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EDITORIAL

As We See It

Election day has passed into history. The votes have been cast and counted. "The tumult and the shouting" have—in a measure at least—died away. Is it not now possible for us to face the situation by which we are confronted calmly, intelligently, candidly, and constructively? Can we not now plan our future course without the necessity of "making a showing" politically and without regard to "saving face"?

It seems to us that the need for careful re-appraisal of the world situation and of our position among the peoples of the world was never greater or more urgent than at present. We are firmly convinced that errors of policy stemming from distorted conceptions of the state of affairs now existing throughout the world, or from false ideas of the proper general course for us to follow in the circumstances, are in danger of being little short of disastrous. With immediate need for political jockeying largely eliminated, the time would appear propitious for real statesmanship to rescue us from such hazards as these.

One of the first things, perhaps the very first thing, for us to reconsider is the extent to which we should devote our energies to strictly military preparation. To many of the cooler heads of the country, it has all along seemed that an element of hysteria had tinged official thinking, or at least official utterances and plans, ever since the outbreak in Korea last June.

It has through the postwar years become increasingly clear that Russia never had the slightest notion of reducing her immediate military power in proportion to that of her allies

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Foreign Trade Council Issues Recommendations

At close of 37th National Convention in New York City, expresses belief that key to defense of free world is ability of free enterprise to outproduce forces of aggression, and recommends, among other things: (1) defense of free world; (2) maintenance and expansion of international trade; (3) foreign economic assistance; and (4) encouragement of private investment abroad.

Before closing its 37th National Foreign Trade Convention, held at the Waldorf Astoria Hotel in New York City, Oct. 30 to Nov. 3, the National Foreign Trade Council, Inc., of which Robert F. Loree is Chairman of the Board, issued a Final Declaration, which contained, among other things, the various recommendations for the maintenance of private enterprise and the defense of freedom. Text of the Council's recommendations is given herewith:

Robert F. Loree

(1) **Production for Defense of the Free World**—The defense of the free world rests in the determination of its peoples to resist aggression, and in their ability to outproduce the forces arrayed against them. It is, therefore, of utmost importance that the domestic policies of the United States Government be so formulated and implemented as to preserve the incentives inherent in the private enterprise system and call forth all the initiative, the energy and the skills of which the American people are capable.

Since the United States, alone, cannot carry the burden of the vast increase in production required, the foreign policies of our government must be directed toward the stimulation of the productivity of our partner nations, and toward the encouragement and strengthening of private enterprise throughout the free world.

Only by a cooperative effort to overcome the obstacles that discourage the formation of capital, hamper the creation of additional productive facilities, and obstruct

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Foreign Trade and National Preparedness

By GENERAL LUCIUS D. CLAY (Ret.)*
Chairman of the Board, Continental Can Co., Inc.

Gen. Clay in stressing importance of foreign trade as instrument of peace and economic stability, cites postwar difficulties in Germany arising from breakdown of international trade relations. Points out U. S. is still dependent on certain vital foreign materials for both peacetime use and war preparation, and asserts cold war of today is as much economic as political in nature. Holds North Atlantic Pact and Marshall Plan aid are accomplishing restoration of normal European trade pattern.

I would like to say at the start that it seems to me that all of you who are concerned directly with the expansion and development of our foreign trade are also contributing materially to the creation of the stable world which must be brought about before there can be real hope for a lasting peace.

Lucius D. Clay

It is obvious that foreign policy and foreign trade have gone hand in hand throughout the centuries. If we accept national defense measures as resulting directly from our foreign policy, and I think we must, then we must likewise accept the concept that foreign trade and national defense go hand in hand.

In fact, historically, it is difficult to determine which came first. Foreign trade, the search for new trade outlets and for new products, developed the earliest recorded examples of national, foreign and military policies. The Greek cities built their tiny galleys to cross the Mediterranean Ocean to seek new goods and to establish trading centers, which in

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*An address by Gen. Clay at the Third General Session of the Thirty-Seventh National Foreign Trade Convention, New York City, Oct. 31, 1950.

MORE FOREIGN TRADE ADDRESSES—Elsewhere in today's issue will be found other addresses made before the recent National Foreign Trade Convention in New York City.

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.)

MAURICE S. BENJAMIN

Senior Partner,
Benjamin, Hill & Co., N. Y. City

(American Cyanamid)

There are many sound companies with assets, long earning records and good management. **American Cyanamid** has these qualifications and in addition has outstanding growth prospects. Their business is **chemicals** and **drugs.**

Maurice S. Benjamin

Better health, which is prolonging the span of life and increasing the population, is the most dynamic factor in our economy. Thirty-five to forty million new people (the entire populations of Argentina, Australia and Canada) must be provided for in the United States. This covers the span of years from 1940 to 1960. New products at low prices must be provided. This means more and better substitutes and synthetics with more energy for their manufacture. Chemistry will supply the answer from plastics to atomic energy.

American Cyanamid is the fourth largest chemical concern in the country. It operates 37 plants and manufactures a widely diversified line of chemical, pharmaceutical and other allied products. Of the ten groups into which the company's products fall, pharmaceuticals stand at the top. Lederle Laboratories, wholly owned subsidiary, has long been a major factor in this field. Lederle seems to have the lead in the new and fast moving field of antibiotic drugs with its new aureomycin. This already seems slated to rival streptomycin as one of the largest sellers in the field. One of aureomycin's notable advantages is that it cures a number of types of virus pneumonia and influenza, which famous penicillin does not touch. Unlike penicillin, aureomycin is exclusive with Lederle and is covered by a patent which does not expire until 1966. A cure for mumps and the purifying of blood are recent developments.

The war had a far-reaching effect in accelerating progress by encouraging emphasis on research and thus American advances in medicine jumped far ahead of the rest of the world. The publc and governments were educated to greater health consciousness, foreign markets were opened, veterans' hospitals provided new outlets, the birth rate increased substantially all over the world, and the medical profession was educated to the use of new and improved products. The increase in the percentage of old people and youth groups in our population together with all the planned benefits for the aged are also significant factors bearing on the drug and chemical industry.

Another activity which holds great promise for the future is that of synthetic fibres. It is claimed that du Pont's new fibre "Orlon" has all the characteristics of wool and is, in some respects, superior to it. **American Cyanamid** is the only major producer of acrylonitrile, the raw material for Orlon and other synthetic fibres. Part of a present expansion program is to increase the output of this basic raw material, as du Pont is scheduled to commence commercial production of Orlon this summer.

The U.S. Government, after investigating 21 chemical concerns, contracted **American Cyanamid** for atomic energy chemicals.

Another reason for choosing this company's stock against other leading ones in the same field is the comparative price. It sells at by far the lowest times-earnings ratio as may be seen in the accompanying table.

The dividend yield at current price ($67) is about 6%. The payment is about 35% of earnings. The labor factor is small and therefore very favorable.

There is a question of the prospects of growth companies under an excess profits tax. Hearings on the subject have been in progress for some time, and the best heads of industry and finance are giving their evidence. Many lessons were learned from the experiences of the last war in relation to inflationary effects, injustices to efficiency in impairing production, recognition of growth for stimulation of new products, etc., etc. There is no certainty of an Excess Profits Tax. There may be a War Profits Tax with moderate provisions. If either, it is logical to expect that recognition will be given to growth and efficiency.

The outlook for **American Cyanamid** in any economy of peace, preparedness or war is unlimited.

	9 Months Earnings 1950	Price 11/2/50	Times Earnings
Abbott Laboratories	2.21	43	19.4
Allied Chemical	3.23	54	16.7
American Cyanamid	**7.77**	**67**	**8.6**
American Home Products	2.37	31	13.0
Bristol-Myers	2.14	27	12.6
Dow Chemical	5.73	68	11.8
Du Pont	4.67	79	17.0
Hercules Powder	3.86	58	15.0
Monsanto Chemical	4.48	65	14.5
Parke Davis	2.77	39	14.0
Pfizer & Co.	4.49	68	15.1
Rohm & Haas	6.64	85	12.8
Sharp & Dohme	3.53	40	11.3
Union Carbide	3.45	48	13.9

This Week's Forum Participants and Their Selections

ROY W. DOOLITTLE

Doolittle & Co., Buffalo, N. Y.,
Members N. Y. Stock Exchange

(National Lead Company)

The stock of National Lead Company presents a seldom-found combination of investment qualities and possibilities of dynamic growth. This company occupies a preeminent position in the titanium pigment market, in the potential development of titanium metal and in the recent introduction of bentones—organic clay compounds — for which there is apparently a large market. It has a number of other products in the final stages of development which should lift future earnings to higher levels.

Roy W. Doolittle

National Lead has a long, unbroken record of earnings and dividends which is indicative of its able management. The management has employed sound planning and adjustment to changing trends. In each of its fields—titanium pigments, barite products, bearing metals and lead products—the company is believed to lead its competition. Of recent years it entered the field of mixed paints with its "Dutch Boy" trade mark yielding excellent results. The leading product of the company in terms of sales and earnings, and one with great growth possibilities, is titanium pigment. Its unsurpassed hiding power, because of high reflection qualities, and superior chemical and physical stability, have elevated titanium to the number one position among white pigments. The company strives for products with large maintenance replacement markets. Altogether, it manufactures more than 150 basic products sold to a broad cross-section of industry.

The real romance in National Lead, however, lies in the development of the metal titanium. Its strength-weight ratio is so far ahead of both aluminum and iron, it may eventually replace either or both as a structural metal. All that is necessary is for production methods to improve sufficiently to make it competitive pricewise. At that point, a substantial tonnage market could develop almost overnight. Generally speaking, titanium possesses a strength-weight ratio equal to about 4½ times that of aluminum and iron. Though only 60% heavier than aluminum, it is five times as strong. It is about 40% lighter than iron and equal to it in tensile strength. When alloyed, titanium's strength may be doubled. Other advantages include exceedingly high resistance to corrosion and

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Investment Companies Gear to a War Economy

By HENRY ANSBACHER LONG

Although cash positions were increased during third quarter by majority of funds and only one-third of managements bought on balance, nevertheless the over-all total of buying transactions approximated sales. Liquidation ascribed to uncertainties over taxes and controls. Purchases concentrated in oils, rails, steels, and nonferrous metals, as utility and building issues are sold.

Shifting into gear for a war economy, investment companies during the third quarter of the year concentrated purchases in the oil, railroad, steel and nonferrous metal stocks. The petroleum issues, of course, have been current favorites for some time and many trusts hold sizable percentages of their portfolios in this group, but not since the third quarter of 1948 had the railroads been generally favored by fund managements. Interest also increased in the equities of paper companies and agricultural machinery. Only 30% of the trusts purchased on balance and in a half dozen of these the increases to portfolio holdings exceeded sales by very light margins. Nevertheless, over-all total purchase transactions of the 63 companies included in this survey approximated the selling aggregate. Reversing a buying trend of almost two years' duration, sales were heaviest in the utility group. Several issues, received previously as distributions in dissolution and simplification programs of holding company set-ups, were disposed of. The second least favored group was the building stocks which also represented a marked switch in sentiment from the previous quarter; in that period, these equities ranked third in investment management preference.

Henry A. Long

Commenting on the recent decline in the price of lumber and the outlook for the housing industry, John H. G. Pell, President of the Wall Street Investing Corp., makes the following observations in his letter accompanying the Fund's quarterly report: ". . . Both because the postwar shortage must have been largely filled and because of tightening credit in this field a substantial drop in housing starts has been predicted for 1951 by several competent authorities. We are approaching a period when marriages are likely to decline as a result of the low birth rate of the depression years which followed 1929. If a substantial number of men in their twenties are to be drafted and held in the armed services for several years, there will be a lessened demand for new houses . . . ."

Chemicals, also well-liked in the previous quarter, were now an unpopular group. Profit-taking appeared in the motor issues, while selling likewise predominated in the two major electrical equipment companies. Tightening of restrictions on consumer credit was naturally reflected in the decrease of portfolio holdings of the finance companies.

Despite the shifting of outlook on the equities of these industries, and the acquisition by managements of companies more likely to turn in good profit accounts during a war and inflationary economy, a noticeable amount of caution in varying degrees is apparent among the investment companies. Statistically, this is evidenced by the fact that 37, or 60% of the trusts included in this survey, added to their reserves of net cash and governments, many of which had already been quite substantial at the end of the semi-annual period (See accompanying table). Only 20% decreased liquid assets and of these the two sole funds to make substantial reductions — Investors Mutual and Affiliated Fund—used such cash for large fiscal year-end dividend payments earned both from investment income and capital gains. It is interesting to observe that eight out of the fourteen closed-end companies, which cannot depend on continuous sales of their shares to the public for new cash, were among those that upped reserves during the period. A ninth closed-end trust, General Public Service, also increased its cash position, but this was aided by an addition to its bank loan of over two million dollars in July.

Policy Toward Inflationary Implications

Illustrative of such varying degree of caution joined with a desire for protection against the inflationary implications of the war economy are the following three statements of trust managers accompanying their trusts' third quarter reports: Douglas T. Johnston of the Johnston Mutual Fund observes: ". . . The longer term prospects are inflationary and common stocks, while not a perfect hedge, do afford a better long-term protection of purchasing power than cash or fixed income securities. The managers of your Fund are keenly aware that it is not enough to preserve the dollar value of investment capital —its purchasing power must be preserved as well. It should be realized, however, that the reflection of long-term inflationary prospects in stock prices is not a 'one-way street.' The various restrictive measures now being

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Thursday, November 9, 1950

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COMING EVENTS

In Investment Field

Nov. 9, 1950 (Boston, Mass.)
Boston Investment Club Dinner Meeting at the Boston Yacht Club.

Nov. 14, 1950 (Detroit, Mich.)
Security Traders Association of Detroit & Michigan Fall Party at The Detroit Boat Club.

Nov. 15-16, 1950 (N. Y. City)
Association of Stock Exchange Firms' annual meeting of Board of Governors at the Waldorf-Astoria.

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).

Dec. 21, 1950 (St. Louis, Mo.)
Mississippi Valley Group of IBA Christmas Party at the Park Plaza Hotel.

Feb. 21, 1951 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Winter Banquet.

June 15, 1951 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Summer Outing and Dinner at the Manufacturers Golf and Country Club, Oreland, Pa.

Canadian Economic Progress—Retrospective and Prospective

By JAMES STEWART*

General Manager, The Canadian Bank of Commerce

In calling attention to Canada's remarkable economic progress in last decade, prominent Canadian banker reveals reasons for recent policy of allowing value of Canadian dollar to find its own market. Cites difficulties in covering excess of imports from U. S. with sterling balances, but looks for gradual reduction of imbalance in U. S.-Canadian trade. Says Canada is prepared to meet emergencies of Far Eastern conflict.

Canada has been in the economic limelight in your country for some time past. So much so, in fact, that in recent months the inflow of investment funds from United States sources seems to have been almost embarrassingly large. Some — I should think indeed the bulk — of these funds have come in for long-term investment, looking toward the rewards that reside in sharing in the development of a friendly country with rich natural resources, an expanding economy, stable government and a democratic political outlook. Some other part of these funds—I am sure the proportion must be relatively small—is of a more speculative character, attracted to Canada in anticipation of an early, upward, arbitrary revaluation of our dollar and the reaping of a quick profit thereby.

James Stewart

In this latter regard a word of caution will certainly not be out of place, because it should be borne in mind that Foreign Exchange Control Board regulations and restrictions still exist. The main exception is that the interplay of supply and demand is being allowed to operate and consequently set the rates — rather than that the operation is on a fixed-rate basis set by a government agency.

At the end of September our reserves in gold and United States dollars stood at approximately $1,789.6 million. The greater proportion unquestionably would be reserves in the real sense, although the exact proportion cannot be determined at present. The lesser proportion, which time and the market alone will determine, appears to have been built up by the transfer of dollars for speculative purposes. It is not possible to say how much of our reserves of U. S. dollars are reserves in the real sense; perhaps recent figures may be significant. In the three months, July 1 to Sept. 30 this year, our U. S. dollars reserves grew by $534 million. Of this sum, $285 million came to us in September alone. That figure is about 15% of the total of our U. S. dollars reserves as at Sept. 30.

While I am on the subject I would note the postion credited to the International Monetary Fund in a press statement as follows:

"The Fund recognizes the exigencies of the situation which have led Canada to the proposed plan and takes note of the intention of the Canadian Government to remain in consultation with the Fund and to establish an effective par value as soon as circumstances warrant."

Because of the manner of the recent movement of funds and the expressed reasons therefor, there is a question in many minds today as to whose dollars—yours or ours—actually fluctuated! There is little doubt that the fixed rate of exchange between the two dollars had much to do with the amount of money transferred to Canada from the United States during the past two months. Nor can there be any doubt that the inflationary threat contained in these transfers resulted in the Canadian decision to allow the dollar to find its own level. It is to be hoped, therefore, that the International Monetary Fund's statement regarding "an effective par value" does not mean that we shall—once the rate has been established within narrow limits — go back to an inflexible rate. Such a step, to most people's minds, I am sure, would be retrograde, in that it would aid in restoring the very situation which exposed us, in part at least, to a speculative raid upon our economy.

Highlights of Canadian Economy

It might be appropriate at this point for me to summarize background facts and highlights of the Canadian economy:

(1) Since 1939 Canada's productivity measured by Gross National Product has increased approximately 300%—from $5.6 billion to $15.9 in 1949. For 1950 it is now being estimated at over $17 billion. While these figures are computed in the "dollars of the day," still the rate of increase is significant over the period mentioned.

(2) Since 1939 the index of industrial production (an official calculation of our Bureau of Statistics), has increased steadily from 109.3 to 203.2—in contrast to the relative (although not altogether comparative) American figures of 109 in 1939 to 197 at the present time.[1]

Years:	Canada	U. S.
1946	159.2	170
1947	175.5	187
1948	181.5	192
1949	184.3	176

(3) Between 1940 and 1945 private capital investment in plant and equipment amounted to some $2,800 million. Since 1945 the rate of capital spending has been greatly accelerated and it is estimated that during the past five years another $9 billion will have been added to our capital investment. Much of this was provided by Canadians themselves, indicating the confidence with which investors view the future of our country.

(4) Canada's Federal Direct and Guaranteed Funded Debt rose steeply during the war years to a peak of $17,426 million in 1945. Since the end of the war, however, government revenue surpluses have furnished the means whereby that debt has been reduced by approximately $1,500 million.

(5) Due to the direction of our war and postwar policies, the bulk of our debt is owed to our own nationals. On the institutional side, the Bank of Canada holds about 18%, the commercial or chartered banks approximately 20% and the insurance companies about 13%.

(6) Generally speaking, our tax structure and our fiscal policies have been of such a nature that, coupled with a buoyant economy, Federal tax revenues have remained fairly constant even though, prior to Korea, reductions had been effected in almost every category of taxation.

I have mentioned briefly only a few of the indicators and trends in the Canadian picture in order to provide a background against which our problems, policies and future must be considered.

Canadian Economy Now Better Balanced

For many years our economy was principally devoted to agriculture and to the production of primary products—base metals, pulp and products of the forest and the sea. The recent war transformed Canada from an economy that was predominantly pastoral to one of better balance; agriculture, forestry and mining now contribute about 20% of the national income, industry about 30%.

It should be pointed out, however, that agriculture has not declined while industry has attained a more predominant position. Today, relative to the '30s, there are more farms, more farmers and more acres under cultivation; cash farm income has increased from some $750 million in 1940 to an estimated $2,500 million this year.

Moreover, sub-surface riches are in process of wide exploration and development, as witness the tremendous oil discoveries in Western Canada which have important bearings on our economy and your own. In addition, new discoveries of iron ore on a large scale in Labrador, and of extensive titanium deposits in Quebec, have added greatly to Canada's attractiveness as an area for constructive long-term investment capital.

A nation of a wide variety of resources and increasingly high industrial and agricultural output (volume-wise as well as dollar-wise), we are one of the few countries in the world today having exportable surpluses. We are a factory, a granary, a storehouse and an arsenal for the free democracies of the world, and a market as well. I do not intend to burden you with an endless row of figures, but let me mention briefly a few interesting and significant statistics. Canada produces 79% of the world's asbestos, 69% of the world's nickel, 42½% of the world's platinum, 23% of of the lead, 12% of the copper. In one typical year, 1947, our newsprint industry supplied more than 80% of the total tonnage used in the United States. We supplied in the same year 96% of the asbestos requirements of the United States and 97% of your nickel consumption. One might go on at some length with similar facts.

It might be of interest at this point to draw your attention to the fact that while both our countries are "trading countries" more than 30% of our national income arises from our export-import activities. Three out of every eight of our labor force are engaged directly or indirectly in trade. That is akin to saying that three out of every eight jobs depend upon our international trade. The significance of this in our efforts to maintain and promote multilateral trading cannot be ignored.

U. S. Chief Source of Imports

In recent years the United States has been the chief source of Canadian imports and, together with the United Kingdom, has been the chief recipient of Canadian exports. A somewhat similar triangular arrangement functioned very smoothly prior to 1939. It meant that Canada could export her surplus primary products to the United Kingdom, accept payment in sterling, convert this sterling into U. S. dollars and use those dollars to import manufactured and finished products from the United States. To emphasize the key position of the United States and to illustrate the critical factors in such a network of trading relationships, I would point out that the continuity of the Atlantic trade triangle depended upon the continued existence of a trade deficit between the United States and sterling countries. That deficit was the sources of the United States demand for sterling, which was satisfied, in part, by Canada.

As a result of our surplus position and the expansion of our industrial capacity, Canada emerged from the war as the third greatest trading nation in the world. Naturally we trade in as many markets as we can—last year we exported more than 1,000 classes of items all over the world. On the importing side, Canada is the biggest customer of the United States; across our 4,000 miles of border moves the greatest two-way flow of trade in the world today. For the first seven months of this present year, that two-way import-export trade reached a dollar total of $2,250 million. While we attempt to trade in all markets of the world, our biggest markets are the United States and Great Britain. However, our farm products, generally speaking, are those in which you are either self-sufficient or have an exportable quantity, so that we must look to the sterling area as the principal market for our wheat. Thus the pattern of our trade has made us think multilaterally, which explains at least in part why Canada has been found in the forefront at all international discussions advocating multilateral trade and currency convertibility.

Multilateral trade, to succeed, must be restricted in the least possible degree. That is one reason why most Canadians were pleased when on Oct. 1 the Canadian dollar was set free to find its own level in the open market

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*An address by Mr. Stewart before the Thirty-Seventh National Foreign Trade Convention, New York City, Oct. 30, 1950.

1 The Canadian and American indexes of production from 1946 to 1949 present an interesting contrast (average for each year):

The State of Trade and Industry

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

A slight dip was evident last week in total industrial production for the nation, however, overall output was overwhelming higher than the level of the comparable week of last year when strikes in the coal and steel industries worked to seriously retard production.

Steel production a week ago displayed a modest decline of 0.2% of capacity, but this week is scheduled to rebound to 103% of capacity or the largest weekly amount of steel ever to be poured from the country's steelmaking furnaces.

Steel procurement difficulties are mounting in step with the expanding defense program, according to "Steel," the metalworking weekly. DO and other rated tonnage still is relatively small with the bulk of output moving into civilian goods channels. But manufacturers are unable to build substantial inventories, the magazine adds. As a result, acute supply conditions are anticipated in the first and second quarters when the full impact of priority tonnage is expected. Whether conditions will give rise to such serious economic dislocations as to force some departure by the government and the mills from agreed-upon distribution policies, only time will tell. Credit curbs and other government controls, by that time, may have resulted in cutbacks in civilian demand sufficient to materially ease the pressure on overall steel supply. That, at least, is the hope.

However, the biggest question before the market at the moment, this trade paper points out, is: How much will steel prices rise once current wage negotiations are out of the way? The extent of the increase will depend largely on the extent of wage concessions, but guesses range from a minimum of $5 per ton on the average to over $8. Most of the larger producers are expected to defer action until United States Steel subsidiaries announce a policy. Meanwhile, scattered upward advances continue.

Carloadings the previous week were the highest for any like period, since October, 1948, and the amount of electrical energy distributed by the electric light and power industry for the week ending Oct. 28, established a new all-time high record.

Little change was noted in automotive output last week from that of the previous week and according to "Ward's Automotive Reports," a study of passenger car schedules for November does not disclose any pending cutbacks in production because of the government's credit restrictions. All independent producers and those "big three" companies not bringing out new models this month are expected to hold assembly rates either at or above daily October levels, it said.

This would mean the production of about 600,000 cars in the United States for the month, compared with 659,661 in October. Steel continues to be a problem throughout the industry, however, with its scarcity resulting in the practical elimination of Saturday assemblies, the agency added.

Aggregate claims for unemployment insurance declined to a new two-year low with the total for the unemployed in October, according to Secretary Sawyer of the Department of Commerce, down to 1,940,000.

The 400,000 drop from September was partly due to the reduction in civilian manpower supplies resulting from draft calls and to good weather which brought an expansion in farm activities. While unemployment was decreasing, total employment swung upward to 61,764,000 in October, an increase of 538,000 over September. The October employment figure was the highest ever registered for that month. But it fell short of the record peak of 62,400,000 reached last August.

Consumer credit to finance instalment purchases increased by $322,000,000 in September, bringing the gain for the three months ended Sept. 30 to $1,224,000,000 according to the Federal Reserve Board. This compared with a rise of $776,000,000 during the September quarter last year. Mild curbs on instalment credit were put into effect Sept. 18 and hence the more rigid controls over credit imposed in October were not reflected in the September total.

September new business incorporations, totaling 6,274, fell sharply to the lowest number in five years, according to Dun & Bradstreet, Inc. It was the smallest for any previous month since the 4,826 recorded in September, 1945, just after the termination of World War II. Last month's total of 6,274 represented a drop of 12.9% from the revised August figure of 7,201, and was 8.6% less than the 6,867 charters issued in September, 1949, the latter representing the first year-to-year decline recorded in the past 12 months.

New stock company formations for the first nine months of 1950 reached a total of 73,104. This was an increase of 9,102, or 14.2%, as compared with 64,002 in the corresponding 1949 period, but it was smaller by 17,319, or 19.2%, than the 90,423 registered in the first nine months of 1948. The all-time peak was 103,638 set in the comparable 1946 period. Only five states reported fewer incorporations this year than last for the cumulative period.

Steel Output Scheduled To Reach Largest Weekly Amount Ever Poured

The steel wage-price showdown is nearer this week with the leading steelmaker knee deep in bargaining, states "The Iron Age," national metalworking weekly; in its current summary of the steel trade.

Latest information indicates that "The Iron Age's" original wage-price prediction will be close. Current figures being con-

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Inflation No Safeguard Against Market Decline

By C. W. RICHARDSON*

V.-P., United Business Service

Business analyst maintains history shows inflation does not prevent severe stock market declines, and says prospect is high prices of 1950 "may be bull market top."

Inflation psychology seems to have completely captured the thinking of the investing public. Many investors in their eagerness to transfer their cash into equities are giving little thought to the level at which stocks are now selling. Buying stocks when prices are "too high" can prove far more costly than the slow erosion of purchasing power through inflation. With the stock market at its highest level in 20 years and many individual issues 40% to 50% higher in the past 12 months, this can hardly be considered Bargain Day in Wall Street.

C. W. Richardson

History shows that inflation is no safeguard against severe market declines. In 1917, with inflation pushing the cost of living steadily higher, stock prices dropped sharply for seven months, bringing the Dow-Jones Industrials down from 100 to 55. Again in 1946, with the inflation trend strongly upward, prices broke sharply, the Industrials dropping 49 points. Inflation markets are likely to be erratic, dominated more by emotion than reason. There are times in this type of market when it is well to act contrary to the trend of popular thought and build up cash reserves with which to buy stocks during periods of market reaction. We think this time has arrived. We have been recommending a policy of accepting profits and reducing stockholdings on a scale up. Our Staff thinks that the market has reached a point where a cash reserve around 40% is justified.

Fundamentally our reasons for caution include the fact that 1951 taxes will be taking a much bigger bite out of earnings; war contracts at lower profit margins will be a larger part of total business; labor efficiency will probably decline; and rent controls, allocations of scarce materials, and man power difficulties will cut more deeply into certain areas of civilian production. Thus while the market can derive support and encouragement from the prospective good earnings and liberal dividends of the 1950 fourth quarter, it is likely to be looking also to next year's higher taxes and increased defense preparations.

In United Business Service's Mid-Year Forecast made last June, we estimated a high for the Dow-Jones Industrials for the second half around 235 and a low of about 195. The market is close to the top of that range, and we believe investors should bear in mind the possibility that the high made in 1950 may constitute a bull market top. If we are in the final phase of a bull market, then we are likely to see a further increase in public participation in the market, an increased volume of trading, and fireworks in some individual issues. Such excited price action following the long advance would, in itself be a warning to investors to "watch their step."

*Statement by Mr. Richardson at the panel discussion "The Future of the Securities Markets" of the Boston Investment Club, Boston, Mass., Sept. 26, 1950.

Observations . . .

By A. WILFRED MAY

HARD-BOILED EVALUATION OF COMMON STOCKS
(Giving Real Meaning to the Dividend and Earnings Yields)

As has been pointed out at length in this column, analysis and forecasting of the market-as-a-whole, and even selectivity if for the near term, are directly inconsistent with genuine investment principles.

A. Wilfred May

Our investment value approach assumes that market price tends to depart from value, thus creating valid opportunities to buy cheap and sell dear; that the investor must estimate in a realistic way the likely return from a share of stock considered as an interest in a property, as he would in investigating a privately owned business; and that similar to the buyer of real estate or a business, the holder of a share in a listed company cannot be guaranteed constant liquid market cashability without loss, but that he can legitimately secure reasonable expectation of an investment return on his capital sufficient to compensate him for the use and risking of his money.

From an investment instead of a speculative viewpoint—under any definition—there is no justification for betting on short-term events. At its very best a short-term attitude capitalizes the income of the moment—not income of either the average *long-term* past or the expected future. Instead, affirmatively, we should determine the present worth of a stock by capitalizing its carefully-estimated long-term average annual dividend at a rate that reflects the going yield of riskless interest serving as the rental value of our invested principal, plus an increment for the amount of risk involved.

In other words, and from a hard-boiled common-sense viewpoint, the money-rental and risk components of our investment should be taken care of in the buying price, to give the investor a probability of recouping his principal-with-interest, plus a chance of profit.

Giving Meaning to the Price-Earnings Ratio

This simple concept will give meaning to the composition of the price-earnings ratio; furnishing rationality to the size of the multiplier making the market price, in lieu of an arbitrary theoretical figure based on historical precedent or convention.

Also from the practical side, experience shows that this individual approach often happens secondarily to furnish a good clue to the position of the general market; its general position (to the extent that there can be said to be one) being generally correlated with the number of individual issues which are found to be under- or over-valued. With the market as a whole, as with individual issues, a good investment frequently turns out to be a good speculation.

On more theoretical grounds, the quantitative value-appraisal approach conforms to the principle that there is no logic in an investor gauging the value of an equity share according to cyclical or other short-term factors; that process really resting on the speculative assumption that one will be able to find some less well-informed "sucker" to take it off one's hand later at a higher price; or, conversely, that coming bearish news will cause someone to sell it to him mistakenly at an unwarrantedly low price (a sort of Ponzi philosophy).

* * *

We now follow with specific detailing of our evaluation method.

VALUE CALCULATION OF 4 REPRESENTIVE STOCKS*

Stock	Mont. Ward	Kenne-cott	Tele-phone	Manhattan Shirt
(1) Estimated annual earnings	$7	5.50	10	3
(2) Estimated annual dividend	$4	4	8.50	1.50
(3) Rental value of capital invested	2½%	2½	2½	2½
(4) Reserve for annual amortization	4%	4	5	4
(5) Ann. ded. required by (3) + (4)	6½%	6½	7½	6½
(6) Capitalization of div. at rate of (5) gives appraised value of	$62	62	113	23
(7) Margin of safety	$6	6	11	--
(8) Net advantageous buying price	$56	56	102	23

*Detailed explanation of table on p. 37.

The basic quantitative principle—applied to real estate as well as securities—is that we calculate a buying price which seems likely to afford more to gain than to lose from the operation. This is employing capital realistically with eyes wide-open on the calculated risks. To gain this end we capitalize the expected long-term dividend receipts at a rate embodying the pure rental

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Excess Profits Tax Termed Impractical

The November "Monthly Bank Letter," published by the National City Bank of New York, contains an editorial article captioned "What Is a Fair Return?", in which it is pointed out that the principle of placing a ceiling on earnings through excess profits taxes is impractical under the nation's economy.

"The fact is that a fair return on capital is not something that can be dreamed up by some theorist or determined arbitrarily by legislative action or by the rulings of government boards and commissions," the article states. "The real criterion is the very practical test of what rate it takes to attract capital.

"This varies in almost infinite degree according to the uses to which capital is put and the conditions under which such usage takes place. It is necessary only to look at the widely different 'yields' prevailing on securities in the stock market to get the point. For well established companies in relatively stable industries the investor may be satisfied with a return of 5 or 6% on his money. For other companies entailing more risk—either because of less intrinsic merit or because subject to wider cyclical fluctuations—he may demand yields of 10% or more to induce him to buy.

"In still other cases where a well regarded company is believed to have good prospects for rapid growth, the investor may be willing to buy on a 2 or 3% current yield basis—but only because of the expectation that future earnings of the company will rise substantially and bring a much higher net return to the investor through capital appreciation.

"Finally, many investors will be willing to risk their money in new and untried ventures that yield no immediate return at all—but [illegible]ere again it is only because they

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They Say About Gold . . .

By HERBERT M. BRATTER

Mr. Bratter reviews recent fluctuations in gold movements, and traces cause of loss of gold by United States in large part to intensified inflationary trends. Points out African gold mining profits have doubled since last currency devaluations and Canadian gold output has increased, though mines are getting a lowered price. Sets forth arguments as to inadequacy of gold supply and need for raising gold value. Contends wishful thinking of gold producers gets them nowhere.

International gold movements and the price of gold are watched closely by the financial, business and political worlds. Gold, the stuff of which money used to be made, is no longer obtainable by individuals at a fixed price. The gold coin standard, alas, is no more. But between governments and central banks gold, the convention, still exists and is used daily. Individuals moreover can in many parts of the world legally or illegally obtain the metal by paying a premium for it. So, in addition to the official price of gold which most countries post and observe to facilitate conversion of their currencies into the monies of the other countries with which they do business, there are posted daily in numerous trading centers around the world free-market and black-market prices of gold. Gold movements and free market prices are sensitive gauges of changing conditions. Gold is the mirror that reflects the altering relationships among the economies of the different trading nations; or what people think of those changes.

Herbert M. Bratter

During the past year and more the outstanding event in the world of gold has been the substantial outflow from the United States. This country still owns a vast stock of the metal, we hasten to add; more than $23 billion at this writing. But the recent outflow of about a billion dollars worth in less than four months and the corresponding expansion of the British and other gold and dollar reserves have worked to reduce, if not temporarily at least eliminate, the outside world's dollar gap. All the while a heavy stream of foreign aid—grants and loans—has been going abroad from this country. This is equal to saying that it is out of our gifts and loans in large part that various foreign countries have been adding to their gold stocks.

Naturally, other factors also have been at work. Since the outbreak of the Korean War, the U. S. has greatly stepped up its purchases of foreign raw materials, thereby putting dollars into the outside world's hands. Soaring raw material prices have hastened the process. The widespread currency devaluations of September, 1949, cheapening foreign monies in terms of gold and the dollar, have tended to stimulate American imports and to retard foreign buying of American goods. The Korean War and its aftermath in the U. S. Federal budget have started another round of rising prices and wages in this country. The local purchasing power of the dollar has been declining. We are experiencing more inflation of the currency. People are being paid billions of dollars in the aggregate to produce goods which are either put to non-economic military uses by our defense forces or are given away abroad; while only a part of the dollars so paid out at home are syphoned off by the collector of internal revenue.

Some people, no doubt Americans as well as foreigners, therefore, have been growing uneasy about the preservation of the present purchasing power of their dollar funds. Possibly some of the foreign governments which have been taking gold from the United States have been motivated in part by greater confidence in gold than in the dollar. At any rate, gold has lost none of its attractions for window-dressing central bank statements. In such balance sheets the presence of growing amounts of gold stimulates confidence in the local currency. By the same token the loss of gold at a time of monetary expansion tends to weaken the prestige of the dollar. All the talk about inflation in the United States, moreover, causes a stirring among gold miners everywhere. Pressed between rising operating costs and a fixed official price for their product as most of them are, they seek government subsidy and a higher price.

African Mining Profits Doubled Since Devaluation

The 1949 currency devaluations, constituting local increases in the official price of gold, greatly increased the profits of gold mining companies in the areas concerned. Of these, South Africa is the most important gold producer. There the 44% increase in the official price of gold has been followed by almost three times as great an increase in the profits of gold mining. In June, 1949, according to the Transvaal Chamber of Mines, 43 principal and various other mines had an estimated declared working profit of £1,964,000, whereas in June, 1950, the profit aggregated £4,422,000. Per ton of ore milled, the profit in June, 1949, was 8s. 3d. In June, 1950, it was 17s. 6d. Monthly figures are shown in Table I.

TABLE I

Estimated Declared Working Profit of Gold Mining in the Transvaal June, 1949-June, 1950

Month	Total (£ 000)	Per Ton Milled
June	1,964	8s. 3d.
July	2,039	8s. 4d.
August	2,028	8s. 3d.
September	4,516	18s. 8d.
October	4,809	19s. 5d.
November	4,685	19s. 1d.
December	4,551	18s. 6d.
January	4,653	18s. 8d.
February	4,226	18s. 3d.
March	4,625	18s. 1d.
April	4,267	17s. 8d.
May	4,568	17s. 3d.
June	4,422	17s. 6d.

Source: Transvaal Chamber of Mines Monthly Analysis of Gold Production in the Transvaal. The data cover 43 principal mines, certain miscellaneous mines and other districts.

The effect of devaluation on South African gold mining may be summarized by the following comparison of July, 1950, with the average of the pre-devaluation period, January-August, 1949:

Official price of gold increased	44%
Working costs per ton increased	12%
Working costs per ounce increased	20%
Total profit increased	126%
Total profit per ton incr.	107%
Total profit per ounce incr.	123%

Today gold mining in South Africa is as profitable as it was before World War II (1935-39) and more profitable than it was in the middle 1920s.

Gold Production Since Devaluations

Since the currency devaluations of 1949 there has been no substantial increase in the output of sterling area gold mines whereas in the United States and Canada the increase has been appreciable. In Australia, the Gold Coast and Southern Rhodesia mine production of gold has been declining for a number of reasons. Among these are increasing costs, both actual and anticipated; the incidence of progressive taxation; reduction in subsidy payments; decline in the grade or ore; shortages of labor, supplies and equipment and the greater attractions of such soaring commodities as Australian wool, Gold Coast cacao and Southern Rhodesian non-precious metals.

Australian gold production during the first seven months of 1950 averaged $2,400,000 per month as compared with $2,590,000 during the corresponding months of 1949 and $2,620,000 during the whole of 1949. Gold Coast gold production during the first five months of 1950 averaged $1,950,000 per month as compared with $1,970,000 during the corresponding part of 1949 and $2,030,000 during the whole year 1949. Southern Rhodesia's gold production during the first seven months of 1950 averaged $1,470,000, as compared with $1,580,000 during the same months of last year and $1,540,000 during the whole of 1949.

Effects of Korean War

In black and free gold markets around the world the outbreak of warfare in Korea late in June resulted in rising prices for the yellow metal in terms of the U. S. dollar. As American armed forces gained the upper hand on the peninsula, gold prices subsided. By the end of September they were in general only moderately above the pre-Korea levels. In the Bombay market, which is provided with rather incomplete access to the outside world and therefore subject to special conditions, the price at the end of September was below that of the end of May.

Table II shows the price of bar gold and two coins—the sovereign and the napoleon—in various markets over a five-month period. The coins, being in convenient small sizes and readily identifiable, always command substantial premiums among hoarders patronizing the free markets.

Canadian Mines Get Lower Price

When Canada set its dollar free in the exchange markets as of the beginning of October without establishing a new par value in terms of gold, the Canadian dollar rose in the exchange markets and consequently became worth more in terms of gold. During the past three years Canadian gold mining has received government subsidy on a complicated basis which has been twice altered. As of Jan. 1, 1950, the amount of the subsidy was reduced; but as of Oct. 1 it was restored to the previous level. Starting Jan. 1, 1951, it will be cut slightly.[1] With the rise in the foreign-exchange value of the Canadian dollar, therefore, Canadian gold mines will experience the opposite of the benefit which the 1949 devaluations brought to their colleagues in the sterling area.

Canada's gold output, it may be noted, has been increasing. In 1949 it was about 45% above the 1946 level; and in the first half of 1950 was about 55% above the 1946 level. The subsidy accounts for only part of the larger output. Other factors have been the lifting of wartime government limitations on mining, Dominion and provincial tax concessions, and increased labor productivity.

Is There Enough Gold?

During the great depression of the 1930s many persons blamed conditions on inadequacy of the gold supply. Today, when just the opposite condition characterizes commodity price changes, the gold stock is again being called inadequate. The stock is regarded by many as inadequate not only in the countries which have little of the yellow metal, but in the world as a whole. This "inadequacy," it is frequently suggested, can be overcome by an increase in the price in the United States.

"The Times" of London on Oct. 9, 1950, discussed—in an article, "The Value of Gold Reserves"—the increase in Britain's gold reserves during the year since the 1949 devaluation of the pound and their "inadequacy." On Oct. 3 the then Minister of State for Economic Affairs (and now Chancellor of the Exchequer) Hugh Gaitskell revealed that Britain's gold and dollar reserves had recovered from $1,425,000,000 in the third quarter of 1949 to $2,750,000,000. But these reserves are "far too low," Gaitskell declared: (a) in terms of purchasing power, (b) in relation to total sterling-dollar turnover, of which "a normal prewar proportion was two or three times as high as the proportion today," and (c) in relation to Britain's short-term liabilities, which before the war seldom exceeded the level of the reserves and now are still nearly four times the reserves.

To all this "The Times" writer observes that in 1937 the United Kingdom's reserves were about $4,000,000,000 and that on the basis of Mr. Gaitskell's assumptions Britain today would need not $2,750,000,000 but $10,000,000,000

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1 According to an announcement by the World Fund, the Canadian subsidy starting Jan. 1, 1951, provides that both the proportion of output eligible for assistance and the rate of assistance per ounce shall be reduced. Payment is to be measured at half the amount by which production costs exceed $22, with the maximum amount of assistance reduced to $11.50 per ounce. The subsidy will be paid on one-third of the current output of the mine receiving this assistance, or on the excess of current output above two-thirds of the 1949 level, whichever is greater.

TABLE II

END OF MONTH PRICES OF GOLD IN VARIOUS WORLD MARKETS
(In U. S. dollars per fine ounce at free or black market exchange rates)

	Bar Gold					Sovereign					Napoleon				
Market—	May	June	July	Aug.	Sept.	May	June	July	Aug.	Sept.	May	June	July	Aug.	Sept.
*Alexandria	42.51	45.80	45.52	43.80	43.80	51.72	53.91	55.38	53.43	54.77	48.45	49.22	51.99	49.99	49.99
Beirut	36.51	38.05	39.14	38.99	38.99	44.[illegible]	45.06	45.26	47.10	48.23	42.98	----	----	----	----
*Bombay	66.25	64.12	63.80	63.31	62.65	----	----	----	----	----	----	----	----	----	----
Brussels	----	----	----	----	----	43.10	48.14	55.34	48.89	50.79	----	----	----	----	----
Hong Kong	37.31	43.94	44.59	41.52	38.30	----	----	----	----	----	----	----	----	----	----
Macao	37.88	44.07	42.17	40.91	38.51	----	----	----	----	----	----	----	----	----	----
Milan	38.19	40.86	40.60	39.77	39.86	43.35	47.27	49.58	49.94	50.66	45.13	46.78	53.16	49.94	50.39
New York	36.25	37.00	38.75	38.05	38.05	----	----	----	----	----	----	----	----	----	----
Paris	38.48	41.96	43.39	41.22	41.50	42.60	46.99	49.77	49.44	51.27	45.50	50.43	53.43	51.16	52.15
Tangier	39.19	40.06	41.08	41.28	41.28	----	----	46.70	51.86	53.44	----	----	----	----	----

*Computed at official rate of exchange.

From Washington Ahead of the News

By CARLISLE BARGERON

One of the most interesting, if not the most amazing studies, currently, of the American people, is that the successful politicians, those in office, are constantly telling them what trouble and hard times they are in for. This is something few governments dare to tell their people. Usually they are trying to sell them a roseate picture of things, either of the present or of the future.

Carlisle Bargeron

It is a fact that when Mr. Truman goes on the air as he did in St. Louis Friday night, he plays the Santa Claus role, telling the people about how much their farms were worth in 1932 and how much they are now, how much they were getting in wages in 1932 and how much they are getting now, failing to tell them how much the cost of living has increased and how much more taxes they have to pay, but, nevertheless, trying to sell them on the proposition that they are much better off than they used to be. New Deal candidates for office follow the same tactics.

But at the same time, other government and influential spokesmen are forever telling us what a hard time we are in for and what sacrifices we must make. As it is, the government is in a perfect position, indeed, to say that we told you so; in spite of what the candidates for office said politically, we were amply warned about what we were to get and the fact that we voted for the Administration is a mandate for the hardships which were promised.

I can remember when the successful politician was mostly the fellow who voted for all appropriations and against all taxes. But nowadays, notwithstanding that the New Deal candidate on the stump may be telling you that his party is the way to peace and prosperity, Secretary of the Treasury Snyder or Secretary of Commerce Sawyer or even the official economists of the Administration will be telling you how we have got to tighten our belts, lower our standard of living and make sacrifices.

The government, indeed, no longer approaches the matter of increased taxes apologetically. It poses the amazing proposition that taxes must be increased, not with a view to raising revenues to run the government (for taxes have long since ceased to meet those requirements), but to siphon off your savings, the expression that Henry Morgenthau gave to our language. The common people who are glorified in one breath are told in the second that they aren't capable to handling their money; they do not know how to spend it and therefore it must be taken away from them in order to prevent inflation, a very heinous thing which their bureaucratic guardians deplore and will protect them against, these common people whom these bureaucrats love and are determined to look after their welfare.

It is truly an amazing situation, but it does not stop there. The introduction of instalment buying in this country many years ago was an extension, for better or worse, of the credit system to the general public. Certainly it was responsible for our mass industries and the tremendous industrial employment which we have come to have. Well, this same government which is so sympathetic to and conscious of the common people, as distinguished from the Republicans who are tools of Wall Street, does not hesitate to say to these common people—now, tut, tut, we must curb your credit because you are not smart enough to know how to use it.

I can recall as late as the Roosevelt-Willkie campaign of 1940 when Roosevelt was promising that we would have our butter and guns, too; that our production of guns, indeed, would not reduce our soft living in the slightest. This seemed to annoy Willkie no end and by way of being an unusual candidate for office, a man who was not afraid to tell the people the truth, he contended that Roosevelt, in effect, was a fake. He was telling the people that the impossible could be accomplished.

Well, we have moved forward a lot since them. Now our politicians, not those out on the stump and directly facing the voters, but our higher officials in Washington, seem to get a holy glee out of telling the people the hardships that are in store for them: more taxes, less goods, more boys drafted.

To listen to these gentlemen, in fact, there seems not much to live for: the atom bomb is liable to be dropped upon us at any time, our very existence is forever in jeopardy. What should be of concern is that this has come to be the popular approach to winning votes and favorably influencing the citizens.

It is not confined, either, to the National Government. The governors of the States and the little county and city managers have a way of telling you with braggadocio that you haven't seen anything yet, that you have got to pay more county and city and State taxes; indeed, that you have been backward in the past and have not been doing your civic duty by way of modern schools or of modern officials. In the 15 years I have lived in my present home, a suburb of Washington, I have never seen a policeman or the fire department within 15 blocks of that home, but my taxes are being constantly increased to improve those services as well as for other services which I never get.

With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Velma E. Gentry has been added to the staff of Slayton & Co., Inc., 408 Olive Street.

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(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Gilbert H. Van Cleve has joined the staff of Talcott, Potter & Co., 231 South La Salle Street.

The Rising Sun of Japan

By WILLIAM H. DRAPER, JR.*

Vice-President, Dillon, Read & Co., Inc.

Mr. Draper, who studied Japanese economic conditions as Under Secretary of War, reveals remarkable progress in last three years in that nation's efforts to become self sustaining. Points out Japan's budget has been balanced, and even though trade with China greatly reduced, country is now paying its own way. Says time has arrived for peace treaty with Japan.

Two years ago I had the honor of speaking at 1948 National Foreign Trade Council convention on the need for peace and reconstruction in the Far East. A few months earlier, as Under Secretary of the Army, I had gone to Japan with your Chairman and my good friend, Bob Loree, with Percy Johnston, head of the Chemical Bank, and with Paul Hoffman, before he took over Europe's economic problems, all to study the economic aspects of our occupation. I told you then of the problems of a defeated and devastated Japan—her 80,000,000 people crowded on four islands the size of California, her empire gone, her population in a desperate struggle for bare existence. For three years the threat of actual starvation had hovered like a ghastly specter over her people. American relief shipments of wheat and cotton alone had kept her population alive and her industries turning over. A spiraling inflation threatened to destroy Japan's currency and to bring on economic catastrophe. Wages had increased 15 times and wholesale prices had increased 27 times in the three years since surrender. Huge governmental deficits fed the inflation. Low industrial production provided little indeed for the population. Unsettled reparations demands threatened to remove most of Japan's industrial plants and equipment. Industrial exports, the life blood needed to pay for imports of food and raw materials, were only one-eighth enough to make Japan self-supporting. This was the picture only two years ago.

William H. Draper, Jr.

A month later, in December 1948, our Government issued a drastic nine-point directive to General MacArthur designed to stave off economic disaster and to rehabilitate the Japanese economy. President Truman personally prevailed on Joseph Dodge to go to Japan, to help General MacArthur and the Japanese Government stop the inflation. Mr. Dodge, President of the Bank of Detroit, and formerly President of the American Bankers Association, had laid the groundwork for the successful currency reform in Germany, and was probably the best qualified man in the United States for the job. No more difficult task has ever been attempted. However, a few months later, not only was a program worked out; it was actually in effect. The Japanese budget was balanced. Subsidies were reduced, wages and prices were stabilized, and a realistic exchange rate was established. Confidence was quickly restored. Our Congress agreed that recovery rather than relief was needed and temporarily increased appropriations to provide raw materials which began to flow into Japan to speed up the industrial machine. Exports increased rapidly. In less than two years the entire industrial production of the country has doubled, and total exports have increased four times. At the same time the standard of living for the people of Japan gradually rose to a tolerable level, and many rationing and other controls have been eliminated. In a word while many problems still remain, the basis has been laid for a sound internal and external economy. These favorable developments have had a profound effect on the whole nation. The feeling of hopelessness has gone and today the Japanese people are working happily and industriously to complete the material and spiritual recovery of their country from the physical and moral destruction of the war.

Four Men Responsible for Change

Four men are primarily responsible for the miraculous change that has energized and stabilized the Japanese economy so quickly. Two are Americans and two are Japanese. General MacArthur personally issued the stabilization directive and has supported and enforced its objectives without compromise. Mr. Dodge supplied the budgetary and financial techniques, and courageously stopped the inflation in its tracks despite all opposition. But the program could never have been successful without the continuous cooperation of the Japanese Government, which had to enforce the drastic and much criticized Dodge Line, as it was called, upon its own people. The Prime Minister Shigeru Yoshida, a great statesman and leader of his people, maintained and even increased his prestige by standing firmly behind the sound but harsh actions that had to be taken. And last, but by no means least, the Japanese Minister of Finance, Hayato Ikeda, bore the brunt of disinflating the country's credit structure, accompanied by a declining and panicky stock market, without flinching. Mr. Yoshida has shown the statesmanship and Mr. Ikeda the technical capacity, and both of them the courage, to balance the national budget and to stabilize prices and wages in a period of huge deficits and of tempestuous inflation. Unless I am very much mistaken, the world will hear more of these two Japanese statemen.

A Stable Economy

A few months ago when I visited Japan again, I found a stable economy, a higher standing of living, growing exports and a lessened need for American appropriations. I also found an active desire in both governmental and business circles for American industrial cooperation, for the latest American machinery and techniques, and for American investment capital. As evidence of this desire, the Japanese Government has recently enacted a foreign investment law which guarantees the free transfer of interest and dividends on approved investments into dollars, and provides for payment in dollars of fees and royalties for useful technical processes and patent rights. A new tax law reduced corporation taxes to 35%, and reduced personal income tax on foreign residents to approximately the American level. Last January exports and imports were freed from SCAP controls, and the Japanese have returned foreign trade to private hands. State trading has been replaced by private enterprise. A tight foreign exchange control and license system is still maintained to assure stability of the yen currency and to provide the dollar exchange to service new foreign investments. The government's dollar resources have been growing, and are now more than three hundred million dollars.

In considering Japan as a potential opportunity for our own industrial corporations—both for realizing on their know-how and their patents and their processes, as well as for investment and alliance with one or another of the great Japanese companies—let us look at the past. Only a hundred years ago Commodore Perry found Japan an isolated and medieval people. In 60 or 70 years, the Japanese people, with few natural resources and limited experience, had become a great industrial nation—the workshop of the East. Japan learned quickly the complicated techniques of spinning and weaving textiles, and soon was producing steel, copper, aluminum and basic chemicals. She adopted the corporate business structure of the West, and funneled the nation's savings at an unbelievable rate into building capital plants and equipment. She borrowed abroad sparingly and guarded her credit jealously. Nearly every American company which dealt with Japan or held a stock interest in a Japanese company before the war developed excellent relations, was dealt with in good faith, and enjoyed profitable business.

Then, during the decade preceding Pearl Harbor the militaris clique in Japan cajoled and browbeat their own government into

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*An address by Mr. Draper at the Third General Session of the 37th National Foreign Trade Convention, New York City, Oct. 31, 1950.

Evaluating Common Stocks

By AUGUST HUBER
Research Analyst, Spencer Trask & Co.
Members, New York Stock and Curb Exchanges

Mr. Huber maintains basic yardsticks provided by past experience makes evaluation of common stocks more simple task than public realizes. Says prime consideration revolves around earning power and its future prospects as affected by taxes and other pertinent considerations.

There are evidently those who believe that an aurora of mystery surrounds the forecasting of future common stock values and prices. Actually, no clairvoyance is required and the process of evaluating stock prices is, after all, a relatively simple matter.


August Huber

To begin with, the procedure is not complicated, although it apparently appears so to the layman. The first consideration revolves around earnings. With regard to these, it is merely necessary to estimate what the future sales volume of a corporation may be and then determine the operating profit margin which may be realized. These tend to fluctuate somewhat due to such minor details as the cost of raw materials, the extent of labor's demands for higher wages, the efficiency, or lack thereof, of plant facilities, etc., and then whether the higher costs can be passed on to the consumer in the form of higher selling prices.

When these simple factors have been ascertained or estimated, there may be a modest complication arising from the slight uncertainty as to what extent government preparedness orders may cut into the company's production of its normal civilian lines. Why this should seem an insurmountable problem to some people is rather difficult to understand since one simply needs guess what the extent of the government business may be and then determine what profit the government may allow on such armament business after contract renegotiation. This is all simplified considerably because the plans of the Federal Government agencies, as everyone knows, are always clear-cut, to the point, and, of course, unchanging. Thus, a definite pattern can be set, and unalterably followed, making the forecaster's task a comparatively easy one.

Matter of Corporate Taxes

The matter of corporate taxes then enters into the equation. It is generally agreed that these do have a tendency to affect the ultimate net profit of a company. Fortunately, at a time like this, the investor has the advantage of only minor uncertainties confronting him on that score. All that Congress has as yet not determined is whether or not there will be an excess profits tax levied against corporations. In this regard, **only a few details remain to be worked out** — such as — What years, if any, will be used as a "base" for such excess profits taxes; whether only a percentage of such average earnings may be used or if the total may be allowed; also should different industries receive special consideration because of "growth" or, as to the "utilities," because they are already government regulated; whether the "base" earnings may be taxed 45% or possibly 50%, and also what tax rate will apply to earnings that are in "excess" of the base period, although the latter itself remains to be determined. Any uncertainties with regard to taxes are clearly minor.

Estimating Future Earnings

Having progressed to this point, the simplicity of evaluating a stock is undoubtedly already becoming apparent. Since a fundamental measurement of common stock value is the earning power, it therefore follows that by determining future earnings—and there is nothing complex about this as already outlined—these estimated earnings can merely be related to the current price of the stock. It can then be easily seen whether the shares are currently too high or too low.

This can best be determined from the past record which will show how the stock has sold in price in relation to earnings in prior years. We may use as an example, General Motors, a first line quality stock which possesses all the necessary qualifications.

General Motors is currently selling around $50 per share. Earnings for 1950 should approach $10.00 per share. The stock is, therefore, selling at about five times earnings. That no real difficulty in market appraisal is here involved is immediately apparent from the record. We find that at one point last year General Motors shares sold at a price 3½ times 1949 earnings. On the other hand, this was slightly different in 1946, when the same stock sold as high as 45 times the earnings of that year. While this may be a trifle confusing, greater clarification may be afforded by a prewar period. Thus, we find that at one point in 1936, the stock sold at 6 times earnings; in 1938, 21 times and, in 1939, back to 9 times.

Perhaps it is the dividend and yield which actually determine the value. After all, this is what the investor receives in dollars and cents. The yield and dividend will offer a better guide. General Motors' possible 1950 dividends may total $5.00 per share. At a price of 50, this is a handsome 10% yield. This obviously is a definite starting point. No trouble here in fixing a market price valuation—simply relate this and judge it in accordance with past yields on the shares. At one point last year, General Motors sold to yield 15.4%. In 1946, the shares reached a price where the yield was 2.8%. The prewar period is equally enlightening and beneficial to the forecaster — in 1937 the yield at one time was 13.4%, and the following year—1938—General Motors sold to afford a return of 2.8%.

All this may tend to create some confusion in the minds of a layman. To the "expert" of course, this poses no problem whatever. No new problem, that is. If this brief outline has successfully shown, in a rough way, that there is actually nothing complex in evaluating a common stock, it will have served its purpose. Anyone can do it if they just know how to apply the proper reasoning and rules. Thus, with all the mystery effectively removed and the necessary data available, anyone can determine the value of a common stock—at least as well as the next fellow. Just be careful, too, to recognize that during a period of "inflation," the market may be influenced in one direction or the other—as the case may be.

Dealer-Broker Investment Recommendations and Literature

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

Deflated Utility Stocks—Analysis—Geyer & Co., Incorporated, 63 Wall Street, New York 5, N. Y.

Also available is an analysis of **American Express Company.**

Natural Gas News—Brief data on 18 companies—Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

Natural Gas Production Companies—Analysis as a hedge against inflation and a participation in a growing industry—Blair, Rollins & Co., Inc., 44 Wall Street, New York 5, N. Y.

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

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

Switch Suggestions — Bulletin Oppenheimer, Vanden Broeck & Co., 40 Exchange Place, New York 5, N. Y.

Top Layer Income—Discussion of municipal bonds as protection against higher taxes—Scharff & Jones, Inc., 219 Carondelet Street, New Orleans 12, La.

* * *

Amerex Holding Corp.—Memorandum — New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Also available is a memorandum on **American Express Co.**

American Express Company—Bulletin—Abraham & Co., 120 Broadway, New York 5, N. Y.

Argo Oil Corporation — New analysis—Russ & Co., Alamo National Building, San Antonio 5, Texas

Associated Transport, Inc. — Circular—Homer O'Connell & Co., Inc., 25 Broad Street, New York 4, New York.

Christiana Securities Company —New bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Eastern Air Lines—Analysis—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

International Hydro-Electric—Brief review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Maryland Drydock—Circular—J. F. Reilly & Co., Inc., 61 Broadway, New York 6, N.Y.

Also available is a circular on **Spencer Chemical.**

National Tool Company—Special report — Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Nesbett Fund Incorporated — Bulletin—John G. Nesbett & Co., Inc., 25 Broad Street, New York 4, N. Y.

Pressed Steel Car—Analysis—McGinnis & Company, 61 Broadway, New York 6, N. Y.

Republic Natural Gas Company —Analysis—First Southwest Company, Mercantile Bank Building, Dallas 1, Tex.

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

Rockwell Manufacturing Company—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Also available is a report on **Plymouth Rubber Co.**

Seaboard Air Line Railroad Co. —Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Steep Rock Iron Mines Limited —Analysis—Otis & Co., Terminal Tower, Cleveland 13, Ohio.

United States Potash Company — Leaflet — Remer, Mitchell & Reitzel, Inc., 208 South La Salle Street, Chicago 4, Ill.

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

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

NSTA Notes

PITTSBURGH SECURITIES TRADERS ASSOCIATION

The annual business meeting and mid-winter dinner will be held Friday, Dec. 8, 1950, at the Pittsburgh Athletic Association, 5:30 p.m. A very excellent Roast Beef Dinner will be served at 7:00 p.m. The cost of the dinner will be $6.00 per member and $7.50 for guests. Cocktails will be served from 5:30 p.m. until 7 p.m.

Edward Kost, A. E. Masten & Co., Chairman of the Nominating Committee has announced the following slate of candidates to hold office for the calendar year 1951:


James C. Lear


Anthony E. Tomasic


F. M. Ponicall, Jr.


Earl E. Sweitzer

President: James C. Lear, Reed, Lear & Co.
Vice-President: Anthony E. Tomasic, Thomas & Company.
Treasurer: Frank M. Ponicall, Jr., Singer, Deane & Scribner.
Secretary: Earl E. Sweitzer, E. E. Sweitzer Co., Inc.

Directors: (Two-year term expiring December 1952). Harry J. Steele, Fauset, Steele & Co.; (One-year term expiring December, 1951), H. Sheldon Parker, Kay, Richards & Co.

Any five members of the Association may by petition nominate a candidate or candidates for office. Notice of such nominations must be in the hands of the Secretary at least two weeks before the annual meeting. If no suggestions are received within the allotted time, the Nominating Committee's selections shall be considered unanimously elected.

SECURITIES TRADERS ASSOCIATION OF DETROIT AND MICHIGAN, INC.

The Securities Traders Association of Detroit and Michigan will hold its Annual Fall Party on Nov. 14 at the Detroit Boat Club. Cocktails at 6:00 p.m., with dinner at 7:30. Guest charge is $10.

Members of the program committee are: Alex McDonald, McDonald Moore & Co., Chairman; Robert Barnard, Crouse & Co.; William Brown, Baker, Simons & Co.; E. F. Kristensen, Moreland & Co.; Bertrand Leppel, Charles A. Parcells & Co.; Robert Moons, Merrill Lynch, Pierce, Fenner & Beane, and Leslie C. Muschette, First of Michigan Corporation.

THE SECURITY TRADERS ASSOCIATION OF NEW YORK

Bowling League standings as of Nov. 3 are as follows:

TEAM—	Won	Lost
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	13	5
Leone (Capt.), Krasawich, Nieman, Pollock, Gavin	12	6
Serlen (Capt.), Gersten, Gold, Krumholz, Young	10	8
Burian (Capt.), Manson, King, Voccoli, G. Montayne	10	8
Krisam (Capt.), Bradley, Montayne, Weisman, Gannon	10	8
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	9	9
Hunter (Capt.), Lytle, Reid, Kruge, Michels	9	9
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	9	9
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	8	10
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	7	11
Donadio (Capt.), DeMaye, O'Connor, Whiting, Workmeister	6	12
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	5	13

The Jules Bean (Singer, Bean & Mackie) team edged into first place by defeating the Hank Serlen (Josephthal & Co.) stalwarts by one Pin. High game for the evening was 218 by Jack Valentine (Shearson, Hammill & Co.). Vinnie Lytle (Shields & Co.) turned in a 563 high series for the evening.

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The Business Outlook

By WOODLIEF THOMAS*

Economic Adviser, Board of Governors, Federal Reserve System

Federal Reserve economist reviews postwar developments and factors conducive to inflationary trends. Defends use of restraints on building and consumer credits already imposed and says more may be needed. Cites increase in private spending and commercial borrowing, and contends spread between prospective incomes and civilian goods supplied at current prices does not fully indicate the full inflationary potential, since there is a large backlog of private savings. Foresees greater consumer propensity to spend.

Sudden outbreak of war in Korea had far-reaching economic consequences both for this country and for the world at large. It has led to reconsideration of our foreign policies and a drastic revision in the magnitude and timing of our defense program. Expansion of this program and the prospect of a continued high level of defense expenditures for many years promise to exert progressively strong pressures on our capacities to produce and on the price structure. These prospects have necessitated a reappraisal of American economic developments and of the economic policies of the government. Consequences of the Korean outbreak were superimposed upon an economy in which demand was already exceptionally strong, in which output of goods and services was above prewar peaks, and in which rising price tendencies were prevalent. The net result, therefore, has been an accentuation and acceleration of the previous trends rather than a reversal of direction.

Woodlief Thomas

The Postwar Background

In any appraisal of the economic situation in this country, it is essential to keep in mind that since the war there have been powerful and persistent forces operating to expand personal and business expenditures. Dangers of inflation have almost always been more serious than those of possible deflation. Deferred demands and accumulated shortages resulting from reduced production of civilian goods relative to buying power during the war were an important stimulus to buying in the early postwar period. The most important basis of this underlying tendency, however, was the wartime inflation of incomes and liquid assets. During the war period the available money supply in this country as measured by total bank deposits and currency, expanded from less than $60 billion to over $170 billion, or by nearly three times. In addition, individuals and businesses increased their holdings of government securities by well over $100 billion and these holdings were readily convertible into money. These holdings of liquid assets were widely held, by businesses and individuals, with the relatively low income groups possessing substantial amounts—an unusual situation.

The physical volume of production of all sorts of goods and services at the maximum in the postwar period was hardly more than three-fourths larger than in the best prewar year, and prices in general rose by about two-thirds. The gross national production expressed in terms of current values increased to slightly more than two and a half times the prewar maximum. Total personal incomes increased by a somewhat larger amount and this income was widely distributed among the population. The biggest increases that occurred were in the lower and middle income groups.

The growth in population, which was accelerated in the war and postwar periods, likewise provided the basis for growing consumer needs. Governmental programs for stimulating housing, providing aid to foreign countries, maintaining a high level of military expenditures, supporting prices of some commodities, and assisting veterans contributed to the maintenance of a high level of income and affected its distribution, although on balance the government maintained a substantial surplus of tax receipts over expenditures. Private credit expansion, which resumed after the war, proceeded at a rapid rate with expansion in loans to consumers, home owners and businesses and in holdings of the securities of State and local governments. This credit expansion added to the already large money supply.

Under these conditions it is only surprising that the inflation suffered by this country was no greater than it actually turned out to be. It was certainly much less than we had reason to fear.

The year 1949 brought an end, at least for a while, to the threat of serious inflation. It was a year of economic adjustment. The adjustments were moderate and healthy, and occurred, moreover, without the serious and far-reaching crash that had been so widely feared as the terminus of the boom. To a large extent the slackening in overall expenditures reflected the satisfaction of some deferred demands for both consumers' and producers' durable goods, a shift from sharp expansion to moderate curtailment of inventories, and reaction to some of the price distortions that had developed in the war and postwar periods.

After the middle of 1949 there was a marked recovery in production and employment which was still in process when hostilities began in Korea. The index of industrial production, which declined from 195 in November, 1948, to 131 in June, 1949, had risen to a new high level of 200 by June, 1950, with output in many lines at or close to capacity. Employment was also at an advanced level and the number unemployed in June, 1950, was below the February peak by more than the usual seasonal amount. The labor market was beginning to tighten. With more people employed and hours of work increased, wage payments were at a new high, as was the total of personal income from all sources. Consumption expenditures were at a new high, with demand for automobiles exceptionally great.

The housing boom was continuing—the number of units being started was about 50% larger than in the corresponding periods of 1948 and 1949. At the same time business orders were increasing. The rise during the first half of 1950 was particularly marked for durable manufactures, reflecting heavy demand not only for consumer durables and housing, but also for goods used in expanding plant and equipment. Business inventories again increased.

The widespread boom in this period was being financed in part by expansion of credit. At commercial banks, loans on real estate and loans to consumers continued their rapid growth and loans to business were showing less decline in the first half of the year than would ordinarily be expected at that season.

As a result of high and rising demands, and despite expanding supplies, wholesale prices by June had shown marked increases for three months and were one-third of the way back to the August, 1948, peak. Prices of many basic materials and of building supplies had advanced considerably.

All in all, at mid-June, prospects for the remainder of 1950 appeared to be moderately inflationary for the economy as a whole and strongly inflationary in such areas as residential construction. The 1949 readjustments and prompt recovery, together with available monetary and credit resources, provided the basis for a sustained period of prosperity with dangers of inflationary excesses.

Economic Developments Since Korean Outbreak

The initial economic reaction to the Korean war was marked. For several weeks, scare buying was heavy, especially of commodities remembered to have been short in World War II. New orders rose sharply as producers made strong efforts to accumulate inventories and as they revised upward plans for expansion of plant and equipment. Manufacturers' new orders increased in July and August to the highest monthly volume in the postwar period. Orders for both durable and nondurable goods increased sharply with orders for transportation equipment doubling from June to July. Unfilled orders advanced sharply in July and August and were 60% above a year ago in August.

Consumer buying showed especially sharp increases. Consumer and mortgage credit showed an accelerated expansion and loans to businesses began to increase at a rapid rate.

Federal expenditures on goods and services, however, increased only moderately, rising by an annual rate of about a billion dollars as the enlarged defense program got under way slowly. State and local government expenditures advanced only slightly.

Reflecting increased buying by consumers and businesses, the gross national product, which had been increasing sharply in the first half of the year, advanced by about 5% in the third quarter—an unusually rapid increase. Concurrently, production also expanded with the Federal Reserve Board's index of the physical volume of industrial output rising from its postwar peak of 199 in June to an estimated 213 in October. Increases in industrial production since June have been widespread among manufactured durable and nondurable goods and minerals, with all of the three major groups exceeding their 1948 highs. Output of basic steel and nonferrous metals, however, has been virtually stable at close to capacity since early in the spring. Construction, which had been at a high level, increased further in the third quarter with the total one-third above a year ago and residential building up 60%.

Employment and average weekly hours also rose sharply and unemployment declined to its lowest level since the end of 1948. Tightening supplies of labor, rising consumer prices, and the sharply higher levels of business profits led to widespread increases in wage rates in some industries.

With output and employment increasing and wages and salaries rising, personal income has expanded rapidly and in September was at a peak annual rate of about $224 billion. The increase from the second quarter of this year was about $19 billion.

Personal consumption expenditures increased even more markedly. From a seasonally adjusted annual rate of $185 billion in the second quarter—at that time the highest rate on record—expenditures rose to a rate of over $195 billion in the third quarter and are currently close to that rate. About half of the increase represented price advances while the other half represented expansion to record levels in real takings of consumers. Increases occurred in many major categories of consumption, with expenditures for durable goods increasing by almost one-sixth.

The increase in consumer outlays came only in part out of

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CHANGES IN GROSS NATIONAL PRODUCT AND PERSONAL INCOME

Seasonally Adjusted—Annual Rates

(In billions of dollars)

Item—	*3rd Quarter 1950	Increase, or decrease (—), 3rd quarter 1950 from: 2nd Quarter 1950	4th Quarter 1948
Gross national product—total	$284.0	$14.1	$17.2
†Government, total	42.5	1.1	2.2
Federal	23.5	.9	—0.1
State and local	19.0	.2	2.3
Gross private domestic investment, total	49.0	3.1	2.2
New construction	22.5	1.6	4.7
Producers' durable equipment	25.0	3.4	4.1
Change in business inventories	1.5	—1.9	—6.5
Nonfarm only	2.0	—2.0	—4.7
‡Net foreign investment	—3.0	—1.0	—4.0
Personal consumption expenditures	195.5	11.0	16.8
Durable goods	31.5	4.8	9.3
Nondurable goods	104.0	5.0	2.6
Services	60.0	1.2	4 8
Personal income	224.0	8.9	10.2
Disposable income	204.0	8.1	10.5
Personal saving	8.5	—2.9	—6.3

*Estimated by Federal Reserve.

NOTES: (†) Includes purchases of goods and services only and excludes transfer payments, such as veterans' benefits. It includes grants under the foreign aid programs.

(‡) Excludes grants under foreign aid programs.

*An address by Dr. Thomas at the Outlook Conference, Department of Agriculture, Washington, D. C., Oct. 30, 1950.

International Economics And National Defense

By WILLIAM McCHESNEY MARTIN, JR.*
Assistant Secretary of the Treasury

Asserting U. S. has been actively engaged in promoting measures to free international trade from arbitrary restrictions, high ranking Treasury official tells of lessening of "dollar shortage" and improvement in balance of payments of sterling area. Says, despite importance of defense efforts, there is need for aiding underdeveloped areas, and expresses hope cooperating nations will finance defense by adequate taxes and savings.


Wm. McC. Martin, Jr.

No group, I think it is fair to state, has contributed more to the growth and development of sound two-way foreign trade than has the National Foreign Trade Council. And, since the Treasury has a similar interest, it is a great pleasure for me to be here today to discuss briefly the impact of current developments on our objectives in the field of international trade.

For some years now we have worked on the assumption that expansion of world trade on an international competitive-price basis would lead to the most effective utilization of the resources in manpower and materials of the nations of the world. This certainly continues to be our purpose and creed. International trade must not be thought of merely in terms of volume. Artificially high levels of foreign trade of an uneconomic character can be achieved by subsidiaries, or lend-lease arrangements such as were used in the war. What is really important is that world trade should involve the transfer of goods from one country to another in accordance with the principles of mutual economic advantage. Unless trade is productive and capable of earning its way, it does not truly contribute to the objectives we are seeking.

Hence, in accord with this basic point of view, the United States Government has been actively engaged in promoting those international measures which would free trade as much as possible from arbitrary restrictions. We have striven for relaxation of exchange controls and import restrictions as rapidly as can reasonably be done, both at home and abroad. We have sought the elimination of regulations which discriminate against United States exports. And when other countries have maintained that their restrictions on trade and foreign exchange controls were necessary to conserve their resources and foreign exchange, particularly dollars, we have scrutinized these claims carefully. We have recognized in some cases the necessity for assistance, always with the purpose of making the recipients stronger and more independent, and have provided governmental grants or loans to the countries concerned. These loans and grants, which have reached staggering proportions in the period since the close of World War II, have been directed for the most part toward economic recovery, or economic development. It is definitely our belief that a healthy world economy can exist only on the basis of more stable financial conditions and improving standards of living.

We have always continued to have as our policy the relaxation of restrictions so as to permit a higher volume of useful world trade and a wider scope for the stimulating effects of world competition. The resulting greater freedom for individual enterprise, we have believed, would result in a better allocation and use of the world's resources, and so contribute substantially to the realization of better standards of living for all of the peoples of the world. This, after all, is certainly our primary objective. The expansion of nondiscriminatory trade on a multilateral basis, through freedom of exchange, is simply one of the most important means of attaining this end.

The unprovoked attack on the Republic of Korea brought more sharply into focus the problem of collective security against aggression. In the modern world, those countries which value freedom have a common interest in resisting aggression by countries aiming to destroy individual rights and national integrity. We recognized our responsibilities in this direction before Korea, but the events of June 25 have greatly affected the timetable. The freedom-loving countries of the world must now include as one of the necessary costs of living the provision of more adequate defense measures. Other friendly nations must, like ourselves, be prepared to devote an important part of their national income to what is, in effect, buying national life insurance. All these countries have a real problem and the cost of defense measures will impose a real strain on their national economies.

What we must now consider is the impact of the defense efforts by the United States and the nations associated with us on the course of international trade and what will be the probable repercussions on international financial and economic policy. The necessity for building up armaments will increase world trade, though, to a considerable extent, this increased trade will not raise world standards of living. If we are to produce airplanes and tanks, we shall have to buy more raw materials from abroad as well as devote a larger portion of our own resources to these purposes. Other countries which lack the industrial equipment, or the skills in manpower necessary to provide their defense goods, will have to obtain these goods abroad. As a result some countries which formerly had a deficit in their trade with the United States, or with other countries, will find themselves with a surplus which they will have available either to increase their purchases abroad, or to build up their monetary reserves. To some extent, this has already occurred even though the defense program is only in its initial stages.

Other countries may find that they will not be able to finance necessary purchases abroad from their own resources of foreign exchange or from their current exports. Many countries have been struggling over the last few years to achieve greater equilibrium in their balances of payments and, as already stated, the United States has given them considerable material aid to bring about their economic recovery. Some of these countries may require assistance if they are to play an effective part in the collective international defense program. It may also be true that some countries will make greater efforts and sacrifices to protect themselves and make their contribution to international security than will others. We may hope that there will be few or no countries which will look upon the defense of the free world merely as a means of improving their international position. Such countries would be shirking the reasonable burden which they should bear in assuring their own national security.

Major Objectives

I want to repeat that one of the major objectives of the United States international economic policy has been to secure the relaxation of trade barriers and restrictions on current account transactions. Our policies, I am sure you will all agree must be dynamic and realistic, and adapted to changing circumstances. Up to this time, the need for trade barriers and restrictions has been largely justified on the ground of insufficient earnings to pay for necessary imports, particularly those from the dollar area. In the period immediately ahead it is likely that new standards may have to be applied for judging the propriety of economic policies. The important distinction will doubtless be between defense and nondefense activities, rather than between the now familiar criteria of "hard" and "soft" currencies. We must, for example, see to it that these vital defense goods do not get into the hands of potential aggressors, and that they reach the places where they will be most essential under our international defense plans.

Just as defense requirements will have a higher priority in the use of foreign exchange earnings, so also it may well be necessary to have certain controls over international transactions in order to make sure that these requirements are satisfied. However, in order to obtain the most efficient production and the highest levels of output, and in order to help overcome the difficulties created by the inevitable scarcities resulting from our defense programs, every effort must continue to be made to remove those restrictions which unnecessarily block the currents of world trade, while leaving unrestricted the trade in a protected area. Otherwise, not only is injury done ot the longer-run stability and volume of the world trade, but we run the immediate risk of stimulating home production of low priority goods and thereby diverting resources which could be better used for defense. Thus, a combination of necessary but limited controls for defense purposes along with the greatest possible freedom in other trade is needed to gear our international economic policies with our international defense plans.

It may, in practice, be hard to judge whether a given restriction is a necessary feature of a defense economy, or whether it is merely an attempt to retain restrictions for the same inadmissible reasons as would apply under more normal conditions. But it can be expected that the International Monetary Fund and the Contracting Parties of the General Agreement on Tariffs and Trade, which have been constituted as the international bodies for consultation on fair exchange and trade practices, will approach this problem realistically, and with full awareness of the long-run implications of emergency policies.

Current developments in the trade position of the sterling countries illustrate some of the points I have mentioned. It has been gratifying, indeed, to see the improved position, in the course of the last few months, of the balance of payments of the United Kingdom and several of the other sterling area countries. Prior to the devaluation of sterling in September 1949, the gold and dollar

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*An address by Mr. Martin before the 37th National Foreign Trade Convention, New York City, Oct. 30, 1950.

Fiscal Policy as Inflationary Curb

By ROY BLOUGH*
Member, Council of Economic Advisers

Newly appointed Presidential adviser in presenting as twin objectives of fiscal policy: (1) curbing inflation; and (2) stimulating defense production; lays down as means of combating price spirals: (1) higher taxes that will be absorbed by persons intended to bear them; (2) preventing current incomes, past savings and newly created credit from being spent; and (3) holding individual incomes down. Says problem of preventing inflation in defense economy is largely one of unpleasant alternatives, along with equality of sacrifice by all.


Roy Blough

The outlook for Federal fiscal policy has been drastically changed by the expansion of the defense program following the Korean attack. Additional appropriations and authorizations for defense and related purposes were approved by Congress in the amount of about $17 billion. The rate of defense spending is expected to roughly double between June, 1950 and June, 1951. How much the program will be still further enlarged is for the future to disclose. Our thinking should be adjusted to the possibility that such enlargement may be very considerable.

Tax action also was taken by Congress in the recent session. A tax bill which passed the House in June, with the major purpose of reducing excise tax rates, was completely overhauled in the Senate and emerged finally as an Act which made no excise tax reductions but increased individual and corporate income taxes by an annual estimated amount of about $4.7 billion. The corporate normal and surtax rate was set at 45% for income in excess of $25 thousand, the highest corporate taxes ever imposed except as wartime excess profits taxes, and individual income tax rates in each bracket were raised to within 3 percentage points of the highest rates prevailing during World War II. All responsible leaders are talking in terms of a much larger additional tax increase on top of those already imposed. The Congress directed its taxing committees to submit bills providing for an excess profits tax when Congress reconvenes.

The goal of Federal fiscal activity in the defense program is to contribute to national security and welfare in its fullest sense. The increase of defense expenditures is an instrument by which the economic resources of the country are directed to producing for defense purposes rather than for civilian purposes. In the process, powerful inflationary pressures arise. The problem now faces us, how to stabilize an economy subject to these inflationary pressures—how to dissipate the pressures harmlessly or, at least, prevent them from damaging the economy.

The economic effects of military expenditures are not a new problem. Throughout the postwar period we have had a defense program which, to prewar eyes, would have looked tremendous. And during the war, of course, we had a defense program enlarged to maximum level. Not since 1939 has either the Federal budget or the national economy been free of the influence of heavy current military expenditures.

The economic effects of a military program depend on its size, the speed of its growth, and the attitudes of the public. Size is important because it determines what proportion of the economic power of the Nation must be devoted to the defense effort. The speed at which the program is executed is important because speed affects the rigor of the economic adjustments which must be made. A slow rate of growth in the defense program might be matched by the increase in the total productivity of the economy, so that no general cuts would be required in supplies to civilians, while a very rapid rate of rearming would necessitate sudden adjustments and thereby require not only civilian sacrifices but direct and rigid controls. Public attitudes are important because no method of solving the problems of a defense economy can be successful without a large measure of public cooperation. Here is a matter on which all of us can help. During the war, the public supported the war effort and the sacrifices and restrictions required by it with great intensity and unanimity. The same patriotic attitude toward the lesser requirements of the defense effort will go far toward making it a success. It is disquieting to see minor inconveniences resulting from steps thus far taken blown up into the appearance of major injustices. Unfortunately, in a long drawn-out defense effort, it is not likely either that attitudes of wartime intensity can be achieved or that they could be maintained if they were achieved. This fact poses a major difficulty for economic policy in the defense period in that some stabilizing measures which would be very useful are likely to be unavailable because the public attitude necessary for their successful application does not exist.

Problem of Adequate Production

Inflationary pressures are not the only economic problem presented by the enlargement of the defense effort. Another problem is to move quickly toward achieving adequate production of material required for the arming and expansion of military, naval, and air forces, and for civilian defense. In part, this is a problem of stepping up production in plants already engaged in producing military goods. In part, it is a matter of reopening plants which have been kept in reserve since the war. And in part, it is a matter of diverting raw materials, plants, and labor from civilian to military production. Still another economic problem raised by the defense effort is to increase the total productive power of the whole economy. Production and the capacity to produce are basic sources of both military power and a strong civilian economy. The larger the productivity of the economy, the less the impairment of the civilian standard of living required to achieve the necessary defense production. In a full scale war, the military requirements on the one hand and the immediate demands for consumption on the other would so absorb the whole national production that little if any residue would remain to provide new investment and productive growth. With the level of defense expenditure greatly below the levels of full scale war, however, there is opportunity to expand productive power, for exam-

*An address by Dr. Blough at the 28th Annual Agricultural Outlook Conference, Washington, D. C., Oct. 30, 1950.

ple, through increased investment and research.

Fiscal policy can contribute, at least in a minor way, to the solution of these problems of expanding defense production in particular and over-all productive power in general. Government orders and expenditures put the industrial machine to work on defense production. Taxation can furnish the money, which is obviously important, although a lack of tax revenue would not likely stand in the way of spending for defense. Accelerated depreciation can serve a useful purpose in facilitating necessary plant expansion, but its inequities are such that it needs to be used carefully and sparingly. The growth of the economy in general can be aided in this period through a tax policy that avoids repressing economic incentives, and encourages investment. However, increases in investment, while they enlarge future supplies, are made at the expense of current consumption, so that taxes which encourage investment must also discourage consumption if inflationary pressures are to be diminished. This may raise acute problems if consumers generally press for a high and rising level of consumption, and are unwilling to have it reduced. This brings us back to the problem of maintaining a stable economy in the face of strong inflationary pressures. It is in dealing with this problem that fiscal policy can make a major contribution.

Maintaining a stable economy, particularly price stability, is an immediately urgent and immensely difficult task. The problem is essentially one of maintaining a balance between civilian supply and civilian demand. Civilian supply of some commodities will certainly have to be restricted, for example, commodities made of copper, aluminum, steel, rubber, and so on. Civilian supply in general also may have to be reduced if the increased requirements of defense production exceed the rate of growth of the productive power of the economy. Thus, despite total increases in production, the civilian supply cannot be expected to show much increase, and is likely to show decreases.

Civilian demand on the other hand may be expected to increase. Each dollar of increased production is reflected in a dollar of increased income which, in the absence of preventive measures, is available for spending. Moreover, if consumers expect shortages or rising prices, they may seek to use their savings as a source of spending power, and to borrow for the purpose of buying durable consumer goods and housing. Businessmen, anticipating the increase in governmental and private buying, seek to expand their inventories and enlarge their facilities. All of these elements combined point to demands for civilian goods and services substantially in excess of supply. In the absence of preventive steps, the result would inevitably be price inflation. It is the kind of price rise that would likely become a price spiral, since higher prices would lead to higher wage demands and larger incomes generally, which in turn, would lead to still further demand, higher prices, and so on. There is evidence that this process has already started.

One of the effects of inflation is to serve as a substitute for taxation. The manner in which inflation distributes burdens among the population has sometimes been compared favorably to the distribution of burdens by certain forms of taxation. There is this important difference. Taxes can be reduced when the need for them declines. But once the price and cost structure has become integrated at a higher price level, any effort to achieve a substantially lower price level is likely to result in unemployment and depression, causing greater social losses than the social gains which lower prices would confer. The only way to cure an inflation is to prevent it.

Inflation Does Not Increase Income

But why should we be afraid of inflation? Does it not increase our incomes? The increase is purely illusory for the Nation as a whole and the redistribution of wealth and income that results from inflation is economically undesirable and may be socially dangerous. Inflationary price rises would impair the relative and absolute economic positions of those persons and institutions which have relatively fixed incomes or own assets of fixed money value. The members of the armed forces, millions of persons living on pensions and insurance, and other millions receiving salaries and wages that move slowly would be particularly hurt. Educational and charitable organizations would face a discouraging exaggeration of the tremendous problems which wartime and postwar inflation have placed upon them. The distortion of incomes caused by inflation would channel production into unusual and unsustainable patterns, thus sowing the seeds for later depression. The money cost of the defense effort would rise. Public morale would be deeply shaken by the shock of a declining value of money. There would be danger that eventually — fortunately, in other countries it has usually been long delayed—there might be a failure of public confidence in the future of the dollar, with disastrous consequences. Any large or continuing rise of prices would be a major blow, especially coming so soon on the heels of the price increases during and after World War II.

It is imperative, therefore, that there be the strongest possible resolve within the executive branch of the Government, in the Congress, and by the public that extensive inflationary price rises shall not happen again. There must be better understanding of why they happened before. And there must be a willingness for business, agriculture, and labor to see the rosy outlook of rising money incomes fade out into the grimmer picture of hard realities.

The increase of total production is often proposed as an important method of preventing inflationary price rises, but it is only a partial solution. If production increases because more workers are employed or put in longer hours, they receive larger incomes as do the businessmen and suppliers of raw materials. These increased incomes create greater consumer and business demand. But the increase in supply, generally speaking, is required for defense and is not available to fulfill civilian demands. Thus, inflationary pressures continue, despite larger production.

Methods of Forestalling Inflationary Trends

Aside from expanding production, there are three general methods of forestalling inflationary price rises. The first is taxation, which takes money away

Continued on page 23

Obstacles to United States Private Investment Abroad

By J. H. MOSELEY*
Vice-President, Ebasco International, Inc.

Mr. Moseley lists obstacles retarding flow of U. S. private capital to foreign countries as: (1) unfavorable investment climate; (2) U. S. income taxes on foreign investments; and (3) double talk about private enterprise. Urges Federal Government take action to remove these obstacles.

Three obstacles retarding the flow of United States private capital to foreign countries are: (1) unfavorable investment climate in some countries; (2) United States income taxes; and (3) double talk about private enterprise by both our own government and some foreign governments — by this is meant lip service supporting private enterprise and actions discouraging private enterprise.

J. H. Moseley

(1) **Unfavorable investment climate in some countries:** I shall not discuss this point except to say that it is highly important.

(2) **United States income taxes:** For simplicity and without giving consideration to United States tax credits, let's assume the United States 1951 income tax is going to take 50% of corporate income before United States taxes. If a United States corporation pays 6% dividends on its equity capital, you will see that, in order to have 6% to pay to its stockholders, it must earn 12% in a foreign productive enterprise before paying United States taxes. The individual person in the United States who advances such equity capital to a United States corporation will in turn have to pay income tax on his 6% dividends; this reduces the return to the individual, after United States income taxes, paid by the corporation and then paid again by the individual, to 4.8% or less, depending on the tax bracket of the individual. Just why should any United States investor risk his money in a corporation whose business is wholly outside the United States, for a net return of 6% before paying his individual income taxes, when he can get the same return by buying securities listed on the New York Stock Exchange?

On the other hand, if foreign investments were made completely exempt from United States income taxes, earnings of 12% in a foreign country would still be 12% to the United States investor instead of 4.8% or less. Is there anyone here who will not agree that such an incentive would create a tremendous push of United States private capital into foreign countries?

Then why is not this simple course taken? The State Department in recent years has seemed to be in favor thereof but the Treasury Department is consistently opposed to any such action. What is the result? The answer is simple and direct. Companies who are already interested in foreign countries have to provide new funds or reinvest earnings, the alternative being possible loss of a part or all of the present investments. But other companies that do not have to make new investments to protect their present ones are keeping their money at home.

This taxing policy is making the problem of foreign investment more difficult. In order to implement its announced policy of trying to assist economic development in underdeveloped foreign countries, our government is finding it necessary to provide funds in ever-increasing amounts through such agencies as the Export-Import Bank and the International Bank. Understand, I am not objecting to these loans where they are economically sound. In certain cases, particularly due to bad investment climate, this is the only way that funds can be obtained. However, where the investment climate is bad, the least our government should do is to insist on improvement as a condition to making such loans. In many cases this is being done. It has to be done most tactfully.

Such investments are all tax-exempt because they are government money. Private enterprise can be encouraged and helped if such loans are made to private corporations on a sound economic basis instead of directly to foreign governments. This is also being done in many cases. In such cases United States income taxes are not a hindrance because the interest paid on such loans is a good deduction for United States income tax purposes. But this does not solve the problem of equity funds, so please do not confuse my previous statements on income tax with interest on this type of loan.

(3) **Double talk about private enterprise by both our own government and some foreign governments:** There are many fine officials in our government who firmly believe that the big factor in the development of the United States was the incentive created by what we know as "private free enterprise." These persons sincerely favor the dynamic effects that are produced by individual human initiative—that is, private free enterprise with the reward being in accordance with merit. However, there are some in our government who do not have such beliefs and are inclined to favor a society where the state is all-powerful. Many of the latter type are enthusiastic crusaders and work hard to promote their idea. Because of this fact and because of political decisions which from time to time seem contrary to a sound policy, those favoring private enterprise become discouraged and, as a result, tend to leave the government service.

Let the United States Government remove from private United States capital the burden of taxation when such capital is employed in productive enterprise in foreign countries. Let the United States Government formulate some deep convictions on the benefits of private free enterprise in such foreign countries and consistently support such convictions. If these two things are done, the need for the United States Government to make loans will be reduced or be restricted to:

(a) loans to private corporations on a sound business basis, or

(b) loans to assist highway, sanitation, education or other projects which are governmental in character.

Action by the United States government in these directions will, I believe, help to create a better investment climate which has already been mentioned as one of the most important factors in creating a bigger flow of private capital to foreign countries.

*Remarks by Mr. Moseley at the Foreign Investments Session of the Thirty-Seventh National Foreign Trade Convention, New York City, Oct. 31, 1950.

Halsey, Stuart Group Offers Chic. & Eastern Ill. Equip. Trust Ctfs.

Halsey, Stuart & Co. Inc. and associates on Nov. 3 offered $3,270,000 Chicago & Eastern Illinois RR. Co. 2¾% equipment trust certificates, series H, dated Dec. 1, 1950 and maturing semi-annually June 1, 1951 to Dec. 1, 1965, inclusive. Issued under the Philadelphia Plan, the certificates are being offered subject to award and approval of the Interstate Commerce Commission at prices to yield from 1.70% to 2.95%.

The certificates will be secured by four 1500 H.P. Diesel-electric road switching locomotives and 700 box cars estimated to cost not less than $4,100,000.

James J. Leff Co. Formed in New York

James J. Leff & Co., Inc., has been formed with offices at 50 Broad Street, New York City, to act as dealers and brokers in unlisted securities. Officers are James J. Leff, President and Treasurer, and M. W. Leff, Vice-President and Secretary.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

MORRISON, Ill.—Roy Hammer is now associated with Waddell & Reed, Inc., of Kansas City, Mo.

With F. S. Moseley Co.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, Ind.—Charles M. Harrison, Jr., has been added to the staff of F. S. Moseley & Co., Circle Tower.

With Investment Service

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Philip C. Edmunds has been added to the staff of Investment Service Corporation, Security Building.

With Norman Dacey

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, Conn. — Meredith E. Morgan is with Norman F. Dacey & Associates, 955 Main Street.

With Cooley Staff

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, Conn. — Edward Biernacki is connected with Cooley & Co., 100 Pearl Street, members of the New York Stock Exchange.

Joins Barnes, Bodell

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, Conn.—James D. Plunkett is now affiliated with Barnes, Bodell & Goodwin, Inc., 257 Church Street.

Thomson, McKinnon Adds

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, Ind.—Dorothy Farmer has been added to the staff of Thomson & McKinnon, 5 East Market Street.

With Waddell & Reed, Inc.

(Special to THE FINANCIAL CHRONICLE)

CLINTON, Iowa—Leonard A. Koestler is now affiliated with Waddell & Reed, Inc., of Kansas City, Mo.

To Halt Inflation Is Everybody's Job

By ALAN VALENTINE*
Administrator, Economic Stabilization Agency

Recently appointed Economic Stabilizer, in pointing out progress of inflation, warns direct price and wage controls may be ineffective and calls for new program that will last for years and at end still leave the economy productive, stable and free. Says present task to curb inflation is more difficult than under OPA, and calls for more public cooperation, since "to halt inflation is everybody's job."

There is a real danger in my talking too much at this point and I must resist that habit. What happens to me matters very little, except to me; but what happens to the work of this Agency matters a great deal to every one of us. That is why you must protect me if I say anything I shouldn't, even against the ire of my children. The first and only letter I have received from my 13 year old daughter at boarding school near Philadelphia begins as follows:

Dr. Alan Valentine

"Dear Father: Mother told me about your appointment and everybody in school knows about it now. A newspaper article has been posted on the faculty bulletin board with the least flattering of your pictures from the Philadelphia 'Bulletin.' The senior class are the ones that *have* to know about you because they take current events as a subject and your name has been added to the list of 'Important People in Washington Today' which they *have* to learn for a test! This has made me very unpopular, so please don't do anything more!"

As women of the press you do not need to be told the history or meaning of the new agency for economic stabilization. You also know the reasons why I cannot give specific answers now to all the questions you might like to ask. No one can yet know some of the answers, such as just what forms of direct or indirect controls will be needed, and when, and to what extent; and, even if I knew the answers, it is obvious that I could not give you or anyone else any advance hints without the danger of disturbing the economic stability I am commissioned to preserve.

But I can speculate with you, briefly, on some considerations surrounding economic stabilization, not all clearly understood by the general public.

Inflation Has Been Going On

Inflation has been going on for some years, and has long worried a great many people. Its dangers are now so obvious that nearly everyone wants the government to do something about inflation, provided that what is done does not involve him in any personal sacrifice or inconvenience. The Nation seems agreed that inflation in general must not be permitted to go farther; the only disagreements are about the nature, extent, incidence and timing of controls.

Many people are most concerned with the present inflation —i.e., the present cost of living to the average consumer. The average increase in cost of living since June is probably considerably less than it seems to the harried housewife, though it is bad enough. But many of us are most concerned with future inflation—what will happen if the trend of prices continues upward at the rate of July and August—and what will happen when the full effects of our present and future military orders for defense combined with necessary restriction of production of goods for civilian purchase and consequent competitive bidding for those goods are reflected in consumer prices for food, rent, services and clothing.

Inflation comes from basic economic causes but it also comes from natural human desires. Many Americans have liked some aspects of the inflation of recent years and perhaps profited by them, though only temporarily. A little inflation is nice, if one can afford it, but a lot of inflation is bad for everybody. We must therefore revise our personal desires and recognize that each of us may have to choose between peace and stability on the one hand or a new car, a new television set or a new home on the other. If we all reduced a little our concept of what we must have to be happy, and put the money into government bonds instead; if we all did not expect government to do so much for us and really urged economy in nonessentials; if we were all ready to pay more as we go in terms both of higher taxes and of less credit buying for our personal use—if all of us did all this there would be little need for an Economic Stabilization Agency—and that would be very nice for you and for me!

Those changes in personal points of view; those recognitions of new facts, cannot be achieved by direct controls on prices and wages or by allocation of materials, or by rationing. They are matters of public understanding to which each of you can contribute. Direct controls only restrict or postpone or conceal the effects of inflation: they do not cure inflation. Imposing direct price and wage controls is like tieing the lid on the teakettle; it may be necessary, but the lid will blow off in time unless you also turn down the flame or move the kettle. Any direct controls must therefore be accompanied by more fundamental measures to cure inflation, some of which measures other government agencies are taking. We place our first hope in indirect controls, which in general must be our first effort.

I stress this obvious point because I ask you to miss no opportunity to help make clear how much every American can do to help control inflation. Bernard Baruch said recently that the cure of inflation is really a test of national character. Have we, as a nation, the character to do what we know we ought to do? Only if most Americans understand clearly how important it is to do it. To convey that understanding is an important part of my job and of yours.

Task More Difficult Than Under OPA

Many of you remember the troubled history of price and wage stabilization efforts in the last war. We are trying to learn from that history. Much of our work

*An address by Mr. Valentine before the Women's National Press Club, Washington, D. C., Oct. 31, 1950.

should be easier because of the ground broken by OPA. But in some respects our assignment is even more difficult.

OPA operated after Pearl Harbor, in the atmosphere of a nation under military attack. You remember well the unity and the spirit of determination and sacrifice Pearl Harbor brought. Today we begin stabilization efforts without that second Pearl Harbor which you and I hope will never come. We begin stabilization efforts near the end of a Korean war victory which gives grounds for false optimism. In this twilight zone which is not peace, but which is no less dangerous than open war, we lack as yet the team spirit of those months after Pearl Harbor. Many good Americans are not yet ready to make real personal sacrifice to serve in the war against inflation. Must Alaska or Greenland be in enemy hands before many Americans recognize our danger and act accordingly?

There is a second difference from World War II days. Controls established during the last war were expected to be in use only a few years. Agencies setting up those controls had to ask themselves only whether the national economy and the national free enterprise system could operate efficiently under them for three or four years at most.

But this time we need for formulate a program for defense production, not for four years but possibly for much longer. We must formulate programs and controls which can if necessary endure over more years and yet which will leave our economy at the end of that time stable, productive and free.

What worked for three years may not work for much longer—or might even work too well. We must not exert direct controls which produce as beautiful technical results as those of the young doctor who achieved the perfect operation, although the patient died. We must formulate a program effective for short-term needs, yet adaptable to long-term necessities.

There are other ways in which our situation differs from that of 1941. The economic situation of the nation is different; in 1941 our factories were able to draw on a large reserve of unemployed workmen to meet war expansion. This time (and happily from the social point of view) there is no comparable reserve of unemployed. Competition for skilled labor will become more severe, increasing the tendency toward higher wages, followed by higher prices and another circle in the upward spiral of inflation. It also increases the possibility of more overtime for skilled workers, at higher than normal rates, with the same inflationary effect. Meanwhile, the standard of living for most Americans has greatly improved since 1941. We would maintain those gains, yet their maintenance depends upon higher levels of consumer spending than in 1941, inflationary in influence. These examples indicate that we cannot regard the precedents of World War II as valid guides to be followed under these new conditions. We can neither neglect, nor wholly trust, many of the economic lessons of the last war.

To Halt Inflation Is Everyone's Job

One thing is clear—to halt inflation is everyone's job. If we cannot hold the line voluntarily we shall have to do so by other means. But neither this Agency, nor any other under a free government, can maintain economic stability unless the general program has the support of most Americans. We shall expect much criticism; we will probably deserve it and certainly get it, but our general program must have the support of most of the people most of the time.

The President, in his Executive Order instructed our Agency to "Inform the public, agriculture, industry and labor concerning the need for stabilization and encourage and promote voluntary action to this end."

I know of no other way this can be done, in a free country, than through the medium of the press, radio, television and related fields. The fate of stabilization and the fate of its agents lies much in your own hands. If you and your fellow workers can bring before the American public the real picture of what we face, you will have done your country a great service.

Governors of Assn. of Exchange Firms to Meet

The Board of Governors of the Association of Stock Exchange Firms representing 18 financial communities from coast to coast will hold its annual meeting at the Waldorf-Astoria Hotel in New York City on Nov. 15 and 16. In addition to the regular business sessions of the Board the Association with hold its annual meeting and election of officers and governors.

The feature of the two-day session will be a luncheon and an open meeting of the Board to which partners of member firms have been invited. Included in the program for the open meeting of the Board will be discussion on such subjects as the activities of the Joint Committee on Education by Mr. Amyas Ames, Kidder, Peabody & Co.; Business and Office Procedure by Mr. Harold P. Goodbody, Goodbody & Co.; New York State Unemployment Insurance by Mr. Bernard E. Pollak, Josephthal & Co., and Regional Public Relations discussed by Mr. Phelps Witter, Dean Witter & Co.

It is expected that all of the 33 governors of the Association will attend this meeting. It is also expected that most governors will attend the "Financial Follies" of the Financial Writers Association of New York on Friday, Nov. 17, at the Astor Hotel.

James R. Jackson Is With C. C. McCune

(Special to THE FINANCIAL CHRONICLE)

DAYTON, Ohio—James Roy Jackson has become associated with C. C. McCune & Co., Third National Building. Mr. Jackson was formerly with Reinholdt & Gardner and G. H. Walker & Co. in St. Louis and in the past was associated with the School of Commerce and Finance of St. Louis University.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

FT. WAYNE, Ind.—Robert M. Hosfield is now affiliated with Waddell & Reed, Inc., of Kansas City, Mo.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KEY WEST, Fla.—Theodore E. Stadig is associated with Waddell & Reed, Inc.

Mutual Funds

By ROBERT R. RICH

Investors Group to Finance $90,000,000 in California Housing in 1950, Crabb Says

A total of 11,100 housing units with an aggregate value of approximately $90,000,000 is being financed this year in California by Investors Diversified Services, Inc. of Minneapolis, Earl E. Crabb, Chairman and President of the Company, disclosed yesterday.

This investment by the Minneapolis firm, largest single factor in the American investment company field, represents nearly 45% of the company's total 1950 nation-wide investment operation in the real estate-mortgage field, said Crabb.

Crabb was in Los Angeles to inspect progress on Lakewood Park, the largest single housing project ever undertaken in the nation. The Investors group, Crabb stated, pioneered the undertaking by providing $8,800,000 in funds for original acquisition of land between Los Angeles and Long Beach and financed erection of the first 3,518 houses. Other insurance and financing companies have since participated in providing building funds for additional homes.

Ultimately Lakewood Park is planned to accommodate 17,150 homes built to sell for from $7,825 to $9,950, Crabb stated. More than 6,150 homes have been erected or are under construction to date and 1,250 more are scheduled to be started by the end of the year, it was estimated by C. J. Ryan, divisional manager of mortgage operations for Investors in Southern California.

"The Investors group," Crabb stated, "will continue its long-term policy of making funds available and providing financial assistance for sound, low cost home-building projects, as demand develops, within the limitations of current credit curbs."

Prior to his Los Angeles visit, Mr. Crabb spoke Monday night before the Phoenix Medical Society of Phoenix, Ariz.

The President of Investors Diversified Services, Inc., the nation's largest investment company, stated that a new generation of "little capitalists" is rapidly growing up on America's main streets. These, he remarked, are the men and women who will continue to be among the nation's strongest bulwarks against socialism and communism.

Fully Administered Reports Position

A policy of shifting from "aggressive" into "defensive" securities has been followed by The Fully Administered Fund of Group Securities since the "pre-Korean low" in the Stock Market, it was stated yesterday by Herbert R. Anderson, Executive Vice-President of Distributors Group, Inc., sponsors of the fund.

On July 19, when the "averages" were near their 1950 lows, Fully Administered Fund was only 25% invested in defensive securities, and 75% was aggressive. As the market advanced, aggressive securities, were sold on balance to a point at which the defensive portion of the fund, consisting only of cash, U. S. Governments and Aaa bonds, reached 40%, where it was Oct. 31, 1950.

If the current market declines continue, Anderson stated, the aggressive portion of Fully Administered Shares will again be gradually increased.

National Assets At New High

The National Semi-Annual Reports as of Oct. 31, 1950, when issued, will show total assets under management at an all time high of approximately $80,000,000, H. J. Simonson, Jr., President of National Securities & Research Corporation announced.

Sales of National mutual funds for the first six months of the current fiscal year which started May 1, 1950, were the highest for any comparable period—up 126% over the like 1949 period.

Assets of the National Securities Series rose to $71,986,762.60 on Oct. 31, 1950 from $62,657,381.78 on April 30, 1950.

Manhattan Bond Increases $2 Million

Total net assets of Manhattan Bond Fund were $32,478,403 on Oct. 31, 1950—the end of the company's fiscal year. Increase in net assets for the year was $2,639,734. The net asset value per share at the year-end was $7.74 a gain of 10.7% from the beginning of the year figure.

The Fund paid to shareholders an aggregate amount of $1,485,629 in dividends from investment income during the year ended Oct. 31, 1950.

General Bond Assets Increase

The total assets of General Bond Fund, which is part of the $70,000,000 Group structure, were $5,019,672 on Oct. 31, compared with $4,082,535 on Oct. 31, 1949.

The increase in the 12-month period, which includes both portfolio appreciation and net increase in shares outstanding, is equal to 22.95%. Of this, about two-thirds was due to market appreciation of bonds held for the fund and about one-third to net increase in shares outstanding.

Pell, deVegh Reports

Pell, deVegh mutual fund's net assets were $370,338 on Sept. 30, according to the semi-annual report. The fund, whose operations began in April of this year, had 64% of its net assets in common stocks, 1.2% in preferred holdings and 34.2% in cash.

Wisconsin Reports Large Gains

Net assets of Wisconsin Investment Company totaled $2,739,985 at Sept. 30, an increase of more than $860,000 or 45¾% over $1,879,838 12 months earlier, the quarterly report to stockholders discloses. This gain does not take into account $132,124 of cash distributions to stockholders during the period, Harold W. Story, President, pointed out.

Portfolio changes in the third quarter were highlighted by an increase in the cash position, the fund holding 22.7% of its net assets in cash and obligations of the Dominion of Canada at Sept. 30. Three months earlier the cash position was 8.8%. The company, which had readjusted its portfolio in the June quarter in anticipation of an international crisis, noted that an increased cash position "has become fully warranted in the light of numerous uncertainties which we are facing."

Holdings of Canadian securities were gradually increased in the third quarter, accounting for about 12% of net assets at Sept. 30. This move was made in view of the "improvement in the Dominion of Canada's economic and financial position and in anticipation of a change in Canada's monetary policy," stockholders were told.

Eaton and Howard Assets Rise

Eaton and Howard Balanced Fund assets were $59,448,675 on Oct. 31, compared with $50,624,338 on Dec. 31, 1949. Net asset value per share increased from $28.87 to $30.54 over the same period.

Eaton and Howard Stock Fund reports assets of $5,756,368 on Oct. 31, compared with $3,189,671 on Dec. 31,1949. Net asset value per share increased from $19.38 to $21.10 over the same period.

General Investors Reports

General Investors Trust reports net assets of $2,201,323 on Sept. 30, 1950, compared with $1,885,640 on Dec. 31, 1949.

In a letter to shareholders, the trustees reported that "the need now of the average investor for satisfactory income is accentuated by the approach of higher Federal taxes and the rising cost of living.

"There have been in the past 20 years, and probably will be in the next 20 years, severe fluctuations in the stock market value of securities. The Trustees attempt to appraise and test the income impairment which may follow and to determine whether or not the income from any one security will continue at its present or higher rate. Collateral to this, of course, is our attempt to prevent holding a security overtime when income impairment is likely due to changing economic and political conditions. When a major cycle change indicates a general income impairment then our judgment has to include more specifically the degree of income shrinkage facing a particular class of securities. . . .

"This continuous testing for income yield we consider to be one of our most important functions. Such a basic approach to income over a long period frequently makes possible a considerable degree of appreciation in rising markets and a resistance against depreciation in falling markets."

Growth Companies Increases 36%

A 36% increase in total net assets in the first three months of operation was reported today by Growth Companies, Inc.—the recently organized open-end mutual fund. The increase boosted total resources to $348,891 in cash and securities on Oct. 31, last, from $256,560—all cash on Aug. 1, 1950.

In the same period net asset value per share increased 5.88% to $9.53 from the initial offering price of $9 on Aug. 1, 1950.

Dr. John H. Gross, President, reported that 18 of the companies represented in the fund's portfolio of 38 stocks have declared or proposed stock dividends, or have declared increased cash dividends, or have done both since Aug. 1, 1950. He added that the fund had purchased the securities of all 18 companies prior to announcement of either the stock dividends or the increased cash payments.

Joins Noyes Staff

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, Ind. — Robert L. Remmetter has joined the staff of David A. Noyes & Co., Board of Trade Building.

Joins Reynolds & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Albert S. Harnstrom has become associated with Reynolds & Co., 208 South La Salle Street. He was formerly for many years with Talcott, Potter & Co.

Schram and McDonald To Attend "Follies"

Emil Schram

Harry A. McDonald

Emil Schram, retiring President of the New York Stock Exchange, and Harry A. McDonald, Chairman of the Securities & Exchange Commission, will be the guests of honor at the Financial Follies of 1950, the annual dinner and show staged by the N. Y. Financial Writers' Association, Inc.

The cast this year will be the largest since the founding of the association in 1938, according to Joseph D'Aleo, President, who reported that there are 75 members participating.

This enlarged talent pool has made it possible to lampoon a larger number of business and governmental bigwigs, Les Kramer, Circus Saints & Sinners producer and author, and Bruce Evans, Broadway actor, who is again directing the follies, said in a statement yesterday.

About 1,000 business leaders are expected at the dinner, which will be held in the Hotel Astor, Nov. 17.

Carl Martinson now With A. C. Allyn & Co.

(Special to THE FINANCIAL CHRONICLE)

PEORIA, Ill.—Carl A. Martinson has become associated with A. C. Allyn & Co., First National Bank Building. He was formerly local manager for Taussig, Day & Co., Inc.

Scherck, Richter Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Hale L. Montgomery is with Scherck, Richter Company, Landreth Building.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

A number of developments in the field of investments within the past year have served to attract an increasing amount of attention to insurance and bank stocks.

The liberalization of the laws of New York State governing trustee investments, the passage of legislation permitting Massachusetts savings banks to purchase certain bank stocks in other states and the widespread adoption of pension programs requiring a large investment of funds in various securities including common stocks, are some of the more significant changes and developments which have already occurred in this field.

This increased interest, particularly in the institutional type of common stocks has resulted in a number of the large investment houses publishing studies on the characteristics, operations and fundamental position of the bank and insurance industries and the leading companies in each group.

In this connection Kidder, Peabody & Co., 17 Wall Street, New York, N. Y., have recently published a report entitled "The Merit of Fire & Casualty Insurance Stocks." The study discusses the underwriting and investment operations of the insurance industry and includes pertinent facts on 25 of the major companies. Also, the report points out that insurance stocks are recognized as quality investments and because of the adoption in New York of the "Prudent Man" investment principle, the market for well situated insurance shares should tend to expand.

In addition to a discussion of the various factors influencing the insurance business, the characteristics of operations, the growth nature of premium volume, and the wartime and excess profits tax experience, the dividend record of the different companies is reviewed.

With investment managers constantly in search of higher yields than are currently available on bonds with a minimum increase in the risk, the long and stable dividend records of insurance companies are expected to receive increasing attention.

Thus one of the most interesting and significant tabulations included in the report is that pertaining to the record of dividend payments. We present this table taken from the Kidder, Peabody & Co. report below:

Divs. Paid Without Interruption Since	No. Yrs. of Consecutive Divs.		Indic. Div. Rate	†1949 Net Invest. Income (Per Sh.)	% 1949 Invest. Income Paid in Divs.	Approx. Market Price 9-26-50	% Yield
1908	42	Aetna Cas. & Surety	$3.00	$6.32	48	101	3.0
1873	77	Aetna Insurance	*2.00	3.58	56	57½	3.5
1934	16	American Automobile	2.00	2.28	88	45	4.4
1372	78	Amer. Insur. (Newark)	0.90	1.43	63	20½	4.4
1875	75	Boston Insurance	2.40	3.56	67	60	4.0
1934	16	Continental Casualty	2.00	3.24	62	62½	3.2
1853	97	Continental Insurance	*2.00	3.81	52	63	3.2
1929	21	Employer's Group	1.50	3.37	45	37	4.1
1910	40	Fidelity-Phenix	*2.00	4.04	50	62	3.2
1858	92	Fire Assoc. (Phila.)	2.60	4.30	60	64¾	4.0
1937	13	Firemen's (Newark)	0.60	2.24	27	21½	2.8
1866	84	Glens Falls	2.20	2.59	85	48	4.6
1873	77	Great American	1.20	2.21	54	30½	3.9
1873	77	Hartford Fire	3.00	5.27	57	126	2.4
1874	76	Home Insurance	1.60	2.37	68	35	4.6
1874	76	Insur. Co. of No. Am.	3.50	7.05	50	119	2.9
1948	2	Maryland Casualty	0.80	1.44	56	20	4.0
1872	78	National Fire	2.50	4.14	60	61	4.1
1934	16	National Union Fire	1.60	2.75	58	34½	4.6
1937	13	New Amsterdam Cas.	1.50	3.65	41	37	4.1
1874	76	Phoenix Ins.	3.00	4.62	65	79½	3.8
1872	78	St. Paul F. & M.	3.00	5.36	56	105	2.9
1866	84	Springfield F. & M.	2.00	2.86	70	44	4.5
1941	9	Standard Accident	1.60	2.22	72	35½	4.5
1892	58	U. S. Guarantee	2.80	4.04	69	84	3.3
Avg.—25 Cos.	55				60		3.8

*Excludes possible year-end extra. †Investment income less investment expenses.

As shown above, over one-half of the 25 companies have records of dividend payments of over 50 years. Fourteen have maintained payments for at least 75 years.

Another significant fact shown in the tabulation is that only 60% of the 1949 investment income is absorbed by the indicated dividend payments. No consideration is given to the underwriting profits in the above table, but as revealed in other figures in the report they have been favorable.

Another of the interesting groups of figures presented in the study is that pertaining to the investment policies of the different companies. This tabulation shows the distribution of assets at the end of last year as between bonds, preferred stocks, common stocks, etc. The table reveals, for example, that Fidelity-Phenix had 43.5% of its assets in common stocks, the largest amount of any of the companies discussed, whereas Hartford Fire had only 11% in common stocks and 47.8% in U. S. Government securities. Similar figures for the other companies are presented in the report.

"We Will Win Fight Against Inflation!"

By W. STUART SYMINGTON*

Chairman, National Security Resources Board

Pointing out worst enemies of our democratic institutions are inflation and communism, chief executive of economic mobilization expresses hope fight against inflation can be won with minimum of direct controls, coupled with appropriate fiscal and credit policies. Says, however, if inflationary pressures demand it, direct controls will be imposed. Denounces artificially restricting output by industrial concerns for purpose of opportunity profits, and lauds restraint of leading auto producer in holding to present car prices. Warns wage earners of wage-price spiral.

Since June this country has been in military combat, and the tragic events in Korea have nevertheless made an invaluable contribution to the future security of the United States. They have given us one more chance to face up to the necessities for survival. They have framed a simple truth; namely, if we do not first attain, and then maintain adequate strength, there is sure to be another war, and America is sure to lose.

W. Stuart Symington

It is an American trait to trust both people and nations. That is why we, a peace-loving people, are often caught with our guard down by the war lords. But until secured world peace becomes a reality, how could we ever justify letting our guard down now? We must not relax because of temporary successes in our international program of meeting aggression.

Instead, let us follow the lead of our great President, Harry S. Truman, who last week affirmed that rearmament of the United States will continue until our only possible major aggressor gives tangible proof that he no longer schemes to make the godless creed of Communism the supreme force in the world.

Until we have such proof, our President is determined that this country shall develop and maintain that power necessary to fulfill our obligations to the freedom of mankind.

In that determination, Mr. Truman has the complete support of a distinguished Texan with us here tonight, one who for many years has been an outstanding advocate of adequate military strength, United States Senator Lyndon Johnson. Scholar, warrior, statesman, Senator Johnson is serving his country with rare devotion and skill.

There are two ways to lose a war—one in battle, the other through insufficiency of economic strength.

The first way to protect our economic strength, now, is to prevent the economic disintegration brought about by inflation.

Importance of Some Controls

Because of the courage of our young soldiers, sailors and airmen, and the skill of their leaders, America is doing well on the battlefront. On the home front, however, there is more to be desired in the fight against inflation.

Perhaps the most significant aspect of our current problem is an apparent failure to convince some of the segments of our economy of the importance of some controls, including self-control.

Everybody seems willing and anxious to curb any inflationary trend by having all those controls which affect the other fellow—but not him.

Already we have received many protests against the limited controls thus far established—protests from representatives of agriculture, industry and labor. The spectacle of the accusing finger is beginning to recur, although I had hoped, and still hope, that we as a people had learned inflation spares no group; and that from that lesson would come a unity and moderation which would see us through.

Today the economic system of our country is confronted with many new and unprecedented problems. In many respects the requirements of this partial so-called "gray" mobilization bring about tensions and dislocations which call for a far higher degree of understanding and cooperation than the requirements of an all-out war.

It is apparent that for some time to come a substantial portion of our resources must now be devoted to military preparations. Based upon presently foreseeable requirements, however, goods and services available for civilian use should be adequate to maintain both our economic health and a relatively high level of civilian activity.

The impact of defense requirements cannot in all cases be evenly distributed, and therefore certain productive areas must face the prospect of some reduction in volume, although not to any degree comparable to what was prevalent during World War II.

A further complication is that, unlike a decade ago, some industries facing curtailment because of material shortages will not be able to promptly substitute Government contracts to fill the gap. This situation will create a momentary hardship to the particular business or business affected.

It, of course, places a responsibility upon Government to shape policies so that such dislocations can be held to a minimum.

Nor can the experience of the past be any sure guide to the problems of today, because today's conditions are at least partially unique.

Mounting pressures stemming from full employment, plus a high level of defense expenditures, must be contained; and it is everybody's job to establish this containment without impeding production.

Two Enemies: Inflation and Communism

I have said, and I repeat, that the threat of inflation is as great a peril to our democratic institutions as the curse of communism. We must meet and defeat both of these challenges to our own security.

This task is the most delicate and difficult assignment ever faced by a free government, because there is no precise blueprint which can guide us, no formula that offers any quick or easy solution in a system of free enterprise.

We have developed specific procedures to deal with the more pressing problems of production and allocation, and have invoked restrictive measures to curtail credit in key areas; but the momentum of inflation has merely been checked, not permanently abated.

Nevertheless, the President is determined to take whatever steps become necessary to prevent the disaster of inflation. That is the policy now, has always been the policy, and will continue to be the policy.

It has been my personal hope that a minimum of direct controls, coupled with appropriate fiscal and credit policies, might be adequate to maintain stability in a period when less than 10% of our national product is being diverted to military purposes.

Some of the pressures which this program of partial mobilization generates may be beyond the control of individual businessmen or groups. In all candor, however, many of us have been disappointed over the movement of a number of prices into new territory, on grounds which do not appear to be justified by considerations of cost or supply—certainly not by patriotism.

It is now all too obvious that business and industry and labor and agriculture all have their own responsibilities in determining ultimate policy in this difficult period. If opportunity for profits, based upon scarcity, is to be standard behavior, that can only constitute an invitation for government action of a scope and degree we have so far sought to avoid.

It now seems apparent that in some areas price increases have been taken in anticipation of price controls being established at the higher levels, without any justification based on supply or cost conditions. Where such pricing policies have been followed, I want to tell you now, without any possibility of misunderstanding, that these policies will be taken into consideration when and if the government is required to establish controls. Hence I earnestly appeal to producers everywhere to avoid opportunity profits in the interest of long-term stability.

If it becomes necessary to establish price controls, the government will analyze, industry by industry and commodity by commodity, those pricing policies which have been pursued since Korea; and can anyone complain if his actions in the marketplace result in price schedules which would be related to an earlier price base?

Are Scarcities Being Deliberately Created?

In a democracy it is vital that the people know the facts. Some of the facts of our current situation are disturbing. Not the least disturbing is a growing belief that there is a relationship between the steadily increasing unusual profits of some American corporations and of deliberate policy of limited production.

Nothing could contribute more to inflation than a calculated program of restricting the production of goods in order to create a scarcity, and then utilizing that scarcity as the means for raising prices.

Everybody now realizes for example that there is a serious national shortage of some materials—and those of us in government know that most of these shortages have little to do with current military demands.

In discussing this problem recently with the leaders of a great corporation which produces a basic material, they were frankly hesitant about expansion in their industry, because of their fear of

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*An address by Mr. Symington before the Theatre Owners of America, Houston, Texas, Nov. 2, 1950.

Investors: Watch Federal Financing

By B. BARRET GRIFFITH

B. Barret Griffith & Co., Inc., Investment Counsellors, Colorado Springs, Colo.

After taking stock of nation's overall position, investment counsellor contends our income growth may have resulted from "borrowing from the future," and that taxes are so high as to approach diminishing returns. Urges investors watch closely trend of fiscal policies rather than unearthing weaknesses in American corporations.

As is always true, the present outlook for stock prices is interesting. The fact that there seem to be important fundamental elements which may soon begin to unfold after having been hidden beneath exciting surface events makes the prospects for security prices particularly interesting. Although the widely recognized factors affecting security prices and which include the apparent vulnerability of commodity prices, the historic effects of credit contraction, the possibility of inventory profits becoming losses, and the possible overstatement of corporate earnings resulting from understatement of plant and equipment replacement costs may well cause either hesitation, or decline in equity prices from the current 230 level in the Dow-Jones Industrial Average; it will be the reaction to important other factors which will finally determine the course of security prices during the next year or two.

B. Barret Griffith

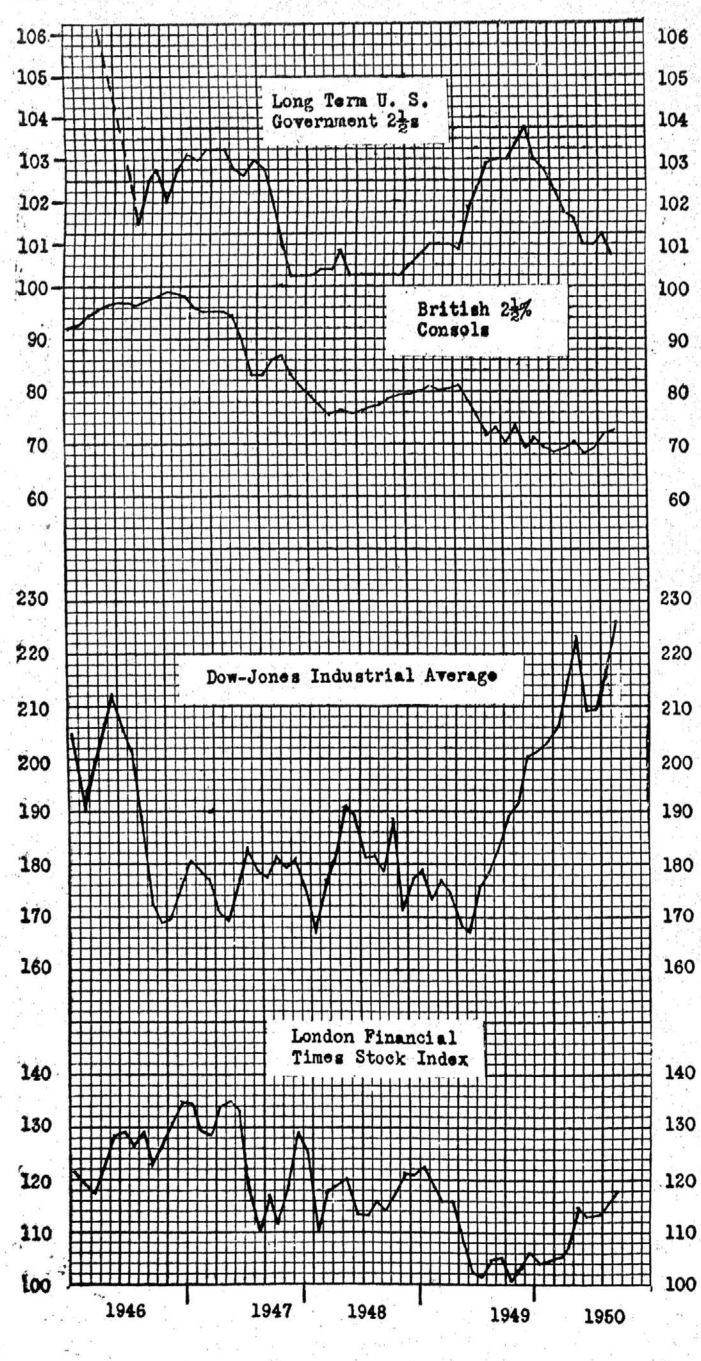
First, let us take stock of our present overall position. Because to me the most concise way to take inventory is to list and compare debt, income and assets, with consideration given to prices and taxes if one is attempting to measure the position of a particular economy, I have compiled the following table to show in the briefest and most general manner our present overall economic situation. The table discloses our debt, income, assets (as measured by gold reserve), prices and taxes. From the table I conclude that our income growth may have resulted largely from our borrowing from the future. Different from 1929, the Federal debt situation

(Millions of Dollars)

	1929	Present	
Debt—			
Federal	$33,174	$256,308	(Oct. 1950)
Consumer	7,628	20,979	(Aug. 1950)
Corporate	47,300	49,600	(1948)
Income—			
National	87,400	221,500	(1949)
Individual	85,100	217,100	(2nd Q 1950)
Corporate	8,420	21,000	
Gold Reserve	3,997	23,483	
Prices—			
Wholesale	100.0	174.7	
Taxes—			
Total	9,768	55,031	(est. 1951)
% taxes to national income	11.2	24.9	

appears to be unfavorable at present, the consumer may not be in too good shape, but corporations seem to be in a relatively strong position. If the assumption is correct that our gold reserve measures to some degree our assets, then, considering our debt to income and gold reserves, the conclusion that present income and assets appear unable to support our present debt seems to be a reasonable conclusion. The table clearly points our attention to the government picture as the present weak link. Uncle Sam is like a frantically busy juggler who is being pressed to keep heavier and heavier balls in the air. If he drops any one of the balls (taxes, income, prices or gold) the odds are that he will lose control of that lopsided fifth ball—debt.

Recalling fundamentals which we all know about, how Federal Governments finance themselves (by taxes, bond sales or coin clipping), may point up long hidden factors which may become apparent before too long and have substantial effects upon security prices. For example, because of the size of our government's present debt and the unhappy experience of those who have owned government bonds during the last ten years upon finding both their principal and income threatened by inflation, the assumption may be justified that the Federal Government may have trouble in financing operations from bond sales to individuals unless the interest rate is substantially increased. As for Federal taxes, it would seem that the government is approaching the point of diminishing returns since existing and prospective taxes will be taking at least 25% of our national income. And, because the man on the street and the housewife are being promptly advised about the inflationary progress and coin clipping, the National Administration may find it more difficult to overcome hard money advocates from this time forward. As investors we might be wise to look for increasing signs of adjustment in the luxuriously expensive type of National Administration which we have had rather than search for general weaknesses in our corporate structure. Different from the early 1930's we may later see corporate strength pulling us out of the whole instead of a financially strong government. Encouraging signs to look for, some time ahead, in the Federal financial picture would be events admitting reality such as the free convertibility of dollars into gold and a realistically higher interest rate on government debt. By listing encouraging signs to look for, I have unwittingly committed myself in this article to a digression. However, since it is related to the subject of security prices, to trespass is justified.



The "Commercial and Financial Chronicle" published last March a study which I made entitled "Investors Can Have a Depression." In that article it was maintained, on the basis of British experience, that increasing wage rates and full employment were no insurance against depression for investors. The following chart pictures the trend of long-term United States Government bond prices and British Consols from 1946 to the present inclusive, as well as stock prices in this country and England. At present the pattern of our government bond prices is somewhat threatening in that bonds seem to be pointed toward and will probably test the long-maintained 100 price level for them. Looking at the trend of British Consols, you will notice that those bonds declined from about 100 in late 1946 to below 70 this year. Since our Government's easy money policy does not seem to fit in the politically hot inflationary picture and because gold has been leaving this country in increasing amounts and flowing toward temporarily more stable currencies, such as the Canadian dollar, a test in the government bond market may be seen during the months ahead. Another point of interest you will note from the chart comparing the trend of the Dow-Jones Industrial Average to the London "Financial Times" Stock Index is that the downtrend in British equities from early 1947 to the Fall of 1949 occurred during the long inflationary period there. Weekly wage rates increased from about 166 to approximately 181 during the interval, and wholesale prices in England advanced from about 184 to 236. British stocks did not begin advancing late in 1949 until the pound had been devalued (the price of gold increased) and there was some assurance that the nation's gold reserve would increase.

Investors might be well advised to watch closely the trend in our Federal Government's fiscal policies instead of trying to unearth weaknesses in substantial American corporations.

Stop Dollar Goose Stepping To Stalin's Tune

By JOSHUA ALLEN HARVEY

Partner, A. G. Edwards & Sons, St. Louis
Members, New York Stock Exchange

Midwestern investment banker, contending Russia's objective is overthrow of the dollar, which would be tantamount to overthrow of our government and business system, urges amendment of tax laws designed to help control use and supply of money. Proposes formula for reducing national debt.

It might be said that this is a Three Hundred Billion Dollar Question and one of the things we are mainly concerned with is the answer to the question: Whose queen will take the throne when the democratic way of life and Karl Marx's way of eternal turmoil have finished exchanging the pawns, horses, castles and kings on the world economic chessboard?

Joshua Allen Harvey

Now that the Communistic forces are stymied on the military fronts, is it a part of their revolutionary plan to make a flank attack on the value of the dollar? Are they glad to see that we are spending a great many more dollars than we ever planned to spend in bringing our state of rearmament for war or defense up to the level of their own? Is the value of the dollar weakened in the world markets as a result of the past two decades of prolific spending by our Federal government of funds furnished through deficit financing and backed by both an oppressive and a suppressive tax system? Will the overthrow of the value, the power and prestige of the dollar be tantamount to the overthrow of our business system and our form of government? The answer to all these questions is "Yes."

Stability of Dollar Uppermost

Admittedly, our armament program is a must. But also the maintenance of a reasonable value and stability of the dollar is a must. We are faced with an immediate solution of the problems caused by the interlocking of the two most powerful economic factors—the supply of commodities and the supply of money — or rather with the problem of how to control the prices of our supply of commodities and the control of the use of our supply of money. In this regard, we hear so much foolish talk about inflation. An inflated or deflated condition is an adjunct to rather than the cause of a given level of business activity. In most instances the terms "inflation" and "deflation" are a misnomer, each instance requiring a special explanation. The use of the words "inflation" and "deflation" should be gradually eliminated from our economic dictionary. We should get into the habit of saying "when the level of business is high, prices are high" and "when the level of business is low, prices are low." Our present state of inflation is not causing a greater amount of business but a greater amount of business is causing a higher degree of inflation. This brings us to a cursory analysis of the control of prices, goods and services and control of the use and supply of money. Price controls have to do with Adam Smith's economic theory of the circular motion involved in the creation of wealth by taking things out of the land, air and sea — the processing, distributing and use of them until put back again. The demands of our armament program have speeded up the centrifugal motion of this circular economic process and we find it necessary to control both prices of certain commodities and the use of the supply of money. The exercise of the control of prices (involving, of course, the use of the supply of money) merely holds in check the fissionable effects of one on the other of these two important economic factors. Probably at this time the control of prices of all the basic commodities will suffice and we may leave the processing, distribution and use of them to the competitive forces. The control of the supply of money should not be so difficult. The supply of money is

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Melvin Hall Director Of Conn. Secs. Div.

HARTFORD, Conn.—Melvin O. Hall of New Britain has been appointed Director of the Securities, Small Loan and Sales Finance Division of the State Banking Department effective Nov. 1, it was announced by Bank Commissioner Richard Rapport. The announcement followed a promotional examination for this position which is in the state classified service.

Mr. Hall, who resides with his parents in New Britain, is a graduate of New Britain High School and the Bentley School of Finance in Boston. He has been with the Banking Department since 1931 when he was one of the original examiners in the Securities Division which was organized that year. In addition to his regular duties as Bank Examiner in earlier years, Mr. Hall worked with the Liquidation Division at the time the Bank Commissioner became receiver of closed banks and also assisted in numerous fraud investigations, including those of the Waterbury municipal scandal and the McKesson & Robbins case. Prior to his appointment as Acting Director of the Securities, Small Loan and Sales Finance Division on Feb. 1 of this year, he had held the position of Senior Bank Examiner for 11 years.

Recently, he was elected Secretary of the National Association of State Small Loan Supervisors at its national convention in Chicago and a member of the Auditing Committee of the National Association of Securities Administrators at its convention in Detroit.

Mr. Hall is a World War II veteran with four and one-half years' service, of which two and one-half years were spent overseas with the 591st Engineers Boat Regiment in the Mediterranean theatre. As a member of this regiment, he participated in the invasion of Southern France with the Seventh Army.

Mr. Hall succeeds former Director Clarence H. Adams who resigned from the Banking Department in February to enter private business.

With H. W. Armington

(Special to The Financial Chronicle)

BOSTON, Mass.—James J. Regan and Myron J. Spencer are associated with H. W. Armington & Co., 79 Milk Street. Both were formerly with Amott, Baker & Co., Inc.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market continues to move in a rather restricted range, despite new lows and somewhat enlarged volume. The ineligibles seem to be supplying the bulk of the interest as far as the longer-term issues are concerned. The bank 2½s of September 1967/72 and the partially exempt 2¾s have been keeping the eligibles in the picture, but with more restricted activity than is taking place in the taps. As a whole, the market does not seem to have changed in sentiment very much, although there appears to be a lessening fear of what will happen to quotations when, as and if reserve requirements are increased.

Federal is still the principal taker of the securities which are being sold, mainly the ineligibles, despite the appearance here and there of other (outside) buyers. This latter interest has been largely in the Vics, which are being bought for income purposes. The short-term market continues to fluctuate according to the dictates of the Central Banks, and these institutions are not making it any easier to create reserve balances.

Increase in Reserve Imminent

The loan trend continues to plague the money markets, because it is believed the authorities will not let borrowings increase too much more, without taking action on reserve requirements. There have been indications that loans were slowing down with certain commercial banks, but the overall total still shows a substantial demand for funds. Although an increase in reserve requirements has been expected for some time, it is felt in many quarters there is not likely to be much more of a delay, since it is believed greater pressure must be exerted to curb this inflationary force.

Creating of reserves has been made more difficult, risky and costly by the Central Banks. This action evidently has not been stringent enough, however, to prevent the deposit institutions from selling Treasury issues in order to get needed reserves. These, in turn, are being loaned out at high enough rates to compensate for the losses which might be taken in the securities that have been disposed of to create reserve balances.

Market Impact of Higher Reserves

How well prepared are the deposit institutions for an increase in reserve requirements? This is a leading question which cannot be answered in definite terms. Nonetheless, it is the opinion of shrewd money market followers that most of the member banks are well prepared for a maximum increase in reserves. This does not mean there will not be liquidation of certain issues in order to meet the new requirements. Some banks, it is reported, will be sellers of the '52s, others the '54s and '55s while '56s will have to let out in some instances. The longest bank 2½s, according to indications, will not be disposed of, except in isolated and extreme cases, which are reported to be in the minority. How will this selling, even if in not sizable amounts, affect the market in general? It is expected there will be temporary weakness, because dealers will not be inclined to take on securities until there is evidence that the liquidation has been pretty well completed.

Temporary unsettlement in the market because of higher reserve requirements could take the various eligible issues down a few thirty-seconds, but no wide-open break is looked for. It is the opinion of many operators in Treasury obligations that the bank issues have rather adequately discounted increased reserve requirements and the expected weakness in prices will not be too severe or of long duration. With such a feeling in mind, it is indicated that quite a few money market observers believe that following some temporary weakness in the eligibles, because of changed reserve requirements, there could be a rally followed by a gradual improvement in quotations of these securties, especially in the higher income obligations.

It seems as though quite a number of deposit banks, particularly in the out-of-town areas, will be interested in acquiring the higher coupon obligations. It is indicated these institutions will not be too much affected by an upping of reserve requirements. A period of market unsettlement in the eligible obligations would give them the buying opportunity which many of them have been waiting for.

Ineligibles Remain Depressed

The ineligibles continue to hang heavy over this sector of the market and new lows are being made because savings banks and insurance companies are still selling in order to take up non-Treasury investments. It is not expected there will be any change in this policy for the next few weeks at least. On the other hand, there has been buying appearing in the longest maturities from interests other than Federal. Pension funds and trust accounts have been making some fairly important commitments in the Vics. This buying, it is believed, will spread out and will be more sizable in the not distant future.

Although State and municipal issues continue to find their way into portfolios of commercial banks, there is still considerable appetite for the partially-exempts as they move into new low ground, especially the last three issues.

The 1⅜s of 1954 and the 1½s of 1955 seem to be fairly active issues, with buyers and sellers going in and out of these two obligations depending upon their needs. The 1952/54s also have been attracting attention, with the buying reportedly better than the selling.

Money and Credit Today

By M. S. SZYMCZAK*

Member, Board of Governors, Federal Reserve System

Pointing out Administration's policy is to rely upon credit and fiscal measures to hold line against inflation and thus diminish need for direct controls, Gov. Szymczak advocates harmony in applying monetary and fiscal controls. Describes recent measures taken by Federal Reserve, and predicts more stringent action will be needed in future.

It has long been my conviction—based, of course, upon my training and experience—that each of us must know not only our political, but also our economic system in order to make it work effectively in the interest of the greatest number; that is, in the public interest and therefore for our national welfare. Our economic system works best when the greatest number understand how it works and why. It follows also that the better we understand it the easier it is to correct any imperfections. In our country, the people decide what they want and how they want it.

M. S. Szymczak

For 17 years I have tried to the best of my ability to explain the working of our system of money and credit. I have tried to show how the Federal Reserve seeks to maintain the purchasing power of the dollar, using the instruments of monetary policy given to the Federal Reserve by the Congress. I have tried to make my audience understand the concepts so familiar to you: the discount rate, which determines the price to be paid by the banks for advances from the Federal Reserve; the open market operations, which influence the quotations at which Government securities are bought and sold; the reserve requirements, which determine the deposits to be kept by the banks with the Federal Reserve; and more recently also the selective credit controls, which influence credit conditions for purchasing and holding securities, for purchasing automobiles and other goods on the instalment plan, and for constructing private homes.

For the past few months much has been said and done about credit restraint in our fight against inflation. However, you and I know that credit measures must not be our only defense. Our first reliance must be placed upon adequate fiscal measures. Second, priorities and allocations become necessary whenever commodities needed for our rearmament program are scarce. The Government's policy, as the President has emphasized, is to rely upon credit and fiscal measures to hold the line and diminish the need for direct controls such as price and wage freezes and consumer rationing.

Late in August at the University of Wisconsin and again late in September in New York before the American Bankers Association, I had occasion to discuss the principles involved in money and credit policy and its relationship to fiscal policy. I shall try today to confine myself to the principal points made on those two occasions.

Fiscal and credit measures both aim to reestablish the proper balance between consumer demand and the available supply of goods. This balance is threatened from two directions: on the demand side, by rising incomes resulting from the increased activities of our defense industries; on the supply side, by the diversion of labor and materials from civilian to military use. We believe that it is essential to prevent over-expansion of the supply of money. Fiscal and credit measures get at the basic causes of inflationary pressures by curbing excessive growth of the money supply. Direct controls, on the other hand, deal with the effects. They serve to contain inflationary forces so long as the controls are effectively enforced. Not only do they deal with effects rather than causes, but they distort wage and price relations and thereby interfere with the efficient working of the market mechanism on which our economy is based. In a free market, a change in prices brings about an increase or a reduction in production according to changing consumers' demand; if such a change in price is made impossible by direct controls, the consumers lose their influence on the decision of the producers. More important still, direct controls are characteristic of a regimented society which is wholly alien to our ideas. They are measures of last resort, inevitable in the case of a total war, but, in my opinion, avoidable in the present situation.

The Role of Monetary and Fiscal Policy in General

Monetary and fiscal policies must always go together because an inflationary rise in money incomes usually stems from two sources: an excess of Government expenditures over Government revenues (in other words, a budget deficit); or an excess of private investment over private savings (in other words, an over-expansion of private credit). Fiscal policy aims to keep the budget in balance; monetary policy aims to keep the system of private credit in balance. Should fiscal policy fail in its duty, monetary policy would have to restrict private credit sharply in order to counterbalance the Government deficit. Similarly, should monetary policy fail in its endeavors, fiscal policy would have to create a huge Government surplus in order to counterbalance the over-expansion of private credit. For this reason, the question can never be whether monetary or fiscal policies are to be used, but only how monetary and fiscal policies can best be coordinated.

The Congress has acted wisely in increasing our income taxes so as to raise tax receipts in accordance with the rise in our defense expenditures, and it probably will have to raise taxes further to keep pace with further rises in expenditures. However, these fiscal measures will at best finance the cost of our Government on a pay-as-we-go basis and avoid the inflationary consequences of heavy deficits. They do not deal with the equally formidable problem of expanding private credit. In other words, it accomplishes nothing in the battle against inflation if we can replace with borrowed dollars the dollars that are taxed out of our pockets.

The recent sharp rise in economic activity, which began several months before the attack on South Korea and is greatly accelerated by our military expenditures, has been based on a rapid expansion of bank credit. Between June and September, 1950, commercial banks increased their loans by $4 billion; bank holdings

Continued on page 29

*An address by Mr. Szymczak before the Institute of Finance, Sponsored by De Paul University College of Commerce, Chicago, Ill., Nov. 3, 1950.

Canadian Securities

By WILLIAM J. McKAY

The persistent strength of the Canadian dollar since it was permitted to find its own level is perhaps somewhat remarkable in view of the apparent official conviction that the huge influx of U. S. capital prior to this step was largely of the "hot money" variety. Undoubtedly opportunist speculation was not entirely lacking in the movement, but there is now little doubt that long-term investment accounted for the major proportion of the influx.

It is also probable that at the obviously undervalued fixed level of 9⅛% discount a certain volume of Canadian dollars was purchased in anticipation of future needs. This type of operation would be difficult to distinguish from a purely speculative transaction and was possibly considered as such in the official estimation. Whether or not U. S. speculation was the dominant feature of the Canadian dollar market before the exchange was freed from its fixed rate strait-jacket, profit-taking at the present level is almost entirely lacking. On the contrary it would appear that a fresh buying wave has been set in motion as a consequence of greater confidence abroad in the new free dollar.

This development is hardly surprising as the present Canadian dollar has a strong commercial as well as financial backing. Whereas the old "free funds" market in New York was exceedingly narrow and subject to wide fluctuations, the present market for the Canadian dollar is both broad and extremely stable. Furthermore it must be remembered that when necessary the new market has the support of a highly adequate official exchange reserve fund. For these reasons investment in Canada under present conditions is on a definitely sounder basis than previously if only because of the improved technical position of the Canadian dollar.

Economic conditions however also continue to provide adequate reason for the current buoyancy of the new free dollar. The Dominion's trade with this country at the present rate of progress is expected to attain a record level of $4 billion. More remarkable than the importance of the volume however is the fact that this total is expected to be equally divided between exports and imports, thus marking the end of the period of chronic Canadian deficits in U. S. trade. Alberta oil production which has played a notable role in this achievement is still on a strongly upward course. The total for the first eight months of 1950 has already surpassed by nearly 4 million barrels the total production of 1949. A further notable event in connection with Canada's rapidly expanding oil industry is the completion at the end of last month of the 1,100 mile Interprovincial Pipe Line connecting Edmonton with the Great Lakes.

Another great development that will surely rank with Alberta oil as a factor responsible for Canada's remarkable economic progress is the exploitation of the huge Quebec-Labrador iron-ore deposits. It has just been announced that the contract for the 360 mile railroad, which will link the mining area with tidewater on the St. Lawrence, has now been signed. The new line, the Quebec, North Shore and Labrador Railway Co., which is owned by the Iron Ore Company of Canada is expected to be completed in 1954. Shortly thereafter it is anticipated that it will be possible to achieve an annual output of 10 million tons. The contract for the railroad has been issued to a Canadian group composed of the Cartier Construction Co., of Montreal, the McNamara Construction Co., of Toronto, Fred Mannix & Co., of Calgary, and the Morrison-Knudsen Co., of Canada. The precise nature of the financing arrangements is not yet known but the funds amounting to $175 millions will be provided by the Hollinger group of Canada, and six U. S. steel and iron-ore companies (Republic Steel, National Steel, Armco Steel, Youngstown Sheet & Tube, Wheeling Steel, and the Hanna Coal & Ore Co.).

The consummation of this vast project which will provide Canada with an economic asset of the order of the Mesabi Range will ultimately place Canada in the position of one of the world's leading exporters of iron-ore. This development in conjunction with the rapidly expanding production of Alberta oil will ultimately have a revolutionary effect on the U.S./Canadian balance of trade, especially when it is considered that oil, iron-ore and steel have for years constituted Canada's principal imports from this country. It can thus be readily seen that the eventual establishment of a premium on the Canadian dollar in relation to the U. S. dollar is well within the realm of probability.

During the week there were unusually large offerings of external bonds resulting from the liquidation of a U. S. account. Activity in internal Dominions was on a reduced scale but continued demand from south of the border was still in evidence. The Canadian dollar displayed persistent strength and the ultimate attainment of parity with the U. S. dollar now appears a distinct possibility. Stocks although influenced by the sharp decline in New York finally rallied led by the paper and base-metal issues. Golds made little headway and the Western oils regained little of their earlier losses.

Dempsey-Tegeler Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal. — James W. D. Liginger has been added to the staff of Dempsey-Tegeler & Co., 210 West Seventh Street.

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Canadian Economic Progress— Retrospective and Prospective

based on supply and demand. This measure of freedom is welcomed by all who feel that controls restrict, whereas freedom of action is necessary if we are ever to get back to international trade on an expanding and healthy basis. If, therefore, this measure of relief from control leads to further freedom, then we shall be moving forward to a goal much to be desired. However, it may be reiterated that, irrespective of the reasons upon which the recent government decision to "free" the dollar were based, the decision to go no further in relaxing exchange controls at the present was to my mind wise and constructive. This view is justified in the light of conditions existing in the world markets and in foreign exchange activities during the months preceding Oct. 1

Most Serious Trade Problem

Turning for a moment to a brief introspective examination of our trade problems, the most serious one which confronted us three years ago was the large deficit then being incurred in our trade with the United States. Our current earnings in trade with the United Kingdom and other overseas countries would have been more than sufficient in 1947 to finance our deficit with the United States. However, sterling could not be converted into dollars and the result was that our gold and dollar reserves were seriously impaired. Since 1947, we have been successful in reducing our trade deficit with the United States to a level which is manageable under present conditions. In 1947, our deficit on account of current trade with the United States amounted to over a billion dollars. By 1949, this deficit had been reduced to about $600 million. It appears now that in 1950 our trade deficit with the United States may be reduced to considerably less than half of the 1949 level.

The postwar years with the attendant currency stringencies, coupled with a foreign aid program, posed many difficulties for Canada. It was obvious that the demands of Canadians for American goods would increase, both as a result of reconversion demands, and because of the rise in national income which was in part engendered by the Canadian desire to help effect a restoration of the European economy. The existence of the dollar shortage meant that Canada could not exchange sterling for dollars and, consequently, we suffered a severe drain upon our reserves of United States dollars. Some form of import restriction, therefore, became unavoidable. Those of you who are particularly concerned with the Canadian market will remember the imposition by the Canadian Government in 1947 of a wide range of import controls and quotas. In three years the improved balance of payments position has resulted in the lifting of many of the restrictions, and an early end is in sight for those that remain.

Canada and Far Eastern Situation

Turning now to the international scene, this brings me to another subject that must be uppermost in your minds, namely the Far Eastern situation. The probable effects upon Canada of the United Nations' action in Korea have come more sharply into focus as a result of legislation passed in our recent special session of Parliament. Canada has acknowledged a prime responsibility for the defense of the northern areas of this continent and we also have acknowledged responsibilities to the United Nations and to the members of the North Atlantic Defense Pact. We are conscious of the fact that Canada is not, with its relatively small population, a very strong source of manpower. On the other hand, going back to pre-1939 days, Canada was recovering from the depression. During this period few new plants had been built, maintenance and repair work had been held to a minimum and much equipment was obsolete. War required a gigantic program of construction and re-equipment. This trend has continued up to the present. Now it can be said in terms of plant and equipment the Canadian economy thus expanded is better able to withstand the financial pressures of military preparedness than before the outbreak of war in 1939. One of the main areas in which Canadian defense preparations can help a pattern of integrated strategy is the provision of armament to supply the needs of other lands in the light of today's aggressions.

In the recent session of our Parliament new amounts were appropriated for immediate defense spending and the power of the government to make future commitments was increased. The total of these defense allocations is equal to about 10% of our expected $17 billion Gross National Product for 1950. While the immediate cash commitment on defense during 1950 will be about 5% of the Gross National Product we are informed that defense spending in ensuing years will absorb not less than about 10%.

An unexpectedly buoyant economy during the first half of the curent fiscal year resulted in an estimated government surplus of $180 million instead of the budgeted $20 million, in spite or the fact that taxes had been lowered. Thus the impact of government defense spending has not been felt through additional taxation of incomes of individuals but by a drawing down of the surplus and increases in corporate taxes (up 5%) and excise taxes on certain articles. The outlook for next year, viewed solely from today's viewpoint, is for somewhat higher taxes coupled with other anti-inflationary measures.

Our battle against inflation was opened by passage of the Essential Materials (Defense) Act, written, as is usual in such cases, to allow some flexibility of application. The policy which this Act epitomizes is that a fortuitous gain should not accrue to individuals through the operations of the government in the national interest. Briefly, the Act empowers the Minister to control the production, distribution and price of essential goods. Unlike your similar Act it makes no provision for wage controls. In addition, non-essential or non-defense expenditures of the government are to be curtailed.

Generally speaking, Canada's present position is somewhat akin to that in the United States. It would be reasonable to expect that the main concern of Canada during the next months will be carry out increased munitions and armaments production as far as possible without inflationary repercussions. Beyond this we must await any further unfolding of the military pattern.

These past few months have witnessed a series of startling events. It is a sobering thought that most of our recent government activities center either on stepping up military activity or combating inflationary forces—forces that left to themselves well might weaken our economic fabric. Yet I must leave with you two personal and optimistic convictions. First, I believe that our economic development during the past five years will prove significant, particularly in that our contribution to world peace will be of greater magnitude than at any other period in our history. Secondly, I am convinced that we are in the process of long-range development of resources. True, this development may fluctuate but the long-run curve will be upward.

While the prospects for our future development are bright I hope I am sufficiently realistic not to delude myself that Canada economically will have a steady upward swing regardless of what takes place elsewhere in the world. We are too much of a trading nation not to feel the effects of conditions outside our own border. Yet at the mid-century mark we see the possibilities ahead. We are happy with our neighbors, for we know that with them we can share the fruits of effort. It remains for us to withstand the impact of relative prosperity, so that the gains may be shared—not dissipated. It remains for us to withstand the inflationary pressures of military preparations necessary to the hope of peace in the world.

San Diego Bond Club Is Formed

SAN DIEGO, Calif. — The San Diego Bond Club has been formed by investment dealers of San Diego and their associates. Membership of the club is open to dealers, salesmen and other members of the investment business in the area with associate memberships available to those in allied professions. The club will hold a luncheon meeting once a month at the Cuyamaca Club and its aim is to advance the interest of securities business in the San Diego area.

C. Wesley Hall, Wesley Hall & Co., was elected President; Edward S. Hope, Hope & Co., Vice-President; and Sam C. Hunter, Walston, Hoffman & Goodwin, Sec.-Treas. Chosen directors were Philip Neary, Dean Witter & Co.; George Roberts, E. F. Hutton & Co.; Henry Sutter, Fewel & Co.; Elmer Spencer, Blyth & Co., Inc.; Joseph Walsh, Hill, Richards & Co.; William C. Barker, Merrill Lynch, Pierce, Fenner & Beane; Fred Williams, Crowell, Weeden & Co.; and Harry J. Wiesler, Wiesler & Co., Ltd.

SEC Approves Plan Of Midwest Exchange

As amended plan developed by the Midwest Stock Exchange to handle special offerings has been adopted by the Securities and Exchange Commission for a trial period. Under the provisions of the plan bonds as well as stocks could be included. The bonds or stocks sold under the plan would be allotted by offering houses on a firm basis of not more than 60% of the securities to member firms which are engaged in the distribution of securities. The special commission would be retained by the offering firms and the consideration of factors determining whether a special offering is called for would be made permissive instead of mandatory.

Walter Cruttenden, Jr. To Be Partner in Firm

CHICAGO, Ill.—Walter W. Cruttenden, Jr., will become a partner in Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges, on Nov. 16.

Will Rearmament Impede Trade Barrier Removals?

By PAUL EINZIG

British economist taking note of improvement in European currencies and trade relations, along with gradual easing of export and import barriers, foresees possibility of changes in situation because of rearmament programs. Looks for some return of bilateralism and embargoes on imports and exports.

LONDON, Eng.—Until recently it looked as if trade barriers had really begun to crumble. For the first time since 1931 the trend of evolution pointed distinctly towards freer international trade. It is true, currency restrictions are still the rule and free international payments the exception. Nevertheless, during the last 12 months, progress was made towards convertibility, especially in Europe. There was also a substantial reduction in quantitative restrictions on intra-European trade. As a result of the effort of the O.E.E.C., acting largely under persistent American pressure, such restrictions on trade between Western European countries were reduced, first by 50% and then by 60%. A further target of an all-around reduction up to 75% came to be considered to be within the realm of practical possibility. Under the European payments agreement the participating countries agreed to grant each other open licenses on a basis of reciprocity.

Dr. Paul Einzig

Nor was the trend towards a liberation of trade confined to Europe. The tariff discussions of Geneva in 1947 and Annecy in 1949 were followed by the Torquay Conference in the autumn of 1950. The aim was a substantial reduction of tariff walls the relative importance of which has increased considerably as a result of the reduction of quantitative restrictions and currency control, and also as a result of the reappearance of a buyers' market which made it important for exporters to be able to quote low prices. There was also a noteworthy effort on the part of the United States to reduce the "invisible tariff" through a simplification of Customs procedure. International disequilibrium has diminished considerably through the recovery of Europe's producing capacity and through the devaluation of a number of currencies. The maldistribution of gold diminished somewhat, and a number of countries have accumulated gold and exchange reserves. Even though the governments refused to yield pressure in favor of a dash to freedom they became more inclined to move towards freedom, however slowly and hesitantly.

This trend was bound to be affected by the rearmament drive brought about by the invasion of South Korea towards the middle of 1950. The United States immediately embarked on rearmament on a truly American scale. Had this example not been followed the result would have been a considerable acceleration of the trend towards liberalization of foreign trade. For a unilateral rearmament by the United States would have accentuated the redistribution of gold and the readjustment of the international balances of payments. It would have tended to reduce the scarcity of dollars, scarcity which is mainly responsible for the continued existence of extensive restrictions on foreign trade. Since, however, it has become necessary for a large number of countries in Europe and the British Commonwealth to follow the American lead, the effect of American rearmament on foreign trade and payments tended to become reduced by the rearmament effort of other countries. This in spite of the fact that the United States have agreed to cover a substantial part of the rearmament expenses of Europe. Even though the changed situation tended to improve the dollar position of Europe it tended to deteriorate the balance of payments of all rearming countries in relation to countries which have not yet found it necessary to rearm. The rearming countries became concerned by their foreign exchange position in the long run, and also by their supplies of essential raw materials and equipment needed for rearmament.

There was no immediate reversal of the trend towards freer trade. At Torquay representatives of 39 countries continued to be engaged in what has come to be known as "multilateral concurrent bilateral negotiations." This apparent contradiction in terms describes a system which was applied successfully at the Geneva and Annecy Conferences, and which greatly facilitated the granting of reciprocal concessions. Simultaneously with the principal negotiations between importing countries with their principal suppliers, they also engaged in subsidiary talks with their secondary suppliers of the same goods, in order to ensure that any sacrifice made by a principal supplier in return for a concession should be shared by the secondary suppliers who stood to benefit by the concession under most-favored-nation clauses. It would be a much slower and more difficult process to achieve this end but for the fact that at Torquay the representatives of secondary suppliers are within easy reach and can be consulted with a minimum of delay.

So far there have been no signs of a setback in the progress of these negotiations, even though it would be premature at the time of writing to assess their ultimate prospects. Possibly the reason of the absence of any striking evidence of a setback in the movement towards lower tariffs and less restrictions on imports lies in the slow pace at which rearmament gets into its stride in most countries. Although various governments decided upon spending larger figures and their Parliaments approved the increases, it is bound to take some time before the decision can be translated into actual industrial effort. Meanwhile the capacity of the countries concerned to export has not suffered, and their foreign exchange reserve is not exposed to any undue strain except to the extent to which they engage in stockpiling purchases. The only immediate sign of the effect of rearmament is the tendency towards the adoption of export duties. Even this may be attributed to the rise in price in certain key materials, rise which has been only partly due to rearmament.

There can be little doubt that, as and when rearmament comes into its stride, the rearming countries will experience difficulties which will tend to induce their governments to revert to trade restrictions. There will be shortages of essential strategic materials and equipment, and in due course also shortages of civilian goods. This, together with foreign exchange difficulties, may force many countries to seek salvation in bilateralism, or even in unilateral embargoes on imports and exports. In order to finance rearmament many governments may consider it expedient to raise revenue by means of increasing their customs tariffs. In the interest of rearmament it is essential that any such reversions to restrictions, in so far as they are inevitable, should be done on a basis of some international planning between the democratic countries. It would be futile and absurd if, for the sake of safeguarding their immediate interests, any of these countries were to inflict grave handicap on the rearmament of their allies. Coordination of military defense would be of small use unless accompanied by a high degree of coordination of economic defense under which the limited supplies that are available would be used in countries which could use them to the best advantage.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At their meeting on Nov. 1 the board of directors of **J. P. Morgan & Co. Incorporated of New York** elected Henry C. Alexander President and Chief Executive Officer of the company; George Whitney, who has been President since the incorporation of the company, was elected Chairman of the Board. R. C. Leffingwell resigned as Chairman after his 72nd birthday but will continue with the company as a director, a member of the Executive Committee and Vice-Chairman of the Board.

Henry C. Alexander

Mr. Alexander was born in Murfreesboro, Tenn., in 1902. In 1925 he became associated with the law firm of Davis Polk Wardwell Sunderland & Kiendl in New York, of which firm John W. Davis, the 1924 Democratic Presidential candidate, is the senior partner. Mr. Alexander specialized in corporate and financial matters and became a member of the firm in 1934. In 1939 he resigned from his law firm to become a partner in the firm of J. P. Morgan & Co. and on its incorporation in 1940 he became a director and Vice-President. He was named Executive Vice-President in December 1948. During the war, Mr. Alexander was Chairman of the Executive Committee of the New York War Fund. He also was active in work for the War Department as Vice-Chairman of the U. S. Strategic Bombing Survey whose mission, pursuant to Presidential directive, was to aid in planning and appraising the results of the air war against the enemy, both in the European Theatre and in the Pacific Theatre.

* * *

The trustees of the **United States Trust Company of New York** have called a special meeting of stockholders to be held Dec. 5 to approve a 150% stock dividend on the 40,000 shares of stock now outstanding. If approved, the stock dividend will be paid on Dec. 27 to holders of record Dec. 11. The proposed action would increase the number of shares from 40,000 to 100,000, and transfer $6,000,000 from surplus to capital. Par value would be $100 as at present. Capital would then stand at $10,000,000 and surplus at $18,000,000, compared with $4,000,000 and $24,000,000 respectively at present. Benjamin Strong, President, said that if the stock dividend is approved it is the intention of the trustees to declare a quarterly cash dividend of $3.50 per share on the new stock or at the annual rate of $14. This is equivalent to the present dividend of $35 per share on the existing stock. The company was chartered in 1853. The first dividend was paid in 1854, and uninterrupted dividends have been paid ever since—97 years in all. A 100% stock dividend was declared in 1945, when the number of shares outstanding was increased from 20,000 to 40,000, and $2,000,000 was transferred from surplus to capital.

* * *

The National City Bank of New York announces that Earl B. Noble will become associated with it Nov. 15 as petroleum consultant. Mr. Noble, who resigned as General Manager for Canada of the Union Oil Co. of California to join the City Bank organization, will work in association with the officers supervising the bank's oil and gas company accounts, as technical consultant on problems of petroleum development, production and financing. Directly associated with him in this expansion of the bank's services will be Bernard T. Stott, Assistant Vice-President.

Mr. Noble, a past President of the American Association of Petroleum Geologists, has devoted most of his business career to petroleum exploration work, and has been with Union Oil since 1923. He served successively as division geologist, assistant chief geologist, chief geologist and in 1944, Manager of exploration of the company. He was appointed General Manager for Canada, where he had charge of all exploration and other activities of the company in Western Canada, in 1949.

* * *

Vincent C. Ross, Vice-President, Treasurer and director of Prentice-Hall, Inc., and Fred W. Hautau, Vice-President, Treasurer and director of C. I. T. Financial Corp., have been elected to the Advisory Board of the Fifth Avenue at 29th Street office of **Chemical Bank & Trust Company of New York,** according to an announcement by N. Baxter Jackson, Chairman.

* * *

Ten former trustees of **Brooklyn Trust Company of Brooklyn, N. Y.** which merged with **Manufacturers Trust Company of New York** on Oct. 13 last, have been appointed members of an Advisory Board for Brooklyn Trust branch offices of Manufacturers Trust, it is announced by Henry C. Von Elm, President. They are: George A. Anderson, Harold P. Borer, Jackson A. Dykman, Lewis M. Gibb, A. Augustus Low; Joseph Michaels Jr., Clifford E. Paige, Charles Pratt, William J. Tracy, and Adrian Van Sinderen. George V. McLaughlin, Chairman of the Executive Committee of Manufacturers Trust and former President of Brooklyn Trust, serves as Chairman of the Brooklyn Trust Advisory Board.

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Announcement is made by James G. Blaine, President of **The Marine Midland Trust Company of New York** of the promotion of Henry L. Wyatt to Assistant Vice-President. Mr. Wyatt as identified with the bank's trust department.

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At a meeting of the board of directors of the **Corn Exchange Bank Trust Company of New York** Miss Alice E. Crawford was elected a director to fill a vacancy on the board. This election marks the first time that a woman has served as a director of the bank.

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Staff members of the **Guaranty Trust Company of New York** representing an aggregate of more than 20,000 years of service with that bank gathered on Nov. 2 in the grand ballroom of the Waldorf-Astoria for the annual dinner reunion of the Guaranty Quarter Century Club, honorary association of those who have served the company 25 or more years. The club numbers more than a thousand members and has chapters abroad in the London, Paris, and Brussels offices as well as in New York. Charles F. Maine presided at the dinner and was succeeded as President by William J. Neil. George J. Livingston spoke for the 81 new members inducted during 1950. Senior officials of the bank who are members of the club include J. Luther Cleveland, Chairman of the Board; William L. Kleitz, President; and W. Palen Conway, John W. Davis, Charles E. Dunlap, Cornelius F. Kelley, William C. Potter, George E. Roosevelt, and Eugene W. Stetson, all directors.

* * *

The East River Savings Bank of New York announces an exhibition on silk screen printing as well as a group exhibition of serigraphs at the Rockefeller Plaza office during the month of November. Represented in the exhibition are artists nationally known in the field of serigraphy: Leonard Pytlak, Ernest Hopf, Robert Gwathmey, Edward Landon and other exponents of this 20th century newcomer to the graphic arts. In addition, a section devoted to small serigraphs in greeting card format will be on display at all five offices of the East River Savings Bank during the exhibition. A group of the serigraphs will also circulate the branches during the season after the November showing at Rockefeller Plaza.

* * *

A group of friends of the late A. P. Giannini, who before his death last year was Chairman of the Board of **The Bank of America National Trust & Savings Association of San Francisco,** recently completed the formal organization of a foundation to perpetuate his memory through educational scholarships. The activity has been in operation since June 2 on a temporary basis, and a number of substantial contributions already have been received, it was stated. Organized under California law as a tax-free corporation, donations to which will be deductible items on income tax returns, the undertaking is now permanently identified as the A. P. Giannini Scholarship Foundation, Inc. The group has elected the following officers: Louis R. Lurie, President; Charles M. Paganini, Vice-President; James F. Cavagnaro, Secretary and Treasurer. Purpose of the foundation, President Lurie noted, is to provide the funds needed to further the education of selected meritorious students.

* * *

The American National Bank and Trust Company of Chicago has increased its capital as of Oct. 25 from $3,000,000 to $4,000,000 by a stock dividend of $1,000,000.

Stock Market Fluctuations

By PHILIP J. FitzGERALD*
Partner, Dean Witter & Co., San Francisco
Members, New York Stock Exchange

West Coast securities broker, pointing out fluctuations are inherent in stock market because it is an auction market, ascribes as chief reasons for changing prices: (1) ebb and flow of business cycle; (2) shifts in expansion and contraction of industries; (3) shifts in position of individual concerns; and (4) news events and psychology. Because of difficulty for investors to anticipate such developments, urges buyers of securities concentrate on most successful companies in most successful industries.

AUCTION MARKETS:

Fluctuations are inherent in the stock market which is in effect an auction market, organized for the purpose of providing liquidity to the huge volume of investment funds entrusted by American investors to our leading corporations. Obviously, all owners of the stock of a company seldom choose to sell all of their holdings in a day, and those interested in making an investment in a special situation seldom have sufficient funds to buy all the outstanding stock of a company. When such total transactions occur, they are usually handled as a special deal outside of the Stock Exchange, which is designed to provide buying and selling opportunities each day in a more normal volume. Since the buyers and the sellers each day act under their independent reasonings, there can never be a very static situation in the stock market.

Philip J. FitzGerald

LIQUIDITY:

Without a stock market an investment in the shares of our leading companies would not be very liquid. An investment in a house or a motel or some other valuable personally operated enterprise must sell itself to a very specialized type of investor who, in addition to providing the funds, will wish to live in the home or run the small business.

With a stock market the owners of a small portion of the shares of any company can realize upon their investment every single day and correspondingly an investor with a reasonable sum of money to invest can be assured of acquiring the securities he wishes within reasonable limits.

SUPERVISION:

Thus, the sellers and buyers of but a small fraction of the value of the corporations of the country establish the daily prices under the supervision of the Stock Exchange which sees to it that:

(1) all transactions are entirely legitimate in that the seller actually delivers his securities to an independent buyer so that the price at which the transactions occurred are the economic expression of two prudent individuals expressing their judgment in an arms length type of transaction; and

(2) that all of the securities are good delivery, meaning that the buyer need never fear that he is purchasing either counterfeit, forged, or stolen securities.

The Stock Exchange's functions stop with providing a true and honest market place and it is the function of the buyer and the seller using their judgments independently to arrive at a price.

FLUCTUATIONS:

It is the fluctuations which occur in the stock market that attract speculators. The continual ebb and flow of values and the extremes within which the market gyrates have combined to give it a bad name with the general public who tend to fear that the fluctuations either represent lunacy or conspiracy. However, these continuous fluctuations with occasional periods of violence are inherent in a free market where people are free to make fools of themselves as well as express their sane judgments.

Obviously, the members of this investment class are interested in investing and dislike or deplore the extent of the fluctuations which occur in the prices of common stocks. Therefore, it seems proper to consider the four distinct reasons which contribute to the fluctuations of the individual stocks which make up the market, and which, in toto, account for the fluctuations of the stock market itself.

The four main reasons contributing to the fluctuation of stock prices—three of which are easily explained—are:

(1) **The ebb and flow of the business cycle.** With rising business most companies experience greater sales upon which larger profits are realized from which larger dividends can be paid. A contraction in general business works in reverse. This provides the most fundamental reason for the entire market to fluctuate.

(2) **The ebb and flow of industries.** Certain industries surge forward dynamically while other industries contract because of a shift in fashion or technological obsolescence.

(a) At the turn of the century the anthracite coal industry was considered a most favored investment since huge coal resources were located in only a few Pennsylvania counties and rested in very strong hands. The major Eastern cities insisted that only this fine fuel could be used within their limits — thus giving to the industry a splendid outlook. Over the years, however, the development of natural gas and heating oil have provided homes with fuels which are technically superior. To clinch their technical advantages, coal operations have been subjected to periodic shutdowns by John L. Lewis who has chosen to exploit the customer's dependence for the purpose of winning temporary wage advantages. To draw an analogy with real estate, which is more generally understood, the anthracite coal industry went from a most exclusive neighborhood to a slum neighborhood in the course of the past generation.

(b) The chemical industry which did not exist in its present form before World War I, has used research to such an advantage that it has become in a single generation the most exclusive investment neighborhood. Through its research the chemical industry has provided a steady stream of:

(1) **better products,** whose improvements were calculated in the laboratory,

(2) **cheaper products,** where technology improved production processes; and finally

(3) **entirely new products,** like rayon and nylon, which have been created by science and which do their jobs in a manner that is superior to the performance of the raw materials found in nature.

The changing relationships of the various industries to general business tends to send some industrial stocks higher and others lower within the fluctuations of the entire stock market, which, in its entirety, is essentially gauged to the business cycle.

(3) **The ebb and flow within an industry.** Individual companies experience different results — some forge ahead with dynamic management while others lag behind. This provides a third reason for the fluctuation of stock prices, as individual companies gain or lose in relation to their competition.

(4) **News events and psychology.** The last category of reasons for the fluctuation of stock prices might be summed up as all other reasons, or all reasons that are not strictly of a direct business nature. This category includes reasons that are economically very fundamental and which in due course can be expected to alter the prospects or the profits of business and which, therefore, are more compelling than the current status of business. This category includes, among others, such developments as:

(a) war or rearmament where (1) war material needs added to normal civilian demands exceed the capacities of our major industries and so bring about controls, and (2) rearmament costs bring about higher taxes which fall heavily upon the investing class;

(b) inflationary trends which create unnecessary money and stimulate both business and prices to the disadvantage of fixed income securities,

(c) labor legislation or policy which has at various times increased costs at the expense of profits,

(d) the sit-down strikes of 1937 which scared businessmen and investors into a paralysis that brought on the recession of 1937-38, and

(e) shifts in the gold standard or the status of international monetary exchange which has either helped or harmed our export trade.

These reasons also include factors that are essentially psychological like the attitude of businessmen and investors toward the political administration. During the early 1920's investors refused to believe that the postwar level of business could be so vigorous. Thus, while stocks sold at levels that were historically high, stocks were extraordinararily cheap on the basis of their sales, their profits, and their dividends. In due course, psychology shifted and the national psychology, far from fearing that prosperity could not last, decided it would not only continue indefinitely but would get better and better as time went on. This delusion was pronounced in investment circles where some $15 billion was borrowed to buy securities. The New Era thinking actually permeated our entire society and the economic thinking of both the Democratic and Republican candidates for President in 1928 makes very little sense to those who have reviewed it with the benefit of hindsight. The New Era boom was followed by an inevitable showdown on the costs of World War I. Europe's bankruptcy had only been postponed because of the reckless loans made by American investors. By the time the European economy collapsed because of financial breakdown, the American economy had become inflated by the most reckless type of stock and real estate speculation. These excesses actually embarassed the solvency of our banking structure. While stock prices retreated in the break of 1929 from the reckless thinking of the New Era — it was not until the fall of 1930 that they began to reflect the business depression. By late 1931 stock prices again fell due to the collapse of the pound sterling and in 1932-33 they continued to fall due to our own banking crisis. With depositors everywhere becoming scared of their banks, we had a period of silent runs that required bankers to liquidate whatever loans could be realized upon. Since the stock market provided the only source of liquidation that remained open, stocks were sold for whatever prices they would bring. Consequently, stock prices fell to levels in 1932-33 that were as foolish as the peak 1929 prices. We might note, however, that subsequent changes in the banking system, such as the Federal Deposit Insurance and various controls that can be utilized by the Federal Reserve System, provide ample protection against a recurrence of the 1933 banking debacle.

STATISTICAL AIDS

As regards the ebb and flow of business in general, the ebb and flow of industries, and the ebb and flow of companies within an industry, much more sound data are now available to the investor than was true in the 1920's and 1930's. The government, as well as private industry, now collects and evaluates such a wealth of statistical data as was undreamed of 20 years ago. These data are available in any well equipped financial institution, and with its proper use such institutions can provide investors with very sound advice about the first three factors causing fluctuations in stock price.

(1) **The ebb and flow of general business**—various data collected on a weekly and monthly basis, such as "new orders," make it possible for trained people to estimate the status of business over the course of the next 3 month period with considerable accuracy, and with reasonable accuracy for 6 months in advance.

(2) **The ebb and flow of industries**—the government and other agencies have collected a wealth of historical data on various industries, data of a continuing nature which enables trained personnel of a financial institution to accurately advise the investor as to which industries are growing faster than general business, and which industries are falling behind.

(3) **The ebb and flow within an industry** — various factors have encouraged the more free publication of financial data by companies, all of which has led to the provision of an accurate scoreboard on the relative performance of companies within each industry.

(4) **News events and psychology**—Neither the government, the economists, nor the investment community are able to cope with the fourth factor, or factors, so successfully. Usually several factors are working in different directions making it necessary to weigh one against the other—a very difficult job since the forces at work are almost imponderable.

The Korean episode is a fine example. At the start of last June we were experiencing the greatest peacetime boom in our history; one that was financed in good part by the reckless extension of credit in connection with the purchase of homes, automobiles, television sets, and other types of consumer durable goods. The level of business, its earnings and dividend prospects were excellent —but investors were focussing their attention as to how long it could last in view of the credit abuses. Now it is not my intention to criticize installment sales as such. Actually, installment sales have been a great help in building a higher standard of living by channeling our national spending into homes, autos, and appliances which are of lasting value. However, when we buy on the installment plan we are mortgaging our future—so while a reasonable amount of installment buying is a splendid thing, an excessive amount is sure to bring on a depression. The effects of excessive installment sales on business are obvious, and might well have been the prospect for say 1952.

Then came Korea—our peace boom was immediately threatened by a war boom which would divert steel and other materials into armament products. A high level of business activity appears assured for the duration of an armament emergency, including the prospect of a pent up civilian demand for products not available during rearmament.

Developments arising from Korea threaten to:

(1) cut back on the production of many peacetime products — many of whose manufacturers are not equipped to do armament work,

(2) impose controls so that the limited supplies of raw materials could be equitably used by all industries, and

(3) increase the level of taxation very drastically.

With the realization of these factors, stock prices broke drastically with the Korean announcements. Many investors rushed to get out of securities, and their selling orders overwhelmed the existing demand for stocks. As the market fell precipitately, however, a source of investment buying developed. The trust funds in New York which had just received legal permission to place up to 35% of their funds in common stocks decided that the panic nature of the selling provided them with a fine buying opportunity. The net result was that the panic sellers sold to the most permanent type of investors. By mid-July the buying and selling equations were reversed. Sensing the market was not going lower, those who sold in panic attempted to replace their securities. As the war news got better the buying became more insistent so that four months later the leading stock indices are above the levels they had reached in the peace boom prior to Korea.

It is not only hard for many investors to understand these factors, but it is also almost impossible for them to anticipate such developments. Therefore, it would seem wise for such investors to concentrate their buying on the most successful companies in the most successful industries.

THE ENGINEERING APPROACH:

Unfortunately, the formula of successful investing is not quite that simple. In periods of enthusiasm speculators are apt to bid up the shares of top ranking companies to prices that are not warranted by their current rates of operation or their near-term prospects. Therefore, an investor would be wise to adopt a formula with which to measure the investment attractiveness of stocks. In this respect, we might well borrow something from the mining engineer.

A mining engineer divides the ore on a prospect that he is considering between:

(1) **the proven ore,** ore that has already been blocked out;

(2) **the probable ore,** ore that logically can be expected to ex-

*A lecture by Mr. FitzGerald at final meeting of Lecture Series on Securities of the San Francisco Stock Exchange, in conjunction with Adult Education Program of San Francisco Public School System, San Francisco, Oct. 24, 1950.

ist as the property is developed; and

(3) **the possible ore**, ore which may be found if all goes well according to geologic indications. Now, to be proven, the ore must be established — that is, opened upon all three sides in blocks of not more than 125 feet square. By taking samples every three, five, or seven feet, the mineral content of the ore can be estimated. Although the sampling method may prove inaccurate on individual ore bodies, exceptions are so few that the mining industry proceeds with its development expenses on the basis of the proven ore samplings. When the size and value of the proven ore has been determined, the engineers can estimate with reasonable accuracy what it will cost to equip the property and extract the values. The profit on the proven ore must be sufficient to make the necessary investment attractive without regard to the probable or possible ore that may be developed in the future. If the latter work out they will yield future profits, and if they fail to materialize there has been no loss on the undertaking.

While mining engineers attempt to evaluate the probable ore as carefully as they can from the evidence on hand, they invariably discount their findings by 80% or 90%, feeling that they are speculating at best and that they must be realistic. As far as possible ore is concerned, mining engineers know that this is only a gamble at best so they pay little if anything for it at the present time.

This does not mean that in many instances the value of the probable ore did not exceed the conservative estimates and result in profits far above expectations. And, in some notable instances, the possible ore has been of such bonanza proportions that humble miners became millionaires.

Now, in investing in securities we also have "proven ore," which includes a good trade name, fine operating facilities, a strong treasury, and an honorable management endorsed by their own record of accomplishment. The present selling price must be considered against the above factors and the company's present earning power and dividend potential. If these factors approximately justify the present prices, then an investor is in a position to consider the probable ore, which in the investment field should be the prospects over the next year to 18 months. If the prospects are for even better results, and current results justify the price, the investor should enjoy a fine capital gain. If, however, the current price includes a payment for prospective results, the investor will be lucky to break even, and he will be a considerable loser if he was wrong. If the investor pays for long range prospects at the present time he is then gambling, pure and simple, and will probably lose his money.

In the 1926-29 period the stock market progressively got away from existing values and started to speculate on the brighter prospects that seemed immediately ahead — then it started to carry the glorious prospects of the New Era far into the future so that the price structures of stocks were skyrocketed into the stratosphere where investors were gamblers at best.

The sobering effects of the depression have tended to depress the price of stocks so that, based upon previous standards, it would appear that even the proven ore was selling at a chronic discount. This does not mean that stock prices have not been subject to sharp breaks. Stock prices broke in the fall of 1937 when the sitdown strikes paralyzed all business planning; in the spring of 1940 when France collapsed; in the winter of 1941-42 while we appeared to be losing the war; in 1946 when investors generally decided to anticipate a postwar depression; and finally, this summer with Korea. However, investors who held on to quality stocks in these breaks have seen their purchase prices supported by earning power and adequate dividend yields which in due course have allowed them to recover. This experience is entirely different than the experience of those who bought stocks on margin in 1928 and 1929 when they were selling at ridiculous levels and provided very unsatisfactory dividend yields.

CONCLUSION:

The members of the Adult Education course have attended this series in order to understand investment problems and to be in a better position to form a successful investment policy. For those of you intending to invest, I would suggest that you contact the services of a reliable investment firm that has the statistical resources to render you competent advice. I would then suggest that you limit your attention to those industries which are making the greatest headway, and to the leaders in those industries. This will assure you of a splendid location for your investment. Then, with the help of your investment dealer, I suggest that you assure yourself that the stock is cheap on the basis of its current operations, so that if some unforeseen event like Korea should interfere you will be able to hold your securities through the selling panic, sustained by the dividend and possessed of a real hope that you will ultimately be advantaged by the future growth of the companies in which you have an interest.

Such a policy will minimize the effects of the market fluctuations upon your personal investment results.

Railroad Securities

Chicago Great Western

In contrast to the rather indifferent action of railroad stocks as a whole, Chicago Great Western common last week attracted considerable attention. On relatively heavy volume (floating supply of the stock considered) it pushed ahead on Friday to a new all-time high. It is generally recognized in financial circles that dividends are still a long way off. Property needs are still substantial and there are dividend arrears of $7.50 a share on the preferred stock. The absence of dividend prospects, however, has not been an important enough factor to overshadow the phenomenal improvement in the road's operating status and long-term earnings potentialities.

As measured by transportation ratios, Chicago Great Western has become one of the industry's most efficient units. The major step in this direction occurred just about a year ago when the Dieselization program was completed. The road was the first one to become 100% Dieselized. Reflecting this improvement in the motive power situation, and despite disruption of operations in June and July by a strike by the road's employees, the transportation ratio for the seven months through July was cut to 32.3%. This compared with 37.9% in the like 1949 interim. The magnitude of this 5.6-point cut is obvious when it is realized that each point is equivalent, before Federal income taxes, to $0.94 a share of common stock.

With the recovery from the short-lived strike, operations have been even more impressive. The transportation ratio in each of the past two months has been well below 30%. As a result, the ratio for the full nine months dipped to 31.0% and should be down to around 30% for the year as a whole. There will be few roads that will show any better performance, and in the case of Great Western the showing would be appreciably better if it had not been for the strike. Next year, barring particularly severe winter storms to which the property is periodically subjected, at least further moderate improvement is looked for.

Complementing the motive power program that was completed about a year ago, the management has instituted a program for the rehabilitation of the plant itself. This phase still has a long way to go if the property is to be put in condition to take the fullest advantage of the improved motive power situation in the expeditious movement of tonnage trains. For some time now Great Western has been running one of the highest maintenance ratios in the industry, as contrasted with its low transportation costs. This condition is expected to continue at least through the whole of 1951 and perhaps throughout 1952. These exceptionally high maintenance outlays as the property is being put into shape tend to obscure the full extent of the improvement in operations.

For the nine months through September gross revenues were just modestly ahead of those of a year earlier. In part, the revenue gain was offset by increased maintenance outlays and tax accruals were also higher. Nevertheless, and almost entirely due to the lower transportation costs, net income of $2,019,384 was nearly double the net realized in the nine months through September, 1949. Earnings on the common stock, before sinking fund and the Additions and Betterment fund, amounted to $3.78 a share. On a similar basis, nine months' earnings in 1949 amounted to only $1.33 a share.

Normally, October is seasonally the best month of the year. It is doubtful if it will be as good this year as September, as the company in September, 1950, took the full credit for retroactive mail pay increases. Even at that, earnings before the funds mentioned above should run between $5.50 and $6.00 a share on the common. On the basis of the present general economic outlook, and granting that the road itself will presumably not experience a strike, results next year should be at least moderately higher. Once the heavy property rehabilitation program is over, the same set of circumstances could well result in earnings on the common of between $9.00 and $10.00 a share, in the opinion of most analysts. Under such prospects it is hardly surprising that investors are willing to forego possible dividends for a further period of rehabilitation.

Public Utility Securities

By OWEN ELY

Gulf States Utilities Company

Gulf States Utilities is one of the important "growth utilities" in the South. About 93% of the company's revenues are electric, 5% gas and 2% water. The territory served is a long belt in the south-central portions of Texas and Louisiana, comprising some 27,500 square miles. It extends eastward from Deanville, Texas to Holden, La., a distance of 350 miles. The system is interconnected with the exception of the small isolated property at Alvin. 271 communities and surrounding areas with an estimated population of 660,000 are served, the larger cities including Beaumont, Port Arthur, Baton Rouge, and Lake Charles.

About 12% of revenues is derived from sale of electricity or steam to the oil industry, the dominant activity in the area. Production of chemicals, including synthetic rubber is also important. Other products of the area include rice, cotton, sugar cane, produce, cattle, lumber, sulphur, and salt.

Revenues increased from less than $11 million in 1940 to over $27 million in 1950. Even in the postwar period the revenue gain has exceeded 50%. The population of the area has increased only about 65% since 1940, however, so that much of the growth reflects larger individual use of electricity. Thus in the postwar period average residential use per annum increased from 1,170 kwh. per annum to 1,495, an increase of 28%.

The company has been handicaped, and share earnings probably retarded, by lack of adequate generating facilities. At present the company has agreements for purchased power, principally emergency or surplus power subject to availability, amounting to 110,800 kw. and also has to operate obsolete plants having a capacity of 22,050 kw. It has not been able to maintain an adequate ratio of generating capacity to maximum load, and the proposed construction program is designed to improve this ratio and thus eliminate the use of purchased power except through mutually advantageous interconnections. The installation of new capacity in 1949-50, and as scheduled later, is as follows:

Kw. Name-Plate Rating of Equipment and Capacity of Purchased Power Sources

	Total Dec. 31, '49	—Proposed Additions— 1950	1951	1952	Total Dec. 31, '52
Modern economical capacity	262,500	120,000	75,000	60,000	517,500
Low efficiency stations	22,050	------	------	------	22,050
Total	284,550	120,000	75,000	60,000	539,550
Capacity from other sources, principally subject to availability by supplier	100,800	------	*85,800	------	15,000
Total available capacity	385,350	120,000	*10,800	60,000	554,550

*Decrease.

It is estimated that the system peak load will increase from 327,600 kw. in 1949 to 475,000 kw. in 1952. The peak load in 1949 exceeded the company's efficient generating capacity by about 65,000 kw., but by 1952 efficient capacity should be 42,500 kw. above the estimated peak load, providing a 9% margin (plus the obsolete units). Material savings and greater service dependability should result from the new generating equipment.

Cost of the construction program is estimated at $29 million for 1950, $25 million for 1951 and $18 million for 1952, or a total for the three years of about $72 million. It is estimated that half of this will have to be raised through sale of new securities, including the $7 million preferred stock for which competitive bidding is scheduled on Nov. 21. The method of raising the remaining $29 million has not been determined.

Capitalization as of Aug. 31, 1950 adjusted for the pending issue of $7 million preferred stock, is approximately as follows:

Long-term Debt	$78,200,000	55%
Preferred Stock	30,000,000	21
*Common Stock Equity (2,720,000 shares)	34,500,000	24
Total	$142,700,000	100%

*Excluding reported intangibles.

The company's common stock was distributed by Engineers Public Service, in connection with the dissolution program of that holding company, on July 21, 1947. Share earnings for the common stock in the past decade, and the dividends and price range since the stock has been in the hands of the public, are as follows:

	Share Earnings	Dividends Paid	Approximate Range
1950 (12 mos. ended Aug. 31)	$1.83	$1.20	24 – 19
Calendar Years:			
1949	1.91	1.20	22 – 17
1948	1.77	1.05	19 – 14
1947	1.75	0.25	16 – 12
1946	*1.54	---	------
1945	*1.08	---	------
1944	*0.86	---	------
1943	*0.81	---	------
1942	*0.59	---	------
1941	*0.69	---	------

*Based on 1,910,000 shares.

The stock is currently selling on the Stock Exchange around 19½ to yield 6.2%.

Financing Defenses

By DR. W. RANDOLPH BURGESS*

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

Banking leader, depicting dilemma between inflation and regimentation, warns against ill-chosen and too heavy taxes. Maintaining we must tax spending instead of production, he terms excess profits taxation poor device in this situation. Indicates government can reduce nondefense expenditures by $6 billion by cutting back to 1948 level.

Economic historians may well consider Korea as a dividing line. While the Korean episode itself may pass quickly, it has made a vast change, for it has awakened this country to a new international responsibility. It has persuaded the American people that communism is seeking world domination by every means at its command, and it has stirred us to a realistic program of resistance. Two conclusions the people of this country seem to have accepted. First, that we and our Western European allies must promptly arm ourselves against possible military aggression. The atom bomb is not enough. We must have substantial ground forces, a balanced air force, and a strong navy. This is our best hope of maintaining peace.

W. R. Burgess

Second, that this is a long term effort. We shall have to be strong, not just this year and next, but for decades. There is no visible hope for a quick dissolving of the issues. Such a long range effort calls for long range policies. It calls for economic, social, and moral strength just as truly as for military strength, for military power today involves the whole life of any country.

These two conclusions by the American people have changed the economic prospect for this country.

Twin Dangers—Inflation and Regimentation

The injection of a great new military program carries with it two grave economic dangers—inflation and regimentation. Prices are climbing. The cost of living has started to rise again. The dollar, depreciated by World War II and its aftermath, is moving lower. We know too well the results of depreciated money to accept it placidly. It disorganizes the economy; it hinders the defense effort; it promotes wage controversies; it is grossly unfair to the pensioner and everybody else on a static income.

The other danger is that to resist inflation and to focus the economy on arms we should regiment the life of the people, and put prices, and wages, and spending, and investment all under rigid controls. If this were a brief emergency such a program would not worry us so much, for we could release the controls when the crisis passed. But in a long range program regimentation is stultifying. It removes incentives for efficient work all the way from the unskilled youth to the top executive. It would be one of the surest ways of weakening our country in a situation which calls for the maximum in productivity, strength, and morale. Experience here and in Europe has shown that detailed controls of economic life don't work well. They encourage black markets. They favor the speculator and the shyster. While they may suppress inflationary forces, they simply bottle them up; so they break loose later.

*An address by Dr. Burgess before the New York State Chamber of Commerce, New York City, Nov. 2, 1950.

This dilemma between inflation on the one hand and regimentation on the other is the core of our economic problem today. It cannot be solved by rote, or by emotion, or by letting things drift.

The tendency always is to fight the last war over again. Hence we shall do well to note that we start this adventure in very different position from the beginnings of World War II.

In 1939 there were about 9 million unemployed in the United States. There were surpluses of most of the materials for war production. Mines and factories were working below their capacities. Thus, in the early days of war guns could be added to butter. We could have them both at the same time. Today there is little unemployment. There are shortages of a large number of critical materials of war, such as steel, copper, zinc, and aluminum. Most of the country's factories are already working at high rates. We can add to our present production, but also we shall have to substitute arms production for some other kind of production.

Another trend should be noted. This new military effort finds us in the midst of a struggle to decide how far we shall go on the road to Socialism. Government has steadily been increasing its control over the lives of people, its control over agricultural production, transportation, communication, power production, and credit. Some of these extensions of government may be good, but together they add up to a dangerous tendency away from the democracy we have known, toward State Socialism. It would be easy for those who believe in Socialism to use the needs of the arms program to fasten more of these sorts of control on our society.

The Production Task

To solve this dilemma between inflation and regimentation the first thing to examine is the country's over-all productive capacity, to discover whether the arms program can be fitted in without the government itself practically taking over and running the productive machine. This year the gross national product of the United States is at a rate of approximately $280 billion a year. The overall cost of the armament program in this fiscal year is not likely to be more than $20 billion. 1951-52 is still an unknown but the figures mentioned are $30 to $45 billion. It takes some time to get arms production moving. Thus, in a rough sort of way, we may say that this year the arms program calls for some 7% of the country's present gross national product, and next year for about 12 to 15%.

To the extent that the country's production can be stepped up to meet this extra demand the percentage of the military to the total and the degree of strain will both be reduced. Certainly some increase in total production is a reasonable expectancy. The average work week in manufacturing in September was just under 40 hours, as compared with 45 hours or higher at the height of World War II. Some new recruits can be added to the labor force. Greater efficiencies are always possible, and we can again bring into production plants constructed for World War II which have recently been idle. New investment is steadily increasing and improving plant capacity.

Just how much total production can be increased by these means is not measurable. But even after the best is done there will have to be some substitution of arms production for other production.

Fortunately, the present huge output includes many kinds of production which are far ahead, not only of past records, but of probable normal requirements of the country. It represents in part a making-up of shortages, and in part stockpiling by government, business and individuals anticipating trouble ahead.

The biggest boom is in building construction. This year we have been building at a rate of 1,400,000 family units a year. It is faster than the rate of growth of families. It is only possible because of huge government subsidies and guarantees which enable many people to buy houses with little or no cash payments. Experienced real estate people and lenders have had grave doubts about these methods and their ultimate result. Certainly the present rate of building under this sort of forced draft cannot be continued long without trouble. A cut now in the building volume will help check the upward surge of building costs and make for greater long run stability.

The huge volume of building has carried with it increased demand for automobiles, refrigerators, and washing machines, and expenditures for roads and utilities. Thus a reduction in new building will help relieve the congestion of the economy, and provide manpower and materials for the defense program with a minimum of damage to the standard of living.

Credit Policy

The regulations of the Federal Reserve Board under the Defense Production Act therefore strike at a key point. Only time can tell whether the specific terms of the regulations are too severe, or not severe enough. Some people who are making money out of the building boom will, of course, be hurt. But a check to the building boom was inevitable sooner or later, and there is probably less damage done by acting now rather than waiting for the bubble to burst.

The automobile industry offers a somewhat similar situation. It is wholly abnormal for this country to be producing eight million vehicles a year. A curb on the extension of credit to car buyers offers a rational, relatively fair way of cutting back production to a rate nearer normal. It is certainly better than limiting production by regulation or even by priorities, and then deciding who gets the cars by favoritism or any other arbitrary method of selection.

There are many other fatty spots in the present economy. The National Government, the States and municipalities, business and individuals are all spending far above a normal rate. Some of this spending can be deferred without any real damage to living standards and with benefit to the defense program and the maximum development of productivity.

To summarize, this country is blessed with a tremendous industrial production. If the excesses are lopped off, and some spending deferred, we have the labor, the materials, and the productive capacity for a large defense program, along with adequate satisfaction of the living needs of people. In addition to the specific credit controls over housing and instalment credit, the Federal Reserve System has undertaken by a policy of tighter credit and slightly higher money rates to put a drag on the use of credit for marginal purposes. The extent of the pressure which can be exerted in this way is limited by the need for keeping an orderly market for the huge national debt. The record of money policy in the past encourages the belief that even the modest changes which have been made may have considerable influence.

The Budget and Fiscal Policy

The other effective instrument for over-all control of inflation is fiscal policy, the use of taxation and the budget and debt financing to decrease, or at least to avoid an increase in, spending power. The United States budget for the fiscal year 1949-50 was unbalanced; the deficit of about $3 billion increased the money supply. The doubling of the military budget for the current year creates an apparent poser. But there are some grounds for optimism if the Administration and the Congress and the people behind them will face the problem honestly.

First, taxes are bringing in heavier returns than last year because business volume is larger and incomes are higher. Congress has also passed a tax bill designed to yield $4.5 billion, which is likely to yield still more.

Second, the expenditure budget contains substantial waste, and other expenditures which may well be deferred under present conditions. We certainly don't need to spend a billion dollars a year for the government purchase of mortgages. If we cut back the volume of mortgages by credit curbs, and improve their quality, the available mortgages will be absorbed by private lenders. At the present high level of consumption and prices we don't need to spend the government's money to support the prices of farm products. When there is a shortage of workers we should not be spending so much National Government money for relief. We can defer some public works.

Under the latest appropriation bill, the Administration was directed to cut back budgeted expenditures by $550 million. The Budget Bureau report on how this is being done makes it clear to any careful observer that only a beginning has been made on savings that are possible. If we were to cut back non-defense expenditures to the level of 1948, there would be a saving of $6 billion; and surely what the government spent in 1948 was liberal. This is the next essential step in making room in the national budget for the necessary defense expenditure. The military budget should not be exempt from this scrutiny. When the government checks its own extravagance it will be better able to ask the people to reduce their spending.

There are grounds for believing that, if the government will thus hold its own spending in check, the budget can be balanced in the current fiscal year and fiscal policy can be at least neutral in the inflation battle.

The next fiscal year 1951-52, when military spending is likely to rise another $10 billion or more, will be harder. Tax yields will be higher but probably more taxes and more economy elsewhere are necessary to achieve a balance. There is some level of military spending that is beyond the possibility of coverage by taxes consistent with a growing economy.

Here is a point where we need again to adjust our sights to the fact that this is a long term struggle. In the long run too heavy and ill chosen taxes destroy the enterprise on which we must rely. Already the tax load particularly on the individual is dangerously heavy — dangerous to initiative and to progress.

This is a separate and large topic but I want to suggest one central principle. To do what needs to be done—encourage production and discourage spending—we should tax spending and not production. Taxing spending will encourage saving. This is a strong argument for more excise taxes rather than more income taxes—corporate or individual. An excess profits tax is one of the poorest taxes in this situation, for it removes incentives for added production and efficiency of production.

Selling Bonds to Savers

The third leg of the fiscal policy tripod is the distribution of the debt. Through the Savings Bond Campaign, and through sales of bonds attractive to savings institutions the Treasury lodged large amounts of its debt outside the banks during and after the war. Lately both programs have faltered. Redemptions of savings bonds have been exceeding sales, and the Treasury has sold practically no long term bonds since December 1945. Maturing bonds have been refunded into short maturities. Today's conditions call for a new emphasis on the distribution of U. S. bonds outside the banks on terms to attract savers. This is far more important than saving a few dollars of interest. Such a program will require the cooperative effort of many people. It requires also a better climate in which inflation is less threatening.

Special Problems

So much for the broad areas of fiscal and monetary policy. In the over-all productive capacity and the budgetary position there are no insuperable difficulties to financing the present defense effort without inflation. It is well within our national capacity if we use our vast powers wisely. The basic essential is sound monetary and fiscal policies. Without them only confusion will follow. Even with them, however, we cannot be sure of stability, for there are certain other bottlenecks which might block us off from our goal.

One of these bottlenecks is the shortage of certain basic materials like steel, tin, copper, zinc, aluminum, etc. Sound credit and fiscal policies will over a period of months reduce the pressure on these materials by slowing down building and automobile production, but not fully and not quickly enough. Machinery which has been set up for allocations and priorities will have to be used for a time at least. We may well hope it will not be for long, for these instruments have never worked well over extended periods. They drive the business into black markets. They stimulate hoarding.

Wages and salaries are perhaps the most difficult problem of all. They are the largest element in production costs. If they spiral upward they assure continued inflation. The overcrowded defense economy with its shortage of workers induces employers to bid against each other for workers, and puts the worker in a strong bargaining position. This comes at a time when labor is powerful politically. So far the only proposal to meet this impasse is wage and price ceilings by government regulation under the Defense Production Act of 1950.

This is the most critical point at which we face the dilemma whether to establish all-out controls, or find some other and more democratic way of meeting inflation. We may lessen the pressure by monetary and fiscal policy; we do not solve it.

The Democratic Way

Politically wage controls inevitably mean price controls and profit controls in some form, a thoroughly regimented economy. Of course that kind of regimentation does not cure anything except for a brief period. It conceals the inflation until it breaks out again somewhere. It is a dead hand on progress and on the spirit of worker and employer. But what is the alternative?

There is no quick and easy answer, but the answer includes first the necessity to handle the fiscal and monetary controls well. That will ease the strain—reduce the size of the problem. The second is some form of leadership and cooperation — some mutual understanding. Surely the American people have the wisdom and the will to follow frank and vigorous leadership if they are told the facts and the needs.

We may illustrate from recent British experience. When the British devalued the pound sterling a little more than a year ago it was generally believed that they had gained only a temporary advantage, because the rise in living costs due to devaluation would bring wage increases and start an inflation spiral. This did not happen—not because of a law but because strong leaders, and especially Sir Stafford Cripps, asked labor to hold the line and told them why it was necessary. They did it; and employers held the line on dividend payments. If the British can do this with their lower living standards and a labor governmnet, it should be possible here where labor lives well. Bicycles to go to work there; automoblies here—that is typical.

One way to keep our perspective is to look at our picture from abroad. To the American traveller in Europe who sees the difficulties of our partners in this enterprise, who sees their miracles of recovery since the war, who sees them now like Sisyphus starting again to roll uphill the stone they had pushed almost to the top before it rolled back again, our task looks simple.

Looked at from across the water our strength is so great, our standard of living is so lush, the amount of waste in our economic life is so large, that what we are now asked to do should not be very hard.

We are asked to step up production, to forego and defer some luxuries, to slow down slightly the pace at which we are rebuilding America, to pause long enough to strengthen our military power, not for ourselves alone, but to preserve the finest civilization the world has known. We have the unquestioned power to do this. Surely our great people do not have to be driven by rods and whips to adjust their living to meet this crisis. It is a choice of laws or leadership and cooperation. The democratic way is leadership and cooperation. It is the only way that succeeds for long.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Edwin E. Soyer to George V. Mahedy will be considered by the Exchange on Nov. 16.

Transfer of the Exchange membership of Nathan C. Bernstein to Benjamin Miller will be considered by the Exchange on Nov. 16.

Mortimer W. Loewi retired as limited partner in Van Alystyne, Noel & Co. on Oct. 31.

Midwest Exchange Member

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange has elected to membership Frederic C. Beil, Jr., Beil & Hough, St. Petersburg, Fla.

Victor Zrike to Be Partner in Shaskan Co.

Victor Zrike will become a partner in Shaskan & Co., 40 Exchange Place, New York City, members of the New York Stock Exchange, on Nov. 16.

Richard J. Buck to Admit

Richard J. Buck & Co., 39 Broadway, New York City, members of the New York Stock Exchange, will admit Charles H. Sabin to limited partnership on Nov. 16.

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Fiscal Policy as Inflationary Curb

from people, thus decreasing their ability and willingness to buy more than exists to be bought. Taxation is essential to the continued success of all other methods of preventing inflationary price rises. The second method is to prevent current incomes, past savings, and newly created credit from being spent. Controls on credit help to achieve this result. Allocations and rationing may also be used in appropriate circumstances. It is very important also to persuade the people that it is in their interest and the public interest to save more and spend less. But forestalling inflationary price rises through prevention of spending presents a threat of future inflation when the barriers to spending are lowered.

The third method of forestalling inflation is to prevent incomes from rising, thus preventing an increase in demand. This function is performed directly by price controls, including wage controls, and indirectly by all other methods which prevent price increases. Increases in the prices of products and the factors of production are increases in the incomes of the sellers. If and when other methods fail, direct controls of the prices may be used to prevent incomes from rising. In the process, of course, market forces are interfered with and damage may be done to the functioning of the economic structure, unless at the same time the suppressed demand is relaxed by taxation or other measures. Still, it must be recognized that direct price controls have worked in the past, and are part of the kit of tools that must be kept ready at hand in case other methods do not succeed.

It should be stressed that none of the methods of forestalling inflation creates the burden of the defense program. That burden rises from the requirement that resources and manpower be withdrawn from the production of civilian goods and services at the same time that money incomes are being enlarged by increases in total production.

Let us return to the proposition that tax increases are the basic foundation of any program for forestalling inflationary price rises. To hold to this view, it is of course, necessary first to accept the economic belief that taxation is an effective anti-inflationary measure. During the last war, it was maintained by many people, including some members of Congress, that the appropriate way to fight inflation was by price controls and that the function of taxes was the narrow one of raising revenue. The recent quick reaction of the public in demanding general price controls at the outset of the Korean crisis may reflect a continuation of that view. We may recall also that in the controversy over tax reduction in 1947 and 1948, some members of Congress maintained that taxation was inflationary rather than deflationary. Yet, if there are any doctrines that economists universally believe, one of them is surely that two basic remedies for inflation are reductions in Government expenditures and increases in taxes.

Reducing Government Expenses

Of course, we should make every effort to reduce Government expenditures. There is no excuse for inefficiency in Government at any time. Efficiently run Government programs may be worth what they cost, more than they cost, or less than they cost. The last, of course, should not be undertaken. But determining the worth of governmental programs to various segments of the public is an economic and even a philosophical problem of no small dimensions. It will be agreed, however, that some programs which are clearly worthwhile in a period of relaxed peace may have to give way when the pressure on the economy of defense requirements rises as it is rising today. I do not recall knowing anyone who does not recognize this effect of changing times on the importance of governmental programs. Of course, opinions differ about how important certain programs are.

Substantial reductions in nondefense expenditures have already been made. I am sure that anything you can do to further reduce expenditures on Government programs that have a low priority will be more widely appreciated in Washington than you may believe. Government programs are not spawned by a few wilful men. They result from pressures by large groups of the public. Our political system is not well adapted to resisting such pressures. The effort to reduce Government expenditures which do not promote the productive power and public morale of a defense economy is laudable, but we should not expect too much to come from it.

Heavy reliance in fighting inflation must be placed on tax increases. Let me emphasize again that an increase of taxes in a time like this does not create any new economic burdens. The defense program has created them already. All that the higher taxes do is to distribute the financial burden at once and finally. Taxation is superior to other methods of preventing inflationary price rises in important respects. It does not interfere with the operation of market forces. It does not present the threat of future inflation. It distributes the financial burden at the same time the economic burden must inevitably be borne. It protects the men and women of the armed forces from the ironic unfairness of fighting a war and coming home to pay for it too. Taxation is the normal method of providing funds for Government expenditures. In the absence of very good reasons, the total cost of the defense program should be paid as we go, out of current revenue.

The general acceptance today of paying for the defense effort through current taxes represents a great advance in public sentiment over that existing 10 years ago. In 1940 a very small defense program was financed by borrowing which was to be repaid over a 5-year period. I hope the advance represents a permanent gain. Almost everyone is now for pay-as-you-go. The test is whether you or I will still be for pay-as-you-go when we see the taxes and rates that will be required to achieve that result. As I recall, when the Revenue Bill of 1943 was under consideration, not a single important organization of businessmen, farmers, or workers was in favor of higher taxes, despite the fact that in the fiscal year that had just ended, budget receipts were less than 30% of expenditures. The danger is that once again when the American public sees what is involved in paying for the defense program through taxes, there are influential groups which will discover that there are other, "better" ways of financing the defense effort, i.e., borrowing.

Even noninflationary borrowing does not postpone the total economic burden; it postpones only the allocation of the financial burden. Postponement of the financial burden means that in the future either higher taxes or inflation will extract the price which was avoided during the defense period. Borrowing is appropriate in a short and intense period of all-out effort. But for the long pull at a level considerably less than that of all-out war, there seems little sense in trying to postpone the financial burden to still a longer run. Psychologically there is some value in the mirage of postponement; when taxes pass some very high point, it may be necessary to resort to this mirage. But we should not use it unless it becomes imperative. Putting off the financial load until later eases the present pain, and we live forever hopeful that somehow someone else will bear the taxes later. But we, the public as a whole, will either bear the taxes or bear the inflation. It is better to bite the bullet now, while the threat is upon us. The long pull, whether it lasts five years or a generation, is not the kind of time to be piling up even a noninflationary type of debt.

Meaning of Pay-As-You-Go Policy

Pay-as-you-go does not mean simply pay sometime within a year or two or three. It means literally collecting the money not later than the time it is spent. Indeed, since inflationary pressures are running ahead of increased expenditures, the use of taxes to fight inflation calls for the largest practicable tax increase at the earliest possible moment. If surpluses of revenue are thereby achieved, so much the better in fighting inflation. The tax law which was recently passed is an excellent start. If taxation is to achieve its maximum usefulness in fighting inflation, this law must be followed up with other very large tax increases as soon as Congress is in a position to consider them.

If taxation is to perform successfully its anti-inflationary mission, tax increases must not give rise to compensatory increases in the incomes of those on whom the tax is intended to rest. The purpose of a tax program is to distribute the burden of taxes among the various taxpayers in a fair and economically sound manner. If any major economic group is able to escape the burden of the tax by securing a larger income, the intended burden distribution will be frustrated, and the tax does not achieve its anti-inflationary goal, since it does not reduce spending. It is then necessary to increase the burdens and reduce the spending of other economic groups. This is unfair and necessitates an unnecessarily large total volume of taxation, intensifying all the problems which high taxes produce.

The principle that tax increases must be absorbed by the persons who are intended to bear them has a direct bearing in applying wage contracts where wage increases are based on increases in the cost of living. Following this principle would mean that tax increases which apply directly to the worker would not be considered in wage negotiations and that the effects of tax increases on prices would be excluded in computing the cost of living. If this principle were not followed, these groups of workers would be placed in a peculiarly favored position being protected against both taxes and inflation, while other groups in the community would be obliged to bear an increased part of the burden, in either taxes or inflation.

This principle that tax increases should not result in compensatory income increases also has a bearing on agriculture. In computing parity prices, increases in the prices of things which the farmer buys would not, under this principle, include any price increases which reflected tax increases. Otherwise, the parity price formula would operate to protect farmers against tax increases imposed in the form of sales, excise, or other shifted taxes.

Under this principle also, prices would not be raised by either private or public action because of increases in corporate income or profits taxes. Otherwise business would escape the load intended for it and other groups would be unfairly burdened. Similarly, there are implications of this principle with respect to the excess profits tax. Measurements of excess profits would be based on profits before taxes rather than on profits after taxes, at least so far as tax increases are concerned.

One of the most puzzling problems of fiscal policy in the defense effort is how to promote equality of sacrifice in the face of the common emergency and at the same time give sufficient incentives to get the job done. As long as members of our armed forces are in personal danger or are being drafted from families and professions, emphasis must be strong on promoting equality of sacrifice, although obviously this cannot be completely achieved. There must be no great private gain from the defense effort, if the public generally is to be expected to bear the restrictions and burdens placed upon it. However, in our economy primary reliance for production must be on willing personal effort carried on without fear of the snooper or the threat of court martial. It has proved difficult through patriotism alone and without extra compensation to sustain the extra effort and extra efficiency that are required to get the job done. And to those who are not themselves required to put forth an extra effort, any extra reward received by others may appear to be the direct opposite of equal sacrifice. The problem is particularly difficult in the distribution of the tax burden. I do not know if there is a solution, but mutual forbearance and understanding will help.

The problem of how to prevent inflation in the defense economy is largely one of unpleasant alternatives. They are, of course, not altogether alternatives. It will undoubtedly be necessary to use in some degree all or nearly all the methods available to fight inflation. It is important to understand that the higher the taxes are raised, the less necessary it is to resort to the other, less desirable, methods of preventing inflation—up to the point where taxes exceed their economic limits. There is no royal road for bringing the economy safely through the strains of the defense program. It will take all of the understanding that we have, all of the self-restraint we have, and a great deal of willingness to accept onerous deprivations and burdens if we are to avoid damaging inflation.

But Government by the people will not work unless we have a responsible public which puts the national interest ahead of private interest. If important segments of the American public are going to assume that they must be protected against sacrifice, if groups with large economic power insists that their incomes after taxes must be kept sufficiently high to maintain their accustomed habits of expenditure, then there is no remedy except to impose compulsory direct controls. I am confident that once the farmers, the workers, the businessmen, and other major groups in the American economy see the dangers of selfishness and understand the nature of the economic problems of the defense economy, these problems will prove to be reasonably solvable.

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The Rising Sun of Japan

undertaking costly military adventures in Manchuria and in North China. The real aim was a Japanese Empire that dominated the resources and trade routes of the Far East. The avowed objective was the so-called coprosperity sphere. Under this concept the food and raw products of many areas, from Java and Sumatra to Formosa and Korea, rice, oil, copra, rubber and tin, would be traded for machinery, textiles and other manufactured and consumer goods produced in Manchuria and Japan. All this, they said, was for the greater prosperity of all Asia.

These economic objectives were generally sound, and if peaceably and fairly pursued could have increased the per capita wealth and raised the standards of living throughout the area. But unfortunately Japan elected to carve out her coprosperity sphere with the sword, and to dominate its economic life by force. After the fall of Shanghai, only our own open door policy in China, and the British Empire's hold on Hongkong and Singapore, threatened her ambition. So Japan threw caution to the winds, took the gamble of war—and lost her Empire. The physical and spiritual destruction of war engulfed most of Asia and left it desolate. The surplus food and raw materials of the outlying islands and other areas — which represented the foundation and the economic basis of the vaunted coprosperity sphere — had disappeared along with most of Japan's industrial production. Neither Japan nor her oceanic hinterland had anything to trade, even if the peoples who had been conquered by Japan had been willing to trade.

In 1945 General MacArthur found Japan on the verge of starvation and unable to grow enough food to keep her people alive. Her trade had ceased and there were no exports to pay for food. Even worse, there was no food—no rice —in all Asia to spare, even if Japan had the cash or credit to buy—which she didn't.

So we not only had to pay for relief food—we had to grow it and ship it. Fortunately for Japan, and for Europe as well, our wheat crop and our corn crop made new records year after year.

Even three years later, in 1948, 90% of the food shipped into Japan—which kept her alive—was grown in the United States. It was paid for 100% by American appropriations. Then the tide turned. During the current fiscal year, two-thirds of the much larger food imports into Japan are coming from non-American sources, and mostly from Asia. Likewise two-thirds are being paid for by Japan's own exports —and only a third by American appropriations. And a year from now, if plans and predictions come true, the complete cycle will have revolved. Ninety per cent of Japan's food will be paid for by her exports, and will come from non-American areas, and we will grow and pay for only 10% ourselves.

I cite this in detail because Japan could never pay for dollar wheat carried in dollar ships and still support herself. I cite it also because it shows how quickly a world at peace can produce, and adjust and repair the ravages of war. Japan is again shipping machinery to India and textiles to Indonesia and consumer goods to the Philippines, and is importing rice and oil, and bauxite and iron ore from Southeast Asia. She is working hard, and producing in quantity, and trading again with her part of the world. That is why Japan has turned the corner, and why I am bullish on Japan and her future.

Many Americans — and many Japanese as well—recall that one-third of Japan's prewar trade was with the Chinese mainland. They point out that commerce with Communist China today is but a trickle. They question whether Japan can ever again become self-supporting without heavy trade with China and Manchuria.

I agree that Japan needs coal and iron ore from China, and she needs China's markets as well. And gradually, if China trods the paths of peace and produces things with which to trade, there will be commerce between the two, despite ideologies and embargoes.

Japan Now Paying Her Own Way

But the fact is that even today Japan in a sense is already paying her own way without much trade with China. American appropriations for Japan, which two years ago exceeded a half billion dollars, are this year about two hundred million dollars. But the value of occupation costs—which means the shelter and services furnished by Japan to our occupation troops from the Japanese budget—actually from yen taxes levied on the Japanese people—this value today is at least equal to our current dollar appropriations for Japan. If our army in Japan was on a pay-as-you-go basis, as we are today in Austria, and paid dollars on the barrel head for services received, Japan's foreign exchange budget would be in balance.

It is clear that we must maintain strong American forces in strategic areas, and that Japan is one of these vital areas. When our economic aid is no longer needed—only a year or two from now, I predict—our forces there can well pay their own way at no greater cost than over here, and at the same time contribute to the economic and military security of Japan.

When the North Koreans crossed the 38th Parallel, and threatened to wipe out the Republic of Korea, we had four understrength divisions in Japan. This was a small force to police a country of 80 million people. Compare it with Russia's 30 divisions in Eastern Germany, which has only one-quarter the population of Japan. But when we went to Korea's aid General MacArthur, without hesitation, and with full trust in the Japanese people and their government, shipped three divisions to Korea as quickly as possible, and later sent the remaining divisions to support the Marines at Inchon. Japan was almost stripped of American troops. Our occupation was in name only. No single incident occurred. The Japanese people were fully confident of American victory and cooperated in every possible way. For five years the Allied Occupation had been an outstanding success. It had elicited almost unbelievable cooperation from the Emperor, the Japanese Government and the Japanese people, and when the Korean test came, the Japanese proved once and for all that true friendship for America had replaced the hate of war.

Time for Peace Treaty

The time has come, indeed it has long passed, to recognize formally that we are at peace with Japan, and to turn back sovereignty to her own government. Japan has faithfully carried out every obligation of the surrender document and she is now legally and morally entitled to reenter the community of nations. The time has come not only to end the occupation, but to recognize close political and commercial interests and to establish a true partnership between the United States and Japan. The nations of the British Commonwealth agreed months ago that a peace treaty with Japan was overdue. If any other country is not yet prepared to make peace on fair and reasonable terms, we should wait no longer. After Korea, we cannot continue to let Russia call the time.

When the Japanese Constitution was adopted, it dropped war as an instrument of national policy, in the belief that a peaceful world was in the making. Later events have shown all too clearly that world communism is on the march, and threatens any nation which cannot meet force with force. Korea has just proven this tragic fact. General MacArthur has repeatedly called attention to the inalienable right of self-defense — which applies to Japan, just as to every individual and to every nation. When a Japanese treaty of peace has been signed, she herself should decide whether or not to arm against outside attack. I feel sure the Japanese people will want American troops and American planes to stay in Japan for her security, and we must keep them there for our own defense as well. Japan is a vital part of the defense line of the free nations. It must be held so long as the communist threat continues. But we should not alone bear the full burden for the long future, nor would this be in keeping with the national desires of a proud people like the Japanese, who, I feel sure, will want to share in the responsibility and the cost of maintaining their own national life and defense. When Japan again becomes one of the association of free nations—a member of the United Nations—she will not fail to recognize the moral responsibility that goes with independence and sovereignty, and will do her full part.

The need for economic aid is growing less just as it is in Europe. The time may soon come, however, when Japan, like Europe, will need our help in rearming against aggression. Just as in Europe but on a far smaller scale, we can effectively strengthen our own defenses and those of Japan by contributing toward the rearming of Japan in the interest of the entire free world.

As the freedom-loving democracies rearm, to prevent attack and maintain the peace, we must assess the strategic position as realistically and as clearly as does the Kremlin. The free democracies' left flank lies in Western Europe, where the ground strength to hold against possible invasion must be built up rapidly. The central position with its reserves of industrial production and of manpower lies in the Western Hemisphere, in South America, in Canada, and in the United States. But the vital right flank facing Communist China and the Russian port of Vladivostok is clearly Japan. If the free world's position is to be maintained, both flanks must be strong, in an economic sense, in a military sense, and in a spiritual sense. Japan has today a strengthening economy, and a democratic government, and spiritually has cast her lot with the West. We must recognize her importance as a nation, her position in Asia, and her potential contribution in maintaining the peace of the world. We must admit her to the partnership of free nations.

In conclusion, let me quote from a booklet published by the Public Information Division of the Ministry of Foreign Affairs of the Japanese Government. It was dated August 19th of this year, when the issue in Korea was still very much in doubt. It was titled "Our Position in the Korean Conflict," and it concludes:

"The war for democracy in Korea is nothing less than a war to protect democracy in Japan. Without giving today the United Nation forces, which are fighting in Korea, all possible cooperation, how can Japan assure her own security for tomorrow? . . .

"We cannot please both sides in the cold war. Let us remember that an ambiguous attitude, no matter how honest, would ultimately be utilized by communism for its own ends, and the result would be a dirge for democracy in Japan."

Business Man's Bookshelf

Economics of Freedom, The—Howard S. Ellis — Council on Foreign Relations, 58 East 68th Street, New York 21, N. Y.—$5.00.

European Recovery Programme Interim Reports—Chemical Products Committee (45¢); Coal Committee (45¢); Food and Agriculture Committee (45¢); Electricity Committee (90¢); Iron and Steel Committee (90¢); Machinery Committee (45¢); Manpower Committee (30¢); Maritime Transport Committee (45¢); Non-Ferrous Metals Committee (60¢); Oil Committee (30¢); Overseas Territories Committee ($2.50); Textiles Committee (45¢); Timber Committee (45¢); Trade Committee (60¢)—Columbia University Press, 2960 Broadway, New York 27, N. Y.

Security of the Middle East, The—Brookings Institution, Washington 6, D. C.—paper—60¢.

Thoughts on the Business of Life—The B. C. Forbes Scrapbook of quotations from the great minds of yesterday and today—B. C. Forbes & Sons Publishing Co., Inc., New York, N. Y.

With Faith in Their Hearts—Carl Halbak—Commemorating the 25th anniversary of the National Gypsum Company, Buffalo, N. Y.—board.

Securities Salesman's Corner

By JOHN DUTTON

Sometimes the longest way around is the shortest way home. This is a case where one salesman failed to open an account and another come right behind him and had no difficulty in doing business with this customer. One man wanted to do it the hard way, the second man took the lines of least resistance and was successful.

We often have noticed that too much pressure is resented—it is true in every field of selling. In this instance the first salesman called upon a woman in her late sixties. He had never met her before the call, but she had answered an advertisement in the newspaper wherein his firm offered an income program paying monthly returns. He discovered that she needed more income and that she seemed to believe that she had too much in government bonds. From this point on he tried to sell his planned program, which in this case was a combination of three mutual funds that paid dividends quarterly.

He stressed the advantages of his program: its stability, its diversification, its possible protection against further inflationary price trends, the monthly income feature and the greater return. He was getting along famously when his prospect asked him what he thought of a certain listed common stock. He replied that he thought that it was a pretty good investment, but after all he didn't think she should buy anything like that when she could obtain such an excellent investment program if she bought his three mutual funds. Where he made his mistake was, that he did not notice that his lady was more than casually interested in knowing more about the listed stock. When she tried to open up the subject again, he once more brushed such consideration aside with the comment that "he guessed it was all right, but if later on she wanted to buy some of it he could always take here order."

He made two more calls after his first interview and still he had no success. His prospect was on the fence, could not decide, and each time he called she mentioned the listed stock. Finally, our salesman came back to his office and complained that all this prospect wanted to do was to buy something on which he couldn't make a profit. In all fairness to him, however, he was a new man in the business and his sales manager saw immediately where the trouble was located. But he got there too late!

Meanwhile, a second salesman had heard that this prospect was in need of greater income. He made the call and when he was asked about the listed stock he immediately asked some questions. He found out that this lady had a son who worked for this company whose stock was listed and that her son was also very much interested in helping his mother set up a good investment program. He told her that he would like to meet the son and that if they could all sit down together and work things out, possibly they could select some good investments which might be just right for her; and, incidentally, might well include the stock about which she inquired. It was a conservative stock and he told her he thought it could be part of a sound program and that his firm would be happy to buy it for her. Of course he opened the account.

The most important thing is to get action! If you start to do business with a customer then you can gradually build up confidence and friendship. Buying securities from one firm can become a habit with customers just the same as trading in any one store can become a fixed procedure with people who wish to buy anything else. If you handle all types of securities (whether or not you make anything on some of them) it will pay you in the long run. You will sell what you want to sell only when your customer believes that it is in his best interest to buy it. If he ever finds out that you don't want to buy him a listed stock because you can't make anything on it you are bound to lose face with him. And if you think it through—isn't he right?

What people want more than anything else is to believe that the man they are buying from is more interested in their welfare than in his own. If you, too, can believe this and put every effort into making this your creed, you will surely succeed in the securities business.

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Investment Companies Gear to a War Economy

imposed by government agencies, notably in credit and controls, and the cessation of war-inspired forward buying may actually produce a moderate decline in general business and an intermediate reaction to the current inflation psychology, before the full impact of armament production is felt next year. In addition, unanticipated events seem likely, from time to time, to cause more shocks to public psychology and market weakness. Consequently, we believe that adequate reserves should be maintained to provide insurance against such possible declines, and to take advantage of favorable opportunities to purchase common stocks."

Uncertainties Stressed

The extent of caution is more pronounced in the New England Fund management as its trustees reported to shareholders that "many acute uncertainties are as yet unrelieved including the extent of economic controls, further normal tax increases, excess profits taxes, and many other factors. Until definite government action clarifies business prospects, your Trustees do not expect to use the reserves built up through sales of portfolio securities in the second quarter. In fact, more stocks were sold (and profits realized) because they seemed to be especially vulnerable to anticipated developments."

But the ultimate in caution as expressed by managers in third quarter reports appears in the succinct statement of William Howard Schubart, President of Bowling Green Fund: "Examination of the list of securities currently owned by your Fund will disclose that on Sept. 30, 1950, 42% of the net assets of the Fund consisted of cash, U. S. Treasury Certificates, bonds and convertible preferred stocks. . . . This position is predicated on the expectation that, in the not too distant future, our economy may begin to manifest the effects of the stresses and strains resulting from conversion to a 'siege economy.' The public has established a substantial personal inventory and some cessation of buying may be assumed, if and when proper anti-inflationary measures are taken by the authorities. It is a time to be careful and your Directors are acting accordingly."

Some Canadian Securities Bought

Few acquisitions of issues relatively unfamiliar to trust portfolios were made during the period. Hancock Oil of California was purchased to the extent of 1,200 shares by Incorporated Investors. Bullock Fund acquired common stock of Canadian Superior Oil of California. Chief purchase of Canadian securities, however, was made in the internal Canadian Government 3s of varying maturities by several managements. Only slight interest was shown in the common equities of other investment companies. Knickerbocker Fund purchased 2,000 shares of United States and Foreign Securities. American International disposed of 37,819 shares of American Express, its parent, leaving 6,181 in its portfolio.

Shell Oil Popular

Shell Oil was the most popular issue among the petroleum stocks, 10 investment companies purchasing a total of 31,900 shares, six of which were new commitments. Shell had not been too well bought the previous quarter, there having been only four purchases of 3,700 shares. This approximated the liquidation in the current quarter. Second most heavily bought stock in the group was Pure Oil, eight funds adding 66,900 shares, five of which represented initial purchases; one block of 1,000 shares was eliminated from another portfolio. Switch in buying preference from one quarter to the next among individual issues is accentuated by the fact that opinion was divided in the second quarter on Pure Oil as well as by the divergence of activity in Shell. Five funds made new commitments in Socony Vacuum and a sixth added to holdings in an amount totaling 144,500 shares; there was one sale of a lot of 1,000 shares. Gulf Oil was fourth in acceptance by managements, receding somewhat from its position in the previous quarter of the second best regarded issue. Five funds purchased 4,600 shares. Offsetting sales of 14,200 shares, however, were made by three trusts. 13,500 shares of Standard Oil of California were also acquired by five managements. Buyers favored slightly both Standard of Indiana and Jersey, but Standard of Ohio was one of the only two issues in the group to be sold on balance, three managements disposing of 6,500 shares. The other oil liquidated during the period was Mission Development which had been received as a distribution from Mission Corporation during the preceding quarter. Four trusts sold 24,950 shares of this latter stock. Additional buying by three trusts in each issue was made in Cities Service, Houston Oil Co. of Texas, Seaboard Oil (Del.), Signal Oil and Gas "A" and Texas Pacific Coal & Oil.

The extent of revival of buying interest in the rails is indicated by the fact that the number of purchases tripled those of the preceding quarter. Southern Pacific was the leading favorite, 14 managements acquiring a total of 40,200 shares; six of these made initial commitments. There was one small sale of a lot of 400 shares. During the short-lived previous run of popularity of the carriers in the second and third quarterly periods of 1948, Southern Pacific had been first and second most popular issue respectively, but neither the volume nor scope of purchasing ever approached that of the current quarter. Atchison and Chicago, Rock Island and Pacific vied for second place in popularity each being acquired by eight companies. However, there were only three new commitments in the former issue while double that amount were made in Rock Island. Seven trusts bought 12,300 shares of Union Pacific. The same number of funds purchased a total of 31,500 shares of Illinois Central, four of which represented initial purchases. There were no offsetting sales which is interesting because this is one of the few carriers that met with even lukewarm acceptance in the preceding quarter. 14,900 shares of Pennsylvania were acquired by five funds, three making new commitments. Five managements also bought 23,600 shares of Canadian Pacific, but two others eliminated all portfolio holdings. Chesapeake and Ohio, Seaboard Air Line and Southern were each purchased by three companies. Opinion was divided

Continued on page 26

Balance Between Cash and Investments of 62 Investment Companies

End of Quarterly Periods June and September, 1950

	Net Cash & Gov'ts Thous. of Dollars —End of—		Net Cash & Gov'ts Per Cent —End of—		Invest. Bonds & Preferred Stocks Per Cent * —End of—		Com. Stks. Plus Lower Grade Bonds & Pfds. Per Cent —End of—	
	June	Sept.	June	Sept.	June	Sept.	June	Sept.
Open-End Balanced Funds:								
American Business Shares	13,880	13,999	41.0	39.4	5.5	4.7	53.5	55.9
Axe-Houghton Fund	976	1,868	9.2	15.1	5.6	4.9	85.2	80.0
Axe-Houghton "B"	2,147	2,757	17.9	18.9	12.6	13.1	69.5	68.0
Boston Fund	7,253	8,336	13.8	14.9	27.0	30.3	59.2	54.8
Commonwealth Investment	1,737	2,727	10.1	12.6	19.8	17.9	70.1	69.5
Eaton & Howard Balanced	3,698	3,747	6.7	6.3	30.3	29.4	63.0	64.3
Fully Administered Fund	858	1,526	17.8	29.6	14.4	13.1	67.8	57.3
General Investors Trust	287	377	14.3	17.1	4.9	4.8	80.8	78.1
Investors Mutual	21,299	12,709	10.9	5.8	26.3	29.1	62.8	65.1
Johnston Mutual Fund	198	147	29.2	19.2	13.9	14.0	56.9	66.8
‡Mutual Fund of Boston	94	190	6.0	11.4	27.7	26.7	66.3	61.9
National Securities-Income	543	484	3.2	2.4	17.5	19.6	79.3	78.0
Nation Wide Securities	2,175	2,179	15.0	14.3	36.2	34.1	48.8	51.6
Nesbett Fund	107	96	19.0	15.7	23.2	24.5	51.8	59.8
George Putnam Fund	3,832	4,368	10.1	10.5	20.0	20.1	69.9	69.4
Scudder-Stevens & Clark	6,551	†	21.2	†	25.8	†	53.0	†
Shareholders Trust of Boston	246	245	4.8	4.4	26.1	24.6	69.1	71.0
Wellington Fund	25,098	28,668	19.9	20.3	18.0	17.3	62.1	62.4
Whitehall Fund	32	40	2.6	3.0	44.9	43.8	52.5	53.2
Wisconsin Investment Co.	199	575	8.8	21.0	None	4.1	91.2	74.9
Open-End Stock Funds:								
Affiliated Fund	3,371	59	3.4	0.1	0.3	0.3	96.3	99.6
Bowling Green Fund	129	231	20.6	35.4	7.5	14.2	71.9	50.4
Broad Street Investing	511	913	3.8	6.0	4.5	3.9	91.7	90.1
Bullock Fund	1,345	1,068	17.5	12.6	0.8	0.7	81.7	86.7
Delaware Fund	126	95	2.4	1.5	11.8	3.9	85.8	94.6
Dividend Shares	8,665	9,644	11.1	11.4	2.1	1.9	86.8	86.7
Eaton & Howard Stock	670	963	14.8	17.5	2.4	2.0	82.8	80.5
Fidelity Fund	1,566	1,527	4.5	3.9	1.2	1.1	94.3	95.0
First Mutual Trust Fund	64	49	1.8	1.4	43.2	42.3	55.0	56.3
Fundamental Investors	3,039	6,602	4.7	8.9	0.4	0.3	94.9	90.8
General Capital Corp.	1,442	2,067	13.7	16.7	None	None	86.3	83.3
Group Securities—Common Stock Fund	11	24	2.9	4.3	None	None	97.1	95.7
Incorporated Investors	4,030	4,595	5.3	5.2	None	None	94.7	94.8
Institutional Shs.—Stk. & Bd. Group	92	93	4.0	3.7	None	None	96.0	96.3
Investment Co. of America	1,304	1,938	15.4	19.1	None	None	84.6	80.9
Investors Management Fund	432	997	4.1	8.5	None	None	95.9	91.5
Knickerbocker Fund	1,176	944	10.6	7.2	None	None	89.4	92.8
Loomis-Sayles Mutual Fund	2,477	†	36.0	†	8.5	†	55.5	†
Loomis-Sayles Second Fund	3,559	†	36.5	†	6.5	†	57.0	†
Massachusetts Investors Trust	8,398	8,029	2.8	2.4	None	None	97.2	97.6
Massachusetts Investors 2nd Fund	436	562	2.2	2.6	None	None	97.8	97.4
Mutual Investment Fund	113	105	14.3	12.9	35.3	35.4	50.4	51.7
National Investors	283	710	1.5	3.4	None	None	98.5	96.6
New England Fund	711	834	22.3	23.8	3.5	3.2	74.2	73.0
Republic Investors	319	507	15.8	21.1	0.5	1.9	83.7	77.0
Selected American Shares	1,009	1,410	6.1	7.7	0.6	None	93.3	92.3
Sovereign Investors	22	16	6.1	3.9	10.7	7.3	83.2	88.8
State Street Investment Corp.	15,731	17,838	20.0	20.7	None	None	80.0	79.3
Wall Street Investing Corp.	414	418	21.7	19.5	2.7	2.5	75.6	78.0
Closed-End Companies:								
Adams Express	3,807	3,072	9.5	7.1	None	1.9	90.5	91.0
American European Securities	755	1,258	7.9	12.1	9.3	9.6	82.8	78.3
American International	1,782	1,413	9.4	7.1	None	2.8	90.6	90.1
§Blue Ridge Corp.	6,798	12,603	20.6	36.7	1.5	1.5	77.9	61.8
Capital Administration	391	502	4.8	5.7	13.4	12.8	81.8	81.5
General American Investors	9,249	11,610	22.6	25.6	2.4	1.3	75.0	73.1
General Public Service	1,432	2,738	15.2	22.7	None	None	84.8	77.3
Lehman Corporation	12,813	17,604	13.0	16.5	0.2	1.0	86.8	82.5
National Shares Corp.	1,452	1,423	14.1	12.8	3.8	7.7	82.1	79.5
Selected Industries	1,861	2,236	3.8	4.2	11.8	11.2	84.4	84.6
Tri-Continental Corp.	3,656	3,945	4.9	4.9	12.8	12.9	82.3	82.2
¶U. S. & Foreign Securities	1,955	1,983	5.0	4.5	None	None	95.0	95.5
U. S. & International Securities	7,970	6,575	18.9	13.9	0.4	0.4	80.7	85.7

*Investment bonds and preferred stocks: Moody's Aaa through Ba for bonds; Fitch's AAA through BB and approximate equivalents for preferreds. †No interim reports issued to stockholders on this date. §June figures revised. ¶Portfolio exclusive of securities in subsidiary or associated companies. ‡Name changed from Russell Berg Fund

SUMMARY

Change in Cash Positions of 63 Investment Companies

	Plus	Minus	Unchanged	Totals
Open-End Companies:				
Balanced Funds	11	4	5	20
Stock Funds	17	6	6	29
Closed-End Companies	9	3	2	14
Totals—All Companies	37	13	13	63

Continued from page 25

Investment Companies Gear to a War Economy

on Great Northern. Liquidation on balance in any individual carrier was negligible.

Steels Lead

The steel issues assumed their expected position of leadership with demands of a war economy being superimposed on high peace-time capacity and Bethlehem, as also might be anticipated, was the most popular stock in the industry. Twelve investment company managements purchased 72,700 shares, half of which represented new commitments; two small sales totaled 900 shares. United States Steel was next in demand, four trusts making initial purchases and four others adding to portfolio holdings. Total overall dollar investment acquired, however, exceeded that of Bethlehem since purchases of Big Steel totaled 103,100 shares. There was selling from four portfolios. Youngstown Sheet and Tube was also well liked, seven funds buying 8,000 shares; two off-setting sales totaled 1,850 shares. Four new acquisitions were made of Republic Steel and two additions to lots already held. No sales offset these purchases which totaled 6,400 shares. Armco Steel was bought by five managements, four of which made initial commitments. Two others completely eliminated the issue from their portfolios. 3,100 shares of Allegheny-Ludlum were added to the holdings of three trusts; a lot of 300 shares was sold by another. The only selling on balance appeared in National Steel where four funds liquidated 12,100 shares. However, partially offsetting this were two new acqusitions of 3,000 shares.

Kennecott Bought

As in the preceding quarterly period Kennecott Copper was added to a greater number of portfolios than any other issue among the nonferrous metals. Eight managements purchased 9,500 shares. Offsetting purchases were sales of the same number of shares by five trusts. International Nickel was second in favor, seven new commitments totaling 34,600 shares. But in this issue, also, there was liquidation in five portfolios. In the preceding quarter Nickel had been sold on balance. Six managements added 5,000 shares of Aluminum Co. of America which had been a top favorite in the second quarterly period. Four trusts lightened holdings. Pittsburgh Consolidation Coal, a company in this group not too frequently appearing in portfolios, was initially purchased by four funds; investment was made in 29,600 shares. Four funds also bought 5,050 shares of American Smelting and refining. Two sales of this stock added up to 2,200 shares. St. Joseph Lead was liked by three managements. Although two funds added small lots of Anaconda, opinion was almost divided on Phelps Dodge. Two trusts made new commitments in Mining Corporation of Canada. On the other hand, Consolidated Mining and Smelting, another Canadian company, was lightened in one portfolio and eliminated from another. In no other issue of this group were sellers predominant.

Kimberly Clark was the popular equity in the paper category. Five investment companies made initial purchases and two others added to holdings. In all, 22,800 shares were bought against a single sale of 210 shares. The marked increase in the number of shares held of International Paper was largely due to a 25% stock dividend, although three funds also made new commitments and four others added to those shares issued by the corporation. These additions were offset in large part by eight sales totaling 31,000 shares. Rayonier was well liked, four trusts increasing holdings by 7,600 shares; there was no liquidation. Three managements purchased 8,800 shares of Union Bag and Paper. Abitibi Power and Paper, Crown Zellerbach and Great Northern Paper were each bought by two companies. Dixie Cup was the only issue in which sellers had the upper hand, three funds disposing of 2,000 shares.

Among agricultural equipments J. I. Case was one of the best-liked stocks, four trusts purchasing a total of 18,200 shares; one lot of 100 shares was sold. Four funds also bought International Harvester, two making new commitments but 17,500 shares was eliminated from two portfolios. Top favorite in this group, however was Deere, in which four managements made new purchases and three others added to their portfolio holdings. Acquisitions totaled 12,800 shares. Sales were made from the lists of four companies. Three trusts also added 4,700 shares of Caterpillar Tractor.

Machinery and Equipments Favored

Buying also favored the general machinery and industrial equipments, among which the last named issue, Caterpillar Tractor, is sometimes classified. In this group, there were six purchases of Allis Chalmers with no offsetting sales. 8,500 shares of National Acme were bought by four managements, one of which made a new commitment; there was no liquidation. Also liked by three funds which made initial purchases was the stock of National Supply. 3,000 shares were completely eliminated from the portfolio of another company. Bullard Company and Dresser Industries were each acquired by two investment managements. Profit taking appeared in Halliburton Oil Well Cementing which had been well bought for some time. However the sale of 2,300 shares by four trusts was offset **in volume** by the addition of 10,600 shares to two portfolios.

Drugs and Distillers

In the drug category, total purchases were light, although they were double that of the sales. Favored issue was Parke Davis, 5,800 shares of which were purchased by six funds; two of these were new commitments. Four trusts added 11,000 shares of Merck to their holdings. Offsetting were two sales totaling 2,500 shares. Charles Pfizer and E. R. Squibb were each acquired by three managements. There were no sales in either of these issues. Buying was light also in the distilling issues. Four managements added Schenley and three bought Hiram Walker; neither issue was sold.

Buyers ruled in the textiles but purchasing was not heavy. Three managements acquired a total of 22,400 shares of Burlington Mills,

Changes in Common Stock Holdings of 44 Investment Management Groups

(June 30-September 29, 1950)

Transactions in which buyers exceed sellers—or sellers exceed buyers—by two or more management groups. Issues which more managements sold than bought are in italics. Numerals in parentheses indicate number of managements making entirely new purchases or completely eliminating the stock from their portfolios.

—Bought— No. of Trusts	—Bought— No. of Shares		—Sold— No. of Shares	—Sold— No. of Trusts
		Agricultural Equipment:		
4(1)	18,200	J. I. Case	100	1
3	4,700	Caterpillar Tractor	None	None
7(4)	12,800	Deere and Co.	9,800	4
4(2)	4,800	International Harvester	17,500	2(2)
		Auto and Auto Parts:		
3(1)	4,200	Electric Auto-Lite	2,000	1
3(2)	2,500	Thompson Products	None	None
3(1)	*3,200*	*Borg Warner*	*10,800*	*6(3)*
3(2)	*1,700*	*Chrysler*	*35,500*	*10(5)*
3(2)	*5,600*	*General Motors*	*33,900*	*13(5)*
1	*5,600*	*Libbey-Owens-Ford Glass*	*12,300*	*5(4)*
None	*None*	*A. O. Smith Corp.*	*1,500*	*2(1)*
		Aviation:		
5(2)	23,200	American Airlines	100	1
6	3,700	Bendix Aviation	1,500	3(1)
2	1,500	Lockheed Aircraft	None	None
None	*None*	*Grumman Aircraft*	*2,500*	*2*
1	*500*	*Sperry Corp.*	*1,900*	*4(3)*
		Beverages:		
3(1)	13,100	Hiram Walker, Gooderham & Worts	None	None
4	2,650	Schenley Industries [1]	None	None
		Building Construction and Equipment:		
2	200	Crane Co.	None	None
5(1)	8,300	General Portland Cement	3,500	2(1)
2(1)	2,000	Paraffine Companies	None	None
2	2,300	United States Pipe & Foundry	None	None
3(2)	6,700	United States Plywood	None	None
1	*3,000*	*American Radiator*	*21,800*	*4(1)*
None	*None*	*Bucyrus-Erie*	*11,000*	*2(2)*
None	*None*	*Certain-teed Products*	*3,600*	*3(1)*
2	*6,400*	*Flintkote*	*17,100*	*4(4)*
None	*None*	*Hussman Refrigerator*	*2,300*	*2(1)*
2(2)	*6,000*	*Johns-Manville*	*10,900*	*7(2)*
1(1)	*1,000*	*Masonite*	*11,400*	*3(2)*
None	*None*	*Minneapolis-Honeywell*	*11,000*	*2*
None	*None*	*Mueller Brass*	*4,300*	*4(1)*
1	*100*	*Otis Elevator*	*2,500*	*3(3)*
1	*200*	*Pittsburgh Plate Glass*	*28,500*	*3(1)*
1	*100*	*Sherwin-Williams*	*7,950*	*4(2)*
3(1)	*2,200*	*United States Gypsum*	*10,500*	*5(1)*
		Chemicals:		
7	95,250	Allied Chemical & Dye [2]	11,200	2(1)
2(1)	5,210	Atlas Powder	None	None
2(1)	54,000	Heyden Chemical	None	None
7(1)	81,700	Mathieson Chemical [3]	None	None
2	564	Rohm and Haas	None	None
3(1)	*11,000*	*American Cyanamid*	*3,900*	*4*
None	*None*	*DuPont*	*29,900*	*13(6)*
1	*300*	*Hercules Powder*	*4,200*	*4(2)*
1	*100*	*Texas Gulf Sulphur*	*11,600*	*3(1)*
3(2)	*3,010*	*Union Carbide*	*38,000*	*5(2)*
		Containers and Glass:		
3(1)	*1,400*	*Continental Can*	*9,200*	*5(3)*
None	*None*	*Crown Cork and Seal*	*600*	*2*
		Drug Products:		
4	11,000	Merck and Co.	2,500	2
6(2)	5,800	Parke Davis and Co.	None	None
3	2,700	Chas. Pfizer and Co.	None	None
3(2)	7,200	E. R. Squibb and Sons	None	None
None	*None*	*Abbott Laboratories*	*1,000*	*2*
		Electrical Equipment:		
3(2)	6,700	Radio Corp. of America	None	None
None	*None*	*Bendix Home Appliances*	*23,000*	*2(2)*
1	*18,800*	*General Electric*	*23,200*	*11(3)*
5(1)	*9,200*	*Westinghouse Electric*	*33,600*	*7(4)*
None	*None*	*Zenith Radio*	*2,850*	*3*
		Financial, Banking and Insurance:		
2(1)	40,334	Bank of America	None	None
2(1)	1,000	Commercial Nat'l Bank & Trust	None	None
4(1)	*6,000*	*C.I.T. Financial Corp.*	*62,200*	*11(4)*
1(1)	*1,000*	*Commercial Credit*	*20,800*	*6(2)*
1	*1,000*	*Guaranty Trust of N. Y.*	*1,900*	*3(3)*
		Food Products:		
2(1)	900	Beatrice Foods	None	None
None	*None*	*Borden's*	*700*	*2(1)*
None	*None*	*General Foods*	*23,000*	*5(3)*
1	*1,700*	*National Dairy Products*	*11,500*	*4(2)*
		Machinery and Industrial Equipment:		
6(2)	11,100	Allis-Chalmers	None	None
2(1)	700	Bullard Co.	None	None
2(1)	2,000	Dresser Industries	None	None
4(1)	8,500	National Acme	None	None
3(3)	4,500	National Supply	3,000	1(1)
2	*10,600*	*Halliburton Oil Well Cementing*	*2,300*	*4(2)*
1	*7,500*	*Worthington Pump & Machinery*	*2,500*	*3*
		Metals and Mining:		
6(1)	5,000	Aluminum Co. of America	12,600	4
4(1)	5,050	American Smelting & Refining	2,200	2
2(1)	700	Ananconda Copper	None	None
7(7)	34,600	International Nickel	22,000	5
8(1)	9,500	Kennecott Copper	9,500	5(2)
2(2)	3,000	Mining Corp. of Canada, Ltd.	None	None
4(4)	29,600	Pittsburgh Consolidation Coal	None	None
2(2)	900	Pittston Company	None	None
3(1)	10,800	St. Joseph Lead	1,500	1
None	*None*	*Consolidated Mining & Smelting*	*1,200*	*2(1)*
		Natural Gas:		
15(1)	32,910	American Natural Gas	1,100	3(1)
6	72,700	Columbia Gas System	29,100	3(2)
2(1)	2,500	Hugoton Production Co.	None	None
2(1)	2,100	Lone Star Gas	None	None
2(1)	1,500	Republic Natural Gas	None	None
2(1)	12,000	Southern Production Co.	None	None
None	*None*	*El Paso Natural Gas*	*17,900*	*2*
1	*550*	*Mississippi River Fuel Corp.*	*13,250*	*4(1)*
		Office Equipment:		
None	*None*	*Burroughs Adding Machine*	*12,300*	*2(1)*
		Paper and Printing:		
2(1)	2,500	Abitibi Power & Paper	None	None
2(2)	3,500	Crown Zellerbach	None	None
2(1)	1,900	Great Northern Paper	None	None
23(3)	177,300	International Paper [4]	31,000	8(3)
7(5)	22,800	Kimberly Clark	210.7	1
2	3,000	Lily-Tulip Cup [5]	None	None
4	7,600	Rayonier, Inc.	None	None
3(1)	8,800	Union Bag and Paper	None	None
None	*None*	*Dixie Cup Co.*	*2,000*	*3(1)*
		Petroleum:		
2(1)	6,000	American Republics Corp.	None	None
2	11,500	Chicago Corp.	None	None
3(1)	8,200	Cities Service	500	1
2	8,400	Delhi Oil Corp.	None	None
5(1)	4,600	Gulf Oil	14,200	3(1)
3(1)	8,000	Houston Oil Co. of Texas	10,000	1
6(2)	13,000	Ohio Oil	4,300	2
8(5)	66,900	Pure Oil	1,000	1(1)
2(1)	2,500	Richfield Oil	None	None
3(2)	3,600	Seaboard Oil (Del.)	None	None
10(6)	31,900	Shell Oil	3,400	4(2)
3(2)	1,900	Signal Oil and Gas "A"	None	None
6(5)	144,500	Socony Vacuum	1,000	1
5(1)	13,500	Standard Oil of California	505	2(1)
3(2)	2,800	Texas Pacific Coal & Oil	None	None
None	*None*	*Mission Development Co.*	*24,950*	*4(3)*
1(1)	*1,000*	*Standard Oil of Ohio*	*6,500*	*3(1)*

two making initial commitments. A lot of 500 shares was sold. J. P. Stevens and United Merchants and Manufacturers were also each bought by three trusts with no offsetting sales. Two new purchases were made in Pacific Mills. Opinion was divided on Celanese Corporation but no predominate selling was concentrated in any one particular textile issue.

Rubbers were also bought in light volume with Goodyear the favorite. Five managements made new commitments and three others added to holdings. Purchases totaled 15,100 shares and were offset by two sales of 2,600 shares. Firestone was also thought well of by four companies, but two others eliminated it from their portfolios. Holdings of Goodrich in five portfolios were lightened but there were three purchases, although in much smaller volume.

Buyers had the edge in the retail stocks, purchasing transactions paralleling those of the previous quarter, while total selling decreased. Allied Stores was the favorite issue, superseding Federated Department Stores which had been top favorite for several quarters. Eleven managements made purchases of 42,600 shares, five of which represented initial commitments; two sales totaled 7,000 shares. Marshall Field was second ranking issue in popularity, five trusts acquiring 21,000 shares. One lot of 5,500 shares was sold. Safeway was also added by five funds, but part of this new stock was purchased through the stimulus of rights. Grant and Interstate Department Stores were each bought for the first time by two managements. Opinion was divided on Montgomery Ward, but 25,200 shares of Sears Roebuck were sold by five companies with one offsetting purchase of 800 shares. In the previous quarter, positions were reversed with Ward sold and a division on Sears. There was also some concentrated liquidation in the sale of 6,400 shares of Grand Union.

Utilities Liquidated

Selling was fairly well distributed among the public utility issues. Southern Company, however, was sold by the largest number of trusts, seven disposing of 115,550 shares; there were three purchases totalling 20,100 shares. North American was sold by six funds to a total of 149,200 shares. One new commitment was made in this issue of a bloc of 12,000. Three funds lightened holdings and three others completely eliminated the stock of Wisconsin Electric Power, 60,000 shares being liquidated. Two comparatively small purchases were made through the exercise of rights. Likewise six managements sold almost 22,000 shares of Consumers Power; a bloc of 500 was added to another portfolio 41,800 shares of Ohio Edison were disposed of by five companies and the same number of funds lightened holdings of American Gas and Electric. However, there were at the same time three purchases of the latter issue, two of which were new commitments. Public Service of Colorado was lightened in three portfolios and eliminated from a fourth; total sales of 35,100 shares was offset in volume by one purchase of 43,100. Four managements also sold Montana Power, two completely disposing of this issue. American Power and Light, American Telephone and Telegraph, Central Illinois Public Service, Kentucky Utilities, Minnesota Power and Light, Pacific Gas and Electric, Texas Utilities and Toledo Edison were each sold by three trusts. Complete dissolution of United Light and Railways was finally effected and seven funds received stock of Iowa Illinois Gas and Electric as a last distribution of a subsidiary corporation. Seven managements also purchased 51,300 shares of Middle South Utilities, two making new commitments. Offsetting were four sales totaling 22,000 shares. General Public Utilities was liked by four funds, one of which acquired an initial holding; a lot of 500 shares was sold. Three trusts acquired 21,900 shares of Electric Bond and Share and a like number of companies purchased General Telephone, although another completely eliminated a block of 20,000 shares from its portfolio.

Least popular among the building construction and equipment issues was Johns-Manville, seven managements disposing of 10,900 shares, two of which represented complete portfolio eliminations. Two new commitments in this issue totaled 6,000 shares. United States Gypsum also was not too well liked. Five trusts sold 10,500 shares, while three funds added 2,200. Flintkote was entirely cleaned out of four portfolios, sales amounting to 17,100 shares. Almost 8,000 shares of Sherwin Williams were likewise liquidated by three companies but only half of these represented complete eliminations. The same number of funds sold 21,800 shares of American Radiator. However, three trusts still retained some of their holdings in this stock, and an acquisition was made of a bloc of 3,000 shares. Similarly, Mueller Brass was lightened in three portfolios and eliminated from a fourth. Certain-teed Products, Masonite Corporation, Otis Elevator and Pittsburgh Plate Glass were each sold by three managements. Buying was predominate in General Portland Cement, five funds purchasing 8,300 shares. Offsetting were two sales totaling 3,500 shares. Contrasted with transactions in this cement issue were the divided opinions of two trusts on each side of the market in Lehigh Portland Cement, one new commitment and two complete eliminations of Lone Star, and another elimination of Pennsylvania Dixie Cement. Two initial purchases and a portfolio addition were made in United States Plywood; there were no sales.

The two major finance concerns were rather heavily sold. Eleven managements decreased holdings of C. I. T. Financial Corporation, four making complete portfolio eliminations. Sales totaled 62,200 shares. Partially offsetting were four acquisitions of 6,000 shares, one of which represented a new commitment. Commercial Credit was lightened in four portfolios and entirely eliminated from two others. Disposition of 20,800 shares contrasted with one sole purchase of a lot of 1,000. Also eliminated from three portfolios were 1,900 shares of Guaranty Trust. However, Bank of America and the Commercial National Bank and Trust of New York were each acquired by two managements.

Profit-taking ruled in the leading motor companies. Thirteen funds sold 33,900 shares of General Motors and ten disposed of 35,500 shares of Chrysler. Two initial acquisitions and one addition to portfolio holdings were made in each of these issues. Four complete portfolio eliminations were made in Libbey-Owens-Ford Glass and one decrease in holdings. Six trusts sold 10,800 shares of Borg Warner, but three more made purchases of 3,200 shares. Electric Auto-Lite and Thompson Products were the only equipments favored by buyers, three companies making acquisitions of each issue.

The Air Lines and Aircraft Manufacturers

American Air Lines appeared to be the sole air transport well liked as three new commitments and two portfolio additions were made totaling 23,200 shares. Six managements bought Bendix Aviation and two purchased Lockheed. Sperry Corporation was eliminated from three portfolios and lightened in another while Grumman was disposed of by two funds. Opinion was divided on other manufacturing and transport issues.

General Electric was decreased in eight portfolios and eliminated from three others. Total sales volume of 23,200 shares contrasted with a single portfolio increase of 18,000 shares. Seven funds sold 33,600 shares of Westinghouse, four of which entirely cleaned out the issue from their portfolios. However, five other trusts made purchases of 9,200 shares. Also sold in this group were Zenith and Bendix Home Appliances. Sole buying preference was given to Radio Corporation of America, two companies making new commitments and a third adding to portfolio holdings.

Chemicals Lose Favor

Sellers held the balance in the chemical group. DuPont was lightened in seven portfolios and eliminated from six others. Sales totaled 29,900 shares and there were no purchases. Union Carbide was next heaviest sold, five managements disposing of 38,000 shares. Acquisition of 3,000 shares was made by two trusts. Four managements sold 4,200 shares of Hercules Powder, half of which made complete portfolio eliminations. Sellers also had the better of it by a slim margin in American Cyanamid, although sales volume of 3,900 shares contrasted with total purchases of 11,000. Texas Gulf Sulphur was also sold by three funds. Increase in number of shares of Allied Chemical resulted from the four for one stock split-up, but Heyden Chemical was actually well bought by two managements. Atlas Powder and Rohm and Haas were also each purchased by two funds.

Changes in Common Stock Holdings of 44 Investment Management Groups (Continued)

—Bought— No. of Trusts	No. of Shares		—Sold— No. of Shares	No. of Trusts
		Public Utilities:		
2(1)	3,500	Brooklyn Union Gas	None	None
2	5,000	Delaware Power and Light	None	None
3(1)	21,900	Electric Bond and Share	None	None
4(1)	20,400	General Public Utilities	500	1
3(2)	8,300	General Telephone Corp.	20,000	1(1)
8(7)	140,680	Iowa Illinois Gas & Electric [7]	3,000	2(1)
7(2)	51,300	Middle South Utilities	22,000	4
2	8,000	New England Electric System	None	None
2(1)	5,500	Utah Power and Light	None	None
3(2)	*3,500*	*American Gas & Electric*	*14,800*	*5*
None	*None*	*American Power and Light*	*1,694*	*3*
1(1)	*50*	*American Tel. & Tel.*	*6,700*	*3(2)*
None	*None*	*Central Illinois Public Service*	*9,100*	*3*
1	*500*	*Consumers Power*	*21,880*	*6(1)*
None	*None*	*Detroit Edison*	*30,600*	*2(1)*
None	*None*	*Houston Lighting & Power*	*1,250*	*2*
None	*None*	*Iowa Public Service*	*1,200*	*2(2)*
None	*None*	*Kentucky Utilities*	*55,400*	*3(1)*
None	*None*	*Louisville Gas & Electric*	*3,500*	*2(1)*
1(1)	*1,000*	*Minnesota Power & Light*	*852*	*3(2)*
2(1)	*9,500*	*Montana Power Co.*	*8,227*	*4(2)*
3(1)	*12,100*	*North American Co.*	*149,200*	*6(2)*
2	*1,500*	*Ohio Edison*	*41,800*	*5(1)*
None	*None*	*Pacific Gas & Electric*	*30,800*	*3(1)*
None	*None*	*Potomac Electric Power*	*32,600*	*2*
1	*43,100*	*Public Service Co. of Colorado*	*35,100*	*4(1)*
3	*20,100*	*Southern Company*	*115,550*	*7(2)*
1	*55,600*	*Texas Utilities*	*14,600*	*3(1)*
None	*None*	*Toledo Edison*	*25,700*	*3(3)*
None	*None*	*United Light and Railways* [8]	*261,300*	*8(8)*
2	*2,800*	*Wisconsin Electric Power* [9]	*56,938*	*6(3)*
		Radio and Amusement:		
5(2)	10,500	Columbia Broadcasting "A"	3,800	3(2)
4(1)	6,600	Columbia Broadcasting "B"	1,600	2(1)
2(2)	35,200	Twentieth Century-Fox Film	None	None
5(3)	28,900	United Paramount Theatres	2,000	1(1)
		Railroads:		
8(3)	13,200	Atchison, Topeka & Santa Fe	550	2(2)
2(2)	7,000	Baltimore and Ohio	None	None
5(3)	23,600	Canadian Pacific	13,700	2(2)
3(1)	3,500	Chesapeake and Ohio	5,000	1(1)
8(6)	15,900	Chicago, Rock Island & Pacific	6,000	3(1)
7(4)	31,500	Illinois Central	None	None
2(1)	4,100	New York, Chicago & St. Louis	None	None
5(3)	14,900	Pennsylvania	None	None
3(1)	15,200	Seaboard Air Line	11,500	1
14(6)	40,200	Southern Pacific	400	1
3(1)	3,300	Southern	3,200	1
7(4)	12,300	Union Pacific	400	1
		Railroad Equipment:		
3(1)	800	American Brake Shoe	None	None
4	6,400	American Locomotive	None	None
		Retail Trade:		
11(5)	42,600	Allied Stores	7,000	2(1)
2(2)	3,000	W. T. Grant	None	None
2(2)	3,000	Interstate Dept. Stores	None	None
5(1)	21,000	Marshall Field	5,500	1
2(1)	800	Melville Shoe Corp.	None	None
5	28,900	Safeway Stores [10]	15,600	2(1)
1	*1,000*	*Grand Union*	*6,400*	*3(1)*
1	*800*	*Sears Roebuck*	*25,200*	*5(2)*
		Rubber and Tires:		
4(3)	3,800	Firestone	5,200	2(2)
8(5)	15,100	Goodyear	2,600	2(1)
3(2)	*1,700*	*Goodrich*	*8,950*	*5*
		Steels:		
3(1)	3,100	Allegheny Ludlum Steel	300	1
5(4)	12,500	Armco Steel	2,100	2(2)
12(6)	72,700	Bethlehem Steel	900	2
6(4)	6,400	Republic Steel	None	None
8(4)	103,100	United States Steel	3,700	4(2)
7(2)	8,000	Youngstown Sheet & Tube	1,850	2
2(2)	*3,000*	*National Steel*	*12,100*	*4(1)*
		Textiles:		
3(2)	22,400	Burlington Mills	500	1
2(2)	8,300	Pacific Mills	None	None
3(1)	6,600	J. P. Stevens Co.	None	None
3(1)	24,500	United Merchants & Mfrs.	None	None
		Tobaccos:		
1	*400*	*Liggett and Myers*	*5,200*	*3(3)*
3(1)	*6,500*	*Philip Morris & Co.*	*22,476*	*6(3)*
		Miscellaneous:		
None	*None*	*Southeastern Greyhound*	*1,900*	*2(2)*

SUMMARY

Balance Purchases and Sales Portfolio Securities 63 Investment Companies

	Bought	Sold	Matched	Totals
Open-End Companies:				
Balanced Funds	8	6	6	20
Stock Funds	8	7	14	29
Closed-End Companies	2	7	5	14
Totals—All Companies	18	20	25	63

FOOTNOTES

1 1650 shares received as 25% stock dividend.
2 Received in 4 for 1 stock split.
3 79,400 shares represent 100% stock dividend.
4 141,550 shares received as 25% stock dividend.
5 Acquired as stock dividend of 75%.
6 28,735 shares purchased through rights. Basis: 1 share for 10 shares held.
7 112,180 shares received as final distribution on United Light and Railways. Basis: 6 for 10.
8 29,000 shares sold; remainder liquidated.
9 Purchased through rights.
10 Purchased in part through rights.

NOTE—This survey covers 63 investment companies, but purchases or sales of trusts sponsored by one management group are treated as a unit. For example, the several trusts sponsored by Calvin Bullock are considered as having the weight of one manager. Overseas Securities is included in addition to the companies listed in the companion table.

With Security Associates

(Special to THE FINANCIAL CHRONICLE)

WINTER PARK, Fla.—Philip B. Stovin is with Security Associates, 114E South Park Avenue.

Investment Research Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Henry R. Salaun has been added to the staff of Investment Research Corp., 53 State Street.

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The Business Outlook

increased incomes. It reflected also an increased rate of buying out of current income, some drawing down of liquid assets, including holdings of series E bonds, and a sharp increase in consumer instalment loans.

With production close to capacity in key industries, the sharp further expansion of buying on the part of consumers and businesses led to widespread price advances. Prices of basic commodities rose more than one-third since March and one-fourth since the outbreak of hostilities. Average wholesale prices rose 11%, and consumer prices, which typically lag, advanced about 4% since March. Prices of farm products and foods did not rise to their earlier postwar peaks and recently have shown some decline, reflecting principally seasonal decline in hogs. Wholesale prices of other commodities, which have increased over 8% since June, are above their earlier peaks and have continued to rise. Consumer prices have risen to approximately their earlier postwar peak.

Credit and Monetary Developments

Expansion in credit by banks and other lenders, which had been going on for some months, accelerated after the outbreak of hostilities and helped to finance the growth in business and personal expenditures for various purposes.

Commercial banks increased their total loans by an estimated $4 billion in the third quarter and their holdings of State and local government and corporate securities by about $800 million. The expansion since June in credit to private borrowers and to State and local governments, which has been in part seasonal, has exceeded that in any peacetime period of similar length. Much of the recent sharp expansion in loans reflects commitments made before restrictive credit policies began to be imposed. Some of the expansion may have reflected anticipation of future needs. In October, there seems to have been some slackening in the rate of expansion.

Businesses have been especially heavy borrowers in recent months as they anticipated shortages of materials and increases in prices and, in addition, provided for seasonal needs. Bank loans to business have increased by more than $2.5 billion since June.

Credit extended by banks and other lenders to purchasers of houses has been a large factor in the recent expansion of private credit. New loans on small residential properties during the first nine months of 1950 are estimated at slightly less than $11 billion, or an annual rate of almost $14.5 billion compared with roughly $11 billion in each of the past three years. After allowing for repayments, total mortgage debt outstanding on 1-4-family houses increased $2 billion in the third quarter and by $6 or $7 billion in the past 12 months, compared with an increase of less than $4 billion during calendar year 1949.

Even before the Korean crisis banks and other lenders were financing a marked expansion in consumer buying, especially of durable goods through the extension of instalment credit. After June, consumer instalment credit increased more sharply, showing an expansion of about a billion dollars in the third quarter.

Recent growth in bank credit has added considerably to the money supply. During the third quarter of 1950 the total of currency and bank deposits held by individuals and businesses increased more than $2 billion to a new peak level of about $172 billion. This rapid rate of increase almost equaled that of the third quarter of 1947—a period of substantial inflation. The increase would have been much more rapid had not nonbank investors, particularly business corporations, drawn upon growing cash balances to purchase a large volume of government securities from the banking system during this period. These holdings are similar to cash.

Increased spending in the economy since midyear has been financed not only through new borrowing and an expanded supply of money, but also in part by more active use or turnover of money. The rate of use of deposits is now higher than at any time in more than a decade, but is still low relative to the 1920s. The existing volume of deposits could be the basis for a considerable further increase in spending without the creation of additional money.

Another factor in the recent increase in spending has been the reduction in certain types of liquid asset holdings by individuals. During the third quarter time deposits at commercial and mutual savings banks declined by approximately one-half billion dollars, redemptions of savings bonds exceeded purchases by about one-third billion and shareholdings at savings and loan associations were also drawn down.

Additional bank reserves to provide the basis for growth in deposits and the volume of money resulting from the credit expansion during the postwar period generally have been readily obtainable by selling government securities to the Federal Reserve. Since March of this year, both reserves and Federal Reserve holdings of securities have increased. The Federal Reserve has generally purchased securities approaching redemption, in order to assure the success of Treasury refunding. At the same time, the System has sold substantial amounts of long-term bonds to supply investment demands and has also sold some shorter-term issues for which there were market demands. Net purchases of $700 million in the second quarter and of $1,200 million in the third quarter supplied over $1 billion of additional reserves to banks, after meeting an outflow of gold of three-quarters of a billion.

Short-term money rates have tended to stiffen during most of this year, reflecting growing credit demands. This trend was moderated by Federal Reserve purchases of short-term securities, but some rise occurred in rates on bills and certificates as the Federal Reserve adopted more vigorous measures for restricting credit expansion.

Prospects

It is evident from events of the past three or four months that new and prospective demands, together with underlying forces, have brought on a highly inflationary situation. The upsurge that has occurred to date, it should be noted, has not been the result of a current government deficit or even of an increase in governmental expenditures. It has been due entirely to an increase in private expenditures—some that would have occurred even without the Korean outbreak and some in anticipation of possible shortages and probable price advances. These expenditures have been financed from growing incomes, use of accumulated liquid assets, and new borrowing. They in turn have helped to increase further business and personal incomes and have provided the means for more spending.

As defense production gets under way, private incomes will be expanded further while simultaneously supplies of goods and services available in civilian markets will not be increased. In many key industries output already is at or close to capacity and output for civilian use will need to be curtailed, possibly sharply in some cases, to provide materials and manpower for war production. Under these circumstances, inflationary pressures will continue to dominate economic developments. Even though on occasion there may be some abatement of upward pressures, the underlying trend is inflationary, and unless vigorously restrained will lead to further substantial advances in prices and wages, which are the results of inflation rather than the primary causes. They do, however, contribute to the development of the inflationary spiral.

The magnitude of the prospective inflationary potential may be illustrated by a few figures. Congress recently appropriated an additional $17 billion for defense, foreign military aid, and stockpiling, and it is possible that additional appropriations will be requested late this year or early next year. In addition, the President recently stated that defense expenditures may double between mid-1950 and mid-1951. All in all, it appears that an increase of about $20 billion on an annual basis may reasonably be expected in this period.

The President also indicated that the armed forces will increase their strength from 1½ million in the second quarter of 1950 to about 3 million persons. In addition to this drain of 1.5 million people on the labor force, the industries and other activities supplying defense needs will require an additional 3 million workers—making a total of 4.5 million. The labor force might be expanded by 1.7 million in the next year and unemployment—which was 3.3 million before Korea—may be reduced to 1.5 million, supplying another 1.8 million workers—a total of 3.5 million to meet needs of 4.5 million. Thus the number of workers employed in civilian activities might have to be reduced by about 1 million. Even if the armed forces should increase by only 1 million, some reduction would still be implied for the number of workers in civilian activities.

Manpower Projected
(Millions of persons)

	1950 2nd Quarter	1951 2nd Quarter	Change
Labor Force	64.8	66.5	+1.7
Unemployed	3.3	1.5	—1.8
Employed—Armed Force	1.5	3.0	+1.5
Defense	1.7	4.7	+3.0
Civilian	58.3	57.3	—1.0

Let us next look at the prospective picture in terms of the dollar value of our total production of goods and services, reckoned on an annual basis and in terms of third quarter 1950 prices. With increased total employment, longer hours of work, additions to plant and equipment, operation of stand-by facilities, and increased productivity, it is not inconceivable that the annual rate of total output valued at unchanged prices could expand further from the third quarter of this year by about 6% or $17 billion, at present prices. However, increased military requirements may require an additional $18 billion, or more than the potential increase in the annual rate of total output, thus necessitating a small reduction in output left for all civilian purposes.

Expansion in Output—Projected
(Annual rates in billions of dollars at 3rd quarter 1950 prices)

	1950 3rd Quarter	1951 2nd Quarter	Change
Gross National Product	$284.0	$301	+17
Defense	14	32	+18
Civilian—			
Regular Government	29	29	--
Private	241	240	— 1

This, in a rough way, is an indication of the overall physical problem of meeting the planned expansion in the armed forces and in satisfying military stockpiling, and foreign assistance requirements for munitions and other supplies. This aspect of the problem appears manageable, although for some strategic materials, such as steel and copper, substantial difficulties may be encountered. The general inflationary problem, however, is much more difficult. The essence of that problem lies in the fact that increased expenditures (at unchanged prices) of $17 billion will result in $17 billion of additional income, before taxes, and some $11 billion after taxes in the hands of consumers and business, even after allowing for the recent sharp increases in personal and corporate tax rates. There will be no additional civilian goods and services available in the market to be absorbed by this much larger amount of added income available for spending or investment.

The inflationary potential in this situation is thus very great, and unless restrained by sterilizing the excess income through higher taxes, greater liquid savings, and reductions in credit being utilized, the only possible result would be higher prices. That would mean even larger incomes and increased demands. Already in the third quarter of this year, although actual defense outlays increased only moderately, business and consumer spending increased sharply and total output and prices rose. The expansion has been primarily for civilian use. Thus, from now on, as defense production expands, the amounts available for civilian use may need to contract.

While some investment expenditures might be postponed under these circumstances, the need for modernization of equipment and expansion of capacity will have a high priority. Outlays for these purposes may be made in part at the further expense of consumer durable goods and housing. The supplies of these goods available for civilian use will be reduced and it is essential that demands for them decrease correspondingly.

The spread between prospective incomes and civilian supplies at current prices does not indicate the full inflationary potential. Current demand is not limited only to currently distributed income, but may be augmented by drawings on accumulated liquid savings by those disposed to spend them and also by borrowings that add to bank credit and the money supply. With uncertainty as to the availability of future supplies and as to the level of future prices, there is greater inducement for the spending of liquid savings and resort to borrowing. As a result, prices may rise further and incomes be again increased.

With high employment and tightening pressures upon manpower supplies, rising living costs, and expanding profits, workers are in a position to ask for higher wages. At the same time, employers are in the position of having to bid actively for labor by offering extra inducements to workers and with demand strong, business is able to raise selling prices to cover any additional expenses. Thus, higher prices lead to higher wages and costs and to higher prices again.

The general psychology of businesses and individuals with respect to future prices and availabilities of products is necessarily a highly critical factor in shaping inflationary forces. During the period of growing defense and war expenditures in the early 1940s, the background was one of slack and depression with low incomes and depleted savings.

The financial background of the present economic situation, in contrast, is a decade of inflationary economic expansion, accentuated by war necessities and postwar readjustment. Businesses and individuals are aware of the processes and consequences of inflation and are familiar with the hazards of wartime shortages. With depression unlikely and continued large government spending probable, there will be less reluctance to spend and borrow and less desire to save than was formerly the case.

Projections

Possible developments over the next year are illustrated by the the accompanying tables. These are not forecasts but broad approximations of the course of the indicated possible aggregates under specific assumptions. Defense expenditures are assumed to increase by an annual rate of about $20 billion by the second quarter of 1951 and to rise further thereafter. Aggregate output, independently of price changes, is assumed to increase by 8 to 10% from the second quarter of 1950 to the second quarter of 1951, with industrial production rising by about one-sixth in this period.

Model A assumes that direct controls will be limited and that most anti-inflationary measures will be applied in a moderate manner. No further tax increases in addition to those recently enacted are assumed. Model B differs from Model A by assuming progressively more rigorous credit and fiscal controls and more extensive direct controls to channel materials into war production, but does not assume general price and wage ceilings or consumer rationing. It assumes that another tax program yielding $9 or $10 billion of additional revenue, when fully effective, will be enacted early in 1951.

By the end of the first quarter of 1951, more rigorous controls in Model B should exert a progressive restraining influence on prices, incomes, and expenditures. Consumer prices are estimated to rise by 8 to 10% in Model A and by 5 to 6% in Model B from the second quarter of 1950 to the second quarter of 1951.

The prospect is that Federal cash receipts will approximately equal cash disbursements during fiscal 1951 under Model A but that calendar year 1951 will show a cash deficit of over $5 billion. In Model B, a cash surplus of over $1 billion would be likely for fiscal year 1951 and a deficit of about $2 billion would be likely for calendar 1951. In either case, the Treasury may not need to resort to borrowing in the market before next summer, but will have to borrow substantial amounts in the last half of 1951.

	Estimated 3rd Quarter 1950	Projected —3rd Quarter 1951— *Model A	*Model B
Gross National Product	$284.0	$333.1	$318.7
Government purchases of goods and services—total	42.5	67.9	65.8
Federal	23.5	47.7	46.0
State and Local	19.0	20.2	19.8
Gross Private Domestic Investment	49.0	55.7	51.1
Net Foreign Investment	—3.0	—1.5	—2.0
Personal Consumption Expenditures	195.5	211.0	204.0
Durable Goods	31.5	26.0	25.0
Nondurable Goods and Services	164.0	185.0	179.0
Personal Income	224.0	259.1	250.2
Disposable Income	204.0	232.7	222.2
Personal Savings	8.5	21.7	18.2

*See text for principal assumptions.

Effect of Restrictive Policies

Many of the forces that will determine the course of economic events during the next year appear reasonably certain. An important factor, however, will be the course of public psychology, which is always difficult to predict. Should the general public become convinced that shortages of desired goods will not develop and prices will not rise, or should accumulations of goods appear adequate, there could be a sharp change in the rate of current expenditures that might check the course of the inflationary spiral. It is possible that temporary halts or reversals will occur, especially if defense buying is slow in accelerating. The prevailing force, however, assuming the military program indicated, should be a continued pressure of demand on limited supplies.

The most important force that might direct or change the course of events is public policy. Inflation can be accelerated or retarded or even prevented by adoption of appropriate policies.

Because of the limited magnitude of the presently contemplated defense program relative to the total output of the economy and in view of the possibility of its long continuance, the decision has been made to rely largely upon general fiscal and monetary measures of restraint rather than to attempt the use of a broad system of detailed controls in the nature of specific price ceilings, allocations of materials, and consumer rationing. Fiscal and monetary measures are designed to limit buying power and, therefore, strike at the basic cause of inflation. The direct controls aim at preventing the effects from expressing themselves and thus furthering an upward spiral. To use the latter without the former would be like limiting the outflow of steam from a boiler while still stoking the furnace—an explosion would be the inevitable result. Moreover in an economy with civilian activities close to previous maximum levels, the task of rationing and allocating output while preventing the price system from functioning would involve enormous administrative problems and would result in the temporary abandonment of much of our free enterprise system.

In some strategic areas, allocations and priorities will no doubt be needed and perhaps also arrangements for stabilizing prices and wages. Machinery has been established for limited measures of this sort.

Fiscal measures already taken include legislation for prompt, though moderate, tax increases, designed to raise some of the additional funds needed. In addition, some expenditures for less essential governmental activities are being reduced. Further tax increases are contemplated in order to place the Federal Government as nearly as possible on a pay-as-you-go basis—the most important requisite for a long-time defense program of the type apparently contemplated.

To the extent that the Treasury may incur a deficit—even if only for temporary periods—it is desirable that as much borrowing as possible be done from savings of the public and as little as possible from the banking system. To the extent that savings can be tapped by the government, the supply of funds available for private investment of an unessential character will be limited. Additional borrowing from nonbank investors and reduction in securities held by banks would exert a desirable anti-inflationary influence.

Of very great importance are measures of restraint in the area of private credit. As has been shown, recent inflationary developments have been the result of increased private spending from existing resources and new borrowing. Restraints of this sort are particularly difficult because of the large supply of liquid assets accumulated by individuals, businesses, banks and other financial institutions. Increased expenditures can be financed from existing cash holdings, from sale of government securities, or from borrowing.

Restraints, therefore, need to be imposed on extension of credit and in addition liquidation of government securities by holders has to be discouraged. Various measures directed toward these objectives have been adopted by the Federal Reserve, including curbs on use of credit for purchase of new houses and consumer durable goods, as well as general restraints.

There has not yet been time to test the effectiveness of these measures of credit restraint. The rapid credit expansion which has continued reflects in part seasonal and other temporary factors and also commitments made before restraints were imposed. More restraints may need to be imposed. It is important that inflation be checked if the nation is to accomplish its objectives of building up an adequate defense establishment, of maintaining a strong economy operating on the principles of free enterprise, and of preventing a deterioration in the value of current incomes and accumulated savings.

It is possible to foresee that forces operating toward inflation are likely to be strong; it is not possible, however, to predict what measures may be adopted to restrain them nor to know how effective those measures may be.

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Money and Credit Today

of corporate and municipal securities as well as real estate and instalment credit from nonbank sources, also rose substantially. Credit expansion has been greater in this period than in any other peacetime period of the same length. Monetary policy has thus a great opportunity, but an equally great responsibility.

The task of monetary and credit policy is clear: its purpose is to reduce the availability of bank reserves. You know that under our system of fractional reserves, the banks can use every dollar kept on deposit with the Federal Reserve for extending six or seven dollars of credits. The difficulties of that task are very great. Aside from the economic limitations upon the various anti-inflationary measures available to use, we certainly cannot ignore psychological factors. In spite of the constant improvement in our statistical techniques, it is very hard to foresee the reactions of thousands of banks, firms, and individuals to changes in interest rates, liquidity, or consumer, real estate, and stock exchange credit regulations. Groups that are most directly affected by any of our actions frequently try to persuade us that our measures are overly harsh. Other critics contend that we are not going far enough. We must proceed judiciously and with caution, trying to avoid unnecessary hardships; but we must be prepared to amend promptly any regulation if it proves either inadequate or inappropriate for the economic conditions with which we are trying to deal.

Monetary Policies in Foreign Countries

As I said recently at the University of Florida Business Conference, it is interesting to observe that we are not alone in attempting to cope with our present problems through monetary policies in preference to direct controls. Indeed, in many countries of the Western World the first response to the renewed inflationary dangers caused by rearmament and rising world prices has been resort to measures of monetary policy. The significance of this development is heightened by the fact that monetary policy is now being rehabilitated precisely in in those countries of Western and Northern Europe which in the postwar period have relied primarily on direct controls (of investment, of prices, and of consumption) to curb inflation.

The reasons for this comeback are evident: In the first place, countries which have recently succeeded in freezing themselves from direct controls that were becoming increasingly inefficient are extremely reluctant to resume these controls. Governments are likely to look around for anything that may enable them to avoid reimposition of controls—for anything, if it holds promise of doing at least part of the stabilization job!

Secondly, the prestige of monetary policy has increased gradually over the past few years. In France, credit restrictions and the imposition of reserve requirements played a considerable part in arresting postwar inflation which had driven price levels 20 times above prewar. In Belgium, immediately after World War II and in Germany in 1948 the monetary reform worked miracles in reviving production and in restoring incentives. Monetary policy has chalked up significant successes in recent years—a situation far different from that prevailing at the outbreak of the second World War when governments looked back over a period during which the record of monetary policy was none too impressive.

Finally, and possibly more important, the current situation differs in many essential respects from that which confronted the Western World during the second World War. At that time it was essential to make a maximum effort in the shortest possible time. The determination of governments not to have their efforts "too little and too late" was almost measured by their willingness to impose all kinds of controls on their economy. While the danger of inflation was taken seriously, the magnitude of the necessary effort appeared to call for comprehensive direct controls rather than reliance on the fiscal and credit measures. It was thought that incentives to work would suffer if the war was financed entirely by taxation; that people would be more willing to work if taxes were held down somewhat even though they could not spend the extra money they had until after the end of the war. These wartime savings were largely responsible for our postwar inflation.

This brief reference to the economic problems confronting us during the last war serves to point out the considerable differences between now and then. Today, we are facing an indefinite period of defense during which our non-civilian expenditures are expected to mount gradually, but not to attain the very large percentage of national income that they attained during the recent war. In addition, the period during which we shall have to carry defense expenditures on a substantial scale is not one of short emergency, but may extend over a long period of years. The case for direct controls is thus far weaker today than it was during the second World War. Direct controls work best over a short period; they become increasingly inefficient and cause more and more economic distortions as the years go by.

Recent Monetary Policy Actions In the United States

The policy of the Federal Reserve in the present emergency has been guided by these principles. We have used many of the older weapons of monetary policy and have been given a few new ones. We have raised the discount rate. We have engaged in open market operations designed to reduce the availability of bank reserves created by the sale of Government securities to the Federal Reserve, and these operations have necessitated a very moderate increase in short-term interest rates. Jointly with other agencies entrusted with the supervision and regulation of private credit institutions, we have formally appealed to the banks not to expand credit for purposes inconsistent with our defense program.

In addition, we have taken important measures under the Defense Production Act, recently passed by the Congress. We have promulgated Regulation V, setting up a program of guaranteed loans for defense production, patterned after the so-called V-Loan Program of the second World War. On the restrictive side, we have issued Regulation W, dealing with consumer instalment credit, and Regulation X, dealing with real estate credit for new construction of one- and two-family houses. Since the original restrictions of consumer credit did not prove sufficiently effective, we have tightened Regulation W by an amendment. We are fully aware of the fact that Regulation W tends to reduce the demand for automobiles and other goods, and that Regulation X tends to reduce the demand for new homes. That is exactly what these regulations should do if they are to accomplish their purpose. Labor and materials which hitherto have gone into automobiles, television sets, and new homes must be released for use by the defense industries. This shift can be accomplished most efficiently if some people are induced to forego the purchase of automobiles, television sets, or homes, by being confronted with less attractive credit terms. If supply were reduced before demand, say by a Government decree forcing producers to cut production, an artificial scarcity would be created. In consequence, prices would rise rapidly and it would be highly profitable for producers to evade the decree. The Government would then be confronted with the difficult task of enforcing the cutback in the fact of strong resistance by both producers and consumers. If demand is reduced, however, producers will curtail output in proportion, and the shift to defense orders can be accomplished without a rise in prices and, more important, without the need of enforcing direct controls which defy the market situation by an attempt to keep inflation suppressed but not removed.

Conclusions

Quite recently some observers have expressed the opinion that the measures taken so far may have sufficed to break the momentum of inflation. Construction activity has indeed slackened and some prices have declined from their summer peaks. I am afraid, however, that such a view would be overoptimistic. Many prices continue to edge upward, and in view of the wage increases recently won by labor, further price rises may be expected. Profits are soaring, and despite the recent tax increase personal incomes after taxes are generally higher than before the start of the Korean War. Moreover, the defense program is expanding and business is developing more and more ambitious plans for investment. For these reasons I do not believe that the inflationary threat will subside without continued efforts on the part of the fiscal and monetary authorities.

I cannot discuss here any of the directions in which we may wish to move in the future. But it may perhaps be useful to point out that neither our actions nor any of our proposals for dealing with inflationary dangers would imply nearly as great infringement of our economic freedoms as would the reimposition, on a large scale, of direct controls which are the only alternative to effective fiscal and credit measures.

Naturally, we will determine our policies in the light of the requirements of our own economic situation. This time we are fortunate in having the benefit of extensive experience with the various measures of combating inflation which have been tried both here and in many of the countries that are united with us in a common cause.

From time to time the Federal Reserve reports to Congress on the policy actions taken and the reasons for those actions. That is not only essential to our system of Government, but helpful in making a realistic appraisal of the effects of actions taken, or not taken, under our public responsibility and with the powers granted by Congress to meet that responsibility.

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The Security I Like Best

heat and ability to be surface hardened.

While still in what may be called the experimental stage, titanium metal is now being produced by National lead in quantities large enough to permit actual tests in various applications. Also, satisfactory progress has been made toward the twin goals of lower costs and improved production techniques. In connection with this program, there was formed in February of this year the Titanium Metals Corp. of America, owned jointly by National Lead and Allegheny-Ludlum Steel Corp., to market and distribute titanium metal in fabricated form. This tie-up will permit National Lead to participate in fabricating profits without any capital investment in plant and equipment.

Present market of about $52 is approximately 7½ times estimated 1950 earnings of $7 per share. Total dividend distributions this year, including extras, are expected to amount to $2.75 or $3 per share indicating a yield of about 5½% on the shares of this fine growth company.

MASON B. STARRING, JR.

A. C. Allyn & Co., Inc., New York City. Members: N. Y. Stock, Midwest Stock and N. Y. Curb Exch's.

(General Precision Equipment Corporation)

When you are able to obtain a tax-exempt yield of about 6% in a growth company that has paid dividends in every year since 1936; that is selling for about 8 times its average earnings for the past 10 years, and is in a very strong current position, what are you waiting for? Such is General Precision Equipment Corporation stock, and those are my reasons for it being one of my favorites.

M. B. Starring, Jr.

General Precision is a holding company. It was formerly known as General Theatres Equipment Corp. and was reorganized in 1936. The new management, realizing the desirability of diversification so as not to be so dependent upon the moving picture industry, has done an excellent job in this respect. The company now consists of some eleven companies or divisions, as follows:

Ampro Corporation, Chicago, acquired in June, 1944, is a well-known manufacturer of sound and motion picture projectors for educational, amateur and industrial uses. It also produces a magnetic tape recorded aimed particularly at the popular-priced market.

The company has received some substantial orders from the Navy, and anticipates doing a large business with the U. S. Government.

Askania Regulator Company, Chicago, acquired in December, 1944, is known throughout the world as one of the leading manufacturers of industrial control equipment for the steel and other heavy industries. This equipment is also applicable to control and measurement problems in many other industries. This is a growth industry with tremendous potentialities. This company also has defense contracts.

National - Simplex - Bludworth, Inc., New York. The Bludworth Division is one of the best known suppliers of electronic navigation equipment for the marine field. Regular products include echo depth sounders, radio direction finders, radio telephones; special equipment of a similar nature is supplied for other applications, such as oil exploration and sedimentation studies. Another growth industry with a big future. Over 5,000 vessels, both large and small, use Bludworth equipment. This company also has Navy contracts.

National - Simplex - Bludworth, Inc., New York—National Theatre Supply Division is the parent company's important sales and service organization. It is unique in the extent of its facilities and in the range of products offered, as it serves most every requirement of the theatre. In addition to the famous "Simplex" line of projectors and sound systems, and other products of International Projector Corp. (99.9% owned), and McAuley and Hertner Electric Co. (wholly-owned) it distributes a wide variety of items not produced by companies in the General Precision Equipment Corp. group.

The Hertner Electric Company, Cleveland, acquired in 1941, is the manufacturer of the "Transvertor" line of arc-generator equipment, of special generating equipment, including a wide variety of industrial battery chargers, and a complete line of high-cycle alternating current motors. Electronic manufacturing includes the "Precision" projection television receiver distributed by the National Theatre Supply Division.

This company is now starting to produce a projection-type television receiving set of advanced design, having a screen 36 inches wide and 27 inches high. The market for this set will be largely in the lounges of motion picture theatres, in hotels, clubs, bars and restraurants.

International Projector Corporation, Bloomfield, New Jersey, is the oldest and largest manufacturer of 35 mm. sound motion picture projectors. Its "Simplex" projectors are widely used in the motion picture theatres in the United States and in foreign countries. Production includes sound systems and the auxiliary equipment required for sound and projection in indoor and outdoor theatres.

J. E. McAuley Mfg. Co., Chicago, is a manufacturer of carbon arc lamps for the motion picture industry, particularly the very large types required for large indoor and outdoor theatres.

The Strong Electric Corporation, Toledo, Ohio, is a prominent manufacturer of carbon arc lamps for motion picture projection and spotlight uses; also associated rectifier equipment and reflectors. Industrial applications include the Strong Graf-arc lamp used in the graphic arts.

Librascope, Inc., Glendale, California, acquired in 1941, has become one of the best-known names in the computer field, particularly through its pioneering work in linkage computers for aircraft, naval and industrial applications (such as gunfire control, air and marine navigation, etc.).

The Librascope Tri-Stimulus Integrator is sold through the General Electric Company as an adjunct to the General Electric Spectrophotometer. This is but one example of the application of mechanical computers to industrial practice. Mechanical integrators and other computer components are furnished for industrial uses. Librascope's new, modern plant at Glendale Calif., contains the extensive engineering facilities and specialized production equipment required for its unusual and precise work. This company also has tremendous growth possibilities.

Sec-o-matic Corporation, Bloomfield, New Jersey, distributes and services a new design of drycleaning machine-using synthetic solvents, having the special safety features and automatic control required for use in small establishments.

After many model changes and substantial investment, this machine has but just gone into production. It is meeting with a very favorable reception.

Theatre Equipment Contracts Corporation, New York, is a finance company handling installment contracts and deferred payments on theatre equipment and other products sold by subsidiaries of the General Precision Equipment Corp.

General Precision Laboratory, Inc., Pleasantville, N. Y., maintains research and engineering facilities qualified to handle a wide range of electronic, mechanical and acoustic problems, but specializing particularly in motion picture, television and instrumentation requirements. In addition to providing research and development facilities for other companies in the G. P. E. group, contracts are accepted from outside industrial firms as well as the government.

This company also now has substantial government contracts. It is one of the most important units in the group and now employes some 225 engineers, scientists, and staff.

"Of considerable interest to the American television industry is the announcement by General Precision Laboratory, Inc., Pleasantville, New York, of a license and sales arrangement between that company and Pye Limited of Cambridge, England. Pye has long been a large supplier of television studio and field equipment to the British Broadcasting Company, and is a well-known trade name throughout England and the European continent.

"According to Mr. Blair Founds, Commercial Engineering Director for General Precision Laboratory, the designs made available through the Pye arrangement so complement those of his own organization that an almost complete line of film, studio and field equipment can be put into production. This is expected to make General Precision Laboratory an important supplier to the American television industry. . . . Thus, the GPE-Pye agreement brings to the American television scene the 'know-how' of a supplier to the older British television industry, together with the latest in American design at a time when American television expects to experience its greatest and most rapid growth."

Capital Stock

Authorized: 1,000,000 shares no par value common stock.

Outstanding: 601,087 shares no par value common stock.

Authorized: 120,000 shares preferred stock issuable in one or more series.

Authorized: 15,000 shares convertible preference stock issuable in one or more series.

Net Current Assets as of Dec. 31, 1949, were about $17 million, including cash and governments of about $4 million.

The stock is listed on the New York Stock Exchange and is selling around 17 at the present time.

For over two years the company has been engaged in carrying out a program of research, engineering and development of new and improved products (at the expense of earnings), and has put back into the business (from earnings) over $10 a share.

Dividend Record

The company has paid dividends in every year since it was reorganized in 1936.

	Annual Dividend Paid per Share
1936	$2.00
1937	1.25
1938	1.00
1939	0.80
1940	0.85
1941 to date	1.00

Dividends are currently being paid at the rate of $1 per share annually.

The Internal Revenue Bureau has ruled that dividends paid are not taxable to stockholders. This results from the conclusion that the losses (for tax purposes only) arising from the sales of stock of Twentieth Century Fox Film Corporation made each year have been such that the corporation had no earnings or profits from which to pay dividends. Dividends paid by the corporation have been ruled non-taxable to stockholders in years in which capital losses exceeded such earnings and profits. It is estimated that the General Precision Equipment Corp. still has sufficient holdings of Twentieth Century stock that by selling some each year the tax-free status may be maintained for some years. Payments of dividends during this tax-exempt period should be applied against the cost of the stock.

As the company has had average earnings of $1.97 a share in the postwar II years, it has a good excess profits tax base should the tax bill be similar to the last one.

Ten-Year Record of Sales and Earnings, Years Ended Dec. 31

	Net Sales	Net Income	Earned per Share
1949	$26,711,926	$456,485	$0.76
1948	27,008,450	936,679	1.56
1947	27,748,137	1,262,111	2.10
1946	23,261,996	2,082,950	3.47
1945	25,587,866	1,390,954	2.31
1944	24,096,904	1,138,147	1.94
1943	20,964,525	1,255,907	2.14
1942	17,317,494	1,265,519	2.16
1941	14,048,798	1,315,418	2.24
1940	9,130,186	849,820	1.45
Ten-year Average			2.01

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International Economics And National Defense

reserves of the United Kingdom fell sharply to a low point of $1,340 million. In June 1949, the United Kingdom announced that it planned to reduce its dollar imports by about 25%, and in July many of the Commonwealth countries which were members of the sterling area agreed to take similar action as rapidly as practicable.

In recent months the situation has changed in the opposite direction. The balance-of-payments deficit of the United Kingdom and of several other sterling area countries has been eliminated, and dollar earnings have rapidly increased. The reserves of gold and hard currencies of the United Kingdom, $2.76 billion on Sept. 30, are now more than double what they were at the time of devaluation. These improved positions should make possible a progressive relaxation of restrictions against dollar purchases. This relaxation, of course, should not be carried to the point where adequate reserve levels are endangered, and the process of relaxation properly can take into account the effect on the current balance of payments. It must also be recognized that priority must be given to the requirements of the collective security program, and that the economic and financial burdens undertaken by various countries to this end may adversely affect their current earnings position. With these qualifications in mind, however, we appear to have reached the point where a real beginning may be made in the progressive relaxation of import restrictions, particularly of the discriminations which have been imposed against the dollar area. This would also represent progress toward convertibility for current account transactions.

Defense Effort and Point IV

The great importance of the defense effort should not, however, blind us to the fact that the need for economic development in underdeveloped areas will continue in a world which is prepared to defend itself. Defense is vitally important, but so, too, are the things which we must defend. We know that a higher standard of living in the underdeveloped countries gives greater assurance that they will maintain the type of political and economic organization which will in the long run assure the world peace. We in the more advanced countries, within the limits of our resources, must not neglect the need for sound investment in these countries. In this connection, we may note the statement of the President of the International Bank at the recent meeting in Paris that the efforts of the Bank toward fostering the economic development of Asia and other underdeveloped areas would go forward and that wherever possible the Bank would continue its efforts to finance sound economic developments through its loans and technical assistance. It is also important that our programs of technical assistance should be continued.

There is, however, no escaping the fact that national defense and international collective security will involve a real cost for all the countries concerned. While this cost, to some extent, may be reduced by higher levels of employment, additions to the labor force, improved processes or greater efficiency in the allocation of resources through the mechanism of international trade, we cannot carry out defense programs without some lowering of consumption standards and some curtailment of investment.

We can also hope that the cooperating nations will finance the programs by imposing adequate taxes and securing the cooperation of their people in providing the needed savings from current income. We should not sacrifice the degree of financial stability which the world has attained with much effort over the last few years by trying to finance defense through inflationary methods. Inflation will merely exaggerate all of the difficulties of the program. We must have adequate defense, but it should be our objective to build up our defense while preserving the economic vitality of the cooperating countries. To this end, individual nations and international organizations must use every effort to reconcile as far as possible the immediate needs of defense with the long-run objective of expansion of trade, financial stability, free capital investment, and rising standards of living for all countries.

With H. A. Armington

(Special to The Financial Chronicle)

BOSTON, Mass. — Edmund G. Low has become affiliated with H. A. Armington & Co., 79 Milk Street.

With Gordon B. Hanlon

(Special to The Financial Chronicle)

BOSTON, Mass. — Frederick A. Nees of Keene, N. H., has become associated with Gordon B. Hanlon & Co., 10 Post Office Square, members of the Boston Stock Exchange. He was formerly with Herrick, Waddell & Co.

Join Investment Research

(Special to The Financial Chronicle)

BOSTON, Mass. — George R. Earley, William A. Henderson, Edward J. Modest, Harry Rutherford, and Robert A. Thom have become associated with Investment Research Corporation, 53 State Street. Mr. Henderson was previously with R. H. Johnson & Co. Mr. Modest was with J. Arthur Warner & Co.

With Joseph Jordan

(Special to The Financial Chronicle)

BOSTON, Mass. — Gaspar B. Marrone has been added to the staff of Joseph F. Jordan & Co., 79 Milk Street.

E. E. Mathews Adds

(Special to The Financial Chronicle)

BOSTON, Mass.—Frederick A. Wood is now with Edward E. Mathews Co., 53 State Street.

Joins Proctor, Cook

(Special to The Financial Chronicle)

BOSTON, Mass. — Donald L. Willis has been added to the staff of Proctor, Cook & Co., 35 Congress Street, members of the Boston Stock Exchange.

With W. F. Rutter, Inc.

(Special to The Financial Chronicle)

BOSTON, Mass. — Horace S. Pope is now affiliated with W. F. Rutter Incorporated, 19 Congress Street.

Whiting, Weeks Adds

(Special to The Financial Chronicle)

BOSTON, Mass.—John L. Merrill, Jr. has become associated with Whiting, Weeks & Stubbs, 53 State Street, members of the New York and Boston Stock Exchanges.

Joins F. R. Chatfield

(Special to The Financial Chronicle)

SPRINGFIELD, Mass. — Raymond D. Jordan has become associated with F. R. Chatfield Co., Inc., 1537 Main Street. He was formerly with J. Arthur Warner & Co.

Bradley Higbie Adds

(Special to The Financial Chronicle)

DETROIT, Mich. — William J. Saile has become connected with Bradley Higbie & Co., Guardian Building, members of the Detroit Stock Exchange.

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The State of Trade and Industry

sidered range from 11c to 12c on the wage base and 3c to 5c on fringes. With tough bargaining ahead these figures are not final.

Shortages of steel and nonferrous metals are bound to become a great deal more acute in the months ahead. This is true because the full weight of defense and essential civilian programs has not yet been felt. Within a few months these programs combined will be taking about a third of all steel produced.

Although the defense program will ultimately be much larger than was at first expected, it is slow in getting underway. A check of tool and die shops finds them very busy. But hardly 5%, if that much, of their activity is on defense orders. Actual defense production will probably lag from 9 to 18 months behind the freezing of designs and ordering of tools for an itemized rearmament program.

This is causing many people in industry to wonder how Washington can possibly justify mandatory cutbacks in consumption of materials by civilian industries—especially if the defense orders which will require this material and which these industries will turn out are not ready to be placed. If the cutbacks lead defense orders too far it is feared unemployment will result, this trade authority asserts.

Despite their best efforts to clean up old orders by the end of the year, the mills are now resigned to heavy carryovers into the first quarter of 1951. Some consumers insist that deliveries are falling still further behind. But this is not generally true because of the careful screening and cautious acceptance of orders during the past 3 months.

Pressure from a boiling scrap market this week is causing a few leaks in the so-called "formula" scrap prices, this trade magazine points out. Upgrading is rampant. "Springboards" (consumers paying the freight) are appearing. And higher prices for small tonnages not yet considered representative have been noted in widely separated areas.

Perhaps the highest gray market price in history was paid by a Pittsburgh consumer recently. A shipment of gray market cold-rolled sheets cost him 31c per lb. or $620 per ton. This is ironical because the reason this company can't get steel from mill sources is that it was caught selling surplus steel in the gray market.

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 103% of capacity for the week beginning Nov. 6, 1950, compared to 102.4% a week ago, or an increase of 0.6%.

Output for the current week will be the largest amount of steel ever poured from steel making furnaces and it will represent the eighth consecutive week in which steelmaking furnaces will be operated at an average of more than 100% of capacity.

This week's operating rate is equivalent to 1,986,600 tons of steel ingots and castings for the entire industry, compared to 1,975,000 tons a week ago. A month ago, based on new capacity the rate was 101.6% and production amounted to 1,959,600 tons; a year ago, based on the smaller capacity then prevailing when most of the industry was strike-bound, it stood at 21% and 387,000 tons.

Electric Output Shows Moderate Recession From All-Time High

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 4, was estimated at 6,550,615,000 kwh., according to the Edison Electric Institute.

It was 11,503,000 kwh. lower than the figure reported for the previous week, 115,691,000 kwh., or 20.5% above the total output for the week ended Nov. 5, 1949, and 987,101,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Show a Modest Recession in Metal Week

Loadings of revenue freight for the week ended Oct. 28, 1950, totaled 887,607 cars, according to the Association of American Railroads, representing a decrease of 3,383 cars, or 0.4% below the preceding week.

The week's total represented an increase of 296,292 cars, or 50.1% above the corresponding week in 1949, but a decrease of 43,366 cars, or 4.7% below the comparable period of 1948.

Auto Output Recedes Modestly From Previous Week

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 187,207 units, compared with the previous week's total of 188,200 (revised) units and 116,699 units a year ago.

Total output for the current week was made up of 153,682 cars and 25,400 trucks built in the United States and a total of 6,066 cars and 2,059 trucks built in Canada.

For the United States alone, total output was 179,082 units, against last week's revised total of 179,598 units, and in the like week of last year 112,838. Canadian output in the week totaled 8,125 units compared with 8,602 units a week ago and 3,861 units a year ago.

Business Failures Point Upward

Commercial and industrial failures rose to 181 in the week ended Nov. 2 from 160 in the preceding week, Dun & Bradstreet, Inc., reports. Casualities remained slightly below the 1949 total of 196 but exceeded the 104 which occurred in the comparable week of 1948. Failures were 43% less than in the similar week in prewar 1939 when 318 were reported.

Casualties involving liabilities of $5,000 or more increased to 128 from 116 last week and were slightly lower than a year ago when 148 businesses succumbed in this group. A rise occurred also among small failures, those having liabilities under $5,000, which rose to 53 from 44 and exceeded their 1949 total of 48.

All industry and trade groups had more failures than in the preceding week with the sharpest rise in manufacturing and the highest number since May. Failures were slightly below last year's level in manufacturing and retail and wholesale trade, while construction and commercial service, on the other hand, evinced an increase from 1949.

Six of the nine major regions reported weekly increases; the Pacific, East North Central, New England and West North Central states. Declines appeared in the Middle Atlantic and West South Central states. Casualties exceeded the 1949 level in the New England, West North Central, Mountain, and Pacific States, while declines prevailed in all other regions. There were only one-half as many failures as a year ago in the South Atlantic states; East South Central failures were down even more sharply.

Food Price Index Continues Mild Forward Movement

Continuing the mild upward movement of the previous week, the wholesale food price index, compiled by Dun & Bradstreet, Inc., rose 2 cents to stand at $6.52 on Oct. 31, from $6.50 the week before. The current figure represents an increase of 14.6% above the $5.69 on the corresponding date a year ago.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Community Price Level Rises Moderately

The Dun & Bradstreet daily wholesale commodity price index rose to 294.05 on Oct. 31, a new high since early February, 1948. This represented a rise of 4.19 points from 289.86 recorded a week earlier, and compared with 242.72 on the corresponding date a year ago.

Led by soybeans and corn, leading grain markets continued firm and scored further moderate price advances for the week. Demand for soybeans was aggressive while offerings were relatively light as farmers tended to withhold their 1950 crops for better prices. Interest in corn was stimulated by continued light country marketings and by reports of continued good weather which has aided in the maturity and drying out of the crop.

All future deliveries of corn sold at new high levels for the season.

Trading in wheat was comparatively small; prices rose largely in sympathy with other grains with buying by mills to remove hedges against substantial sales of family flour also furnishing support. Oats moved gradually higher in more active trading.

Volume of sales of all grains on the Chicago Board of Trade last week totalled 192,431,000 bushels. This was equivalent to a daily average of about 32,000,000 bushels, as compared with 34,000,000 the previous week, and 33,000,000 in the like week a year ago.

The announcement of new price rises resulted in substantial bookings of both family and bakery flours last week as buyers rushed to cover before the higher prices became effective. Demand for cocoa slowed considerably and prices fell rather sharply under liquidation prompted by reports of large British and French crops overhanging the market.

Domestic cotton prices continued to move moderately upward the past week. Trading in spot markets was seasonally active with total sales in the ten spot markets reported at 375,400 bales, against 315,400 the previous week, and 406,600 in the corresponding week a year ago. Strength in the market reflected active mill price-fixing, reports of increased military demand for goods, an upward revision of 146,000 bales in the export quota, and the possibility of a further increase in the quota.

The mid-October parity price for cotton was announced over the week-end at 31.87 cents a pound, as compared with a revised September figure of 31.74 cents.

Trading in the carded cotton gray cloth market increased moderately. Prices were generally firm with an upward trend noted in some constructions.

Trade Volume Adversely Affected By Credit Curbs And Unseasonal Weather

Consumer buying dipped slightly last week as the interest in soft goods tended to be adversely affected by unseasonal weather, and the interest in durables by the recently imposed credit curbs. The general level of retail dollar volume was slightly above that of the comparable week in 1949, Dun & Bradstreet, Inc., reports in its current summary of trade.

Following the advent of consumer credit curbs a few weeks ago, aggregate dollar volume of house-furnishings dipped somewhat last week; dollar volume continued to be noticeably above the level of a year ago, however. Among those items considerably affected by the restrictions were electrical goods, automobiles, radios, and television sets.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 2 to 6% above a year ago. Regional estimates varied from the levels of a year ago by these percentages.

New England, East, Northwest, and Pacific Coast +2 to +6; South +1 to +5; and Midwest and Southwest +3 to +7.

A combination of unseasonably warm weather and credit controls contribute to a slight general decline in wholesale ordering during the week.

The total dollar volume of orders was moderately above the level for the similar period in 1949. The number of buyers attending various wholesale markets was nearly unchanged from the week before.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 28, 1950, rose 5% above the like period of last year. An increase of 3% was recorded for the previous week from that of a year ago. For the four weeks ended Oct. 28, 1950, sales showed a rise of 7% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Retail trade in New York last week had warm weather to contend with and, as a consequence, the normal seasonal expansion in sales volume was curtailed.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 28, 1950, advanced 4% above the like period of last year. In the preceding week a rise of 3% (revised) was registered from the similar week of 1949. For the four weeks ended Oct. 28, 1950, an increase of 6% was noted and for the year to date, volume advanced 1% from the like period of last year.

Continued from first page

As We See It

and, moreover, had very definite intentions of making full use of her enhanced relative position in the world to spread Kremlin-dominated communism throughout the world as rapidly as possible. Time and again, these facts have been brought forcefully to the attention of the powers in other capitals. The Berlin blockade shocked the world into a fuller realization of the true inwardness of the general state of affairs. Korea was another case in point. We proved unexpectedly (that is, unexpected to the Kremlin) able to cope with the Berlin crisis. There have been surprises for both the United Nations and the Kremlin in Korea.

Basic Question Remains

Politically speaking, the need for drastic proposals which "went off the deep end" in rearmament and the rest was obvious so long as it appeared well within the bounds of early possibility that we should be pushed off the Korean peninsula into the sea. The turn of events following the brilliant (and fortunate) Inchon stroke relieved Administration officials of some of this embarrassment — which may or may not have returned in one degree or another as a result of the most recent developments. But the basic question remains as to precisely what our course should be, even if our task in Korea ultimately proves much more difficult than for a time in recent weeks seemed most likely. That is, indeed, a question to be most seriously studied even on the assumption that from this moment on we shall be plagued with one Korea after another for years to come.

It is true, of course, that almost anything could emerge from the current uncertain state of affairs, but are some of the policies now being proclaimed warranted even in the presence of these hazards?

Whatever the future may hold, we find it difficult, on the basis of the facts as of Nov. 8, 1950, to understand the rationale of this constant talk in and around Washington about an "all-out" military effort. We are not certain as to the precise meaning of the term, but if it is to connote what it has connoted in the past, we are at a loss to understand why such a course should be necessary or wise at present. We are quite unable to escape the suspicion that the New Deal and the Fair Deal hobby of exaggerated enlargement of capacity, particularly in basic industries such as steel, is being revived and nourished by frightening bedtime stories about what is likely to happen to us should we not do as the Fair Deal pseudo-economists tell us we must do. And there are those in Washington who like nothing better in the premises than control and more control of anything and everything in sight.

Let us not forget, for example, that we have now "in mothballs" battle and merchant fleets several times as large as all the remainder of the world put together. Doubtless there is need for specialized construction, but the fact is that most of the naval and shipping strength is modern in virtually all, if indeed not all respects. The size of our stockpiles of munitions generally and of the materials from which such munitions are made is not known to the general public, but unless mountains of these things have been permitted to rust away during the past five years, we are at this moment far from an unarmed nation.

3,000,000 Under Arms?

There is reason to suspect that we have "softened up" in the training given men entering our armed forces, although it may well be that a good deal is now being done to correct this situation. It could be that we have permitted the size of our forces actually under arms to be reduced unduly, but when it comes to carrying at least 3,000,000 men under arms constantly for years to come, we must say that we begin to wonder if there is not a substantial element of hysteria abroad. Now that the election is over we earnestly hope that such ideas as these will be reconsidered calmly, dispassionately and realistically.

And $30 Billion a Year?

And that $30 billion (or is it to be much larger?) defense budget! Is it really necessary for us to shoulder any such burden indefinitely? Now that politics are at least temporarily on the sidelines, had we not better ask ourselves this question with the utmost seriousness. The very task of carrying such a load indefinitely could, of course, in the end weaken, not strengthen, us for any finish fight with the Kremlin and its supporters. There may well be need for more vigorous development and improvement of many types of weapons and of the production of them in reasonable quantity, but what would it avail us to pile up mountainous stores of these things only to find them obsolete by the time we are through piling them up? The time has come for second thought on many of these questions.

It is one thing to lay plans and be ready in the event of a sudden attack of major proportions; it is quite another to act as if we were already engaged in an all-out war.

One thing is perfectly clear. If we must proceed with this rearmament program in any proportions comparable to those now being projected, we must revise our ideas about the length of the work week and must somehow find a way to convince wage earners of the need for much greater willingness to work. We must reconcile ourselves to taxes comparable in amounts with those levied during World War II. It is only in some such way that it will be possible for us to maintain our plane of living and avoid ruinous prices.

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They Say About Gold . . .

of reserves; the U. S. (which now has some $23,000,000,000 of gold) would need $35,000,000,000; and the rest of the world would need $25,000,000,000, or four times its present holdings. Measured by prewar canons, continues the article, there is an entirely inadequate amount of monetary gold in the world to serve at present currency prices as the basis for restoring anything like a free international trading and exchange system or indeed a secure international trading system of any kind. "Better management will have to make one ounce of gold do the work which three to three and one-half ounces did in the 1930s. . . . [But] management will do nothing of the kind." The London writer concludes that it might be statesmanlike to plan ahead for two separate stages of redistribution and upward revaluation of gold, "but it will not happen like that in practice."

Washington continues its "statesmanlike" policy of distributing dollar reserves to the world through the ECA, military aid, Point IV and the like. That is the same as distributing our gold. But Washington turns a cold ear to the suggestion of an upward revaluation of gold.

Gold Uncertainty Kept Alive

Uncertainty concerning the future U. S. price of gold is kept alive not only by public expression of gold miners' views but also by various financial writers in London, a city which by virtue of worldwide mining investments is much interested in the fate of gold. Thus Mr. Norman Crump, financial editor of London's "Sunday Times," discussing recently what he calls "an incipient flight from the dollar, observes:[2]

"Whether it will go far enough to force Washington to take any definite action in the direction of the devaluation of the dollar is a much more open question. Personally, I should doubt it, but I do not regard an increase in the dollar price of gold as quite the same impossibility as it seemed to be as recently as last summer."

Dr. Paul Einzig, London financial columnist of the "Chronicle," earlier this year wrote (March 30) that "throughout modern history, the secular trend of the price of gold has been in an upward direction." Again (August 3): "It is indeed inconceivable in the long run that gold producers should be compelled to sell most of their output on the basis of 1939 prices when the prices of all other mining products have **risen** by several hundreds of per cent." And last year, when Britain was concerned about declining American prices (Dec. 8, 1949): "The remedy which would be considered here as the most effective in arresting and reversing the *decline* in American prices would be an increase in the American buying price of gold, preferably in conjunction with an all-around increase by all countries represented in the International Monetary Fund." (Italics supplied.)

An editorial article in "The Financial Times" of London on July 9, 1949, "Price of Gold—Straws in the Wind," appears similarly tendentious.

"The statement by Sir Stafford Cripps that 'anyone would be extremely foolish if they said that the price of gold has to remain where it is for all time' has not gone unnoticed by people who fell that there may be more behind this utterance of the Chancellor of the Exchequer than appears on the surface. . . .

"Why, it is asked, should gold be the only commodity whose price is pegged at its prewar level? One answer is that it is regulated by an international agreement. However, it is felt increasingly that the time is ripe for an adjustment of that agreement. . . . It is contended that a position might arise in which the United States would have to raise unilaterally her buying price for gold. After all, is not depression threatening that country? The United States would not be giving something for nothing by agreeing to pay more dollars for imported gold. To the extent to which the change would enable producers and holders of gold to buy American goods for the same quantity of metal it would obviate the necessity [sic] for financing the American surplus by lending dollars or giving things away."

The Chairman of "The Financial Times," incidentally, happens also to be Chairman of the Union Corporation, the large gold-mining enterprise.

If we listen to the gold producers, we must raise the price of gold in the United States when commodity prices are declining, to prevent depression, and also when commodity prices are rising, to avoid discriminating against the yellow metal.

Australian Sure Price Will Rise

Sir Walter Massy-Greene, Chairman of the Western Mining Corporation Limited, at the company's annual meeting in Melbourne, Sept. 29, 1950, stated his views on the impermanence of the present U. S. price of gold as follows:

"Since our last meeting the further devaluation of sterling and the Australian pound has fundamentally altered the prospects of gold-mining in this country.

"I do not think that we have seen the full effect of war finance on the price of gold. America is still hanging on to the dollar price of gold of $35 per fine ounce. I believe there is nothing surer than that sooner or later the anomalous [sic] position of the dollar price of gold will be corrected. The present United States price of gold is just the prewar rate. The United States is trying to do today what Britain tried to do after both World Wars I and II, to retain the prewar price of gold and ignore the vast inflation that has taken place meanwhile. Britain failed. Out of her first failure came the Great Depression. I think the United States will also fail to retain the prewar price of gold. If she does not increase the price she will suffer a great depression.

"What grounds are there for believing that this anomalous disparity in the price of gold between the United States and the rest of the world can continue indefinitely? Were it not for the 'terrors of the Law' in the United States and elsewhere it could not last for five minutes. And because I hold that belief I look forward to a still greater revival in the gold-mining industry, and, as the relative rates of exchange are adjusted between the United States and the whole of the sterling area, a satisfactorily payable price of gold for a long time to come."

In 1933 when the $20.67 price for gold was abandoned by the United States on the over-simple Warren theory that the price of gold controls commodity prices, the wholesale commodity price index was approximately 65 (1926=100). This summer, at 163, the index stood 150% higher than at the time of devaluation. Although the price of gold was raised by 69% in 1933, the dollar's gold content being reduced to 59% of its former amount, wholesale commodity prices did not rise for more than a dozen years thereafter. Not until postwar 1946 did the annual average of wholesale prices reach the level which Professor Warren promised President Roosevelt. Had there been no price control, this would have happened during the war, but as the result of wartime influences, not of the 1933 change in the price of gold. Long before the war the Warren theory had been discredited among those who had been foolish enough to believe in it in the first place. The events of the 1930s after devaluation of the dollar made it quite clear that the dollar, for good or for ill, is the dog and gold is the tail. The purchasing power of the dollar in the commodity markets is not controlled by the price of gold, while the latter metal, finding far and away its principal market in government treasuries, notably that of the United States, is dependent on what governments choose to pay for it.

Of course it would be a great boon to gold mining interests if the U. S. price of gold were increased. Gold from all over the world would then bring its sellers higher incomes. Gold mines operating on the margins of profitability or even in the red might be converted into handsome investments. But why the United States Government and people owe the world's gold miners a profitable living has not been made clear to this writer. Gold may provide a convenient measure of how far the purchasing power of the dollar has declined since 1933. But the remedy for a fever is not to change the markings on the thermometer; and the remedy for inflation is not to change the "anamalous" price of gold.

South Africa, United Kingdom And U. S.

As the world's largest gold producer during the period of upset world economy that has prevailed over the past decade, South Africa has been fortunate in that it can dig out of the ground the stuff with which dollar shortages are

[2] Crump as quoted in editorial in "Wall Street Journal" of Oct. 26, 1950.

eliminated. The country therefore has been anxious to obtain the largest possible return from its mining activities. The Government of South Africa, whose views on the subject are not always identical with those of the mine proprietors, has restively watched the high prices which gold has been bringing in black and free markets and has sought, in some measure successfully, to throw off the restraints with which it shackled itself when it subscribed to the Bretton Woods Fund Agreement. This in turn has brought it into conflict with the objectives of the British and American Governments.

The gold mine owners in South Africa as elsewhere desire to make their mines a source of income for as long as possible consistent with sound management. The South African Treasury and central bank, on the other hand, are more interested in the country's present monetary gold reserves and in gold, as a positive element of the present balance of international payments of South Africa than in the welfare of mine shareholders of a decade or generation hence. While the mine owners would be content to tap their low-grade ore deposits under prevailing profitable conditions, and so extend the life of their property, the government is more interested in a larger dollar income now. In recent years therefore the South African Government has been seeking—through the International Monetary Fund, necessarily—both a higher dollar price of gold in the United States and freedom to sell gold freely on the premium-price gold markets wherever situated.

As to the uniform increase in the price of gold by all members of the IMF, a forlorn but proclaimed objective of the South Africans at the 1949 annual meeting of the IMF, the currency devaluations which took place at the termination of that meeting left even the most wishful thinkers in Rand gold circles very much stranded. The subsequent increase in the profitability of gold mining in South Africa must have diminishde whatever sympathy existed for the "plight" of the gold mine owners and the South African economy.

The United States for many years has been the chief support of world gold mining. Even with the U. S. gold stock under reduction since the 1949 foreign currency devaluations, the law which requires the U. S. to buy all gold offered at $35 an ounce still remains an outstanding, and perhaps the outstanding, reinforcement of the world's traditional confidence in gold. One need only imagine what would happen if the U. S. law referred to were repealed to appreciate that U. S. policy is the strongest support which world gold mining enjoys. Rightly or wrongly, the authorities in Washington regard the U. S. gold stock as ample for all U. S. needs. They therefore have frowned upon all postwar suggestions that the official U. S. price of gold be increased, or the dollar devalued. In Washington therefore the South African Government has been butting its head against a stone wall.

Nor did a uniform increase in the price of gold appeal to the British Government. What Britain needed in 1949 was the stimulus of a cheapening of sterling **in terms of the dollar**, the course adopted in September, 1949. A uniform increase in the price of gold by all IMF members would not have given such stimulus, although it would have provided a greater dollar income to the sterling area's gold producers.

The British have been especially opposed to the second South African objective in its negotiations with the IMF: permission to sell half the newly-mined gold at premium prices anywhere, that is, at prices different from the currency par values recognized by the IMF and its members. In fact the British were the leaders in opposing South Africa's requests in the Fund. British views on this subject are not unanimous. But the views of the Treasury and the Bank of England in this instance have prevailed. The Treasury and the Bank of England do not want the citizens of any country to be able, by selling gold at a premium, to obtain sterling at a discount.

It is quite likely that those in the British Government concerned primarily with foreign, colonial and Commonwealth affairs take a more complacement view of the South African demands. Possibly bullion dealers are similarly minded. To these groups maintaining contacts with the East is important. In view of the history of gold trading in the British Crown Colony of Hong Kong and the protectorate of Kuwait—both of which have played an important role in postwar trading in gold at premium prices—it would appear that not all in London are anxious to interfere with "ways that are dark."

The IMF staff paper prepared as a result of the South African resolution on gold adopted by the Board of Governors of the Fund in September, 1949 recommended a more liberal treatment of the private traffic in gold at premium prices. The Fund's directors, however, did not go along with that recommendation. Their statement of May 3, 1950, although not a unanimous view of all Fund members, reaffirmed the stand taken by the Fund in its letter on gold policy sent to all members on June 18, 1947. The May 3 statement rejected both of the South African proposals. While the South Africans have had the support of the Netherlands, Belgium and France in seeking greater freedom to sell gold at premium prices, the UK's opposition has had the support of the U. S., Canada and India, the latter primarily for political reasons. Some observers suspect that there has been a "deal" between the United Kingdom and the U. S., the British supporting the U. S. on the matter of a uniform increase in the price of gold while the U. S. supports the British on the matter of premium-price trade. It should not be inferred, however, that the U. S. Government otherwise would complacently countenance the premium traffic. Washington opinion is that private hoarding of gold is wasteful of national financial resources and is particularly to be frowned upon when it occurs in countries which the U. S. is economically supporting.

South Africa and the Fund

Naturally South Africa's reaction to the Fund's immovability is hard. At Paris, Mr. Havenga accused the Fund of discriminating against South Africa and gold producers generally. He charged the great trading nations with feeding gold to the black markets at premium prices. The Fund staff, he said, estimates that in 1948 only one-fifth of the gold that went into private hoards was newly-mined. The rest, he stated, came from the reserves of governments and central banks to which under the Fund agreement gold-producing members are supposed to sell their output at the official price.[3] The gold-producing countries, he added, have little or no benefit from the grants and credits the U. S. is distributing. "My claim that members are in honor bound to correct a serious disequilibrium between the fixed price of gold and the inflated prices of commodities stands unchallenged."

Even more outspoken was the comment of the "S. A. Financial News and Times" concerning the reply to Mr. Havenga's statement offered by the Fund's chairman. The Johannesburg paper called Mr. Gutt's reply "half-hearted and semi-coherent." We quote an editorial:

"For perfect fatuity and obfuscated ambiguity M. Camille Gutt's . . . definition of the future function of gold as a monetary backing requires some beating. . . . We can foresee a radical change of front on the part of those now so strenuously opposed to what is the only commonsense attitude in respect of gold—namely, a more equitable [sic] alignment with those of commodities in general."

Neither Mr. Havenga's nor the editorial statement should be allowed to go unchallenged.

Wishful Thinking Gets Nowhere

Gold-mining spokesmen of the industry are often guilty of public wishful thinking and some of their utterances are closely akin to economic and political nonsense. A few other quotations here may be pertinent.

A cock-sure editorial in "The News Herald," Vancouver, B. C., Sept. 8, 1950:

"[After citing Secretary of the Treasury John W. Snyder's statement to the IMF governors that the U. S. Government has no intention of raising the price of gold above $35 an ounce.]

"This, on the past performances of such officials, can only be interpreted as meaning that it is a certainty that the U. S. is heading for dollar devaluation in terms of gold. . . . That is just the way these finance ministers talk. We have come to understand that the more emphatic they are, the more certain it is that what they deny is on its way."

An astonishing report on the Paris governors' meeting of the IMF in the "S. A. Financial News and Times," Johannesburg, Sept. 22, 1950:

"Paris 'leakage' reports from well informed quarters assert American resistance rise in gold price very much less than had been anticipated. Havenga was not prepared for extremely favorable reception given in secret committee. . . ."

Dr. J. E. Holloway, ex-Finance Secretary of South Africa, in an interview published in July 1950 when the U. S. had been **losing** gold steadily for many months; selling the metal at $35 an ounce:

"By salting away vast reserves of gold they [the Americans] can assure to themselves the leadership of the western world for many more years to come. That is the reason why they want and must have as much gold as they can possibly get on the cheap."

Fantastic comment on a meeting of the executive directors of the IMF in Washington to consider the South African gold resolution, as published by the editors of the "S. A. Financial News and Times," Johannesburg, April 6, 1950:

"Today's meeting is awaited with almost breathless expectancy by the exchanges since what transpires may even eventually make the difference between peace or war on a scale as yet only hinted at!"

Quaint editorial in the same newspaper:

"What we may be receiving for the American guaranteed price of gold is 'not worth the candle' if it means we must blindly acquiesce in any deviation or device of the American Bankers Association to maintain its suzerainty over the financial destinies of the world."

Far-fetched observations by George Hallatt in the same paper, half a year after the widespread currency devaluations vis-a-vis the U. S. dollar:

"A sensible solution of exchange troubles which are disrupting world trade would be a devaluation of the dollar or an increase in the price of gold. . . . It looks as if the next step by the western powers would be a reconsideration of the whole exchange position in the light of the ruble's convertibility."

And absurd findings by the same author in the March 31 edition of that Johannesburg publication:

"American 'greenbacks' were convertible into silver on demand, but this obligation has been abolished since the war. Apparently the Americans are short of silver, as they are now short of gold, to honor their currency obligations. Silver has risen in price, but gold is still on offer."

And from an American, Mr. Frank Lilly in the "Chronicle" of Sept. 28, 1950:

"Since that time [1931] the parity price of gold in London has been increased . . . [to] $102.17 an ounce."

Such is the reading matter placed before gold miners. Merely to quote it is enough to describe the dream world in which many advocates of gold mining interests seem to live or to want the rest of us to live.

Who Is the Exploiter?

Recently the "S. A. Financial News and Times" of Johannesburg under the caption "American Gold Exploitation Menace" published an article by a South African economist. The thesis is that the selfish and greedy United States keeps on buying gold at a bargain price. The article does not make clear why the unselfish outside world is so foolish as to sell gold to the U. S. at $35 instead of insisting on some higher payment.

One may be pardoned for wondering just who is the "exploiter" in this gold business. According to "Life" magazine, which not long ago took its revealing cameras into the mines of the Rand, more than half of the able-bodied young men in the native reserves are syphoned into the mines: 330,000 men a year. Each man is a "unit". Says "Life":

"The work is arduous, the pay low. The only raise in thirty years was given in 1944 to bring the scale to 38c a day plus food and lodging. The men are locked up at night, in crowded compounds, without women or families, for nine, 12 or 18 months—but still they flock to the mines. The main compulsion is livelihood. The native must earn the white man's money to pay the white man's taxes which become collectible when a native is 18. Without a tax receipt most natives cannot work or even walk the streets of the Union's modern cities. . . ."

Finance Minister Havenga complains that gold is the only "commodity" that has not had its price raised. But it would appear that the black "units" of South Africa are the commodity being exploited. Perhaps the United States is at fault in the last analysis in that it offers a steady market for this pretty metal so painfully extracted from the bowels of the Rand with blood, sweat and tears.

3 For the purpose of his 1950 statement the South African Finance Minister went back to 1948 figures, presumably because they better made his point. According to the best estimates, in 1948 the non-Soviet world supplied hoarders with $310,000,000 of gold, of which only about one-fifth was newly-mined metal. In 1949 the amount provided hoarders was an estimated $200,000,000, of which half is believed to have been newly-mined.

With Chas. Scranton

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, Conn.—Clyde C. Fowler is now associated with Chas. W. Scranton & Co., 209 Church Street, members of the New York Stock Exchange. He was previously with R. F. Griggs Co.

J. A. Rayvis Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Philip I. Schaffer has been added to the staff of J. A. Rayvis Co., Inc., Langford Building.

With Gordon Graves

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—John E. Parrott, Jr., and Mrs. Joseph P. Sherry are now affiliated with Gordon Graves & Co., Shoreland Arcade Building.

With Income Funds

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, Conn.—Richard D. Lundy is associated with Income Funds, 152 Temple Street.

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NSTA Notes

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The Investment Traders Association of Philadelphia will hold its Winter Banquet at the Benjamin Franklin Hotel on Feb. 21, 1951, and its Summer Outing and Dinner at the Manufacturers Golf and Country Club, Oreland, Pa., on June 15, 1951.

DALLAS BOND CLUB

On Oct. 16, Fred F. Florence, President of the Republic National Bank of Dallas gave a luncheon for the Dallas Bond Club in the Texas Room of the Baker Hotel. Guest of honor and speaker was Earl B. Schwulst, President and Trustee of the Bowery Savings Bank of New York, whose topic was "Observations on the Outlook for Savings and the Bond Market."

At the speaker's table were:

Clayton R. McCulley, First Southwest Company, Secretary, Dallas Bond Club.

J. Lewell Lafferty, Vice-President of the Republic National Bank.

A. B. Culbertson, Executive Secretary-elect, Baptist Foundation of Texas.

W. R. Newsom, Jr., Sanders & Newsom, President, Dallas Bond Club.

Earl B. Schwulst, President and Trustee, Bowery Savings Bank of New York.

Fred F. Florence, President of the Republic National Bank of Dallas—The Host.

H. Woodruff Tatlock, Treasurer, Prudential Insurance Company of America, Newark.

Ben C. Ball, Vice-President of the Republic National Bank.

Thornton Sterrett, Treasurer, Southwestern Home Office, Prudential Insurance Company of America, Houston.

James W. Aston, Vice-President of the Republic National Bank.

Robert E. Moore, Fishback and Moore, Dallas.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

By the time you read this the election returns will be a matter of history. But what will happen next is in the province of speculation. I use the word "speculation" in its purest sense, not relating to the stock market.

* * *

There's little doubt but that the market is finding plenty to feed on in the election returns. There's also, however, the imminence of the increased taxes that have been around the corner for so long. Added to all these purely domestic issues, there's the acute problem of the Korean War.

* * *

Even the most naive suspected that the Korean campaign was just the beginning of a major war. Whether or not the UN will authorize Gen. MacArthur to carry the war into China is unimportant for the time being. For if it doesn't, it will simply be a question of time when numerous "incidents" will occur that will put us in deeper, with or without the sanctification of any international body. To think that the market can stay aloof from all these developments is to shut one's eyes to the obvious.

* * *

This market isn't acting any worse than any previous prewar markets. The first news, or expectation of news, brings about selling. The fact that the public frequently makes its own lower prices by clambering on each other's backs to dump, is apparent very early. As one group sells its scares out other groups. When they sell they scare still others and so it goes. The effect on prices is cumulative.

* * *

In present day thin markets even minor selling can break some stocks wide open. When the selling increases its tempo the drastic sell-off you saw last week and Monday of this week is the logical result.

* * *

I'm not going to be Pollyannish about this whole thing. I don't like declining markets any more than the next fellow. I most certainly don't like wars which build nothing. But I'm not going to close my eyes to the live facts that stare me in the face. From present indications there'll be a lot more shooting. Maybe no permanent prosperity is built on such a weak foundation. But permanence is relative. The orders for more and more materiel will increase as sure as this is being written.

* * *

All this adds up to a number of things, the important one for our purposes being that, stocks now down, will meet resistance and go up again. I can only repeat what I wrote last week. It doesn't take any guts to buy them when they're up.

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

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"We Will Win Fight Against Inflation!"

carrying excessive capacity in the depression they considered inevitable.

These industrialists also said they had a report which proved the United States could only absorb 42 million automobiles, that 37 million were already in use, and that therefore the production of cars should be curtailed.

Is it right in any system of free enterprise, however, for the supplier to dictate to the customer when and what he can buy? Also it would seem that the American people, not any industry, or any group of industries, should decide how many automobiles the nation can afford on the highways.

Now this is where the relationship between unusual profits and scarcity comes in. After deciding that expansion would be wrong, and that scarcity would be better, this same company increased its profits over 750% between 1945 and 1950.

Another illustration shows even more clearly the adverse results to the nation from this alliance between artificial scarcity and opportunity prices.

Some years ago, when the copper supply in this country exceeded the demand, a heavy tariff duty was put on the importation of foreign copper.

When American demand for copper rose to where we now import over 35% of our copper, however, there was a logical demand this tariff be eliminated, because what is the use of any such tariff when, apart from any defense demands, such a large percentage of our copper must come from friendly foreign countries?

In this case, the fight against repeal and in favor of the copper tariff was led by a copper executive who believes production should be held down, but not his opportunity profits; because his own company's earnings in the second quarter alone of 1950 were far in excess of his profits for the entire year 1945.

American owners of foreign copper mines, as well as many large and small users of copper in this country, point out that this method of keeping production down to keep prices and profits up is being actively exploited by the communists to breed ill will against both our Government and the anti-communist governments in the exporting countries.

Does this point the way to a good neighbor policy?

It is not just your Government protesting these shortages, or the little oil man down so many feet whose money is running out and who can't get pipe. Protests of such shortages come from many of the largest corporations in the country. In the interest of national security, it has recently been necessary to allocate steel for the production of freight cars, because what is the use of producing ammunition if it can't be transported?

Some Hopeful Signs

There are some hopeful signs. Recently the young head of a great automobile company visited Washington to explain why it had become necessary for him to raise prices. He felt his figures proved his point—but a general price rise at this time from one of the "Big Three" car companies might well have hit this economy an explosive inflationary impact.

So his Government put it up to him, not as a business man solely interested in his earning statement, but as an outstanding American citizen; and when the first of his new line of cars came out, it was announced there would be no price increase.

This young industry leader put his country before his pocketbook. He stood up and was counted in the fight against defeat on the economic front through inflation. His father and his pioneer grandfather must be mighty proud of him tonight.

Already we are getting emphatic protests from labor about price rises. They claim these increases are in effect wage reductions; and they are.

Some labor leaders have expressed opposition to credit controls, stating these controls hurt people in the lower income brackets; but any controls which do not restrain inflationary pressures would be futile; and inflationary pressures would give labor a critical problem. As example, if an industry had a base hourly rate of $1.75 an hour, that would be $3,500 a year on a 40-hour week and a 50-week year. Those are good wages, however, only if they represent real buying power.

If through price and wage increases real purchasing power is reduced appreciably, then the fall in the value of weekly take-home pay becomes a very real problem to that worker; and far more of a problem to an elderly couple retired on $150 a month; or anybody on any pension, or anyone living off life insurance, or dependent on any fixed income.

Worse of all would be the plight of the soldier's widow who is receiving $60 a month.

The farmer's problem is similar. If his crops bring prices which don't represent real purchasing power, his apparent prosperity is an illusion.

Will Win Fight Against Inflation

So what is the answer? Let's have no ambiguity about it. The American people are going to win this fight against inflation. Their Government is going to win it for them with the minimum of controls and restrictions and directives that are so unwelcome to all of us, if it can be won that way.

We are going to win it, if it can be won this way, with a few selective controls and with a higher tax policy in effort to pay as we go, to discourage the drive for ever greater profits, and to siphon off boom-time purchasing power.

If we can't win it this way, we are going to impose whatever controls and issue whatever directives are necessary.

Basically, the fight against communism on both the military and diplomatic front, and the fight against inflation will be won only if we produce and produce and produce—only if we expand our facilities, and our productive power, and if all of us, workers and industrialists and farmers, go to work to get the last ounce of production out of our fields, our good earth, and our machines—only if we produce to the utmost of our capacity, with the full realization that we are in substance and in fact in a great battle of production; and that if we do not concentrate all of our attention and all of our energy upon the problem of tomorrow, there may be no day-after-tomorrow for us to worry about.

Production is both the greatest asset and the most outstanding characteristic of the American people. It is the only real and permanent answer to inflation.

Production will give us a richer life. More important, it may mean our survival as a nation.

Korea reminds us that communism never sleeps, and will break the line whenever and wherever we weaken.

Do not underrate the production potentials of this aggressor. We can no longer think of the sweep of territory behind the iron curtain as a place where peasants scratch the earth with a stick. It is a vast land, rich with untold resources. There is an immense industrial machine behind that iron curtain; and we now know that the greatest share of its production goes into implements of war, and into more industrial capacity which in turn will be used for still more implements of war.

That industrial capacity is producing fighting weapons. Unskilled peasants didn't make the tanks that swept over Americans in Korea.

When you count resources, add in people. In Europe behind the iron curtain there is a population of 270 millions, and the communist or communist controlled people of the world now total over 800 million people. In terms of sheer power output it takes a lot of motors to match that many people.

Whatever we think of the methods used to develop the economic potential behind the iron curtain, we must be realistic in facing up to the result, a wedge of immense force that can now be driven whenever a calculating aggressor chooses to drive it, and theirs is the choice of where and when.

In wartime we ask our civilians to reduce their scale of living in order to release materials and labor for military supply. But the millions of people behind the iron curtain who have never had metal toys to give to their children, or pressure cookers to put on a porcelain range, or enough to cook in any kind of a pot, have nothing to give up. What they did without, when they did not have the means, they do without *now*, though they have greatly increased their ability to produce, all by a system of grinding controls and deprivations that has become synonymous with Communist dictatorship. For their consumers there is little, for industrial development looking to production of war goods there is much.

One of the tenets of militant Communists is that what they call the bourgeois-capitalist-democracies are doomed. They preach that *we* cannot prevent shattering depressions, that *we* cannot avoid misery and unrest.

Nevertheless, they are uneasy, because American production in the American democracy is vindicating itself at home and throughout the world by producing more than ever before, and by spreading the goods of production more widely than ever before.

Theirs is the propaganda of hate and promises. Ours is the propaganda of fulfillment. We have to match their falsehoods with Marshall-aid tools, machines, seed, corn, gasoline and electric generators.

But we must do much more than immunize Europe against their propaganda. When their promises begin to fall on deaf ears, when their boring from within reaches the armor plate of internal stabilization, when their diplomatic strategy gives out, then will be their hour of decision. Let us be ready!

What a bitter irony if we failed, not because we suffered a shattering depression, as they say we will, but because we indulged in a false fair-weather prosperity; not because we were torn by misery and unrest, as they say we will be, but because of selfishness and indifference.

I join in the prayer of all Americans that our grandchildren may read in their history books Korea was an isolated incident. But we in the United States must now realize that the only true hope for secured peace is adequate preparation.

The base of that preparation can and should be established now as we move against the enemy of inflation. That base is some self-denial combined with a dynamic expanding economy.

What shall we do then to hold the peace? What shall we do to prepare for the possibility of war? What is the best way to stop inflation? What is the hope for a civilian scale of living that vindicates the American system while we are arming to defend that system?

To all these questions, there is one real answer: greater production today, even greater production tomorrow.

To preserve and strengthen America is the responsibility of each of you as leaders of public opinion. You have a duty to make clear to every citizen the requirements of our survival — to the housewife whose budget is strained by rising costs, to the mother whose children are learning the values of democracy in our schools; to all Americans we owe an allegiance to present all these facts which so profoundly influence our national life. Once these facts are understood, no sacrifice will be too great to achieve that unity necessary for the peace and security of our beloved country.

Continued from first page

Foreign Trade and National Preparedness

many instances became even more important than the parent cities. The building and use of these trading vessels led logically to the establishment of strong naval forces which enabled the Greek cities to resist the Persian invasions, perhaps thus making it possible to keep alive the tradition of democracy which is so important to us today. Perhaps, too, the flow of wealth created the prosperity which made the Greek citizens willing to finance their fighting forces. Centuries later, Spanish and Portuguese ships, searching for a short route to the rich spice trade of the Far East, found the New World. England, a small island country, entered into this quest for trade outlets and smartly and quickly developed the naval strength which made it predominant in the quest. Its commercial companies were well established in India before the English Government seized control. Military strength was used to protect great trade channels. Throughout the years, following a policy of liberal trade and full protection of foreign investments, this small island country held the major position in the world economy. Always its trade policy was sustained not only by its foreign policy, but by the support of that policy through the maintenance of the strongest navy in the world.

Romance — In Foreign Trade

In Germany, the real significance of foreign trade became apparent to those of us taking over the responsibility for government within a few days after surrender. Certainly I had taken for granted the working of the modern complex industrial economy without thinking of its dependence on foreign trade and exchange. Here in America we had for many years an economy much more self-sustaining than had most countries of the world. Nevertheless, we have never had all of the raw materials essential to the preservation of this complex economy, and our production would drop quickly if we did not have access to raw materials which are not available within our own boundaries.

Germany was almost devoid of raw materials other than coal and rather low grade iron ores. Its concentrated population had maintained a fairly decent standard of living throughout the years by the importation of raw materials to be manufactured in finished products which could be exported in sufficient quantities to pay for the essential raw materials and still supply the home demand. However, with the collapse of the German Government and with currency worthless, it became impossible to purchase raw materials in sufficient quantities to rebuild any appreciable productive output. Germany's neighbors were willing to send soft goods to Germany but the German economy could not afford to purchase soft goods. At a result, we were compelled to require payment for its only large raw material export —coal—either in dollars or in exchange for raw materials which could be used to build up production. Obviously, this limited trade with Germany's neighbors to barter for raw materials or hard goods. As a result, the Rhine and the Rhine Ports were idle. Holland had no market for its surplus vegetables: Denmark had no market for certain of its fat products. Even Italy had lost a large portion of its fresh fruit market. In the absence of outside aid, such a policy could not be avoided. It was not conducive to European recovery as a whole. Still, our policy did permit slowly but continuously an increase in exports which brought about a sufficient return flow of raw materials to increase production. However, it was not until the European Recovery Program was placed under way by the United States that the barriers were lifted sufficiently to bring a prompt and, in fact, an almost miraculous recovery. The important point that we had learned was that the breakdown of production in Germany had punished not only the Germans, but also had retarded European recovery. In retarding European recovery, it had made impossible any realistic effort on the part of the European countries to rebuild their military strength, thus helping to restore balance in Europe. Precious months were lost because neither ourselves nor Germany's neighbors realized this now apparent fact.

U. S. Dependent on Certain Foreign Materials

In our own country we had learned both in World War I and II of our dependence on certain essential raw materials which were not available in this country. In World War II, we expended huge sums in developing and increasing the production of such raw materials elsewhere. We also entered into special trade agreements even with countries in direct touch with our enemies to obtain goods deemed essential to our own war needs even at the risk of furnishing them with goods of like category. After World War II we embarked upon a stockpiling program which has as its purpose the building up of sufficient reserves of critical materials in this country to see us through a long war, and this stockpiling program continues. It is designed to make us independent of those areas which we might lose either through the creation of reserves in this country or through the building up of increased production in those areas which we know we can protect.

In this latter field, our trade is of paramount concern. To create increased production in many instances requires not only the investment of capital in the form perhaps of machinery and equipment, but also in many instances the development of incentives which will make additional labor available for production.

The development of incentives through trade is not a new process. Undoubtedly, the early Greek ships crossing the Mediterranean carried beads and baubles which would appeal to the less enlightened natives of North Africa, just as our ancestors brought beads and baubles to exchange with the Indians for security, furs, and other items of value.

As we occupied island after island in the Pacific, and attempted to utilize native labor for stevedoring and other work, and as we attempted to increase agricultural production on these islands, we were confronted by the fact that native labor was satisfied and not interested in undertaking additional activities. Thus, we had to develop a trade program to make available incentive goods of types and kinds which led the natives into undertaking the work which would give them the means to buy these goods. Similar incentive programs were undertaken in North Africa when our troops arrived, and in many other places throughout the world where we were interested in increasing production. The establishment of trading centers became almost a part of our military operations.

In peacetime, to prepare for war we can build up an adequate flow of raw materials consistently only as we make available finished goods in exchange. The more nearly in balance we maintain such trade in normal times, the less the effort which we will have to make to build up the flow of materials if war approaches.

Cold War Is Economic War

The cold war of today is as much an economic war as it is a political war. In extending economic aid to Europe we have made progress in attaining an economic stability which provides a standard of living sufficiently high to offset the false promises of communism. Within a few years, our economic policy has made possible the development of a military pact against aggression which has real meaning. Without this economic aid and without the exchange of goods which developed as a result, there would have been no hope of securing strong military support in Europe for freedom, and our own immediate military responsibilities would be even larger than they are. Of course, there remain many obstacles to the free exchange of goods among the European countries and between the European countries and the rest of the world. By and large, the exchange of goods is still conducted under trade agreements among the respective countries, and these trade agreements are carefully drawn to maintain reasonable balance. Nevertheless, measured in terms of time, progress in the removal of barriers has been reassuring, and has made possible the steps now being taken to develop strong military forces to protect the freedoms we now have.

The normal pattern of world trade first changed by war, was prevented from reestablishing itself with the clanging shut of the Iron Curtain. Unfortunately, the huge rearmament program undertaken by Russia made it desirable to stop certain types of goods immediately helpful to her war effort being sent behind the Iron Curtain. I use the world "unfortunately" not to criticize this action which had to be taken, but to recognize that with the cessation of trade it became possible for the Iron Curtain to stop also the movement of persons and ideas.

By and large, throughout the years, sound principles of economics and sound concepts of government have accompanied the movement of goods throughout the world. Ordinarily, when trade stops, the flow of ideas and of persons stops simultaneously. For many years we perhaps did not recognize the importance of this movement of ideas and persons because neither transport nor communications permitted an immediate appreciation of their effect. With the invention of the telegraph and even more of radio, and with the development of commercial air transport encircling the world, events anywhere are immediately important everywhere.

Political Importance of Foreign Trade

The maintenance of trade channels throughout the world develops a better knowledge of the world and its people. Today, as the free peoples of the world unite to resist totalitarianism, it becomes of utmost importance that there develop among them a common understanding and a willingness to help each other in the solution of the problems which threaten freedom. In the areas which appear uncertain in their choice between freedom and communism, it is of even more importance to develop this understanding, and even in the areas now in Communist hands there is a need to bring about a realization of the true meaning of freedom. Wherever there are trade outlets for us and for the free peoples of the world, we will find our representatives and theirs living among the people served by the outlet, there developing an intelligent knowledge of their problems and conveying this knowledge to our people at home. This is the type and kind of intelligence which, accumulated over the years, permits accurate appraisal by those responsible for our foreign policy and the direction of our efforts toward the creation of friendship and better understanding. Sound political and economic understanding do not come about by chance; they result only from the knowledge gained in the relationships of years of trade.

Perhaps I have talked too much in generalities. I know that the problems involved can only be resolved by careful and specific study of each and evry one. Certainly, you are all familiar with the generalities which I have stated, and yet they are worth repeating. Fundamentally, a free exchange of goods, ideas, and persons is essential to our concept of a free world. Secondly, it is through trade with foreign countries that we develop the knowledge and understanding which are essential to sound and friendly relationships. Thirdly, we must have recourse to raw materials in other countries and we can be sure of that recourse only through the establishment in normal times of mutually attractive trade relationships.

Sound national preparedness means more than the maintenance of large and well equipped fighting forces, as important as such forces are to security. It requires a sound economy not only here but also in those countries which are aligned with us in the cause of freedom. These sound economies can come about only through the development of import programs of sufficient magnitude to balance export programs, remembering that the effect of past wars has been to reduce substantially the investment income from America which many of these countries had enjoyed. The relatively high prices of raw material imports which have developed as a result of our rearmament program has simplified the problem for the moment; it has not solved it. Our foreign policy must recognize fully the necessity not only for encouraging foreign trade but also to protect our investments abroad and to encourage foreign investments in America. There cannot be a one-way street either way.

Immediately after World War II, the foreign trade pattern established during the war broke down. Our demand for raw materials at any price disappeared. Volume and prices both decreased. Economic chaos threatened much of the world. When we recognized the results of this breakdown in 1947, we embarked on the program of financial assistance which is now being complemented by the military assistance program. As emergency programs, they have succeeded in stopping the expansion of communism and the establishment of new totalitarian governments. They have not restored the strength which the free world must have to destroy communism. The success with which the free countries are able to develop a sound pattern for the exchange of goods will govern the time required to restore economic stability in the free world. When that comes about, we will have nothing to fear from communism nor from totalitarianism in any form.

I am afraid that I can no longer make a talk in which I fail to point out the fact it seems to me each segment of our society must play if we are to maintain free enterprise within a free world. Certainly you have a major part to play. Our foreign policy may be sound in purpose but unless it provides wisely for expanding foreign trade, it can never fully accomplish its objectives. It is your effort which will insure wise provisions which will encourage the exchange of goods and which will make these provisions effective. To this end, your efforts will prove worthwhile not only because they will be sound in the business sense but also because they will promote the relationship and understandings which will keep a healthy, viable economy of free nations and thus promote a lasting peace.

Justice Department Suit Against Banking Houses to Open Nov. 28

Trial of the Department of Justice's long-pending anti-trust suit against various investment banking houses and the Investment Bankers Association of America will get under way on Nov. 28. The date was set by Federal Judge Harold R. Medina.

A. L. Pennock Smith Joins A. M. Kidder

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—A. L. Pennock Smith has become associated with A. M. Kidder & Co., Alfred I. du Pont Building.

With American Securities

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Jerome R. Allen, Jr., has been added to the staff of American Securities Corp., 111 West Monroe Street.

Join Central Republic

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Arthur W. Bergman, Jr., and John J. Morrissey II have joined the staff of Central Republic Co., 209 South La Salle Street, members of the Midwest Stock Exchange. Mr. Morrissey was formerly with Julien Collins & Co.

Cruttenden Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Melvin C. Mullins is now affiliated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

With Glore, Forgan

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Edward H. Julius has become associated with Glore, Forgan & Co., 135 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was formerly with Wm. E. Pollock & Co. and Stifel, Nicolaus & Co.

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)	Nov. 12	103.0	102.4	101.6	21.0
Equivalent to— Steel ingots and castings (net tons)	Nov. 12	1,986,600	1,975,000	1,959,600	387,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Oct. 28	5,895,250	5,902,200	5,903,450	5,075,150
Crude runs to stills — daily average (bbls.)	Oct. 28	¶6,051,000	6,078,000	6,051,000	5,509,000
Gasoline output (bbls.)	Oct. 28	19,878,000	20,299,000	19,624,000	19,002,000
Kerosene output (bbls.)	Oct. 28	2,28[illegible],000	2,276,000	2,471,000	2,209,000
Gas, oil, and distillate fuel oil output (bbls.)	Oct. 28	8,259,000	8,283,000	8,460,000	7,016,000
Residual fuel oil output (bbls.)	Oct. 28	8,449,000	8,690,000	8,306,000	7,754,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines— Finished and unfinished gasoline (bbls.) at	Oct. 28	105,062,000	*105,382,000	104,383,000	103,915,000
Kerosene (bbls.) at	Oct. 28	28,634,000	*23,578,000	27,849,000	28,225,000
Gas, oil, and distillate fuel oil (bbls.) at	Oct. 28	84,057,000	*83,193,000	76,734,000	90,358,000
Residual fuel oil (bbls.) at	Oct. 28	44,310,000	*43,372,000	42,320,000	69,459,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 28	887,607	890,990	879,985	591,315
Revenue freight received from connections (number of cars)	Oct. 28	729,422	726,423	730,562	514,495
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Nov. 2	$199,716,000	$245,105,000	$287,974,000	$169,933,000
Private construction	Nov. 2	89,874,000	147,755,000	157,407,000	102,827,000
Public construction	Nov. 2	109,842,000	97,350,000	130,567,000	67,106,000
State and municipal	Nov. 2	86,392,000	80,135,000	84,842,000	57,644,000
Federal	Nov. 2	23,450,000	17,215,000	45,725,000	9,462,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 28	11,608,000	11,750,000	11,495,000	2,707,000
Pennsylvania anthracite (tons)	Oct. 28	1,056,000	984,000	1,037,000	1,181,000
Beehive coke (tons)	Oct. 28	157,400	*154,300	149,900	1,700
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 28	314	*304	320	298
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 4	6,550,615	6,562,518	6,513,707	5,434,924
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Nov. 2	181	160	154	196
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 31	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Oct. 31	$49.36	$49.36	$49.19	$45.88
Scrap steel (per gross ton)	Oct. 31	$40.67	$40.67	$40.67	$27.58
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper— Domestic refinery at	Nov. 1	24.200c	24.200c	22.575c	17.325c
Export refinery at	Nov. 1	24.425c	24.425c	24.425c	17.550c
Straits tin (New York) at	Nov. 1	127.000c	113.750c	102.500c	[illegible]
Lead (New York) at	Nov. 1	17.000c	16.000c	16.000c	13.000c
Lead (St. Louis) at	Nov. 1	16.800c	15.800c	15.800c	12.800c
Zinc (East St. Louis) at	Nov. 1	17.500c	17.500c	17.500c	9.575c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Nov. 6	101.41	101.43	101.64	104.28
Average corporate	Nov. 6	115.43	115.24	115.63	115.04
Aaa	Nov. 6	119.61	119.41	119.82	120.84
Aa	Nov. 6	118.60	118.40	118.80	119.20
A	Nov. 6	114.66	114.66	115.04	114.46
Baa	Nov. 6	109.06	108.88	109.24	106.56
Railroad Group	Nov. 6	111.44	111.25	111.62	109.42
Public Utilities Group	Nov. 6	115.82	115.63	116.22	116.80
Industrials Group	Nov. 6	119.00	119.00	119.00	119.41
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Nov. 6	2.39	2.39	2.38	2.19
Average corporate	Nov. 6	2.88	2.89	2.87	2.90
Aaa	Nov. 6	2.67	2.68	2.66	2.61
Aa	Nov. 6	2.72	2.73	2.71	2.69
A	Nov. 6	2.92	2.92	2.90	2.93
Baa	Nov. 6	3.22	3.23	3.21	3.36
Railroad Group	Nov. 6	3.09	3.10	3.08	3.20
Public Utilities Group	Nov. 6	2.86	2.87	2.84	2.81
Industrials Group	Nov. 6	2.70	2.70	2.70	2.68
MOODY'S COMMODITY INDEX	Nov. 6	477.5	472.4	463.8	344.6
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 28	221,590	196,950	253,120	193,527
Production (tons)	Oct. 28	240,123	235,388	236,422	203,786
Percentage of activity	Oct. 28	104	101	103	94
Unfilled orders (tons) at	Oct. 28	694,741	715,451	714,877	400,589
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Nov. 3	138.4	138.2	137.6	125.8
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	Oct. 21	32,848	29,404	29,636	21,612
Number of shares—Customers' total sales	Oct. 21	1,001,253	892,150	884,732	642,879
Dollar value	Oct. 21	$43,015,819	$38,308,776	$42,249,065	$25,170,205
Odd-lot purchases by dealers (customers' sales)— Number of orders—Customers' total sales	Oct. 21	36,075	31,155	33,796	24,822
Customers' short sales	Oct. 21	186	226	265	207
Customers' other sales	Oct. 21	35,889	30,929	[illegible]	[illegible]
Number of shares—Customers' total sales	Oct. 21	1,034,529	889,993	964,241	685,558
Customers' short sales	Oct. 21	6,711	8,457	10,843	7,374
Customers' other sales	Oct. 21	1,027,818	881,536	953,398	678,184
Dollar value	Oct. 21	$38,463,216	$34,568,564	$38,350,289	$23,325,868
Round-lot sales by dealers— Number of shares—Total sales	Oct. 21	340,410	309,460	354,040	243,080
Short sales	Oct. 21	------	------	------	------
Other sales	Oct. 21	340,410	309,460	354,040	243,080
Round-lot purchases by dealers— Number of shares	Oct. 21	324,180	278,440	272,110	209,030
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 31	169.4	168.9	168.8	151.5
Farm products	Oct. 31	179.7	178.7	179.1	156.4
Grains	Oct. 31	167.0	163.6	167.4	153.4
Livestock	Oct. 31	223.9	225.6	224.6	193.3
Foods	Oct. 31	174.0	174.0	175.3	158.3
Meats	Oct. 31	239.8	242.4	246.7	216.9
All commodities other than farm and foods	Oct. 31	161.6	*160.8	160.0	144.7
Textile products	Oct. 31	163.1	*162.0	161.7	137.2
Fuel and lighting materials	Oct. 31	135.5	135.5	134.9	130.2
Metals and metal products	Oct. 31	178.5	*178.1	177.1	166.9
Building materials	Oct. 31	219.0	*220.1	222.0	188.9
Chemicals and allied products	Oct. 31	133.2	*132.3	129.9	115.5

*Revised figure. ¶Includes 476,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
BUSINESS INCORPORATIONS (NEW) IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of September	6,274	*7,201	6,867
BUSINESS INVENTORIES, DEPT. OF COMMERCE NEW SERIES — Month of August (millions of dollars):			
Manufacturing	$29,600	$29,700	$29,700
Wholesale	9,600	9,300	9,100
Retail	14,800	*14,100	13,900
Total	$54,100	$53,200	$52,700
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS — U. S. DEPARTMENT OF COMMERCE — Month of August (000's omitted)	$212.9	$509.4	$191.6
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—Month of Aug. (000's omitted)	23,646,106	22,636,887	20,758,404
Revenue from ultimate customers—month of August	$421,089,900	$412,436,800	$382,148,300
Number of ultimate customers at Aug. 31	44,283,690	44,087,312	42,132,506
HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE (AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION)—Month of September:			
Factory sales of washers (units)	424,043	381,452	357,281
Factory sales of ironers (units)	41,400	42,700	27,700
Factory sales of dryers (units)	31,399	32,318	10,806
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of August:			
Death benefits	$131,433,000	$117,588,000	$130,188,000
Matured endowments	38,190,000	36,949,000	35,505,000
Disability payments	8,658,000	7,462,000	7,912,000
Annuity payments	21,090,000	21,183,000	18,739,000
Surrender values	57,024,000	50,442,000	49,893,000
Policy dividends	45,943,000	44,147,000	43,328,000
Total	$302,338,000	$277,771,000	$286,065,000
MANUFACTURER'S INVENTORIES & SALES (DEPT. OF COMMERCE) NEW SERIES— Month of August (millions of dollars):			
Inventories: Durable	$13,700	$13,800	$14,100
Nondurable	15,900	15,900	15,600
Total	$29,600	$29,700	$29,700
Sales	22,549	18,506	17,630
METAL PRICES (E. & M. J. QUOTATIONS)— Average for Month of October:			
Copper (per pound)— Electrolytic domestic refinery	24.200c	22.900c	17.325c
Electrolytic export refinery	24.425c	24.299c	17.550c
Lead (per pound)— Common, New York	16.040c	15.800c	13.420c
Common, St. Louis	15.840c	15.600c	13.230c
Silver and Sterling Exchange— Silver, New York (per ounce)	75.060c	72.750c	73.250c
Silver, London (pence per ounce)	65.182d	63.500d	63.887d
Sterling Exchange (Check)	$2.80000	$2.80000	$2.79600
Zinc (per pound)—East St. Louis	17.500c	17.100c	9.320c
Tin (per pound)— New York Straits	113.420c	101.250c	95.720c
§§New York, 99% min.	112.420c	100.250c	94.720c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$89.520	$84.200	$73.000
¶Antimony (per pound) (E. & M. J.)	35.280c	34.300c	36.580c
Antimony (per pound), bulk, Laredo	32.000c	31.020c	33.300c
Antimony (per pound), in cases, Laredo	32.500c	31.520c	33.800c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$95.200	$97.200	$69.000
†Cadmium (per pound)	$2.40000	$2.29000	$2.00000
‡Cadmium (per pound)	$2.52500	$2.39300	$2.07500
§Cadmium (per pound)	$2.65000	$2.49600	$2.15000
Cobalt, 97%	$1.80000	$1.80000	$1.80000
Aluminum, 99% plus, ingot (per pound)	19.000c	17.860c	17.000c
Magnesium, ingot (per pound)	24.500c	22.580c	20.500c
**Nickel	48.000c	48.000c	40.000c
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of August (in billions):			
Total personal income	223.4	*220.7	204.3
Wage and salary receipts, total	144.3	*141.7	131.3
Total employer disbursements	147.2	*144.5	133.5
Commodity producing industries	65.2	*63.3	56.3
Distributive industries	41.2	*40.9	39.4
Service industries	18.8	*18.7	17.3
Government	22.0	*21.6	20.5
Less employee contributors for social insurance	2.9	*2.8	2.2
Other labor income	3.4	*3.4	2.9
Proprietors' and rented income	45.9	*45.5	40.7
Personal interest income and dividends	17.9	*17.8	16.8
Total transfer payments	11.9	*12.3	12.6
Total nonagricultural income	205.3	*202.7	187.3
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of August (000s omitted):			
Exports	$760,700	$774,000	$883,000
Imports	819,400	708,754	490,787
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Sept. 30	$257,235,533	$257,891,449	$256,708,917
General fund balance	5,504,682	5,185,231	5,698,836
Net debt	$251,730,851	$252,706,218	$251,010,031
Computed annual rate	2.191%	2.200%	2.224%
ZINC OXIDE (BUREAU OF MINES) — Month of August:			
Production (short tons)	19,666	17,987	13,423
Shipments (short tons)	22,662	19,542	14,666
Stocks at end of month (short tons)	11,575	14,571	18,556

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colburne, N. S., N. S. duty included. §§Tin contained.

Continued from page 5

Observations . . .

value of our money, plus an amount of annual return sufficient to amortize our estimate of the degree and timing of the risks.

Under that kind of calculation a cost price which gives an annual dividend return of 6½% on the price paid would roughly in 25 years afford complete amortization of the invested capital. That is, after deducting the rental value of his money of 2½%, it leaves him 4% for annual amortization, which, times the 25-year deduction, will then give the investor his share in the property and working capital written down to nothing. (The tax incidence is discussed below.)

Similarly, a 7½% instead of 6½% capitalization of the expected dividend (which we have used with Telephone in the table) will give him his money back in 20 instead of 25 years (a 20-year amortization requiring a 5% annual reserve to be added to the 2½ rental value).

The Important Element of the Corporation's Financial Strength

The crux of the amortization process will be how soon the inherent risks become effective; that is, there is a kind of race between the risk and the amortization process. In connection with estimating the degree of risk and the amount of annual amortization that is needed to "win the race" against risk, the fiscal strength of the respective company is a vital determinant. In cases of a high net-quick liquidating figure or general financial strength, the amortization can be longer-running or even incomplete.

In cases of "unclean" balance sheets on the other hand, either we must count on the proportion of the anticipated earnings capitalized as dividends to turn out less than the average, or our amortization for risk must be increased or stepped up as to time.

Specific Examples

Now let us demonstrate our business-value technique by some specific examples; taking a stock in each of the categories (1) of medium growth in consumers goods (Montgomery Ward); (2) in the field of cyclically fluctuating earnings dependent on commodity prices (Kennecott Copper); (3) stable income producer (American Telephone); (4) and in relatively little known inactive securities (Manhattan Shirt Co.). We omit from our examples any real *growth* stock without a high earnings base, because of the present indeterminability of the impending excess profits tax.

A Moderate Growth Situation

First inspecting Montgomery Ward, we note as relevant factors that since 1937 its net working capital per share has multiplied three and one-half times, and its sales and profits have trebled. Current growth being negated by the controlling policy of a septuagenarian Chairman, we can consider that it has moderate possibilities for further growth along with its competitors.

Ward's annual earnings from 1937 through 1946 averaged $4.25 per share. Subsequently the postwar profits have been $8.86 in 1947, $10.28 in 1948, $7.13 in 1949, and may be estimated at $9 for 1950. As our estimate of average earnings over the coming 25 years, taking all foreseeable factors into consideration, we take a $7 average as a reasonable expectation.

Scrutiny of the balance sheet reveals cash alone considerably in excess of all liabilities, with a net-quick-liquidating value of $70 per share.

In view of this extraordinarily strong balance sheet, we would consider an annual average dividend of $4 as a reasonable proportion of the $7 earnings, and would let the amortization run for as long as 25 years.

Then we would calculate that the riskless rental value of our capital will consume 2½% of our capital investment annually, and an additional 4% will approximately amortize our entire investment over a period of 25 years, giving us at the end of the term our interest in the property, plus the undistributed future earnings, at no cost.

So, keeping our attention from the stock exchange quotation of the day, we would capitalize our expected average return of $4. This would give us *62* as the fair valuation for Montgomery Ward.

A "Margin of Safety"

As a prospective buyer, we would take an additional precautionary step supplementing this appraisal. Realizing the many imponderables in management quality, accounting practices, good will, industry future, and the like, we will give ourselves a *margin of safety* by making an arbitrary subtraction from the appraisal figure arrived at as above.

The exact size of this safety-margin to be the prerequisite of a purchase would be influenced by factors, such as the condition of our over-all portfolio both as to the aggregate amount of common stocks therein at the moment or of the particular industry in which the prospective security is included; and even possibly (although not importantly) on rare occasions by the general speculative situation.

In the case of Montgomery Ward, this "safety" deduction at 10% gives us 56 as the advantageous buying price.

An Alternate Interpretation

The prospective buyer can look at this method of appraisal from a different angle. Alternatively, he can consider that with a 6½% dividend yield, together with a strong asset position and other favorable conditions, he will be getting a fair rental value for his money plus an indeterminable return (my major emphasis being on actual return) ranging somewhere around the remaining 4% —perhaps less, or perhaps more in case of windfall prosperity for the company. What he will finally get in addition to the rental return will chiefly depend on the actual realization of the inherent risks for which the amortization provisions have been made.

A Commodity Stock With a "Dream" Balance Sheet

Calculations for the other three stocks are contained in the foregoing table. In considering an investment in a petroleum, or a copper company as Kennecott, as an important base we would average the past earnings through boom-and-bust periods. In the 1936-'46 era they ranged between $2.16 and $4.60. While because of secular inflation, these earnings are on the low side, on the other hand, the recent postwar profits ranging up to $8.50 per share seem to be on the above-average side. Hence our long-term forecast of an earnings average of $5.50 per share, with a dividend of $4.

In Kennecott we also have a "dream" balance sheet, with cash of $194 million, no preferred nor debt, and total current liabilities of only $37 million.

A Heavily Capitalized Utility

In the case of American Telephone, we must look at past and the likely future earnings, and the heavy capital structure, along with the liberal dividend policy. Because of the heavy indebtedness, absence of liquidating value, and imponderables about the industry's future, we amortize ourselves out in 20 instead of 25 years.

Althought our appraisal price of 113 and buying price of 102 might be termed somewhat "unrealistic" in terms of the market, we would stick to our guns, and rest on the conclusion from our own calculation.

A "Red Chip"

Manhattan Shirt, one of the large number of inactively traded listed equities, exemplifies companies having big capitalization and net-quick liquidating value ($35 per share) in relation to demonstrated earning power (estimated at $3 per share by us); and also of cyclical earners dependent on the course of inventory value.

In view of this company's net asset value of $35 being far in excess of its apparent value of $23 as calculated in the foregoing table, of the potentiality of an eventual "windfall" resulting from such a situation, of its lowly estimated proportion of dividend disbursement (because of its traditional past policy), and its existence since 1950; we deem it unnecessary to make a deduction for a *margin of safety* (excepting possibly for those individuals in a very high income tax bracket).

* * *

The Tax Incidence

The incidence of the individual's income tax on the dividends he receives must be recognized as an indeterminable variable in our technique of calculation. But there are two important offsets mitigating error on this account. As "gravy," the investor has the use and income of the annual amortizations during their life; and, more importantly, he can adjust the amount of the *margin-of-safety* deduction to conform to his own particular tax bracket.

The Inescapable Forecasting Imponderables

Of course there are uncertainties involved in our method, including some inescapable forecasting assumptions, as of future earnings which are to serve as the reservoir of the dividend disbursements, the future of the industry of which the company is a part, the management's continuing ability and integrity, and even about external factors as the future of the riskless interest rate. But as offsets again:—our *margin-of-safety* takes care of imponderables; and in contrast to attempts at functioning by buying or selling the market as a whole, we do not have to act at all when we do not discern an advantageous buying opportunity. In a value approach the remaining risks are *incidental* to logical investment effort, and moreover, according to our deep conviction, less than are inherent in the process of predicting changes in price.

Our Overall Portfolio Policy

Finally, we want to state our overall setting in which this value-appraisal methodolgy is to be practised. It is intended as only part of investing policy. It should be used against the background of liberal diversification of one's entire portfolio between equities and fixed interest securities, in the following way:

Primarily, we would continually inspect inidividual issues according to our evaluation technique, both those which we do and do not already own. We would at all times buy undervalued issues, under the sole proviso that their total should be limited by a predetermined maximum limitation on our entire portfolio's proportion of equity share holdings (say from 50-70%). Similarly, in dealing with appraised over-valuations, we would sell off such issues, but under the proviso that the total of our portfolio's share holdings should never decline below a predetermined minimum (say 20-40%).

The overall aim is to insure continuing proper diversification but not in blind subservience to formula-timing schedules. In other words the formula is distinctly secondary to the *value* criteria.

Our Reporter's Report

The underwriting fraternity finds itself facing a recurrence of the situation which developed, some time back, into a tug of war between themselves and institutional investors over yields on new securities.

The matter came to a head with the offering of Niagara Mohawk Power Co.'s $40,000,000 of general mortgage bonds a week ago and the cool reception which this undertaking encountered.

The situation may change in favor of the bankers and the borrowers as the recently invoked restrictions on new building credits make themselves felt more fully, but for the present reports indicate that institutions are still decidedly interested in yield and that a few basic points can be the difference between a quick and a slow deal.

Moreover, there is evidence that these potential buyers are willing to forego a slight measure of corporate reputation or "rating" in order to secure the better return. Niagara Mohawk bonds came out on a 2.82% yield basis and are still largely unsold. And talk is that perhaps on a 2.85 or 2.86% basis they would have moved.

But prospective buyers, it is pointed out, still are able to obtain goodly amounts of mortgages yielding 4.5% or thereabouts, and accordingly, can afford to be a bit choosy.

The investment world will be watching next week's bidding for several issues quite closely to ascertain what, if any effect, this operation has had on bidders' ideas.

Michigan Consolidated Gas

Next Tuesday will bring Michigan Consolidated Gas Co.'s $20,000,000 of new first mortgage bonds, due in 25 years up for bids. Company officials and prospective bidders were slated to get together today for discussion of the final details.

Except for Commonwealth of Massachusetts' $75,000,000 for which bids are slated to be opened on Monday, the Michigan Gas deal will be the week's largest undertaking.

There is a disposition in investment banking and dealer circles to expect that bidders will be a little on the cautious side in going after this one with an eye on paving the way for a successive operation.

Two Smaller Issues Due

Two smaller utility issues are up for bids next week, with Atlantic City Electric Co. scheduled to open bids on Monday for $18,400,000 of first mortgage series A 2⅞% bonds due 1980.

Indications are that at least four groups will be bidding for this one which should make for a fair degree of keenness.

On Tuesday Louisiana Power & Light Co. will open bids for its offering of $10,000,000 of new 30-year first mortgage bonds. At least five bids are indicated here. This company last spring, rejected bids received for 90,000 shares of $100 par preferred stock.

Negotiated Deal Possible

There is a possibility that one of those infrequent negotiated deals for a utility company may reach market the middle of next week. Naturally much will depend on the behavior of the markets in the interval.

But this company has projected an issue of 21,000 shares of new $5.50 cumulative preferred stock for marketing along about next Wednesday priced at not more than $100 a share.

Sponsoring bankers doubtless will be guided by market conditions generally in bringing out this offering. Proceeds will be used to retire loans obtained for the purpose of financing new construction.

With Minneapolis Assoc.

(Special to The Financial Chronicle)

MINNEAPOLIS, Minn. — John C. Bahr has joined the staff of Minneapolis Associates, Inc., Rand Tower.

With Waddell & Reed

(Special to The Financial Chronicle)

KANSAS CITY, Mo. — Walton F. Barron and Percy B. Willits are with Waddell & Reed, Inc., 1012 Baltimore Avenue.

Joins Gill Assoc.

(Special to The Financial Chronicle)

TOLEDO, Ohio—Don C. Souder is with Gill Associates, Inc., Gardner Building.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Aberdeen Petroleum Corp., Okla.
Oct. 26 (letter of notification) 30,000 shares of capital stock (par $1). **Price**—$3.87½ per share. **Underwriter**—Bonner & Bonner, Inc., New York. **Proceeds**—For working capital.

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.

• Alhambra Gold Mines Corp., Hollywood, Calif.
Nov. 1 filed 80,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For further development of mine and for working capital.

American Cladmetals Co., Carnegie, Pa.
Oct. 19 (letter of notification) 62,000 shares of common stock (par $1). **Price**—At market (about $1.12½ per share). **Underwriter**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To Charles R. Anthony, Chairman of the Board, who is the selling stockholder.

American-Marietta Co. (11/13)
Oct. 23 filed 150,000 shares of common stock (par $2), of which 100,000 shares will be for the account of the company and 50,000 shares for the account of Grover Hermann, President of the company. **Price**—To be supplied by amendment. **Underwriters**—H. M. Byllesby & Co., Inc. and A. C. Allyn & Co., Inc. **Proceeds**—To be added to general funds and used to replace the funds used in October, 1950 to purchase Master Builders Co. capital stock.

• American Security Co. of Bedford (Ind.)
Oct. 30 (letter of notification) $200,000 of 5% sinking fund debentures, 1950 series. **Price**—At principal amount, in denominations of $500 and $1,000 each. **Underwriter**—City Securities Corp., Indianapolis, Ind. **Proceeds**—To pay short term notes and 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 at $110 per share plus dividend accruals, of all the 47,609 shares of outstanding $7 preferred and 45,891 sares 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.

• Arwood Precision Casting Corp. (11/15)
Nov. 3 (letter of notification) 1,320 shares of common stock (no par) to be first offered to stockholders of record Nov. 15 on basis of one share for each 6.6 shares held; rights to expire Nov. 24. **Price**—$40 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—70 Washington St., Brooklyn 1, N. Y.

Atlantic City Electric Co. (11/13)
Oct. 18 filed $18,400,000 of 2⅞% first mtge. bonds, ser. 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.; The First Boston Corp. **Proceeds**—To redeem a like amount of 3¼% first mortgage bonds due in 1964. **Bids**—To be received up to 11 a.m. (EST) on Nov. 13 at the office of Simpson, Thacher & Bartlett, 120 Broadway, New York 5, N. Y.

• A-W Loan Co., Panama City, Fla.
Oct. 27 (letter of notification) 2,500 shares of preferred profit-sharing redeemable stock certificates. **Price**—$20 per share. **Underwriter** — None. **Proceeds**—To expand small loan business. **Office**—230 Harrison Ave., Panama City, Fla.

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.

Birmingham (Ala.) Fire Insurance Co.
Oct. 17 (letter of notification) 10,000 shares of common stock to be offered to present common stockholders. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To enlarge insurance business. **Office**—221 No. 21st St., Birmingham, Ala.

Carolina Casualty Insurance Co. (N. C.)
Oct. 2 (letter of notification) 50,000 shares of class B (non-voting) common stock (par $1) to be offered to stockholders on basis of one share for each five shares held on Nov. 1; rights expire on Dec. 14. **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To increase capital stock and surplus.

Carolina Telephone & Telegraph Co. (11/22)
Oct. 26 filed 20,825 shares of common stock to be offered to stockholders of record Nov. 22 on basis of one new share for each five shares held; rights to expire on Dec. 12. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To repay bank loans the proceeds of which were used for construction program.

Central Power & Light Co. (11/28)
Oct. 23 filed $10,000,000 of first mortgage bonds, series C, due Nov. 1, 1980. **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.; Blyth & Co., Inc., Harriman Ripley & Co. Inc. and Stone & Webster Securities Corp. (jointly); Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and Salomon Bros. & Hutzler (jointly). **Proceeds**—To repay $750,000 of bank loans and to reimburse the company in part for capital expenditures.

Citizens Casualty Co. of New York
Oct. 19 (letter of notification) 4,000 shares of $1.25 prior preferred stock, to be offered to all stockholders of record Oct. 23 on basis of one for each seven preferred shares held, one for each 10 shares of prior preferred stock held and one for each 70 shares of common shares held; rights to expire on Nov. 15, 1950. **Price**—At par, $25 per share. **Underwriters**—Mohawk Valley Investing Co., Utica, N. Y., and Security and Bond Co., Lexington, Ky. **Proceeds**—For general corporate purposes.

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.
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.

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.

Culver Corp., Chicago, Ill.
Oct. 23 filed 132,182 shares of common stock (par $5), of which 4,818 shares are to be offered to stockholders and 127,364 shares to public. **Price** — To stockholders at $5 per share and to public at $6.25 per share. **Underwriter**—None. **Proceeds**—For investments.

Davidson Bros., Inc., Highland Park, Mich.
Oct. 30 filed 300,000 shares of common stock (par $1) of which 100,000 shares are to be offered to employees and 200,000 shares to the public. **Price**—To be supplied by amendment. **Underwriter** — Baker, Simonds & Co., Detroit, Mich. **Proceeds**—To finance expansion program.

• Davison Chemical Corp. (11/28)
Nov. 7 filed 128,533 shares of common stock (par $1) to be offered to common stockholders of record about Nov. 28 at the rate of one share for each four shares held; rights to expire Dec. 12. **Price**—To be supplied by amendment. **Underwriters**—Alex. Brown & Sons of Baltimore, Md., and Kidder, Peabody & Co., New York. **Proceeds**—For expansion and improvement program.

Drayer-Hanson, Inc., Los Angeles, Calif.
Oct. 3 (letter of notification) 255,033 shares of common stock offered to stockholders on a pro rata basis; rights expire Dec. 15, 1950. **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.

Duggan's Distillers Products Corp.
Oct. 27 (letter of notification) 340,000 shares of common stock (par 10c). **Price**—75 cents per share. **Underwriter**—Olds & Co., Jersey City, N. J. **Proceeds**—To pay balance of purchase price for building ($20,000) and for working capital.

Duval's Consensus, Inc.
Oct. 24 (letter of notification) 199,780 shares of class A common 5% cumulative non-voting stock, of which 75,960 shares will be reserved for conversion of 15,192 shares of preferred stock on a 5-for-1 basis. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To purchase new equipment and for working capital. **Office**—41-45 Crescent St., Long Island City 1, N. Y.

Eastern Air Lines, Inc., New York
Nov. 1 filed 100,000 shares of common stock (par $1), to be offered to employees, excluding officers and directors. **Price**—At 85% of the highest sale price of the corporation's stock on Nov. 10, adjusted to the next highest multiple of 25 cents. **Underwriter**—None. **Proceeds**—To increase working capital.

• Eaton Metal Products Co., Denver, Colo.
Oct. 27 (letter of notification) 160 shares of common stock (par $100). **Price**—$300 per share. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo. **Proceeds**—To John Raymond Travis, a director, who is the selling stockholder.

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.

Exeter & Hampton Electric Co., Exeter, N. H.
Oct. 23 (letter of notification) 8,125 shares of common stock (par $20) offered to common stockholders at rate of one share for each three shares held Oct. 30, with an oversubscription privilege; rights are to expire on Nov. 20. **Price**—$34 per share. **Underwriter**—None. **Proceeds**—To repay notes.

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.

• Flagstaff Associates, Inc., Flagstaff, Ariz.
Oct. 30 (letter of notification) 2,000 shares of common stock and $10,000 of oil and gas leases and royalties at "over-all cost not to exceed 20%." **Price**—Of stock, par ($10 per share). **Underwriter**—None. **Proceeds**—To drill land.

Florida Telephone Co., Ocala, Fla. (11/15)
Oct. 27 (letter of notification) 27,200 shares of common stock (par $10), to be offered first to common stockholders of record about Nov. 15; rights to expire Dec. 3. **Price**—To stockholders, at par, and to public, at $11 per share. **Underwriters**—Shaver and Cook and Florida Securities Corp., St. Petersburg, Fla. **Proceeds**—For expansion program.

Garrett Corp., Los Angeles, Calif. (11/20)
Oct. 31 filed 60,000 shares of common stock (par $2). **Price**—To be filed by amendment (estimated at not more than $25 per share). **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds** — To two selling stockholders.

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. Statement effective Oct. 27.

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. (11/14)
Oct. 13 filed 51,026 shares of preferred 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 at 11 a.m. (EST) on Nov. 14 at Suite 2000, 20 Pine St., New York, N. Y. Statement effective Nov. 1.

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.

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. Financing may be abandoned.

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.

● **Horseshoe Basin Mining & Development Co., Inc.**
Oct. 30 (letter of notification) 25,000 shares of common stock. **Price**—60 cents per share. **Underwriter** — None. **Proceeds**—For working capital. **Office**—245 Fourth St. Bldg., Bremerton, Wash.

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. **Proceeds**—For working capital.

Illinois Commercial Telephone Co. (11/15)
Oct. 27 filed 21,000 shares of $5.50 cumulative preferred stock (no par). **Price**—At not more than $100 per share (to be supplied by amendment). **Underwriters** — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; and Mitchum, Tully & Co. **Proceeds** — To retire loans incurred in connection with new construction.

Kansas Gas & Electric Co. (11/20)
Oct. 10 filed 75,000 shares of common stock (no par) and 45,000 shares of cumulative preferred stock (par $100). Probable bidders: (1) for both issues: Blyth & Co., Inc. **Underwriters**—To be determined by competitive bidding. 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. **Bids**—To be received at Room 2033, Two Rector St., New York 6, N. Y., on Nov. 20 up to 10:30 a.m. (EST) for the common and up to noon (EST) for the preferred stock.

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.

Lancaster Chemical Corp.
Oct. 23 (letter of notification) 100,000 shares of 6% (cumulative, if earned) convertible preferred stock, being offered to common stockholders of record Oct. 18 on a pro rata basis; rights expire Nov. 30. **Price**—At par ($2.50 per share), payable in cash or at rate of one common share (par $1) plus 50 cents in cash. **Underwriter**—None. **Proceeds**—For working capital. **Office**—620 Fifth Ave., New York 20, N. Y.

● **Lockheed Aircraft Corp., Burbank, Calif.**
Nov. 6 filed 33,875 shares of capital stock (par $1) to be offered officers and employees who have been issued stock options. **Price**—$22 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes.

Lorain Telephone Co.
Oct. 5 (letter of notification) 2,830 shares of common stock (no par) offered to common stockholders of record Oct. 7 on a pro rata basis; rights expire Dec. 15. **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 share plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12, but withdrawn Nov. 2.

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**—To be received up to noon (EST) on Nov. 14 at Room 2033, Two Rector St., New York, N. Y. Statement effective Nov. 2.

McCoy-Couch Furniture Mfg. Co., Benton, Ark.
Oct. 16 (letter of notification) 12,000 shares of common stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds** — To repay RFC loan and to increase working capital. **Address**—P. O. Box 312, Benton, Ark.

McDonnell Aircraft Corp., St. Louis, Mo.
Oct. 23 (amendment) 80,000 shares of common stock (par $5). **Price**—At market (estimated at $17.25 per share) to be offered over-the-counter. **Underwriter**—Brokers and/or dealers may be underwriters. **Proceeds**—To five selling stockholders. Statement effective Nov. 1.

● **Mascot Mines, Inc., Kellogg, Ida.**
Oct. 27 (letter of notification) 400,000 shares of capital stock. **Price**—37½ cents per share. **Underwriter**—Standard Securities Corp., Spokane, Wash. **Proceeds**—To purchase controlling interest in Pine Creek Lead-Zinc Mining Co., for development costs and working capital.

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.

NEW ISSUE CALENDAR

November 9, 1950

New York Central RR. noon (EST) .... **Equip. Tr. Ctfs.**

November 13, 1950

American-Marietta Co. .... **Common**
Atlantic City Electric Co., 11 a.m. (EST) .... **Bonds**
Safeway Stores, Inc. .... **Preferred**

November 14, 1950

Gulf Power Co., 11 a.m. (EST) .... **Preferred**
Louisiana Power & Light Co., noon (EST) .... **Bonds**
Michigan Consolidated Gas Co., 11 a.m. (EST) .... **Bds.**
Penton Publishing Co. .... **Class A**

November 15, 1950

Arwood Precision Casting Corp. .... **Common**
Florida Telephone Co. .... **Common**
Illinois Commercial Telephone Co. .... **Preferred**
Rohr Aircraft Corp. .... **Common**
Western Pacific RR. Co. .... **Bonds**
Wisconsin Public Service Corp., 10.30 a.m. (CST) .... **Bonds**

November 17, 1950

Norris Stamping & Mfg. Co. .... **Common**

November 20, 1950

Garrett Corp. .... **Common**
Kansas Gas & Electric Co., 10:30 a.m. (EST) .... **Com.**
Kansas Gas & Electric Co., noon (EST) .... **Preferred**
Southern Production Co., Inc. .... **Common**

November 21, 1950

Gulf States Utilities Co., 11 a.m. (EST) .... **Preferred**
Hawaii (Territory of) .... **Bonds**

November 22, 1950

Carolina Telephone & Telegraph Co. .... **Common**

November 28, 1950

Central Power & Light Co. .... **Bonds**
Davison Chemical Corp. .... **Common**
Tide Water Power Co. .... **Preferred**

November 29, 1950

Federal Water & Gas Corp. .... **Common**
Missouri-Kansas-Texas RR. .... **Equip. Trust Ctfs.**

November 30, 1950

American Investment Co. of Illinois .... **Common**

December 4, 1950

Minnesota Power & Light Co., noon (EST) .... **Com.**
Southwestern Gas & Electric Co. .... **Bonds**

December 11, 1950

Carolina Power & Light Co. .... **Bonds**

December 12, 1950

Metropolitan Edison Co. .... **Bonds & Preferred**

● **Metropolitan Edison Co. (12/12)**
Nov. 7 filed $5,250,000 of first mortgage bonds due Dec. 1, 1980, and 20,000 shares of cumulative preferred stock (par $100). **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. Langley & Co. (jointly). **Proceeds**—From the sale of the aforementioned securities and from the sale to General Public Utilities Corp. of 24,220 common shares will be used as follows: $1,247,500 to retire York Haven Water & Power Co. 50-year 5% gold bonds due June 1, 1951, and for construction program.

Michigan Consolidated Gas Co. (11/14)
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); Harriman Ripley & Co. Inc.; Union Securities Corp. **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. **Bids**—To be received up to 11 a.m. (EST) on Nov. 14 at office of company, 415 Clifford Street, Detroit, Mich. Statement effective Nov. 7.

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." Statement withdrawn on Oct. 27.

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.

Minnesota Power & Light Co. (12/4)
Oct. 30 filed 150,000 shares of common stock (no par). **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.

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.

Montana Power Co.
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. **Offering**—Originally scheduled for Oct. 31 has been postponed for at least six to nine months. Temporary bank borrowings will be arranged.

Morris Plan of America, New York
Sept. 21 filed 389,449 shares of common stock (par 10¢), 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**—$5 per share. **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. Statement effective Oct. 16.

N. & W. Industries, Inc., Lynchburg, Va.
Oct. 30 filed 32,000 shares of 5% cumulative preferred stock (par $25) and 144,000 shares of common stock (par $1) to be offered in units of one share of preferred and 4½ shares of common stock, in multiples of two, the latter for account of selling stockholders. **Price**—To be supplied by amendment. **Underwriter**—Scott, Horner & Mason, Inc., Lynchburg, Va. **Proceeds**—For construction of new building and for working capital. **Business**—Manufacturer of overalls.

Nachman Corp., Chicago, Ill.
Oct. 25 (letter of notification) 6,000 shares of common stock (par $10). **Price**—$15 per share. **Underwriter**—Bacon, Whipple & Co., Chicago, Ill. **Proceeds**—To Mitchell, Hutchins & Co., Inc., the selling stockholder.

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.

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 Duplicator Co.**
Oct. 31 (letter of notification) 3,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds** — To operate manufacturing business. **Office**—2000 Russ Bldg., San Francisco, Calif.

Norris Stamping & Mfg. Co. (11/17)
Oct. 24 filed 190,000 shares of common stock (par $1). **Price**—$12 per share. **Underwriters**—William R. Staats Co., Los Angeles, Calif., and A. C. Allyn & Co., Inc., Chicago, Ill. **Proceeds**—To Kenneth R. Norris, President, the selling stockholder.

● **Oil Holding, Inc., Los Angeles, Calif.**
Oct. 31 (letter of notification) 794 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To pay rentals, recording fees and abstract fees. **Office** — 2722 W. 54th St., Los Angeles 43, Calif.

● **Penner Oil & Gas, Inc., Nowata, Okla.**
Oct. 31 (letter of notification) 300,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—321 So. Cherokee St., Nowata, Okla.

● **Penton Publishing Co., Cleveland, O. (11/14)**
Oct. 17 filed 80,000 shares of $1.50 convertible class A stock (par $25), to be offered to holders of presently outstanding 20,078 shares of $100 par 7% preferred stock on basis of 5½ shares of new class A stock in exchange

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for each share of 7% preferred subject to acceptance by not less than 12,000 shares of 7% preferred, nor by more than 14,545 shares. The exchange offer is expected to be made on or about Nov. 14 and will expire 10 days later. **Underwriter**—Maynard H. Murch & Co., Cleveland, Ohio. **Proceeds**—Toward redemption of 7% preferred stock and payment of accrued dividends.

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.

Rohr Aircraft Corp., Chula Vista, Calif. (11/15)
Oct. 25 filed 238,000 shares of common stock (par $1), of which 100,000 shares are for the account of the company and 138,000 for the account of selling stockholders. **Price**—To be filed by amendment. **Underwriters**—The First Boston Corp., New York, and Lester & Co., Los Angeles, Calif. **Proceeds**—To company to retire outstanding preferred stock and mortgage notes.

● **Safeway Stores, Inc. (11/13)**
Nov. 2 filed 200,765 shares of 4% cumulative preferred stock (par $100), to be offered in exchange for outstanding 182,513 shares of 5% cumulative preferred stock (par $100) on basis of 1 1/10 shares of 4% preferred, plus 30 cents in cash, for each share of 5% preferred stock, with a cash adjustment for fractions. **Price**—To be filed by amendment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—To redeem on April 1, 1951, the unexchanged 5% preferred stock. **Offer of Exchange**—Expected to be made on Nov. 13, and to expire on Nov. 27. **Offering**—Of unexchanged shares expected Nov. 29.

Seneca Oil Co., Oklahoma City, Okla.
April 27 (letter of notification) 225,782 shares of class A stock (par 50¢). **Price**—$1.25 per share. **Underwriter**—Genesee Valley Securities Co., Rochester, N. Y. **Proceeds**—To acquire properties and for working capital.

Simmel-Meservey Television Productions, Inc.
June 29 (letter of notification) 150,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—Koellmer & Gunther, Newark, N. J. **Proceeds**—To complete films in progress and for general corporate purposes. **Office**—321 So. Beverly Drive, Beverly Hills, Calif. Statement to be withdrawn.

Skiles Oil Corp., Mt. Carmel, Ill.
Oct. 27 filed 125,000 shares of 6% cumulative convertible preferred stock (par $10) and 225,000 shares of common stock (par $1), of which 125,000 common shares are to be reserved for conversion of preferred. **Price**—For preferred, at par, and for common, $7.50 per share. **Underwriter**—F. S. Moseley & Co., Chicago, Ill. **Proceeds**—To repay notes and for additional working capital.

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.

● **Southwestern Gas & Electric Co. (12/4)**
Nov. 2 filed $6,000,000 of first mortgage bonds, series D, due Dec. 1, 1980. **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.

Suburban Centers Trust, Boston, Mass.
Oct. 20 (letter of notification) $280,000 of registered senior 5% convertible notes due 1960 (in denominations of $100 each). **Price**—At 100%. **Underwriter**—None. **Proceeds**—For working capital to construct suburban shopping centers. **Office**—84 State St., Boston 9, Mass.

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. Registration statement withdrawn on Nov. 2.

Tide Water Power Co. (11/28)
Nov. 1 filed 132,000 shares of $1.35 cumulative preferred stock (par $25), convertible on or before December, 1960. **Price**—To be supplied by amendment. **Underwriter**—Union Securities Corp. and W. C. Langley & Co., New York. **Proceeds**—To redeem $4.25 preferred stock and for construction program.

● **Union Electric Co. of Missouri**
Nov. 2 filed $25,000,000 of first mortgage and collateral trust bonds, due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., Kuhn, Loeb & Co. and Harriman Ripley & Co., Inc. (jointly); The First Boston Corp.; Lehman Bros.; Dillon, Read & Co. Inc.; White, Weld & Co. and Shields & Co. (jointly). **Proceeds**—To finance construction program and pay bank loans. **Issuance**—Subject to stockholders' approval on Nov. 20.

Western Pioneer Insurance Co., Oakland, Calif.
Oct. 26 (letter of notification) 12,000 shares of non-assessable common stock (par $10). **Price**—$25 per share. **Underwriter**—None. **Proceeds**—To expand operations. **Office**—4101 Broadway, Oakland, Calif.

Weymouth Light & Power Co.
Oct. 17 (letter of notification) 16,298 shares of capital stock (par $25) offered to stockholders of record Oct. 24 on a basis of one share for each three held; rights to expire Nov. 15. 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. **Underwriter**—None. **Proceeds**—To repay bank loans and advances and for construction expenses.

Wilcox-Gay Corp., Charlotte, Mich.
Oct. 25 filed 500,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriters**—Gearhart, Kinnard & Otis, Inc., New York, N. Y., and White & Co., St. Louis, Mo. **Proceeds**—To pay obligations to all unsecured creditors.

Wisconsin Public Service Corp. (11/15)
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.); Shields & Co.; F. S. Moseley & Co. **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 $3,300,000 of bank loans and to finance construction program. **Bids**—Expected to be received up to 10:30 a.m. (CST) on Nov. 15 at the Harris Trust and Savings Bank, Chicago, Ill.

Prospective Offerings

American Investment Co. of Illinois (11/30)
Oct. 23 it was announced that company plans to file in the near future a registration statement with the SEC covering up to 100,000 additional shares of common stock (par $1), on the basis of one share for each 20 shares owned. **Price**—To be filed by amendment. **Offering**—Registration statement expected to become effective on or about Dec. 1. **Underwriters**—Kidder, Peabody & Co., Alex. Brown & Sons and Glore, Forgan & Co. handled latest private sale of debentures.

American Telephone & Telegraph Co.
Sept. 20 it was announced stockholders will vote Nov. 15 on approving a new issue of not to exceed $435,000,000 of convertible debentures (to be offered to stockholders) and an increase in authorized capital stock from 35,000,000 to 45,000,000 shares, 3,000,000 shares of the additional stock to be offered to employees of the company and its subsidiaries. Financing expected some time during the first six months of 1951. **Proceeds**—For expansion program.

Atlantic City Electric Co.
Oct. 18 company estimated that about financing to the extent of $2,000,000 will be required in connection with its construction expenditures from Sept. 1, 1950 through Dec. 31, 1951 which will amount to $6,898,000.

Avco Manufacturing Corp.
Oct. 10 it was announced stockholders will vote Nov. 14 on plan to increase the authorized common stock from 10,000,000 shares to 15,000,000 shares to provide sufficient stock to complete the acquisition of all the assets and business of Bendix Home Appliances, Inc. (83% of stock of latter is owned by Avco). Emanuel, Deetjen & Co. and Lehman Brothers acted as dealer-managers under the exchange offer.

Brewing Corp. of America
Oct. 23 it was announced that stockholders will vote Nov. 3 on the creation of $6,000,000 mortgage indebtedness, consisting of a $3,000,000 first mortgage to mature serially and a $3,000,000 second mortgage to mature on Sept. 30, 1957. Proceeds will be used to refund the outstanding $6,000,000 of existing indebtedness.

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 Hudson Gas & Electric Corp.
Oct. 25 company announced it has asked New York P. S. Commission authority to issue $12,000,000 of new 30-year first mortgage bonds, of which it plans to sell early in December at least $7,000,000 and the remainder in instalments during the following six months. Previous bond financing was done privately. **Proceeds**—For construction program.

Colonial Acceptance Corp., Chicago, Ill.
Oct. 20 it was reported that it is expected company will file a registration statement in the near future covering an issue of $1,000,000 5% notes, with a 5% participating feature, plus additional common stock. **Underwriters**—Straus & Blosser and Sills, Fairman & Harris.

Columbus & Southern Ohio Electric Co.
March 9 reported planning new equity financing before the end of the year in the form of common stock. Proceeds will finance a portion of the company's construction program, which calls for total expenditures of $45,900,000 in the years 1950-1952. **Traditional Underwriter**—Dillon, Read & Co. Inc., New York.

Commonwealth Edison Co., Chicago
Jan. 10, announced the company plans $90,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; The First Boston Corp.; Glore, Forgan & Co.

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.

● **Eastern Utilities Associates**
Oct. 30 it was announced company has filed a plan of reorganization with SEC, which, in part, provides for the formation of a new company to acquire the utility properties of Brockton Edison Co., Fall River Electric Light Co. and Montaup Electric Co. and to own securities of Blackstone Valley Gas & Electric Co. It is tentatively planned that the new company will issue and sell approximately $22,000,000 of first mortgage and collateral trust bonds and about $8,500,000 of preferred stock, and the proceeds, in part, used to redeem $16,644,000 of Brockton, Fall River and Blackstone bonds and $3,500,000 of Blackstone 4¼% preferred stock, and to retire bank loans. Probable bidders: Halsey, Stuart & Co. Inc. (for bonds only); First Boston Corp.; Lehman Brothers; Estabrook & Co. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and Harriman Ripley & Co., Inc. (jointly).

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.

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.

● **Federal Water & Gas Corp. (11/29)**
Nov. 2, J. Howard McGrath, Attorney General of the U. S., invited bids for the purchase from him of 9,000 shares of common capital stock (par $5) of the above corporation. Bids will be received at the Office of Alien Property, 120 Broadway, New York 5, N. Y., on or before 11 a.m. (EST) on Nov. 29. (At present there are 976,303 shares of this class of stock issued and outstanding.)

Gatineau Power Co.
Oct. 27, the preferred stockholders of International Hydro-Electric System asked SEC to order B. A. Brickley, trustee, to sell sufficient Gatineau common stock to pay off a $9,000,000 bank loan. Probable underwriters: Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and Harriman Ripley & Co.

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.

Great Lakes Oil & Chemical Co.
Oct. 23, it was announced that stockholders will be given the right to subscribe for additional capital stock at the rate of one share of stock for each held. **Price**—At par ($1 per share).

● **Hawaii (Territory of) (11/21)**
Nov. 6 it was announced that it is planned to issue and sell $14,000,000 of various purposes bonds, to mature serially from Dec. 1, 1953 through Dec. 1, 1970. **Underwriters**—To be determined by competitive bidding. Probable bidders, Bear, Stearns & Co.; Chase National Bank and C. J. Devine & Co. (jointly); Bankers Trust Co. and Halsey, Stuart & Co. Inc. (jointly); Smith, Barney & Co. **Bids**—To be received on Nov. 21.

● **Hearn Department Stores, Inc., N. Y. City**
Nov. 6 stockholders approved the creation of an authorized issue of 40,000 shares of 5% cumulative convertible preferred stock (par $25), which are to be offered to present stockholders in the ratio of one preferred for each seven common shares held. Unsubscribed shares will be purchased by Bankers Securities Corp. of Philadelphia. **Proceeds**—From this offering, plus a $2,000,000 term bank loan, will be used to modernize company's stores and to repay certain borrowings.

International Minerals & Chemical Corp.
Oct. 26, Louis Ware, President, announced stockholders will vote Nov. 27 on a proposed plan of new financing under which it is contemplated to sell to the public 200,470 shares of common stock. This would be followed by a 100% stock distribution. **Underwriters**—Previous financing was handled by White, Weld & Co. **Proceeds**—For expansion program and working capital.

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.

● **Kaiser Aluminum & Chemical Corp.**
Oct. 27 it was reported company plans new financing (may be placed privately). Probable underwriter: The First Boston Corp.

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.; 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).

● **Kansas Gas & Electric Co.**
Oct. 31 it was reported company is considering refunding early next year of $16,000,000 first mortgage 3⅜% bonds due 1970 (held privately by a group of insurance companies) and $5,000,000 of first mortgage 3⅛% bonds due 1978. (See also accompanying item).

● **Lytton's, Henry C. Lytton & Co.**
Oct. 25, Judge W. F. Waugh of the Probate Court at Chicago, Ill., ordered the First National Bank of Chicago, as Executor of the Estate of Henry C. Lytton, to sell 83,000 shares of common stock in the company to satisfy claims against the estate. Registration statement may be filed with SEC.

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 The First Boston Corp.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co.

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.

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 Central Natural Gas Co., Macon, Mo.**
Nov. 1 company asked FPC authority to build approximately 60 miles of pipeline in Missouri at an estimated cost of $1,200,000. The project would be financed from the proposed issuance of $1,000,000 of first mortgage bonds and 2,000 shares of $100 par 5% preferred stock.

Missouri-Kansas-Texas RR. (11/29)
Oct. 16 it was reported company is planning of 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.

Monongahela Power Co.
Oct. 20 it was announced that financing plans would be announced later in connection with the construction of a new electric generating station of 150,000 kilowatts capacity at a cost of approximately $20,000,000. It was later reported that between $10,000,000 and $12,500,000 bonds may be sold next March. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp.; Salomon Bros. & Hutzler; Lehman Brothers; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co. Probable bidders for preferred stock: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Lehman Brothers; W. C. Langley & Co.; Harriman Ripley & Co., Inc.

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. Traditional underwriters are Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane. Stockholders on Nov. 27 will vote on increasing authorized preferred stock from 100,000 to 150,000 shares and common stock from 1,500,000 to 2,500,000 shares.

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.

National Video Corp., Chicago, Ill.
Oct. 23 it was reported this company contemplates the offering of additional capital stock, the proceeds of which are to be used to finance, in part, the cost of erection of a new $1,200,000 building and an additional $1,000,000 for new equipment. Most of the funds necessary for this expansion are expected to come from earnings.

● **New England Electric System**
Oct. 30 SEC authorized 12 subsidiaries of this System to increase their bank borrowings in the aggregate amount of $14,455,000 through the issuance of bank notes from time to time prior to the end of 1950. These 12 companies now have outstanding a total of $22,510,000 of bank notes; and prior to Dec. 31, 1950, certain of the companies contemplate the retirement of part or all of the notes with proceeds from permanent financing. (See accompanying items on New England Power Co. and Worcester County Electric Co.) Construction expenditures of all NEES subsidiaries are estimated at $12,340,000 for the last quarter of 1950, $34,912,000 in the year 1951 and $25,524,000 in the year 1952. Sept. 30 bank debts aggregated $26,340,000. It is anticipated that about $25,000,000 of the needed funds will be derived from internal sources, leaving about $75,000,000 to be obtained either from the sale of assets or security issues of NEES or its subsidiaries of which the major portion will be obtained from the sale of senior securities of subsidiaries to the public. NEES also intends to dispose of its investment in gas and transportation properties and the proceeds of such sales should be substantial although the timing for the receipts arising from such disposition cannot be definitely stated at this time even though negotiations for some of such sales are actually under way.

NEES intends to maintain a reasonable equity base for the required senior financing and if it then appears that the sales of gas and transportation properties are to be materially delayed, NEES proposes to maintain such equity base through the issue and sale of additional common shares (probably first to stockholders) as soon as practicable and feasible provided market conditions are favorable. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc. and Lehman Brothers (jointly); Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co. Inc. and Goldman, Sachs & Co. (jointly).

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.

● **New York Central RR. (11/9)**
Bids will be received until noon (EST) on Nov. 9 at the company's office, 466 Lexington Ave., New York, N. Y., for the purchase of $4,800,000 of equipment trust certificates, third equipment trust of 1950, dated Nov. 15, 1950 and due $320,000 each Nov. 15 from 1951 to 1965, inclusive. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

Niagara Gas Transmission Ltd. (Canada)
Oct. 20, it was announced that this company, a subsidiary of Consumers' Gas Co., plans to build a pipe line in Canada to export from Tennessee Gas Transmission Co. Texas natural gas by way of the Niagara border. The total cost of the project is estimated at $6,000,000, of which $2,000,000 will be represented by 400,000 shares of capital stock, par $5, and $4,000,000 to be raised by the issue of bonds.

Niagara Mohawk Power Corp.
Oct. 24 the company estimated that, through 1951, it will require not more than $35,000,000 of additional debt or equity financing in connection with its 1951 construction which is expected to cost $52,328,000. This amount is in addition to the sale on Oct. 31 of $40,000,000 general mortgage bonds due Oct. 1, 1980. Probable bidders for new bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp.

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 on Dec. 4 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.

Pacific Northwest Pipeline Corp.
June 30 company sought FPC authority to build a 2,175 mile pipeline system—from southern Texas to Washington—at a cost of $174,186,602. Negotiations for major financing requirements are now in process of being completed. Probable underwriters: White, Weld & Co. and Kidder, Peabody & Co. R. R. Herring, President, on Oct. 12 stated permission to build the line is expected within six months.

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.

Pennsylvania Power & Light Co.
Oct. 26 Chas. E. Oakes, President, stated the company will require about $24,000,000 of new capital over the next three years through the sale of securities, with $15,000,000 to be raised in the next 15 months. It is reported that not over 75,000 shares of series preferred stock may be sold late this year or early 1951. **Traditional Underwriters**—The First Boston Corp. and Drexel & Co. **Proceeds**—To finance, in part, the company's construction program.

● **Pennsylvania Power & Light Co.**
Nov. 7 company announced plans for the offering to its common stockholders of additional common stock on the basis of one share for each seven shares held on or about Nov. 30; rights are expected to expire about Dec. 15. The subscription price and other terms will be disclosed about the time of the offering. **Underwriters**—Drexel & Co., The First Boston Corp., and associates. **Proceeds**—For 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 between $10,000,000 and $12,000,000. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and The First Boston Corp. (jointly); Kidder, Peabody & Co.; Glore, Forgan & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. Probable bidders for preferred stock: Harriman Ripley & Co. Inc., Blyth & Co., Inc. and Lehman Brothers (jointly); W. C. Langley & Co. **Offering**—Expected in April or May, 1951.

● **Public Service Co. of Colorado**
Nov. 1, J. E. Loiseau, President, announced that "it will be necessary to raise additional funds for construction purposes in the second quarter of 1951. The amount needed is estimated at about $7,000,000."

● **Public Service Co. of Indiana, Inc.**
Oct. 31, company estimated that, in addition to the $40,000,000 bank credit arranged with eight banks, it may be required, during the period prior to Dec. 31, 1953, to obtain additional funds of approximately $40,000,000 in order to take care of its construction program.

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.

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.

Southeastern Michigan Gas Co., Chicago, Ill.
June 12 it was announced company plans issuance and sale of first mortgage bonds, debentures, preferred stock and common stock in connection with its proposed new pipe line in Michigan to cost approximately $1,400,000. Application is before FPC.

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.
Nov. 1, Chirstopher T. Chenery, Chairman, announced company will soon file with SEC a financing program which is expected to comprise $17,500,000 of 20-year first mortgage pipeline bonds and 155,546 shares of additional common stock (latter to be offered for subscription by stockholders in ratio of one share for each 10 shares held). **Price**—For stock to be announced later. **Underwriters**—For bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Proceeds**—To repay a $20,000,000 2% bank loan due July 1, 1951, and the balance (ex-

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pected to exceed $1,500,000) to provide some additional working capital. **Bids**—Tentatively scheduled for bonds in first week of January.

Southern Production Co., Inc. (11/20)
Oct. 26 the Attorney General of the U. S. invited bids for the purchase from him of a block of 7,020 shares of common stock. These shares represent approximately ½ of 1% of the 1,049,212 shares of stock issued and outstanding. **Bids**—Must be presented at the Office of Alien Property, 120 Broadway, New York 5, N. Y., on or before 11 a.m. (EST) on Nov. 20.

Southern Union Gas Co.
Oct. 20 it was reported company plans to raise between $7,000,000 and $8,000,000 through the sale of new securities next Spring. **Underwriter** — Blair, Rollins & Co., Inc., handled the financing early this year of $18,000,000 of first mortgage 2⅞% bonds and $3,000,000 of 4¾% preferred stock (par $100). **Proceeds**—To repay $3,000,000 of bank loans and for construction expenditures.

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 on Nov. 3 authorized 600,000 shares of preferred stock (par $100) and increased the common stock from 6,000,000 to 7,500,000 shares.

Texas Illinois Natural Gas Pipeline Co.
Sept. 15 company applied to the FPC for authority to construct approximately 72 miles of new line in Texas at an estimated cost of $11,581,800. It is planned to issue first mortgage bonds for 75% of the required capital and to raise the remaining 25% through the sale of common stock. Probable underwriters—White, Weld & Co and Glore, Forgan & Co.

Toledo Edison Co.
May 9 it was announced that the company plans to issue and sell $7,500,000 additional first mortgage bonds in December, 1950, and probably additional common stock sometime during 1951, the proceeds to be used to complete expansion program. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co.; Kidder, Peabody & Co., White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); First Boston Corp. and Glore, Forgan & Co. (jointly); Lehman Brothers, Harriman Ripley & Co., Inc., Bear, Stearns & Co. and Carl M. Loeb, Rhoades & Co. (jointly); Smith, Barney & Co.; Union Securities Corp.

United Gas Corp.
Oct. 6 it was reported company will probably sell between $100,000,000 and $125,000,000 of new bonds before end of this year, the proceeds to be used to finance construction of 1,130 miles of pipe line, which, it is estimated will cost approximately $115,000,000.

United Gas Pipe Line Co.
July 25 filed with FPC for authority to build 1,130 miles of new lines in Texas, Louisiana and Mississippi at a cost of about $110,000,000, including new facilities. It is probable that the bulk of this new capital will be raised through the public sale of new securities.

United States Pipe Line Co. (Del.)
Sept. 25, it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." The initial financing has been arranged for privately, with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation.

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).

Valley Gas Pipe Line Co., Inc., Houston, Tex.
June 27 company sought FPC authorization to construct a $144,500,000 pipeline project to carry natural gas from the Gulf Coast and off-shore fields in Louisiana and Texas to markets in Indiana, Ohio and Michigan. Company is now in process of completing negotiations for its major financing requirements.

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.
Oct. 30 company received SEC authority to increase bank borrowings from $4,500,000 to $7,150,000 in order to meet its construction requirements pending permanent financing. In September, the Washington P. U. Commission denied an application to borrow $3,850,000 additional to retire 35,000 shares of $6 cumulative preferred stock of no par value. Probable bidders: (1) For stock or bonds: Blyth & Co., Inc.; Smith, Barney & Co. and White, Weld & Co. (jointly); W. C. Langley & Co. and The First Boston Corp. (jointly); (2) For bonds only: Halsey, Stuart & Co. Inc.

Western Pacific RR. (11/15)
Sept. 5 it was announced company plans issuance and sale of $22,000,000 3% first and refunding mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co. Inc.; Lehman Bros. 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 $5,800,000 "new money." Expected about middle of November.

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.

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Stop Dollar Goose Stepping To Stalin's Tune

not as important as the control of the way it is used—witness the control of the price of our long-term Governments bonds.

Revision of Tax Laws

The amendment to our new tax law should be designed to help control the use of the supply of money. The way we have formulated tax laws for the past 15 years is like getting the last bit of toothpaste out of a tube. You unroll it, look closely, gouge it—roll it up again and then a final squeeze. Apropos of the plan recently suggested that we raise the flat normal and surtax on corporations another notch and call it a defense tax is merely getting in step with another socialistic tune. If it were true that all the members of our labor organizations, all our farmers, all the members of our professions and services were common stockholders, then good and well—they all would be paying part of the additional cost. But there are only five or six million common stockholders paying, versus 150 million people benefiting. It would not be fair for them to pay all this additional tax. Federal income taxes, both corporate and individual, are economically sound up to a certain point. Above this point they create a paradoxical picture by aiding and abetting inflationary forces (or rather higher prices) defeating the very purpose for which control of prices is adopted.

At the present time our tax system must be supplemented by obligating each individual, a new something causing each individual to feel he is helping pay the cost of war or peace. Something that will command the respect of not only every citizen of this country but the respect and attention of those who would overthrow the value of the dollar, the capitalistic system, and in its wake, our form of government.

We have gone through these crises before; war, peace and politics. The gezippe in our picture is that after whatever crises we pass through, the controls of the prices of goods and services and the controls of the use of the supply of money are laxed. We do not adopt means for correcting the damage done.

In the fall of 1944 we were troubled with the solution of similar problems — inflation, the national debt, and post war full employment. What has been done?

At that time the writer suggested a program which was published in the "Chronicle" of Oct. 19, 1944. The recommendations made then are equally valid today and for this reason, it is appropriate to repeat them further below.

It will be said that any plan similar to this is neither politically feasible nor practical — take politics out of taxes and price controls.

A Plan for Treating the National Debt*

Legislation by Congress for treatment of our National Debt at the end of war as a part of our postwar tax program is absolutely necessary. If treated in the same manner which all national governments have always treated sky-rocketing national debts resulting from costs of wars—and that has been haphazard reductions when and if the annual receipts exceed annual expenditures—we are apt to lapse into the age-old practice of repudiating or inflating the debts out of existence. On the other hand, if legislation is designed, forcing our government to put into practice the same orthodox methods of accounting procedure and business administration as practiced by our large corporations, inflation in most of its varied forms can be prevented.

*Originally published in the "Chronicle" of Oct. 19, 1944.

What move would likely be made by one of our large corporations, which, as a result of prolonged expansion in business, found itself with a $300,000,000 debt but after a let-down in activity, resulting in a wash-out of its current assets and current liabilities, found its cash position too large for its annual turnover of business? Part of the cash would be used for reducing the debt. What would it do if its annual turnover of business was large enough to allow the creation of additional earned surplus every year after reasonable dividends? It would use part of the surplus to reduce its debt, either by annual serial payments, or establish a sinking fund for the same purpose.

How can our government do this —what formula can be used to determine the cost of the war and how much of the war debt should be paid? Here is the formula—figures estimated:

National debt at the end of hostilities	$300 billion
Debt at the beginning of the war	40 "
Individual savings resulting from government deficit spending	130 "
Corporate savings	25 "
Reduction of individual, corporate and municipal debt	15 "
Approximate liquidating value of government war-owned properties	50 "
Allowance for savings in normal peace times for duration of the war	10 "
†Lost property values	30 "

†Represents war property destroyed on the ground, blown up in the air, or sunk to the bottom of the ocean.

Equation

Cost of war=300 billion minus the sum of (debt at the start of the war, plus liquidating value of government war-owned property, plus normal peacetime increase in savings for duration of war or the sum of individual savings, plus corporate savings, plus individual, corporate and municipal reduction in debt, plus lost property values. Cost war equals 300 billion, minus sum of (40 billion plus 50 billion plus 10 billion)=200 billion or the sum of 130 billion plus 25 billion plus 15 billion, plus 30 billion=200 billion.

How much of this war cost should be paid and by whom? Let's say 75% or 150 billion, and pass on 50 billion to unborn posterity. The living, while maybe not deserving, should receive some credit for planning for those yet unborn — on the theory that the four freedoms are worth as much to one person as another.

We divide the 150 billion by the number of living persons in the United States and its possessions (rules to be drawn up for exclusion of the incapable, the destitute and the military) and arrive at approximately $1,200 owed by each individual. Each person shall give to our government his 20-year non-interest-bearing installment note, payable $60 annually.

Congress shall create a war debt liquidating corporation; on the debit side will be the $150 billion debt. On the credit side $150 billion of non-interest-bearing installment notes — expenses of the corporation and service on the debt will be accounted for in the Treasury's annual budget. To alleviate the burden on younger generations the first instalment will be due on the first of the calendar year following the 24th birthday. Anyone has the option to pay all his notes at any time.

Donations made to the war debt liquidating corporation through testament or gift shall be free from inheritance, Federal estate and gift taxes. This will appeal to the philanthrophy of those more able to pay and bring in enough additional to take care of delinquents. Moneys collected shall be used to purchase government bonds in the market up to par, to take them up at maturity or to call them on their call dates. Moneys received by the War Surplus Property Liquidating Board shall go to the U. S. Treasury and be used for the same purpose.

Adoption of a plan like this will not only result in liquidation of a large part of our national war debt but will nip in the bud any form of threatening inflation. The forces of inflation thrive on a public psychology which seeks something for nothing and just as truly the forces of thrift, courage and endeavor thrive on the knowledge that a person must pay for whatever he gets. And not the least important public reaction to be gained by adopting such a plan is the continuously living consciousness that the cost of war is very dear.

Kidder, Peabody Appoint

Kidder, Peabody & Co., members of the New York Stock and Curb Exchanges, announce the appointment of Charles A. Adams, Pierre Filiatrault and Frederick P. Kimbley as registered representatives in the firm's uptown office, 10 East 45th Street, New York City.

With Donald C. Sloan Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Ore. — Frank B. Smith, Jr., has become affiliated with Donald C. Sloan & Co., Cascade Building.

With H. L. Emerson & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Mark D. Sanborn has joined the staff of H. L. Emerson & Co., Inc., Union Commerce Building, members of the Midwest Stock Exchange.

Continued from first page

Foreign Trade Council Issues Recommendations

the interchange of goods and services among nations, can the peoples of the free world realize their full productive potential.

(2) The Vital Importance of International Trade — The basis of all trade is the mutual advantage obtained from the interchange of needed or desired goods and services. The basis of international trade is the realization of this mutual advantage by the interchange of such goods and services among nations. In this time of crisis, the interchange of an increasing volume of goods and services among nations is essential, not only to the maintenance of civilian living standards, but also to the stimulation and development of the military production the situation demands.

Without ready access to the raw materials and manufactured goods required for both civilian and military needs, the necessary expansion of economic activity cannot be achieved. Without ready availability of markets for the goods which each nation makes available for sale, the imports needed to sustain its internal economy, and to provide the basis for increased production, cannot be acquired on a sound and economic basis. In common with the rest of the free world, the United States is vitally dependent upon the production of other nations for the maintenance of its living standards, and for a continuing supply of the critical materials needed to sustain and increase its own productivity.

Never has the importance of international trade been greater than it is today, for upon its expansion depends not only the well-being of the free nations of the world, but their very hope for survival.

(3) Foreign Economic Assistance —The Convention joins with previous Conventions in recognizing the mutual benefits that can be derived from the efforts of our Government to stimulate the productivity of the other free nations; and it believes that the need for greater productivity, in the more highly industrialized countries as well as in the less developed areas of the world, is now greater and more compelling than ever before.

United States Government assistance has played a vital part in fostering economic recovery abroad. The Convention holds, however, that the basic needs of the nations of Western Europe for industrial rehabilitation and economic recovery have been substantially met. Further industrial expansion in these countries should be carried forward mainly by private enterprise, and United States Government assistance, henceforth, should be concentrated on the stimulation of military production, to the extent that such assistance is demonstrated to be necessary. Similarly, the Convention holds that the underdeveloped areas should place their primary reliance on private enterprise for the provision of needed industrial capital and techniques. Both in Western Europe and in the less industrialized areas, the United States Government can contribute most effectively to advancement in the industrial field by promoting, through every means at its disposal, the creation of economic environments conducive to the formation and flow of private capital, with its accompanying management and techniques.

The Convention recognizes that there are broad areas — such as public health, sanitation, education, and development of improved agricultural methods—in which the provision of assistance may properly be the subject of direct dealings between the United States Government and other governments. The Convention believes that any funds provided by our Government for such purposes should be allocated for clearly-defined projects, within specified financial limits and subject to adequate controls to assure that the funds will be used for the stated purposes. The Convention likewise believes it to be of the highest importance that these principles should also govern when an international organization or agency is the instrument for execution of a project. It emphasizes, however, that the establishment of an environment conducive to private enterprise development will increase the effectiveness of any program for social betterment that may be undertaken by government.

The Convention is opposed to the provision by the United States Government of any foreign economic assistance which is motivated by the urge to stimulate exports solely for the sake of maintaining production, profits or employment in the United States.

Our partner nations are in real need of assistance in building up their defenses against Communist aggression; but even in this field the main burden is theirs, and our aid should only be designed to supplement their efforts in their own behalf.

(4) Encouragement of Private Investment Abroad — Defense requirements, and the continuing improvement in the living standards of the free world, have imposed increasing demands on its resources and productivity, thus creating an urgent need for new capital investment. Not only must there be encouragement of savings and more effective mobolization of private capital to finance the required expansion of productive facilities in the industrially-advanced countries, but additional capital must be provided to stimulate the productivity of vast areas of the free world still in the earlier stages of economic development. This underlines the necessity for establishing and maintaining, within each country, political and economic conditions which will be conducive to capital formation and productive investment, and which will contribute to the creation of an international environment that will encourage the flow of private capital to countries that have need of it and can put it to constructive use.

The development of the world's economically-retarded areas requires a high degree of international cooperation. American capital cannot undertake the entire burden. In most countries seeking economic development, there are substantial accumulations of private capital, and it is the responsibility of these countries to make the maximum use of their local capital resources, as well as to create conditions that will serve to attract additional investment from abroad.

The promotion of industrial development throughout the free world is, and should continue to be, primarily the responsibility of private enterprise. American industry, with its financial resources, industrial techniques, and administrative experience, is best equipped to make the foreign investments desired. American investors, however, must have the complete cooperation of their own government, as well as that of the governments of the recipient countries, if they are to make their contribution an effective one.

On its part, the United States Government should make it clear that it will not provide funds for economic development projects abroad which, under proper conditions, could be financed by private capital. Our Government should also intensify its efforts to ensure that these proper conditions are brought into being. The negotiation of Treaties of Friendship, Commerce and Economic Development, under which American capital invested abroad would be protected and assured of fair and non-discriminatory treatment, and the conclusion of tax treaties, can be important means to this end. However, it remains for the governments and the peoples of the countries seeking economic advancement to demonstrate, by the treatment they accord foreign capital, that additional investments are really desired.

Joins Fusz-Schmelzle

(Special to The Financial Chronicle)

ST. LOUIS, Mo.—Floyd W. Badgely has been added to the staff of Fusz-Schmelzle & Co., Boatmen's Bank Building, members of the Midwest Stock Exchange.

SITUATION WANTED

Wholesaler & Dealer Contact Representative Available

Knows dealers throughout the United States and Canada. Willing and able to travel. Will relocate if necessary. Box P 1026, Commercial and Financial Chronicle, 25 Park Place, New York 7, N. Y.

FINANCIAL NOTICE

NOTICE OF CONDITIONAL OFFER TO HOLDERS OF OUTSTANDING SECURITIES OF A. P. W. PRODUCTS COMPANY, INC.

(Formerly Albany Perforated Wrapping Paper Company)

Notice is hereby given that under an Agreement dated October 31, 1950 executed by Publishers Financial Bureau, Inc., (herein called the Seller), representing Roger W. Babson and associates, and Isidor Baum (herein called the Buyer), a counterpart of which is on file with the undersigned designated therein as the Escrowee, (which Agreement is available for inspection at the office of the undersigned), a conditional offer is made, and is conditionally accepted for the purchase and sale at the prices hereinafter stated for presently outstanding securities of A. P. W. Products Company, Inc. on the terms and conditions generally herein set forth:

First Mortgage and Collateral Trust Twenty Year 5% Sinking Fund Bonds due April 1, 1966 (herein called the Bonds) at 90% of their face value with interest accrued through November 30, 1950,

Twenty-five Year 6% Convertible Notes due July 1, 1955 (herein called the Notes) at 60% of their face value, without interest, and

Common Stock (herein called the Stock) at $6 per share.

On the part of the Seller the condition is that holders of all securities outstanding on October 31, 1950 be accorded the right to include their securities in the sale on the same terms.

On the part of the Buyer the condition is that not less than $600,000 face amount of the Bonds, $200,000 face amount of the Notes and 80,000 shares of the Stock be deposited with the undersigned for sale under the Agreement not later than December 1, 1950.

First Mortgage Bondholders and other Security holders owning Stock Purchase Warrants (expiring April 1, 1955) are expected to surrender and deliver said Warrants with their other securities without additional consideration.

All holders of securities desiring to include their securities in the sale should promptly deposit them with the undersigned to whom application may be made for Letter of Transmittal.

A receipt will be issued entitling the holder to receive the net proceeds of sale of the securities represented thereby OR the return of the securities if the conditions of the Agreement are not fulfilled.

MANUFACTURERS TRUST COMPANY.
Escrowee
Corporate Trust Department
45 Beaver Street
New York 15, N. Y.

November 1, 1950

DIVIDEND NOTICES

CANCO AMERICAN CAN COMPANY

COMMON STOCK

On October 31, 1950 a special dividend of two dollars per share was declared on the Common Stock of this Company, payable December 15, 1950 to Stockholders of record at the close of business November 22, 1950. Transfer books will remain open. Checks will be mailed.

EDMUND HOFFMAN, Secretary

BEAUNIT MILLS, *Inc.*

A regular quarterly dividend of 37½c per share on the $1.50 Cumulative Preferred Stock has been declared payable December 1, 1950 to stockholders of record November 15, 1950.

A quarterly dividend of 50c per share on the Common Stock has been declared payable December 1, 1950 to stockholders of record November 15, 1950.

N. H. POLONSKY, *Secretary*

THE DAYTON POWER AND LIGHT COMPANY

DAYTON, OHIO

18th Consecutive Quarterly Dividend

The Board of Directors has declared a regular quarterly dividend of 50c per share on the Common Stock of the Company, payable on December 1, 1950 to stockholders of record at the close of business on November 15, 1950.

GEORGE SELLERS, Secretary

November 3, 1950

DIVIDEND NOTICES

LION OIL COMPANY

A regular quarterly dividend of 50¢ per share has been declared on the Capital Stock of this Company, payable December 15, 1950, to stockholders of record November 30, 1950. The stock transfer books will remain open.

E. W. ATKINSON, *Treasurer*

November 7, 1950.

The New York Central Railroad Co.

New York, November 8, 1950

A dividend of One Dollar ($1.00) per share on the capital stock of this Company has been declared payable December 27, 1950, at the Office of the Treasurer, 466 Lexington Avenue, New York 17, N. Y., to stockholders of record at the close of business November 24, 1950.

G. H. HOWE, Treasurer.

DIVIDEND NO. 44

Hudson Bay Mining and Smelting Co., Limited

A Dividend of one dollar ($1.00) (Canadian) per share and an extra Dividend of one dollar ($1.00) (Canadian) per share has been declared on the Capital Stock of this Company, both payable December 18, 1950, to shareholders of record at the close of business on November 17, 1950.

H. E. DODGE, *Treasurer.*

Imperial Oil Limited

Imperial Oil Building, Toronto 1, Ontario.

NOTICE TO SHAREHOLDERS AND HOLDERS OF SHARE WARRANTS

A dividend of 30c per share, payable in Canadian funds, has been declared on the outstanding shares of the Company, payable December 1st, 1950. Registered shareholders of record November 16th, 1950, will receive dividends by cheque. Dividends in respect of share warrants will be paid on or after December 1st, 1950, by The Royal Bank of Canada on presentation of coupon number 75.

Transfer books will be closed from November 17th to November 30th inclusive, 1950. Dividends payable to non-residents may be converted into foreign currencies at the rate prevailing on date of presentation.

BY ORDER OF THE BOARD

COLIN D. CRICHTON, General Secretary.

November 2, 1950.

ALLIS-CHALMERS MFG. CO.

COMMON DIVIDEND NO. 106

A regular quarterly dividend of seventy-five cents (75¢) per share, plus an extra dividend of one dollar ($1.00) per share, or a total of one dollar and seventy-five cents ($1.75) per share, on the issued and outstanding common stock, without par value, of this Company has been declared, payable December 22, 1950, to stockholders of record at the close of business December 1, 1950.

PREFERRED DIVIDEND NO. 17

A quarterly dividend of eighty-one and one-quarter cents (81¼¢) per share on the 3¼% Cumulative Convertible Preferred Stock, $100 par value, of this Company has been declared, payable December 5, 1950, to stockholders of record at the close of business November 20, 1950.

Transfer books will not be closed.

Checks will be mailed.

W. E. HAWKINSON,
Secretary and Treasurer.

November 3, 1950.

DIVIDEND NOTICES

St. Louis, Rocky Mountain & Pacific Co.

Raton, New Mexico, October 25, 1950.

COMMON STOCK DIVIDEND NO. 104

The above Company has declared a dividend of 75 cents per share on the Common Stock of the Company to stockholders of record at the close of business November 15, 1950, payable December 1, 1950. Transfer books will not be closed.

P. L. BONNYMAN, Treasurer.

PEPPERELL MANUFACTURING COMPANY

Boston, October 27, 1950

A regular quarterly dividend of Seventy-five Cents (75¢) and an extra dividend of Fifty Cents (50¢) per share have been declared payable November 15, 1950, to stockholders of record at the close of business November 8, 1950.

Checks will be mailed by the Old Colony Trust Company of Boston, Dividend Disbursing Agents.

Paul E. Crocker, *Secretary*

160 State Street, Boston, Mass.

PACIFIC FINANCE CORPORATION *of California*

DIVIDEND NOTICE

On October 25, 1950, the Board of Directors declared a regular quarterly dividend of 40 cents per share on the Common Stock ($10 par value), payable December 1, 1950 to stockholders of record November 10, 1950.

B. C. REYNOLDS
Secretary

Hooker Electrochemical Company

$4.25 Cumulative Preferred Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 31, 1950 declared a quarterly dividend of $1.0625 per share on its $4.25 Cumulative Preferred Stock, payable December 28, 1950 to stockholders of record as of the close of business December 1, 1950.

Cumulative Second Preferred Stock, Series A, Dividend

The Board of Directors of Hooker Electrochemical Company on October 31, 1950 declared a quarterly dividend of $1.125 per share on its Cumulative Second Preferred Stock, Series A, ($4.50 dividend), payable December 28, 1950 to stockholders of record as of the close of business December 1, 1950.

Common Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 31, 1950 declared a quarterly dividend of Forty Cents ($.40) per share on its Common Stock, payable November 28, 1950 to stockholders of record as of the close of business November 13, 1950.

Extra Common Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 31, 1950 declared an extra dividend of Fifty Cents ($.50) per share on its Common Stock, payable November 28, 1950 to stockholders of record as of the close of business November 13, 1950.

ANSLEY WILCOX 2nd,
Secretary.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — Unless the Chinese Reds change their minds suddenly and decide to go back to Manchuria, their entrance into the Korean War is likely to have vast repercussions on the course of legislation and business regulation, effects rivaling if not considerably exceeding the consequences of the Congressional elections.

There is no doubt that the Chinese commies are fighting. Several days before the election two different battalions of their forces were definitely spotted in Korea. Nevertheless, the Administration seemed to react most slowly to this development at first, seeming not to acknowledge it.

For this there are at least two reasons. For one thing, the Administration was reluctant to have its sweet dream of peace disturbed. Until this new intelligence permeated, there was reason to believe that the Administration had actually convinced themselves that the Kremlin was going to limit its military efforts to some scale decidedly less than the recent Korean fighting.

The more cogent reason, however, is political. It is very fresh in the public mind that up until the first Americans began to be killed by Chinese Communist forces, that the Administration was turning the other buttocks to the Chinese commies to be kicked. General MacArthur's assertion that the U. S. must maintain a military position on Formosa was rebuked. The whole country was told that the reason the U. S. could not send forces to assist in Indo China was that this would be construed as U. S. "imperialism."

In the light of this situation it is understood why the Administration did not even send promptly its customary note of complaint at the first evidence that the Chinese commies were in the war. To do so would have acknowledged in time for the election that the tender solicitousness of the State Department toward the Chinese branch of the Kremlin brought nothing but total failure. Undoubtedly it would have had an effect on the election.

Once there is acknowledgment by the White House of a new war, then the path of excess profits tax, income tax, and other war-related legislation becomes smoother and quicker. The regulatory officials can shove ahead with less solicitude for public sentiment against all-out controls, for public sentiment can well favor them.

Many military observers here have firmly insisted privately that Russia would never let U. S. forces near the Manchurian border, for Manchuria, because of its immense resources, is the funnel through which all Russian power in China moves. With U. S. troops athwart the Manchuria border, the entire Russian dominance of Asia would be in potential jeopardy. They think that if limited Chinese Communist forces cannot shove the U. S. away from the Manchurian border, a broader Chinese effort will be involved. If that is not enough, perhaps Russia herself will join in. The Chinese Communist reaction, it is asserted, was only delayed because of the brilliant strategy of the U. S. military leaders in pulling the Inchon invasion, which beat up the Red Korean forces before their reinforcements could be organized.

* * *

Strenuous efforts were made to get Rep. Robert L. Doughton to change his letter of instruction to witnesses on the pending excess profits tax idea before the letter went out. Chairman Doughton told witnesses that they could come to the Ways and Means committee hearings starting Nov. 15 and tell what kind of an EPT should be enacted. This inferentially ruled out arbitrarily any testimony against EPT.

* * *

The politics of official Republican endorsement by Chairman Gabrielson and others of Senators Charles W. Tobey of New Hampshire and Wayne Morse of Oregon were nothing more or less than this: When it comes to organizing the Senate all that counts is 49 Senators with a Republican label, regardless of the fact that some of these Republicans in their votes are a greater comfort to the White House than say about half the Senators who are called Democrats. The one thing an irregular Republican in either House does, however else he may vote on legislation, is to vote for Republicans for chairmanship of committees, and vice versa for an irregular Democrat. On that question alone, party lines are all but invariably strict.

* * *

Except for the lumber industry, which has to face the regulatory music, there is something of a comic situation with respect to the inventory order, which included lumber.

With the advent of Regulation X restricting mortgage credit, there were large cancellations of lumber orders. Retailers attempted to cancel on wholesalers, and wholesalers on mills. The latter, however, usually have firm contracts. So now the National Production Authority is trying to interpret who can legally cancel against whom, and after that, perhaps, what are "excessive" inventories in relation to the present situation.

Why not just strike lumber from the list of commodities subject to inventory control? Oh, no, that couldn't be done, says NPA. What if lumber should again become tight some time? This puzzles the industry, which can't seem to figure out how somebody could suddenly learn magically how to hoard such a costly, fire-dangerous, and bulky commodity as lumber.

* * *

NPA, it is a reasonable bet, may be expected in the near future to expand considerably its list of commodities, now 32, subject to inventory controls.

* * *

Unless the Chinese entrance into the war changes things, the outlook for at least six months is thought by the industry to be good not only for total civilian gasoline supplies, but for the maintenance of their quality. How much longer than six months this will apply, depends upon such uncertainties as whether the war expands the demands for Aviation gasoline.

Production of "Avgas" set by the military would be 150,000 barrels per day, versus 600,000 barrels at the height of the last war. There is some temporary dislocation due to the new use in most recent years of "synthetic" alkylates to bring up the quality of gas, and their mal-distribution. However, the industry is rapidly coming along with "Avgas" production, and without the necessity, it is said, for an order reducing the octane content of civilian gas.

* * *

For the last several weeks the boost in required member bank reserves has been reported in responsible quarters as "imminent." It is difficult to find a convincing explanation for the delay in ordering these.

The Administration's program for production expansion does not envisage the idea of raising reserve requirements. This would impose a "horizontal" restriction upon commercial bank lending, and tend to discourage the objective of overall expansion with the Administration is pushing with a view to lessening the impact of a long war preparation program upon civilian requirements.

* * *

It is reported that W. Stuart Symington, National Security Resources Board chairman and coordinator of the controls program, will maintain as tight a control over direct RFC loans for war and war-supporting plant expansion as he does over accelerated amortization.

Under accelerated amortization all applications for this tax privilege must make their prayers to the NSRB chairman. The latter asks for the advice of the appropriate agencies. He may or may not be bound by these recommendations.

Congress made available $600,000,000 for immediate use in direct loans. It is understood that these projects individually must be approved by Symington, regardless of whether they are sought by one of the service branches, NPA, Defense Transportation Administration, and so on.

* * *

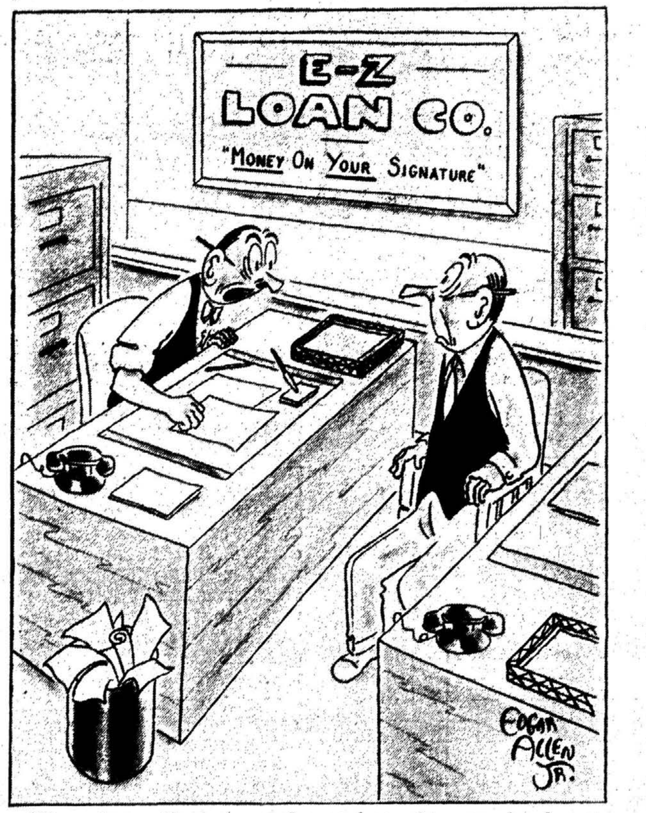
In circles which cannot be identified, it is reported that the worst impact of the tougher instalment credit regulations is likely to be on these motor producers who are a little above the $2,500 price range, and without cheaper lines to which they can shift production emphasis. The very high priced cars probably will not be hit, for they are usually sold for cash. Those producers with a combination of medium and low priced cars may be expected to boost the output of the lower cost models, cut down on those between $2,000 and $2,500 or over.

There is some expectation here that after the buyers who cannot buy on the tougher terms have been washed out, that other buyers who can will come into the market, especially in view of the availability of cars.

There are well-founded reports that NPA is thinking of letting the motor industry produce 5.1 million cars in 1951, the same volume as 1949, under a limitation order which might come out in a few weeks, perhaps not for two or three months. All this intelligence discloses is present intention, and present intentions of the control authorities are somewhat perishable.

(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



"Say, Joe—Know any place where I can get a loan of five 'till payday?"

Continued from page 6

Excess Profits Tax Termed Impractical

can look forward to high returns later on, commensurate with the risk, if the ventures pan out successfully. No one is going to put capital in such ventures, with all the danger of total loss, if all he can hope for is that the enterprise might earn a mere 5%, or even 8% on its capital—and this before taxes at that! It is the hope of doubling and trebling one's money that makes such venturing worth while.

"In short, to the question, what is a fair return on capital?, there can be no precise answer.

A Bad Tax

"All this only goes to show the more strongly why the excess profit tax, with its arbitrary standards of "fair return" and other defects, is a bad tax.

"Unless the industries of this country are permitted to earn a rate of return that will foster incentive and attract capital, growth will be stultified and the 'mature economy' we used to hear so much about in the '30s will be here with a vengeance. For a brief emergency period, the evils of this tax may be supportable. But in a long drawn-out rearmament program of the magnitude and duration that we seem to be facing, the cumulative effects could be extremely serious. Not only the future of the private enterprise system, but the security of the country itself, depends on our maintaining the vigorous dynamic growth which has been responsible for our high standard of living and which played so decisive a role in winning the war."

With Ball, Burge

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — William & Ballentyne is with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Midwest Stock Exchanges.