement may be held as undesirable by those who are in power now in Peking.

Nor can we expect a peaceful settlement on Formosa. It is easy to decide what should or should not be done in Formosa. But it should not be forgotten that Formosa is now in the hands of a government which has over 600,000 soldiers, well trained and armed, at its disposal. Such a government will not voluntarily abdicate.

Currency Relations Undergoing Fundamental Change

America must now pay more dollars to Britain than she received from ECA, due to the rise in sterling commodity prices. In addition, direct aid for armaments will increase the outflow of dollars and gold.

Speculative factors will contribute to the movement. The armaments program in our own country revives the specter of inflation and deficit spending, especially in case of war. In many countries, especially in Western Europe, speculators expect that the United States will be the first country to be involved in another war, and that it will have to carry the major burden, financially and otherwise.

Foreign countries therefore expect further inflation in the United States. Consequently, there is increasing resistance against the "export of inflation" from this country. This leads toward an up-valuation of a number of foreign currencies in terms of the dollar.

Foreign traders will therefore have to work under conditions where a strange combination of foreign exchange controls, free markets, switch exchange and strategic controls and government intervention will exist.

From a practical point of view, it will be as important to observe foreign exchange movements and possibilities as it is to follow market prices. Our own organization, incidentally, has for that reason broadened its own activities in the foreign field. From now on it will publish "International Reports on Finance and Currencies," "Statistical Market Letter on Foreign Exchange and Gold," and "Far Eastern Letter on Foreign Exchange and Gold," as a timely and practical combination with our "Foreign Letter." These were previously published by Mr. Guenter Heimann, Managing Editor of our "Foreign Letter."

As an illustration of the fact that many of these important foreign exchange developments are predictable, we were able to anticipate correctly the upward movement of the Canadian dollar and the new speculation in Australian pounds.

We believe that the decision in Australia will be made on a political rather than a strictly monetary basis, and that up-valuation will probably be decided upon (or "has been decided").

Dollar Basically Strong

But the downward movement of the dollar has been greatly exaggerated by speculation; and such speculation against the American dollar will probably backfire.

Some currencies have gained new strength in terms of the dollar, and may be appreciated. But such changes will reflect special situations and not a general weakening of the American dollar.

In the immediate future, the American dollar will probably win back some of the ground it lost in recent months. There are many threats to the long-term outlook for the dollar. But the immediate prospects are a different story. This applies especially to the relationship between British sterling and the dollar.

British sterling has been made to appear much stronger than it really is.

A special campaign against dollar inflation now starting will lead to a number of restrictions. Prices will not be rolled back to levels held before the war in Korea. But it is unlikely that the price advance of the last few months will continue far without bringing controls.

Whatever the outcome of the "struggle" between the Treasury and the Federal Reserve, a tightening of private credit policies will take place. Efforts to curtail speculation and to force at least partial liquidation of private inventories will have some effect. It will not be too difficult to attack the position of those speculative circles who thought that all-out war or war economy was an issue of today or tomorrow.

Spending for armaments will certainly be increased. But we shall also have numerous "peace rumors" and promises for peaceful settlements of issues which seemed to be unsolvable a short time ago. The new hopes and promises may also turn out to be illusions. But they will have a temporary effect on commodity markets.

Let me now sum up the dollar's position among international currencies as follows:

(1) *If there is an all-out war, then new and serious problems about the dollar's value will be raised.*

Problems of this sort will have to wait for their solution until the event occurs. There is no point in guessing now about when the dollar will be devalued in relation to gold, or about the circumstances that may bring this about.

(2) *If a price inflation in the United States were allowed to get very much beyond the present stage, then fears of dollar devaluation would gain; rumors of dollar devaluation would become more numerous; and speculation against the dollar would probably increase.*

But a price inflation will not be allowed to run away. Credit controls are already in effect, and are being tightened. Price and wage controls will follow, if and when they can no longer be put off.

We can therefore conclude:

(a) That some foreign currencies will be stronger because of a basic change in international trade relations, brought about by a basic change in the foreign policies of the United States; but

(b) That some of the current speculation against the dollar has been carried a little beyond the bounds of common sense.

Conclusions

Let us sum up briefly.

There will be a marked increase in world trade. This will be greater for imports than for exports.

Basically, however, America's role in the world economy will depend on international politics, and especially on the issue—war or peace—more than on anything else.

It is very likely that we shall pass through a prolonged stage of "no war—no peace," where it remains doubtful whether a new total war will be inevitable. But even in this stage, war preparations will continue and defense or armaments programs will be expanded rather than curtailed.

Frankly, we may observe a fatal disappearance of the foundation on which a new world peace era may have relied. The incorporation of China into the Russian sphere would eliminate a possible "balance of power."

Moscow will not turn back from the course it has taken, unless there is some change which cannot be predicted. We must try to bring such a change about; but we cannot count on it happening spontaneously.

In Europe, Germany will be the main field of decision, and Moscow will probably make an attempt to control the center of Europe in order to dictate to the rest of Europe the conditions of further existence.

Unless the Russian empire breaks from within, we shall probably end this period with a new world war. The inner strains and difficulties of the Russian empire probably are greater than is generally known. What we must test now, in fact, is whether the breaking point can be reached without the necessity of inflicting serious military defeats on the Russian empire.

For foreign traders, this prospect has certain implications.

Trade will grow, but so will controls.

Volume of imports will increase more rapidly than the volume of exports.

Controls will be more of a factor, rather than less. Some of these will bear directly on foreign trade, others will affect the volume of supplies that are available.

Although the dollar position of many countries, particularly the sterling bloc, will improve further, exchange controls are not likely to be abandoned.

I leave you with the thought that trading opportunities must still depend on the exigencies of the free, or semi-controlled currency markets. And that today's foreign trader must be as much interested in currency quotations, and in the possibility of special trading arrangements, as he is in the relative changes in commodity prices here and abroad.

Politics, in its international sense, now casts its shadow over all trade. It is not surprising that the shadows falling on foreign trade should be more impenetrable than the rest.

Foster & Marshall to Admit Donald A. Meyer

Donald A. Meyer

SEATTLE, Wash.—Foster & Marshall, 820 Second Avenue, member of the New York Stock Exchange, on Nov. 1 will admit Donald A. Meyer as partner. Mr. Meyer has been with the firm for some years in charge of the municipal department.

Harry Diamond Opens Investment Office

Harry D. Diamond, member of the New York Stock Exchange, announces the opening of a new office at Reynolds & Co., 120 Broadway, New York City, where he will conduct a general investment brokerage business. Mr. Diamond is the founder and President of Eagle Petroleum Corp.

Equity Investments For Savings Banks

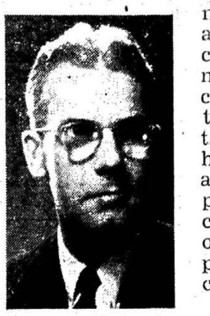
By ALFRED C. MIDDLEBROOK*
Vice-President, East River Savings Bank, New York City

Stressing recent changes in investment patterns, savings bank executive, in supporting equities for savings banks' investments, cites: (1) emergence of large, strong and capably managed industries; (2) accumulation of large holdings of cash and government securities by corporations; (3) technical facilities which put large corporations in forefront of change; (4) great increase in shareholders; (5) reduced likelihood of future major depressions; (6) new techniques minimizing risks of capital depreciation; and (7) higher investment yield and greater diversification from equities.

Benjamin Franklin, in a letter written in 1789, wrote as follows:

"Our Constitution is in actual operation; everything appears to promise that it will last; but in this world nothing is certain but death and taxes."

To these somber aspects of life might be added another somewhat less somber, namely, change. With the exception of nature (including human nature—with an acute accent) there is no greater certainty throughout the range of human affairs and no more pervasive characteristic of man's experience than change.



A. C. Middlebrook

Even a few years ago it probably would have been considered most unlikely that at this time the savings banks would be considering investment in equity securities. Yet, such have been the compulsion of events, the continuity of developments in the capital and investment markets, and the trend in informed and progressive thinking that we, as well as other institutional investors, are actually giving serious consideration to the subject.

Recent developments in the trend toward liberalization of fiduciary and institutional investments to include equity securities are of outstanding interest to those charged with the responsibility for savings bank investments. These developments bespeak growing efforts to bring investment practices into more realistic ailgment with the actualities of the capital and investment markets.

The essential elements in intelligent investment must always be dynamic, although the spell of illusory protection cast by the legal list has occasionally obscured this fundamental truth. This means that intelligent investment practices must of necessity be more concerned with and based upon the realities of the present and the indications of the future than with the recorded facts of the past. It is not my intention to underestimate or to deny the importance of the record. It can and should be a valuable guide and factor of stabilization in the projection of new thought.

Nevertheless, its value and significance should not be overemphasized—particularly in times of rapid and far-reaching change that can profoundly influence investment thinking. Throughout the Western World the last two decades have been a period of revolutionary and pervasive change in the field of science and technology. Advances of unprecedented significance have been made. The momentum of events would seem to promise developments within our range of vision that may have an important impact upon political, social and economic values.

Must Not Be Shackled By Traditional Pattern

Under conditions which will presumably be highly fluid and dynamic for an indefinite time, it would seem unwise to shackle our investment thinking unduly with the theoretical framework and traditional pattern of a past environment. Rather, it would seem to be the course of wisdom and constructive action to address our thoughts and studies without prejudice or predisposition to bringing investment practices into more rational consonance with the fundamental economic facts and institutional requirements of the times. To the extent that institutions such as savings banks are denied investment freedom and flexibility which are reasonably related to the economic and financial context in which they have to operate—to that extent will they be prevented from performing the full measure of public service for which they were designed, and to that extent will they become vulnerable to competitive forces and to a possible encroachment of public authority.

Thomas Jefferson, in a letter written at Monticello in 1816, revealed an enlightened attitude toward the necessity for occasional changes in laws and institutions. He wrote as follows:

"I am certainly not an advocate for frequent and untried changes in laws and constitutions. I think moderate imperfections had better be borne with; because, when once known we accommodate ourselves to them, and find practical means of correcting their ill-effects. But I know also, that laws and institutions must go hand in hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new truths disclosed, and manners and opinions change with the change of circumstances, institutions must advance also and keep pace with the times."

Changes Affecting Equity Investments

What are the great economic changes that have profoundly affected the position of equity securities and the investment of institutional and fiduciary funds in these securities? A few of the more important are as follows:

(1) The emergence of a large number of strong, capably managed industries serving basic needs of the population. As recently as a generation ago there were only a few such corporations of which the equity securities were available for conservative investment. Shares of these corporations are in fact participations in the ownership of outstanding organizations in the broad field of American business enterprise.

(2) The accumulation of large holdings of cash and government securities by leading corporations, providing an important factor of strength and stability. Such holdings today at more than $40 billion are almost four times the total of 1939. Through retained earnings and depreciation reserves many of these corporations are, to a considerable extent, independent of the securities markets in financing capital expenditures. Many of these corporations have no publicly held debt; some have no funded debt at all.

(3) The extensive development of corporate research, as a result of which these organizations are in the vanguard of technological advances. Investors in du Pont, General Motors, General Electric, and other corporations need not be concerned with technological change since, due to continuous research, these organizations are in the forefront of such change.

(4) The great increases in number of shares and shareholders of leading corporations, which virtually eliminates the risk of unwilling control by institutional investors. General Motors, for example, will presently have more than 88 million shares outstanding.

(5) Efforts by government to moderate economic fluctuations, with a reduced likelihood of major depressions that would seriously affect stocks.

(6) The development of new techniques such as so-called formula plans for investors in common stocks, which minimize the risk of long-term capital depreciation.

You will recall that, effective last July 1, fiduciaries and trustees in New York State were authorized by amendment of the Decedent Estate Law to invest in domestic corporate securities not otherwise eligible, including stocks, to the extent of 35% of the market value of the property held. You will also recall that according to an announcement made in the latter part of June, the life insurance companies domiciled in New York State have decided to seek statutory authorization at the 1951 session of the Legislature to hold common stocks to the extent of 5% of assets. This authorization would supplement existing powers to invest in preferred shares.

Although the ultimare obligations of fiduciaries, life insurance companies and savings banks differ there is obviously extensive common ground in basic investment objectives, such as more generous yields and wider diversification within the limits of securities of investment quality.

The mere fact of some difference in ultimate responsibilities and obligations is no basis for exclusion of savings banks from a broad investment field in which they could find advantageous employment for some conservative portion of available funds. It is no valid justification for denying to the savings banks the advantages in wider diversification and higher yields to be derived from holding prudently selected equity investments to the extent of some moderate percentage of assets consistent with the operation and obligations of these institutions.

Serious consideration of the equity field as a source of limited selected investment for savings banks is an important and unavoidable responsibility of those concerned with their welfare and with their capacity to project themselves on the future scene as viable and vigorous organizations in a highly competitive environment in a rapidly changing world. This capacity is related in considerable part to their ability to maintain earnings permitting dividends which are effectively competitive with returns on other forms of savings, even though the safety and liquidity factors in these competitive savings media are inferior to those of the savings banks.

Investment Problems Not Solved By Equities

It is not my intention to imply that equity securities in and of themselves provide the final answer to the investment problems of the savings banks. Presumably such securities would never occupy more than a minor position in savings bank investment portfolios — certainly not as long as the operations of the savings banks are guided by sound banking principles. Marginal factors, however, can be of major and, at times, of controlling importance. Thus the virtual assurance that preferred and common stocks would not become major savings bank investment assets should not be considered a justification for denying to this subject the careful consideration and thought which it demands.

Historical

Institutional investment in equity securities can hardly be considered an innovation. It is a matter of record that prior to 1906, the year of the Armstrong investigation, common stocks were prominently represented in the investment portfolios of the life insurance companies of New York State. They are still held in considerable amounts by companies domiciled in other states. According to the Institute of Life Insurance, United States life insurance companies representing 97% of the assets of all companies held domestic stock investments aggregating $1,813 million as of June 30, 1950, an increase of $257 million over the amount held on June 30, 1949. The total of $1,813 million, representing 2.9% of total assets, comprised $1,354 million of preferred stocks, and $459 million of common stocks.

While the record of savings bank investment in equity securities is well established, it is a fact that such investments have been confined largely to shares of commercial banks. For many years the laws of the New England States have authorized bank stocks for savings bank investment subject, of course, to varying restrictions in the several states. Only recently the Massachusetts Banking Law was amended (effective July 24, 1950) to permit investment in shares of certain commercial banks located outside the Commonwealth, thus supplementing the authorization of many years' standing to hold shares of local banks.

In 10 of the 17 states in which mutual savings banks operate, the banks are authorized by law to hold stocks. The 10 states represented, as of June 30, 1950, savings bank deposits of $6,249 million, or 31.7% of the national total. In the three states of Maryland, Delaware and Indiana, with aggregate deposits of $526 million, or 2.6% of the national total, this power is not exercised. Six of the remaining seven states are in New England, and in this area the two states of Massachusetts and Connecticut accounted for 71.9% of the total book value of all stocks held by mutual savings banks as of Dec. 30, 1949.

The banking law in New Hampshire was amended in 1949 to empower savings banks subject to prescribed restrictions, to invest in shares of mutual investment trusts to the extent of 5% of deposit liability. The New Hampshire savings banks hold a greater diversity of equity securities than is the case in any of the other mutual savings bank states. It is of interest that as of the end of 1949 these banks held bank stocks in an amount of $9.2 million, while holdings of other stocks, including shares of railroad, public utility, industrial and insurance companies, amounted to $11.6 million. Total equity holdings of $20.8 million amounted to 6.6% of assets as at the end of 1949.

Mutual savings banks as of Dec. 30, 1949, held stock investments in total book value of $153 million, of which $138 million, or 90%,

Continued on page 33

*An address by Mr. Middlebrook at the Annual Meeting of The Savings Banks Association of the State of New York, Lake Placid, New York, October 5, 1950.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Robert C. Porter, formerly associated with Cravath, Swaine & Moore, has been appointed a Vice-President—corporate trust department of **Chemical Bank & Trust Company of New York,** according to an announcement made by N. Baxter Jackson, Chairman. Mr. Porter received his A.B. degree in 1934 from Bowdoin College, and in 1939 graduated from the University of Pennsylvania Law School. The following year was admitted to the Bar of the State of New York. During the last war Mr. Porter served as Lt.-Commander in the U. S. Navy.

* * *

Irving Trust Company of New York announces the election of the following Vice-Presidents of the company to the newly created office of Senior Vice-President: Philip F. Gray, Nolan Harrigan, Hiram A. Mathews and Carl A. Miller. Mr. Gray is the Senior Loaning Officer of the company; Mr. Harrigan is in charge of Irving's domestic banking division; Mr. Mathews is in charge of the company's international banking division, while Mr. Miller is in charge of Irving's branch offices.

* * *

Henry V. Von Elm, President of **Manufacturers Trust Company, New York,** and George V. McLaughlin, President of the **Brooklyn Trust Company of Brooklyn, N. Y.,** announce that at special meetings of stockholders of the two companies held on Oct. 11, the merger of the Brooklyn Trust Company into Manufacturers Trust Company was approved, under the terms set forth in letters of stockholders of both institutions dated Sept. 8, and in the agreement of merger, details of which appeared in these columns Sept. 7, page 907. As a result of the merger, Manufacturers Trust will take over the deposits of Brooklyn Trust which, at Sept. 30, 1950, amounted to $224,527,605, making the combined deposits of the two institutions as of that date $2,360,437,765.69. Approval was also given to the merger of Brooklyn City Safe Deposit Company, all of the capital stock of which is owned or controlled by Brooklyn Trust Company, into Manufacturers Safe Deposit Company. As provided in the agreement of merger, all officers and employees of Brooklyn Trust become members of the staff of Manufacturers Trust. In addition, George V. McLaughlin and John Gemmell, Jr., will become directors of Manufacturers Trust. Mr. McLaughlin, President of Brooklyn Trust Company, and George A. Barnewall, Vice-President, will become, respectively, Chairman of the Executive Committee and Vice-President of Manufacturers Trust.

The stockholders of Manufacturers Trust also authorized the additional 187,500 shares of capital stock, par value $20 per share, to be issued as a stock dividend at the rate of one share for each 12 shares held of record as of the close of business Sept. 18, and also authorized the additional 82,000 shares of capital stock of Manufacturers Trust to be issued to the stockholders of Brooklyn Trust under the terms of the merger agreement, thereby increasing the authorized capital stock of the company from $45,000,000 to $50,390,000. Under the terms of the merger agreement, stockholders of Brooklyn Trust.

The merger became effective after the close of business on Oct. 13 and the various offices of Brooklyn Trust began operating under the name of Manufacturers Trust with the opening of business on Oct. 16.

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It is made known that Harvey C. Emory, Vice-President of the **Bankers Trust Company of New York** has been chosen to succeed James Ringold as President of the **First-Mechanics National Bank of Trenton, N. J.** Mr. Emery will assume his new post in January, it is stated.

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Ferdinand M. Bissell, Vice-President and Senior Loan Officer of **American Trust Company of New York,** has been elected a director of the company, Harvey L. Schwamm, President, announced on Oct. 13. Mr. Bissell's career in banking and credit began in 1920 with the **Battery Park National Bank of New York,** which later merged with the Bank of America, N. A. He joined the International Trust Co. in 1929 as Assistant Manager, Credit Department, and became Credit Manager of the Continental Bank & Trust Co. of New York when the two banks were merged. Mr. Bissell ultimately rose to Vice-President in Charge of Credit Supervision in the Continental Bank and continued as Vice-President and Loan Officer with the Chemical Bank & Trust Company upon its absorption of Continental. He became associated with American Trust Company in January of the present year.

Mr. Bissell is a past President of the Bank Credit Associates of New York and a member of the Robert Morris Associates and the New York Credit and Financial Management Association.

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Guaranty Trust Company of New York has announced the appointment of Lester J. Harris and George P. Kappesser as Assistant Real Estate Trust Officers.

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Following a meeting of the board of directors of the **Bank of the Manhattan Company of New York** on Oct. 11, Lawrence C. Marshall, President, announced that James A. Barry has been appointed an Assistant Treasurer.

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At the regular meeting of the board of directors of the **National City Bank of New York,** held on Oct. 17, Warren Wheeler was appointed an Assistant Cashier.

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On Oct. 13, following the annual meeting of the Union Dime Club, composed of members of the staff of the **Union Dime Savings Bank of New York,** the annual club dinner was held at the Waldorf. About 200 attended. William L. DeBost, Chairman of the Board of Trustees, spoke of the honor that had come to the Union Dime in the recent election of J. Wilbur Lewis, President of the bank, as President of the Savings Banks Association of the State of New York. He reminded the staff that Mr. Lewis entered the bank's employ as a clerk in 1911. With experience in every department, he rose rapidly—holding various official positions. In 1937, when Treasurer, he was elected a trustee of the bank, then Executive Vice-President in 1944, and in December, 1947, President. A gift from the Club was presented to Mr. Lewis by John M. Roberts, Assistant Vice-President, who was instrumental in organizing the Club, 17 years ago.

The First National Bank of Farmingdale, New York, increased its capital, effective Oct. 2, from $200,000 to $400,000 by a stock dividend of $200,000.

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On the recommendation of the directors, the stockholders of the **Casco Bank & Trust Company of Portland, Maine,** at a meeting on Oct. 4, authorized the issuance of an additional 6,000 shares of the capital stock of the institution. President L. F. Timberlake has indicated that the purpose of this issue is to purchase all of the capital stock of **The Rumford National Bank at Rumford, Maine,** which will be operated as an additional office of the Casco Bank & Trust Company. As a part of the purchase price, 2,500 shares of stock of the latter will be issued to the stockholders of The Rumford National Bank. The remaining 3,500 shares were offered to the stockholders of the Casco Bank & Trust Co. on the basis of approximately one new share for each seven shares already owned. This will bring the capital and surplus account in line with deposits which will be increased over $5,000,000 by the acquisition of The Rumford National. Stockholder's right to subscribe at the price indicated expire on Oct. 16. On Sept. 30 the Casco Bank & Trust Co. had total resources of $22,587,061; the capital and surplus Sept. 30 were $600,000 each, while the undivided profits on that date were reported as $309,429.

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At a meeting of the directors of **The State Street Trust Company of Boston,** held Oct. 16, Edward Cunningham, of the firm of J. M. Forbes & Co. of Boston, was elected to the board.

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The Bergenfield National Bank & Trust Company of Bergenfield, N. J., has increased its capital from $125,000 to $250,000, part of the increase resulting from a stock dividend of $62,500, while the further addition of $62,500 came from the sale of new stock. The enlarged capital became effective Oct. 5.

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Stockholders of the **American National Bank and Trust Company of Chicago** at a special meeting on Oct. 11 approved the recommendation of the bank's board of directors for a 33⅓% stock dividend, increasing the bank's capital from $3,000,000 to $4,000,000. The increase will be effected by issuing 10,000 shares of common stock at par of $100 per share, on the basis of one new share for each three shares held by stockholders of record Oct. 11, 1950. With the increase, the bank's capital, surplus and undivided profits will be in excess of $10,000,000. According to President Lawrence F. Stern, it is expected that the dividends on the increased stock will be continued at the present rate of $6 per share annually. A previous reference to the plans to enlarge the capital appeared in our issue of Oct. 5, page 1332.

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A $5,000,000 modernization and new construction program for the **First National Bank in St. Louis** has been authorized by its directors, according to an announcement by President William A. McDonnell. The building program will include remodeling of the bank's present six-story building, resurfacing of its exterior, and the construction of a new five-story building. The expansion is necessary, Mr. McDonnell said, because of the continuing growth in the bank's business since it was formed by consolidation in 1919 with total resources of $147,600,000. Today this total is approaching half a billion dollars. In addition to this increase in volume, the bank has added many new services to customers since 1919, Mr. McDonnell pointed out. The directors announce that the bank has purchased or obtained long-term leases on the buildings needed for the expansion. These will be razed and the city will be asked to vacate the 14-foot alley which bounds the present building on the west. A total of 74,496 square feet of additional floor space will be provided by the new building. This will give the bank an increase of 58% over its present working space, and the **St. Louis Union Trust Company**—which shares space with First National—an increase of 42%.

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Frank H. Schmidt, President of **California Trust Company of Los Angeles,** affiliate of **California Bank,** marked his 25th year of service with the bank and trust company on Oct. 13. He joined California Bank's staff in 1925 after ten years' experience in Omaha and Lincoln, Neb., banks. In October, 1926, he was transferred to the trust company where he has held various official positions including that of Trust Officer, Vice-President, and Executive Vice-President. He was elected President last January and has been a member of the board the past ten years. Mr. Schmidt is a graduate of the University of Southern California School of Law and was admitted to the State bar in 1931. He is Chairman of the Los Angeles Chamber of Commerce Aviation Committee, Chairman of the California Bankers Association Trust Division and General Chairman of the 24th Annual Western Regional Trust Conference, American Bankers Association, meeting in Los Angeles Oct. 18-20.

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J. G. Maulhardt, Vice-President of California Bank, recently observed his 35th anniversary with the bank. Mr. Maulhardt was elected Assistant Vice-President in 1927 and Vice-President in 1934.

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Salary increases for all members of the staff of the **Anglo California National Bank of San Francisco** and an increase in the dividend of the bank's capital stock is announced by Allard A. Calkins, President.

The salary increases were approved in furtherance of the bank's policy to maintain salaries at a level consistent with prevailing economic conditions and the results of the bank's operations, Mr. Calkins said. Action on the salary increases was taken at the same time that the dividend on the bank's shares was increased 30 cents per share per annum, or from $1.50 per share to $1.80 per share per annum. Directors of the bank have declared a dividend of 90 cents per share on the capital stock for the six-months' period commencing Oct. 1, 1950 and ending March 31, 1951, payable as follows: 45 cents per share payable Jan. 1, 1951, to shareholders of record as at the close of business Dec. 20, 1950, and 45 cents per share payable April 1, 1951, to shareholders of record as at the close of business March 20, 1951.

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Guideposts and Procedures In World Bank Loans

the Bank may be used only for the procurement of goods, materials and services on that list.

Supervising Disbursement of Loan Proceeds

The disbursement is handled in one of two ways. Either the borrower can buy the goods or equipment and then, upon producing evidence satisfactory to the Bank that the goods have been paid for and shipped from the country of origin; get reimbursed by the Bank; or he can satisfy the Bank that the orders have been placed for goods on the list, in which case the Bank either undertakes to pay the supplier as delivery of the goods takes place or advances funds as needed to make progress payments as the goods are being fabricated.

In this way the Bank is assured that the proceeds of the loan are spent only for the procurement of the goods and materials to be used in the project.

Of course the Bank also sends people to the spot to see that the goods which have arrived are actually installed in the project as was contemplated. This is done by our treasurer's department, and is a procedure that is applied in some manner in the case of every lending operation. Representatives of the Bank have the right to examine the site, to examine the materials that are arriving, to see to it that the local currency required to make the project go forward is available, and in general to see that the construction of the project progresses along the lines contemplated when the loan was made.

This aspect of our lending policy is very important, in that it ensures that each loan is actually used for the project, which in turn has a direct bearing on the ability of the country to repay the loan. If a country actually benefits by having the project go forward, and if the project has been soundy evaluated, the country's ability to repay the loan will have increased. You are, therefore, protecting your own investment by ensuring that the proceeds of a loan are used to strengthen the economy of the country.

Procedure in Handling Loans

In commenting on these six guideposts, as I have called them, I have already given some indication as to the Bank's procedure in handling loan requests. I think, however, it might be constructive to approach the matter from a different point of view by analyzing briefly the stages through which a loan request may pass, and by indicating how the Bank goes about processing it.

I might state that in an article recently published by Mr. Black, called "Lending Techniques of the International Bank," he has briefly set forth the main steps taken by the Bank in processing a loan. In that article, he divided the process into four basic stages, the first of which was "preliminary exploration."

First, there is, of course, the loan request, which is generally made in an informal manner. People come into the Bank, or write the Bank, every day about projects they think are good ones and for which they would like to have a loan. The Bank encourages this informal approach because it affords us an opportunity at an early stage to consider whether a project is of a type that we could finance, or whether it is something that would be ruled out because it could not pass the tests I have just referred to.

If it appears at that stage that a project is of a type which may be suitable, we may suggest to the prospective borrower that he take the matter up with the appropriate member government to see whether or not it would be prepared to guarantee a loan for such a purpose. This is done to save both the Bank and the prospective borrower time and trouble. The preparation of the documents and information needed to enable anyone to appraise the merits of a project requires some time and effort, and there is no sense in either of us undertaking the expense of submitting and examining a lot of data relating to a project and then finding out that the government of the country in which the project is located would not be willing to give its guarantee for a loan for that purpose.

Assuming that a project is submitted which appears to be worthy of serious consideration, and the member government indicates it is willing to give its sponsorship and to guarantee a loan should the Bank be willing to make one, we pass to what you might call the stage of critical examination in which we begin to examine not only the project itself but also the credit worthiness of the country and its ability to carry forward the project.

I have already referred to two critical stages that must be passed in the repayment of a foreign loan, pointing out that it is not only necessary for the project to be a success in the sense of earning local currency, but the borrower must also be able to procure foreign exchange with that local currency when service and amortization payments must be made.

This means the Bank must take a look at the overall economy of the country with particular reference to its balance of payments prospects to see what likelihood there is that the country will be able to provide the foreign exchange necessary to service and repay the loan as needed.

So the Bank at this stage will usually send a mission to make an on-the-spot examination of all important facets of the economy of the country bearing upon this point.

Question of Borrower's Government

Another important question that has to be considered is: Are the policies that are followed by the government of the prospective borrower conducive to the success of the project, or conducive to the success of a development program generally? In other words, you have the question: Should the Bank be lending money to assist a country in developing its economy if that country has adopted policies which are working directly in the opposite direction? I think most of you would answer the question very clearly in the negative.

So the Bank may find itself in the position of having to say, "We have seen the project. It looks like a good one. On the other hand, we find that such and such policies which you are embarking on are working at direct odds with the objective that you would be trying to accomplish by this project. Therefore, don't you think it would be a good thing, while we are considering the loan, if you were to take steps to revise the policy in a manner that would be more conducive to the development of the country?"

Here again the fact that we are an international organization, that our recommendations are made on the basis of an unbiased analysis of the situation, gives weight to the suggestions which the Bank makes and enables the Bank to assist a country to take steps to remedy particular shortcomings.

At the time the mission is examining the economy of the country, it will consider what types of projects should have a high priority. Sometimes a country feels it ought to embark upon one type of a project, but the analysis of the Bank mission results in a different conclusion.

Very often a country will submit particular projects to the Bank with a request for financing. On the other hand, a country will sometimes say, "Here are five or six projects which we think desirable, but we shall welcome a Bank mission which will make a survey and suggest which projects ought to go forward first."

This type of relationship is, as you will understand, a very satisfactory one. The mission from the Bank helps the country establish priorities so that projects can be taken in their proper order with each project contributing as much as possible to the success of the development program and of projects to be undertaken later on.

Having made the general survey to which I referred, it may be necessary for the Bank to make a second survey before reaching its final conclusion. The first mission that goes to a country may have decided that certain types of projects have a high priority. But that raises the further question: Are these projects well designed, technically sound, commercially feasible? In other words, you may want to have a group of qualified people examine the technical aspects of the particular projects to see that they, as projects, are soundly conceived and are apt to be soundly carried out.

To give an example of these two types of surveys, I might refer to Turkey. In the first instance, the Bank received a request from Turkey for assistance in financing projects which would contribute to her economic development. The Turkish Government gave to the Bank a number of projects and said "we would like you to take a look at these, and see which projects should go forward first."

Early in 1949, a Bank mission went to Turkey, made a study of the Turkish economy, and of the work that was going forward in Turkey, and on the basis of its findings recommended for consideration by the Bank three types of projects: First, projects to improve port and harbor facilities; secondly, projects to increase Turkey's grain storage facilities; and thirdly, a project for a multipurpose dam in the Adana district which they felt to be worthy of serious consideration.

The Bank, on the basis of the findings of the mission, advised Turkey that it would be willing to give serious consideration to these projects, and the Turkish Government agreed with the Bank's findings. At that stage the Bank sent a second mission consisting for the most part of technical men.

This group included some technicians familiar with ports and harbors who made a thorough appraisal of the port projects that had been submitted to the Bank. They made certain suggestions for the improvement of the original concept, and on the basis of the work of the combined missions the Bank recently made Turkey a loan for port and harbor development.

Another member of this mission was an expert whose field was that of grain storage facilities. He took a look at the sites on which the grain storage facilities were to be erected, examined the plans and designs for construction and operation, and reported on the technical features of that project, for which a loan was also made.

Finally, there was an expert in the construction of multipurpose dams who made a very thorough check of the site of and plans for that project.

Credit Worthiness Examination

Thus, in what you might call the stage of critical examination you have first the analysis of the credit worthiness of the country, an appraisal of its economic policies and their bearing on the economic prospects of the country, the overall selection or allocation of priorities to the types of projects and, finally, the detailed appraisal of the technical and commercial features of a particular project.

Once you have passed the critical examination stage, you are ready to enter upon the negotiation of a loan contract. The representatives of the borrower, and possibly of the guarantor, meet with members of the Bank and negotiate the terms of the contract. Once the loan is made, you then enter into the stage of loan administration — following through on the disbursement of the loan, seeing to it that the goods are actually used in the projects, and thereafter following very closely the progress of the project and the development of the country throughout the life of the loan.

Naturally, there are often combinations of these various stages. You may have a loan mission that goes to check on the progress of a project being financed by one loan and at the same time to begin work on a second project that the country has submitted for our consideration.

This type of mission is apt to become increasingly common. A sound loan policy, particularly for the less developed countries, should result in a series of loans, the projects which are financed in the early stages being designed to contribute to the country's development, to strengthen its credit-worthiness, to give it an opportunity to undertake projects that it wouldn't have been able to make a success of, had not the first projects been well conceived and well carried out. Thus a sound lending policy on the part of the Bank and a sound borrowing policy on the part of a country may increase the latter's capacity to absorb other capital and to borrow for new projects.

The types of missions to which I have referred here have been predominantly operating missions in the sense that they have been missions whose work is concerned directly with the loan request.

I might mention that the Bank also has been sending out another kind of mission. The first such mission went to Colombia. Recently, the Bank has sent similar missions to Turkey, to Cuba, and to Guatemala. These missions are not concerned with particular loan requests, but rather are organized for the purpose of taking a look at the overall economy of the country, of analyzing its development prospects, of making suggestions as to how the country can improve its prospects for development, of assisting in the shaping of a development program which will indicate priorities among the important sectors of the economy without reference to particular requests for loans from the Bank.

It was felt that in addition to looking at particular loan requests, even though they are judged against the wide frame of reference I have already described, it would be desirable for the Bank, as a technical service, to assist its member governments in making this type of overall appraisal.

I have covered the major outlines of the Bank's leading procedure. I might say that within the Bank the findings and recommendations of missions are considered by the top staff which gives general policy guidance to the President. And, of course, as Mr. Sommers no doubt indicated, all loans are made only after the Board of Directors, acting on the recommendations of the President, has considered the matter and determined that a loan is to be granted.

Will Britain Free Sterling From Controls

By PAUL EINZIG

Dr. Einzig, commenting on rising sterling exchange value in open market and flow of "hot money" into Britain in anticipation of pound's revaluation, gives reasons why British Government is unlikely to restore freedom of fluctuations in exchange rates. Sees need of still larger British gold reserve if pound is to be made convertible.

LONDON, Eng.—The flight to the pound is in full swing. "Hot money" is pouring into Britain in anticipation of a revaluation, notwithstanding the official disclaimer of harboring any such intentions. The present strength of sterling has given rise to suggestions that the government could now well afford to free sterling. This means that the existing exchange control measures, could now be relaxed or removed altogether, and that sterling rate could be allowed to find its own level as an alternative to an official revaluation.


Dr. Paul Einzig

There is no reason to expect the present government to follow either of these courses. It is of course conceivable that exchange restrictions may be mitigated slightly in some directions, in particular in inter-European trade. Such relaxations have already been effected during recent months, even before the development of the flight to the pound, in pursuance of the policy of stimulating trade within Europe. Possibly the Treasury may now feel that it could afford to go further in the same direction. It seems most unlikely, however, that major steps such as the establishment of general convertibility for current payments or the extension of existing limited convertibility arrangements to capital payments would be decided upon at the present stage. After the disastrous experience in general convertibility in 1947 even quarters which had been formerly fanatic advocates of immediate convertibility are now inclined to advocate a "wait and see" policy.

As for the extension of present convertibility arrangements from current to capital payments, the authorities feel that it would not be safe because the inflow of capital might at any moment give way to an equally sweeping outflow. In any case, the government would prefer to retain the control of capital investment abroad, irrespective of the exchange situation.

Nor is the present government likely to restore the freedom of the fluctuation of the exchange rates. In this respect, too, the official view is that the authorities could not possibly depend upon the present strength of sterling as being permanent. Although at present the removal of the control of exchange rates would result in an appreciation of sterling, this is not expected to last. A major war scare in Europe, a relapse in Sterling Area commodity prices or a break in the American boom might at any moment reverse the trend and cause a fall in sterling. Its fluctuations would be most unwelcome as it would disturb internal stability. And even the speculative rise that would follow the freeing of the exchange rate would be considered with disfavor in official circles, for the same reasons for which the government has no desire to revalue sterling by official action. After all, it is equally inconvenient to reduce the present comfortable "safety margin" by action of the government and by action of the speculators. Indeed, the former would be preferred because it would be a controlled movement.

The view is strongly held in official quarters that before they could risk a restoration of the freedom of sterling rate they would have to increase considerably their gold reserve. The figure of £2 billion is mentioned as the minimum which would be considered sufficient for the purpose. It is an indication of the increase of the degree of international instability that, while before 1914 the Bank of England could rely on a gold reserve running into mere tens of millions, and even between 1925 and 1931 £150 million or so was considered ample, during the last prewar years the Exchange Equalization Account considered it expedient to accumulate a reserve of some £700 or £800 million, and now the authorities are thinking no longer in terms of millions, but of billions.

In any case it would not be in any circumstances the government's intention to restore the complete freedom of exchange fluctuations. The Exchange Equalization Account would resume its functions, and it would aim at maintaining the stability of sterling, even though it might allow a certain relaxation of its present absolute rigidity. It would take advantage of the present influx of "hot money" for the increase of its gold reserve, in pursuance of its effort to prevent an unwanted appreciation of sterling by means of buying up excessive supplies of foreign currencies offered in the market. When the tide turned it would prevent or moderate the fall of sterling by unloading some of its supplies of foreign exchange. Such a policy would provide a fair scope for maneuvering to squeeze speculators, in the same way as this was done on many occasions during the period of exchange fluctuations in the '30s. There is much to be said in favor of such an elastic defense of sterling. Nevertheless, the government would prefer to retain the present system under which the official rate is maintained rigidly stable.

The recent recovery of various unofficial sterling rates in free markets abroad, and the tendency of their discount to disappear, has caused much satisfaction in London. From this point of view, too, the weight of argument is against a revaluation of sterling or an appreciation through the removal of the control of its official rate. For it is assumed that if the official rate is raised from \$2.80 to, say, \$3.00, the discount on various unofficial sterling quotations would tend to widen to a corresponding extent. And it is felt that from the point of view of the prestige of sterling and of Britain the disappearance of the discount on unofficial quotations would be much more advantageous than an appreciation of the official rate.

Continued from first page

Economic Problems of A Defense Economy

thermore, the development of new weapons and improved military equipment may require large increases in the outlays for defense. Since it is not unlikely that the military expenditures of the country will rise, it is important that the country substantially increase its productive capacity. Otherwise, every increase in military expenditures will force reductions in the standard of living of the people. Consequently, the number one economic problem confronting the United States today is how to accelerate the rise in productive capacity. The normal increase in the productive capacity of the country is around 3.5% per year, or about 19% in five years.[1] During the next five years the United States should plan to increase its productive capacity by well over 19%—say about 25%.

The great increase in the demand for goods for defense and foreign military aid, coming at a time of high employment, is likely to bring about an increase in the general level of prices. Although the consumer price index has risen less than 2% since the outbreak of the Korean War, wholesale prices have increased nearly 8% in the last three months. Unless steps are taken to retard the rise in prices, it is likely to be quite substantial. Consequently, the number two problem of the defense economy is how to keep the rise in the price level as moderate as possible. It would be a mistake, however, to control the rise in prices in ways that prevented substantial and continuous expansion of plant and equipment. Consequently the problem of controlling inflation is definitely subordinate to the problem of maintaining a substantial rate of increase in plant and equipment. It is, as I have said, the number two problem of the defense economy.

Some rise in the general price level is probably inevitable in spite of the best efforts that can be made to limit the advance. A rise in the general price level is bound to create many inequities. The incomes of unincorporated businesses and of organized workers are likely to rise much more promptly than the incomes of millions of unorganized employees—executives, technicians, government employees, trade union officers, preachers, professors, and white collar workers in general. Furthermore, the rise in prices will diminish the purchasing power of many billions of assets represented by savings bank deposits, bonds, and life insurance policies. Indeed, the rise in prices is equivalent in some respects to a large-scale expropriation of these types of property. The number three major problem of a defense economy, therefore, is how to keep the inequities produced by the rise in prices to a minimum.

In my remarks this morning, I wish to discuss these three major problems of a defense economy: (1) how to obtain a substantial increase in the productive capacity of the country during the next several years; (2) how to keep the rise in the price level as moderate as possible; (3) how to keep the inequities from the rise in the price level as small as possible.

II

Increasing the productive capacity at more than the normal rate requires (1) an acceleration of technological research; (2) prevention of a drop in the proportion of civilian population of working age who are in the labor force and at work; (3) maintenance of a high rate of expenditures on plant and equipment.

(1) Acceleration of technological research—Several conditions in the defense economy tend to encourage technological research. The shortage of materials is one. The necessity of making new kinds of goods and meeting new kinds of specifications and standards is another. The large expansion of government-supported military research yields important by-products of new knowledge to industry. Even higher taxation of corporate profits seems to encourage technological research.[2] The principal limit on the ability of business concerns to expand technological research is likely to be the number of qualified research workers. Hence, it is of vital importance that neither the draft nor universal military training shall limit the training of young scientists. The indefinite duration of the production contest with Russia makes it particularly important that the increase in the number of scientists shall be kept as large as possible.

(2) Prevention of a drop in the proportion of population of working age who are in the labor force and at work—Since the number of men in military service is being increased by about 1.5 million and a substantial increase is being made in the number of civilian employees of the armed services, the ratio of the civilian labor force to population of working age (14 years of age or over) can be maintained only by an increase of well over 1.5 million in the civilian labor force. The possibility of achieving such an increase in the labor force within the next year is fairly good. It can be done partly by increasing the proportion of women of working age in the labor force and partly by increasing the proportion of workers of 65 years of age or more in the labor force.

The proportion of women of working age in the labor force in 1950 has been about 32%—about 4% less than in 1944 in the middle of the Second World War. It is probably not feasible to restore the proportion of women in the labor force to the level of 1944, but some increase is undoubtedly possible, particularly in view of the fact that the size of the labor force is partly determined by the availability of jobs. If the proportion of women of working age in the labor force were raised by 2%, the increase in the labor force would be about 1.1 million.

The proportion of males of 65 years of age in the labor force has been dropping for many years. Back in 1890 the proportion was about 68.2%, but by 1940 it had dropped to 42.2. The increased demand for labor during the Second World War raised the proportion to nearly 50%. It ought to be possible again to raise the proportion to approximately the levels of the Second World War. Perhaps the proportion can be raised still higher. At the present time about 45% of the males of 65 years of age or more are in the labor force. During the first seven months of 1950, for example, there were 1,582,000 withdrawals from the labor force among males of 65 years of age or more. In the same period, there were 1,536,000 entrances into the labor force among males of 65 years of age or over. Most of the withdrawals are involuntary on the part of the worker—they are the result of the arbitrary retirement standards imposed by employers. The withdrawals could be cut considerably by keeping able-bodied workers several years longer. This will undoubtedly happen. It is interesting to note that under the General Motors pension plan, employees have the option of working until 68. If the proportion of males of 65 years of age or more in the labor force were raised from 45% to 50%, the labor force would be increased by about 200,000 to 300,000.

(3) Maintaining a high rate of expenditures on plant and equipment—In the second quarter of 1950, expenditures on industrial plant and equipment were running at the annual rate of about $30 billion. Outlay on producers' durable goods was at the annual rate of about $21.6 billion and on private industrial construction at a little more than $8.0 billion. A reasonable target for the next year or so would be a continuation of the expenditures on private industrial plant and equipment at $30 billion a year — in terms of middle-of-1950 prices. By 1952 the expenditures on industrial plant and equipment should rise above the present rate.

During the second half of 1950 outlays on plant and equipment will be above the annual rate of $30 billion. It will not be easy to prevent these expenditures from dropping below the $30 billion rate after the government orders for tanks, guns, planes, ships and other types of goods made by the construction and durable goods industries are in production. During the year 1951 the output of military construction and of military goods made by the durable goods industries (including durable goods for foreign military aid) will probably be at least $11 billion to $12 billion above the output planned before the Korean War. If the output of plant and equipment for private industry is not to be reduced, the increased production of military construction and of durable military goods will have to be accomplished (1) by increasing the total output of the construction and durable goods industries and (2) by reducing the production of housing, nonmilitary public construction, and durable consumer goods—since the military construction and durable military goods must, of course, be produced by the construction and durable goods industries.

In the second quarter of 1950, the total output of the construction and durable goods industries was running at the annual rate of about $79.9 billion. Of this total $33.8 billion was represented by output of producers' durable equipment ($21.6 billion), private industrial construction ($8.1 billion), military durable goods ($4.0 billion), and military construction ($150 million) and about $46.1 billion by output of durable consumer goods ($26.7 billion), residential construction ($12.8 billion), and public civilian construction ($6.6 billion). During the year 1951 the total output of the construction and the durable goods industries could probably be increased by between 5 to 10% above the second quarter of 1950—say about 7.5% or $6.0 billion. The principal limiting condition would probably be the supply of certain raw materials, such as steel. If the total output of the durable goods and construction industries increased by $6 billion and the increase in the consumption of military durable goods and construction were $11 billion, the maintenance of outlays of $30 billion on industrial plant and construction would require a reduction of about $5 billion in the output of durable consumer goods, residential construction, and public non-industrial construction — a reduction of about 11%. This is not a large cut. Of course, if strikes or other causes were to limit the output of durable goods and construction, the maintenance of expenditures on industrial plant and equipment would require larger cuts in outlays on durable consumer goods, residential building, and public non-military construction.

Cutbacks of 11% in the consumption of durable consumer goods, residential construction, and non-military public construction might seem easy to accomplish. But the rise in personal incomes will make the task far from easy. In August, 1950, for example, personal incomes were running at an annual rate of about $9 billion above May, 1950. Some reductions in outlays of consumer durable goods and housing can be accomplished by allocations and priorities, which limit the materials available for making consumer durable goods, housing, and civilian public construction. The danger is that allocations and priorities will be too narrowly limited to military goods, and will give little or no precedence to expenditures on industrial plant and equipment over expenditures on housing, durable consumer goods, and public civilian construction. The best opportunity to limit expenditures on housing and durable consumer goods is through the control of the use of credit for these purposes. Between the middle of 1949 and the middle of 1950, outstanding consumer credit increased by $4.1 billion and the mortgage indebtedness of individuals to institutions increased by about $4.5 billion. By reasonably strict credit terms it ought to be possible to cut spending on durable consumer goods and housing by over $5 billion a year.

III

What are the possibilities of controlling the rise in prices and how can control of the price level be best accomplished? The imposition of ceilings on prices should, in general, be avoided—though some direct control of wages may be unavoidable. There are three principal objections to ceilings on prices. One is that they interfere with production because they cause shortages at many points. A second is that they cause wasteful use of resources because they prevent industry from making goods of the kind and quality that the market demands. The ceilings are bound to make the production of some articles or of some qualities more profitable than others. Enterprises, quite naturally, will concentrate on producing the kind of goods that yield the largest profits. But when prices are limited by ceilings, the kind of goods which are in greatest demand may not be the kind of goods that are most profitable to produce. Finally, price ceilings limit the expansion of productive capacity at the very points where expansion is most needed. In the industries where the output of goods is smallest in relation to the demand for them, profits tend to be abnormally large. But price ceilings tend to prevent abnormally large profits. Hence, price ceilings are likely to limit the incentive and the ability to expand productive capacity most severely in those industries where output is smallest in relation to demand and where the need for more productive capacity is greatest. Price ceilings would be particularly inappropriate in a long-run production contest which may last for years and which the United States must win by rapidly expanding its output.

Can prices be effectively controlled by the use of indirect controls—that is, by less government spending, higher taxes, stricter terms of credit, and stronger inducements to save? Undoubtedly these methods can limit the demand for goods and thus limit the rise in prices. Indeed, it is theoretically possible to push indirect controls so far that the huge demand for military goods by the government does not create a sellers' market.

As a matter of fact, there is no possibility that indirect controls will be applied drastically enough to prevent at least a moderate rise in prices. One reason is that indirect controls are unpopular among large and influential groups in the community. Cuts in government spending arouse opposition from local chambers of commerce and other groups that speak for the beneficiaries of the spending. Most of us do not like higher taxes, particularly taxes on spending. Many consumers and business groups do not like stricter credit terms for real estate loans or loans for the buying of durable consumer goods. The Treasury does not like to offer lenders the interest rates or other conditions that would make lending large amounts to the government really attractive. Consequently, indirect controls will be used only with moderation.

A second reason why indirect controls will not be applied drastically enough to prevent a rise in prices is that such severe use of indirect controls would be wasteful and would produce intolerable conditions. Among the most important features of the economy of the United States are the large and powerful trade unions. The largest and strongest of the unions are by far the greatest aggregations of economic power that the country has ever seen. Never in the history of the United States, for example, has there been a great corporation which has had even a substantial fraction of the power of the United Mine Workers, which has the power to cut off the nation's supply of coal, or of the United Steelworkers, which has power to cut off the country's supply of steel, or of several of the railroad unions, which are able to cut off the nation's railroad service.

So powerful are the unions that a moderate degree of unemployment is necessary to prevent unions from raising wages faster than management can increase output per manhour and thus to prevent unions from raising labor costs per unit of output and forcing increases in prices. The normal rise in output per manhour in industry as a whole seems to be about 2.5% per year. The amount of unemployment that would keep unions from putting up wages faster than 2.5% a year is not known, but it is undoubtedly in excess of 3 million. In 1947, when unemployment averaged 2.1 million, hourly earnings in manufacturing increased by 12.8 cents per hour, or 10.9% and in 1948, when unemployment also averaged 2.1 million, hourly earnings of factory workers increased 10.3 cents, or 7.9%. During the contest with Russia, it ought to be possible to get unemployment down to 1.5 million or less. Obviously, it would be extremely wasteful to create sufficient unemployment by indirect methods of price control to prevent unions from forcing up wages faster than output per manhour increases. In the quickened conflict with Russia the United States needs the output of every member of the labor force. The country cannot afford to lose the production of 1.5 mil-

[1]Output per manhour increases on the average about 2.5% a year and the labor force a little more than 1% a year. There is a slow tendency for the hours of work per week to drop.

[2]It is true that the effect of higher taxes in reducing the net cost of research is largely offset by the effect of higher taxes on the returns from research. But higher taxees probably do "jolt" many concerns that had been neglecting research into undertaking it. Furthermore, if research accelerates the rate at which existing equipment can be junked, the effect of higher taxes on the returns from research do not entirely offset their effect in reducing the net cost of research. If taxes become so high that a reduction is anticipated, their effect in reducing the cost of research is greater than their effect in reducing the returns from research.

lion men or more in order to prevent prices from rising.

Although indirect controls cannot prevent a rise in prices without creating a moderate amount of unemployment and causing a substantial loss of production, they can do much to keep the rise in prices moderate. But if the wrong kind of indirect controls are used, the measures that limit the rise in prices will also limit expenditures on industrial plant and equipment. As I have already pointed out, the problem is how to impede the rise in prices without discouraging expenditures on plant and equipment. Let us examine briefly the current program of indirect measures for discouraging the rise in prices. It consists of seven principal parts that are in operation or have been promised: (1) reductions in non-military expenditures of the government; (2) an increase in the corporate income tax; (3) a proposed excess proifts tax; (4) an increase in the personal income tax; (5) restrictions on the use of bank credit in industry; (6) stiffer terms of real estate credit; and (7) stiffer terms of consumer credit.

(1) Reductions in non-military expenditures of the government. At a time when everyone needs to reduce expenditures in order to release productive capacity for the output of military goods and for increasing the country's productive capacity, the government needs to set a good example by reducing its own outlays. Efforts to persuade Congress to cut non-military expenditures in the budget for 1950-51 were not very successful. The strong demand for goods and labor should greatly reduce the outlay of the government on the support of agricultural prices, on unemployment compensation, and on old-age assistance. Furthermore, the executive branch of the government usually has discretion in the timing of the spending of money appropriated by Congress. Consequently, many expenditures that would compete with the output of military goods or the increase in productive capacity of the country can be delayed. Indeed, shortage of materials will probably compel delay in some of these expenditures. During the first two months of the fiscal year 1950-51 the expenditures of the Federal government were considerably less than during the same period in the fiscal year 1949-50.

(2) An increase in the corporate income tax. The increase in the corporate income tax, under present conditions will be passed on fairly soon in the form of higher prices. This is fortunate. It would be most unjust to impose this special tax upon the stockholders of corporations. Furthermore, it would be contrary to the national interest to reduce the ability of corporations to expand plant and equipment by imposing a special tax on their profits. The increase in the corporate income tax, therefore, will contribute somewhat to increasing prices. It can be regarded as a method of controlling inflation only to the extent that it provides the government with income and, therefore, makes it unnecessary for the government to raise the same amount of income by methods that might be even more inflationary. For example, if the corporate income tax reduces the sale of new government securities to commercial banks, it will make the inflation less severe than it otherwise would be. But, although the corporate income tax contributes less to inflation than might other methods of financing government expenditures, it can hardly be regarded as an anti-inflationary measure.

(3) An excess profits tax. One is handicapped in commenting on the excess profits tax by the fact that no law has as yet been enacted. Nevertheless, the principle of an excess profits tax is so unsound that it is virtually impossible to draft a good excess profits tax law. A poorly drafted law can be inflationary by encouraging extravagant spending. This is an important reason for not making the maximum rate too high. The higher the maximum rate, the greater the temptation for some business enterprises to spend extravagantly. There is no doubt, however, that an excess profits tax could be drafted that would be anti-inflationary, because the tax bears differently on different competitors and cannot be completely passed on—even in a sellers' market.

The principal objection to an excess profits tax under present conditions is that it would reduce the funds available for expanding plant and equipment. Furthermore, it would do this in a large proportion of cases in precisely those industries where expansion is most needed. This generalization is not true without qualifications. Nevertheless, it is true as a general rule that, where profits are abnormally high, productive capacity is too low for demand and needs to be expanded. An excess profits tax is particularly unsuited to a long-run production contest, such as the United States is now engaged in. The country should not handicap itself in this contest by adopting a tax that would seriously hamper industry in expanding plant and equipment. If an excess profits tax is adopted, it should not apply to that part of profits used to increase plant and equipment.

(4) An increase in the personal income tax. The increase in the personal income tax is anti-inflationary. But it is a crude and unsatisfactory instrument to use under present conditions. It discourages not only expenditures on consumer goods but also saving. In order to finance large expenditures on industrial plant and equipment, a high rate of saving is needed. What is needed is, not a higher tax on incomes, but a tax on spending for consumer goods. That would discourage the rise in prices but would encourage saving and thus would tend to increase the funds available for financing the expansion of productive capacity. A tax on spending, however, is not politically acceptable. The increase in the income tax probably does more good than harm, but the net beneficial effect is not great. Allowance must be made for the fact that the increase in the income tax tends to stiffen demands for higher wages. To that extent, its anti-inflationary effect is offset.

(5) Restrictions on the extension of credit by commercial banks to business enterprises. Government policy with respect to the terms of commercial credit is in a state of confusion because of the conflict between the Federal Reserve System, which is endeavoring to stiffen credit terms, and the Treasury, which is endeavoring to keep them easy. During the last three months the commercial, agricultural and industrial loans of the weekly reporting member banks have been expanding rapidly and have reached an all-time high. The increase between the end of June and the end of September was well over $2 bililon—in the face of little increase in the same period last year.

The rapid expansion of commercial credit, however, seems largely to have been used in financing the rise in production of the last several months rather than an increase in inventories because inventories at the end of August were about the same as at the end of June.[3] It remains to be seen how far it will be desirable to discourage the expansion of commercial loans. Any increase in inventories is an indication of the need for stricter credit terms. But bank credit may be needed to help finance an increase in plant and equipment—that will depend upon what other ways are available for financing an expansion in plant and equipment. In other words, it will depend upon tax policies and upon the willingness of individuals to invest in industry. Let us hope that industry will not need to rely heavily upon commercial banks to finance construction or the purchase of equipment, because this method of financing is highly inflationary. But it is more important, as I have said several times, to increase productive capacity than to retard a rise in prices.

(6) Restrictions on the use of credit in residential building. This is a highly useful method of controlling prices and also freeing resources for use in producing military goods and industrial plant and equipment because housing construction uses many materials and much productive capacity needed for military goods and for increasing industrial plant and equipment. The recently announced rules in Regulation X are an important step forward in the control of inflation.

(7) Restrictions on the use of consumer credit. There is no more desirable way of combating inflation than restrictions on the use of consumer credit. Certainly people should not now be helped to spend more than their incomes on goods. Since consumer credit is used largely to finance purchases of durable consumer goods, restrictions on the use of consumer credit serve a double purpose—they limit the total demand for goods and, in particular, they limit the kind of demand that uses materials and production facilities needed in the production of military goods and in expanding industrial plant and equipment. Until today, restrictions on consumer credit have been barely more than token restrictions. The stiffer terms of consumer credit will probably be effective in bringing about a moderate drop in the demand for goods. At present, consumer credit is at an all-time high—above $20 billion. If it were gradually reduced to $10 billion by a drop in the volume of new loans, the level of consumer spending would be cut substantially below the volume of personal incomes after taxes. A pronounced deflationary effect could be produced if consumers were spending less than their incomes instead of more than their incomes.

This review of the anti-deflationary program of the government leads to the conclusion that the program is far from adequate. Whether the government proposes to make substantial reductions in the volume of postponable civilian spending remains to be seen. The kind of tax increases that have been made up to now produce a mixture of good effects and bad ones with the good effects not very much greater than the bad ones. No one knows what kind of excess profits tax will be passed, but it will be difficult to draft one that does not severely limit the capacity of industry to expand. The recently announced stiffening of the terms of real estate credit and of consumer credit will be an important check to inflation.

The most serious lack in the government's anti-inflation program is the absence of an attempt to stimulate personal saving. This defect in the program evidently springs from the intention of the government to meet the costs of the Korean War and the increase in defense expenditures entirely out of taxes—the so-called pay-as-you-go policy. Such a policy would be a blunder, particularly if carried out mainly by higher personal income taxes and an excess profits tax. Still higher personal income taxes would substantially weaken the capacity of individuals to save. Indeed, the reduction in the ability to save would be great among millions of persons who will also suffer a substantial loss in the purchasing power of their bonds, savings bank deposits, and life insurance policies as a result of rising prices.

The pay-as-you-go policy has been advocated on the ground that it is desirable in order to avoid a rise in the ratio of Federal debt to the net national product. But if the net national product rises by about 7% during the next two years (the normal rate), the ratio of the debt to the net national product will drop, unless the government deficit in the next two years exceeds an average of $9 billion a year. A smaller deficit would permit the ratio of the debt to the net national product to drop.

If the government adopts the policy of meeting part of the increased costs of defense through borrowing from the real savings of individuals, the economy will be in a stronger position at the end of the contest with Russia than it would be if the pay-as-you-go policy were adopted. Millions of individuals would have become owners of government securities (and millions of others would have increased their holdings). These persons would have the protection against misfortune that ownership of government securities would give them. Furthermore, the acquisition of government bonds would make millions of people more willing to spend their income after the contest with Russia subsides and thus would help the economy eventually adjust itself to the end of the contest with Russia. Thus far, however, the government has not offered a savings bond that people are eager to buy in large quantities. In order to be attractive in a period of rising prices, a bond would need to carry a very high interest rate or be payable in a fixed amount of purchasing power.

IV

I have said that ceilings on prices are in general undesirable. It may be necessary, however, to make an exception of this principle in the case of wages. The community is not ready for direct control of wages, and it would be undesirable to enforce such control until the community is ready to give it strong support. And yet in a strong sellers' market, such as the quickened contest with Russia has created, free collective bargaining is likely to produce results that the country finds intolerable. For example, collective bargaining has recently been showing itself to be a device by which powerful and aggressive groups of employees protect themselves from sharing in the drop in the standard of living that the increased production for defense and foreign aid will soon impose on the country as a whole for a year or more. More important, collective bargaining becomes a device by which the determination of the price level of the country is largely transferred to numerous bargaining groups, each of which is too small to be much interested in the effect of its bargain upon the community as a whole. This result follows from the fact that the people who set the wages of the country virtually determine its price level. In times of a sellers' market collective bargaining is likely to force the community to accept a more rapidly rising price level than people are willing to tolerate. Sooner or later the community will probably insist that restraints be placed upon the freedom of unions and employers to make wage bargains that produce changes in the price level. The community may require that no wage agreement that raises wages by more than a given amount (say the average annual increase in output per man-hour for the country as a whole) shall be put into effect until reviewed by the public board which would refer the agreement back for further negotiation if it were found inimical to the public interest.

V

Improvements in the anti-inflation policies of the government may hold down the rise in the consumer price index to not more than 10% for the year following the outbreak of the Korean War and to considerably less than that, say about 5%, for the year following that. But if prices must be expected to rise by about these amounts, steps should be taken to reduce the unfairness of inflation to a minimum. If nothing is done, the self-employed, who profit immediately from higher prices, and union workers, who promptly began seeking wage increases after the outbreak of the Korean War, will maintain or raise their standard of living at a time when the community as a whole has less to consume. It is not possible to assure that the income of everyone in the community goes up evenly as the result of inflation and, indeed, that would not be desirable because it would prevent differences in wage increases needed to induce workers to move from some localities and industries into others. It is possible, however, to have a much broader and more even rise in incomes than occurred during the Second World War. Keeping the inequities of inflation to a minimum is the third major problem of the defense economy. Four principal steps should be taken to keep the inequities of inflation to a minimum:

(1) Cost of living adjustments, similar to those found in some union contracts, should be applied by employers of non-union workers. Some large corporations will probably do this voluntarily. Certainly the Federal Government should set an example by adopting a cost-of-living adjustment for the compensation of all Federal employees. If a cost-of-living adjust is good for the employees of General Motors, it is equally good for the employees of the Government of the United States. It is also equally good for the officers and employees of trade unions and for the employees of New York City, Detroit, the State of Massachusetts, and all other States and cities. A cost-of-living adjustment would not give the unorganized employees in American industries wage increases equal to those being given to large numbers of union workers every day. Nevertheless, it would diminish substantially the unfair difference in treatment between union and non-union employees. There are many millions of unorganized white-collar workers in American industry, and there are over 5.8 million government employees. Consequently, the spread of a cost-of-living adjustment to these employees would substantially reduce the inequities of inflation.

(2) A cost-of-living adjustment should be applied to the pensions paid under the present Federal old-age and survivors insurance plan. Between 1940 and 1949, when the cost of living increased by about 70%, the average pension payable under the Federal old-age and survivors insurance plan increased only 15%. There are over 2 million recipients of pensions under this scheme. Application of a cost-of-living adjustment to pensions would prevent a repetition of the injustice that occurred between 1940 and 1949, when the cost of living increased far more than the average pension. The General Electric Company has recently announced increases in pension payments to previously retired workers in order to give them some compensation for the rise in the cost of living since their retirement.

(3) Rent control should permit rents to rise with the increase in the cost of living. One of the most

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[3] The real stockpiling has probably been done by consumers, not business concerns.

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unfair parts of inflation during the Second World War was the unfair discrimination against landlords. As a result of this discrimination the item of rents in the consumers' price index rose only about 19% between 1940 and July, 1950, while the average of all items in the index was increasing about 72%. A cost-of-living adjustment in the rent control laws permitting landlords to raise rents as rapidly as the consumers' price index increased would substantially diminish the inequities of inflation for millions of landlords.

(4) The government should offer savers relief from the inequities of inflation by permitting them to buy limited amounts of non-negotiable savings bonds payable in a constant amount of purchasing power if held for a minimum period. The buyers of government savings bonds during the years 1941 and 1950 have suffered heavy losses, and this sort of thing should not be allowed to happen again. The holders of E bonds in July 1950 had paid $31.5 billion for their securities and these bonds had a redemption value on July 30 of $34.7 billion. But in the purchasing power of the year in which the bonds were purchased, they had a redemption value on July 30, 1950 of only $27.7 billion. In other words, the bonds in July were worth $3.8 billion less in purchasing power than the owners had paid for them—a loss to the owners of 12.1%. The magnitude of the loss of purchasing power varies with the year in which the bonds were purchased. Only the purchasers of bonds in the year 1948 were ahead—their bonds in July, 1950 could be redeemed for 1.24% more purchasing power than was paid for them. The buyers in 1941 had the biggest loss—their bonds in July, 1950 had a redemption value 21.9% less in purchasing power than the cost of their bonds. The loss of the buyers in 1942 was 17.1%; of buyers in 1943, 15.9%; of buyers in 1944, 18.5%; of buyers in 1945, 18.6%; of buyers in 1946, 13.9%.

(See table below.)

The quantity of purchasing power savings bonds issued would depend upon the needs of the government but would probably not exceed $5 billion to $7 billion for the calendar year 1951, unless the Treasury saw fit to refund some of its short-term issues with purchasing power bonds. The bonds should be sold to yield somewhat less than the present E bonds if held to maturity—say about 2% instead of 2.9%. The bonds should be sold on a monthly purchase plan with sales to each buyer limited. Persons with incomes too small to make them liable for an income tax payment might be permitted to purchase each month one bond with a final redemption value of $25 and persons with larger incomes (as indicated by income tax payments) larger amounts in accordance with a predetermined scale. Not only would the sale of purchasing power bonds offer savers protection from inflation for a large part of their current savings but, by stimulating thrift, it would help keep inflation moderate and it would build up purchasing power to sustain demand in some future year when government buying drops.

Some of the proposals for mitigating the injustices caused by the rise of prices (the cost of living adjustments in wages, pensions, and rents) would have some tendency to aggravate the rise in prices. Purchasing power bonds would have the opposite effect. Proposals to mitigate the inequities of inflation have been criticized on the ground that they would weaken the resistance to inflation. This is an unconvincing argument. Unless the country is prepared either to adopt direct controls over wages, or to enforce through fiscal and credit policies an unemployment rate of three million or more, a rise in wages, labor costs, and prices is inescapable. Persons who can do little about the rise in wages, labor costs, and prices should not be compelled to suffer from them. As a matter of fact, plenty of injustice would remain unalleviated because there is no direct way of protecting savings bank depositors, bondholders, or beneficiaries of life insurance policies from a rise in prices.

VI

How will the production contest with Russia affect savings banks? It will tend to raise the dollar value of many of their assets, particularly the real estate against which the banks hold mortgages. It is obvious that the contest with Russia is likely to be hard on depositors in savings banks. The prospect that the movement of the price level will be slowly upward must cause individuals to reexamine the question of what proportion of their assets should be held in fixed dollar assets. The man who last May considered it wise to hold half of his investments in a savings bank account or bonds would probably conclude today that the proportion ought to be smaller. But what is the small investor to do? Suitable types of investments for the small saver who cannot watch his holdings closely are not easy to suggest. Certainly the prospect that the long-run movement of prices is upward strengthens the case for owning one's own home. Stocks of individual companies, even stable stocks, may not be very suitable for small savers. It is easy for the investor to buy at a price that soon turns out to be too high. The small investors need an opportunity to buy the shares of enterprises that are not very responsive to the cyclical ups and downs of business but which do move up over the long-term as prices rise. Some of the investment trusts, but not all of them, probably best meet these specifications.

VII

Some people fear that the contest with Russia will weaken the American economy by forcing the United States (1) to adopt taxes that undermine the incentive to produce and (2) to enforce a multitude of controls that undermine the efficiency of industry. Certainly the wrong kind of taxes and poorly designed controls could greatly retard the increase in production. I believe, however, that the chance is good that the economy of the United States will, on the whole, be strengthened by the contest with Russia. Certainly technological research will be stimulated and the strong demand for labor will cause the labor force to become larger than it would have been. The great uncertainty is how the contest will affect expenditures on plant and equipment. During the four years of the Second World War, 1942 to 1945, private expenditure on plant and equipment, exclusive of housing, dropped to 3.8% of the gross national product. In the three years before our entrance into the war, 1939 to 1941, outlays on private plant and equipment had been 8.0%. A similar drop must not be permitted to happen. In the four years since the war, 1946 to 1949, 10.2% of the gross national product was spent on plant and equipment. Of crucial importance in the present contest with Russia is preventing a drop in the present proportion of the output going into industrial plant and equipment. If this proportion is kept high, the rivalry with Russia will strengthen the American economy and the United States will win the production contest.

The following table shows the approximate losses of purchasers of E bonds by year of purchase. In order to make strictly accurate estimates, it would be necessary to know the month, as well as the year, in which the bonds were purchased.—*(Dollar figures in millions.)*

Date Bought	Paid Originally	Redemption Value July 30, 1950	Rise in Price Level (Consumer Price Index) to July, 1950	Purchasing Power of Redemption Value (Col. 2 ÷ Col. 3)	Gain or Loss (Col. 4 minus Col. 1)	Percentage Gain or Loss (Col. 5 as % of Col. 1)
1941	$870	$1,114	163.97	$679	—$191	—21.95
1942	3,212	3,940	148.05	2,661	—551	—17.15
1943	4,659	5,466	139.56	3,917	—742	—15.93
1944	5,430	6,082	137.45	4,425	—1,005	—18.51
1945	4,438	4,852	134.35	3,611	—827	—18.63
1946	2,347	2,503	123.83	2,021	—326	—13.89
1947	2,532	2,633	108.35	2,430	—102	— 4.03
1948	2,901	2,959	100.76	2,937	+ 36	+ 1.24
1949	3,197	3,218	102.01	3,155	— 42	— 1.31
1950	1,904	1,904	102.80	1,852	— 52	— 2.73
	$31,490	$34,671		$27,638	—$3,802	—12.07

Robt. Garrett Opens New York Office

Robert Garrett & Sons, 110-year-old Baltimore investment firm, have opened a New York office at 115 Broadway. William J. Minsch and G. Leonard Boveroux, who have been admitted into the firm, will be the resident partners in New York.

Mr. Minsch, a past President and member of the Board of Governors of the Bond Club of New York, was a partner of Minsch, Monell & Co. from 1942 to the discontinuance of the firm on Oct. 14, 1950. Mr. Boveroux has been in the securities business for nearly 30 years and is a former partner of Minsch, Monell & Co.

With Walston, Hoffman

Walston, Hoffman & Goodwin, members of the New York Stock Exchange and other leading stock and commodity exchanges, announce that Irwin Mitchell has become associated with the firm in its office at the Waldorf-Astoria. Mr. Mitchell in the past was with Ward & Co.

With Central Republic

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—William G. O'Connor is now connected with Central Republic Co., Rand Tower.

Good Questions!

"The proposal that an excess profits tax is necessary to recapture high earnings from producers of war materials seems to overlook the possibility of eliminating the profits of many companies not engaged in the preparedness effort. The idea that an excess profits tax will check inflation is open to debate, as such a tax brings on extravagance and high overhead burdens which will extend over into peacetime production.

Henry H. Heimann

"All the controls we may put into effect, even including price ceilings, at best can only defer inflation until after the present war crisis. When the expansion of purchasing power outruns production of civilian goods and services, controls or price ceilings merely defer eventual inflation. . . .

"The Korean conflict has already imposed a different way of business and life upon us. What may we expect if we are called upon to fulfill our other commitments in other parts of the world? Could we, without destroying our way of life, actively discharge these obligations? Aside from the manpower costs, what about the monetary costs?"—Henry H. Heimann, National Association of Credit Men.

Here is a representative of practical businessmen who asks some of the right questions.

We wish there were more like him in public life.

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The Prospects for American Industry

stifling controls which they call "planning."

The foregoing summary of the salient features of another type of economic management casts significant light on, and warning signals for, our own economy.

During the great depression of the '30s there were many who said that ours was a mature economy; that there was no further chance for industrial growth; that our frontiers had disappeared, and that our population had become stabilized. And in recent days many of the very same people have been telling us that our productive capacity is inadequate to meet our needs!

The Second World War and its postwar period to date have provided striking refutation of the theories of economic stagnation so pontifically advocated by some leading economists in the '30s, and of the prophecies made toward the end of the war by economic pundits and self-styled liberal politicians that we were headed for prolonged depression and grave unemployment. As it turned out, after the relaxation of war controls, when the job was put up to American industry and labor, the response was immediate and overwhelming. The postwar record was continuous with the war record in economic virility and continued expansion. There was a resurgence of confidence in the ability of our industrial machine to do its job!

The postwar years have demonstrated that when our economy is released from such controls as were, on the whole, justifiable under war conditions, the American potential, through American management, labor and consumer demand, becomes tremendously vigorous. As contrasted with the British economy, where the war controls were maintained through the postwar period, we have exhibited greater gains in production and consumption on a comparable per capita basis. What is more, notwithstanding the governmental policies of preventing downward readjustment in agricultural prices and in wages, with attendant fixation of the war and postwar cost inflation, our price level compared to the prewar is less inflated than that of the British or any other economy.

But there are several clouds in our domestic sky, and I regret to say that some of them are larger than the proverbial man's hand. Here is where we may profit from the experience of Great Britain and avoid the dangers inherent in technological decay and dependence on "salvation by government."

The decade from 1930 to 1940 was the first in 60 years in which our growth in capital formation did not reach the average annual rate of 3%. During the '30s there was actually a net loss in capital formation and the net productive capital investment during and since the war, though great in dollar totals, falls far short of the goal which we would have reached if we had continued the rate of growth which existed prior to 1930. This means that there is a trend-deficiency in new industrial plant and equipment to meet the needs of our growing population and to keep pace with the development of our technology. This deficiency is estimated at $70 to $80 billion and is indicative of our industrial lag as measured by our own past performance. This industrial lag includes replacement of obsolete equipment as well as increased productive capacity.

But, you say, our wages and our standard of living have risen. This is correct. There is a reason for it. In many industries we have been living off our fat. As was stated for the British cotton textile industry, those industries have been "living on their capital in the sense that they were not earning or including in operating costs a sufficient return to maintain their capital equipment."

American industry has made a brave effort since the end of the war to make up the deficiency.

Expenditures for new plant by corporate industry averaged about $16½ billion per year for the years '46 through '50, but the deficiency is still very large. It is estimated that $10 billion of the $16½ billion yearly average have gone for replacements alone, the remainder being for expansion.

It is obvious that expenditures for replacement must be considered as part of the cost of doing business; otherwise, you are either liquidating your business or you are using fictitious profits (on which an income tax has been paid) not for dividends or for reserves for hard times, but to replace obsolete plant to make sure that you can continue in business in a highly competitive market.

I have stated above that about $10 billion have been expended annually for replacement and renewals. But of this $10 billion, only $5½ billion was charged to depreciation and treated as costs. The remainder, just for replacement, not for expansion, came out of so-called profits. This means that for every $1 spent, about $1.65 had to be earned, because an income tax of about 39% had to be paid first.

The depreciation charges which were allowed by the Treasury were based on plant installed at much lower prices than the present. Future depreciation charges on the new plant will be charged off at the greatly increased prices. But the fact is that new plant and equipment must be paid for *today, at current prices,* and the deficiency in depreciation allowance must be obtained *now,* not 20 years from now.

I believe that we must stop looking upon depreciation as a matter of dollar replacement and must look upon it as the replacement of the tools of industry when they wear out or become obsolete. In other words, our accounting procedures should recognize that it is not *dollars,* but *tools,* with which we are here concerned.

The necessity for paying out so-called earnings for replacement of plant has made less money available for cash dividends to investors. Cash dividends are what people live on — not increased equity values. The effect on the market values of stocks has been inevitable, and this, in turn, has a drastic effect on the ability of corporations to obtain new or additional risk capital and to expand.

Thus we have a vicious cycle—inadequate replacements except from highly taxed profits; reduced dividends to shareholders; lack of capital for expansion, and threat of ultimate industrial stagnation and inability to supply a growing population with goods and jobs.

In this connection, it is interesting to note that in this postwar period the British Government apparently became aware of the hazards which I have mentioned and amended her tax laws to permit an initial charge-off of 20% on new equipment, and in 1949 the initial charge-off was increased to 40% on equipment purchased after April 6, 1949.

In the face of this belated realization by a Socialist government of the effects of past and continued uneconomic policies towards depreciation, is it too much to hope that our Treasury, mindful of the enlarged production needs for steel and other durable goods, will take the same lesson to heart? A beginning in this direction has already been made. Recently our own Congress took note of the problem and provided for accelerated amortization of defense plant facilities similar to that which was available during the recent war. This provision is for the period of emergency only. I trust that it will point the way to a comprehensive solution of our problem.

I need not emphasize to this audience the important place of our industry in the national economy. But we must admit that, in spite of vigorous efforts by the industry, we have not been able to meet the demand for our products, with the result that there has been, for much of the postwar period, a flourishing gray market, as well as a large volume of conversions of high priced ingots, which acted to materially increase the cost of steel to our customers.

The steel industry is frequently characterized as being *the* basic industry of the American economy. I take this to mean that unless our industry is healthy and vigorous the rest of the economy will suffer. To be healthy and vigorous, the steel industry must be profitable.

Industry Must Have Adequate Income

We must have adequate income to cover the cost of replacing our tools as they wear out or become obsolete, and also to pay cash dividends in amounts sufficient to attract investors to our industry. Only in this way can we expand to meet the growing needs of our economy. In short, *we must have adequate prices for our products.*

In my opinion, the prices received for steel products are far below parity with the prices of other industrial products. As a consequence, the industry is severely handicapped in its efforts to attract risk capital in competition with other industries.

The oil industry had similar difficulties. It came out of the war period with a sub-parity price structure, i.e., its prices had not kept up to the other prices as compared with 1926 as a base. They were also faced with the requirement for tremendous capital investment to meet the postwar demands for their products. Late in 1947 action was taken, when the price structure was raised by 50c per barrel — approximately 25%. As a result, the oil industry increased its total capital and other investments by over 50% during the postwar period and can now meet the great demands which have been imposed upon it.

During this same period and on a comparable basis, the steel industry increased its total investment only about 23%. That the oil industry was not an exception to the general rule is indicated by the fact that the industrial companies on the Dow-Jones list increased their total comprehensive investment by 45% during the same period!

Now let us look at earnings and their relation to the ability of the industry to replace its plant and to provide increased capacity to keep pace with the growing economy.

The industrials comprising the Dow-Jones list (excluding American Telephone and Telegraph, which is a public utility, and the three steel companies included in the composite) showed net earnings on the total tools used (total fixed assets plus net current assets) in 1939 of 7.18%, whereas the steel industry as a whole, in accordance with the Institute's figures, showed a return of only 2.45%. In 1948, when the steel industry was earning its all-time high in dollars, the figures were 11.41% for the adjusted Dow-Jones Industrials and 6% for the steel industry. In 1949, the adjusted Dow-Jones Industrials had 10.6% and steel 5.54%.

Thus we see that at the top of the postwar boom the earnings of the steel industry were approximately one-half of the Dow-Jones composite which is indicative of the rest of the industrial economy. Consequently, it was able to have only about one-half of the capital expansion. It appears evident that the economic reaction proceeds directly from adequate prices and adequate profits to adequate capital expansion and *increased employment.*

Let me cite another comparison: For the first six months of the current calendar year the nine largest steel companies compare with six of the seven largest auto makers (ex Ford) as follows:

	6 Auto Companies	9 Steel Companies
Gross fixed assets plus inventory and receivables	$3,515,432,031	$8,081,938,849
Net income	556,486,240	364,518,106
Percentage return on:		
Invested capital	19.29	7.28
Gross fixed assets plus inventory and receivables	15.83	4.51
Net worth	19.54	8.20

On all three bases the earnings of the steel companies are well below half those of the auto companies.

It is important to note that with more than double the investment in gross fixed assets, inventory and receivables, the steel companies had only 65% of the net income. With the large investment in plant and the far slower turnover of plant and with an inadequate depreciation allowance for tax purposes, the steel industry *must* show a better profit position if it is to keep its plant modernized. Replacement (not expansion) of the tools of production must be paid from current operations unless we are willing to liquidate the industry through wasting of its assets.

A recent computation indicates that, under present tax laws, if adequate depreciation reserves were set aside to replace plant at current costs of $250 per ingot ton of capacity the earnings of the steel industry would be almost exhausted.

During the past five years the steel industry has spent large sums for plant and equipment and other large expenditures are planned. The capacity of the industry has increased more than 10% since 1946. But I maintain that until the price structure of the industry is brought into line with that of the general economy, we will not be able to do the job required of us.

Steel Prices

The question arises as to the reason for the depressed price structure of our industry. I believe it can be attributed to the cumulative coercive effect of the hue and cry which arises from government officials, columnists, commentators, editors, economists and others whenever there is a rise in steel prices, even of the most modest proportions.

We have recently had a typical example. One of the smaller steel companies announced a 5% increase in the price of certain of its products. Immediately the customary clamor arose, accompanied by shrill cries of "inflation!"

Certain radio commentators spoke about the effect on prices of automobiles and stated that this modest increase would raise the costs of automobiles from "$200 to $300 per car."

One newspaper published an article with a headline **"Five per cent Boost—Sharon Steel Price Rise Spurs Inflation—Cost of Autos Expected to Climb."** Actually, the price rise would increase the cost of the average automobile approximately $10. This could hardly be called inflation. In fact, it is a negligible percentage increase of the current costs of any automobile, even the cheapest.

I maintain that the critics of the steel industry and its pricing policies have done a great disservice to the country and to the national security. The induced states of mind in government and in industry have contributed to restrict the flow of risk capital which would permit the very expansion which is demanded so clamorously. The accompanying depression in the price of steel has deflected a part of the due compensation for steel investment and steel labor to expenditures on other types of goods, including luxuries. Since inflationary pressures arise from the condition of the total economy, such selective deflation of an essential industry only diverts the inflation to less essential uses. And even within the steel industry the diversion takes the form of gray and black markets. At this time of increased investment requirements for national defense these restrictive policies and price disparities represent hindrance to the proper alignment and accelerated functioning of our national economy.

If steel were over-priced or even fairly priced, it is reasonable to assume that the effects would appear in the profit statements of the steel companies and that as a result thereof the shares of steel companies would be in great demand by the investing public.

I have cited above a comparison between the earnings of the steel industry and those of a large and representative group of other industrial concerns. The effect of the comparatively small returns on the values of steel companies is evidenced in the prices of steel shares. A calculation made within the past three weeks indicates that although the current reproduction costs of a steel company are estimated to be between $250 and $300 per annual ton of ingot capacity, the market value of the eight largest companies per annual ton of ingot capacity varied from a low of $36.32 to a high of $87.42.

This means that the entrepreneur who desires to enter the steel business "from scratch" with a brand new plant would face an impossible financing problem, since the investor can now buy existing steel capacity at much lower prices.

I believe that the steel industry's role in our national economy is to give the consumers of steel more and better products at the lowest workable costs; to provide productive full employment to its workers at living standards conforming to those of a progressive social economy, and to play its full part in strengthening the national defense and meeting all national emergencies.

In order to fulfill this role, it is necessary that the steel industry provide adequate and improved tools by replacing those that are obsolete, by adding modernized facilities which meet the highest standards of technical industry, and by pursuing a vigorous program of improved technology.

Because the steel industry has been in a sub-parity position with respect to the rest of the industrial economy in prices and consequently in profits, it has been unable to fully discharge its duties. It is, therefore, essential for the industry to achieve economic equilibrium with the rest of the economy. To do this we must correct an obsolete price structure and thereby restore investment status to the steel industry so that it can compete with other industries for risk capital.

We have been characterized in recent years as a "feast and famine" industry. There is an exaggeration to this because so far as profits in the prosperity years in the past decade are concerned, our industry has not shared in the feast that was experienced by its economic companions in durable goods production. I see no inherent reason why the industry should remain subject to the burdens of inadequate profits. Rather do I see for it, once the basic price disparity is corrected, an epoch of prolonged high activity and adequate returns for the old and attracted new investment in conformity with the requirements of a balanced and progressive business and social economy.

What, then, are the prospects for American industry? They are what we, the people, choose to make them. We must maintain a "climate" of free and responsible competitive enterprise, without government restrictions and with maximum freedom and incentive for the individual. In such a climate, American industrial genius will thrive and expand and will discharge its obligations to the Nation.

D. Walton Matthews With Hayden, Stone

D. Walton Matthews, formerly President of Bondex, Inc., since 1938, has become associated with Hayden, Stone & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, as manager of the firm's bank and institutional investment service, it is announced. In his new capacity, Mr. Matthews will specialize in investment problems of commercial banks and other financial institutions.


D. Walton Matthews

One of the founders of Bondex, Inc., New York investment counsellors specializing in bank portfolio work, Mr. Matthews previously has served as a Vice-President of Telephone Securities Co., Chicago.

Ames Named to Head N. Y. Group of IBA

Amyas Ames, partner of Kidder, Peabody & Co., has been nominated for the chairmanship of the executive committee of the New York Group, Investment Bankers Association of America, for the ensuing year, it is announced. Other nominations for the coming year are: Walter F. Blaine of Goldman, Sachs & Co., Vice-Chairman, and Robert E. Broome of Guaranty Trust Co. of New York, Secretary-Treasurer. Duncan R. Linsley of The First Boston Corp., Chairman of the Nominating Committee, announced that the elections will take place at the group's annual meeting on Oct. 26 at the Hotel Pierre.


Amyas Ames

Clarence E. Goldsmith of White, Weld & Co. and Raymond L. Stitzer of Equitable Securities Corp. are nominated to serve ex officio. Henry Herrman of Henry Herrman & Co. and John W. Valentine of Harris, Hall & Co. (Inc.) are nominated for three-year terms on the executive committee.

Centennial Investment Co.

DENVER, Col.—Centennial Investment Co. is engaging in a securities business from offices at 1525 Arapahoe Street. Officers are Ezra Alishouse, President; R. L. Giddings, Vice-President; G. W. Nash, Secretary, and Arthur E. Gaines, Treasurer.

Continued from first page

As We See It

power, so-called, is thus placed in the hands of businesses and individuals in the course of operations which do not for the most part supply the markets with anything these funds can buy. Much the same is to be said of any policy which stops banks from lending to consumers, but permits (indeed in a fashion encourages) them to lend to others, whether it be for enlarging facilities to be employed in the manufacture of munitions or for the production of munitions directly. This whole question of the generation of inflationary forces by the extension of bank credit is an involved one which cannot be left to chance if inflation is really to be avoided.

But a large part of the consumer credit about which we hear so much these days is not bank credit at all, either direct or indirect. When a finance company loans funds which it has obtained from its stockholders, or from an insurance company, for example, to some individual to buy an automobile, one consumer is put in receipt of funds which another consumer has saved. Should the man who has done the saving prefer to buy government bonds, a new issue of securities, a new mortgage, or any one of a dozen other forms of investment available to him, his funds might then impinge in the first place upon markets other than that for automobiles or washing machines or television sets, but they would impinge upon some market or other, and when they did so they (or a very large part thereof) would pass into the hands of individuals who (since they would own the funds then) could spend them for whatever they pleased so far as consumer credit restrictions are concerned.

There is such a thing, of course, as "propensity to consume," and this urge may naturally be influenced by such things as easy credit. Possibly it is more easily influenced by such factors, than the decisions of businessmen, or than the decision of investors to hold cash (that is to say, hoard) rather than to put their funds to work or vice versa. There may, therefore, be an appreciable additional ultimate effect of diverting funds from consumer loans into some other channel, but the difference is not nearly so great as a good many appear to suppose.

Plenty of Money

Now let us turn to another phase of the current situation. The individuals of this country, when we plunged into World War II late in 1941, owned bank deposits, currency, government securities and other so-called "liquid assets" in the amount of about $60 billion. They came out of the war four years later with approximately $155 billion. They bought as never before during the half decade that is now just past. Yet individual holdings of these liquid assets have been steadily rising. They are now at an all-time high. In particular, individuals have been building up their time deposit accounts, and they hold enormous quantities of savings bonds, which they can convert into cash at will.

It would appear that, by and large, many of these individuals have preferred to borrow for current purchases rather than to draw down on their time deposits or redeem their savings bonds prior to maturity. Of course, the simultaneous increase in consumer debt and enlargement of consumer liquid savings does not imply that the same individuals save and borrow. But there is every reason to believe that many of them do just that. They can now, if they choose, proceed to bid up goods by use of their savings. Whether or not they will actually do so remains to be seen. If they do the effect upon the economy as a whole may not be very different from that of continued consumer lending so far as such lending has been by bona fide savings.

Must Not Ignore Other Things

But the real danger is that public attention will be so fixed upon consumer credit that it will fail to understand and realize that there are a million other ways in which an inflationary potential may be built up in the economy. The fact that such a potential exists today is a result of the way World War II was financed. It would of course be foolish to suppose that such a war could, human nature being what it is, be vigorously conducted without some measure of inflation. Such things simply do not occur in this imperfect world of ours. But a much better effort could have been made, and a much smaller aftermath of financial hazard developed. We were altogether too much obsessed with the notion that inflationary funds could be mopped up by sale of savings bonds. Treasury policies of support for the government securities market has resulted in a monetization of the unpaid cost of the war. That we must avoid in the future, and to avoid it we shall, of course, have to do a great deal more than curtail consumer credit.

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The Frear Bill

required with respect to large publicly held corporations not so listed.

I have been heartened by the extent and character of support for the bill. The financial community, which presumably knows the problems of investors, has given its almost unanimous approval. Organizations such as the Investment Bankers Association, the National Association of Securities Dealers, the National Securities Traders Association, the New York Society of Corporate Analysts, the National Association of Investment Companies, the New York Stock Exchange, and the New York Curb Exchange sent representatives to testify in favor of the bill. When organizations of this character — conservative, respected members of every community — agree that legislation suggested by a bipartisan commission of the Federal Government is essential, it seems obvious there must be compelling reasons for the enactment of the legislation.

I think it is a remarkable thing when the leaders of an industry agree with the agency which the Congress has created in that field as to the merits of a legislative proposal. It reflects favorably on both government and industry, and such a spirit of cooperative give-and-take should be encouraged by the Congress. Of course, opposition was expressed—I would not be fairly describing our committee hearings unless I disclosed that fact. But I can fairly say that the opposition was based predominantly on misunderstanding of the bill and of its provisions for exempting companies and transactions not within its purposes. I have tried to make it crystal clear to all concerned, and I reiterate, that it is not the purpose of the bill to restrict business—everyone who foresees any problem in compliance is urged to make his problem known. I want this to be a truly representative and fairly operating piece of legislation. Such opposition arguments as were voiced were presented relatively in the main by management. Security holders were almost unanimous in their support. Thus, at the same time security holders clamored for legislative assistance in their attempts to obtain adequate disclosure, some management opposed such legislation and sought to protect their ability to keep operations secret. This very divergence in viewpoints seem to me to illustrate the need for the legislation.

Says Bill Is Timely and Necessary

The detailed studies completed by the Securities and Exchange Commission in 1946 and 1950 force the conclusion that this bill is timely and necessary. I will not itemize the findings contained in those studies, for copies of the reports themselves are readily available. I should like to emphasize that these studies represent an analysis of typical unregistered corporations. There may be some which follow better practices. And I am sure there are many in which management is even less sensitive to their fiduciary obligations; for only corporations making *some* financial material available to their security holders were examined. Those which did not even respond to a request for copies of their financial statements could not be studied. Moreover, the Commission was able to obtain access only to a limted amount of proxy material. Though seriously deficient, this material probably represents a better than average selection.

Approximately one out of every six of the companies examined failed to furnish its stockholders with one or more of the three basic financial statements necessary for even a rudimentary analysis of the state of the business. These are a balance sheet, profit and loss statement, and statement of surplus. Many companies so handled their reserves that it was impossible to determine, even with a balance sheet, the company's net worth. For example, one company with assets of $6,500,000 had a reserve for contingencies of $2,200,000 and did not mention any specific contingency for which provision was made. Let me make it clear that these do not represent cavils about fine points of accounting practice. Not only do such practices result in depriving the owners of the business of essential information about their company, but they create opportunities for concealed manipulation of security holders' rights and they deter investors from risking their capital by making investment in such companies a blind adventure.

The proxy soliciting practices of these companies also represented, in most instances, an insensitivity to the rights of the owners of the enterprise. There was a minimum of disclosure and a maximum request for blanket authority. The typical notice for the election of directors did not give even the names of the directors in office or those proposed for the ensuing term. One of the items of business in one-third of the stockholder meetings was the approval and ratification of all acts of management since the preceding meeting but the nature of these acts was in no instance disclosed—a procedure tantamount to a fiduciary's request for a blank check to cover his past and undisclosed withdrawals.

The typical proxy form had provision for only a "yes" vote upon matters to be decided at the meeting. I should like to quote from an article by Robert P. Vanderpoel, financial editor of the Chicago "Herald - American," which appeared on May 3, 1949:

"On May 10 stockholders of the Camden Forge Company will be asked to approve an amendment to the concern's certificate of incorporation, changing the tenure of office of directors from one to three years with only one-third of the board to be elected each year.

"Unlike the Montgomery Ward & Co. charter, which permits such change by majority action of directors, it is necessary for two-thirds of the Camden Forge stockholders to approve before this backward step can be taken.

"It is unthinkable that stockholders will ratify the proposal. One businessman, in sending in his proxy against the plan, described it as 'an undemocratic corporate subterfuge to perpetuate management in office.'

"In this particular instance, the management, with arrogant disregard of fair treatment of stockholders, makes no provision on the proxy for a negative vote.

"Under normal circumstances the Securities and Exchange Commission would prevent such a one-sided presentation, but inasmuch as Camden Forge stock is not listed on a registered securities exchange the SEC lacks jurisdiction over its proxy solicitation.

"Undemocratic corporate managements, intent upon concentrating more and more power in their own hands, serve to weaken the American system of private enterprise."

Surely it must be agreed that the proxy practices disclosed by the SEC study are repugnant to our democratic tradition. If that were all to be concerned about, it would be enough. But it is another fact that underlies the failure of many of our corporations to afford an opportunity of participation in the enterprise by those who have the legal right to participate and have been and may be again called upon to risk their funds in the venture.

Corporate Practices Which Depart From Business Norm

I have not thus far discussed corporate practices which depart from the business norm. The abuses I have mentioned, startling to me, are common. None of them can exist in those companies now subject to the Securities Exchange Act. S. 2408 is designed to eliminate such practices in other large companies with publicly held securities.

In addition, S. 2408 attempts to outlaw trading by insiders upon inside information. This is closely related to the other provisions, for by withholding accurate information the insider may take advantage of information unavailable to the public generally to trade for his own benefit. Numerous examples of such trading were called to my attention. In one instance where the security was registered on the New York Stock Exchange and the insider was therefore subject to the Securities Exchange Act, the minority stockholders compelled the insider to return almost a half-million dollars of profit made as a result of such short-term trading. In another instance, involving an unregistered security, I am informed that insiders made a three and one-half million dollar profit in two months. All the profit in such trading, of course, was at the expense of the security holders. There is no reason why this basic fiduciary obligation to avoid profiting from inside information should be imposed only upon officers, directors and 10% stockholders of registered companies. I believe the prohibition against such shocking conduct should apply to all large publicly held companies.

I have listened to all of the testimony upon S. 2408. I have made an exhaustive inquiry into the need for such legislation, and I have had a voluminous correspondence upon it which I have studied carefully. I have found no sound argument against enactment of the bill. As I have mentioned, such opposition as did appear arose largely from misunderstanding. For instance, one company expressed the view that the bill, if passed, would require it to list its stock. No such requirement is in the bill and none is proposed. On the contrary, the bill seeks to maintain a balance between the exchange markets and the over-the-counter markets so that neither one will have an unfair advantage over the other—and the acid test of this is that the representatives of both markets appeared and testified in favor of the principles of the bill. Another objection was voiced on the ground that the SEC would invade the intrastate field after the bill was passed. This objection ignores specific language in the bill permitting exemptions to those companies of an intrastate character.

Fear of Bureaucratic Regulation Unwarranted

In part, opposition to the bill was expressed as a vague fear of government regulation. No one believes more than I do that bureaucracy in government should be discouraged. But I believe that these fears in relation to S. 2408 are unfounded and result from misconceptions and faulty analysis.

S. 2408 is not a new experiment in government control of regulation. It neither controls nor regulates and its provisions are not new. Enterprise remains free and unrestricted under it. Stripped of its legal terminology, S. 2408 simply instructs corporate fiduciaries to inform their security holders of what the corporation is doing, and to pay profits made from short-term trading in their company's securities to the company. No less should be tolerated by our society. No more is contained in the bill. To call the administration of such a bill "regulation" is, in a sense, a misnomer. For the bill gives no power or authority to impose governmental will on any aspect whatever of management's business discretion.

Nor is the suggestion contained in the bill new. As early as the year 1847 the Connecticut Bank Commissioners recommended to the State Assembly that a law be passed inhibiting the power of management over proxies and restricting "the authority (of insiders) to trade and speculate in the stocks of their bank; the precise value of which stock, their peculiar means of knowledge gives them the exclusive power of determining." As early as 1858 a British court held criminally liable directors of a British bank who published a false balance sheet, paid dividends when no profits were made, and purchased bank shares with bank money to keep up the price.

Many corporations, although not now subject to the disclosure requirements of the present law, have voluntarily embraced the principles of S. 2408. I believe this represents the predominant attitude of responsible management, which recognizes the enormous benefits which flow from full disclosure. The trend in this direction is expressed in the May 29, 1950 issue of the "Investment Dealer's Digest," under the column "March of the Markets," as follows:

"This trend toward complete disclosure is not the result of SEC or compulsion of any sort. It's simply becoming evident to a greater number of wide-awake businessmen that it pays."

The vice-president of one of our great business enterprises recently sent a questionnaire to a group whose business it was to analyze investments, inquiring: "What was the most important thing management could do to mold the investors' attitude in favor of a company?" He summarized the answers in two words. These words were "Full Disclosure."

A "Full Disclosure" Bill

If S. 2408, which is essentially a "full disclosure bill," is enacted, I predict financing will be both cheaper and simpler. This was plainly indicated by the testimony of the securities industry, which has the job of underwriting and selling corporate stocks and bonds. Underwriters' costs, by far the largest factor in the cost of selling any new issue, are directly related to the ease with which an anticipated issue of securities may be sold, and publicity of the accounts of a well-managed business is one of the best methods of creating acceptance for its securities. Financial scandals, which cast their reflection upon corporate enterprise, will be reduced.

The specific objections to S. 2408 which I have heard are the same as those voiced in the hearings upon the Securities Exchange Act of 1934. They were rejected then and were rejected by succeeding Congresses when provisions comparable to the financial reporting, proxy-soliciting and insider-trading requirements of the Securities and Exchange Act were incorporated in the Public Utility Holding Company Act of 1935 and the Investment Company Act of 1940. The Investment Company Act, it should be noted, was passed by the Congress without a dissenting vote. I believe that action sufficiently testifies to the bi-partisan non-controversial character of the corporate reforms proposed by this bill.

Delays in Common Law Actions

It has been contended by those opposed to the bill that there exists, in almost all states, a statutory or common law right to inspect the corporate books. From this it is argued that there is no need for the proposed legislation. Apart from the fact that the several states have varying restrictions on the right of inspection, it seems to me to be completely unrealisitic to tell a stockholder in California that he may hire an accountant and a lawyer to compel the examination of the books of a New York corporation. This procedure not only effectively deprives the average investor, with limited financial means, of his legal rights but it often results in such interminable delay that the knowledge of the company's condition, even when obtained, is out of date. The illusory character of this right is well illustrated by the recent litigation in which minority stockholders of an important steel company attempted to obtain a list of the other stockholders so that they might circularize them in opposition to the management. Although ultimately the Ohio Court of Appeals sustained their right to this list, it was already an old list when they acquired it, and to obtain a current list it would have been necessary to institute a new action. A new action, similarly contested, might have meant more delay, which in turn would have made the new list out-of-date. That is the dilemma into which a stockholder may be forced today. By contrast, the proxy requirements of the SEC today provide opportunity for stockholders to make their proposals and views known to each other through reasonable use of the proxy machinery. Further, information filed with the Commission is immediately available to security holders directly and through advisory services, unless, as I shall mention, there is reason for treating the information as confidential. No state has any legislation remotely comparable to the proxy and insider-trading provisions of the Securities Exchange Act which now apply to listed securities only.

It is also argued that certain companies whose competitors do not come within the size standards of the act will thus suffer a competitive disadvantage. The desire on the part of corporate management not to disclose what it regards as its own affairs is understandable. However, the state of the business is not managment's affair alone. It is inherent in the duties of management stewardship to account to and deal fairly with investors in the enterprise. Sixteen years of experience under the 1934 Act demonstrate conclusively, I believe, that the Congress has struck a proper balance. There is absolutely no indication that companies at present registered suffer competitively as a result of their registration. Where information required by the Act should be secret or confidential, the Commission may make such information public only when a disclosure of such information is in the public interest. And if the Commission determines that such information should not be kept confidential, the company may appeal to the courts and, if successful in the appeal, prevent any public disclosure. In the 16 years of the Commision's history, only one such appeal was ever taken, and in that case the Commission's view was sustained.

I have examined carefully and in considerable detail the rules and regulations of the Commission which have been in operation for many years in an effort to determine whether the requirements imposed by these rules and regulations are onerous. The Commission is engaged in a continuous process of simplifications and has always been amenable to reasonable suggestions for modification of any requirement that may impose unnecessary expense or inconvenience. I am convinced that there is no hardship upon companies compelled to file the required reports. There are three types of filings required. First, there are the financial statements filed upon registration and annually thereafter. All of the information contained in these statements is readily available from the accounts which corporations of any size keep in connection with the data at present required by the Bureau of Internal Revenue. The average annual report contains only the basic financial information. Where possible, I have suggested further simplification and I am pleased to note the continuing progress in that direction made by the Commission. The second type of filing is that required whenever proxies are solicited. This averages approximately four pages in length and contains simple and relevant information about the meeting. A third type of filing does not relate to the corporation at all; it consists simply of a blank which each insider who buys or sells his corporation's securities must fill in. It is a one-page affair with a half dozen blank spaces. Contentions that these requirements are onerous are unfounded.

No Burden to Small Business

It has been said that this bill will be a burden to small business. Nothing could be further from the truth. All of my inquiries have confirmed my belief that S. 2408 can have no harmful effect upon the small enterprise. The size limits were deliberately established to avoid any possibility that any but the largest concerns would be included. It has been estimated that the 1,800 corporations with $3 million in assets and 300 security holders form about one-half of 1% of the 4 million business enterprises in this country. It is sheer invention to say, as one organization says, that legislation affecting so minute a proportion of the largest businesses in the country affects small business in any way. In a recent impartial study of various mediums by which business enterprises are considered "large" or "small," such as total assets, tangible net worth, annual sales, number of employees, value of product, and income, it was concluded that small business enterprises having a tangible net worth of $10,000 or less constitute 80% of the businesses in the country. While I would not subscribe to so extreme a limitation in defining the line between big and small business, it throws considerable shadow on the testimony offered by one witness in connecton with this bill who contended that a business with $50 million of assets was "small" business.

S. 2408 is, in a sense, a helping hand in what has appeared to be an irresistible trend toward publicity in corporate affairs. It is a trend which has characterized our emergence as the world's richest storehouse of private economic potential.

The revolution in lending technique predicated upon the borrower's giving a current balance sheet and other financial information was, to quote Roy A. Foulke, Vice-President of Dun & Bradstreet, "the most radical change in banking practice since the organization of the Bank of North America in 1781. Nothing could have been more simple, more logical or more eventful." As with most innovations, businessmen were both resentful and sceptical of the new requirements for giving information before they could obtain money.

By 1900, the new procedure was well on its way toward providing the bond which cemented lenders and businessmen into a mutually profitable relationship. "An itemized statement," said banker James B. Cannon, "provided it is correct, is to a banker what a map is to a traveler; it points out and makes clear things and conditions that would otherwise be obscure and mysterious." The skepticism which greeted the new principle was followed by toleration and toleration by extension of the practices. Passage of the Income Tax Act in 1913 and of the Excess Profits Tax Act in 1917 compelled businessmen to accept the necessity of a correct system of accounting. In the meantime, the accounting profession achieved recognition, although as late as 1907, investigations by public accountants were made secretly, often at night or on Sunday.

Today no bank or other lending institution would think of providing money for a corporate enterprise without a financial statement accurately disclosing the condition of the business. I believe every investor is also entitled to such information. Common stocks today have emerged to a point where they can and should be sold only on their own merits. I believe we have arrived at that point in the historical trend where resistance to adequate disclosures to stockholders is crumbling in the same way that resistance to making disclosures to creditors crumbled some 50 years ago. The die-hards will continue to object and attempt to obstruct progress, only to find themselves ultimately in a hopeless minority. No one can contemplate the great drive toward full and accurate publicity in financial matters down through the years without realizing that the movement is still in full swing. Without S. 2408 the pockets of resistance will remain, to the damage of investors and of the economy generally. Without S. 2408 progress will be marked, as it has always been, by drastic and expensive suits against recalcitrant managements, upsetting normal business and providing a playground for litigants and speculators. I am proud of the part which I hope to share with the Congress in the movement to bring knowledge of corporate affairs to their owners and to widen the securities markets to include additional corporations in search of new capital.

W. Brock Fuller

W. Brock Fuller, manager of the investment department of Paine, Webber, Jackson & Curtis' office in Milwaukee, died suddenly on Sept. 19 of a heart attack.

Dunn Limited Partner

Auchincloss, Parker & Redpath, members of the New York Stock Exchange, announce that Richard P. Dunn has retired as a general partner and has become a limited partner in the firm.

Wall Street Riders Elect Miss Cambridge

Miss Marie R. Cambridge, of Union Securities Corporation, was re-elected President of the Wall Street Riding Club at the annual meeting for election of officers held in New York City recently. Mrs. Mildred Butler, of McLaughlin, Reuss & Co., and Mrs. Helen McGuire, of the Milbank Fund, were re-elected to the offices of Vice-President and Secretary. Mr. Charles Downey, of Clarke, Oakes & Greenwood, was elected Treasurer and was also elected to the Board of Directors. Miss Ruth Shellens, of Merchant, Olena, Buck & Santomenna, is another new addition to the Board.

The Club began its sixteenth season on Friday night, Oct. 6, with the first indoor ride at their ride headquarters, Split Rock Academy, in Pelham Manor, New York, and Miss Cambridge announces plans for an active fall and winter season for the financial district's equestrians.

Continued from page 6

Pros and Cons of Direct Placement

disclosure of figures and details as to its business. To the extent that this desire for secrecy is merely to avoid giving information to a competitor, it is understandable. To the extent that it is designed to enable the issuer to be less than candid with possible security purchasers, it is not in the public interest. From the viewpoint of the insurance industry, complete figures and disclosures will be required for a proper valuation of the securities.

Through a direct placement, the borrower may put itself in a position to obtain financial advice from time to time from the lending institution. For a corporation of modest size this may be a valuable service, but it may be questioned whether such advice should not be sought from a banker rather than from an institutional investor. There is also the danger to the borrower that such a relationship may result in the lender's acquiring to an undesirable degree an influential position in the borrower's affairs.

Thus the advantages of direct placement to the issuer are not entirely unmixed. The same is true of the disadvantages. It has been argued, for example, that the policy of insurance companies and other similar investors to hold the issue until maturity deprives the corporation of the opportunity to reduce its outstanding debt or to meet its sinking fund requirements by open market purchases at a discount. Admittedly, however, any attempt to predict the extent to which this opportunity would be available in any particular case would be quite speculative.

The covenants in a direct placement indenture often are more restrictive than in the case of a public offering. This is quite understandable since the lending institution has considerably more to say than it does when it is merely a buyer of publicly marketed securities. On the other hand, there appears to be no evidence that the lenders have taken or have sought to take unfair advantage of the borrowers; at least the borrowers do not seem to have complained. Furthermore, some of the covenants, particularly those requiring substantial sinking fund payments, may well redound to the benefit of the borrower in the long run.

Another factor that may influence an issuer to avoid the medium of direct placement is a recognition of the importance of the investment banking system and a desire to support it. Such a decision need not be based on altruistic motives; the issuer may be looking ahead to a time when it will need this distributive mechanism to handle an issue that may not qualify for direct placement.

Impact on the Investment Banker

Beyond question, the development of the direct placement medium has hurt the investment banker's business. While perhaps as many as one-half of the direct placements, in number, are negotiated through bankers, who receive a finder's fee for their services, this fee is much smaller on the average than the usual commissions on public issues—smaller because the banker does not have to underwrite the risk or employ salesmen to sell the securities. It has even been claimed that the low commission rates prevailing today on public issues are partly due to the influence of the direct sales.

The pill is particularly bitter because to a large extent the issues sold privately are of the highest grade and, therefore, would involve the least risk to the banker and would be the easiest to sell. The result is a sort of adverse selection against the banker, tending not only to reduce his volume but also to skim off some of the cream of his business.

A continued upward trend in the use of the direct placement medium will further injure the investment banking machinery. This unquestionably would be extremely harmful to the economy. The investment banker performs a valuable function, and his services will continue to be needed by large segments of American industry. New enterprises as well as many established businesses requiring additional funds for expansion suffer, and along with them the public generally, by the weakening of investment banking facilities.

On the other hand, it can be argued that the plight of the bankers has resulted from the willingness of millions of people to turn over their funds to institutional investors; that such a change in the source of funds was bound to cause, as other evolutions in the economy will cause, changes in the machinery of the bond market; and that the bankers can and will adjust to these changes.

Impact on Investors

It is an understatement to say that direct placement financing is chiefly in the hands of the life insurance companies. The fact is that they do almost all of it, as shown in Table II.

Furthermore, private issues are an extremely important part of the bond portfolios of the larger companies. In 1949, for example, according to a study made by the investment research staff of the Life Insurance Association of America, more than 72% of the corporate bonds purchased by a selected group of 28 companies (including the 22 largest) were acquired directly, and at the end of that year 56% of their entire corporate bond holdings were in direct placements. In the industrial field (including miscellaneous types) the respective figures were 87.3% and 86.5%. (See Tables III and IV.)

It is obvious from these figures that the larger life insurance companies have found the direct purchase an attractive proposition, and certainly from their viewpoint it has several advantages.

For one thing, the insurance company often has the opportunity of taking the whole issue if it wants it. Indeed, it usually will be urged to do so by the potential borrower, or by the agent if there is one. The reason the borrower takes this position is because he is actuated, as has been pointed out, by the desire for maximum simplicity in the transaction. The insurance company, in taking the whole issue, has accomplished a good day's work and eased its investment burden for the time.[6] Perhaps it has increased its degree of risk, however, because there has been a tendency to have a larger investment in a single credit than where securities are bought at public sale.

Also, the chances are excellent that the provisions of the indenture will be more favorable to the lender than in the case of a public offering because they can be tailor-made to fit the situation. Then too, sinking fund and payout clauses are commonplace in the direct placement and not only provide better security for the loan but also help to even out the lender's inflow of funds.

Direct negotiations tend to establish a close relation with the borrower and put the lender in a position, initially and throughout the term of the loan, to know what is going on inside the business. In public issues, despite SEC registration, considerable reliance is placed upon the market reputation of the borrower and the investment bankers sponsoring the issue. In the direct purchase, the lender can obtain first-hand information by its own investigation, assuming it is staffed adequately to handle the problem.

Further, it is reputed that the yield on directly placed securities is slightly higher than in the case of public issues. If there is any truth in this, it presumably is because of the lower cost to the borrower, the assumption of the total risk by the lender or a very small group of lenders and the lack of marketability of the issue.

On the negative side, it is alleged that in the case of life insurance companies direct purchase of an issue gives the purchaser a leverage which it can use and does use to promote the sale of its product, particularly group insurance. Those who have had extensive group experience believe that the policy-making officers of leading companies do not sponsor or intend to permit any mingling of the investment operations with the sales operation. On the other hand, it is felt that many borrowers think it would be good business for them, either through transfer or new purchase, to deal groupwise with the lending company if it is an underwriter of those forms of protection. There have been enough cases where new insurance has been bought or old transferred to lend credence to the idea that whatever the underlying force a form of reciprocal buying develops.

It has been observed also that any sizable investment in a direct placement necessarily has the effect of freezing a portion of the lender's assets. While the same objection applies in part to large blocks of securities purchased in the open market, these usually can be disposed of within a reasonable time. This is not equally true of securities purchased directly. There is no established market for them, they are not known to other investors, and any attempt to sell them may cast suspicion on their quality. The seriousness of this objection depends, of course, upon how large a portion of the lender's portfolio is thus invested.

Perhaps the most serious objection to the direct placement as an investment medium is the claim that it operates to channel a huge volume of choice securities away from the smaller life companies and other investors and into the portfolios of a few very large companies. In Table I it was shown that in 1949, according to SEC figures, almost $2.5 billion of corporate bonds were sold privately. Table V, below, which is based largely upon information contained in the companies' annual statements, shows that in that year the 22 largest life insurance companies purchased almost $2.4 billion. Furthermore, over $1.5 billion of these, or 65.9% (63.8% of the SEC total) went to the four largest companies.

The figures in this table and the SEC figures in Table I are not strictly comparable. In the life company figures, for example, issues acquired through competitive bidding are counted as direct placements, while in the SEC compilation they are classified as public offerings. Nevertheless, the figures are close enough to offer substantial proof of the asserted concentration. It is significant also that both the volume of direct placements and their ratio to total acquisitions diminished as the asset size of the groups decreased. Thus, in the industrial field the direct purchases of the four largest companies constituted 91.5% of their total industrial acquisitions, while in the 18-22 group they were only 73.7% of the total. There were individual companies in all groups which varied from the group average, but this detracts very little from the significance of the statistics.

While these figures are for a single year, the same general trend is apparent in statistics on the portfolios of the same companies (Table VI). There, in fact, the concentration in the big companies is even more pronounced. At the end of 1949 the four largest companies had 67.4% of the total direct placements of the 22 com-

6 See Leroy A. Lincoln's testimony before the Subcommittee on Investment of the Joint Committee on the Economic Report, 81st Congress, Dec. 7, 1949, Transcript, p. 162.

TABLE II

Direct Placement of Corporate Bonds*

Percent of Total Amount Purchased by Various Investors

Type of Investor—	†1940	†1941	†1942	†1943	1947	1949
Life insurance companies	88.1	93.4	94.8	91.9	93.0	90.5
Other insurance companies	0.1	0.2	---	0.5	0.1	0.4
Banks	11.2	5.9	4.8	6.2	2.7	4.9
Other institutions	0.5	0.5	0.4	0.8	2.5	0.5
Individuals & corporations	0.1	0.1	---	0.7	0.4	3.6[4]
Unknown	†	†	†	†	1.3	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Bonds, notes and debentures.

Source: Financial Analysis Section, SEC, which makes this comment:

†"Figures for the years 1940-1943 were taken from work-sheets prepared some years ago and the distribution apparently did not cover a small number of issues where identity of purchasers was unknown. This probably does not seriously impair the use of the figures, however."

4 The SEC observes that the increase in 1949 largely reflects purchases by private pension funds which are included in this category.

TABLE III

Corporate Bond Acquisitions in 1949 by 28 Selected United States Life Insurance Companies (including 22 largest [5])

(Millions of Dollars)

	Total	Direct Placements	Public Offerings	Percent Direct Placements
Railroad	$103.7	$23.0	$80.6	22.2
Utility	1,180.3	592.6	588.2	50.2
Industrial & miscell.	2,062.6	1,800.8	261.8	87.3
Total	$3,347.0	$2,416.4	$930.6	72.2

Note: Valuation basis is cost, not book value. Components may not add to totals because of rounding.

Source: Life Insurance Association of America.

5 The other six were specially selected as being active in the private placement field, and it is believed that the statistics include almost all of the private placements made by United States companies in 1949.

TABLE IV

Corporate Bond Holdings of 28 Selected United States Life Insurance Companies (including 22 largest), as of Dec. 31, 1949

(Millions of Dollars)

	Total	Direct Placements	Public Offerings	Percent Direct Placements
Railroad	$2,738.1	$260.5	$2,477.7	9.5
Utility	8,502.0	3,451.1	5,050.8	40.6
Industrial & Miscell.	8,335.6	7,210.9	1,124.7	86.5
Total	$19,575.6	$10,922.4	$8,653.2	55.8

Note: Valuation basis is cost, not book value. Components may not add to totals because of rounding.

Source: Life Insurance Association of America.

TABLE V

Corporate Bond Acquisitions in 1949 by the 22 Largest United States Life Insurance Companies, Grouped by Asset Size

(Millions of Dollars)

	Total	Direct Placements	Public Offerings	Percent Direct Placements
Rank by Asset Size: 1-4				
Railroad	$55.1	$16.8	$38.3	30.5
Utility	600.0	340.4	259.6	56.7
Industrial & miscell.	1,320.3	1,207.8	112.4	91.5
Total	$1,975.4	$1,565.0	$410.3	79.2
Rank by Asset Size: 5-8				
Railroad	$9.7	----	$9.7	---
Utility	247.1	137.0	110.2	55.4
Industrial & miscell.	332.4	272.9	59.5	82.1
Total	$589.3	$409.9	$179.4	69.6
Rank by Asset Size: 9-13				
Railroad	$15.5	$5.9	$9.6	38.0
Utility	178.0	61.3	116.7	34.5
Industrial & miscell.	252.6	199.6	53.1	79.0
Total	$446.2	$266.8	$179.4	59.8
Rank by Asset Size: 14-17				
Railroad	$10.0	----	$10.0	---
Utility	61.2	23.1	38.1	37.7
Industrial & miscell.	73.0	56.3	16.7	77.1
Total	$144.3	$79.4	$64.9	55.0
Rank by Asset Size: 18-22				
Railroad	$11.0	----	$11.0	---
Utility	63.8	18.7	45.1	29.3
Industrial & miscell.	49.5	36.5	13.0	73.7
Total	$124.3	$55.2	$69.1	44.4
Grand total	$3,279.5	$2,376.3	$903.1	72.5

Note: Valuation basis is cost, not book value. Components may not add to totals because of rounding.

Source: Life Insurance Association of America.

panies, and 90.8% of their total industrials were purchased privately as against only 47.8% for the 18-22 group.

To the extent that these figures reflect merely the volume of direct placements in the hands of the big companies, they may not be entirely fair. Perhaps a more significant comparison would be to relate the direct placements of each group of companies to the combined assets of the companies in that group. This is done in Table VII.

While these figures are not so startling as those in Tables V and VI, it still is apparent that the score is rather heavily weighted in favor of the top four companies, particularly in the industrial field. With less than 60% of the total assets of the 22 companies, they obtained over two-thirds of the direct placements of all types and more than three-quarters of the industrials.

Some of this concentration is due, of course, to differences in investment policy, but a very large part of it would seem to be a natural result of the by-passing of the SEC. For the transaction to be exempt from SEC registration the number of offerees must be strictly limited. The larger the issue the larger the share of each lender will be, and in many instances, only the big companies are in a position to invest the sizable amounts required. The smaller companies do engage in direct financing, but under the system as it works today they are restricted generally to the smaller issues. This usually means issues of corporations that are smaller in size and not well known. Students of finance long ago observed that there was a tendency, particularly in the case of industrial corporations, for the credit risk to increase as the size of the corporation decreased; i.e., the smaller the corporation the greater the risk. Of course, other elements than the size of obligors affect the price of securities. The better marketability of an issue of a large corporation is one important point. Nevertheless, it cannot be denied that business history shows that corporate defaults and reorganizations tend to be in inverse proportion to the size of the corporation. Therefore, if smaller buyers, including insurance companies, have to deal with smaller issues, they are not participating in the cream of the crop, as a generality, no matter how good certain specific issues may be.

Furthermore, to the extent that direct financing removes a large volume of high-grade corporate obligations from the open market, a severe investment problem is imposed upon the smaller companies and also upon other purchasers such as colleges, savings institutions, administrators of trust funds and even individual investors.

Two arguments have been advanced in mitigation of these inequities. One is that while many high grade bonds are sold privately, there are plenty of others for the smaller investors. This assumption that the big fellow should be favored in the race for the best investments seems entirely unwarranted. The second contention is that the smaller investors are not geared to participate in direct placements. In many instances, at least, this is quite true, but it misses the point. If the smaller investors cannot participate in direct placements, they have all the more reason to complain about the shrinkage in the volume of securities available in the open market.

TABLE VI

Corporate Bond Holdings of the 22 Largest United States Life Insurance Companies as of Dec. 31, 1949, Grouped by Asset Size

(Millions of Dollars)

	Total	Direct Placements	Public Offerings	Percent Direct Placements
Rank by Asset Size: 1-4				
Railroad	$1,437.5	$205.0	$1,232.5	14.3
Utility	3,669.5	1,689.4	1,980.1	46.0
Industrial & miscell.	5,938.5	5,389.6	549.0	90.8
Total	$11,045.5	$7,284.0	$3,761.5	65.9
Rank by Asset Size: 5-8				
Railroad	$451.8	$20.7	$431.1	4.6
Utility	2,174.4	1,047.5	1,126.8	48.2
Industrial & miscell.	1,075.2	899.2	176.1	83.6
Total	$3,701.4	$1,967.4	$1,734.0	53.2
Rank by Asset Size: 9-13				
Railroad	$502.9	$20.8	$482.2	4.1
Utility	1,490.7	471.7	1,019.0	31.6
Industrial & miscell.	924.9	681.8	243.0	73.7
Total	$2,918.5	$1,174.3	$1,744.2	40.2
Rank by Asset Size: 11-17				
Railroad	$258.9	$12.7	$246.2	4.9
Utility	569.8	137.5	432.3	24.1
Industrial & miscell.	168.6	106.1	62.5	62.9
Total	$997.3	$256.3	$741.0	25.7
Rank by Asset Size: 18-22				
Railroad	$43.7	$0.6	$43.1	1.3
Utility	362.6	67.0	295.6	18.5
Industrial & miscell.	106.6	50.9	55.7	47.8
Total	$512.8	$118.5	$394.3	23.1
Grand total	$19,175.5	$10,800.5	$8,375.0	56.3

Note: Valuation basis is cost, not book value. Components may not add to totals because of rounding.

Source: Life Insurance Association of America.

TABLE VII

Percentage Comparison of Assets and Direct Placement Holdings of Corporate Bonds—The 22 Largest United States Life Insurance Companies, Grouped by Asset Size

(As of December 31, 1949)

Rank by Asset Size	Combined Assets— Percent of Total	Direct Placements— All Types— Percent of Total	Direct Placements— Industrial & Miscell. Percent of Total
1-4	58.5	67.4	75.6
5-8	18.4	18.2	12.6
9-13	13.4	10.9	9.6
14-17	5.8	2.4	1.5
18-22	3.9	1.1	0.7
	100.0	100.0	100.0

Source: Based upon figures furnished by Life Insurance Association of America.

The fact that the lion's share of direct placement financing is in the hands of a few very large insurance companies has led to the argument that it promotes an undue concentration of economic power. It is contended that such financing enhances the influence of these few companies on the boards of directors of important industrial concerns; that it leads to the agreements concerning the sharing of future financing by these concerns; that it discourages "shopping around" on the part of borrowers; and that it permits individual personalities in the large insurance companies to direct or influence the flow of business activity.

In rebuttal[7] it has been emphasized that the issuers, the "victims" of this alleged control, have not complained, that the competition among insurance companies for good investments prevents domination of borrowers, that debt securities carry no voting rights, that one of the principal bases of credit lending is confidence in the borrower's management and the lender is anxious to have competent management continue, and that probably no accumulation of capital in the country has been less prone to use it for purposes of domination of industry than the life insurance companies.

The monopoly charge has been extended to the borrowers themselves. It has been claimed that direct placement is available chiefly to large businesses and thus gives them a preferred position over smaller companies. This, it is argued, aggravates the inequality of opportunity between little and big business and tends toward a further concentration of economic power. Statistically, this question has been examined from at least two angles: (1) the number of loans made to businesses of various sizes; (2) the size of the loans made. As to the first, the 1948 experience of 17 major life insurance companies was placed before Senator O'Mahoney's subcommittee[8] and showed the following as to industrial and miscellaneous bonds:

While these figures show that in 1948 only 36 out of a total of 505 direct loans were made to corporations having less than $2 million in assets, it must be remembered that life company financing of small business is more often handled via the mortgage route than through corporate bond issues. Furthermore, it should be noted that the direct placement financing reflected smaller obligors than in the case of the public issues.

7 Bell, *Comments on Direct Placement of Securities*, Assoc. of Life Ins. Counsel Proceedings (Dec. 1949), p. 173. See also Mr. Bell's comments on paper by Harold G. Fraine, *Direct Sale of Security Issues*, 16 Jour. of Amer. Assoc. of Univ. Teachers of Insurance, No. 1, p. 63 (Mar. 1949).

8 Subcommittee on Investment of the Joint Committee on the Economic Report, 81st Congress. See Donald B. Woodward's testimony, Dec. 7, 1949, Transcript, p. 202. The statistical information he presented was prepared by the Life Insurance Association of America.

As to the size of the loans made, E. V. Hale and Company, in its "Study of Industrial Private Placement Loans, 1948," reported from a review of the portfolios of 55 life insurance companies and those of three other lending institutions that out of 467 such loans made in 1948, almost half were for $1,000,000 or less, 139 were no larger than $500,000, 85 were for $300,000 or less, and 17 were for $100,000 or less. Furthermore this study excluded great numbers of smaller lending institutions.

An important consideration that has already been hinted at but which deserves fuller discussion is the risk element involved in direct placements. This problem as it affects life insurance companies can be divided into three phases; (1) assessment of the risk; (2) the effect of default; and (3) the valuation of the security on the insurance company's books.

(1) It can hardly be doubted that the very large insurance companies are equipped to make an efficient and thorough investigation of the proposed issue, and it can be expected that generally their appraisement of the risk involved will be sound. For the smaller companies, however, with their small investment staffs, the task assumes formidable proportions, particularly if they are taking the whole issue. In the first place, they are not apt to be dealing with the large and well-known corporations. Also, there are no ratings available for the securities they are purchasing. Information regarding matters which affect the risk may not be published in the financial manuals. Unless an investment banker is brought into the picture, the company is strictly on its own and must use its own money, time, and personnel to investigate a large number of factors with which it may have had little experience and yet which it must consider very carefully.

Furthermore, the investment must be policed vigilantly throughout its existence. The periodic reports of management, which normally are required at least quarterly, must be studied carefully, and a constant surveillance must be kept over most of the factors that were considered initially. This necessarily means that a continuous statistical record must be kept of the status of the borrower—its earnings, profits, working capital position and similar matters. Also, a constant check must be made to determine whether any of the indenture covenants has been violated. This alone can be quite a task.

Attention to all these things in connection with a single investment can consume a good many man-hours. When these are multiplied by a large number of loans, it is obvious that a sizable staff is essential. No company which is not geared to handle the job adequately can afford to engage in direct placements on a large scale.

TABLE VIII[9]

Direct Placements and Public Offerings of Industrial and Miscellaneous Bonds—1948 Combined Acquisitions of 17 Major United States Life Insurance Companies, Number and Percent of Total, by Size of Obligor

*Asset Size of Obligor (In Thousands)	Direct Placements— Number	Direct Placements— †Percent of Total	Public Offerings— Number	Public Offerings— †Percent of Total
Under $500	3	.59	--	----
$500 -$1,000	5	.99	--	----
1,000 - 2,000	28	5.54	--	----
2,000 - 5,000	78	15.45	--	----
5,000 - 10,000	73	14.46	1	1.09
10,000 - 20,000	93	18.42	6	6.52
20,000 - 50,000	99	19.60	20	21.74
50,000 - 100,000	41	8.12	10	10.87
100,000- 200,000	28	5.54	8	8.70
200,000- 500,000	18	3.56	22	23.91
500,000- 1,000,000	30	5.94	20	21.74
1,000,000 and over	1	.20	5	5.44
Information lacking	8	1.58	--	----
Total	505	100.00	92	100.00

*After financing.

†Do not add to total because of rounding.

9 These figures formed parts of four tables prepared by the Life Insurance Association of America and presented by Donald B. Woodward in his testimony, Dec. 7, 1949, before the O'Mahoney subcommittee (preceding footnote). See Transcript, p. 202 and Tables XIV, XV, XVII and XVIII.

(2) It is easy to wax enthusiastic about direct placements in times of prosperity, but it must be remembered that the device is a comparatively recent development and has not yet been subjected to the rigors of a serious depression. One danger, and a point that was emphasized in the 1949 report of New York State's Joint Legislative Committee on Insurance Rates and Regulation,[10] is that ownership of the entire issue may force the lender virtually to take over the business of the borrower and to assume management problems which it has no desire to handle and which it is not equipped to handle.

The public relations aspect also must be considered. As the insurance companies learned in the 30s, it never is a simple matter to convince the public that enforcement of default clauses on a wholesale basis is necessary, and it is questionable whether the problem will be any less difficult merely because businesses rather than homes and farms are involved. In a widely held public issue, at least the initial onus of foreclosure or other enforcement falls upon a trustee and not upon any one company or industry.

On the other hand, it has been argued, and it probably is true, that the flexibility of the direct placement will obviate in a great many instances the necessity for extreme enforcement procedures. The direct nature of the negotiations is a characteristic that continues throughout the life of the issue and undoubtedly improves the chances for a proper and equitable adjustment of difficulties as they arise, without the intervention of the courts. The danger, of course, is that there may be a strong temptation for the lender to yield to too liberal a modification in order to cure or prevent the occurrence of a default that would affect the valuation of the security on the lender's books.

(3) The valuation problem arises from the difficulty of applying the current valuation rules of the National Association of Insurance Commissioners to securities purchased via the direct placement route. Under these rules a debt instrument can be carried at an amortized value only if it is "amply secured"; otherwise it must be carried at market. The standards for ample security are defined in terms of ratings by statistical organizations or yields based on current market. Neither of these standards is available in the case of direct purchases and they are replaced by the judgment of the N. A. I. C.'s Committee on Valuation of Securities based on its study of available data, including that furnished by the insurance companies.

This method raises two serious problems. In the first place, it imposes upon the insurance commissioners a task which is difficult enough in the prosperous era we still have with us but which may become a nightmare during a depression when values have to be determined for large numbers of direct placements. Secondly, the system substitutes the abstract judgment of men for the actualities of the market place.

The method is comparable, in effect, to that employed by bank examiners, and every trustee or director of a bank is familiar with the wide difference of opinion which arises in connection with examiners' valuation of loans. Since bank loans are normally short-term loans, they ought to be more easily evaluated than the

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10 New York Legislative Document (1949) No. 70, p. 97.

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Pros and Cons of Direct Placement

long-term obligations which are purchased by insurance companies.

Of course, there is no method of securities valuation that is perfect. Market value on a given day surely is not the whole answer, and it may well be that the appraisal method the commissioners are using will produce satisfactory results. At least, there is some basis for hoping it will. The committee's staff has been enlarged considerably and can be increased further if necessary. Also, the accuracy of the valuation should improve with continued experience and the development of techniques. At the least, the maintenance in a central bureau of current appraisals on all direct placements should relieve immeasurably the burden otherwise placed upon the individual examiners and should lead to economies and more uniform valuations.

One angle of direct placement financing which has already been mentioned deserves further emphasis. There is a tendency on the part of borrowers to overborrow in inverse proportion to their size. In other words, the smallest companies will extend themselves, if granted the credit, more recklessly than the larger ones. This appears to arise out of the desire of the proprietors to avoid dilution of their equity. This same dangerous tendency appears in loans to medium-sized companies, and that is not to say that it is not present in some of the larger cases; experience has shown that it is. On average, the statement stands; namely, that the credit risk tends to vary in inverse proportion to the size of the borrower. To the extent that insurance companies, through inexperience in direct placement financing and excessive competition among themselves, have failed to be conservative lenders either in the amounts lent or the terms of the indenture, they have made a contribution to future trouble.

Conclusion

Many financial officers of insurance companies are firmly convinced, as the result of their experience to date, that direct purchases are a most valuable service to the business institutions of America. All of us know that one of the popular political complaints has been the allegation that capital is hard to find, particularly for smaller business houses. Whether direct placements have been a large help in this problem is debatable. A large volume of money has been loaned. That does not prove that an equal or even a greater amount of capital may not have been available through the instrumentality of the investment bankers and public sale.

This paper, as stated in the introduction, does not attempt to place a final judgment on the present practice of direct placement. Whether it should be continued or modified or abandoned is largely a matter for time and experience to decide. It is not sufficient for the proponents to claim that the system is a brilliant success because of its size. Neither is it satisfactory for the critics to claim that the system is a bad one merely because there are numerous objections to it, some of which have been developed in this paper. The stimulous the device received from the enactment of the Securities Act means that it is not a wholly natural phenomenon. If society wishes to modify or abolish the system, it will have to do it by appropriate legislation. In the absence of legislation the direct placement method can be expected to continue in full force and effect for an indefinite time.

Continued from page 5

The State of Trade and Industry

to come. It is said 45,500,000 persons were employed in non-farm work at that time, 500,000 above the mid-August figure and two million more than a year earlier. The department attributed the high employment to the following reasons: War-scare buying and prosperity-propped purchasing, which forced employers to hire more sales help; larger consumer demand coupled with increased defense orders from the government, which meant more orders for manufacturers who had to hire extra help, and the government hired personnel for its expanding new defense agencies. Meanwhile the department noted that shortages of certain skills are beginning to appear. Steel mills and foundries in the Pittsburgh area, it was reported, have had to raise the age limit for hiring to 45 and 50 years from 35 years.

Steel Output Set This Week at New Historical High Record

The National Production Authority's order limiting the DO (priority) tonnage that steel firms must book is already doomed, states "The Iron Age," national metalworking weekly, in its current summary of the steel trade. It cannot last more than a few months at most, and it might prove completely unworkable much sooner than that.

As a clarifying order, it does remove some of the confusion resulting from the original order establishing DO priorities. But it in turn will have to be clarified and its limits on the percent of DO orders will have to be raised soon.

Anyone who really believes that DO orders will not require more than 5% of carbon and alloy sheet and strip production in the months ahead is due for a rude awakening, this trade authority declares. One steel company already has almost the entire production of hot-rolled sheets from one of its mills going into defense work. Another company has a single defense order on its books calling for more than 5% of one flat-rolled product. Programs already outlined will require much more than 5% of sheet and strip output. But sheet and strip are only one example. NPA will soon have to raise the limits on DO orders for other steel items such as plates and pipes.

Moreover, NPA orders so far do not provide steel tonnage for the long list of essential programs which do not qualify for DO ratings but which are vital to the defense effort. A few of these are freight cars, ship repairs, plant expansion, machine tools, farm implements, oil and gas pipelines, electrical equipment, roller bearings, motors and tin cans. This list could be extened almost indefinitely.

It is becoming evident that even Washington recognizes that the basic priorities regulation is unworkable. Modifications already made and under way bear testimony to this. In addition, industry trouble shooters are rather belatedly being called. They will form the nucleus for more orderly administration of the modified controlled materials plan which will finally evolve after the elections.

Two new appointments will soon be announced, this trade paper points out. C. B. Boyne, veteran of more than 25 years in the stainless steel field, will direct the stainless steel division of NPA. Allegheny Ludlum Steel Corp. has granted him leave of absence from his position as assistant general manager of sales and manager of stainless steel sales. J. W. Robinson, manager of semi-finished sales for Jones & Laughlin Steel Corp., will become director of NPA's semi-finished steel division.

There is no doubt, the magazine declares, that many small companies have already been hard hit by the steel shortage. They have been forced to pay as much as $399 a ton in the gray market for cold-rolled sheets.

A furnace manufacturer is holding up delivery on 80% of 400 to 500 furnaces because they lack steel to make casings for them. They are not going to pay high prices for steel to fill government orders for furnaces used in barracks. They are going to sit back and let the government get the steel for them on priority. For their regular customers they will continue filling orders made with gray market steel at higher prices.

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 102.0% of capacity for the week beginning Oct. 16, 1950, compared to 101.6% a week ago, or a rise of 0.4 point.

This will be the fourth successive week the American steel industry is geared to turn out a record tonnage of ingots and steel for castings.

This week's operating rate is equivalent to 1,967,300 tons of steel ingots and castings for the entire industry, compared to 1,959,600 tons a week ago. A month ago, based on new capacity, the rate was 100.4% and production amounted to 1,936,400 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 Shows Moderate Recession From Record High

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 14, was estimated at 6,508,591,000 kwh., according to the Edison Electric Institute.

It was 5,116,000 kwh. lower than the figure reported for the previous week, 1,027,856,000 kwh., or 18.8% above the total output for the week ended Oct. 15, 1949, and 1,026,561,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Dip in Latest Week but Hold at 50.4% Above Year Ago

Loadings of revenue freight for the week ended Oct. 7, 1950, totaled 863,676 cars, according to the Association of American Railroads, a decrease of 16,309 cars, or 1.9% below the preceding week.

The week's total represented an increase of 289,488 cars, or 50.4% above the corresponding week in 1949, but a decrease of 27,975 cars, or 3.1% below the comparable period of 1948.

Auto Output Shows Moderate Decline—Unhindered Operations Predicted for Rest of Year

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 175,909 units, compared with the previous week's total of 177,853 (revised) units and 146,566 units a year ago.

Ward's said most auto makers have assured themselves of sufficient steel to continue unhindered operations for the rest of the year, with only two producers suffering from acute shortage of the metal.

Total output for the current week was made up of 142,957 cars and 25,943 trucks built in the United States and a total of 5,232 cars and 1,777 trucks built in Canada.

For the United States, output was 168,900 units, and in the like week of last year 139,918. Canadian output a year ago amounted to 6,648 units.

Business Failures Rise Above Level of Previous Week and Year Ago

Commercial and industrial failures rose to 188 in the holiday week ended Oct. 12 from 154 in the preceding week, Dun & Bradstreet, Inc., reports. At the highest level in the last ten weeks, casualties exceeded the 172 which occurred in the similar week a year ago and the 94 in 1948. Despite this increase, failures continued 21% below the prewar total of 237 in the comparable week of 1939.

Casualties involving liabilities of $5,000 or more increased to 137 from 119 last week and were slightly more numerous than a year ago when 130 businesses succumbed in this group. A rise also appeared among small failures, those having liabilitieis under $5,000; they numbered 51 as compared with 35 in the prior week and 42 in 1949.

The week's increase occurred mostly in retail trade and in commercial service. Manufacturing casualties rose, while wholesaling and construction declined. Failures were appreciably above a year ago in retailing, construction and service, but evinced a mild dip from the 1949 level among manufacturers and wholesalers.

The Middle Atlantic and Pacific States accounted largely for the week's increase. Slight rises occurred in most other areas. Mortality exceeded the 1949 level in four of the nine major geographic regions, the Middle Atlantic, West South Central, Mountain, and Pacific States.

Food Price Index Moderately Lower in Latest Week

The downward movement in food prices moderated last week. The wholesale food price index, compiled by Dun & Bradstreet, fell 2 cents, as against a drop of 11 cents the previous week. The current index—$6.48 on Oct. 10—shows a cumulative decline of 3.1% from the current high of $6.69 touched on Aug. 29, and is the lowest since July 18 when it stood at $6.41. Compared with $5.57 a year ago, the latest figure shows a rise of 16.3%.

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 foods prices at the wholesale level.

Wholesale Commodity Price Index Turns Slightly Lower

The Dun & Bradstreet daily wholesale commodity price index closed at 290.28 on Oct. 10, down slightly from 290.72 a week earlier. The current index compares with 241.94 recorded on the corresponding date a year ago.

Prices in leading grain markets were irregular last week with no definite trends in evidence.

Activity in grain futures on the Chicago Board of Trade dropped to the smallest volume in over three months. Sales for the week totaled 131,698,000 bushels, or a daily average of about 22,000,000 bushels, the latter comparing with 24,300,000 the previous week, and with 27,000,000 in the comparable week a year ago. Dullness in wheat largely reflected uncertainty regarding the foreign political situation and a lack of any appreciable export business. Trading in corn was only fair but demand was sufficient to absorb all offerings at current prices. Moderate quantities of corn continued to move into export channels.

Domestic flour business picked up last week, sparked by a temporary reduction in prices late in the period. Export trade in flour remained slow. The cocoa market was easy most of the week but developed a firmer trend at the close. Early weakness stemmed from large offerings from Africa and reports of a slow-down in consumption as a result of high prices.

Coffee prices declined rather sharply at mid-week under pressure of heavy selling prompted by lagging demand for green coffees from roasters.

Lard developed a steadier tone, added by active buying by commission houses and soap manufacturers and an upward trend in vegetable oils. Market receipts of hogs continued heavy and values showed a further moderate drop for the week. Demand for fresh pork remained slow with prices also trending lower. Steers and lambs finished with small net declines.

Cotton prices moved irregularly over a wide range last week. **Publication of the official government crop estimate showing a larger-than-expected yield of the staple for this year resulted in heavy liquidation and sharp declines on Monday of this week.**

The report, based on Oct. 1 conditions, indicated a total crop for 1950 of 9,869,000 bales, or only 13,000 less than the Sept. 1 estimate. Domestic mill demand was active with spot market sales continuing at a high level. Foreign inquiries were numerous although exports for the week dropped below a year ago for the first time this season. Harvesting of the new crop made good progress under favorable weather conditions. Trading in cotton textiles fell off somewhat from recent weeks.

Trading in the Boston raw wool market continued slow. Prices generally held firm but spot offerings were scarce and volume of business was limited. The trend of prices in the Australian and South African wool auctions was again lower with current values showing a drop of about 15% from the August levels.

Trade Volume Continues to Ease Due to Unseasonally Warm Weather

As unseasonally warm weather came to many parts of the nation in the period ended on Wednesday of last week, retail dollar volume generally declined. However, it was moderately above the level for the corresponding week in 1949, Dun & Bradstreet, Inc., reports in its latest summary of trade. Some durable goods items were favorably affected by intensified promotions.

Shoppers bought about the same amount of house-furnishings last week as in the week before; dollar sales were markedly above those for the similar 1949 period. Indications were that sales in many lines were returning to the levels they sustained prior to the Far-Eastern crisis. The interest in large appliances and furniture declined somewhat in many vicinities, the buying of hardware rose slightly, while television demand was nearly steady.

Total retail dollar value for the period ended on Wednesday of 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, South, and Northwest +3 to +7; East, Midwest, and Pacific Coast +4 to +8; and Southwest +6 to +10.

There was a slight rise in the total volume of wholesale orders in the week as buyer demand in some lines underwent a seasonal increase. The aggregate dollar volume was moderately above the level for the corresponding week in 1949. The number of buyers attending various wholesale centers was somewhat increased from that of a week ago and a year ago.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 7, 1950, rose 10% from the like period of last year. An increase of 6% was recorded for the previous week from that of a year ago. For the four weeks ended Oct. 7, 1950, sales showed a rise of 11% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Retail trade in New York the past week was marked by activity, but the warm weather prevailing tended to slow down demand for Fall and Winter apparel.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 7, 1950, advanced 5% from the like period of last year. In the preceding week a rise of 6% was registered from the similar week of 1949. For the four weeks ended Oct. 7, 1950, an increase of 8% was noted and for the year to date, volume advanced 1% from the like period of last year.

Securities Salesman's Corner

By JOHN DUTTON

The other day I was asked by a young salesman: "What can I do in order to see more people? I make a lot of calls but many of my prospects are too busy to see me; or else I am granted only a few minutes' time and I don't get very far with my sales talk." Here was a case where this young man was using his head—he knew something was wrong and he wanted to know **why?** This attitude of trying to learn is the right one—unless you are willing to learn you certainly will never improve yourself.

I suggested that he should make more use of the telephone in obtaining appointments. Why make call after call just to find out that people are not in, or are too busy to see you? Or, if they do give you an interview, you are just another salesman? Why spend the most valuable assets you possess—time and energy—just trying to get in to see people? Why not qualify them over the telephone?

In order to make telephone appointments you must first have a reason for asking for an interview that will be of interest to your prospect. An offer of service, an informative booklet that you may have offered in your advertising, and whenever possible some pre-mail approach should be made before you attempt to establish contact. However, if your firm is well and favorably known in your community, if investors are familiar with your name, you can, of course, use the prestige and good-will you have established as a door-opener.

When making appointments over the telephone always stick to the main issue, which is obtaining the appointment. Never be drawn into a discussion of stocks, bonds and investments. Stick to the main issue—propose a definite time in the morning and one in the afternoon and offer a choice. Make it clear that your visit will be brief. You can work out a good telephone sales talk to sell the appointment along these lines. You will, of course, run into quite a few turndowns, but you will save a lot of shoe leather and energy, and you will get off to the **right start** with the people that you do see.

The sale always follows the same pattern: (1) attention, (2) interest, (3) desire to fill a **need**, (4) action. It is the thing you do and say in the first 20 seconds when you see your man that often determines whether or not you are going to be able to bring him up to a point of interest. If you establish interest you will have no trouble in going ahead and trying for the close of the sale. Sometimes it is possible to encourage your prospect to do the talking—if so, by all means let him go. When people start to tell you things about their affairs they are showing you in the most concrete manner that they like you and that you are worthy of their confidence. The next step is much easier to accomplish—a combination of liking someone and liking what they are selling often results in a sale.

When you make your call, by all means be specific. Have a reason and something definite to discuss. If possible, find out as soon as you can what your man is seeking. Ask questions. Find out how your prospect feels about his investments. Does he buy for income, appreciation, safety of principal? Is he the kind that wants to take a flyer once in a while? If so, you can suggest that you would like to keep him in mind in case a likely opportunity along these lines presents itself. For the new investor there are mutual funds that have a definite appeal and an interesting story which you can tell. There is the analytical approach for the more sophisticated investor, and here your knowledge of securities will be invaluable. Each man must be judged almost instinctively when you meet him for the first time; but to find out what he wants and needs, you can always do better by asking questions.

If you perfect the telephone approach, and use it when possible to make appointments, considerable wasted time and effort can be avoided.

Continued from page 21

Equity Investments For Savings Banks

consisted of commercial bank shares.

Advantages of Equity Securities

From the standpoint of the savings banks the principal advantages of stock ownership are relatively generous yields and wider diversification in securities of investment quality. Through such securities the area of authorized investment would be extended to include important sectors of industry and business enterprise from which the banks are now foreclosed, or in which they can invest only through low yield debt securities. A significant advantage of equities would be that they would provide a maximum increase in yield with a minimum expansion of risk assets.

The extent to which the equity market provides an opportunity for increased diversification is significantly emphasized in the report of the Trust Investment Study Committee, Trust Division, New York State Bankers Association. This report points to the size of the equity market representing corporations with no publicly held debt outstanding. Investments in these organizations including, among others, such leading industrial enterprises as du Pont, General Motors, Chrysler, General Electric, Standard Oil of Indiana, Union Carbide and Carbon, Woolworth and Eastman Kodak are possible only through the media of equity securities.

In the report of the Trustees' Committee to which I referred, there are listed 82 industrial companies representing more than a dozen major industries. While these corporations as of July 1, 1949, had no publicly held debt outstanding, privately held debt amounted to $1,681 million. The preferred stock of these corporations, valued at market July 1, 1949, amounted to $2,131 million, while common shares on the same basis aggregated slightly less than $20 billion, a total of $22,094 million. Also listed are 23 prominent commercial banks located in the principal centers, of which the outstanding shares were valued by the market on July 1, 1949, at $2,586 million, and 12 leading insurance companies with shares outstanding at market value of $878 million. Thus, shares of 117 corporations with no publicly held debt, representing an incomplete list of signally successful American enterprises in industry, banking and insurance, were outstanding on July 1, 1949, in market value of $25,500 million.

The significance of this total is revealed by comparison with the size of the corporate investment market available to the savings banks. The most recent legal list involves a total of $19.1 billion of non-governmental obligations, the largest such list ever issued. The entire corporate bond market was estimated at $22.7 billion as of 1944 by the National Bureau of Economic Research in the Corporate Bond Project. In adjustment for subsequent growth, the Trustees' Committee estimated that by 1948 the total approximated $27 billion. It is thus apparent that the outstanding shares of only the foregoing 117 corporations, without publicly held debt, would nearly double the aggregate of available corporate securities.

There is an abundance of evidence in the statistical record that over a long period the advantages of income and yield have been with stocks as against high-grade bonds. There have been periods, of course, in which these advantages have been less pronounced than at present. The relatively generous yields now available and which have been available for some time from stocks of investment quality, have been influential in directing the efforts of fiduciaries and institutions to seek authority, or wider authority, to hold equity securities.

While the long-term trend of common stock prices has been strongly upward during the last 50 years, this aspect of equity investment would be of minor importance to the savings banks compared with the factor of relatively attractive yields. Except under the most unusual conditions, a sound equity investment program cannot be developed at any one time. It must extend over a period of sufficient duration to permit purchases at different market levels, thereby assuring fair average prices and yields. Such a program, based on prudently selected issues, would almost certainly prove an element of strength in the overall investment position of a savings bank.

Possibility of Shortage of Investments

Due recognition must be given to the possibility of a shortage of acceptable debt securities as a potent influence in directing efforts of institutional investors to seek authorization to hold equity securities. It is not difficult to envision, even in an economy of partial mobilization, with its growing scarcities and restrictions, some considerable reduction in the supply of new mortgage loans. Equally within the range of vision is a limited, and probably reduced, volume of new corporate bond issues.

Another noteworthy factor tending to limit the volume of corporate bond financing for new capital, is the well-established policy of internal financing of capital requirements. During the last two decades, corporate managements have increasingly financed capital expenditures internally, that is, through retained earnings and depreciation reserves. As a result of this policy they have become, to a considerable extent, independent of the securities markets in financing capital expenditures. In the years since the close of the Second World War, such requirements have been financed internally to the extent of well over 65%.

As against the prospect for probable diminution in the supply of new institutional investments, in the form of debt securities, a relatively maintained demand for such investments would seem to be indicated. Personal income is likely to rise with increasing employment and higher wages. This income, despite higher living costs, should sustain, if not enlarge, the flow of savings to institutions, including pension funds, of which the investments are largely restricted to debt securities. Thus, the continuing and probably increasing institutional mobilization of savings with its major concentration on a restricted area of investment, is one element in the prospective shortage of debt securities.

Another is the probable contraction in the supply of mortgage loans and corporate obligations under conditions of partial mobilization while a third is the continuing trend toward internal financing of corporate capital requirements. In the circumstances, the relationship of the supply-demand forces in the bond market would be such as to depress long-term yields and institutional investors would seek more realistic latitude in investment powers.

It may be pointed out that in the financing of a future Treasury deficit there would be a sufficient supply of long-term 2½% bonds to satisfy a substantial part of institutional investment requirements. Giving effect to a realistic projection of revenues and expenditures, the deficit position of the Treasury within the visible future would not be such as to bring major financing through long-term 2½% bonds within the range of probability. Furthermore, a 2½% return is hardly likely to prove acceptable, short of a national emergency, for more than a portion of available institutional funds. The possibility of such Treasury financing is not likely to deter institutions from currently seeking investment powers more in keeping with their requirements and the realities of the investment markets.

In summing up, the following salient points should be emphasized in support of an appropriately limited equity investment authority for savings banks:

(1) Relatively attractive yields in securities of investment quality; maximum increase in yield with minimum expansion of risk assets.

(2) Wider diversification of investments extending into fields of basic industry and business enterprise from which the savings banks are now excluded, or in which investments are possible only through low-yield obligations.

(3) Significant improvement in investment position of many equity securities during the last two or three decades.

(4) Threatened shortage of adequate supply of debt investments reflecting a probable contraction in volume of new mortgage loans and corporate bonds, together with a continued trend in the flow of savings to institutions, of which the investments are restricted largely to debt securities; large-scale internal financing of corporate capital requirements.

As you know, last year, Subdivision 21 of Section 235 of the Banking Law was revised to provide that a savings bank may investment an amount not in excess of the surplus fund in obligations otherwise ineligible and in obligations made eligible by statutes other than the Banking Law. The significance of this liberalization of the law lies in its recognition of the principle of limited prudent investment. A further amendment of Subdivision 21 to authorize investment in (a) shares of domestic corporations (including bank and insurance company shares), and (b) shares of a mutual investment trust or participations in a common trust fund operated for the benefit of the savings banks would thus be a logical and an appropriate extension of this principle. It would be a progressive step in accordance with sound and enlightened investment thinking.

The record of the savings banks in applying the principle of limited prudent investment implicit in Subdivision 21 strongly supports the assumption that, given new powers of prudent investment in the field of equity securities, they would be exercised with due caution and restraint.

In according this subject the forthright and intelligent consideration that it merits, we should not be unmindful of the admonition of the wise man of old who warned us through the proverb that "Where there is no vision the people perish."

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

In writing last week's column I completely forgot the Columbus Day holiday which intervened. I don't suppose it made much difference except that a mid-week market holiday interferes with cyclical movements to the extent that it distorts them.

* * *

When I wrote about the market last week I thought the averages had hit a low, or were in reach of it, and a new rally would be underway by the time this reached you. After checking the figures for the week ending Oct. 14, I find I'm 50% right, which to my way of thinking is a rotten average.

* * *

On Oct. 9, the industrials were at 230 and the rails were at 68.83. For the week ending Oct. 14, the former closed at 227.63, while the latter closed at 69.36; hence the 50%.

* * *

At this point I could disregard the unfavorable implication, stress the favorable and so make myself out a wonderful soothsayer. The chances are that if you trade like I do you're long of the ones that went down, so any claims to infallibility would not only be erroneous but would make you seethe with justifiable rage. All this, however, has little to do with the future of the market. So we'll get down to it.

* * *

For the moment the market is doing nothing to boast about or point a finger of scorn at; it's just there dawdling along, hemmed in by rumors and "interpretations." At this point a toss of a coin could be just as trustworthy as an indication of the future than any pontifical interpretation.

* * *

Seriously, however, I cannot see any major break in the foreseeable future (definition of foreseeable future: next ten hours). We are now in a war economy or so close to it that any difference can't be distinguished with the naked eye. The new credit restrictions will affect instalment buying in new cars, television sets and building, etc. But outside of a temporary halt, I doubt if it will hurt earnings to any marked extent.

* * *

I might point out that reactions at this stage of the market cycle, while upsetting, are part of a normal market picture, so long as they keep within predetermined limits. A one-to-two-thirds retracement of a previous advance is within normal limits.

* * *

To sum it all up the answer is: we're still in a bull market and any trading should be done with that in mind.

[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.]

J. A. Rayvis Co. Has New Braille Service

MIAMI, Fla.—J. A. Rayvis Co., Inc., which has moved to new and larger quarters in the Langford Building, announces that they have inaugurated a new type of investment service for blind investors. One of the firm's sales representatives, having a customer who is blind, learned to write Braille through the courtesy of the Lighthouse for the Blind in Miami in order better to serve the client who lives in another city. This same service will be extended to any blind person anywhere who may wish to purchase investment securities.

With Metropolitan St. Louis

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—John T. Neaf, Jr. has been added to the staff of Metropolitan St. Louis Company, 718 Locust Street.

With W. E. Bell & Co.

(Special to THE FINANCIAL CHRONICLE)

HASTINGS, Neb. — Fred D. Walters has been added to the staff of W. E. Bell & Co., Gaston Building.

Continued from page 18

Advertising of Securities

more penetrating fashion. It asked the people to assume that we were faced with ten years of rising prices and then to make their investment selections on the basis of that assumption.

When the question was put this way, common stocks improved their showing, but they could still boast of only a negligible 23%.

Finally, the research agency tried a reverse twist. On the same assumption—that this country was faced with ten years of rising prices—they asked people if they could see any disadvantage to owning government bonds or having their money in savings accounts. More than half of the people — 56% of them — blandly said they could see no disadvantage to investments with a fixed dollar value in a period of inflation.

An Ethical Problem

If I might digress for a moment here, I should like to point out the very considerable ethical problem which a finding such as this poses.

Here is a situation in which the interest of the individual runs counter to the interest of the whole public. From the point of view of the average individual it is obviously more prudent in a period of rising prices for him to have his money invested in common stocks than in government bonds. On the other hand, from the point of view of the public interest, it is desirable for as many people as possible to put their excess funds into government bonds and thus reduce the amount of spendable cash which by its very existence exerts a strong upward pressure on prices.

If you were a broker or a securities dealer just how would you resolve the problem? Since you were sincerely interested in helping to bring about a wider ownership of common stocks and since you were equally concerned about the welfare of the individual investor, I suspect you might be strongly tempted to try to capitalize on the present inflationary situation. Nevertheless I am sure in the end that you would resolve the problem as we did when the issue arose not long ago. Obviously, the interests of the whole public must prevail.

I am mentioning this just as an evidence of the fact that the problem of advertising and selling securities is a far more complicated one, one fraught with many more ethical problems, than that of advertising ships or shoes or sealing wax.

To come back to the Public Opinion Research survey, it is obvious that most people are not aware of how their own interests are best served investment-wise, purely and simply because they do not understand even the most elementary facts about investments. Thus, the survey shows that only 33% of those questioned understood that stockholders and stockholders alone share in the profits of a corporation. 3% said bondholders participated in profits; 42% that both stockholders and bondholders benefited; and 19% candidly admitted that they didn't know.

A few years ago, Merrill Lynch retained Elmo Roper for a survey of its own and I should like to cite just two findings from that survey as further documentation of public ignorance about the securities business.

In his survey, Mr. Roper presented those questioned with a list of one dozen leading brokers —a list that was changed, area by area, to include always the brokers best known locally—and asked people if they knew what line of business any of the 12 was in. The result was most discouraging. Even among those who owned stocks, the firm names meant absolutely nothing to exactly one-quarter of them. They had never heard of any of the dozen best known brokers!

One other Roper finding has always struck me as particularly shocking because it demonstrates how utterly unaware stockholders are of their responsibilities—their responsibilities to themselves. Mr. Roper found that 27% of those who owned stocks had never sold any. They only bought. Year after year, they simply held onto their securities with never a change in their portfolios despite the fluctuating fortunes of the market and of industry in general.

Here then is the problem the securities business is up against: It must—for its own sake, and for the sake of our business system—sell securities to a market which in terms of individuals at least is many times larger than it was only two decades ago. And to compound the difficulty, it is a market that is abysmally ignorant of securities—a market that is financially illiterate.

Advertising Is Mass Selling

How are you going to do that job?

There is only one possible answer: Advertising, which is nothing more nor less than mass selling.

To attempt to do the job by personal contact in the old tradition of the brokerage business or even by the distribution of circulars and pamphlets would be like attempting to dig the Panama Canal with a pick and shovel gang.

Will advertising work? Before I attempt to answer that question —and I think there are several answers to it—let me say that the question isn't really material. Whether it can be proved that advertising pays or not we have got to resort to it as our last alternative. When there isn't any other way to do the job you've got to string along with the remaining possibility. Remember, we're talking about selling securities to hundreds of thousands, even millions of people. Just how can you do that job without advertising?

There's one great saving grace in the situation.

The people want to know.

They want to know about securities—what they are, how you buy them, what you do with them.

Here then is a made-to-order situation for advertising. But not for the kind of advertising that the securities business has used in times past. The chaste and dignified card announcing that John Jones, broker, maintains offices on Main Street represents only wasted money, as far as the average new prospect is concerned. So do the so-called trading ads with their meaningless Wall Street lingo, "Bought . . . Sold . . . Quoted" or "We offer subject to prior sale. . . ." The same thing applies to new issue ads with that once forbidding legend which now only provokes a smile or two—"This announcement is neither an offer to sell nor a solicitation of any offer to buy securities. The offering is made only by the Prospectus."

No, that kind of advertising elicits no public interest, contributes nothing to the mass educational job which we must do.

Our conviction that the public really does want to know about securities rests on specific evidence—not just on a general assumption that advertising pays, that it has brought us many new accounts, that it has helped us build our business. Those assumptions are all valid and susceptible of proof, but the specific evidence I'm talking about is far more convincing.

An Extensive Advertising Experience

If you will indulge a reference to our own experience at Merrill Lynch I should like to tell you the story of one advertisement.

It is now almost two years since that advertisement was published, as a full page insertion in the New York "Times." Perhaps some of you will remember having seen it—a full page advertisement, entitled "What Everybody Ought to Know . . . About This Stock and Bond Business." A solid page of text — 6,000 words in small type —undertaking to answer as simply as possible some of the basic questions people ask about securities: What Are Stocks? What Are Bonds? How Big Are Dividends? What Are Stocks Worth? What's a Broker Do? What's the Stock Exchange? What Are Unlisted Securities? How Do You Buy and Sell Securities?

I can assure you that all of us at Merrill Lynch had considerable misgivings about what to do with this *enfant terrible* after it was conceived. Was it worth spending $5,000 on—for that's what a full page ad in the New York "Times" costs.

I suppose the general feeling was that the only people who might possibly be interested in the ad were those who already knew the answers to the questions—and a lot more besides. After all, why should anyone else spend half an hour wading through all that copy?

In the thought that we might get a clue to that answer by provoking some mail response, we finally decided to conclude the advertisement with one line in modest type offering reprints of the advertisement to anyone who might want them.

And so on Oct. 19, 1948, the advertisement ran on the back page of the "Times."

It would be difficult to tell you just what happened then. But here are a few highlights.

In the next two or three weeks we received over 5,000 letters and postal cards. Some came from company presidents, asking for copies for their directors. And some came from bankers asking for copies to distribute to their customers. Other quantity requests—for 100, 500, 1,000—came from schools and colleges. But the great bulk of the requests came from just plain people who wanted a copy for themselves—a few copies for some friends.

I wish you could have read some of those letters. Hundreds and hundreds of them contained comments like these:

"I've waited 30 years for somebody to tell me this. . . ."

"Thanks for this public service."

"I majored in economics in college but I never really understood what the securities business was all about till now."

"I have $5,000. What should I do with it?"

"I have read this aloud to my whole family. . . ."

"I own some stocks, but frankly it didn't know what I owned till now."

And most poignant of all—

"I have put this away for my children. I don't expect it will happen again in their life time."

Wholly on its own initiative, one advertising agency in New York—the old firm of Newell-Emmett — was so interested in knowing whether people would read a long and weighty ad like that that they sent their own researchers out on the street the next day to check on the ad's readership and recollection value.

The researchers asked "Did you read yesterday's New York 'Times'? Do you remember any advertisement in it? What was it about? Whose advertisement was it?" They then showed a copy of our ad to anyone who said he remembered it and checked to see exactly how much of the text he had read.

Newell-Emmett, which had run similar checks on hundreds and hundreds of other advertisements, was good enough to send me a copy of the ultimate report prepared by its Research Department. Here I quote:

"The ad was seen by half the New York "Times" audience. Very few advertisements, even those with appealing, human interest illustrations, equal this record. But more important, 20% read more than half of the full page text and 37% read enough of the text to remember, on the day following publication, that it was a Merrill Lynch ad. This is at least three or four times the normal reading of an advertising message."

On the strength of the results in the New York "Times," we have since used the ad in 57 other newspapers and—in slightly condensed form—as a three-page advertisement last May in "Time" magazine. Incidentally, it is interesting to note that when it was published in "Time" it still drew over 6,000 responses, despite the fact that it had been published in 58 of the country's biggest newspapers.

One facet of the whole experience is especially noteworthy because it demonstrates that we are not alone in realizing that the public wants to know something about this stock and bond business. Three newspapers — the Toronto "Star," the Cincinnati "Chronicle" (a labor paper), and the Beverly Hills "Citizen"—reprinted the ad as editorial text. So did "Future" magazine published by the United States Junior Chamber of Commerce. And "Everybody's Digest" published a condensation of the ad.

We then took the liberty of calling this "Everybody's Digest" piece to the attention of 300 company presidents, and we were gratified that more than 10% of them, realizing that the information would be of interest to their employees, asked for reprints of the article or published it in their house organs or prepared special articles of their own. General Motors, for instance, bought 100,000 reprints, and Chrysler used it as the lead article in its employee publication.

If you will indulge one more account of a reaction to this ad—this one a very personal one—I should like to tell you that I sent a proof of the advertisement in lieu of a letter to my mother in downstate Illinois, where I learned years ago in Sunday School or somewhere to associate stocks and bonds only with race horses, pool rooms, and other pursuits of questionable morality. Her response was as direct as it was meaningful. She wrote back: "Dear Son: Thank you for sending me the ad. It made the business sound both ethical and sensible."

Public Want to Know About Securities

This then, is the full story of an ad that was made by its audience. It succeeded not because of any special quality of its own. Perhaps I should say it succeeded in spite of itself—in spite of its length and weight. And for only one reason: Because the public really wants to know about securities.

To my mind that's the single biggest guarantee that securities advertising can succeed—can induce the hundreds of thousands of people in the middle income brackets to invest their money.

Of course, interest alone is no guarantee of action. A man may want to know something more about stocks and bonds than he picks up in casual conversation at the Elks Club. He may even think more or less idly of security investments when he turns over in his own mind the question of what to do with that $1,000 or $2,000 just lying in the bank. But he is not likely to take positive action unless he is repeatedly and constantly spurred on by advertising. That's no less true in the securities business than it is in the automobile or food or cigarette business. The buying urge needs constant provocation.

This is advertising's job. It is admittedly a job of special pleading—not in behalf of any given stock but in behalf of all stocks. In behalf of the idea of stock ownership.

Advertising Man Must Analyze Product

Before deciding what appeals he may legitimately exploit, the advertising man in the securities business, like the advertising man in any other line of business, must analyze his product — know its good qualities and its bad qualities. In short, he has to face up to the very fundamental question: 'Have I got a good product to sell?"

At Merrill Lynch we have no hesitation about saying yes to that question. If a man wants to invest in common stocks — not speculate, but invest—he has, on the basis of the record, a better than average chance of earning a good return on his money—a better return than he is likely to make with a comparable degree of risk in other forms of investment.

Take a look at the record. Here are the average yields on the 200 stocks tabulated by Moody's Investors Service over the past dozen years:

Year	Yield
1937	4.77%
1938	4.38
1939	4.15
1940	5.31
1941	6.25
1942	6.67
1943	4.89
1944	4.81
1945	4.19
1946	3.97
1947	5.13
1948	5.78
1949	6.63

Clearly on the basis of that record the average man in an average year can expect a return of about 5% on his investment in common stocks. Some will do better; some will do worse, but the average is sufficient to constitute a strong and thoroughly defensible copy appeal.

"But," you may object, "he runs a risk of losing his capital." Yes he does. And he also has a better than average chance of increasing it.

Let's look at the record again. If you bar 1929 from consideration—and there is every legitimate reason for doing so, because I don't believe that the speculative excesses are likely to be repeated —or even *could* be repeated—stock prices historically have tended to move generally upwards as have all other prices.

Certainly there have been wide swings from year to year, even month to month, in that price line, but the significant thing is that stock prices have always come back, always moved on to higher ground, and on the basis of historical precedent apparently always will, for the dollar seems destined to decline in purchasing power as the years go on.

So over the long pull the investor—not the speculator but the investor—stands a better than average chance of seeing his stocks increase in value. Some will lose money obviously, but more will make money, and on the average, it is certainly arguable that over the long run John Jones is likely to build himself a better retirement through investing in good common stocks than through putting his money into investments with a fixed or semi-fixed dollar value.

Of course, if John Jones has to sell his stocks to meet some family emergency at a time when the market is in one of its periodic downswings, the fact that he had a better than 50-50 chance of making money on his stock investments is small consolation. That's why Merrill Lynch has constantly urged in all its published material that no one invest unless he has adequate life insurance for protection and enough savings to meet emergencies.

Yes, we believe at Merrill Lynch that we have a good product to sell the man of moderate means. And we believe we have an obligation to business and to our whole society, if you please, to sell that product as hard as we can—to advertise it honestly and as aggressively as we can.

Continued from page 2

The Security I Like Best

ment. The Canadian subsidiary is carried on its books at $970,691 and produced a profit of $150,083 in 1949, a smart return (not included in American earnings). Net earnings for 1947, '48 and '49 average over $15 per share. Earnings for '49 were $11.40 and it looks better for '50. Presently paying $6 per year, International Silver is selling around 60 to yield 10%.

DELL H. STEVENS

Manager, Analytical Department, Tripp & Company, New York City

(Medium and Lower Medium Grade Municipals)

Ever since the end of June, when Congress and the people finally had knocked into them two facts—the vicious ill will and the military intentions of Russia and world communism and the dangerously low estate to which our armed forces have disintegrated —it has been evident that one section of the securities market is bound to experience a powerful rise in the coming months. We are now in for an extended period of large scale rearmament, therefore of Treasury deficits, and since the latter cannot be entirely funded into bonds, which would lead to violent inflation, we are bound to have a material further increase in Federal income taxes. The end result will be an enhancement of the values of fully tax-exempt securities—municipals.

Dell H. Stevens

At this writing, the bond market pattern shows us the Treasury 2½s, December, 1972-67 very effectively pegged between 100½ and 101. This issue at the moment is the cornerstone of the whole bond market. In comparison, the bank-eligible Treasury 2½s, September, 1972-67 are from 1½ to 2 points too high, and prime corporate bonds are perhaps a point too high. Even prime municipals may be from 5 to 10 basis points too high. For all other sections of the market, current developments hint at protracted stagnation or mild weakness, but municipals, seemingly high, are merely discounting to a very limited extent the higher taxes that are on the way. They are in line for a moderate to very sharp price advance.

Despite the tax increases of Oct. 1, 1950, the Treasury deficit for the present fiscal year ending next June may reach $10 billion. Moreover, the armed forces are asking for 1951-52 a rearmament program even greater than the current one. Accordingly, to reduce the deficit and the serious inflation potential, the Treasury, the Federal Reserve, the Administration, and many Congressmen are demanding yet higher corporate and individual income taxes, perhaps in the form of excess profits tax, perhaps in the form of higher normal taxes and surtaxes.

Here is where the great promise in the municipal bond market becomes evident. As of Oct. 1, the top corporate tax rate became 45%, about the equivalent of the normal tax and the surtax combined on the net surtax income of an individual in the $12,000-$14,000 surtax bracket. The following table shows the present yields, before taxes, on various types of bonds, the same yields but after taxes of 50% (to show what effect a small increase can have), 60% and 75%:

	Yield	—Yield After Federal Tax of— 45%	50%	60%	75%
U. S. Treas. 2½s, Sept., 1972-67	2.20%	1.22%	1.10%	0.88%	0.55%
U. S. Treas. 2½s, Dec., 1972-67	2.44	1.34	1.22	0.98	0.61
Aa Corporate Bonds	2.72	1.50	1.36	1.09	0.68
Aaa-Aa Municipal Bonds	1.47	1.47	1.47	1.47	1.47
A Municipal Bonds	1.85	1.85	1.85	1.85	1.85

If one converts these yields into dollar prices for a 20-year **taxable** 2½% bond, it becomes evident that municipals could gain heavily on the whole bond market in price much as they did in 1944, 1945 and 1946.

We are not claiming that prime municipals now yielding 1.47% are going the full distance back up in price to the 1946 record at which the maturity yield was a mere 1.04%. But they are certainly headed in that direction. If the motive force is to be an excess profits tax, municipals should not attempt to discount the full tax because it is intensely unpopular and unfair and hence slated for very early repeal. However, if the motive force is to be large increases in the present normal tax and surtaxes, municipals can very well afford to discount much of the increases since the size of the Federal debt and duration of the rearmament program require perpetuation of higher taxes if equitable.

Congress will convene late in November to pass a new tax bill by Christmas if possible. The municipal bond market should have its big rise before the year-end. Consequently, municipal bonds should be bought well before then, before the enhanced value of full tax exemption can be discounted. Also, we favor long maturities, which stand to register far greater gains than short maturities are capable of.

The favorable outlook for the municipal bond market should be shared in by prime medium, lower medium and low grade municipals, but by no means equally. We are told that the Public Housing Administration is trying to arrange for the initial refunding of some part of the $262 million of temporary Veterans' Housing Notes into the new AAA permanent housing authority bonds and the financing of some of the newest housing projects this December or January. The new bonds will come as close to being full, general, tax free obligations of the United States Treasury as any bond can be, differing from a general obligation only in the provision that Congress each year must make a separate appropriation from the General Fund of the Treasury to make good the Treasury's obligation to underwrite unconditionally the annual debt service of bonds issued under the provisions of the Housing Act of 1949. A particularly tough Congress might delay action. Otherwise, the new bonds will wedge their way in between Treasury Bonds and prime municipal bonds, causing the latter to lose some ground relative to taxable Treasurys, and making them slightly less attractive for price appreciation than medium or lower grade municipals less directly competitive with governments.

At the opposite end of the quality scale are the "yield" municipals too low in quality and long as to maturity to be attractive for bank investment but avidly bought by insurance companies seeking income. Such issues must continue in competition with taxable Treasurys and corporates for insurance company favor, so they simply cannot reflect higher taxes to the extent that medium and lower medium grade municipals eligible for bank investment can.

Consequently, in recommending municipal bonds now for corporate and individual investment for tax exemption and profit, we prefer medium and lower medium grade long-terms, then prime grade, long-terms, and lastly "yield" municipals. Even the latter may be regarded as particularly attractive for income and appreciation, if issued for an essen tial service and capable of im provement in quality, but they are only mildly attractive in connec tion with current tax develop ments.

Business Man's Bookshelf

Introduction to Investments — John C. Clendenin—McGraw-Hill Book Company, Inc., 330 Wes 42nd Street, New York 18, N. Y. —cloth—$4.75.

Personal Finance — John Leavitt and Carl O. Hanson—M Graw-Hill Book Co., Inc., 3 West 42nd Street, New York 1 N. Y.—cloth—$3.50.

Prudential, The — A Story Human Security — Earl Chap May and Will Oursler — Doub day & Company, Inc., 14 We 49th Street, New York 20, N. Y. cloth—$5.00.

Revenue Act of 1950—With e planation and pay-as-you- tables — Prentice-Hall, Inc., Fifth Avenue, New York 11, N. —paper—$1.00 (lower prices quantity orders).

Shares of Upper Income Group in Income and Savings — Simon Kuznetx — National Bureau of Economic Research, Inc., 1819 Broadway, New York, 23, N. Y.—paper.

South American Handbook — 1950 Edition—H. W. Wilson Con pany, 950 University Avenu New York 52, N. Y.—cloth—$1.5

U. S. Estate Taxation on E tates of Nonresident Aliens Franz Martin Joseph — reprint from Trusts and Estates Magazir Fiduciary Publishers, Inc., N York City.

Ernest C. Lyons

(Special to THE FINANCIAL CHRONICLE)

Ernest Crittenden Lyons Starkweather & Co., New Yo City, died at his home at the a of fifty-five after an illness two months.

Continued from page 5

Building Outlook and Loanable Funds

on durable goods and homes, but many others will not buy at all because of the larger amount of cash needed, so that their savings will be untouched and funds that would otherwise be paid out later as instalments could be saved.

All in all, therefore, the volume of new funds flowing into investing institutions may not decline, and could increase.

A sustained inflow of deposits into mutual savings banks will aggravate the investment problem at a time when the mortgage supply will be declining and other thrift institutions will be bidding more aggressively for the mortgages that become available. It will mean that savings banks, unless they wish to buy government and other bonds that yield materially less than mortgages, will have to seek desirable mortgages more vigorously. Unless this is done, the over-all rate of return realized from earning assets will decline from the current level, which reflects the higher yields obtained from the enlarged mortgage holdings of mutual savings banks.

This does not mean that mortgage lending standards should be lowered to a point where serious risks are incurred. In fact, under current conditions loans on inflated appraisals might invite additional government restrictions. The problem is one of getting a larger share of the available mortgage supply that governmental regulations will permit, while maintaining the quality of mortgage portfolios at a high level.

Mortgage Investments More Desirable

The prospective contraction in the volume of new residential building which will reduce the supply of mortgages available to investors will in itself tend to impart a scarcity quality to properties underlying outstanding mortgage debt.

Losses on mortgages have usually been greatest in periods following building booms, when a surplus supply of residential space developed. The intensive construction boom of the 1920s, for example, was followed by the wave of foreclosures of the early 1930s.

The current residential building boom was gathering momentum at a very rapid pace before the Korean war. The number of new dwellings being erected—at a rate of almost 1,500,000 units annually—exceeded by a very wide margin the increase in the number of families—some 600,000 per annum. Were home building sustained at this high level for several years in succession, overbuilding would inevitably bring about an increase in foreclosures.

The new restrictions imposed on mortgage lending, plus the effect of shortages of materials and rising costs, will at least defer this threat of overbuilding of homes. If the number of new dwellings erected is reduced to a rate materially below 1,000,000 per annum, it should be several years at least before overbuilding again becomes a dangerous threat. There is still some backlog of demand for dwellings resulting from the low level of building during World War II. Moreover, the migration of population, which rearmament will stimulate further, adds to the demand for new homes in many parts of the country. The abatement of the threat of overbuilding is of direct importance to lenders on conventional mortgages who must absorb, without benefit of insurance or guarantees, any resulting capital losses. But lenders on FHA insured and VA guaranteed mortgages also have reason to be gratified by a forced contraction in residential building. Foreclosures of such mortgages involve some expense and loss of interest. Moreover, institutions making such loans could find themselves confronted with the dilemma of incurring ill will by foreclosing mortgages under the insurance and guarantee provisions, or reducing current collections on account of interest and amortization by granting indulgences to borrowers to avoid ill will.

Mortgage investments are more desirable, as a class, as a result of the lending curbs now being put into effect. It is particularly timely, therefore, to ask ourselves whether mutual savings banks are likely to get their share of the prospective smaller supply of mortgages.

The Mutual Savings Banks' Share

The statistics show that mutual savings banks hold a considerably smaller percentage of the total outstanding real estate mortgage debt than a decade ago.

Our studies at Savings Banks Trust Company of available mortgage statistics show that mutual savings banks at the end of 1949 owned 11.8% of outstanding nonfarm real estate mortgages, whereas in 1939 they owned 15.9% of such loans.

But life insurance companies at the end of 1949 held 19.5% of the real estate mortgages outstanding, as against only 15.8% ten years before. Savings and loan associations held 19.6% at the end of 1949, and 12.4% at the end of 1939. Commercial banks held 18.9% at the end of last year, and only 12.2% ten years earlier.

In 1939, mutual savings banks held a larger amount of real estate mortgages than any of the other three major classes of thrift institutions. In 1949, mutual savings banks held a much smaller volume of mortgages than any of the other three.

The reasons for the decline in the relative role of mutual savings banks in the mortgage lending field are well known. We operate only in 17 states, while other thrift institutions operate all over the country and therefore participate in the economic growth of all sections. Also the other thrift institutions have enjoyed more rapid additions to funds available for new investment than we have during this decade.

Nevertheless, these figures do indicate that by more aggressive policies mutual savings banks could increase their share of the new mortgage supply. Since the volume of available mortgages is going to be smaller, mutual savings banks will want to take every reasonable step to expand their mortgage portfolios.

How to Expand Mortgage Portfolios

In the more competitive market for mortgages we now face, each savings bank will want to work out its own methods for increasing its share of the new mortgage supply. I will mention some things that are being done or that can be done with this end in view.

In New York increasing use is being made by savings banks of the so-called "open-end mortgage" to finance real estate repairs and modernization. This type of mortgage provides that where interest and amortization payments have been received as scheduled and the loan is otherwise satisfactory, the loan can be increased up to its original amount if the appraisal justifies the larger loan and prior liens are not present. This type of provision saves expense to the borrower and places the lender in better position to retain and increase his investment in mortgage loans on which experience has been good.

New York savings banks have found that the statutory authority they have obtained to make FHA insured loans anywhere in the country facilitates mortgage lending. As of Sept. 30, 1950, 47 New York savings banks had made investments and commitments to invest in groups of FHA insured mortgages, under trust or agency arrangement with Institutional Securities Corporation, their wholly owned mortgage company, in an aggregate amount of approximately $274,000,000. These loans provided financing for residential properties located in 27 states, the District of Columbia, Alaska and Puerto Rico. About 99% are insured under Section 608 of Title VI, the balance being Title II Section 203 and Title VI, Section 603 loans. A very substantial additional amount of FHA insured mortgage loans on properties located outside New York State has been added to the savings banks mortgage protfolios by direct lending by individual banks.

In view of their favorable experience with nationwide FHA insured mortgage lending, the mutual savings banks in New York will ask the Legislature next year for authority to invest in Section 501 VA guaranteed mortgages originating outside New York State.

The savings banks in New York State are also going to ask the Legislature to permit two or more banks to lend jointly on conventional mortgages, so that they can handle large loans that otherwise have been finding their way to life insurance companies or commercial banks. Permission will also be sought to lend on conventional mortgages anywhere in adjoining states, instead of only within a radius of 25 miles from the main office of the lending savings bank, as the law now provides.

Mutual savings banks have grown in size to a point where they can no longer be considered local institutions sure of finding adequate mortgage outlets within their own immediate area. This means that artificial geographical lending restrictions justifiable formerly are no longer suitable or wise.

Another method of acquiring a larger volume of mortgages for the future is illustrated by the program adopted by an insurance company. This institution has been anticipating future mortgage requirements by issuing commitments for FHA insured and VA guaranteed loans in excess of current investment needs and selling the mortgages to a commercial bank when received, but with a repurchase agreement under which the commercial bank will resell the mortgages to the insurance company a year or two later. Because of the limited period the mortgages are held by commercial banks, the latter are said to be ready to lend at 3% for this purpose. The effect of this lower interest rate paid to the commercial bank is to reduce materially the size of the net premium actually paid by the insurance company for the mortgages involved.

Savings and loan associations have long had, in effect, the privilege of acquiring mortgage investments in anticipation of prospective increases in their investible funds. In this connection I quote from the Report of the Home Loan Bank Board for the year ending Dec. 31, 1949:

"The extent to which the Federal Home Loan Banks have functioned as a national credit reservoir is evidenced by the fact that, since they first opened for business on Oct. 15, 1932, to Dec. 31, 1949, the Federal Home Loan Banks have made advances to home financing institutions totaling $2,942,711,670, of which $2,509,282,520 have been repaid, leaving a balance of $433,429,150 outstanding on the latter date."

The increased demand for commercial loans, which have expanded around $2¼ billion since the fighting in Korea began, is causing some commercial banks in smaller communities to reduce their mortgage holdings. The Federal National Mortgage Association, familiarly referred to as "Fannie May," has been selling more mortgages than it has been buying recently. Mutual savings banks may find in the secondary market for mortgages a volume of loans that will shape up as desirable under existing conditions.

The basic problem facing mutual savings banks is to keep pace with other thrift institutions in mortgage lending, so that they will get their full share of the new mortgage supply. Observation of mortgage lending by life insurance companies, savings and loan associations and commercial banks provides useful hints on how savings banks can further expand their operations to step up their share of the mortgage total.

Thanks to the expansion of the mortgage portfolios of mutual savings banks, current dividend payments are being covered by a reasonable margin. Any considerable decline in mortgage holdings, which will lead to an expansion in government and other bond investments giving substantially lower yields, narrows the coverage of current dividend payments. This consideration provides an urgent incentive for maintaining and expanding mortgage portfolios now and in the future.

Eugene Barry Director

Eugene P. Barry, partner of Shields & Co., has been elected a director of Interstate Motor Freight System, it was announced by John P. Altwater, President.

William P. Fairman

William P. Fairman of the investment banking house of Fairman & Co., died Oct. 12 at the age of 75.

Ins. Banks Div. Bureau

NEWTON, Mass.—Insured Banks Dividend Bureau has been formed with offices at 64 Royee Road, to engage in a securities business. Maurice Robbins is sole proprietor.

Railroad Securities

Pennsylvania Railroad

There has been a growing conviction among railroad analysts that Pennsylvania Railroad has now definitely turned the corner. That this opinion is shared by a large number of investors is obvious from the action of the stock in recent weeks. From the 1950 low of 14½, which was just slightly above the postwar bottom of 13¾ reached last year, the stock has advanced to above 20. Percentagewise, this represents a substantial recovery, but the stock is still well below the peak of 47½ registered in the 1946 boom. With the decided change for the better in the company's operating status it is felt in many quarters that further substantial price enhancement is in prospect.

Pennsylvania, which does approximately 10% of the total railroad business in the country, was one of the most adversely affected of the major railroads by the sharp rise in wages, and fuel and material costs following the war. It does the largest passenger business of any road in the country. It has a large volume of l.c.l. freight. Finally, by the nature of its territory, it handles a substantial tonnage of short-haul traffic where terminal costs impose a heavy burden. Postwar, terminal costs and the expenses involved in handling passengers and l.c.l. freight mounted particularly rapidly. Also, they were more difficult to counteract by operating economies than were the increases in road haul costs.

The Pennsylvania System, covering the most highly industrialized sections of the country, was literally choked with traffic during World War II. The properties had run down somewhat in the preceding depression period and during the period of intensive war use it was impossible to maintain them properly. The equipment situation was much the same, with the added handicap that by and large motive power was obsolete. All of these factors contributed to an important degree to the company's inability to get operating expenses under control when both freight and passenger volume receded from the record wartime levels.

In 1946, for the first time in 100 years of operation, Pennsylvania Railroad sustained a deficit. The loss was roundly $8.5 million. In subsequent years its record has been spotty. Gradual recovery brought earnings per share to $2.61 by 1948, but last year there was a sharp reversal. Only $0.95 a share was reported in 1949. This relapse, caused by outside forces, pretty much obscured the fact that basically the road was continuing on the upgrade. Last year there were periods when bituminous mines were on only a three-day basis and periods when they were completely shut down by strikes. Also, there was the steel strike to contend with. Since steel and coal are the road's most important traffic items no more unfortunate set of circumstances could be imagined.

The road's troubles continued into the current year, with the bituminous mines still out of production because of labor difficulties. It did not get into the black until June, but in that month, which was without benefit of rearmament influences, net income amounted to more than $5 million. This contrasted with a net loss of $788,000 a year earlier. Sizable net profits contrasted with 1949 losses continued in July and August. It is virtually certain that this pattern will be continued over the balance of the year. On this basis earnings of around $3.00 are expected. Moreover, if major coal and steel strikes are avoided next year the share results could easily be increased to around $5.00 in 1951.

Probably the most important factor in Pennsylvania's recovery has been the substantial expenditures for additions and betterments to property and equipment in postwar years. Since 1946, such expenditures have approximated $370 million, divided roughly one-fourth on roadway and three-fourths on equipment. Another $55 million of Diesel power has recently been ordered. This Diesel program has been particularly effective. The first orders of any size were placed in late 1946 and early 1947. On completion of the recent order the company will have 1,034 Diesels. With these deliveries further gains in operating efficiency are expected.

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. 22	102.0	101.6	100.4	9.3
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 22	1,967,300	1,959,600	1,936,400	172,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Oct. 7	5,871,900	5,903,450	5,908,830	5,014,800
Crude runs to stills — daily average (bbls.)	Oct. 7	¶6,091,000	6,051,000	5,971,000	5,335,000
Gasoline output (bbls.)	Oct. 7	19,259,000	19,624,000	19,595,000	18,107,000
Kerosene output (bbls.)	Oct. 7	2,240,000	2,471,000	2,172,000	2,190,000
Gas, oil, and distillate fuel oil output (bbls.)	Oct. 7	8,449,000	8,460,000	7,891,000	7,131,000
Residual fuel oil output (bbls.)	Oct. 7	8,156,000	8,306,000	8,285,000	7,363,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 7	103,700,000	104,383,000	106,381,000	102,707,000
Kerosene (bbls.) at	Oct. 7	28,170,000	27,849,000	26,640,000	27,548,000
Gas, oil, and distillate fuel oil (bbls.) at	Oct. 7	78,601,000	76,734,000	71,597,000	85,800,000
Residual fuel oil (bbls.) at	Oct. 7	42,213,000	42,330,000	42,127,000	68,222,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 7	863,676	879,985	751,276	574,228
Revenue freight received from connections (number of cars)	Oct. 7	730,156	730,562	642,136	517,781
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 12	$156,697,000	$287,974,000	$219,743,000	$143,697,000
Private construction	Oct. 12	88,065,000	157,407,000	123,324,000	66,327,000
Public construction	Oct. 12	68,632,000	130,567,000	96,419,000	77,370,000
State and municipal	Oct. 12	57,306,000	84,842,000	77,314,000	59,959,000
Federal	Oct. 12	11,326,000	45,725,000	19,105,000	17,411,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 7	11,415,000	*11,495,000	10,066,000	2,142,000
Pennsylvania anthracite (tons)	Oct. 7	1,003,000	1,037,000	768,000	1,100,000
Beehive coke (tons)	Oct. 7	143,800	*149,900	122,500	2,100
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 7	326	320	295	297
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 14	6,508,591	6,513,707	6,449,101	5,480,735
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Oct. 12	188	154	165	172
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 10	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Oct. 10	$49.19	$49.19	$46.61	$45.88
Scrap steel (per gross ton)	Oct. 10	$40.67	$40.67	$40.75	$26.58
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 11	24.200c	24.200c	23.200c	17.325c
Export refinery at	Oct. 11	24.425c	24.425c	24.425c	17.550c
Straits tin (New York) at	Oct. 11	112.000c	106.500c	100.500c	96.000c
Lead (New York) at	Oct. 11	16.000c	16.000c	16.000c	13.750c
Lead (St. Louis) at	Oct. 11	15.800c	15.800c	15.800c	13.550c
Zinc (East St. Louis) at	Oct. 11	17.500c	17.500c	17.500c	9.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 17	101.55	101.60	101.83	103.82
Average corporate	Oct. 17	115.43	115.63	115.82	115.04
Aaa	Oct. 17	119.61	119.82	120.02	120.84
Aa	Oct. 17	118.60	118.80	118.80	119.00
A	Oct. 17	115.04	115.04	115.43	114.27
Baa	Oct. 17	109.06	109.06	109.24	106.56
Railroad Group	Oct. 17	111.44	111.62	112.00	109.42
Public Utilities Group	Oct. 17	116.02	116.22	116.02	116.41
Industrials Group	Oct. 17	119.00	119.00	119.41	119.41
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 17	2.38	2.38	2.36	2.22
Average corporate	Oct. 17	2.88	2.87	2.86	2.90
Aaa	Oct. 17	2.67	2.66	2.65	2.61
Aa	Oct. 17	2.72	2.71	2.71	2.70
A	Oct. 17	2.90	2.90	2.88	2.94
Baa	Oct. 17	3.22	3.22	3.21	3.36
Railroad Group	Oct. 17	3.09	3.08	3.06	3.20
Public Utilities Group	Oct. 17	2.85	2.84	2.85	2.83
Industrials Group	Oct. 17	2.70	2.70	2.68	2.68
MOODY'S COMMODITY INDEX	Oct. 17	446.2	465.4	476.9	334.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 7	261,869	253,120	191,916	282,832
Production (tons)	Oct. 7	231,663	236,422	180,467	201,544
Percentage of activity	Oct. 7	100	103	81	92
Unfilled orders (tons) at	Oct. 7	762,679	714,877	738,187	440,721
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 13	137.8	137.6	135.6	126.7
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. 30	31,014	29,636	22,266	18,580
Number of shares—Customers' total sales	Sept. 30	941,601	884,732	670,102	537,896
Dollar value	Sept. 30	$41,807,525	$42,249,065	$28,706,532	$20,753,844
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Sept. 30	34,814	33,796	23,381	24,496
Customers' short sales	Sept. 30	286	265	222	119
Customers' other sales	Sept. 30	34,528	33,531	23,159	24,377
Number of shares—Customers' total sales	Sept. 30	997,317	964,241	663,011	637,455
Customers' short sales	Sept. 30	10,484	10,843	8,893	4,640
Customers' other sales	Sept. 30	986,829	953,398	654,118	632,815
Dollar value	Sept. 30	$39,247,146	$38,350,289	$25,091,286	$20,224,962
Round-lot sales by dealers—					
Number of shares—Total sales	Sept. 30	342,220	354,040	214,530	274,410
Short sales	Sept. 30	------	------	------	------
Other sales	Sept. 30	342,220	354,040	214,530	274,410
Round-lot purchases by dealers—					
Number of shares	Sept. 30	271,660	272,110	229,860	202,480
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 10	168.3	*168.8	169.1	152.0
Farm products	Oct. 10	177.9	179.1	182.0	159.7
Grains	Oct. 10	165.4	167.4	166.5	156.4
Livestock	Oct. 10	221.1	224.6	241.5	195.5
Foods	Oct. 10	172.6	175.3	178.9	159.1
Meats	Oct. 10	234.4	246.7	260.4	217.5
All commodities other than farm and foods	Oct. 10	160.8	*160.0	157.8	145.0
Textile products	Oct. 10	162.2	*161.7	156.0	138.0
Fuel and lighting materials	Oct. 10	135.0	134.9	134.9	130.6
Metals and metal products	Oct. 10	177.5	177.1	176.0	167.3
Building materials	Oct. 10	222.0	*222.0	220.7	188.9
Chemicals and allied products	Oct. 10	130.6	129.9	127.4	116.1

*Revised figure. ¶Includes 517,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of Sept.	8,200,020	*8,230,317	6,597,935
Shipments of steel products, including alloy and stainless (net tons)—Month of August	6,326,464	5,668,898	4,918,314
BANK DEBITS—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of Sept. (in thousands)	$123,259,000	------	$101,081,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of September (in millions):			
Total new construction	$2,794	$2,771	$2,214
Private construction	2,059	2,050	1,513
Residential building (nonfarm)	1,294	1,286	809
New dwelling units	1,190	1,180	715
Additions and alterations	87	90	78
Nonhousekeeping	17	16	16
Nonresidential building (nonfarm)	351	332	262
Industrial	101	90	69
Commercial	120	113	83
Warehouses, office and loft buildings	39	35	23
Stores, restaurants, and garages	81	78	60
Other nonresidential building	130	129	110
Religious	38	38	33
Educational	28	26	23
Social and recreational	23	24	23
Hospital and institutional	29	29	20
Miscellaneous	12	12	11
Farm construction	106	116	127
Public utilities	301	305	308
Railroad	30	30	30
Telephone and telegraph	43	45	40
Other public utilities	228	230	238
All other private	7	11	7
Public construction	735	721	701
Residential building	29	27	40
Nonresidential building	209	204	218
Industrial	20	19	11
Educational	105	102	90
Hospital and institutional	40	39	48
Other nonresidential building	44	44	69
Military and naval facilities	12	11	15
Highways	310	305	255
Sewer and water	60	58	57
Miscellaneous public service enterprises	17	18	25
Conservation and development	90	90	81
All other public	8	8	10
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD — Month of September:	$	$	$
Total U. S. construction	959,530,000	1,164,682,000	810,309,000
Private construction	590,648,000	702,103,000	403,478,000
Public construction	368,882,000	462,579,000	406,831,000
State and municipal	327,128,000	402,598,000	316,290,000
Federal	41,754,000	59,981,000	90,541,000
COPPER INSTITUTE — For Month of Sept.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	85,785	*92,380	64,870
Refined (tons of 2,000 lbs.)	111,842	108,465	79,949
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	119,529	112,083	103,115
Refined copper stocks at end of period (tons of 2,000 lbs.)	56,748	50,952	193,890
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE—As of Oct. 1 (in thousands)			
Corn, all (bushel)	3,117,967	3,162,638	3,377,790
Wheat, all (bushel)	1,010,069	1,011,644	1,146,463
Winter (bushel)	740,537	740,537	901,668
All spring (bushel)	269,532	271,107	244,795
Durum (bushel)	33,457	37,239	38,864
Other spring (bushel)	236,075	233,868	205,931
Oats (bushel)	1,453,975	1,481,864	1,322,924
Barley (bushel)	299,954	297,922	238,104
Rye (bushel)	22,509	22,509	18,697
Buckwheat (bushel)	4,817	4,681	5,184
Flaxseed (bushel)	35,224	34,142	43,664
Rice (100 pound bag)	36,776	36,237	40,113
Sorghum grain (bushel)	184,091	184,641	152,630
Cotton (bale)	9,869	9,882	16,128
Hay, all (ton)	107,870	106,818	99,305
Hay, wild (ton)	12,657	12,657	12,296
Hay, alfalfa (ton)	41,702	41,265	38,546
Hay, clover and timothy (ton)	29,395	29,395	24,657
Hay, lespedeza (ton)	7,987	7,836	8,571
Beans, dry edible (100 lb. bag)	15,916	16,717	21,554
Peas, dry field (bag)	2,902	2,902	3,267
Soybeans for beans (bushel)	275,256	274,702	222,305
Peanuts (pound)	1,676,890	1,653,895	1,873,825
Potatoes (bushel)	426,782	420,286	401,962
Sweetpotatoes (bushel)	59,658	59,884	54,232
Tobacco (pound)	1,950,124	1,950,725	1,970,376
Sugarcane for sugar and seed (ton)	7,500	7,597	6,796
Sugar beets (ton)	13,282	13,151	10,197
Broomcorn (ton)	26	26	44
Hops (pound)	58,288	58,753	50,730
Apples, commercial crop (bushel)	120,104	119,053	133,742
Peaches (bushel)	52,407	51,990	74,818
Pears (bushel)	30,657	29,964	36,404
Grapes (ton)	2,520	2,538	2,662
Cherries (12 states) (ton)	231	231	250
Apricots (3 states) (ton)	198	198	198
Cranberries (5 states) (barrels)	941	941	840
Pecans (pound)	109,731	106,438	128,174
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Sept.:			
Industrials (125)	6.45	6.66	6.39
Railroads (25)	6.04	5.99	8.66
‡Utilities (24)	5.82	5.92	5.68
Banks (15)	4.45	4.50	4.52
Insurance (10)	3.27	3.51	3.21
Average yield (200)	6.22	6.39	6.31
U. S. GOVT. STATUTORY DEBT LIMITATION As of Sept. 30 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$225,000,000
Outstanding—			
Total gross public debt	257,215,671	257,873,892	256,679,558
Guaranteed obligations not owned by the Treasury	19,862	17,557	29,359
Total gross public debt and guaranteed obligations	$257,235,533	$257,891,449	$256,708,917
Deduct—Other outstanding public debt obligations not subject to debt limitation	714,012	716,904	755,867
Grand total outstanding	$256,521,520	$257,174,545	$255,953,050
Balance face amount of obligations issuable under above authority	18,478,479	17,825,454	19,046,949

*Revised. ‡Not including stock of American Tel. & Tel.

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.

• **Air Marshall Corp., N. Y.**
Oct. 11 (letter of notification) 867,500 shares of common stock (par 1c). **Price**—10c per share. **Underwriter**—H. Frazee Olifiers & Co., New York. **Proceeds**—For working capital. **Office**—12 East 44th St., New York 17, New York.

• **Aircraft Radio Corp., Boonton, N. J.**
Oct. 16 (letter of notification) 2,000 shares of common stock (par $1). **Price**—$5.50 per share. **Underwriter**—F. Eberstadt & Co., Inc., New York, will act as distributor for the stock. **Proceeds**—To Richard W. Seabury, Chairman of the board, who is the selling stockholder.

Alabama Power Co.
Sept. 22 filed 100,000 shares of preferred stock (par $100). **Underwriter**—Issue awarded to Morgan Stanley & Co. on Oct. 18 on its bid of $100.06 per share with a 4.60% dividend. **Price**—Expected to be reoffered at $102.20 per share. **Proceeds**—For construction program. Statement effective Oct. 11.

Alabama Power Co., Birmingham, Ala.
July 28 filed 64,000 shares of 4.20% preferred stock (par $100) offered in exchange for a like number of outstanding 4.20% preferred shares of Birmingham Electric Co. No underwriter. Offer expires Oct. 20 (extended from Sept. 22). Statement effective Aug. 29.

American 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** — City 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.

• **Atlantic City Electric Co. (11/13)**
Oct. 18 filed $18,400,000 of first mortgage bonds, series A, 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 & Co., Inc.; White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers; 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.

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.

Brager-Eisenberg, Inc., Baltimore, Md.
Oct. 2 (letter of notification) 6,032 shares of common stock (par $1) offered to stockholders of record Oct. 10 on basis of 1-for-4; rights expire Oct. 25. **Price**—$22 per share. **Underwriter** — None. **Proceeds** — For corporate purposes. **Office**—Eutaw and Saratoga Streets, Baltimore, Md.

• **Brunner Manufacturing Co., Utica, N. Y. (10/24)**
Oct. 17 (letter of notification) 37,172 1/7 shares of common stock (par $1), to be offered to common stockholders of record Oct. 24 at rate of one share for each seven shares held; rights expire Nov. 8. **Price**—$6 per share. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Proceeds**—For general corporate purposes.

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. Statement effective Oct. 11.

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. Statement effective Oct. 11.

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.

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. (10/26)
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.

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
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.

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.

• **Ekco Products Co., Chicago, Ill.**
Oct. 12 (letter of notification) 8,461 shares of common stock (par $2.50). **Price**—$13 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1949 No. Cicero Ave., Chicago, Ill.

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.

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.

• **Financial Industrial Fund, Inc., Denver, Colo.**
Oct. 16 filed 2,300,000 Fund shares, 3,000 systematic (periodic payment) investment certificates and 600 cumulative (fully-paid) investment certificates. **Underwriter**—Investment Service Corp. of Denver, Colo., and Wilmington, Del.

• **4 & 6 East 62nd Street Realty Corp., N. Y.**
Oct. 11 (letter of notification) 1,250 shares of 3% cumulative non-convertible preferred stock (par $100), to be offered in exchange for $125,000 of pre-incorporation certificates at the rate of 10 shares of preferred for each $1,000 of certificates and five shares for each $500 of certificates. **Office**—4 East 62nd St., New York 21, N. Y.

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. A request to withdraw registration statement was filed Oct. 11.

• **Goldfields of California, Inc., Las Vegas, Nev.**
Oct. 9 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None at present. **Proceeds**—For mining equipment, milling, exploration and development expenses. **Office**—504 So. Third St., Las Vegas, Nev.

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.

• **Gulf Power Co. (11/13)**
Oct. 13 filed 51,026 shares of referred stock (par $100), of which 11,026 shares are to be offered in exchange, share for share, for outstanding $6 preferred stock; the remaining 40,000 shares to be offered publicly. **Underwriter**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Equitable Securities Corp.; Lehman Brothers; Harriman Ripley & Co., Inc. **Proceeds**—To redeem $6 preferred stock, to repay bank loans and for new construction. **Exchange Offer**—Tentatively scheduled to be made Nov. 14; to expire Nov. 27. **Bids**—Expected to be opened on Nov. 13.

• **Gulf States Utilities Co. (11/21)**
Oct. 17 filed 70,000 shares of preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. 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). **Proceeds**—For construction program. **Bids**—To be received up to 11 a.m. (EST) on Nov. 21 at The Chase National Bank of the City of New York, Room 735, 11 Broad St., New York, N. Y. Stockholders to vote on approving issue on Nov. 20.

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.

• **Industrial Coatings Inc., Opa Locka, Fla.**
Oct. 4 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Underwriter**—Carl J. Bliedung, Washington, D. C. **Proceeds**—To reduce liabilities and to expand company's roof-proofing and industrial coatings plant. **Office**—2600 Ali Baba Ave., Opa Locka, Fla.

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 (probably at $25 per unit). **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.
Oct. 6 by amendment filed 120,000 shares of class A convertible common stock (par $1). **Price**—$5 per share. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—To pay off promissory notes and for working capital.

● **Lexington Trust Fund, New York**
Oct. 18 filed 1,000,000 shares of capital stock. **Underwriters**—American Trusteed Funds, Inc., sponsor, and Corporate Leaders Sales Co., general distributor.

● **Lorain Telephone Co.**
Oct. 5 (letter of notification) 2,830 shares of common stock (no par). **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—203 9th St., Lorain, Ohio.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100). **Proceeds**—To be used to redeem, at $110 per shart plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

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); Equitable Securities Corp. **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.
Oct. 6 (letter of notification) 20,000 shares of 5% nonconvertible 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**—681 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.

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.

● **Michigan Consolidated Gas Co. (11/13)**
Oct. 16 filed $20,000,000 first mortgage bonds due Nov. 1, 1975. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—From sale of bonds, together with $6,000,036 to be received from sale of 428,574 shares of common stock to American Natural Gas Co., the parent, to be used to retire $15,000,000 bank borrowings and to finance, in part, the company's extensive construction program.

NEW ISSUE CALENDAR

October 23, 1950
Monarch Radio & Television Corp.________Common
U. S. Manganese Corp.________Debs. & Common

October 24, 1950
Brunner Manufacturing Co.________Common
California Electric Power Co., 10:30 a.m. (EST)________Bonds & Debentures
Kaiser Steel Corp.________Preferred & Common
Northern States Power Co., 10:30 a.m. (CST)________Preferred
Tennessee Gas Transmission Co.________Pfd. & Com.

October 25, 1950
Hagerstown Gas Co.________Common
Illinois Power Co.________Preferred
Wabash RR., noon (EST)________Equip. Trust Ctfs.

October 26, 1950
Copeland Refrigeration Corp.________Common

October 30, 1950
Milwaukee Gas Light Co., 11 a.m. (EST)________Bonds & Debs.

October 31, 1950
Montana Power Co.________Debentures
Niagara Mohawk Power Corp.________Bonds

November 1, 1950
West Coast Telephone Co.________Common

November 13, 1950
Atlantic City Electric Co.________Bonds
Gulf Power Co.________Preferred
Kansas Gas & Electric Co.________Common
Michigan Consolidated Gas Co., 11 a.m. (EST)________Bonds

November 14, 1950
Louisiana Power & Light Co., noon (EST)________Bonds
Norris Stamping & Mfg. Co.________Common
Wisconsin Public Service Corp.________Bonds

November 20, 1950
Kansas Gas & Electric Co.________Preferred

November 21, 1950
Gulf States Utilities Co., 11 a.m. (EST)________Preferred

November 28, 1950
Central Power & Light Co.________Bonds

November 29, 1950
Missouri-Kansas-Texas RR.________Equip. Trust Ctfs.

December 4, 1950
Minnesota Power & Light Co.________Common
Southwestern Gas & Electric Co.________Bonds

December 11, 1950
Carolina Power & Light Co.________Bonds

December 12, 1950
Metropolitan Edison Co.________Bonds & Pfd.

Bids—Expected to be opened at 11 a.m. (EST) on Nov. 13 at office of company, 415 Clifford St., Detroit, Mich.

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.

● **Mines Management, Inc., Wallace, Idaho**
Oct. 9 (letter of notification) 408,000 shares of capital stock. **Price**—35 cents per share. **Underwriter**—Louis Payne of Tucson, Ariz. **Proceeds**—To explore and develop mines. **Office**—507 Bank St., Wallace, Ida.

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.

● **Molasses Processing Co., Oxnard, Calif.**
Oct. 9 (letter of notification) 1,000 shares of common stock, of which 500 shares are to be issued to Earl O. Sargent, President and Patent Licensor, and 500 shares are to be offered publicly. **Price**—$100 per share. **Underwriter** — None. **Proceeds** — To lease plant and to commence production of processed animal feed. **Office**—309 South "A" St., Oxnard, Calif.

Monarch Radio & Television Corp. (10/23)
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); White, Weld & Co.; 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), offered to common stockholders of record Oct. 19 at rate of one share for each four shares held, with an oversubscription privilege; rights expire on Nov. 14. **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.
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. Statement has been withdrawn.

New Bedford Gas & Edison Light Co.
Sept. 14 filed $3,750,000 of 25-year 2⅞% notes, series B, due Oct. 1, 1975. **Underwriter**—Awarded to The First Boston Corp. and Salomon Bros. & Hutzler (jointly) on Oct. 17 on their bid of 101.359. To be reoffered at 101.875 to yield approximately 2.77%. **Proceeds**—To repay bank loans and for construction program. 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.

● **New Jersey Realty Title Insurance Co.**
Oct. 12 (letter of notification) 125,000 shares of capital stock (par $1) to be offered to stockholders of record Oct. 2, 1950, on basis of one share for each two shares held; rights expire Nov. 15. **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To be added to capital funds of company and invested in investments. **Office**—830 Broad St., Newark, N. J.

Niagara Mohawk Power Corp. (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 1966 (latter dependent upon approval of merger of two companies by SEC and FPC), and for construction, additions and betterments.

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. **Pur-**

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pose—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**—To be received up to 10:30 a.m. (CST) on Oct. 24 by company at Room 1100, 231 So. La Salle St., Chicago 4, Ill. Statement effective Oct. 13

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; amendment effective Oct. 12.

● **Parks Aircraft Sales & Service, Inc.**
Oct. 9 (letter of notification) 13,000 shares of common stock (par $1). **Price**—At market (approximately $2 per share. **Underwriters**—G. H. Walker & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To J. Will Young, a selling stockhodler.

● **Penton Publishing Co., Cleveland, O.**
Oct. 17 filed 80,000 shares of $1.50 convertible class A stock (par $25), to be offered to holders of presently outstanding 7% preferred stock on basis of 5½ shares of new class A stock in exchange for each share of 7% preferred. **Underwriter**—Maynard H. Murch & Co., Cleveland, O.

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.
June 29 filed 125,000 shares of common stock (par $10) being offered to stockholders at rate of one new share for each four held on Oct. 13; rights to expore Oct. 31. **Price**—$11.50 per share. **Underwriter**—The First Boston Corp., New York. **Proceeds**—For general corporate purposes, including construction and repayment of a loan.

● **Rockland Valley Oil Co., Inc., Idaho Falls, Ida.**
Oct. 6 (letter of notification) 7,500,000 shares of common capital stock. **Price**—2 cents per share. **Underwriter**—None. **Proceeds**—To prospect for oil and gas in Yellowstone County. **Office**—845 E. 14th St., Idaho Falls, Ida.

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.

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.

Thermal Research & Engineering Corp.
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.
Sept. 27 filed 150,000 shares of common stock (no par). **Price**—To be filed by amendment. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. **Proceeds**—For construction program.

Union Investment Co. of Detroit (Mich.)
Sept. 11 filed 55,865 shares of common stock (par $4), offered to common stockholders of record Oct. 6 at the rate of one share for each three shares held, with oversubscription privilege; rights to expire on Oct. 23. **Price**—$7.75 per share. **Underwriter**—McDonald-Moore Co., Detroit. **Proceeds**—For general corporate purposes. Statement effective Oct. 6.

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.

● **U. S. Manganese Corp., Phoenix, Ariz. (10/23)**
Oct. 9 (letter of notification) $150,000 of 10-year 6% sinking fund debentures (3% fixed and 3% contingent interest) and 15,000 shares of common stock (par $1), to be offered in units of $100 of debentures and 10 shares of common stock. **Price**—$100 per unit. **Underwriter**—Greenfield & Co., Inc., New York. **Proceeds**—To expand milling facilities. **Office** — 601 Heard Bldg., Phoenix, Ariz. **Offering**—To be made next week.

● **Utah-Idaho Petroleum & Mfg. Co.,**
Oct. 9 (letter of notification) 1,000,000 shares of common stock. **Price**—25 cents per share. **Pnderwriter**—None. **Proceeds**—For manufacturing and distribution of invention. **Office**—205 Carlson Bldg., Pocatello, Ida.

● **West Coast Telephone Co., Everett, Wash. (11/1)**
Oct. 12 filed 40,000 shares of common stock (par $20). **Price**—To be filed by amendment. **Underwriter**—Blyth & Co., Inc. **Proceeds**—From sale of stock and proposed sale of $1,000,000 first mortgage 3% bonds at 100 are to be used to retire bank loans incurred in acquisition of Telephone Service Co., for advances to said company to complete its 1950 construction program, and for extensions, additions and improvements to its own properties and those of West Coast Telephone Co., a subsidiary and of Telephone Service Co.

Western Natural Gas Co., Houston, Tex.
Oct. 10 filed (amendment) 104,495 shares of common stock (par $1) offered to common stockholders of record Oct. 13, on basis of one share for each ten shares held, with an oversubscription privilege; rights expire Oct. 27. **Price**—$15.75 per share. **Underwriter**—White, Weld & Co. **Proceeds**—To retire bank loans and for general corporate purposes. Statement effective Oct. 13.

● **Wisconsin Public Service Corp. (11/14)**
Oct. 16 filed $4,000,000 of first mortgage bonds due Nov. 1, 1980. **Underwriter**—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.) **Proceeds**—From sale of bonds, plus $2,250,000 to be received from sale of stock at par to Standard Gas & Electric Co., will be used to repay $3,300,00 of bank loans and to finance construction program. Expected in November.

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.

Carolina Power & Light Co. (12/11)
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.

● **Central Power & Light Co. (11/28)**
Oct. 11 it was stated that the company planned to issue and sell in November an issue of $10,000,000 of new first mortgage bonds or debentures. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; Union Securities Corp.; The First Boston Corp., and White, Weld & Co. (jointly); Lehman Brothers and Glore, Forgan & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Salomon Bros. & Hutzler (jointly). **Proceeds**—For construction program.

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.

● **Davidson Bros., Inc.**
Oct. 16 stockholders were to vote to waive their preemptive rights to subscribe for 300,000 shares of common stock which are authorized but unissued. It is planned that the company will publicly offer not in excess of 200,000 shares and sell to its employees not over 100,000 shares. **Proceeds**—Will be used for working capital.

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; Kidder, Peabody & Co.; Equitable Securities Corp. **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.

• **Illinois Commercial Telephone Co.**
Oct. 13 it was reported that company plans issuance and sale of 40,000 shares of preferred stock (par $50). **Price**—To be filed by amendment. **Underwriters**—Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; and Mitchum, Tully & Co. **Proceeds**—For construction program.

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.**
Oct. 10 it was announced that proposed sale of $5,000,000 first mortgage bonds, which had tentatively been scheduled for Nov. 27, has now been deferred, probably until 1951. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly). **Proceeds** — For construction program. (See also registration of common and preferred stocks above).

Metropolitan Edison Co. (12/12)
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.; Harriman Ripley & Co. and Union Securities Corp. (jointly); Lehman Brothers. (2) For preferred: Drexel & Co.; Smith Barney & Co. and Goldman, Sachs & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; Glore, Forgan & Co. and W. C. Langeley & Co. (jointly). **Registration**—Expected to be filed about Nov. 1.

• **Michigan Consolidated Gas Co.**
Aug. 7 it was announced company contemplates sale in 1951 of about $10,000,000 of preferred stock (in addition to $20,000,000 of bonds filed Oct. 16 with SEC and 428,574 shares of common stock to be sold to parent, American Natural Gas Co.). **Underwriters**—To be determined by competitive bidding. Probable bidders: White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—For construction program.

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 (latter to American Natural Gas Co., the parent). Previous debt financing was placed privately. If competitive probable bidders may include Harrimon Ripley & Co., Inc.

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 supplued 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.

• **Missouri-Kansas-Texas RR. (11/29)**
Oct. 16 it was reported company is planning ot issue $5,700,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers; Harris, Hall & Co. (Inc.); R. W. Pressprich & Co.

• **Montana-Dakota Utilities Co.**
Oct. 11 company asked FPC for authority to issue $2,800,000 of 2½% promissory notes to banks to provide funds for its expansion program. These notes, together with $3,000,000 of notes authorized by FPC last May, are to be refunded by permanent financing before April 1, 1951.

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 bidders 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.

• **Southwestern Gas & Electric Co. (12/4)**
Oct. 11 it was reported that this company is planning sale and issuance early in December of $6,000,000 new first mortgage bonds, series D. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, and Carl M. Loeb, Rhoades & Co. (jointly); Lehman Brothers; Equitable Securities Corp.; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Otis & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); The First Boston Corp. **Proceeds**—For construction program.

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

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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.

● **Utah Power & Light Co.**

Oct. 17 it was announced that present plans call for the company to offer approximately $12,000,000 of new bonds and about 200,000 additional shares of common stock in 1951 to provide funds for its construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers, and Bear, Stearns & Co. (jointly); White, Weld & Co.; Salomon Bros. & Hutzler; First Boston Corp., and Blyth & Co., Inc. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); and (2) for stock: Blyth & Co., Inc.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); Lehman Brothers, and Bear, Stearns & Co. (jointly); Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly).

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.**

Oct. 16 company received SEC authorization 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.

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 first page

Peak Bull Market Is Still to Come!

on the technical side of the market with a few charts; and third, a forecast.

We have had a market in terms of the Dow-Jones averages that after three years of backing and filling in a relatively narrow range between 160 and 190, finally yielded to the combined forces of inflation and continued high earnings and after many false starts, which according to some of our newspaper friends fooled the chartists and confounded the economists, broke out on the upside last year and has just recently reached a new high since September, 1930, of 232.50 on the industrials and a new high since August, 1931, of 70.74 on the rails.

I do not pretend to be a security analyst, or an economist, but as a student of market trends, such a break-out of such a long three-year base period indicated that the major trend was up and likely to carry a long way. Every bull market in the past 50 years has shown a price rise of over 55% from its low. In this case we have carried 45% from the low of 160. Incidentally under the Dow Theory the bull market has been in force since June, 1949, and the industrials will have to break 197.46 and be confirmed by the rails breaking 51.24 Dow-Jones before a new bear market is in force. Fortunately the Dow Theory has one outstanding virtue and that is, it is not talking all the time. But there are many confusing forces going on in today's market.

Inflationary Forces

On the one side are factors which would influence future corporate profits and on the other hand are the present and future inflationary forces. Let me cite you some well-known reasons justifying a confused state of mind.

If the Korean war was just an isolated incident its ending would probably be bearish, but it is not isolated. The various departments of government will continue to spend just as fast as previously. In fact due to the inflationary spiral the spending will be increased in dollars and cents. Even if various restrictions and controls are imposed, artificial props under our present kind of managed economy such as the continued heavy armament program will obviously be continued in force for a long time. Even some of these controls may be postponed in their initial stages and not be as severe as anticipated. No one really knows what is going to happen after election or the exact answers. There is not much doubt that there will be a huge tax bill, whether an excess profits tax or an increase in the normal and surtax. Even though an excess profits tax as high as $7 billion may be collected from corporations, the Treasury does not like it because of its complexity and the difficulty of administering it. But we don't know the answers to that as yet.

Because of taxes and controls we are warned by some economists to expect a decline of 25% in net corporate earnings next year, and by others that earnings on the Dow-Jones are likely to drop to $13 to $15 a share instead of the $27 they are currently estimated to earn this year.

Because we haven't considered the enormity or accurately appraised the effects of the coming tax bill increase super-imposed on our present tax structure—we are warned that the market will have to face this force at the same time as the inflationary spiral is partially checked by the deflationary effects of a possible cash surplus in the Treasury. In other words a little bookkeeping deflation is possible. It is hard not to recognize and partially wedge the long-term highly inflationary effects of war and war preparation and the gradually lowered purchasing value of the dollar by buying stocks, but we are told that historically a background of inflation does not prevent cyclical declines in the stock market. On top of all this we are told by some that the stars indicate we are nearing the end of a 10-year market cycle. All these things we hear and read and we are left in a most perplexed state of mind. When conditions get so confused as at the bottom in February and March, 1948, and a year ago in June, 1949, and then last spring just after the Korean war started, I study my charts more carefully. Sometimes they lead me out of the wilderness.

Now let me say at the beginning of this second point in the discussion that I do not believe you can reduce to an exact mathematical formula anything so variable as the buying and selling of stocks by human beings motivated by different purposes and opinions. But from charts you can certainly tell what other buyers and sellers are doing. When a man invests his money in stocks the actual transaction is recorded on the tape. This is money on the line so to speak, not just a curbstone opinion. It is the interpretation of these opinions that is most important. Many speak disdainfully of charts as stop thinking devices. Perhaps there are times when we should do less thinking and let the other fellow tell us the answers. Actually there is no witchcraft in charting.

Contradictory Factors

The technical position of the market forecasts many price movements in security prices which otherwise would seem completely illogical to the average investor. It is opinion that makes stock prices even though opinion itself is vitally influenced by statistics and facts. I do not believe I am an orthodox chartist —I do not carry or follow a whole lot of different charting methods even though I have studied and examined over 47 different kinds of these methods. I am quite sure that too many charts and charting methods is just as poor a system to utilize as not to use any charts at all. I visited an office once where there were dozens of charts on the wall. Line, point and figure charts, money, ratio, volume, odd lots, pressure moving averages and a host of other charts. When I asked the director of this masterpiece of confusion what the market was going to do, he was quite evasive at first, but finally came up with what proved to be an absolutely wrong answer. I am afraid too many kinds of charts would tend to contradict each other and I would have no definite opinion. I keep a few hundred point and figure charts on stocks and on the averages. I use this type of chart because it tends to show change of trend and to a certain extent the amplitude and depth of moves. Most of these charts show the same characteristics and habits year after year. Some can be counted on for a pretty correct interpretation and others are most unreliable. Three mistakes that are common to anyone studying this kind of work are:

(1) You must learn by studying the characteristics of each chart over a period of years or you will be led down some very dark and blind alleys.

(2) If you use charts to the exclusion of fundamental research and statistics you will make a very serious mistake. The best results for the investor are obtained by teamwork between the chartist and statistician.

(3) Perhaps the greatest mistake you can make and this goes for statisticians as well is any reluctance to admit an incorrect interpretation and attempt to cover it up.

Use of Charts

In general charts help the investor to crystalize and make more definite his judgment as to the best time to buy and sell. Charts also tend to confirm or deny so-called inside information; you can hide the actual buying or selling on the tape. I study charts of stocks in each industry in relation to each other. For a clue to industry action, I pick out a leading issue with good trading volume and good velocity characteristics, also ones that in the past have shown a high degree of accuracy.

Now I come to the third and most difficult and perhaps dangerous part of this talk. I have tried in these preliminary remarks to imply that public psychology and changes in investor confidence play a most important part in the wide changes in our security markets, often working in completely inverse ratio to value and earnings — and that charts are important in measuring these changes. You all know that corporate earnings are the major determinant in the formation of stock prices but every experienced investor also knows that the market discounts these earnings at widely different rates from time to time. In 1929 it was discounted at 20 times earnings, in 1936-1937 about 15 times earnings and today a little over eight times earnings. Yes, earnings are even discounted at widely different prices in various stocks. A case in point was Standard Oil of New Jersey when Jersey earnings dropped from $5.00 to $3.00 from 1941 to 1944. Yet the stock rallied from 30 to 60. Southern Pacific at 10 in 1942 with earnings of $22, rallied to 60 by 1945 with earnings dropping to $9.77. U. S. Steel rallied from a low of 47 in 1942 on earnings of $5.35 to a price of above 80 in 1945 on reduced earnings of $3.77. So you see if you believe that we are facing reduced earnings next year, there seems ample precedent for a higher market.

I have been told that by timely switches an investor could have remained long of the market for the past 30 years with all his funds employed with a tremendous capital appreciation. It takes a good deal of intelligence, foresight and courage to make such strategic shifts in investment portfolios even where there is supervision of well-qualified management. It is much easier to stand pat and hold position. But consider what a profitable switch it would have been just a year ago to sell the tobaccos and buy the leading chemical, oils or motor shares. The chart tended to definitely substantiate this opportunity at that time. For example, a switch from American Tobacco at 71 into Standard Oil of New Jersey at 67 or Liggett & Myers at 86, into General Motors at 60 would have been very advantageous.

Today I believe that there are just as many opportunities existing, if we take the time and effort with the aid of research to ferret them out, and I further believe that the great many followers of the fundamental approach would be saved some serious errors if occasionally they would pay a little more attention to the technical approach.

Outlook for Present Market

So much for the background. My outlook for the present market is as follows:

(1) The attraction for equities over every other form of investment today remains relatively undiminished. I believe we have no other alternative with the present inflationary background as it exists today, but to invest in common stocks. One of the most peculiar phenomenon which accompanies inflation is that it acts as a chloroform in putting people to sleep as far as realizing what is happening is concerned. The timing of an investment purchase is what seems so important.

(2) So far nothing has changed the fundamental trend. While we are in high territory in terms of the averages, many quality stocks are selling way below their 1946 peaks. There is no evidence that major distribution or major top congestion has taken place such as took place in 1946 and in 1937. It took nine months before the 1946 top was formed. Every bull market has interruptions and such a brief setback seems quite probable during the next month. In other words an intermediate top between present prices and a possible new high between 235 and 240 Dow-Jones just before or after election seems probable.

Investors should continue to hold through any such expected reaction. Traders might do well to lighten on further strength and build up a cash reserve as a better buying opportunity within the next month seems more than likely.

Supporting a longer term bullish opinion are three reasons for concluding that any correction should be limited to a figure of 214-216 Dow-Jones on the industrials and 63-65 Dow-Jones on the rails.

(1) Professional skepticism and what may be called, "fickle money" has been cautiously remaining on the sidelines for many months awaiting another better buying opportunity. These sold-out bulls provide a much stronger technical position and tend to limit reactions.

(2) The flood of year-end extras should be extremely generous and exert a strong supporting factor to any severe setback. Besides the third quarter reports promise to make excellent reading and reach a new all-time peak on the Dow-Jones.

(3) In general until the margin of profits begins to take a real nose dive, business is likely to stay on a high plateau for some time and today's prices in many stocks seem soundly supported by current earnings and dividends.

To be even more specific, many stocks and groups of stocks continue to show evidence of consistent and confident buying and are flying signals that higher prices can eventually be expected. They are the **Liquors**: National Distillers, Distillers Seagrams and Schenley. The **Merchandising stocks**, most all of the department stores and the chain stores. I favor Marshall Field, Gimbels, Montgomery Ward, Allied Stores and Associated Dry Goods. The **Tobaccos**: especially American Tobacco and Liggett & Myers. The long neglected **Moving Picture** stocks: Loew's, Warner Brothers and Paramount. The **Railroad Equipment** group are still behind the market. I especially like General American Transportation, New York Air Brake, Budd, American Locomotive and American Brake Shoe. The **Airlines** are pretty well sold out, and eventually should have a substantial upward move. I favor Eastern and American Airlines. The **Chemicals** are one group that might be advantageously shifted into the Tobaccos or some of the other groups listed above such as the merchandising issues. The **Aircraft** stocks: this group should not be overlooked even though they have been reactionary of late. Higher prices are indicated and purchases in Lockheed, Grumann, Boeing, Douglas and North American Aviation on a one or two point sell-off from present levels should be profitable.

The oils, motors and rails have been the most popular groups recently. While some very minor distribution is evident in a few of the stocks in each of these groups, and new purchases might be temporarily withheld, investment position should not be disturbed until signs of major distribution are more apparent. For example, General Motors seems pretty high, but so far no important distribution is evident in this leading issue such as took place in 1946 or even in 1948. The same advice applies to the steels. No important distribution has taken place in this leading group and many issues in this group such as Republic and Jones & Laughlin are in a position to carry much higher.

I mentioned that there were many individual stocks flying bullish signals. A few of them in miscellaneous industries are as follows:

New Jersey Zinc
Fairbanks Morse
Underwood Typewriter
Western Auto Supply
National Supply
Air Reduction
Pittston
Food Machinery
Bigelow Sanford
Continental Can
Simmons Co.
McGraw Hill
Freuhauf Trailer
International Harvester
McCalls
Square D

In the more speculative low-priced field are a few additional suggestions:

International Tel. & Tel.
Mack Truck
Master Electric
Spiegel
Bunker Hill & Sullivan
Bridgeport Brass

In conclusion until major distribution is evident, I continue to advise a selectively bullish attitude toward the market. Since the market refuses to act as a unit, I advise paying little or no attention to the deceptive and misleading actions of the averages; concentrate on the performance of individual stocks and groups of stocks; use any intermediate reaction caused by surprise news to make additional purchases and for the present at least, long-term investment positions should be held.

George T. Currier Is With August Lorenz

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio—George T. Currier has become associated with August Lorenz, 17 South High Street. Mr. Currier has been active in Columbus as an individual dealer.

Monmouth Securities Co.

RED BANK, N. J.—A. Frank Greenhall has formed Monmouth Securities Co. with offices at 157 Broad Street. He was formerly with D'Assern & Co. of New York City.

Carreau to Admit

Andrew J. Corcoran, who will acquire the New York Stock Exchange membership of the late Wallis S. Turner, on Nov. 1 will become a partner in Carreau & Co., 63 Wall Street, New York City, members of the New York Stock Exchange.

Paul H. Davis Partner

CHICAGO, Ill.—Paul H. Davis & Co., 10 South La Salle Street, members of the New York and Midwest Stock Exchanges, will admit Hatfield Smith to partnership on Nov. 1.

With Lincoln E. McRae

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Philip H. Buckingham is associated with Lincoln E. McRae of Rockland, Maine.

With J. F. Jordan Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Robert S. Moore, formerly associated with Amott, Baker & Co., Inc., has joined the staff of Joseph F. Jordan & Co. of Newton, Mass.

Paine, Webber, Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Philip A. Kerrivan has been added to the staff of Paine, Webber, Jackson & Curtis, 24 Federal Street.

Joins Kales-Kramer

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—John D. Elliott has become affiliated with Kales-Kramer Investment Co., Kales Building.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

MUSKEGON. Mich. — Clarence J. Kramer is with Waddell & Reed, Inc. of Kansas City, Mo.

With E. E. Mathews

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Charles R Rich has become affiliated wit Edward E. Mathews Co., 53 State Street.

With Spencer Trask

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Donald J Kenny has joined the staff of Spencer Trask & Co., 50 Congress Street.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—That W. Stuart Symington, officially "coordinator" of the defense controls, is or intends to become the "czar" of these controls, is the distinct possibility which is raised by two of the recent behind-the-scenes moves of that official's office.

Thus if Mr. Symington becomes not merely the President's "umpire" in the settlement of disputes between or among control agencies, but in fact the fount of all control authority, then no action taken by any of the control agencies has any validity until and unless approved by Mr. Symington.

Once this situation is understood, industry may be inclined to deal as little as possible with, say, National Production Authority, and appeal directly to Mr. Symington, without whose approval any allocation or other pervasive order is meaningless.

Mr. Symington is the chief executive of the National Security Resources Board. That Board is supposed to set the policies of civilian mobilization for the military preparedness program. Thus Mr. Symington was the logical person to name also "coordinator" of the Defense Production Act controls.

Throughout officialdom here, however, it was understood that Mr. Symington in dealing with matters delegated by Executive order to other control agencies, was merely to serve as "umpire" or arbitrator of disputes between bureaus as to how and when controls over the civilian economy should be applied.

One of Mr. Symington's actions which etched his role as the fount of control authority was his action in regard to controls over instalment credit loans.

On Sept. 18 the first of the instalment credit regulations went into effect. The prescribed minimum down payments and maximum terms of instalment loans were reached after long conferences between the appliance and lending industries on the one hand, and Federal Reserve authorities on the other.

The terms actually set were interpreted as midway between the "toughest" terms of World War II, and the easiest terms just prior to expiration of the regulation in the postwar era. The initial regulations were designed to curb the expansion in such lending. They were not intended to adjust to a great scarcity of appliances and automobiles, for the military production program has not actually got into operation to the point where officials know how much they want to limit output of autos, washing machines, etc.

When the Board promulgated the Sept. 18 regulations it gave the industries concerned the clear understanding that these regulations would stand unchanged for a period of not less than two months, and more likely for three or four months. It was asserted that there was no point in even considering tightening them until one full month of their operation gave some indication of how they were working. October figures nationally will not be available until late in November.

Meanwhile, the boys within the Administration who want to use direct controls to compensate for the evils, of high government spending, officially-favored wage boosts for labor, and other official inflationary policies, immediately began carping at the Federal Reserve Board that its initial instalment credit curbs were too easy. Notwithstanding the complaints, the Board continued to stick to its position.

Finally, under intense pressure from Mr. Symington's office, the Board suddenly capitulated over the week end and reversed itself, amending Regulation W to apply the strictest terms required, in the main, during World War II, and before limitation orders on civilian output are more than discussed by control authorities.

Of course the change of the regulation was not officially "ordered" by Mr. Symington, but the heat was so intense from his office as to cause Chairman Tom McCabe and others to think they had better change their minds even though it meant making the Reserve Board look rediculous.

The other instance of Mr. Symington's attempted assumption of "original jurisdiction" was in relation to Regulation X, the controls on real estate mortgage credit.

Real estates mortgage credit is an exceedingly technical affair. There are scores of bases upon which government insurance and guarantees may be obtained from the government alone, without reconciling these with the differing ways various private institutions variously make mortgage loans outside the official backstops.

After three to four weeks of remarkable cooperation between Ray Foley, the spokesman for "government credit" and the Federal Reserve Board, representing "private credit," the two sources of official power came up with a set of mortgage loan curbs.

These were offered to Mr. Symington for his information and presumably for his pro-forma approval. Instead Mr. Symington proposed to throw the whole schedule out of the window and offer "tougher" mortgage curbs. According to one source, the changes were not offered with any insistence by Mr. Symington; according to another source they were. In any case, Mr. Symington treated the subject as though he had what the lawyers would call "original jurisdictinon." In this case Mr. Symington was persuaded to accept virtually all of the recommendations submitted initially by the Reserve Board and Housing and Home Finance Agency — agencies having jurisdiction over those both by law and Executive order. And there was no dispute between the two to be umpired by Mr. Symington.

* * *

For those who have not followed minutely from the standpoint of the housing construction business, these new real estate mortgage regulations, there are noted some of their broader implications:

(1) Controls, or stricter credit prescribed therein for "new" housing construction, will be enforced with regard to existing houses in loans insured by FHA or guaranteed by VA. The Defense Production Act merely forbids application of these restrictions only on conventional or non-government supported loans on existing houses. FHA and VA will require the same minimum down payments, etc., on used as on new houses. This was not forbidden by law and was undertaken by administrative discretion as an anti-inflationary measure.

(2) Mr. Foley candidly admits that in a rough way the terms of housing mortgages under these restrictions are only a little less liberal than those which prevailed in 1948. Thus government has as an anti-inflationary measure, temporarily suspended two years of laws and regulations sponsored by government to inflate the housing business.

(3) The estimate of 800,000 to 850,000 dwelling units of all kinds which would be built in calendar 1951 under these and later restrictions on rental housing credit, are made on the broad assumption that the same credit terms as prevailed in 1948 will allow about the same volume of building as during that year. Officials have no sure feeling that this will work out that way, they admit. It may be that the great housing boom of 1950 has been built up and sustained on the very low down payments and long repayment terms which have been operating this year. If this is the case, the building boom will fall flat on its face.

(4) Regardless of whether officials have guessed wrong, they have no intention of reversing themselves until after the first of the year. This does not mean that they will expect to ease the regulations if they prove too tight or tighten them if they prove too lose, as soon as January, but that January is the first date where there will be any validity to speculating about a change, they say.

(5) In case of total war or near total war, of course, the regulations would be made much stricter in short order.

The British point of view on "free dollars" is that they are needed to compensate the country for lost export business which will be the consequence of a big British rearmament program. So when approached by the U. S. last summer as to what they could do with U. S. aid in the way of rearming, the British asked for "free dollars." This is money over and above the materials furnished. The "free dollars" could in effect be spent in any way the British chose.

The British viewpoint on another matter, Marshall Plan aid, is that it should continue despite the favorable foreign exchange reserves. The sterling area as a whole, it is the British viewpoint, only has one dollar of reserves for every four dollars of current indebtedness, and that a normal ratio of reserves to short-term debt is one to one.

* * *

President Truman is reported to be awaiting the November national election returns before deciding whether to put real enthusiasm behind his backing of an excess profits tax law for enactment this year.

* * *

Although some "liberals" are talking about getting a new bank holding company regulation bill enacted early next year, this prospect is discounted in most quarters. Members of the Banking Committee of the Senate finally reached a meeting of minds on a strict regulation bill with explicit definitions of what is a holding company and what is a non-banking affiliate that should be sold by a bank holding company. This was embodied in a bill introduced by Senator A. Willis Robertson (D., Va.). Senator Robertson announced, however, that the Federal Reserve Board would not go along with his bill. The Board still objects, it is understood, unless holding company regulation is invested in a single Federal supervisory agency.

* * *

Although maturities of E bonds during calendar 1951 will total only some $1.1 billion in calendar 1951, they will increase sharply each year thereafter, to a single year peak of some $6 billion in 1954.

Nevertheless, the Treasury may be ready by next spring to announce whether it has hit upon any special inducement or inducements in the way of new securities or new terms to encourage holders of maturing E bonds to reinvest their proceeds in new obligations.

Holders already have the right to take their funds in cash, reinvest them in new E bonds, or invest them in F or G bonds. It is said that the Treasury is studying every conceivable plan offered and every angle thereof.

On the other hand, there is little thought that whatever form the inducement takes, that it will involve a marketable security, for the disposition is to keep these obligations from being acquired by commercial banks, which could use them to expand their loanable funds under the policy of supporting market issues.

(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

Shethar & Co. in N. Y.

Shethar & Co. will be formed on Oct. 26 with offices at 120 Broadway, New York City, to engage in the securities business. Partners will be John B. Shethar, member of the New York Stock Exchange, and Charles W. McLaughlin, who will acquire the Exchange membership of the late Ray A. Van Clief.

With King Merritt

LOS ANGELES, Cal.—Robert W. Reed has joined the staff of King Merritt & Co., Inc., Chamber of Commerce Bldg.

Joins Investment Service

(Special to The Financial Chronicle)

DENVER, Colo. — Samuel G. Howard has joined the staff of Investment Service Corporation, Security Building.