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EDITORIAL

As We See It

What are the "lessons" of last week's election returns? What conclusions may the sober-minded, thoughtful citizen draw from the voting? Answers to such questions are important not only because they may give a clue to what is most likely to occur in this country, and, for that matter, in some part at least, elsewhere in the world, but because they should point the way for those who wish to make the most of a situation and an opportunity now before them.

As a starting point, we are ready to accept for working purposes the general analysis presented by Arthur Krock in last Sunday's edition of the New York "Times." Mr. Krock is close to the scene in Washington, and has a high reputation for calm analysis of things political.

Here in part is what Mr. Krock has to say:

"What seemed to have been established (by the election returns) was:

"Resentment over several conditions, among them (1) the State Department's conduct of our foreign policy, with special emphasis on the situation in the Far East and the impending cost and inconvenience of rearmament; (2) the infiltration of Communists in the Government; (3) the methods employed by the executive and Administration spokesmen in Congress in dealing with this; (4) the ideology and cost of the program which President Truman calls the Fair Deal; (5) the tactics and corruption of city political machines; (6) the efforts of the national leaders of union labor to purge legislators who refused to do their bidding."

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Some Current Economic Misconceptions

By SUMNER H. SLICHTER*

Lamont University Professor, Harvard University

After noting essential facts in current economic situation, Prof. Slichter points out chief misconceptions and unsettled issues. Contends profits are really not as large as last year and it is misconception to hold that inflation is nation's number one economic problem. Holds it is error that increase in taxes or excess profits levy does not contribute to rise in prices and wages.

I

One of the best ways to discuss the economic outlook is to examine a few of the more important misconceptions about current economic problems and some of the principal questions and issues that have not yet been settled. An exploration of these misconceptions and unsettled questions and issues should help to clarify thinking about some of the tough decisions confronting the country. I have picked out five important misconceptions and also five important unsettled questions and issues. Before I discuss these topics, however, I wish to set forth a few of the essential facts about the defense program, insofar as they are known, and to call attention to some of the principal economic developments that have occurred since the outbreak of the war in Korea.

Prof. S. H. Slichter

II

The essential facts about the defense program seem to be the following. By the end of 1951 the military forces will have been increased from about 1.4 million in the middle of 1950 to about 3 million. The President, in his speech of Sept. 9, announced that by next June the country would be spending at the an-

*An address by Prof. Slichter before the National Founders Association, Chicago, Ill., Nov. 10, 1950.

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In Which Industry Shall I Invest?

By GERALD M. LOEB*

Partner, E. F. Hutton & Co., Members N. Y. S. E.

Stock Market analyst stresses timing, price and general outlook as equally important to buyer as his choice of industry. Demonstrates divergent market behavior of individual issues within industries. Recommends chemicals and oils as safest current choices, with soft drink companies offering good speculative possibilities.

The point I'm going to stress is not so much exactly what industry to buy into but the dangers that exist and how to find them. It is a sort of warning of the pitfalls and something about all that's gold does not glitter. It isn't as simple as saying that one industry has a good future and the other one hasn't. It comes down to the purpose for someone wanting to buy a stock and the purpose is different in every case and for each individual and also as to the time and also the price. It's like anything else—a $1,000 watch for $2,000 might be nowhere as good as buying, say, a dollar watch for 50 cents; the same thing applies in the stock market. People buy into different industries. One person wants stability; the next person wants to make a big profit; the next person wants safety and the next person wants large income, and they can't get it all in the same industry. Likewise, some people are very experienced and can take risks and can feel their way along; some people are in high-tax brackets and some people are in low-tax brackets.

G. M. Loeb

Changing Popularity

For instance, if you had asked this question before

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*A transcript of a lecture by Mr. Loeb in series "You and Your Dollars," jointly presented by the Town Hall, Inc., and Federation of Women Shareholders in American Business, Inc., Nov. 14, 1950.

IBA CONVENTION—The Investment Bankers Association will hold its Annual Convention at Hollywood, Florida, from November 26 to December 1. As in former years, the "Chronicle" will provide complete coverage of this important yearly event.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

Owen-Illinois Glass Company—William A. Hobbs, Research Director, Clark, Dodge & Co., New York City. (Page 2)

Sun Chemical Corporation—Elihu N. Kleinbaum, Manager of Investment Department, Eisele & King, Libaire, Stout & Co., New York City. (Page 34)

Central Soya Company, Inc.—Harold H. Van Meter, President, Hiscox, Van Meter & Co., Inc., Philadelphia, Pa. (Page 34)

WILLIAM A. HOBBS
Research Director,
Clark, Dodge & Co.,
New York-Newark-London

(Owen-Illinois Glass Co.)

At the current stage of the stock market, equities of the heavy-industry cyclical companies are generally selling near their all-time highs. In lieu thereof, the security I like best at this time is the stock of a consumer goods, blue chip company that is well below its postwar high. The relatively low price is a very important consideration but the real reason for preference is a new, and as yet generally unrecognized, source of earnings.


William A. Hobbs

Owens-Illinois Glass Co. common at about 70 is the security I like best. The stock sold as high as 100 in 1946, only slightly below the all-time peak of 104 established in 1937. There is probably considerable opinion that the stock never should have sold at 100 and that it has been too highly regarded for years. Along those lines the data in Table I is of interest.

It can be discerned from the price-earnings ratio and the relation to the D-J that OB had a host of friends in the prewar days which for the most part remained loyal through 1946. For one thing, the glass container business was well regarded. There was, and is, a decided element of growth in the glass container field. (During the past ten years per capita consumption of new glass containers has about doubled.) Owens-Illinois with the leading position was a natural choice for many investors, particularly the professional type. In addition the emphasis and publicity on research made interesting if not exciting reading for the security analyst. During the recent war glass containers regained lost outlets from the tin containers, which were restricted in output, and various new uses for glass containers were found. In the immediate postwar period the indicated annual volume of sales was $200 million or more against a prewar level of $77 million. Margins were down somewhat but this was rather a widespread occurrence and no particular attention was paid to it. The prevailing thoughts were that glass containers would retain a substantial amount of the business taken from tin containers in the war and that another new Owens-Illinois product Kaylo (glass insulating products) held a substantial growth potential.

Along with industry generally, Owens embarked on a plant expansion program. Gross plant at Dec. 31, 1945, stood on the company's books at $77.6 million. Three years later the figure was $131.4 but in the meanwhile $40 million of term debt had been put ahead of the 3 million common shares. During these three years margins slipped appreciably, due principally to slowness in raising prices to offset mounting costs. This was understandable enough as the demand for glass containers slumped badly. While earnings by calendar years held up reasonably well, interim earnings declined drastically as indicated in Table II. Earnings were at their postwar peak for the 12 months ended June 30, 1947, at $5.60 per share but declined in each of the next four quarters so that at June 30, 1948, the 12 months' figure was $2.51 or well below the $3.00 annual dividend.

Since that low point earnings have improved steadily and for the 12 months ended Sept. 30, 1950, were equivalent to $7.72 per share. The very sharp increase in the past nine months reflects not only the return to normal of the glass container business but also the very substantial earnings from the manufacture of television tube blanks. It is understood that Owens-Illinois and Corning Glass approximately divide this very lucrative field. Margins are quite satisfactory on this new line as the company has overcome all of the early production difficulties and demand has been tremendous. As of today the glass television tube has marked advantages over the metal tube and also as of today the replacement market has not been tapped. It is estimated that the average life of the television tube is between 22 and 28 months.

The $40 million debt has been reduced to $10 million and the dividend has recently been raised to $1 quarterly. Current financial position is quite strong, and it is anticipated that the remaining debt will be retired in 1951, thus paving the way for higher disbursements on the common.

Together with Corning Glass, Owens-Illinois owns approximately 50% of Owens-Corning Fibreglas. This investment is carried at $2.8 million, or about 90 cents per share of OB. Based on estimated earnings for the fibreglas company the value of the equity is estimated at roughly $30 million, equivalent to $10 per OB share. No dividends have been received from this affiliate and none are anticipated in the near future. What the Owens-Illinois stockholder can anticipate is a possible distribution of the Owens-Corning shares some time in the future. The management has made no suggestion that such may eventuate; it is purely the author's conjecture.

Personally I like securities of companies that have gone through a postwar "bath" and emerged with a sobered and serious attitude. Such apparently is the case with Owens-Illinois. Another factor of importance is the near-term outlook for glass containers. Not only is current demand healthy, but whatever difficulties the can companies encounter with regard to allocations of steel and tin will redound to the benefit of the glass container manufacturers.

For those who favor the arithmetic approach the following may be of interest: glass container earnings are estimated at $5 annually over the near term; historically, these can certain be valued at 15 times, or $75; television earnings are estimated at around $3, which at an arbitrary figure of five times are worth $15; the equity in Owens-Corning Fibreglas is $10—thus making a total of $100 for the stock currently selling at 70.

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TABLE I

Year—	—Price Range— High	Low	Price Earnings Ratio Mean Price	Mean Price as Per Cent of Dow-Jones Ind. Mean Price
1935-39 Average	79	49	20.2	45.1
1942	58	43	14.6	47.5
1943	64	54	16.6	44.6
1944	64	55	19.4	41.5
1945	80	58	20.9	39.8
1946	100	70	18.8	45.3
1947	80	68	16.2	42.3
1948	73	47	17.8	33.4
1949	65	49	10.6	31.5
Current price	70		*8.3	31.2

*1950 earnings estimated at $8.50.

TABLE II
Glass Container Shipments Compared with Owens-Illinois Sales and Profits

	*Container Shipments	Year-to-Year Change	†Company Sales	—12 Months Ending— Company Sales	Net Per Sh.
			—(000s Omitted)—		
1950—					
3rd quarter	31.2	+24%	$80,213	$259,573	$7.72
2nd quarter	26.9	+16	68,497	239,557	7.19
1st quarter	22.9	+15½	54,939	228,609	5.85
1949—					
4th quarter	21.7	+ 4	55,923	223,827	5.38
3rd quarter	25.2	— 4	60,197	219,960	4.93
2nd quarter	23.2	+ 2	57,549	221,826	4.25
1st quarter	19.8	—19	50,157	217,194	3.91
1948—					
4th quarter	20.8	—14	52,057	224,396	3.38
3rd quarter	26.2	+ 2	62,063	230,878	2.72
2nd quarter	22.7	—17	52,917	226,368	2.51
1st quarter	24.3	—14½	57,359	230,499	3.19
1947—					
4th quarter	24.0	—17½	58,538	231,310	4.58
3rd quarter	25.8	—11	57,554	229,535	5.43
2nd quarter	27.4	+ ½	57,048	223,008	5.60
1st quarter	28.4	+ 1	58,170	210,016	4.92
1946—					
4th quarter	29.1	+10½	56,763	196,260	4.53

*Millions of gross. †As reported by the SEC.

Outlook for Railroad Stocks

By E. FREDERIC UHRBROCK, JR.*
Statistical Department, Vilas & Hickey, Members, New York Stock Exchange

Holding short-term outlook for railroad revenues is relatively good, specialist in railroad securities predicts wage increases will be absorbed by increased traffic and rates. Though admitting rail stocks are selling at relatively high level, contends it is hard to see a sustained slump at this time. Lists favorable rail issues in current market.

The subject of this evening's discussion is most timely in light of current developments affecting the industry and the present level of the railroad stock market. Both factors must be weighed to give us an informed guess as to what the investor's psychology might be which, in the last analysis, will be the deciding element in the movement of the market.

E. F. Uhrbrock, Jr.

All of us engaged in the securities business, be it as a buyer or seller, trader or investor, have to cover a wide range of subjects with special emphasis on forecasting future developments. The degree of the latter varies with the type of security—rails and industrials at the top of the list—municipals and utilities at the bottom. I, personally, put railroad equities at the top, perhaps because I'm prejudicial, but with these securities generally having a relatively high leverage factor, one must be right on the "outlook" to make the most on one's money investment.

The "outlook" for railroad revenues at this time, in my opinion, is relatively good, particularly for the next six to eight months. I would like to think that I could look further ahead, but experience has taught me that there are too many elements of a fluctuating nature that can alter the fundamentals quite drastically within the space of six months. For example, at the year-end, when I wrote our "outlook" for 1950, it seemed to me that the upward trend of general business, that had started in late summer of last year, was beginning to show signs of a decided slackening of force, but would carry through the first half of the year. After that time, however, my guess was that, unless there was some fundamental change to prolong the stimulus, we might well expect a downward trend. As a result, last May and early June we adopted a skeptical attitude toward the market as a whole.

The outbreak of Korea at the end of June changed our "outlook" completely and we reversed our recommendations, strongly urging the purchase of income bonds and rail equities, even those of the eastern roads. It was, and is, my belief that, as a result of the foreign situation, we can now look for a heavy volume of traffic for months to come. As I see the overall picture, our defense preparedness will absorb, not only the 10%-15% of our production capacity which I had expected to weigh heavily against a continuation of the 1949-1950 trend, but may also absorb another 10%-15% which will require cutbacks of civilian production. It seems to me that the credit restrictions that have been applied have been designed to force this cutback so that our overall capacity will not be strained beyond comfortable limits as it was in the early 1940s. These cutbacks must be appraised for what they are and evaluated accordingly. They will create temporary air pockets, while the conversion from civilian to military requirements takes place. This will take time and I think, as a result, we may see a confusing pattern for some months to come, particularly since there was a rush of consumer buying this summer.

The military success of the Allied Forces in Korea in September and October apparently put a brake on scare buying and, unless we encounter reverses in Korea or outbreaks in other quarters, we logically ought to look for a slackening in overall activity until some of the inventories are used up.

Outlook for 1951 Railroad Earnings

In so far as the railroads are concerned, traffic and revenues are now running close to the 1948 level, our postwar peak, and sharply ahead of 1949. For the next three months I look for some falling off of freight traffic from present levels, but expect a volume that will be substantially above the 1949 winter and 1950 spring level.

The foregoing is based on my thoughts with respect to our foreign situation as it appears today. It does not cover the contingency of a rapidly expanding theater of active warfare that would entail immediate consumption of much material now being added to our defense reserves. Should that happen, our war production would have to go into high gear and would result in a huge boom in railroad traffic and revenues. I think that you will all grant that the railroads are the only dependable transportation medium in a tight emergency.

Despite my expectation of a somewhat lower freight volume over the next few months, the

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*An address by Mr. Uhrbrock before the Boston Investment Club, Boston, Mass., Nov. 9, 1950.

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McKee Elected Director Of Stone & Webster

The election of John W. McKee of Toronto to the board of directors of Stone & Webster, Inc., is announced.

Mr. McKee is Chairman of the Board of Stone & Webster Canada Limited, President of Dodds Medicine Company Limited, of Toronto, and a director of Canadian Oil Companies Limited and Canadian Oil Refineries Limited. He is also a member of the Toronto Advisory Board of The Royal Trust Co. and President of The Royal Agricultural Winter Fair.

Looper & Co. Formed in Joplin, Mo.

JOPLIN, Mo.—Looper & Co. has been formed with offices in the Joplin National Bank Building to act as underwriters, participating distributors, brokers and dealers in general market issues and mutual fund shares. Officers are Vincent C. Looper, President; Marjorie Looper, Vice-President; and Max Kaplan, Secretary and Treasurer. Mr. Looper was previously local Manager for White & Co. Mr. Kaplan was with Friedman, Brokaw & Co. and prior thereto with White & Co.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo.—Henry J. Gillenberg is now associated with Waddell & Reed, Inc., 1012 Baltimore Avenue.

An Industrial Approach To Investments

By WILLIAM H. WINFIELD*

Director of Economic Research, Monsanto Chemical Co.

Pointing out people are markets and population growth provides continually expanding consumption, Mr. Winfield examines basic trends as approach to capital investment. Predicts industrial growth in U. S. will continue at present rate, though interspersed with booms and depressions. Stresses element of change in industrial development, which must be recognized and foreseen in management and investment procedure. Discusses how "straws in the wind" point to the blue chip stocks of tomorrow.

The title of this talk is an ambiguous one. I tried to find one with more zip to it, but "An Industrial Approach to Investments" comes close to what I am going to talk about. Investments are a major problem for a chemical company. During the past ten years Monsanto has invested well over $100 million in new plants and equipment. We were concerned just like trust officers in the safety of our stockholders' money and the long-term profitability of the investments. Today I would like to tell you of some of the factors we consider important in making capital investments.

William H. Winfield

Conservatism vs. Change

In spite of a rather spectacular growth, a chemical company is inherently conservative. The larger a company grows, the greater the conservatism and the greater the resistance to change. This inherent conservatism may also be found in trust companies.

Yet one truth we can gain from the past is the law of change itself—nothing ever remains static. For a company, its markets, its products, and its service are continually changing. How can a company then reconcile its inherent conservatism to changing conditions in markets? Also, how can trust officers also adjust their thinking and operations to meet important changes? Let's explore only one phase—investments.

Two Basic Trends

Changes must not necessarily be chaotic, but industrial management and trust management must recognize patterns of change and prepare for them. As an outsider, I think I can discern two basic trends which may affect the investment aspects of your trust operations.

In its drive for security-for-all, there is a growing tendency for the government to regard the continuing operations of a company as a matter of public welfare. The fact that a company is losing money may no longer be a good enough reason for shutting down certain inefficient operations—employment must be maintained. The government steps in with financial aid. The Waltham Watch Company is a recent example of this trend.

At first glance this governmental interest seems to give added security, but such an assumption may turn out to be a booby trap. During the 1920's the railroads were profitable. During the 1930's many of them were operated by trustees who issued certificates of indebtedness to keep the roads operating. Railroad employment remained high, but many stockholders were wiped out in subsequent reorganizations. The extent of public interest may lend security to employees, but it does not to investors. The only security lies in the continuing profitability of a company, and my premise is that a prime factor in the profitability is the secular trends in the industry of which the company is a part. American industry has always been able to make profits when it has had a growing volume. Long-term trends should not be forgotten as we shift into tax-sheltered stocks.

The second basic trend is well-known to all of you—namely the increasing competition from insurance companies for prime investments. Not only does recent legislation allow them to compete for blue chip equities, but their very size and influence may well reduce the future supply of attractive investments. A recent example is my own company, Monsanto. On July 7 of this year we issued $15 million of Preference C stock at a $3.85 dividend rate. This was not a public offering, entailing a long and expensive registration with the SEC. The entire issue was taken by 17 institutional investors. In the future it appears likely that insurance companies will take more and more of the cream of new investments, making the trust officer's job more difficult. Your problem will be to pick the blue chips before they become too blue. To do this you will need long-range economic research as well as excellent security analysis.

All of this sounds obvious, but let us take a look at an example. It is only in recent years that natural gas stocks have been well regarded as investments. Yet, viewed in long-term perspective, the strong growth characteristics of both natural gas and petroleum were apparent 10 years ago. In contrast, the lack of growth characteristics in the coal industry might have tipped us off that coal companies and coal-carrying railroads would be in for rough times once the war and postwar boom were past.

Industrial Approach

An industrial approach to capital investment is simply recognizing basic trends after they have become apparent, but before they have become obvious. In the chemical industry we have to do this because five or six years may elapse between research, pilot plant construction, and, finally, sales. We have to get in fairly early in the long-term growth cycle to have a profitable investment. We can't wait for our investments to become blue chips or we miss the boat.

In our investments we have the same problem of timing that you do because we don't want to get our new plant completed on the verge of a business slump. Here again secular trends help us. The demand for mature products is dominated by the business cycle. The demand for growing products is dominated by the long-term trend. A downturn in business may only slow up the growth rate. Oddly enough, long-term trends can be predicted with more accuracy than the short-term business cycle.

Once again you may say, "This is obvious, our investment men are continually researching to find growth industries as well as growth companies." This is true, but let us take a look at three industries whose securities have never been very highly regarded by conservative investors.

The textile industry has been a volatile one, but within it are some significant trends which have been apparent for years. During the past 30 years textile fibre consumption in the United States has grown from 3.18 billion pounds in 1920 to 6.35 billion pounds in 1949. This is an average increase of 105 million pounds per year. Part of this is due to population increase, but another important factor is greater per capita consumption. When a man worked 12 hours a day, six days a week, he needed only work clothes and a Sunday suit. With the 40-hour week and increased leisure, Americans have bought more and more clothes.

We estimate that this trend will continue and textile fibre consumption will increase by one-half billion pounds during the next five years. Based on long-term secular trends, I would place my bets on synthetic fibres, rayon, nylon, and the new wool-like acrylic fibres. With the sheep population in this country only about half what it was in 1942, and domestic wool production amounting to only one-third of our needs, odds favor our investing in a synthetic wool-like fibre, such as Chemstrand.

The paper industry has had some interesting long-term trends, but until recently investors apparently felt that its volume was due solely to a postwar boom. Actually, by digging deeper into the facts, we find a strong secular upswing. Per capita consumption of paper was 100 pounds in 1912; 200 pounds in 1927; 300 pounds in 1941; and is now over 350 pounds per year. The paper industry may have its ups and downs, but the basic trends were apparent enough for the chemical industry to invest some blue chips in research and development of products for use in the paper industry—and these have been profitable investments.

The rubber industry has also been an interesting one as a market for chemicals. World consumption of rubber is estimated at about 2.0 million long tons in 1950 and 2.6 million long tons by 1960. Rubber consumption abroad is growing at an even faster rate than in the United States. Foreign countries are developing highway/truck transportation systems rather than railroads. On the other hand, the supply of natural rubber, even under favorable conditions, is not adequate to meet the increasing demand. We are convinced that rubber consumption will continue to grow and that there will be a substantial increase in the demand for synthetic rubber whether or not we are involved in war.

By these examples I may have given the impression that all segments of the economy are surging upward. We all know that this is not true. I have tried to illustrate the chemical industry's approach to capital investment. If we can discern these broad secular growth trends, we reduce our risks and add to our chances of profits. Industry occasionally comes up with a startling invention just like investment men occasionally uncover a "sleeper." However, most of our breadwinners have resulted from recognizing a basic need early in the stages of a product's growth and expanding production to meet an economic need. For instance, there's nothing new and exciting about aspirin or phenol or phthalic anhydride. Their production goes back 25 years or more. But they have been profitable products for Monsanto for a number of years.

What of the Future?

"A tree does not grow to the sky," and the foregoing discussion raises the logical question as to whether industry can expect to continue to grow at the past rate. Based on our research on the subject, I believe that it can.

People are markets, and the population growth in the United States provides a continually expanding number of consumers. More than 17 million consumers have been added in the last decade. During the next 10 years it is estimated that our population will increase another 16,700,000. These 34 million additional people will force an expansion of America's productive capacity.

Because our standard of living is much higher than that needed for mere existence, a majority of the population is at liberty to step up or defer some part of its expenditures. This brings about periodic booms and depressions; however, one of the most amazing facts in economic history has been America's capacity to consume more and more products. In addition to population growth, economic history shows that there has been a tremendous increase in the per capita consumption of manufactured goods. The combination of these two factors has created an insistent demand for the United States to expand its industrial capacities. Business cycles may interrupt, but do not stop this long-term growth trend. The upward swing illustrates the advisability of charting a long-term course in capital investment.

It is possible that developments in the future may be more rapid than in the past because of the accelerated growth of industrial research. The chemical industry was a pioneer in research. Within recent years research has played an increasing role in other industries. These research efforts will bring about important changes in industrial plants and processes.

Viewed in long-term perspective, the American industrial picture looks favorable. Even the stock market looks different in long-range perspective. The expanding American economy has benefited the investor as well as the consumer and the employee. Not every segment of the economy will grow, but a great many of them will. An important part of industry's job will be to recognize basic trends after they have become apparent but before they have become obvious. An impor-

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*An address by Mr. Winfield before the 19th Mid-Continent Trust Conference of the American Bankers Association, St. Louis, Mo., Nov. 10, 1950.

The State of Trade and Industry

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

Total industrial output for the nation held virtually unchanged from that of a week ago, but it was sharply above the level prevailing for the corresponding period of last year. It is of interest to note that while initial claims for unemployment insurance rose slightly during the week ended Oct. 21, continued claims for recent weeks declined to a two-year low.

The implications of the country-wide elections on Tuesday of last week stemming from the defeat of many New Deal Administration candidates augur well for the nation as a whole. With the resurgence of Republican and anti-New Deal legislators into the national scheme of things the many proposals of our planned economists and they themselves, so long dominant in our government, will very likely suffer a somewhat dubious fate.

The tendency long prevalent since the inception of the New Deal of placing burdensome levies on corporations will undoubtedly be softened in the interest of a sounder economy and, with this long-needed change to a more balanced government with respect to the two major parties an accomplished fact, service for and in the best interests of all the people should result.

The House Ways and Means Committee is scheduled on Wednesday of this week to open hearings on an excess profits levy and Secretary Snyder of the Treasury will, it is expected, ask for a stiff excess profits tax. The House-Senate committee staff on Internal Revenue Taxation favors a modest levy on excess profits coupled with an increase in the regular corporate tax schedules. It is reported, however, that many tax experts believe Secretary Snyder's statement Wednesday will be "only for the record" and that he actually leans more toward the line taken by the committee staff. On the other hand, considerable pressure is being brought on the Administration, particularly by unions, for a stiff excess profits tax. Because of the stand taken by the staff and the confused attitude in Administration circles, chances are slim that an excess profits levy will be passed before January.

Stability marked the steel markets last week. However, isolated changes continued to be made. United States Steel subsidiaries raised pig iron prices $3 per ton and upward adjustments were affected on ferromanganese and ferrosilicon. All signs point to major upward revisions in steel prices once current wage negotiations are out of the way, states "Steel" magazine, this week. Last week it was thought that talk of possible early application of price controls by Washington may hurry up the determination of steel wage and price policies. Last week, progress was reported being made on the wage study, but there was no sign a settlement was imminent. Guesses in the trade are that steel prices, on the average, are due for a rise of $5 to $8 per ton, this trade authority notes.

January steel mill rolling schedules are being set up, but they hold little cheer for manufacturers of civilian goods. Supply conditions promise to steadily deteriorate under impact of defense and related demands from here on. Little new unrated tonnage is being scheduled for January rolling. Defense and related requirements, plus heavy order carryover from fourth quarter, will just about absorb the entire month's production of all major products, this trade paper declares. This spells more supply difficulties ahead, though it is not clear just how severely regular customers' shipments will be cut down since the bulk of steel produced will continue to move on civilian account.

Last week in the steel industry output reached the largest amount of steel ever poured from the nation's steelmaking furnaces at 103% of ingot capacity and represented the eighth consecutive week in which the industry operated at an average of more than 100% of capacity.

The electric light and power industry suffered a moderate recession from its all-time high record output last week, as did automotive production and carloadings of revenue freight by the country's railroads.

It was learned this week that aluminum for use in civilian products will be cut back about 35%, beginning with Jan. 1. Such products as furniture, automobiles, toys, electric lighting fixtures and many others will be drastically affected by the order, since the regulation issued by the National Production Authority limits manufacturers of such goods to 65% of the aluminum they consumed in the first half of 1950. Similar cuts in other metals are scheduled to be made soon.

Steel Output Scheduled to Dip Slightly From Recent High Record

Piecemeal control of steel distribution will be junked in favor of a modified controlled materials plan by the end of next May, states "The Iron Age," national metalworking weekly, in its current summary of the steel trade.

Meanwhile, new orders and revisions may be expected to continue multiplying. By the middle of next year, or sooner, the control orders will be so numerous and far reaching that a controlled materials plan will be installed as a means of restoring order to a confused and chaotic market.

Hardest hit will be manufacturers of nonessential civilian goods, states this trade authority. Steel shipments to them will be drastically slashed, if not eliminated. For example, during 1943, total direct war uses received 38% of steel output and other essential uses received 62%. This does not mean that no peacetime goods will be produced. It does mean that peacetime production will get only what is left after defense and essential requirements have been matched against production.

Despite the mills' strong efforts to clean up old orders and start the new year fresh, they are running as much as two months

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An Industrial Approach To Investments

tant phase of trust investing could be picking up blue chips before they become really blue.

In conclusion, what does all this mean? Will the combination of long-term research and excellent security analysis insure profitable investments? I don't know. We might find ourselves in the position of the ardent bridge player. His wife woke him up one night when he was having a terrible nightmare and asked him what was wrong. Said he, "I dreamed that I was on the train and picked up a bridge game with some strangers. After we had played a while I drew a perfectly beautiful hand. We started bidding, and I finally got up to seven no-trump. The man on my left doubled and I redoubled. Then — what did that son-of-a-gun do but lay down 13 cards of a brand-new green suit I'd never seen before!"

So, in spite of all our research and analysis, we still have to watch out that someone doesn't lay down 13 cards of a brand-new green suit we've never seen before. However, I do offer for your consideration "An Industrial Approach to Investments" as an additional tool in investment research.

With J. A. Rayvis Co.

(Special to The Financial Chronicle)

MIAMI, Fla.—Charles B. Davis has joined the staff of J. A. Rayvis Co., Inc., Langford Building.

Joins H. Irving Lee

(Special to The Financial Chronicle)

SAN JOSE, Calif. — John S. Slason is with H. Irving Lee & Co., First National Bank Building.

Business Man's Bookshelf

Business Organizations in New York State—Directory of Trade Associations and Chambers of Commerce—New York State Department of Commerce, 112 State Street, Albany, N. Y.—paper—no charge.

Crime on the Labor Front—Malcolm Johnson—McGraw-Hill Book Co., Inc., 330 West 42nd Street, New York 18, N. Y.

Improving the Supervision in Retail Stores—New York State School of Industrial and Labor Relations, Cornell University, Ithaca, N. Y. — Paper — Single copies free of charge to residents of New York State. In the case of bulk orders (more than five copies and out of state orders, there is a charge of 15 cents per copy for this bulletin).

Inventories and Business Cycles, with Special Reference to Manufacturers' Inventories — Moses Abramovitz—National Bureau of Economic Research, Inc., 1819 Broadway, New York 23, N. Y. —cloth—$6.00.

Not Worth a Continental—Pelatiah Webster — Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y.—paper—no charge for single copies, prices for orders for more than one copy furnished on request.

Strategy in Poker, Business and War—John McDonald—Illustrated by Robert Osborn—W. W. Norton & Company, Inc., New York City —cloth—$2.50.

Observations . . .

By A. WILFRED MAY

Today's Inflation—At Peak or Mere Foot-Hill?

Quite characteristic of the current stepped-up worry over "inflation," is a missive just received from a London friend, coupling the United States with France and the United Kingdom as three locales harboring "actively progressive stages of the deterioration which results from inflation and taxation."

A. Wilfred May

France is depicted as a country where people with only money, or claims on money, are either reducing their standard of living, starving to death, eating their capital, or being supported by their relatives or the State. He maintains that no sane Frenchman will buy a National Savings Certificate or insure his life as protection against the accident of early death, and if insurance companies continue investing the bulk of their funds in fixed-interest securities, the policy-holder had better either blow his brains out at once or have his head examined.

In the U. K., our friend observes, the citizens talk a great deal about inflation, but do little — "as yet." The inflation forebodings which this column has heard so loudly expounded in the London *Pub*, as by New York's taxi drivers, are apparently still kept relegated to the academic sphere by the citizen's continuation of his Savings Associations, insurance on his life, and confidence in his future ability to live on his pensions. Our correspondent predicts an imminent mass disillusionment of Britain's *Savings Public*, and that (a la France) wash-leather bags for hoarding the citizen's diamond will be at a premium.

His trans-Atlantic view of the United States leads him to warn that despite our high mechanization, mass production, immense natural resources, freedom from war damage, and enormous technical skills, "still practically everything is costing more than it used to."

A Typical Warning

He urges the warning on investors everywhere that in view of: (1) the obvious reluctance of political parties universally to apply deflation with any real vigor, (2) the growing excess of the aggregate number of unproductive mouths over the productive hands, (3) the prospects for continuing international tension between the world's pro- and anti-Stalinist camps, and (4) the expensive and non-productive economic impact from arming; they must hence face up to a future wherein inflation will be permanent, universal and progressive; and prices and costs, as well as taxes, will remain high and go higher.

The "North Atlantic" investor hence is solemnly advised forthwith to borrow what money he can on fixed interest for the long-term; to buy today what "slower" people will be trying to buy tomorrow; that is, "geared" equity stocks, gold, diamonds and good old furniture; to find schools for their children who will now accept their fees "under discount"; to provide for a comfortable old age by trying to make an investment contract for a suite in his favorite hotel with the run of his teeth in the restaurant, with occupancy to start at age 65 and to run until death; to give first portfolio choice to commodities and companies dealing in commodities; and to avoid endowment insurance policies, bonds, preferred stock, and any other fixed claims on money.

* * *

This correspondence has been thus set forth by us in such detail because it seemingly is quite representative of today's pervasive and growing reaction to "the inflation problem."

The Other Side of the Medal

In this atmosphere it is well to remember that inflation's threats and possibilities do not compose a sharply defined black-and-white picture. Some counteracting factors from the investor's point of view are objectively and quite sensibly set forth in a newly published little book, *"Investment in this Changing World," by Otto von Mering, Boston, Barron's Publishing Co., 165 pp.; $3.*

After affirmatively spelling out the ways in which our new type of "controlled" capitalism has promoted secular monetary depreciation, this author suggests several offsets to be weighed by the serious investor.

For example, he points out that the higher profits that would otherwise result from inflated prices, may be decisively curtailed through government interference. Contrary to a widely-held misconception, common stocks are not commodities and have no

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John Hudson VP of Thayer, Baker Co.

John M. Hudson

PHILADELPHIA, Pa.—Thayer, Baker & Co., Commercial Trust Building, announce the election of John M. Hudson as a Vice-President of the firm. Mr. Hudson is Manager of the firm's trading department.

Woodward & Heller Open in New Orleans

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, La.—Ellis M. Woodward and Theo. A. Heller have formed Woodward & Heller with offices at 613 Ridgewood Drive to engage in a securities business. Mr. Woodward was formerly associated with the New Orleans office of Equitable Securities Corp.

Mitchum, Tully Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—George E. Jones, Jr. has been added to the staff of Mitchum, Tulley & Co., 650 South Spring Street.

A Look Ahead for Economic Progress

By J. PHILIP WERNETTE*

Professor of Business Administration, University of Michigan

In forecasting America's growth in population and income, Prof. Wernette stresses a combination of factors, comprising increasing efficiency and management skill, together with stepped-up technological progress. Asserts Communist system is not so efficient as private enterprise system, though he admits labor-management relations are a possible danger to our progress. Warns against complacency regarding our expanding progress and holds greatest danger is in decline of enterprise and initiative.

History is a valuable subject. As it is commonly taught, it is of course the history of the past. The history of the past is important and interesting. But important and interesting as it is, it is nowhere nearly so significant as the history of the future. We shall be living in the future and all of our planning depends in large part on the accuracy with which we anticipate future developments. My remarks today will be directed toward analyzing the major developments, especially those of an economic nature, in the United States in the long-run future—covering the next 10 years, the next 25 years, and even looking as far ahead as the next half century.

J. Philip Wernette

What will be the major developments in the United States in this long period? What will be the state of affairs in the world and how will international conditions affect our country? What will be the principal business trends, and what the major developments in the relationships between government and business? How well will the average American family live as the years go by?

Answers to these important questions are not easy and, moreover, the factors that are involved are intermixed. The importance of these questions, however, justifies the attempt to answer them even if honesty demands the admission that this type of analysis is exceedingly difficult and the answers therefore cannot be absolutely guaranteed for accuracy.

Today's Gloom

It would be foolish to deny that there is much gloom, uncertainty, and fear among our people these days with respect to the future outlook of our country. Nor is this pessimism entirely unjustified. The past four decades have witnessed major calamities both here and abroad. In this period we have seen two world wars, the greatest depression in our history, inflationary developments of various degrees in different lands, a state of tension between Russia and ourselves, and recently actual fighting in Korea. In view of these occurrences, it is easy to see why many persons feel that the outlook is hopeless, that we in America, and mankind generally, do not know how to manage our affairs so as to secure peace and prosperity, and to be doubtful therefore whether these happy conditions will ever exist again.

The psychological condition today is the reverse of that which prevailed in 1929. Twenty-one years ago our people were optimistic. The general opinion was that World War I had been something of an accident, and there would never be another one. In the economic sphere, business was good, the Federal Reserve System had been established, and the general belief seems to have been that there would never be another panic or depression.

Such was the state of optimism 21 years ago. As we all know, this optimism was completely unjustified. These past 21 years have witnessed bigger muddles than ever before.

Today, I wonder whether just as the optimism of 1929 was unjustified, perhaps today's pessimism is equally unjustified. In order to examine this proposition, it will be convenient to divide the future prospects of the United States into two areas: (1) The purely domestic factors that will affect our future development, and (2) the international conditions that will be significant to us.

I may say at once that I consider the domestic factors to be exceedingly favorable provided that we deal wisely with certain national problems. The future progress of our country which is indicated by the domestic factors is exceedingly bright. I shall return in a few minutes to a further explanation and justification for this statement.

International Conditions

The favorable domestic factors unfortunately could be reduced or offset entirely by unfavorable international developments. Forecasting the American future has received a new complicating factor in recent years. It is now necessary in order to attempt to analyze what is ahead for the United States to try to estimate what a small group of men in the Kremlin will do. The issue of war or peace is in their hands.

There seem to me to be three principal possibilities in our future relations with Russia.

The first would be war soon. The second would be a continuation of the armaments race in an atmosphere of suspicion and fear, followed eventually by war. The third would be a continuation of the armaments race, **not** followed by war.

Indeed, there is perhaps a fourth possibility that might be added as a sequel to No. 3; namely, the attainment of a genuinely peaceful world with disarmament on the basis of an international philosophy of "live and let live."

The answer to the question, "Which will it be?" depends partly on what the men in the Kremlin do and partly on what we do. Inasmuch as Winston Churchill was quite right when he characterized Russia as being "a riddle wrapped in an enigma inside a mystery," it is very hard to guess what Stalin will do. Common sense and selfishness should motivate him to avoid a war with the United States. Although such a war would be long and costly, in the end the Russians would be defeated and their system destroyed. From the Russian viewpoint, it would seem to be far better to continue their propaganda campaign all over the world. It must be admitted that Communism has some powerful allies among a large part of mankind. These allies are: poverty, starvation, disease, misery, ignorance, colonialism, racialism, and backward and inefficient governments. Pursuing their favorable policy of capitalizing on chaos (and, if necessary, **creating** the chaos), Communist agitators would stand a pretty good chance of enlarging their system without the risks involved in a shooting war with the United States.

Furthermore, the very elements of strength in our domestic system should deter the Russians from military aggression. As Wendell Willkie said, "Only the strong can be free, and only the productive can be strong." The strength of the American free enterprise system can provide economic benefits to our people in time of peace or war and can provide overwhelming power if war ensues. How strong is the American private enterprise system and what future progress can we enjoy in this country under that system?

The Private Enterprise System

The accomplishments of the private enterprise system in the economic sphere have been impressive. The standard of living of the average man in the United States today is not only the highest in the history of our country, but it is by a considerable margin the highest in the world. If we take the average standard of living in the United States as being equal to 100, the countries next closest to us are Canada, New Zealand, and Australia where the average standard of living is somewhere between 70 and 75% of ours. In Britain, Sweden, and Switzerland it is in the neighborhood of 50%. In France it is about 35%; in the Soviet Union not over 20% and probably only about 15% of what it is in our country. In the great masses of India and China the percentages are even lower. The standard of living in those countries is somewhere between 5 and 10% of ours; and whole masses of the population are only one step removed from starvation all of the time, and in many years millions actually get pushed over that edge.

In the United States the per capita consumption of wool, tanned leather, and soap is seven times as great as the rest of mankind: of radios—13 times as great; of coffee—14 times as great; and we have 35 times as many automobiles per thousand of the population as does the rest of mankind. This is a remarkable accomplishment and bears striking testimony to the efficiency of the private enterprise system.

What Has Communism Done for the Russian People?

Now what of the accomplishments of Soviet Russia? With the establishment of the Communist state in Russia, Communism, or Socialism, emerged for the first time from the blueprint category and became actually a functioning entity. And what has it done for the Russian people? Their condition was not good under the Czars, but it is worse today. They had some freedom of speech under the Czars; today they have none. Freedom of thought has been diminished to the vanishing point. Freedom of religion is virtually non-existent. Freedom from persecution and personal freedom of choice of movement and of activity has disappeared in Soviet Russia.

And what of the Communist state's accomplishment in the economic sphere, the standard of living? Careful calculations, reliable calculations—as distinguished from the official statistics of the Soviet Union—indicate that the standard of living of the Russian people is about the same today as it was under the Czars and probably not greatly different from what it was in 1900. And in these past 50 years the standard of living has been nearly doubled in Britain and has been nearly tripled in the United States.

Now what of the future? Is the private enterprise system going to continue to progress in the United States? A few years back, you will remember, there were some analysts who were speaking of ours as being a mature economy. Now if by "mature" they meant that we were no longer a primitive society, that we were in some sense or other grown-up, they would have been right. But that, of course, is not what they meant. What they really meant was that we were senile, that our country had stopped growing, that things were going to level out and perhaps start on the downgrade. It was a natural enough mistake, and flowed from confusing the worst depression in our history—that of the 1930s—with a reversal of the long-time growth trends of the United States. Those analysts were wrong, and subsequent events have proved that they were wrong. This is no time to be selling your Uncle Sam short. There's life in the old boy yet.

The Future of Our Economy

Let's take a look ahead then into the future of the development of the American system, if all goes well in our country. I take this long look ahead with some trepidation, since I have no crystal ball, and the figures which I shall present are based solely on cold economic analysis and the projection of trends that can reasonably be expected into the future. I dislike to inflict statistics upon you, but perhaps it might be said of them as Gilbert and Sullivan said in another connection, that they lend artistic verisimilitude to an otherwise bald and unconvincing narrative.

First, with respect to population growth; the census this year shows a population of about 152 million. In 1960 I expect that the figure will be 169 million; in 1970, 186 million; in 1980, 201 million; in 1990, 213 million; and in the year 2000, 221 million. And these truly I believe to be conservative estimates. It may sound like a large increase, and yet this year's population is approximately twice the population of the United States 50 years ago.

There will be a corresponding rise in per capita income, increasing, I estimate, at the rate of about 20% per decade. There will, therefore, be an increase in the national income. This year the national income will be about $225 billion; by the year 2000, it will

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*An address by Prof. Wernette at the Fellowship Luncheon of the Life Insurance Agency Management Association, Chicago, Ill., Nov. 14, 1950.

Outlook for Private Foreign Lending

By DR. MAX WINKLER*
Partner, Bernard, Winkler & Co.
Members of New York Stock Exchange

Asserting past events and present happenings strongly militate against private foreign investments, Dr. Winkler contends particularly lending to Germany is hazardous. Says East-West tension renders futile implementing Point IV program, but sees Korea, under UN Action, affording opportunity.

The term **foreign** may be defined as something about which we know little or nothing. Consequently, a foreign bond, or a foreign security in general, may be regarded as one about which our knowledge, at best, is restricted. As soon as we become sufficiently familiar with it, to analyze intelligently and evaluate it accurately, it ceases to be foreign.


Dr. Max Winkler

However, the term will always suggest something strange which may either attract or repel, depending upon one's point of view. The ancient Greeks, for example, viewed all foreigners and everything foreign with suspicion, designating all foreigners as barbarians. On the other hand, the ancient Romans appear to have been more broadminded. As human beings, they did not reject anything merely because it was foreign, because it, too, was human (*Homo sum; nil alieni a me humanum puto*).

With us moderns, so-called, the term foreign suggests either romance and adventure, or apathy and unimaginativeness. Thus, we may buy a foreign security or reject it, not because of its inherent merit, but because of sentiment and emotion. I recall an incident of the hectic Twenties when foreign issues were being offered to American investors with a speed unparalleled in the annals of finance. So much so, that it was held in certain quarters that even a non-existent foreign country could have obtained accommodations, had it desired them. An underwriter of foreign loans was considering the placement of an issue on behalf of the City of Lisbon. When I advised against it, because of Lisbon's poor fiscal record and because at that very time the city was disregarding the rights of its creditors, the underwriter remarked: "Who would know about these things? Just imagine what a beautiful and romantic story one can tell about so ancient and exciting a place as Lisbon."

A great deal has changed since those days. The prospective buyer of a bond, foreign or otherwise, is now being told much more than is needed for an intelligent appraisal of the purchase. In fact, he is told so much that he cannot possibly digest all the data, with the result that he does not even learn what is essential.

Americans first ventured into the field of foreign loans in the Nineties of the past century. Among the first foreign issues to be listed and traded in on the New York Stock Exchange were the Imperial Russian 4s of 1894. Prior to World War I, the list included an Argentine issue (payable in sterling or dollars at a fixed rate); a City of Frankfort-on-Main loan (payable in marks or dollars at the prevailing rate); Japanese loans (payable in sterling or dollars at a fixed rate); a Chinese loan (payable in sterling or dollars at the prevailing rate); a Tokyo loan (payable in sterling); several Mexican and Cuban loans. It is a curious coincidence that the first foreign loans to be listed were among the first to default.

After World War I, a veritable orgy of foreign borrowing ensued. The demand on the part of the public was almost insatiable. Germany became the principal beneficiary. It seemed strange that only a short while previous, American funds were instrumental in bringing about the collapse of Germany. Suddenly, American capital became just as eager to rebuild the country.

Funds were flowing in all directions. Investors were told that unless they were willing to participate in the process, the economy would suffer. "Trade follows the Dollar" was the new slogan, even though in some quarters it was not fully appreciated that in a number of instances, trade did follow the dollar, but it was not American trade. It was either British or German.

Latin America was another important avenue into which American dollars were going. In the Far East, Australia, Japan and the Netherlands East Indies were obtaining accommodations on a large scale. We had succeeded in becoming the World's banker over-night, as it were. What it had taken Great Britain over a century to acquire, was achieved by the United States within one single decade.

Profits on underwriting were high. So were the rates promised to investors. Everybody was happy. No one complained. Occasionally, a voice was raised against the non-productive character of the borrowing. Such warnings went unheeded. It never occurred to either underwriters or investors that the time would come when loans would have to be repaid and that this might occur at a period when the market would not be in a position to absorb new issues, regardless of terms. Such a moment was not long in coming. The collapse of the securities and commodities markets of 1929 brought in its wake a sudden cessation of foreign lending. Borrowers abroad were bewildered. They could not understand the change in our attitude. They blamed their economic difficulties on our former willingness to lend and on our generosity.

Defaults began to occur with distressing frequency. By the time World War II broke out, there was hardly a country which was meeting in full the service on bonds of the government or political subdivisions. Disregarding the repudiation of the so-called Gold Clause—for which, strange to say, the world's two greatest creditor nations were primarily responsible—Norway and France were the only two European countries with dollar loans in perfect standing. In Belgium, the City of Antwerp was in default. Denmark had suspended sinking fund payments. Finland was prevented from payment, because she was at war with an ally of the Democracies. All others, too numerous to mention, paid nothing.

In the Far East, China and Japan were in default. Australia and her various component parts were servicing their debt in full.

In Latin America, a number of countries had resumed service on their debts according to new agreements. There was not one single nation which was discharging obligations in accordance with provisions of original contracts.

We had as yet made no commitments in Africa. If we had done so, the number of defaults and the amount involved would have been appreciably greater.

In the years following World War I, recovery was greatly aided by plans evolved by the Economic Section of the League of Nations which was set up to preserve peace and international security, and to assist in the rehabilitation of a war-torn world. It is significant that funds needed for that purpose were supplied by private sources, because the set-up as prepared by the League was so sound and attractive that private capital was most eager to participate. Even though the United States did not join the League, American investors participated most generously in virtually all the loans offered under the auspices of the League. While politically the League cannot be said to have been a marked success, it is perhaps worth noting that at least it managed to prevent the outbreak of actual war for a much longer period than its successor, which in the realm of economics has to date accomplished far less than its predecessor.

Today, foreign bonds as a class appear to have lost a good deal of their popularity and appeal. The so-called quality bonds are available to yield about 4½-5%. Investors rightly ask themselves why it should be necessary to travel thousands of miles to obtain a return on the investment which is readily obtainable at home. Nor do second and third-rate issues yield sufficiently more than comparable domestic securities to warrant their receiving preference. As for issues which are purely speculative in character with a possibility of losses, the question again arises: Why go out of your way to lose when you can do so without the inconvenience incident upon travel?

Let us take a look at the Foreign Bond market of today: Of the ten South American republics, not one single country can point to a perfect record, with the exception of two, Paraguay and Venezuela, which have not borrowed here. Of the remaining eight, one, Argentina, has redeemed all dollar bonds of the Federal Government, the provinces and the cities. Two, Ecuador and Bolivia, are still in complete default, Ecuador for 35 years and Bolivia, for 20. The remaining five are meeting the service in accordance with agreements, mostly of a unilateral character, which called for important concessions on the part of creditors.

Of the remaining ten Latin-American republics, five have external dollar bonds. Of these, one, the Republic of Costa Rica, is in complete default. Panama is servicing her bonds in full. The remaining three, according to debt agreements. These include Cuba, El Salvador and Mexico. Because of the past fiscal record of our southern neighbors and because the return at prevailing prices is not materially in excess of what can be obtained on reasonably sound domestic issues, private financing on behalf of Latin-

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*Address by Dr. Winkler before Association of Customers' Brokers, N. Y. C., Nov. 15, 1950.

Drug Stocks

By ROGER W. BABSON

Mr. Babson lists ten reasons why drug stocks should be favorable investments, among which are: (1) drug companies do well in both peace and war; (2) new and sorely needed drug products are in demand; (3) drug companies are constantly increasing their lines; and (4) drug companies, like other good merchandising corporations, are especially effective hedges against inflation. Holds merchandising stocks are preferable to manufacturing stocks.

In view of a report in "The Commercial and Financial Chronicle," America's leading business weekly, that I have recently been putting my hard - earned pennies in a certain drug stock, many inquiries have come to me asking the reasons. Hence, this week let me give ten reasons therefor.

Roger W. Babson

(1) Drug stocks fare well both in times of peace and war. In these uncertain days, when our country is "betwixt and between," the wise investor will not gamble on either peace or war. He will invest his savings in an industry which will be safe in either case.

(2) Some great new discoveries which may protect our families against polio, arthritis, and perhaps cancer are "on the way." As these come along, drug stocks should boom as television and electronic stocks boomed last year.

(3) The chemists and pharmacists of drug companies are given especial consideration in connection with labor laws and perhaps the draft itself. They are recognized as important workers and entitled to such exemptions from rules and regulations as are possible to give.

(4) Drug stores are permitted by law to be open any number of hours per day and seven days a week including Sundays and holidays. As the modern stores have lunch counters, this long opening period is a public convenience as well as necessity.

(5) Drug stores usually have the choicest locations in a city—at corners, or adjoining bus stations or at otherwise frequented localities. Instead of owning the property, they rent so as to be able to move as the trading areas of the city change.

(6) Drug companies are constantly increasing their lines of merchandise which is no longer limited to sick-room needs. From electric heating pads and gadgets for warming baby's milk, modern drug stores now carry most all home electric appliances and—in addition—an unlimited variety of household supplies.

(7) The public likes to buy at drug stores whatever these stores carry, both on account of the higher quality of the merchandise and the intelligence of the sales clerks. For several reasons the drug industry insists upon higher standards for their employees than any other group.

(8) Earnings of drug stocks are now temporarily depressed due to the industry's overexpansion during the past five years and the need of new capital to pay therefor. This fact should now make such stocks more attractive to the wise investor than other stocks which are, at the moment, very popular.

(9) Drug companies, like other good merchandising corporations, are especially good hedges against inflation. The capital of such companies is almost wholly invested in commodities which rise in price as the purchasing power of the dollar increases.

(10) There is also another personal reason for my investing in drug stocks. I have been most successful when investing in stocks of companies which are saving life or property and thus performing a national service. Certainly, the drug industry is both saving lives and improving the health and happiness of every community.

I even look forward to the time when humanely-minded persons who now seek positions in social service, or in educational fields, or even in church work will see the great opportunity for helping others by serving in a high-grade drug laboratory or store. When this time comes it should give the industry a very high standing which should result in a much greater volume of sales at a larger margin of profit.

* * *

Just a word regarding merchandise stocks in general. I believe that most "store stocks" are preferable to "manufacturing stocks." I hope to see the Dow-Jones Industrial Averages divided between these two groups. Investors will be greatly surprised when this is done. Finally—for several reasons—I prefer the "chains" to the large department stores—whether they are drug chains or variety chains or shoe chains. Moreover, chains which sell to women have better records than chains which sell only to men.

First Boston & Lester & Co. Group Offer Rohr Aircraft Stock

First public financing by Rohr Aircraft Corp., a leading subcontract manufacturer of aircraft components, was undertaken on Nov. 15 with the public offering of 238,000 shares of common stock of the corporation. The First Boston Corp. and Lester & Co. jointly head a banking group which is offering the stock at $11.50 per share.

Of the shares being offered, 100,000 represent additional shares being issued by the company. The balance of the shares are being sold for the account of several stockholders.

Proceeds from the sale of the 100,000 shares will be added to the general funds of the company as reimbursement for the prior redemption of all of its outstanding 5% cumulative preferred stock and to finance the payment of all outstanding 5% mortgage notes.

At the conclusion of the financing the company's capitalization will consist solely of 600,000 shares of common stock.

Rohr Aircraft Corp., a California corporation, was formed in 1940. The major product of the corporation is an engine installation known as a "power package" for multi-engine aircraft. In addition, the company produces exhaust systems, certain fuselage sections, and miscellaneous other parts for aircraft.

Lebenthal Celebrates Silver Anniversary

Lebenthal & Co., dealers in municipal bonds, are celebrating their 25th anniversary. The organization was founded in 1925 by Louis S. Lebenthal for the specified purpose of creating a clearing house for odd-lot municipals. These units of under $1,000 par value were at that time the orphans of the municipal bond field, with uncertain markets and inordinately wide spreads between bid and asked prices.

Louis S. Lebenthal

In order to make a liquid market for these units, it was necessary for Lebenthal & Co. to make a considerable capital investment in units which had no immediate resale. Bonds had to be purchased in substantial numbers for their own account in order to create general confidence in the marketability of such units.

As the new market became known, its rate of growth was accelerated by consistent and aggressive advertising by Lebenthal & Co. With acceptance, the odd-lot field had its own clearing house, and as a result of these increased dealings, the spread between bid and asked was gradually reduced, until today it is relatively nominal.

One of the direct effects of Lebenthal's pioneer work in the odd-lot field was the increased interest of individuals in municipals. With an established market in odd lots and a reasonable price spread, it was possible for individuals to buy odd lots and to obtain diversification with relatively small capital. For example, on Dec. 31, 1932, individuals only owned $5,400,000,000 of the $18,500,000,000 in municipal bonds then outstanding, or about 28%. On June 30, 1949, of the $20,500,000,000 in municipals outstanding, the U. S. Treasury Department reports that $8,900,000,000 were held by individuals—a total of more than 43%.

While still the primary market for odd lots, Lebenthal & Co. has expanded its activities to include round lots as well.

Its library of information on municipals covers 200,000 communities. Partners of Lebenthal & Co. are Louis S. Lebenthal, Sayra F. Lebenthal and Leroy Klein.

With A. E. Weltner

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo.—Carl A. Barnert has been added to the staff of A. E. Weltner & Co., Inc., 21 West Tenth Street.

E. F. Hutton Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Gene Gamble is with E. F. Hutton & Company, 623 South Spring Street.

Dealer-Broker Investment Recommendations and Literature

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

Bank Stocks—Discussion of their prospects for the conservative investor—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

California Street Improvement Bonds—Brochure — Gross, Rogers & Co., 458 South Spring Street, Los Angeles 13, Calif.

Conservative Program for Institutional Investors — Brochure — Keystone Company of Boston, 50 Congress Street, Boston 9, Mass.

Large Blocks of Securities — Brochure outlining the legal problems, techniques, and alternative methods of sale—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, 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.

Special Call Offerings—Explanatory booklet—Thomas, Haab & Botts, 50 Broadway, New York 4, New York.

* * *

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

Also available is a progress report on **Northrop Aircraft, Inc.**

Argo Oil Corporation—Analysis —Russ & Co., Inc., Alamo National Building, San Antonio 5, Tex.

Ascot Metals Corporation Limited—Analysis for brokers, bankers and investment counsel—E. T. Lynch & Co., Dominion Bank Building, Toronto, Ont., Canada.

Also available is a brief report on **Suffield Metals Corporation, Ltd.**

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

Also available are brief reviews of **Cincinnati Milling** and **Elliott Company.**

Byron Jackson Co.—Memorandum—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

Also available is a memorandum on **James Lees & Sons.**

Durez Plastics & Chemicals — Memorandum — Doolittle & Co., Liberty Bank Building, Buffalo 2, N. Y.

Getchell Mine, Inc.—Special report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

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

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

Metals Disintegrating Co., Inc.—Analysis—May & Gannon, Inc., 161 Devonshire Street, Boston 10, Mass.

Mueller Brass Co. — Memorandum—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

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

National Mallinson Fabrics Corp. —Report—Hecker & Co., Liberty Trust Building, Philadelphia 7, Pa.

Pabco Products, Inc.—Analysis —Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

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

Sinclair Oil Corp. — Memorandum—David A. Noyes & Co., 208 South La Salle Street, Chicago 4, Illinois.

Also available is a memorandum on **West Penn Electric Co.**

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

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

Warren Petroleum Corporation —Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a leaflet of **Railroad** developments of the week.

SEC May Permit Enlarged Tombstone Ad

According to a Washington dispatch to the "New York Times," the Securities and Exchange Commission announced Nov. 14 that it had under consideration the adoption of a rule which would permit new issues of registered securities to be advertised with a brief description of the nature of the security offered along with the offering price and certain related matters. At present, a detailed description of the nature of the security or the character of the company's business is prohibited. The "Times" dispatch states also that under the proposed rule the "identifying statement" would contain more information than now appears in the "tombstone ads" which are used in connection with registered offerings, and the identifying statement could be used either before or after the effective date of the registration statement.

The proposed new rule does not permit an exposition of the merits of the security, but it would contain a form which persons who wanted further information could use to request copies of the prospectus. Thus, the proposed change would merely be a device to assist underwriters and dealers in locating persons who might be interested in receiving the prospectus.

The dispatch also adds that in order to facilitate the use of the "red herring prospectus" before the registration statement becomes effective and to avoid the necessity of duplicating the information contained in them the SEC also has under consideration an amendment to Rule 431 of the Securities Act of 1933. This amendment would provide that a final prospectus that is used in selling a registered security to the public might consist of a "red herring prospectus," plus a supplemental document containing such additional information as may be necessary. The amendment would remove the provision which now limits Rule 431 to offerings by an issuer to its existing stockholders.

The SEC has sent out requests that comments on these new proposals be submitted in writing to it not later than Dec. 4.

The Place of Common Stocks In Trust Investment

By ROGER F. MURRAY*
Vice-President, Bankers Trust Company, New York

New York banker critically reviews arguments for increasing common stock commitments by trust funds, and stresses importance of proper selection and timing as investment factor. Emphasizes higher rate of return on common stocks as investment factor and says high yield does not necessarily reflect high risk. Cites difficulties in projecting future income from stocks, and calls attention to general shrinkage in profit margins. Warns against buying stocks simply to "diversify" a trust fund.

The New Respectability of Common Stock

On the basis of our experience in New York State, which used to be the leading legal list state, it appears that an appropriate title for this talk might have been "The New Respectability of Common Stocks." While working with the Trust Investment Study Committee of the New York State Bankers Association during the last several years on a revision of the New York law, I was impressed with how much favorable recognition common stocks have gained as sound media for investment purposes. The change in attitude was reflected, as you konw, in a major revision of our statute to permit the investment of up to 35% of an account in common stocks. While grateful for this progress, many of us favored even more liberal provisions.

Roger F. Murray

As this greater acceptance of equity investments spreads in our thinking, we are all quite naturally concerned lest we become devotees of a new style or fashion. The danger of a "new era" type of thinking is all too apparent. It has always seemed to me that the best advice we have received on trust investment policy comes from these lines composed by Alexander Pope somewhat more than 200 years ago.

"Be not the first by whom the new are tried,
Nor yet the last to lay the old aside."

The note of caution in this brief piece of advice suggests to me that we should thoroughly examine this "new respectability" of common stocks, satisfying ourselves that we are being influenced by the fundamentals rather than by a current wave of opinions, no matter how unanimous they may seem to be at the moment. Throughout the 1940's our thinking was perhaps unduly influenced by the experiences of the 1930s. Has the past decade of virtually uninterrupted business boom given us a bias in the opposite direction?

In short, suppose we ask ourselves this question: "Why are we glad to invest a higher proportion of trust funds in common stocks now that they are selling at the highest prices in 20 years?" This seems like a fair question and it calls for a brief examination of some of the principal arguments advanced for giving common stocks a more prominent place in trust investment.

The Diversification Argument

The point is frequently made that in order to permit adequate diversification by industries and companies it is necessary to include common stocks in an investment portfolio. Corporate debt outstanding is largely concentrated in the railroad and public utility fields. If one wishes to invest in the automobile, building materials, chemical, container, drug, food, nonferrous metals, office equipment, and merchandising fields—to mention only a few important industries—it is necessary to invest largely in common stocks. To illustrate, the Trust Investment Study Committee found that a list of 82 representative companies of general interest having no publicly held debt provides a volume of equity securities substantially larger than the total volume of all long-term corporate bonds outstanding.

There can be no question, therefore, of the statistical validity of this argument. A decision to invest in common stocks opens up a long list of promising industries. But is this the real problem? I doubt it. It would appear that any trust fund can obtain ample diversification in bonds to satisfy any theoretical or practical concept of spreading risks. As a matter of fact, the power to tax which supports the credit of our Federal Government is the broadest source of income in the country. The best diversification in this sense can be obtained, therefore, by investing in Treasury securities. Certainly, then, there are plenty of bonds for diversification purposes.

Participation in the Growth of the Country

Another of the more familiar arguments for larger stock holdings is that they provide a means of participating in the growth of the country. Indiscriminate adherence to this notion must be one of the major contributors to unsatisfactory investment experiences. It is a particularly insidious line of thought because it tends to lead the unwary into the belief that he need not worry about selection because time will take care of any errors in judgment.

The facts are, of course, that the country continues to show a strong secular growth and corporate profits tend to keep pace with this growth. Unfortunately, however, the rate of expansion is highly erratic, forcing the investor to take a position, whether he likes it or not, on where we stand in the business cycle. There is never a time when we do not face the problem of guessing on this question of the outlook, even though this may not be the most important determinant of action.

The other factor disturbing a carefree reliance on the nation's growth is the uneven pace of development in different industries and companies. Over long periods of years, the nation's growth is comprised of many rapidly expanding enterprises, many which just manage to stay about even, and a surprisingly large number which fade gradually into oblivion. If you can locate a record of stock prices in September, 1930, when the Dow-Jones Industrial Average last fluctuated around 232, and compare them with current prices, you will find the most eloquent illustration of this point that I could possibly suggest.

The importance of proper selection and timing is so great, therefore, that any nebulous notion of participation in the growth of the country is largely meaningless. If one has the facilities for reasonably good selection and timing, his experience can be satisfactory almost regardless of the rate of general growth; if he lacks this equipment, investment obsolescence is likely to work too fast to give him a respectable record. Here, of course, is where the investment officer trained and specializing in trust portfolio management can make the big difference in the results achieved.

Protection of Purchasing Power

At the present time I presume that no argument for enlarging common stock holdings is more popular than the one which represents equities as a means of protecting purchasing power or hedging against inflation. It seems to me that this argument has been vigorously presented most of the time since 1933, especially at times when the Federal budget was unbalanced. Although we are fortunately faced with a cash surplus during the rest of the current fiscal year, there is no such comfortable assurance for the following year.

The inflationary pressures activated since the outbreak of war in Korea are exceedingly strong and persistent. In addition, action in the fields of fiscal and monetary policy has not been sufficiently vigorous to encourage the belief that these pressures will be checked at their source. There is considerable basis, as a consequence, for the belief that the trend of prices will continue upward, particularly if the wage-price spiral is continuously invigorated with "pattern" wage increases. The argument that the outlook is basically inflationary seems very convincing to me. The question, then, is the extent to which common stocks provide protection.

Obviously, for this purpose they have a clear edge over fixed-income securities, provided the timing of purchases is reasonably good. It is exceedingly difficult to demonstrate statistically the amount of protection which common stocks have provided. Looking at a large group of common stocks, such as that contained in the 416 stock index prepared by Standard & Poor's, it appears that stock valuations have done reasonably well. At the present time this stock price index, after adjustment for changes in living costs, is at about 92% of the 1935-1939 average. In this sense, purchasing power has been substantially maintained, but I presume we would attribute a large portion of the rise in stock prices to the very substantial recovery in business activity and profits from a semi-depression level to highly prosperous conditions.

Dividend income from stocks is also difficult to measure. Using Moody's figures for 200 representative common stocks adjusted for changes in living costs, it appears from this series that a dividend level averaging $2.40 per share in 1929 through 1931 shrank to a low of $1.22 in 1933. By 1939 the figure had recovered to $1.49, and currently it would be about $2.10. Thus, it appears that corporate dividends on good quality issues declined in purchasing power by about 12½% between the beginning and the end of this 20-year period. This reminds us of two observations: first, that business conditions can be of greater importance than price changes, and, second, that inflation tends to enlarge reported corporate profits to a much greater extent than it enlarges ability to pay dividends.

Without going too deeply into this question of the effects of inflation on corporation finances, we should keep in mind the impact of inflationary pressures on costs as well as on selling prices. The results in a great many instances take the form of a deterioration in the quality of earnings as evidenced by a shrinkage in the margin of profit. This is the familiar phenomenon of the high breakeven point with the consequent volatility of profits. To illustrate, the per cent of gross revenues of the electric utility companies remaining after operating expenses, depreciation, and taxes was 32.7% in 1939, but had shrunk to 20.2% by 1949. The number of dollars available for the common stock increased during this decade, of course, but the margin of profit or margin of safety showed this very substantial contraction. Many other cases can be found in manufacturing where the decline in profit margins is of comparable or larger proportions.

Thus, it seems fair to conclude that while common stocks provide some degree of protection to purchasing power, they also suffer from a squeeze on profit margins, particularly in an atmosphere which is highly critical of corporations and any efforts they may make to pass along higher wage and material costs to consumers. To me, the idea of increasing common stock commitments for the sole purpose of protecting purchasing power is unconvincing by itself; but it may be an important secondary consideration. If, as in recent years, it is logical to buy stocks for other reasons and to have this in mind simply as an added factor, then it seems to me to be in its proper perspective. I recall recently a discussion about various means of hedging against inflation in which one participant remarked that he had discovered the perfect solution. It was simply to keep his money working profitably all of the time. This makes more sense than any number of theoretical studies. It suggests that whether or not inflationary tendencies appear to dominate the outlook, we should apply our best analytical approach rather than to let fear motivate our decisions. We should seek our investments in an orderly manner and not select them in the course of a flight from something else.

Higher Rate of Return

If I have been a little rough on the three preceding arguments for increasing common stock commitments, perhaps I can balance the picture by a rather enthusiastic support of a fourth argument. The best reason that I know of for owning more stocks than in the past is the rate of return differential in favor of equities as compared with bonds and real estate

Continued on page 33

*An address by Mr. Murray at the 19th Mid-Continent Trust Conference of the American Bankers Association, St. Louis, Mo., Nov. 10, 1950.

Deflationary Trend in Offing?

By DOUGLAS H. BELLEMORE *
Chairman, Department of Economics,
College of Business Administration, Boston University

Holding, for short-term outlook, inflation has been greatly oversold to public, Dr. Bellemore foresees probable slough-off in business this winter, which cannot be offset by defense demands for some time.

As an economist I do not pretend to be either a student or a forecaster of stock market trends. The job of an economist is to analyze the business scene and to attempt to separate and classify the confusing and conflicting forces that are always at work within the economy. At all times there are both inflationary and deflationary forces working against each other.

D. H. Bellemore

At some times these appear to be almost in balance, while at other times either the inflationary or deflationary forces appear to be in control of the situation. Furthermore, in the economy as in the stock market, there are short-term and long-term cycles. It is vitally important to keep them separate. While the stock market in the past decade has frequently gone counter to general business, corporate earnings are still the prime determinant of stock prices, although the rate at which anticipated earnings are capitalized has shown considerable variation in the boom stock market years of 1929, 1937, and 1950.

It seems to me that inflation in the short term has been grossly oversold to the public, especially the investment public. It is blindly assumed that inflationary forces have taken hold and that nothing will stop or interrupt them in the war or half-war economy until they have run their full course through the third and last stage—wild inflation. This leads to the following assumptions.

The only sensible thing, therefore, is to flee from dollars into other assets, preferably common stocks, which could only go in one direction—up—for years to come. We are to experience a war or a long period of preparation for war, either of which are highly inflationary. Stocks are therefore cheap even after the long rise since June, not only in terms of current earnings but especially in terms of the long and continuous inflationary spiral that has already started. Deflationary forces are not to be given any consideration. Anyone who questions these assumptions is a candidate for ridicule.

Actually, except when the stage of wild inflation is reached, a strong government can exert very important deflationary pressures such as credit controls and taxes. Under a war or semi-war economy, it has extremely strong reasons for doing so. Furthermore, it should not be overlooked that during the progress of a long credit-inflated boom such as we have been enjoying for many years, strong deflationary forces are built up in the durable goods field. Consumers and producers alike accumulate vast inventories of unused years of service of durable goods.

Before Korea it was evident to many that the economy could not indefinitely absorb one terrific output of durable goods. Korea temporarily added new stimulus to the desire for both durable goods and soft goods because of the fear that these goods might not be available at all, or, if available, only at scarcity prices. Buying in anticipation — borrowing from future demands—reached astounding proportions, but huge production soon satisfied most of this panicky demand, even in the automobile industry. Now it has become clear that consumer durables are still to be produced in rather large volume for some time to come.

It is in this atmosphere that the Federal Government and especially the Federal Reserve saw the faith of a tremendous number of citizens in the American dollar being severely shaken although there was as yet no widespread flight from cash. The government could not tolerate this condition which might lead to a general flight from money. Inflation must be attacked at once at its most potent sources—credit through credit restrictions and incomes through higher taxes. Faith in the dollar must be stored up so that the government financing program of the next few years would be assured of success and so that Army, Navy and Air Corps appropriations would purchase the volume of goods for which they had been appropriated.

Immediate action to attack inflationary psychology which has gripped the public, as well as to attack prices spiraling since June was necessary even though considerable slack might be created in the economy which would not be taken up by defense orders until well into next year or even fiscal 1952.

The "savings" of labor, material, and machinery so that they may be channeled into war work has been assumed by most to be the primary reason for government control at this time. But in reality this has been distinctly secondary to the fear of the administration that inflationary psychology might really take hold.

The results of government and Federal Reserve action restricting housing, automobile, electrical goods, and furniture production when correlated with the overbought condition in many of these lines, as well as the emotional let down resulting from success in Korea, will probably give us a definite slough-off in business this winter which cannot be offset by the current and likely defense demands upon the economy for some time.

As the government demands and expenditures increase, the deflationary factors of much, much higher taxes and much tighter controls than most investors envisage will put on a major fight against inflationary forces and corporate taxes. If the event of an all-out war does come, the deflationary effects are apt to outweigh initially and for some time the inflationary ones, especially as far as common stocks are concerned. Wage increases may well come out of profits to a much greater extent than is anticipated.

*Paper delivered by Dr. Bellemore at panel discussion on "Future of the Security Markets" before the Boston Investment Club, Boston, Mass., Sept. 26, 1950.

What Governmental Policies Today?

By R. C. LEFFINGWELL*
Vice-Chairman of J. P. Morgan & Co. Incorporated
Formerly Assistant Secretary of the Treasury

Prominent banker-economist urges us to defend to utmost our currency and free economy. Declares while pay-as-you-go policy is impossible during a general war, nevertheless, during Russia's limited "war-by-proxy" we must reduce our luxurious civil spending, increase taxes, fund our debt, and pay our way from day to day. Opposes general increase in corporate tax rate, advocating instead moderate supertax for national defense.

We want peace, not war. We have no quarrel with the Russian people. There can be no assured peace as long as the Russian people are isolated and insulated from world opinion, and submit to the iron rule of the Kremlin and its secret police, of men who seek world dominion by fair means or foul, who do not believe in telling the truth or in being bound by their treaties. Yet peace is our goal and we must win it.

R. C. Leffingwell

The war to prevent general war is not to start a war, but to prepare our defense so effectively that our enemies dare not attack us. We and our Allies must achieve promptly a balance of power, a preponderance of military power; and maintain it. General war may be avoided by convincing Stalin and his colleagues in the Politburo that, though we shall not start a war, yet, if they do, we shall win it and shall destroy them and all their works. We must go armed *cap a pie*, about our peaceful business. That is very inconvenient, very expensive; but very necessary when brigands are about.

We have another task too. During this period of limited wars, which Russia fights by proxy or by sabotage, subversion and revolution, we must also prove that the seeds of death are not, as Russia's rulers say, in our American enterprise system, our capital system, our profit and loss system, but that life and growth and health are here. To do this we must defend with the utmost zeal our currency and our free economy, while we strengthen our military defenses.

Korea has roused us from our uneasy sleep. We must not go to sleep again. Wet must be armed and alert to defend the peace.

Diverting Men and Material to Defense

The chief problem of rearmament is not finance but men and material; above all men, skilled workmen, trained soldiers and sailors and fliers. Therefore, first and foremost, and without delay, the Federal Government, and the state and municipal governments, should rigidly curtail their own demands for men and material for purposes not related to defense. Notwithstanding the siren songs of our government's too-political economists, we cannot pile a war boom on top of a peace boom, which had already quite fully employed our manpower and resources.

The Federal Government should stop subsidizing employment and unemployment; stop its inflationary civil spending and lending while seeking men for the armed forces and for munitions making. It should stop subsidizing the housing program; stop road building and river and harbor work; stop subsidizing farm prices. The government should also stop its too numerous credit agencies from their innumerable inflationary activities. It has been proliferating lending agencies; there are about one hundred of them engaged in lending and giving and spending money. Our government should be less generous to uninjured veterans of previous wars. In a world under arms everyone will be a veteran in time, and there won't be enough money to go around if we continue the practice of indiscriminate bonuses and benefits.

The inflationary pressure is not due to a money deficit or deficit financing, for there isn't any cash deficit and hasn't been since the Second World War. If the government and the states and municipalities will divert men and material from the government-subsidized peace boom to national defense, there need be no general shortage of goods or men and no inflationary pressure during this period of limited war and rearmament.

Much has been done in the way of increased taxes, housing control and consumer credit control, much that needed to be done, to limit the citizens' spending, and it may be well to wait a while and see the effect of the new taxes and controls before taking another turn in the screw against the citizens. But not much effort has been made yet by our governments, Federal, state and municipal, to control themselves and their spending. Perhaps now, after election, this will be done.

Let the government ration itself—and the state and municipalities too. Fiscal and credit controls and price controls will not suffice. If the effective demand for goods and services (and the government's demand is always effective) exceeds the supply, inflation is inevitable. We cannot long consume more than we produce. If we try to, the swollen river of inflation will flow to the sea, and the dams erected to the specifications of the Treasury or the Federal Reserve or the price and wage fixers will be washed out.

Foreign Aid

Likewise, our government should instead make reciprocal lend-lease arrangements for defense with those friendly nations in Europe and elsewhere that are willing and able to defend themselves. Marshall aid has done a great and necessary job. In Europe it stopped Russia's war of subversion and revolution dead in its tracks. But, now that we have been confronted by open aggression, we must be sparing of our aid when not directly related to defense.

If we make adequate expenditure to win the local wars and to provide for the defense of ourselves and our Allies, there will be no more general dollar shortage and little more need of Marshall aid. Our commercial exports will shrink as our labor and materials are diverted to the defense

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*Reprinted by permission from "Barron's," Nov. 13, 1950.

Fiscal and Credit Control To Beat Inflation

By LEWIS H. BROWN*
Chairman of the Board, Johns-Manville Corporation
Member, Board of Directors, Federal Reserve Bank of New York

Though asserting days ahead will not be easy, prominent industrial executive favors fiscal and credit controls as holding action until other resorts may also be deemed necessary. Says maintenance of sound money is vital, and warns Treasury must sell bonds to public and not to banks. Points out direct controls shackle economy. Denies low interest rates are problem now, but says there is urgent need for government economy. Lists ten measures to counteract inflation.

It is a rather complex assignment that I have been given. I have been asked to talk to you about the advantages of fiscal and credit controls, as compared with direct controls, during a period of *partial* mobilization like the present.

Lewis H. Brown

Mr. Bernard Baruch, in a recent article in "Look" magazine, predicated his recommendations for controls on the need for all-out mobilization. When I was advisor to the Chief of Ordnance during World War II, I served with Mr. Baruch, who was also an advisor, and I hold him in high regard. On the other hand, I believe that what we are confronted with now is partial mobilization. I do not believe that Russia is going to bring on World War III in the near future.

In World War II we utilized about half of our national productivity to produce for war. In the present partial war, which may last ten years, I doubt if we will use more than a quarter of our total productivity to produce for war.

Avoiding Deficit Financing

In World War II we raised one-half the cost of the war in taxes. If the present war effort is only half as great, we ought to be able to raise enough in taxes to pay as we go and hence to avoid deficit financing.

What I have to say is therefore predicated on partial mobilization. If, as the picture unfolds, we have to go to total mobilization, we will have to adopt more direct controls. But if we have to live with this situation ten years, we ought to avoid as many direct controls as possible.

America's productivity is now so much greater than in 1939 that I believe American industry, if allowed some freedom of action, can produce everything governmental policy may require.

And so I believe in trying fiscal and credit controls, at least as a holding action at present, until we see if other actions of the government will minimize inflation when combined with fiscal and credit controls.

When you refer to fiscal and credit controls many people hurry away, grumbling about the long-haired economists or the bewildering jargon of the bankers.

Days Ahead Will Not Be Easy

But before I say anything about the use of fiscal controls, I would like to point to a few things in which we all have a stake and which have a direct bearing on controls.

The days ahead will not be easy for anyone. We are faced with too many military, economic and international headaches.

Korea is just a sample. Few will deny that we were caught short in Korea as a result of fumbling our policy on Asia. When we drew an imaginary line at the 38th Parallel in Korea we virtually invited the Red Koreans to mass their military might above that line. When we withdrew our forces from South Korea and left it defenseless with nothing more than a token native constabulary force to defend it, we practically invited the invasion by the Red Korean military machine.

You all know the story. The State Department, if I interpret its decisions correctly, specifically excluded from its defensive requirements both South Korea and Formosa. By implication it gave the green light to Communist aggression in those areas.

And after withdrawing from Korea we found ourselves back in Korea, behind the eight-ball.

The Stalin Plan

The Korean war is not an isolated incident. It is part and parcel of what I call the Stalin plan.

In trying to figure out what Stalin is up to, let us not forget that Comrade Nikolay Lenin, the prophet of modern Communism, said that the way to destroy a country is to debauch its currency—in short, to bring about an inflation that would wreck the economy.

Stalin's strategy is to destroy the American system of enlightened capitalism by forcing us to expend tremendous amounts for military operations over the years. I am convinced that Stalin believes the American people have not the courage to discontinue non-essential, non-military expenditures to offset in part the military expenditures necessitated by his flare-ups in various regions of the world.

Stalin is convinced that we have not the courage to raise through war taxes what we need to pay for our military effort. He is convinced that we will do so through deficit financing, thereby debauching our currency and bleeding ourselves white. Were we to continue with deficit financing we would be adding fuel to the fire of inflation.

Perhaps one of our greatest mistakes during World War II was our failure to increase taxes so that we would have had a smaller burden of public debt at the end of the war. And another mistake was our failure to make plans to refund into long-term bonds the portion of the war debt that was in short-term notes. We should have done this in the post-war period.

National Debt Grows

Another great mistake of World War II was the failure to sell a lot more long-term bonds to the public when patriotism was running high. The fetish of a low interest rate was overemphasized. Inadequate consideration was given to the future handling of a large national debt.

Still another great mistake was to permit national deficits after the war in the years of our greatest boom period.

The basic means which enabled us to win World Wars I and II was the efficiency of our industrial machine and its matchless productivity under free enterprise. But free enterprise cannot function without a sound monetary and banking system.

Without a sound monetary system we merely play into Stalin's hands. Should we follow the Stalin line, the value of the dollar would continue to shrink. During and after World War II, from 1939 to 1949, it plunged from $1 to 59 cents. If we were to let Stalin play the piper's tune the value of the dollar conceivably could shrink, over a period of ten years or so, from 59 cents to 39 cents or 29 cents or less.

Dangers of Inflation

That could wreak havoc with our people. Their insurance policies, savings bonds and savings accounts would dwindle in purchasing power; their social security funds and pensions—when they got them—would buy very little. And the result would be despair and dissatisfaction among our American people—not dissatisfaction with our American system but with the way weak politicians failed to administer it as it should be administered. Too late, the American people would awake to realize that they had been victimized by the economic planners, the forerunners of Socialism and Communism. By economic planners I mean those who "plan" politically to get votes instead of economically to get production and maintain a sound dollar.

With this background, I would like to get back to my main theme —controls and inflation.

I'd like to talk about the dangers of inflation and a decline in the purchasing power of the dollar. The financial pages of the newspapers have recently been carrying long stories of a conflict or struggle between the Federal Reserve System and the Treasury.

Usually these stories have been filled with discussions of changes in interest rates of 1/8th of 1% or less, of mysterious refunding operations, and of an increase in the discount rate of the Federal Reserve Banks.

For most of us, those words are enough to tell us we've wandered into a room where we don't belong. I want to tell you why we do belong there, why this is a problem every man and woman in America ought to be tremendously interested in.

Sound Money Is Vital

To win a war we need money, materials, machines and men, mobilized into munitions. With enough munitions plus more men of the kind America produces we can win World War III just as we did World Wars I and II. But sound money is the starting point.

I'm a member of the board of directors of the Federal Reserve Bank of New York. That board recently voted for an increase in the Bank's discount rate which was approved by the Board of Governors of the Federal Reserve System on Aug. 18. I think it was a necessary step along the road toward maintaining the purchasing power of the dollar. I don't think you have to be reminded of the extent of inflation this country experienced as a result of World War II. I don't think I have to tell you that the sharp rise in prices after the end of the war was made possible by the sharp rise in the money supply, which almost doubled between the end of 1941 and the end of 1945.

Well, the gross money supply of this country (meaning the total of checking account deposits and actual currency in the hands of individuals, partnerships and corporations, plus their savings deposits) has been climbing again. At the end of August it made a new all-time high of more than $172 billion, even exceeding the peak in 1947 at the end of the postwar boom by two billion dollars.

Rise in Real Estate Loans

Just as the growth in the money supply in 1947 and 1948 was largely the result of an increase in borrowings from banks by business and individuals, so the growth this year has been caused by an expansion of bank credit. From the time of the outbreak of aggression in Korea to mid-October, business borrowings from Federal Reserve member banks in the 94 largest cities of the country rose $2½ billion.

That's a whopping increase in bank credit, but it's not the whole story. In addition, during the past four months there's been a rise of more than $300 million in the real estate loans of these same banks, a rate of climb triple the same period last year. And, finally, you all know what has happened to borrowings by consumers. At the end of August—we haven't got the September figures yet—consumer credit (that granted by banks, finance companies, and all other institutions) went almost to the $21 billion mark to set a new record.

I mention these figures only to make the point once more. This expansion in bank credit expands the money supply. An increase in the money supply greater than the increase in the supply of goods and services available to spend the money on, means higher prices and a loss of value for the dollar.

Now, what has this to do with the business of interest rates and the Treasury's necessity for refunding some of the national debt? Just this: In making a cheap money market for the Treasury, the Federal Reserve cannot avoid making it cheap for everybody. And a cheap money market is one that encourages—even stimulates—more borrowing.

"Creating" a Credit Balance

In terms of practical banking, the operation is something like this: When a banker makes a loan, he gives the borrower money by "creating" a credit balance in the borrower's checking account in the amount of the money borrowed. When he does so, of course, he increases the deposits of his bank and immediately must increase the amount of reserves he is required to keep at the Federal Reserve. He must also be prepared to make payment on the checks the borrower will draw against his newly created balance. To get the funds he needs for his required reserve and for payment of the checks, the banker turns to the Federal Reserve, more often than not, and sells some of his government securities.

Why shouldn't he? The interest rate on the loan is higher than the yield he can get from the government security, and the borrower is probably an old and favored customer, or the banker hopes he will turn into one in time.

As long as the banker feels confident that he can sell his government securities at any time he

Continued on page 22

*An address by Mr. Brown before Trade Association Executives, in New York City, Nov. 14, 1950.

Greatest Threat to Our Economy Lies Within

By JAMES E. SHELTON*

President, American Bankers Association

President, Security-First National Bank of Los Angeles

ABA President deplores changed concept of our government arising from "New Deal" and "Fair Deal" principles, under which special favors to special groups are granted at the expense of others. Condemns extravagant doles and subsidies paid from confiscatory taxation of both minority and productive groups, and contends all this is leading to loss of incentive, industry and thrift of population. Attacks Socialist doctrine of wealth redistribution and calls Welfare State "creeping socialism." Urges bankers assume responsibility with others in fighting inflation.

We here in the United States are threatened with a loss of our American way of life. These threats come from two sources—from without and from within. The first comes from Russia with the effort of communism to overrun the world by force. Our boys are dying on the battlefields of Korea to resist this effort. In the months and possibly the years which lie immediately ahead, we shall be engaged in a great military, industrial, and spiritual mobilization to block by force if need be the ruthless hordes of Russia and her conquered satellites in their efforts to dominate mankind and to destroy us and all that we and all other freedom-loving people hold most sacred. Christian civilization and humanity are at stake. Our success or our failure will depend basically upon the strength of our economy and the productive capacity of our privately owned and operated industrial system. The future of this country and its very salvation depend upon our strength—not alone our military strength but also our economic, financial, industrial, and spiritual strength on the home front. Only such unquestioned strength can keep us out of all-out war, and only such strength can enable us to win if war is forced upon us. We can be destroyed from without only if we first disintegrate and deteriorate from within. With this background, I say to you in all earnestness that our greatest danger of the loss of our American way of life lies in the threat from within. That threat is "creeping collectivism," "socialism by default," or "the welfare state."

James E. Shelton

The Changed Concept of Government

Almost two decades ago, during a period of severe economic depression when the minds of many people were confused by doubts and harassed by fears, a political appeal was made to our people, based upon an entirely different concept of the relationship of the people to their government. This concept was contrary to our American traditions and instincts. The essence of it was that if the American people, for the emergency, would become the wards rather than the masters of their government, the government would do their economic thinking and planning for them; make and enforce the rules of their economic life; and, as an all-wise father, supply their wants and take away their fears. It is startling to take stock today and see how far the American people have been led down the road to ultimate economic and political enslavement.

An emergency, once declared, never ended. Controls, once established, called for new controls and regulations to make the first controls effective. Government employees increased by leaps and bounds, running now into the millions. Bureaus and administrative agencies, as adjuncts of the executive department, sprang up like mushrooms. Administrative decrees, rulings, and interpretations of rulings began in a large measure to supplant the law of the land as enacted by the legislative department of the government.

Perpetuation of political control was secured very largely by granting special favors to special groups and by spending billions of dollars in subsidies, grants, and doles of all kinds to millions of people presumably on the theory that "nobody shoots Santa Claus." The billions of dollars paid out in doles of one kind and another was money taken from one group of citizens and given to another. The government has no money of its own. The government does not produce wealth — it consumes it. The money it has is only that which it takes from its citizens in the form of taxes, either direct or indirect. How often have we heard the political head of this nation recommend increased taxes based upon "ability to pay" and an endorsement of the giving of doles, subsidies, parity payments, or whatever they may be called, running into billions of dollars. What this really means interpreted in words of one or two syllables is this: The government says to various groups of its citizens: "You stick with me and I won't tax you; but under the guise of taxation, I will rob the other fellow and I will split with you." Democracy doesn't mean the right of various minority groups or even a majority to gang up on and rob anyone — even though they may be in the minority. Our American government and our American system was founded upon the principle of protecting even the single indiivdual in his personal freedom and the right to the proceeds of his productive labor in the form of property. Confiscatory taxation of a minority while exempting those with enough votes to control the government may be legal if the proper formalities are observed, but it is just as immoral and destructive of the character and principles of a people as any other kind of robbery.

Now, those are pretty rough words. If you would like a genteel statement of this question, this is how Bradford B. Smith expresses it under the heading of "Voluntary vs. Coercive Society": "The fundamentally conflicting attitudes at the very root of the matter are as follows: You either believe in a framework of law in which your neighbor is entitled to the possession of his property and the fruits of his productive exertions, to consume or to dispose of as he sees fit in voluntary exchange for the fruits of others' efforts; or else you believe that you have a right through the government to take from your neighbor what he produces without his consent because you or somebody else needs it or wants it, or because he produces more than you do. In one case, the warrant for having something is working to produce it or its equivalent. In the other, the warrant for having something is wanting it, plus the power to take it."

Under this program, the productive portion of our population is being subjected to a tax and other financial burdens which can be sustained only during brief periods of boom prosperity. When the government has its hand in the till of every business, taking about 50 cents out of every dollar of profit, and often taking much more than 50% and even up to over 80% of the earnings of the successful individual, the incentive of the individual is taken from him; and we are hacking away at the foundation upon which our great economic structure has been erected. On the other side of the picture, the recipients of governmental doles, bounties, and pensions are thereby losing their independence, their self-respect, their initiative, their ambition, and are rapidly deteriorating from free men to governmental dependents and satellites.

Program of Redistribution of Wealth

Coupled with this program of taking from one man his substance and giving it to another as a part of a program to redistribute the wealth, we have the program of expanding and extending the governmental controls over the economic life of the individual citizen. The attempt to do away with such a fundamental economic law as that of supply and demand and to substitute involved economic controls devised to prevent people and nations from paying the price for their folly and extravagance never has worked and never will. The danger of all these things is that it tends to corrupt the thinking of the people and to raise a new generation of men and women who have not learned the fundamental importance of such qualities as industry, energy, initiative, ambition, intelligence, training, economy, thrift, and other basic qualities essential to permanent success and progress as individuals and as a nation.

Now, I ask you to believe me when I say to you in all sincerity that I am not interested, in what I say today, in attacking or supporting any political party or the man who may be at the moment its titular head. The issue is far broader and more fundamental than that. I am interested in the preservation of this America of ours as I have known it and have lived under it. I want my sons and their sons to have the opportunities and advantages which I have had in this country. These opportunities and advantages do not exist for them in any other country in this world. They must be preserved here.

The people of Britain for some 15 years have been drinking deep draughts of the poison of communism from the cup of socialism. We must not make the same dangerous or fatal mistake. The recent elections in New Zealand, Australia, and Britain, I hope, indicate a late realization of their tragic folly.

Now, I have great confidence in the sound judgment of the American people if an issue is made clear to them. There is no danger of them knowingly voting for a communistic or even a socialistic form of government. But our slide into the Welfare State has not been so obvious. Writing in the magazine "Fortune" on the subject of "Socialism by Default," John Davenport says: "It is apparent that, internally at least, this

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*From an address by Mr. Shelton before the 19th Mid-Continent Trust Conference of the American Bankers Association, St. Louis, Mo., Nov. 9, 1950.

Missouri Brevities

American Investment Co. of Illinois, St. Louis, on Nov. 10 filed a registration statement with the SEC covering a maximum of 97,121 shares of common stock, $1 par value, which are to be offered for subscription by common stockholders on the basis of one share for each 20 shares held. The price and underwriting terms are to be supplied by amendment. Kidder, Peabody & Co., Alex. Brown & Sons and Glore, Forgan & Co. have been named as principal underwriters. The proceeds received from the sale of this stock are to be applied to the retirement of the outstanding 5% convertible preference stock and the balance will be applied to general corporate purposes and may be used in part for the retirement of series A $1.25 convertible preference stock. **American Investment Co.** is paying a 25% stock dividend on the common stock on Nov. 22 and on Dec. 1 will pay an increased quarterly cash dividend of 40 cents per share on the same issue, both payable to holders of record Nov. 15, 1950. The former quarterly dividend rate was 37½ cents per share. The 40-cent distribution will apply to both the present and the additional shares resulting from the stock dividend. The registration statement is expected to become effective about Nov. 30.

* * *

Brown Shoe Co., St. Louis, has increased its quarterly dividend on the common stock to 60 cents per share from the 50 cents previously paid. Payment will be made on Dec. 1 to holders of record Nov. 15. The directors will again meet on Dec. 5 to discuss the possibility of a special year-end distribution.

* * *

Long-Bell Lumber Co., Kansas City, has declared a year-end dividend of $1.50 per share on the common stock, payable Dec. 1 to holders of record Nov. 3, thus bringing total payments this year to $2.25 per share, as against $1.75 in 1949. Long-Bell Lumber Corp. of Maryland, the parent, voted a dividend of $2.50 per share on the class A stock, payable Dec. 1 to holders of record Nov. 13, which brings that firm's total distributions to $3.50 per share, compared with $2.80 in 1949. Long-Bell Lumber Co. also announced it plans to start immediate construction of a plywood plant at Gardiner, Ore., which, it is believed, will represent an investment of several hundred thousand dollars.

* * *

Union Electric Co. of Missouri plans to receive bids in New York, N. Y., up to 12 o'clock noon (EST) on Dec. 5 for the purchase from it of an issue of $25,000,000 first mortgage and collateral trust bonds due 1980. Public offering date has been fixed tentatively as Dec. 7. The net proceeds are to be used to finance the company's construction program and to repay bank loans.

* * *

Robert E. Blake, former General Counsel for the International Shoe Co., has been elected a member of the board of directors of **American Stove Co.**, St. Louis, which has resumed dividend payments on the common stock with the declaration of one of 15 cents per share payable Nov. 25 to stockholders of record Nov. 6. **American Stove Co.** reported net earnings for the nine months ended Sept. 30, 1950, of $558,509, or $1.03 per common share, after deducting a non-recurring loss of $395,986 on sale of certain property. A net loss was shown for the corresponding period of last year. The net income for the third quarter of 1950 alone was approximately $556,000.

* * *

The stockholders of **Industrial Bancshares Corp.**, St. Louis, will on Nov. 17 be asked to approve a proposal to change the authorized capital stock from 1,000,000 shares, par $4, to 2,000,000 shares, par $2 each, in order to effect a two-for-one split-up. They will also be asked to change the company's name to **General Contract Corp.** It is planned to issue the new shares on Dec. 10.

* * *

Ralston Purina Co., St. Louis, has declared a 50% stock dividend on the common stock, payable Dec. 4 to holders of record Nov. 10, and the usual quarterly cash dividend of 50 cents per share, payable Jan. 2 to holders of record Dec. 4.

* * *

H. D. Lee Co., Inc., Kansas City, has sold its food division to Consolidated Grocers Corp., Chicago, Ill., according to an announcement made on Nov. 11. The Lee company will continue and expand the manufacture of union-made men's work clothes and overalls, selling its entire output under the Lee label.

Allison "501" Turbo-Prop engines fit in nacelles of present commercial transports.

A new kind of Air Travel is in the making

**New military engine—
soon to undergo first tests
in civilian transport—promises
smoother, faster, quieter,
more pleasant air travel**

Within a short time the first American commercial airliner powered by turbine engines will be delivered to the Allison Division of General Motors.

The power plants in this Convair are the new Allison Model "501" Turbo-Props—commercial version of the Navy T38 engine. They are geared to new-type propellers especially designed and built for high-engine-power characteristics by the Aeroproducts Division of General Motors.

The "501" is lighter, smaller, smoother and quieter than any other propeller-type engine of equal horsepower. It develops 2,750 horsepower and weighs only 1,250 pounds!

As soon as this experimental Turbo-Prop transport is received, General Motors-Allison engineers will start putting it through a comprehensive series of flight tests.

In cooperation with the airlines it will be flown under all types of operating conditions—in all kinds of weather. It will be given the works, checked and rechecked many times over, until all its performance characteristics are definitely evaluated.

Such an all-out test program may take a year or more. But it will be well worth it, in view of the fact that present military experience indicates that Turbo-Prop power should bring the following benefits to commercial aviation:

Ability to use low-cost, low-octane fuels, without increased consumption.

Faster speed—up to maximum limit permitted by airframe design.

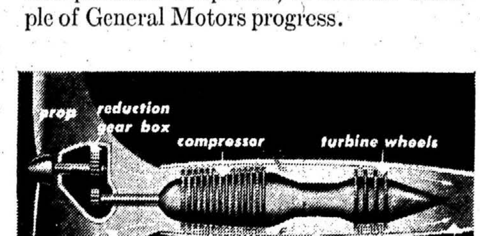
Very low engine weight—less than half—increasing range or pay load.

Much improved take-off and climb—permitting use of shorter runways, with greater safety and better schedules.

Smoother, quieter operation—for more comfortable travel; also lower maintenance and overhaul costs.

Usable in present aircraft—no costly modifications in changing over to turbine power.

The development of the Allison Turbo-Prop engine, America's first axial flow propeller-type turbine engine, together with Aeroproducts Propellers, is another example of General Motors progress.



How the Turbo-Prop Engine Operates

Compressor feeds air under pressure into combustion chamber, where it is mixed with fuel and ignited. Thrust of this hot gas drives turbine which is geared to a drive shaft that operates both compressor and special type Aeroprop Propeller.

Your key to Better Power "MORE AND BETTER THINGS FOR MORE PEOPLE" **GENERAL MOTORS**

ALLISON AIRCRAFT ENGINES • AEROPRODUCTS PROPELLERS • CHEVROLET • PONTIAC
OLDSMOBILE • BUICK • CADILLAC • BODY BY FISHER • GMC TRUCK & COACH

East Asiatic Impact on International Gold Markets

By FRANZ PICK
International Monetary Economist

Gold authority reports rising demand for gold in Far East following new war scare, with Communist China again buying despite stern controls. Says Central and South American governments complete profitable arbitrage deals, selling coins in free markets and replacing them with "cheap" United States Treasury gold.

After a pronounced decline of free market gold prices during October, demand for the yellow metal increased again during the first two weeks of November. Large gold purchases in the Far Eastern and Western European markets quickly absorbed the existing supply of bars and coins and prices rose 2% to 3% above their level of Oct. 31. The major reasons for such events were:


Franz Pick

(1) The increasing fear of World War III.

(2) Large purchases by Chinese, Indo-Chinese and Malayan traders who expect higher gold prices on account of the political events in South East Asia and China.

(3) The new weakness of the pound sterling in Far Eastern markets where millions of dollars worth of earlier bought sterling futures were sold and deposits for these foreign exchange speculations were reconverted into gold.

Free gold transactions in all international markets, which declined during August, September and October, increased during the first two weeks of November and were about 5% above the corresponding October level.

Approximate Gold Sales in All International Markets
(In United States Dollars)

July	$130,000,000
August	95,000,000
September	80,000,000
October	65,000,000
Nov. (1st to 14th)	35,000,000

In the **United States**, gold transactions remained slow during October, but increased slightly during the first two weeks of November. The public showed no interest, whatsoever, in the yellow metal, but professionals were active again. Double Eagles found buyers at $41.00 and small gold bars rose from $38.50 to $39.00 wholesale. New York bullion brokers placed a few shipments of Mexican and Panamanian gold offers in North Africa and in Hongkong f.o.b Western Hemisphere airport, at prices of about $38.00 in October and $39.00 during the second week of November.

Arbitrage By Manhattan Brokers

Large international arbitrage deals were also handled by some Manhattan brokers, who sold substantial amounts of Sovereigns out of Central and South American Government holdings in European and Asiatic markets, at prices equivalent to $44.00 an ounce. The amounts paid by foreign buyers for these coins were reconverted into dollars, credited to the respective governments in American banks, and then reinvested in U. S. Treasury gold at $35.00 an ounce, a price at which every foreign government can officially buy the yellow metal in the United States.

Canada's up-valuation of her currency continued to depress Toronto's and Montreal's free gold markets. Bar gold declined from $38.50 to $37.70 during the last six weeks. Smuggling to the United States, via Montreal and Vancouver, increased. Canadian gold dealers are reported to have suffered considerable losses due to the strength of Ottawa's dollar. Hoarders are eager to sell their stocks of coins and bars, for fear of another rise in the value of their currency.

Central and South American dealers, who tried to sell their gold stocks all over the globe in October, withdrew their offers from the international markets during the first few days of November. Mexico City raised its offers from $37.75 to $38.25. Caracas, which offered at $38.125 during October, was not eager to sell at $38.50. Montivideo again bought small shipments from Colombia and Panama at $38.50. There was a small number of Mexican gold transfers to Amsterdam, Brussels and Bangkok in October. Caracas booked some sales to Beyrouth. Panama reported two large sales of bar gold to the Far East. Gold business in Argentina picked up during the last two weeks. Brazil and Chile reported a revival of local hoarding purchases of coins which were supplied by Montevideo.

Europe's gold dealers, who reported slower transactions during October, were again active during the first two weeks of November. The average daily volume of Paris' gold market rose from $1,250,000 during October to $1,500,000 during the first half of November. Prices of bar gold in France rose from $40.65 at the end of October to $41.125 by Nov. 15. Trading of coins was larger than the volume of gold bars. Gold transactions in Amsterdam, Brussels, Zurich and Milano also recently gained in volume and rose from a daily average of $400,000 to $500,000 in November. Gold business in England showed slight increases during the last two weeks. Transactions remained quiet in all Scandinavian countries. Spain continued to buy coins in Tangiers at $43.00 to $44.00 an ounce. Iron curtain countries reported a revival of gold dealings in Warsaw and Bucharest. Gold demand also increased moderately in Trieste and in Athens.

African Gold Markets

African gold markets again showed some activity. The sales pressure of South African "artistic gold" diminished. Tangiers' unsold stocks of South African spoons, goblets, forks and statuettes were lowered by important shipments to the Far East, where these "goods" could be sold at a profit. Prces paid in Tangiers rose $37.90 to $38.25 during the last two weeks. Beyrouth offered bars at $38.50 against $38.25 two weeks ago. Algiers, Casablanca and Tunis were buyers at $39.75 to $40.00 an ounce.

Asia's gold transactions again centered in Hongkong. Prices in the Crown Colony fluctuated considerably; from $39.00 a month ago, they rose to $41.00 at the end of October, declined to $39.75 at the beginning of November and rose again over $42.00 at the end of this week. Trading which averaged $700,000 daily during October, rose to over $800,000 a day during November. Most of the imported metal was supplied by the Philippines, South African, Tangiers and Central American countries. Hongkong re-exports went to Macao and Saigon. War scared Indo-Chinese dealers paid as high as $43.50 per ounce. There was also a renaissance of gold dealings in Shanghai, where in spite of Communist control, $42.00 an ounce was paid by local hoarders. Gold trading in Japan was slow in October and slightly better in November. Prices in Tokyo and Osaka rose from $39.50 to $40.50. Indian and Pakistan demand for the yellow metal was fair. Bombay's gold price rose from this year's low of $61.50 at the end of October to $62.25 on Nov. 14. Saudi Arabia and Kuweit reported active transactions in gold coins at about $44.00 to $44.50 an ounce.

Blair Holdings Offers To Purchase Common Stock of First Calif.

Blair Holdings Corporation has made a firm offer of purchase to the common stockholders of The First California Company, it was announced by V. D. Dardi, President. While no details of the offer can be revealed, spokesman for Blair Holdings Corporation stated that the offer, if accepted, would result in the continuing operation of The First California Company without change in name or personnel.

In effect, acquisition of the common stock of the investment firm of First California Company would mean that Blair Holdings Corporation has added another wholly-owned subsidiary in the securities field to complement the activities of Blair, Rollins & Co., Inc., all of the common stock of which is also owned by Blair Holdings. The two Blair holdings securities subsidiaries would then operate with 49 offices in all important cities of the United States, with the 23 offices of the First California Company in California and Nevada, and the 26 Blair, Rollins & Co. offices in the principal eastern and mid-western cities.

Blair, Rollins & Co., Inc., the eastern investment banking subsidiary of Blair Holdings Corporation, grew out of the consolidation early this year of two of the nation's oldest investment banking firms—Blair & Co., Inc., and E. H. Rollins & Sons, Incorporated. The merger brought together two firms long prominent in the underwriting and distribution of government, municipal, public utility, railroad and industrial securities. E. H. Rollins & Sons, Inc., had a history dating back to 1876, while Blair & Co., Inc., had its inception in 1890.

In commenting on the action of Blair Holdings Corp., Mr. Dardi stated that his directors felt that their authorization to acquire the common stock of The First California Company was in line with the management's anticipation of an active capital market and a steady flow of capital to industry for modernization and enlargement of the productive facilities for national defense. He further stated that it was the management's opinion that the proved record and successful history of First California Company would ultimately benefit the 68,000 stockholders of Blair Holdings Corporation.

Joins Lincoln McRae

(Special to The Financial Chronicle)

ROCKLAND, Maine — William E. Hedenburg has become connected with Lincoln E. McRae, 449 Main Street.

Connecticut Brevities

An announcement of **Connecticut Light & Power Company** states that it has placed an order for a 75,000 kilowatt steam turbo-generator. The exact site of the new generator has not been determined. It is expected that the new generator will be in service within about three years. The unit was ordered in anticipation of an increasing demand for electric power due to the war emergency. By next spring the company will have increased its generating capacity by 200,000 kilowatts over the V-J Day level.

* * *

Kaman Aircraft has received additional production orders from the Navy. The new contract is for an undisclosed number of HTK-1 trainer type two-place helicopters. It is estimated that this raises the military backlog to over $2 million. Expansion of plant facilities and personnel continues. Since July 1 there has been an increase in employment of 400%.

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In order to finance a proposed expansion program **The Terryville Water Company** has obtained authorization from the Public Utilities Commission to issue rights to its stockholders of record Nov. 23 to purchase seven shares at $25 a share for each 33 shares owned. The rights will expire Dec. 23.

* * *

New England Greyhound Lines has purchased 50% of its own stock from New England Transportation Company, subsidiary of **New York, New Haven & Hartford Railroad Company.** ICC permission was not necessary in order to complete the transaction.

* * *

Sales of **Aspinook Corporation** during its fiscal year ended June 30, 1950 were $22,182,332. Earnings for the period were $2,426,936, equal to $2.51 a share. During the year the company dissolved two of its subsidiaries, Permatex Fabrics Corp. and Fibredown Flocking Corp.

* * *

Bigelow-Sanford Carpet Company has announced plans for the second step in its postwar plan to improve efficiency and increase capacity. The present program, which is expected to take at least three years, involves rearrangement of facilities in the present plants as well as addition of a new plant at a site which has not yet been determined. Plans also call for a new product research and development laboratory at Thompsonville, construction of which will begin next spring. Capital expenditures for this three-year period will be approximately the same as during the past three years.

* * *

As of Nov. 1, Pioneer Parachute Company, a subsidiary of **Cheney Bros.**, had received defense contracts totaling about $8,800,000 to produce parachutes.

* * *

Electric Boat Company has received a contract from the Navy to construct a secret-type 250-ton submarine. In addition the company has recently converted three submarines to snorkel at its yards in New London.

* * *

Yale & Towne Manufacturing Company has reduced its bank loans to $3,498,000 through payment of $1,660,000 on Sept. 30. The company stated that its backlog of orders was satisfactory. Shipments have been increased substantially in recent months.

* * *

Veeder-Root, Inc. has declared a regular quarterly dividend of $.50 and an extra of $1.75 on its common stock. Both dividends are payable Dec. 15 to stockholders of record Dec. 1. Payment of this dividend will bring the total for the year to $3.75, compared to $2.00 in 1949.

* * *

Directors of **Torrington Company** have announced plans to construct a 40,000 square foot factory addition. The new building, which is needed to provide space for expansion of the company's bearing business, is expected to be completed about the middle of 1951.

* * *

Under the FPC order authorizing Northeastern Gas Transmission Company to supply a part of the New England market with natural gas, **Connecticut Light & Power** will receive gas for Winsted and Norwalk; and **Connecticut Power** will supply gas in Torrington and Stamford. Other companies which will receive gas from Northeastern include **Greenwich Gas, Bridgeport Gas Light, Derby Gas & Electric, Danbury and Bethel Gas & Electric Light, Wallingford Gas,** and **New Britain Gas Light.**

With H. A. Riecke Co.

PHILADELPHIA, Pa. — H. A. Riecke & Co., Inc., 1528 Walnut St., members of the Philadelphia-Baltimore Stock Exchange, announce the association with them of Major Andrew L. Gordon as a Registered Representative.

Two With Daugherty Cole

(Special to The Financial Chronicle)

PORTLAND, Ore. — Joseph J. Hammer and Bruce Schumann have become associated with Daugherty, Cole & Co., 729 Southwest Alder Street. Both were formerly associated with Frank Butchart & Co.

Outlook Is for Much Higher Stock Prices

By HOMER O. WHITMAN*
Partner, Lamotte and Whitman,
Investment Advisory Counsellors, Boston, Mass.

Stock market analyst maintains, though market may encounter rough spots, trend will be toward higher prices, and, as depreciation offset, sound common stocks should constitute major portion of prudent investor's portfolio.

The recent action of the market offers additional proof, if such proof is necessary, that the major economic trend is highly inflationary. New wage demands and new price increases in almost every line, are daily occurrences. The political concept of the past 20 years has been to tax and tax, spend and spend, elect and elect; get while the getting is good, and with absolutely no thought for the ultimate consequences. Constant depreciation of the dollar is a certainty, regardless of proposed schemes to check inflation. Political expediencies, such as selective price and wage controls, etc., belong in the same category as the theory of slight pregnancy.


H. O. Whitman

What has this all to do with the stock market? Survival of the fittest continues to be the first law of nature, and human nature being what it is, self preservation is a primary instinct. The individual, as an individual, must keep abreast of the political and inflationary tide, or else his standard of living will surely decline as the value of the dollar declines. The man with a fixed income is indeed in a tough spot, and will most certainly suffer the most. The individual who selects the best possible hedge for his capital will not only keep abreast of the inflationary tide, but will also stand to improve his lot.

One law of physics is that for every action there is an equal and opposite reaction. Wages, goods, real estate and equities will, in varying degree, advance to offset the depreciating dollar. Because of probable controls, commodities as a hedge may prove questionable. Ownership of common stock, on the other hand, appears to offer one of the best means of keeping abreast of, or ahead of the inflationary tide.

What may we expect of the stock market in the months ahead?

As our economy is being propelled at an ever-increasing pace, by highly inflationary forces, the very inertia of these forces will more than offset any and all political expediencies, devised towards getting more votes, rather than for effectually holding inflation in check.

The outlook is for very much higher stock market prices.

Minor corrective moves from time to time will no doubt take care of temporarily over-bought situations. Occasionally, too, a congestion of stop loss orders may touch off shakeouts, as they did in the advance from the June, 1949 lows. Somewhere ahead, the market will be called upon to discount the effects of more taxes and other political expediencies. There is always the ever-present possibility too of other sinister moves by Russia. While the present advance bids well to compare with the June, 1949 to June, 1950 advance, the market may encounter more rough spots on the way up than occurred during the 1949-1950 rise.

To compensate for capital loss because of the constantly depreciating dollar, investment in common stocks of sound, well managed corporations, should constitute a major portion of the prudent investor's portfolio.

*Digest of talk by Mr. Whitman at panel discussion on "The Future of the Securities Markets," before the Boston Investment Club, Boston, Mass., Sept. 26, 1950.

Urges Revision of NYSE Commissions

Leslie Gould says rates should be changed to aid securities merchandising and commissions should be split with unlisted dealers. Advocates Stock Exchange seek President "outside of Wall Street."

In a talk entitled "Merchandising of Securities," before The Bond Club of New Jersey, in Newark, N. J., on Nov. 9, Leslie Gould, Financial Editor of the N. Y. "Journal-American," recommended a revision of the New York Stock Exchange's commission rates as an aid in the wider distribution of securities.


Leslie Gould

"I think Stock Exchange commissions should be revised," Mr. Gould stated, and added "and where there has to be merchandising—doorbell ringing—the rate should be higher. I also think commissions should be split with unlisted dealers.

"If the Stock Exchange doesn't revise its methods," Mr. Gould continued, "it is going to find itself in the lonesome position of setting the market price, but of seeing the business done elsewhere. This already has happened to the bond business. And it can happen to the stock business.

"I happen to think that what happens to the Stock Exchange is important — whether you are a member or a partner in a member firm or are affiliated with another exchange or are simply doing an unlisted business.

"I think it will be bad for the business if it becomes just a place to report prices—but I do think that the worry is more one for the Exchange than those outside the Exchange. What I mean is that there will be a securities business—no matter which way the Stock Exchange happens to go."

Concerning the qualifications for the presidency of the New York Stock Exchange, Mr. Gould remarked: "The Stock Exchange is now seeking a new President. I think the Governors should go outside and get a man from industry who knows merchandising and stockholder relations. That's the big job facing those in the securities business—not only merchandising—selling securities, but also selling American industry and the American way of life.

"The President of the Stock Exchange could be the spokesman for not only the securities business but all private industry and the shareholders.

"As part of this merchandising, the business should do a little better job of self-policing. Every time some little fellow gets taken to the cleaners by a boiler shop salesman, the whole industry gets a black eye. There should be no Globe Aircraft deals, and when there are some heads should roll.

"I'm bullish on the securities business. There are only two places the average person can go in a period of inflation. Stocks and real estate. He certainly doesn't want bonds or cash.

"In the last 10 years the dollar has lost 43% of its purchasing power. It is a 57-cent dollar today compared with 10 years ago. For every dollar put in savings bonds 10 years ago, a person today has a third more dollars, but if he had bought the Dow-Jones industrial price averages he would have about 142% more dollars.

"A few weeks ago, I was at the New York State Mutual Savings Bank Convention at Lake Placid. About the best merchandising story for ownership of common stocks was presented at a meeting of the Savings Bank Association of the State of New York by a savings banker, George P. Montgomery of the Seamen's Bank for Savings. (See the "Chronicle" of Oct. 12, p. 6.)

"He showed that if a specified amount of money had been invested every year in 14 leading stocks since 1927, a person would have doubled the market value of his investment and would have received over those years an average annual return of 7.36%.

"Where can anyone do better than that? And the period covered the top of the '29 boom, the panic, the depression of the '30s, the New Deal, the war, and the uneasy peace.

"I recommend your reading Mr. Montgomery's report.

"I think there is a terrific merchandising job to be done by those in the securities business. But like the Republicans, the defeatism of the past will have to be shed, if it is to get anywhere. This merchandising will have to be on a basis for the average person of a 'savings investment'—not speculation—and the commissions will have to be higher."

Coffin & Burr Adds

(Special to The Financial Chronicle)

BOSTON, Mass.—Michael Robbins has been added to the staff of Coffin & Burr, Incorporated, 60 State Street.

With Eaton & Co.

(Special to The Financial Chronicle)

BOSTON, Mass. — Irving S. Skinner is with Eaton & Company, Inc., 24 Federal Street.

With First of Michigan

(Special to The Financial Chronicle)

BOSTON, Mass.—Thomas Lamb, Jr. is now connected with First of Michigan Corporation.

With A. C. Allyn

KENOSHA, Wis.—Gene W. Wilberg is representing A. C. Allyn and Company, Incorporated from offices at 2428 Seventy-first St.

Richard M. Dunn

Richard M. Dunn, Manager of the Municipal Department for Dean Witter & Co., Los Angeles, Calif., died on Nov. 2 at the age of 50. Mr. Dunn had been associated with Dean Witter & Co. since 1932.

Production Can Be Increased But Inflation May Go On

By EMERSON P. SCHMIDT*
Director, Economic Research Department
Chamber of Commerce of United States

Dr. Schmidt reviews phases of greater production needs and methods of increasing national output. Says it must be made plain that it is an impossible goal to wage war and increase defense facilities without reducing real income of workers, business and agriculture. Asserts more production without adequate savings will not prevent inflation.

The pressure to raise output is based on four recognized needs: (1) To meet military requirements; (2) To minimize shrinkage in civilian consumption; (3) To minimize price increases; and (4) To preserve a free market economy rather than an administered economy.


Dr. E. P. Schmidt

Under the Defense Act of 1950 and other authority granted by previous legislation, the Administration probably has the necessary powers to make reasonably certain that the military will get all the output which Congress provided for—although with some delays, mostly for technical reasons. Indeed, the powers granted by Congress to the Administration have created a condition of potential dictatorship. However, although allocations, inventory and manpower control will divert production, these measures are not likely to increase total production.

That the military requirements will force a contraction of the civilian economy is taken for granted. Higher taxes, and the new consumer and real estate credit controls were deliberately designed to cut civilian consumption and to create incentives for management and labor to shift out of some lines and into others which are regarded as more essential for the economy in the months, perhaps years, ahead. Nevertheless, these shifts are resented by many individuals affected by them.

Also, the cut in spendable income and its purchasing power, caused by rising taxes and by rising prices, is resented. Those persons adversely affected, even though acknowledging that "we must all tighten our belts," have been taking steps to preserve their positions through efforts to try to get more wage increases, more wage supplements, shifting the tax burden to others, and generally electing politicians who would owe their offices to them. Some of these group attempts to shift the burdens of war will be successful, but at the expense of less well organized and inarticulate groups and sectors of the economy.

Obstacles to Greater Supplies

Given the size of the military requirements, "belt tightening" is inevitable. Privation, however, can be reduced by greater total production. But how much can we raise production? The answer probably is "only a moderate amount," in the short run. This is true for a number of reasons:

(1) We are already operating at virtually full plant capacity, including mining.

(2) The shortage of labor is the most critical factor.

(3) We are inadequately prepared psychologically to abandon customary practices and habits.

(4) Most of the rest of the world is also increasing its demands for materials and supplies.

For these four and possibly other reasons, we will have difficulty in augmenting total production sufficiently to prevent a shrinkage in civilian consumption. While exhortation for greater production is probably mostly breath-wasting, the proper emphasis on the urgency of greater production can do something to increase individual application, reduce both management and labor absenteeism, and improve output per unit of labor effort. There may be a difference between mere exhortation and getting people to grasp fully the urgency. If this is so, we should be resourceful in patterning a campaign to "put across" this feeling of urgency.

If we could assure the American people, furthermore, that by proper effort and organization we can rearm and terminate the Korean War and at the same time lift our standard of living moderately over the months and the years, this would undoubtedly be a production morale builder. Can we honestly give such assurance —guns *and* butter, or is it guns *or* butter?

How, then, can we raise production and supplies? Of the following list, some deal with the short run and others would require a longer time to become effective. Some, such as expanding plant capacity, would tend to raise prices and reduce military or civilian supplies for substantial periods — until the enlarged capacity would be in production.

Methods of Increasing Total Supplies

(1) *Tariff reductions* — While this would enlarge supplies to the U. S. A., it would also concurrently enlarge the buying power in the hands of foreigners who would then be in a position to take that much more out of our economy. Should they take such things as machine tools and other labor-saving and cost-reducing production factors, the net effect of tariff reduction on our total available supplies might be negligible or even negative in the short run. Nevertheless, tariff reduction leads to a more economic use of resources in the longer run.

(2) *Procurement of goods and services abroad for the military and our occupation forces.* West Berlin has 300,000 unemployed and the rest of Western Germany has 1.3 million unemployed. Italy has 2 million unemployed.

(3) *Encourage other Western powers to carry a larger portion of the rearmament and defense burden.*

(4) *Import and production subsidies*, especially for submarginal producers such as copper and zinc mining, for example.

(5) *Private capital expansion*—Five-year amortization will greatly enhance the possibility of rais-

*Statement by Dr. Schmidt before the Conference of National Organizations, Chicago, Ill., Nov. 9, 1950.

ing the necessary capital for plant expansion.

(6) *Government war plant construction.*

(7) *Government loans for war plant construction.*

(8) *Eliminating waste and raising productivity* — Something along these lines could be accomplished by intensifying research, more rapid introduction of labor-saving devices, supervisory staff training, more widespread piece-work and other wage incentive systems. Instilling a sense of urgency could do a great deal here. Whether labor-management commitees would help or hinder is a matter of dispute.

(9) *A systematic attack with the cooperation of employees on make-work rules and featherbedding practices.*

(10) *Longer work-week, consistent with safeguarding health*— The suspension of the 50% penalty on hours over 40 per week, adopted in 1938 as a work-spreading device, may be politically impossible. The longer work-week may increase output, but because of the payment of wages at 150% of the regular rates after 40 hours, the longer work-week probably increases inflation problems, due to the greater than proportionate increase in spending power.

(11) *Recruiting more manpower*—Good wages, patriotic appeals, and special efforts to draw retired workers, women, handicapped workers, and young people into the labor force can increase the labor supply by five million.

(12) *Deferring retirement*—The substantial increase in old-age benefits provided by Congress in 1950, plus the expansion of supplementary pension plans, will make it harder to induce workers to work beyond the normal retirement age of 65.

(13) *Desisting from "manpower hoarding" policies.*

(14) *Releasing agricultural surpluses,* now held by the Government, could do something to increase available supplies and keep prices down.

(15) *Modifying or removing restrictions on acreage and/or farm product marketings.*

Each of these methods may merit review. "Business as usual," "labor as usual," and "politics as usual" may stand in the way of effective action. Only a clear explanation by the Administration of the international situation to which our foreign policies and developments abroad have led will break down the resistance to change.

It must be made unmistakably plain that the attempt to wage the current war and prepare a greatly enlarged defense establishment here and abroad, without reducing the real income—the purchasing power—of the workers, business and agriculture is an impossible goal. A particular group may be quite willing, of course, to "take it out of" other groups.

Some of the methods for increasing production and supplies fall within the sphere of management, some of labor and management, and others fall within the sphere of the Congress and the Administration. Taken together and pressed with vigor, they can reduce the size of the inevitable cutbacks in civilian production.

It is highly important that these efforts to increase output and supplies be made concurrently with the expanded military expenditures if the inflationary pressures are to be abated, and comprehensive direct control and regimentation of the civilian economy are to be avoided.

More Production Alone Will Not Prevent Inflation

There is a disposition in some quarters to assert that only more production can prevent still higher prices. This is a dangerous and seriously misleading half-truth, frequently reiterated by businessmen themselves. Inflation is properly defined as an increase in the money supply relative to the supply of goods on which the money may be spent.[1] Higher or rising prices are the symptoms or results of inflation, not the cause. Price and wage controls deal with the symptoms and not the cause of inflation.

Today we have an inflationary condition both here and in nearly all parts of the world. Spending power is rising faster than output —almost everywhere. While the Federal budget may be roughly in balance for the rest of this fiscal year, our wartime deficit spending has raised the liquid assets in the hands of the people and business to $242 billion, from a prewar figure of $65 billion. These liquid assets are on the move—are being spent more rapidly. Consumer credit and real estate credit may now be under-adequate (some say over-adequate) control. Commercial and agricultural credit are soaring by leaps and bounds. In spite of the substantial earnings of American business currently, business is going deeper and deeper into debt. In the third quarter of this year, commercial, industrial and agricultural loans at leading city banks rose at an annual rate of $6 billion, as against only $400 million in the previous 12 months, and only $3.3 billion in 1947, the year of the greatest postwar boom in loans.

The American people are becoming inflation conscious. This means a shying away from *dollar* savings. Savings bond redemptions exceed new sales of such bonds. A most important way of reducing the pressure on existing supplies of goods and keeping prices down is to encourage more saving. In part, the scarcity of goods is merely a reflection of the flight from the dollar. But the people will save in dollars and dollar instruments only if they feel that the purchasing power of the dollar is going to be maintained. Saving not only reduces the pressure on supplies. But it also makes the financing of plant expansion through money saving (rather than credit creation through commercial bank loans) that much easier.

For these reasons "the adequacy" of supplies has a relation to monetary and fiscal policy, not always adequately recognized.

[1] See *Economics of the Money Supply,* Chamber of Commerce of U. S. A.

Gerald Livingston

Gerald Moncrieffe Livingston, member of the New York Stock Exchange, and nationally known as an exhibitor and breeder of sporting dogs, died of a stroke at his country home at the age of 67. Until his retirement some years ago he was head of Livingston & Co.

Hitchman Partner in Kenower, MacArthur

DETROIT, Mich. — T. Norris Hitchman has been admitted to partnership in Kenower, MacArthur & Co., Ford Building, members of the Detroit and Midwest Stock Exchanges. Mr. Hitchman, who has been active in the investment securities field for the past 17 years, is a graduate of Wayne University and the Harvard Graduate School of Business Administration. For a number of years he served as an officer of Investment Counsel, Inc. and later with Kales-Kramer Investment Co. He also has served as consultant to municipalities on financial problems.


T. Norris Hitchman

Mr. Hitchman is a member of the Bond Club of Detroit and the Analysts Club of Detroit.

La Salle St. Women To Hear S. M. Gofen

CHICAGO, Ill.—La Salle Street Women will have S. M. Gofen, partner in the investment counsel firm of Gofen and Glossberg, as guest and speaker at their monthly dinner meeting at 6 o'clock Monday, Nov. 30, at the College Club, 30 North Michigan Avenue, Chicago. He has chosen as his topic "Selection vs. Timing in Buying Stocks."

Mr. Gofen, after his graduation from the University of Minnesota in 1920, was associated with newspapers in Minnesota and the Chicago "Journal of Commerce," leaving that field in 1922 to go into the investment business with Ames, Emerich & Co. and later with Hallgarten & Co. Since 1932 he has been a partner of Gofen and Glossberg. He has also lectured at the University of Wisconsin.

Presiding at this dinner will be Miss Edith Jiencke, President, who is with Gofen and Glossberg.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market continues to stay on the constructive side with the longest bank issues giving the best demonstration of strength on not too much expansion of volume. The fact that the market as a whole has been giving a better account of itself is due in no small measure to the improved psychological attitude which seems to be prevailing. There likewise appears to be less fear of what might take place if reserves should be raised. Also there seems to be more than a passing feeling that reserve requirements will not be changed in the foreseeable future. It is felt that the authorities have been able to accomplish most of what they set out to do, without actually changing reserves, and whatever might be done along this line now to further tie up earning assets of the banks, might tend to nullify these results.

The leading issues market-wise have been the bank 2½s of 1967/72 and the shorter tap bonds, with the latter obligations attracting investors as well as traders. The nearer-term maturities have been steady to better, despite tight money conditions and a bill rate which still shows firming tendencies.

Higher Reserves Doubted

Despite the continued uptrend in loans the feeling appears to be growing in the money markets that reserve requirements are not likely to be increased. Although the inflationary pressure is still strong, it is believed the curtailment of general business activity because of the changeover to military production will ease the situation considerably. There might even be a temporary increase in unemployment during this period, which is usually not conducive to runaway buying with its resultant effect upon prices. Likewise the effects of the direct controls by Federal, that is, regulations W and X are going to be felt more than they have been up to this time. This deliberate policy of putting the brakes on by the authorities may bear enough fruit to make unnecessary at this time such clumsy methods as the upping of reserve requirements.

If there should be no increase in reserve requirements in the near future, has not the eligible market seen its lows? That seems to be the opinion of many operators in these securities. On the other hand, with the short-term rate at about the 1½% level, which is the highest rate to be expected for the time being, is there likely to be much of an uptrend in prices of bank issues? Here again the belief is that the eligible obligations are not likely to move ahead too much from prevailing areas, although there might be spurts in specific issues because of the scarcity factor.

Ineligibles in Demand

The ineligibles seem to have a better tone, although there are still quite a number of these bonds around for sale. Nonetheless, the earlier eligible tap issues appear to be attracting attention again, with new money and switches being used to take on these obligations. There has been more interest in the taps out as far as the 1966/71s by investors that bought these securities at higher prices earlier in the year. Not only is the averaging down bringing buying into these obligations, but there are also considerable new purchases because the feeling is that most of the important liquidation is over in these bonds.

Although the government market is not without uncertainties there appears to be more of a feeling that an area of stability is in the making and it might not be far from prevailing levels. It is being pointed out that the eligible list has rather fully discounted developments, which have been predicted, but in at least a few instances have not taken place yet. Even if these conditions should come to pass, not more than a temporary irregularity is looked for in the bank issues. As far as the tap bonds are concerned, the liquidation has not been as vigorous as has been the case in the past. It is believed that there will be more selling by life insurance companies and savings banks, but with direct controls at work, the end of this liquidation can be seen in the not too distant future by many of those which have been taking on the restricted obligations. It is indicated that better market action is looked for in the tap issues, by some of the shrewd operators in Treasury obligations. Some issues will probably act better than others because of selective and spot buying at first.

Long Eligibles Buoyant

Out-of-town banks and dealers have been responsible for the better action of the longer eligibles in a market which has been and still is thin. Short covering here and there by traders coupled with not too sizable buy orders, has kept these securities on the buoyant side. There has also been the usual acquisition of the tax-protected issues, with reports of a fair-sized purchase having been made in the 1960/65s by one of the larger mid-western institutions.

In the shorter end of the list the 1⅜s of 1954 and the 1½s of 1955 have been well taken with the buying rather widespread. It seems as though these issues selling at a discount are being looked upon by many institutions as a desirable haven for funds. The 1952/54s also have been getting more than a passing play by these same banks.

Douglas Bartow with G. C. Haas & Co.

G. C. Haas & Co., 63 Wall St., New York City, members of the New York Stock Exchange, announce that Douglas E. Bartow has become associated with the firm in its bond department. Mr. Bartow has recently been with Central Republic Co. Prior thereto he was with Laurence M. Marks & Co.

Vincent Mellin with Union Securities

Union Securities Corp., 65 Broadway, New York City, has announced that Vincent J. Mellin has joined the staff of their New York office. Prior to joining Union Securities Mr. Mellin had been associated with The First Boston Corp. and with Walter Murphy, Jr. & Co.

Underdeveloped People

"A major obstacle to development in underdeveloped areas has been their long-standing poverty itself, which has made it impossible to produce a sufficient margin over subsistence needs to build for the future. To overcome this obstacle these areas need a flow of capital from abroad substantially greater than they have been receiving.

"In addition to new investment, the great need of underdeveloped areas is for modern techniques and technical guidance in such basic fields as agriculture, health, resource development, and public service, as well as industry.

"There have also been major obstacles to development unrelated to financing. Administrative machinery and technical skills are grossly inadequate. The inertia of custom and tradition frequently results in a lack of enterprise.

"Many of the governments are new and inexperienced, and in some cases there exists an unwillingness to take the steps necessary for development within the countries themselves. While these factors limit the rate at which new capital can be absorbed and new techniques learned, they can be gradually overcome."—Gordon Gray.

The trouble, or one of the troubles, with these underdeveloped regions is the underdeveloped people who live in them—and their lack of interest in developing.

Sees Long Period of Inflationary Conditions

William J. Weig, Second Vice-President of Guaranty Trust Company, says banks and trust companies are faced with rising costs and therefore increased charges for their services should be remedy for dwindling earnings.

In addressing the American Bankers Association Mid-Continent Trust Conference in St. Louis on Nov. 9, William J. Weig, Second Vice-President of the Guaranty Trust Company of New York, expressed the view generally taken by bankers and economists that inflationary conditions will persist in this country for a long period ahead and, as a result, banking and trust services will become more costly and must be met in part at least by increased fees. Speaking specifically on this topic, Mr. Weig stated:


William J. Weig

"At the end of the war, after wage and price controls were released, was the time that Peck's bad boy really started to rear his head. Civilian production soared with the consequent result that manufacturing and industrial companies bid for clerical help at any price in order to maintain their records. Within reason it made little difference what these companies paid in salaries to clerical hire because it could be passed on to the consumer. In banks, and particularly trust departments, it became necessary to meet this competition in the salary scale. It developed that starting salaries of young clerks almost doubled in the 5-year period since the termination of the war. Other costs have also risen because in operating the trust department it is necessary to have supplies and equipment and therefore the trust department is also a consumer. Every increase in the cost of living finally resulted in another increase in the salary of bank clerks. In the trust field many cherish the tradition that fees for our services should not fluctuate with the rise or fall in cost of doing business. The result is that many trust departments today are operating at substantial losses. Unsuspecting trust officers and bank managers do not realize this condition because they do not have available the results produced by a good cost accounting system.

"In the Personal Trust Division many fees are based on income. Because of the deficit financing by the Government it has become its policy to hold in check any increase in interest rates. In consequence of this public policy income in many trust accounts, particularly those restricted to bond investments, has been reduced. Inasmuch as the fees charged have remained the same the earnings of the trust department have been reduced. With income in trust accounts decreasing, grantors and beneficiaries inquired of the trustees how earnings from investments could be increased. The natural conclusion in most instances was the selection of equity securities. During the last ten years practically every trust or estate gives discretionary power to the fiduciary in the selection of investments. There is no doubt that stocks as a class are very much more expensive to service than investments in bonds. Whereas funded indebtedness of class A corporations can be purchased for maturity date and yield and held with little servicing, the stocks of those very same corporations cannot be purchased and held for indefinite periods without reviewing the earnings and financial condition of the corporations. Many trust department executives have jumped to the conclusion that the common trust fund is the solution, but let me say that it is only part of the solution. Estimates by some persons that large savings are possible by the use of the common trust fund have as yet not been proved. In fact, without a good cost accounting system no one can prove the actual savings by the use of a common trust fund.

"The so-called social revolution which has taken place during the last decade or more is another very important factor in the increased costs of operating. The Wage and Hour Law, which provides for minimum pay and overtime payments for hours worked over 40 a week, has had a tremendous effect in the cost of operating banks. I do not intend to convey the impression that I am opposed to minimum wages and overtime payments, but it must be recognized for the results it produces, that is higher costs of operating, and therefore lower profits or larger losses. Not alone have we been subject to higher salary costs by reason of the Wage and Hour Law and a higher wage scale, but we are also feeling the effect of the other side of the pincer, namely, lower productivity of our clerks. Again I say that I do not wish anyone to be overworked, for the Lord knows that in my day it was common for a bank clerk to work 60 to 65 hours a week without overtime pay, simply because the job spelled security. But we must not overlook the fact that such conditions result in an increase in the cost of operating almost equal to the higher salaries being paid to present day clerks.

"In the opinion of most, if not all of the sound thinking leaders of our country, we will remain in an inflationary condition for many years to come. In fact, I have heard it said that we will be in a war economy during the remaining lifetime of our present generation. With such stark predictions staring us in the face how can we sit idly by and not find out what it costs us to furnish trust services? Furthermore, we must determine where and how our costs are increasing the most and the fastest so that we may take such steps to correct our situation as prudence would dictate. A good cost accounting system properly applied and correctly interpreted will indicate to a man of good judgment the spots in the organization in which remedial measures are necessary. It is only in late years that we have heard the cry of banks for mechanization and more mechanization. Such a change in organization oftentimes is a partial answer to our problem of rising cost with diminishing profits, but it alone is not the full answer. Increased charges for our services must also be a part of the remedy for dwindling earnings.

"We often hear that the conditions which I have outlined to you cannot last forever and therefore we should wait before taking drastic action. It has now been almost ten years since we first experienced a constant creeping upward in our costs of operating with particular emphasis on the last five years. Last year I heard that salaries had stabilized and therefore we could use as a basis our payroll during that period. Now again the cost of living has risen, particularly since the outbreak of hostilities in Korea. Can we sit idly by and ignore the economic pressure on our employees in the face of rising wages and salaries in companies having labor unions? I would say that we cannot ignore this pressure for very long if for no other reason than self preservation, not to mention one of our primary responsibilities of equity and liberality toward our employees. The increasing scale of wages in industry is resulting again in increased costs of equipment. Therefore, when we consider mechanization we are faced with higher costs for the machinery necessary to mechanize. In the larger banks this can become a sizable factor in determining whether some procedure should be changed over from manual to machine operation."

Hettinger Speaks

A. J. Hettinger, Jr., partner of Lazard Freres & Co., was the guest speaker at a luncheon meeting of The Women's Bond Club of New York on Tuesday, Nov. 14. His subject was "Economic Trends."

Financial vs. Physical Controls

By PAUL EINZIG

Dr. Einzig notes the revival of financial controls, such as the Bank Rate, to avoid inflation in place of physical controls which prevailed during and since the war. Points out physical controls, particularly in Britain, were not intelligently applied and were based on political rather than economic considerations

LONDON, Eng.—The last month or two witnessed a revival of the use of the bank rate as an instrument of economic policy. The United States were the first to resort to that instrument, and the example has since been followed by Belgium, Sweden, Denmark and the Western zones of Germany. All these countries have now raised their official rediscount rate in order to check the rise of prices and the adverse change in their trade balances by means of tightening up money conditions. A few months ago it looked as if the bank rate weapon had disappeared for good from the armory of the monetary authorities of most countries, even though it was applied since the war in some countries. It was the sharp rise in prices following on the Korean war that induced some Central Banks to revert to its use. And it was the Central Banks rather than the governments that favored its use; indeed in Western Germany there is a serious disagreement between the two authorities about the wisdom of the high bank rate.


Dr. Paul Einzig

That the rising trend of world prices and the prospects of shortages due to rearmament calls for some form of control of production and trade is beyond dispute. The question is whether financial or physical controls would be preferable. Until the thirties the system of financial controls reigned supreme all over the world with the exception of Soviet Russia and some economically backward countries. Any unwanted economic trend was sought to be corrected by means of changes in the level of interest rates or in the volume of financial resources available for production or consumption. Largely as a result of the influence of Lord Keynes' teachings, this system was abandoned before and during the war. The doctrine that money should always be cheap and sufficiently plentiful to meet legitimate requirements has been adopted in almost every country. It continued to be applied in most countries even after the war, though Belgium and Italy were inclined to revert to the orthodox system.

One of the reasons why there is now a tendency in many countries to reconsider the basic principle of monetary policy is that Lord Keynes has now been dead for more than four years, and there is a reaction against his teachings in this sphere. He had lived to see the triumph of his policy of full employment, but unfortunately he did not live long enough to witness the adverse effects of the exaggeration of his policy into over-full employment. He never hesitated to admit when events had proved the need for a revision of his theories, and it is reasonable to suppose that, if he were alive, he would have revised this policy of full employment so as to provide safeguards not only against mass unemployment but also against over-full employment. It is equally probable, however, that he would not have chosen the weapon of dear and scarce money. Even though during the last years of his life he reverted to orthodoxy in some respects—at Bretton Woods in 1944 and during the negotiation of the loan agreement in 1945 he came to favor a rigid stabilization of the exchanges and the convertibility of sterling—he remained to the last opposed to an indiscriminate curtailment of production by monetary restrictions.

Although Lord Keynes' influence has undoubtedly declined, it is sufficiently strong to prevent a return of high interest rates and scarce money in Britain. From this point of view there is not likely to be any difference if the Socialist Government were to be succeeded by a Conservative Government. An increase of interest rates is opposed because it would aggravate the budgetary problem by adding to the burden of the public debt; because it would add to the cost of industrial and agricultural production and of distribution; and because it would discourage house building by making its financing too costly.

The alternative method of checking the rising trend of prices is through the application of physical controls. Such controls have never been properly applied by the Socialist Government in Britain. Scarce as manpower has been since the war amidst the prevailing over-full employment, no intelligent effort has been made to avoid wasting labor on socially useless activities. During the last year or two the Socialist Government has greatly relaxed its controls. On Nov. 2 the new Chancellor of the Exchequer, Mr. Gaitskell, foreshadowed their restoration in order to meet the needs of rearmament. But even if all previous controls were to be restored their effect would not be sufficient. For in spite of those controls over-full employment was allowed to develop even in the absence of rearmament. With the demand for labor for rearmament added to previous demand, over-full employment would become accentuated further.

In order to ensure the effectiveness of physical controls it would be necessary to apply them more intelligently than they had been applied in the past. One of the main points of criticisms against financial controls is that they operate indiscriminately against useful and useless branches of production. The same criticism can be made, however, also against unintelligently applied physical controls. So long as hundreds of thousands of workers are allowed to be employed by football pools and other utterly futile occupations the adherents of physical controls have no right to criticize the rival school. The advantage of financial control over physical control is that it is strictly nonpolitical. Under it some useless occupations may continue to divert labor from rearmament or from essential civilian production, but such diversions are not due to the desire of politicians to avoid unpopular decisions. There can be no justification for physical controls unless they are guided by economic considerations instead of being guided by political considerations. Otherwise the foolproof and knaveproof indiscriminate financial controls appear to be the smaller evil.

Resumption of Dealings in Japanese Bonds

Trading on the stock exchanges, suspended after Pearl Harbor attack, now permitted. Does not include dollar bonds that have been converted into Japanese currency.

The Securities and Exchange Commission announced on Nov. 11 that, with the resumption of dealings in Japanese bonds on the New York Stock and New York Curb Exchanges, it has withdrawn its request that brokers and dealers in this country refrain from making a market in these securities.

This action follows extended negotiations with the Ministry of Finance of the Japanese Government through the Supreme Commander for the Allied Powers. As a result the Japanese Government has filed with the New York Stock Exchange and the Commission a report under the Securities Exchange Act of 1934 which relates to the status of the outstanding bonds.

The report filed indicates among other things that, in the view of the Japanese Government, the treatment of the foreign debt of Japan will be dependent upon the conclusion of a peace treaty and that the Japanese Government is not in a position to make any statement with regard to a time for the resumption of service on the bonds. Copies of the report, which contains other important facts bearing on the status of the various issues, may be obtained from the New York Stock Exchange upon request.

The Japanese Government has also prepared and filed a list of bonds held in this country which are considered by the Japanese Government to be no longer valid dollar obligations because of action taken pursuant to Japanese Law No. 60 of March 15, 1943; this action provided for the issuance of yen obligations in substitution for dollar bonds owned by Japanese nationals. Pursuant to rules of the New York Stock Exchange and the New York Curb Exchange, bonds included on this list will not be considered "good delivery" against sales made on those exchanges. Copies of this list of bonds may also be obtained from the New York Stock Exchange.

On Dec. 8, 1941, following the attack on Pearl Harbor, the New York Stock Exchange suspended trading in bonds of Japanese and other "Axis" countries and issues in those countries. Thereupon the Commission, after consultation with other interested government agencies, requested the cooperation of brokers and dealers to refrain from effecting transactions in these securities without first obtaining the approval of the Commission. This action was intended to prevent a public market for these securities.

The Commission has expressed its appreciation of the cooperation which it has received from brokers and dealers with respect to the question of trading in Japanese securities. Pending further developments, the Commission requests the continued cooperation of the securities industry in abstaining from any activities which would tend to create a public market in securities issued by Germany, Austria, Bulgaria, Hungary or Rumania, or issuers in those countries.

The Commission's action as to Japanese bonds does not mean that it has in any way passed upon the merits of these securities.

Day, Lankenau Join Albert Frank Agency

Robert W. Day, formerly Radio and Television Director with Lynn Baker, Inc., and John Hancock Mutual Life Insurance Co., has joined Albert Frank-Guenther Law, Inc., in a similar capacity.

Henry P. Lankenau, formerly Merchandising Director of Research Institute of America and Sales Promotion Manager of Union Bag & Paper Corp., has joined the agency's Merchandising and Sales Promotion staff.

Mutual Funds

By ROBERT R. RICH

Current Analysis of Insurance Group Shares

Hare's Ltd. reports that the 22 insurance companies, in whose stocks Insurance Group Shares provide ownership, have an average continuous business record of 104 years, and, as a group, have paid dividends without interruption for 69 years.

In reporting on the current statistical condition of Insurance Group Shares, Hare's state that:

"For each $8 you invest today in the stocks of these companies as a group, you obtain an equity of approximately $10 representing almost entirely high grade securities and cash.

"Their investments in income-bearing securities are currently about twice the market price of their stocks. Thus, for each $8 you invest in their stocks, you enjoy the ownership in their income from $16 invested in high grade securities.

"Their earnings come from their underwriting business and income on their investments, but it is their income from investments on which they predicate dividends and such income is now at an all-time high.

"They could increase their present rate of dividends as much as 50% by paying out only 80% of their current investment income and, for a very long period of years, their practice has been to pay 80% and retain their underwriting earnings in their business to provide for growth. Underwriting earnings this year are expected to be about twice their all-time high earnings from investments, thus paying dividends equal to 80% of their investment income would amount to paying out less than one-third of their total earnings. These underwriting earnings which are retained in their business nevertheless belong to their shareholders to the same extent as the dividends they pay and, furthermore, increase the companies' earning power.

"The progress of these companies during recent years has been phenomenal. During the last three years their business volume has increased more than during the previous 30 years. Their earnings have increased over 200%. In comparison, their stocks have risen in market value less than 30% and appear decidedly undervalued and thus should prove a most profitable investment over the long term.

"Their earnings are less affected by taxes than those of profitable industrial companies and their exemption, based on previous earnings and/or capital funds, from the excess profits tax of World War II was such that none of these companies was required to pay any excess profits tax.

"Considering the favorable conditions discussed above, it is reasonable to assume that the dividend payments by these companies will be increased between now and the end of the year and that this should have a favorable effect on the market value of their stocks."

Wellington Offers Dealers Two Retirement Studies

Two new studies, designed to furnish security dealers with basic information on how to assist employers in setting up profit sharing retirement plans for employees, have just been completed by the research division of W. L. Morgan & Co., national distributors of Wellington Fund.

One study lists and defines in simple language the basic requirements of such a plan.

The studies supplement two earlier publications by the Wellington Fund distributors on retirement plans. Both were published last summer under the titles of "Fundamentals of Retirement Plans" and "The Mutual Fund in Retirement Plans." All of the publications are obtainable from W. L. Morgan & Co., 1420 Walnut Street, Philadelphia, on request.

Putnam Fund Legal for New Hampshire Banks

Putnam Fund reports that, as of Nov. 1, 1950, the Bank Commissioner of the State of New Hampshire approved the application of Putnam Fund trustees to add Putnam Fund to the list of investment trust shares legal for investment by savings banks in that state.

* * *

George Putnam, President of Putnam Fund, in announcing the year-end dividend of 34 cents a share from estimated investment income, stated "The vote of your trustees to pay 10 cents per share more this year than was paid in recent years reflects not only the record earnings of the Fund, but also the desire of your trustees to recognize in a tangible way the need for additional income on the part of many shareholders. We hope that shareholders will not regard this increased payment as something to be counted on each year. . . . The best that we can say is that the dividend policy of this Fund will continue to be determined by what the trustees believe to be the best interests of our shareholders."

Mutual Fund Conference Date Set for 1951

The third annual Mutual Fund Sales Conference will be held in 1951 in Chicago on Sept. 10, 11, and 12 at the LaSalle Hotel.

Drawing upon the great central and mid-west sections of the United States, it is estimated that attendance at the 1951 conference will set a new high. The first mutual funds conference in 1949 had an attendance of 360 and the second conference in 1950 drew a crowd of 675.

The Mutual Funds Sales Conferences are sponsored by the Investment Dealers' Digest.

Correction

On Nov. 2, it was erroneously reported in this column that the booklet, "Trying to Make a Cushion Out of Dollar Bills" was prepared by National Securities and Research Corp. Although National Securities is distributing this excellent booklet, the Fund Services of Washington, 219 Woodward Building, Washington, D. C., is responsible for its preparation.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Robert D. Danks to Carl Friedlander will be considered by the Exchange on Nov. 22.

Adreana P. Weil retired from limited partnership in Weil & Doyle on Nov. 3.

Whitcomb & Co. Admit

William Dale Bost will become a partner in Whitcomb & Co., 14 Wall Street, New York City, on Nov. 22.

Estimates Decline in 1951 Building

Thomas S. Holden, President of F. W. Dodge Corporation, predicts recession of 19% in 37 states East of Rockies.

Building and engineering contracts will decline 19% in 1951 relative to 1950 in the 37 states east of the Rockies, it is estimated in the annual November outlook of F. W. Dodge Corp., construction news and marketing specialists, as published in "Architectural Record."


Thomas S. Holden

The estimates are authored jointly by Thomas S. Holden, President of F. W. Dodge, and by Clyde Shute, Assistant Vice-President in charge of the statistical and research division.

"This is a cutback from the peak construction volume of all time," they state. "It leaves a dollar total measurably greater than that of any year except 1950, and a physical volume total that would compare favorably with other prosperous construction years.

"We question whether there will be much change in the level of construction costs in 1951. Some materials will be tight; others which were tight in 1950 will be plentiful and competitively priced.

"Demand for building labor will ease somewhat with reduced construction volume, though doubtless many men who have been employed in construction in 1950 will shift to defense production."

The authors employed the phrase "Moderate Over-all Decline" as a sub-title in the article, and attribute "the moderate extent of the anticipated decline" to these reasons, summarized: Partial rather than total mobilization, prospectively increased production of key materials, reduced output of motor vehicles and other consumer durables, ingenuity in conserving and substituting of materials, and the view by "responsible leaders in government that a strong civilian economy with maximum freedoms is just as essential for preparedeness as an enlarged military establishment."

George D. Cronin

George D. Cronin, partner and Comptroller of Dean Witter & Co., San Francisco, investment bankers, died Nov. 9, at French Hospital of a cerebral hemorrhage. Mr. Cronin was born in San Francisco on Oct. 10, 1899, and had been with the firm since its inception in 1924 when he started as a Cashier. He became a general partner in 1929. In 1926, Mr. Cronin went to the firm's New York office when Dean Witter & Co. set up a clearing office in that city and he returned to San Francisco in 1941. Well known in financial circles, Mr. Cronin was Chairman of the current District Uniform Practices Committee of the National Association of Securities Dealers. He is survived by his widow, Mrs. Marian Cronin of 160 Stratford Drive, and a son, G. Richard Cronin, who is associated with the Seattle office of Dean Witter & Co.

Criticizes Working of SEC Acts and Frear Bill

Thomas Graham, President of the Bankers Bond Co., Louisville, Ky., says effect of Federal legislation "has made Wall Street bigger," to the detriment of the small investor, the non-Wall Street dealer, and the public. Opposes Frear Bill.

In the course of a hearing on Oct. 20 before the Securities and Exchange Commission, with reference to the formation of a mutual fund, Thomas Graham, President of the Bankers Bond Inc., Louisville, Ky., took the occasion to give his views on the operation of the 1933 and 1934 Securities Acts, particularly as affecting the small investor and the small investment dealer outside of Wall Street—as a matter of fact, presenting the viewpoint of the Main Street investor and investment dealer.

Thomas Graham

Mr. Graham was also critical of the Frear Bill, which is designed to enlarge the scope of the SEC authority by extending the Act to cover small concerns of $3,000,000 in assets and 300 or more security holders. Mr. Graham said that a recent statement by a Department of Justice official that the Frear Bill was needed because of the situation in Korea was absurd and that it could as easily be said that the Frear Bill is **not** needed because of the Korean situation.

Mr. Graham said he did not believe the original SEC Acts were designed to make Wall Street "any bigger" but that the effect of the operation of the Acts has been just that, and that the Acts now are working as a detriment to the small investor and the non-Wall Street dealer, and the public interest generally.

Mr. Graham pointed out that the small investment dealer obeys the SEC Acts in the offerings of new stock issues. The Commission, he said, is aware that in a great many instances the Wall Street large firms do not observe the law in this particular regard. Mr. Graham said a recent ruling of the National Association of Securities Dealers prohibits the sale of any unsold issues to the firm investment account. However, Mr. Graham stated his firm would not abide by this ruling of this organization which was set up at the instance and order of the Commission.

"Additionally," Mr. Graham averred, "syndicate agreements usually state that any unsold stock can be called back by the syndicate manager. The result is that it is impossible for the small dealer who obeys the law, to take care of his investment accounts properly and the result is, that it is very obvious from the advertised firm names on new issues that the investment business has become more and more monopolistic. This certainly was not the intent of Congress or the fundamental ideas of the framers of the SEC Acts, and this condition calls, in the interest of the American System, for a thorough study, revamping and revision. Many of the small investors are widow and orphan type. The New York firms make profits on the deals but do very little of the actual selling, and it is the small dealer that has to do the selling and service the real investment accounts of the country."

Continuing, Mr. Graham said:

"The SEC and the Federal Reserve have a so-called Regulation 'T' which works only to the detriment of the small investor and which, frankly, is a joke, but neither of these two organizations have ever suggested to Congress the revision of this Act in the general public interest. As the large dealers sell most of their stock wholesale or to insurance companies, it is obviously very easy for them to close out all participation almost immediately on successful issues. The small dealer selling to individual investors, on the other hand, takes time in selling and should be allowed to give his customers a chance to buy the good issues. The result of the SEC Acts has been that the highly sophisticated investors, insurance companies, banks, investment trusts, large investors, etc., get all the good issues and the public, as such for whom the Acts were set up, gets only the less attractive issues to a large extent. The present SEC Acts have never been amended and there are many instances where they operate to the detriment of the small investor and small dealer. The Constitution of the United States has been amended many times. When the Investment Acts were passed there were 23 dealers in Louisville, now there are only 11. An interesting study by the SEC would show a large increase in the number of registered insurance salesmen, real estate salesmen and a large decline in the number of investment dealers and registered security salesmen since the SEC Acts were passed."

Mr. Graham stated "he knew that the SEC was aware of the fact that many large firms are not obeying the Act and many issues are sold before they are offered which is clearly in violation of the Act. The small dealers cannot afford to take such a risk and attempt to live within the law. They are afraid to bring this matter to the attention of the Commission as one of the most cruel things we have in this country, which many of us have stressed, is the financial retaliation of certain of the New York banking and investment leaders. The Act should be amended to properly take care of new offerings. In addition to amending the Acts to take care of new offering so the public can be informed, and not have to have long-worded, non-information because of the mumbo-jumbo of the thick prospectuses which nobody reads of could understand. Also, the SEC rules on competitive bidding have only worked in the interest of the sophisticated investor entirely, and to the disinterest of the small investment dealer and the public, generally. This was not the intent of the Congress of the United States. The small investor, the small dealer and the public generally are deprived of any chance to purchase these issues."

Criticizes Frear Bill

In criticizing the Frear Bill, Mr. Graham said the further extension of SEC authority is not what is needed now, but the first thing that should be done is that the present SEC Acts should be overhauled so as to make the Commission carry out Congressional intent and to prevent the further concentration of financial power in Wall Street and prevent further destroying and capturing of local markets all over the country. The Commission and its staff, he contended, with no malice aforethought, have actually become the "midget" of Wall Street.

Mr. Graham said he would be willing to support a movement to amend the SEC Acts to make them more workable and to incorporate any good parts of the Frear Bill into the Acts.

Mr. Graham made emphatic his opposition to any extension of SEC authority without amending the Act to make it more workable and equitable, and said pointedly: "There may be only one more fight left in me, but I guarantee you I'm going to fight this thing with everything I've got left."

"The Frear Bill—under a different name — was sponsored in 1941 by the New York Curb. It later received the support of the New York Stock Exchange, the Investment Bankers Association and the Securities and Exchange Commission. How the Commission and Senator Frear can support legislation which only help the most selfish group in Wall Street is more than I can understand, and I do not believe that it was the Congressional intent when these Acts were set up to give back the control of our financial system to the small, selfish groups in Wall Street as over and against the interest of the 'Main Street' investor, investment dealer and the public generally."

Mr. Graham told the Commission that it is not in a favorable "political" position with the way the present SEC Acts are working out. He said he was a "constitutional Kentucky Democrat" and that he certainly favored the principle on which the SEC Act was promulgated and enacted, but that he did not propose to stand by while the small investment dealers, including his own firm, are forced out of business by the inequitable and unconscionable operation of the Acts. He said the Commission should be "surprised and displeased" to learn how inequitable and unfair the Acts really are working. The small investment dealer cannot afford to go to Washington to be heard before the Commission, Mr. Graham said, and the voice of the small dealer is not getting through to the Commission. The small investor is really "the forgotten man" in the U. S. A. today.

Mr. Graham said that Senator J. Allen Frear, Jr., author of the Frear Bill which was introduced in Congress last session and which he plans to reintroduce in the next session, stated that the 1,800 corporations with $3,000,000 in assets and 300 security holders constitute only about ½ of 1% of the 4,000,000 business enterprises of the Nation.

If Mr. Frear's statement is accurate, Mr. Graham said, the Frear Bill is an absurd attempt to extend SEC authority to affect only a small percentage of investors; and it would lead only to further extension of authority to require the further lowering of the capital requirement and the number of security holders, until finally the SEC would be given full authority over all business, meanwhile with no overhauling of the Act to make it really workable and equitable.

Mr. Graham stated that as a small investment dealer he had found no difficulty in obtaining any financial information that his company or his customers are entitled to from the management of any companies in securities with which he has been dealing. The Kentucky law, and the laws of various other states, are very explicit in protecting stockholders' rights.

Mr. Graham stated that he was a great believer in the profit motive and thought investment dealers were entitled to proper compensation for services rendered, in spite of the attitude of certain members of the Commission staff. Mr. Graham stated he did not hold with the philosophy of certain staff members that selling commissions were gifts, but that commissions were actually compensation for services rendered in selling securities and a greater America.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The increased dividend recently declared by National City Bank of New York has attracted considerable interest among investors and raised questions about the outlook for larger payments by other New York City banks.

A year ago National City paid a 20-cent extra which brought total payments for 1949 to $1.80 a share as compared with the $1.60 a year earlier. In the first quarter of this year the stock was placed on a quarterly dividend of 45 cents as against a semi-annual payment of 80 cents previously paid. Thus, the 20-cent extra recently declared raises total payments for this year to $2.00.

There have also been a number of other changes in dividends during the past year.

Directors of U. S. Trust Co. have proposed to stockholders a stock dividend of 150% payable Dec. 27 to holders of record Dec. 11. The proposal is subject to the approval of stockholders scheduled to meet Dec. 5 for this purpose. If approved, dividends would be declared at the annual rate of $14.00 a share on the increased shares. This would be equivalent to $35.00 or the same as the present annual rate.

The principal purpose of the increase in number of shares is evidently to broaden the market for the stock. At present there are 40,000 shares of $100 par outstanding. The proposed dividend would increase the number to 100,000. Par value of the stock would remain at $100 through a transfer of $6,000,000 from surplus to capital.

Another of the New York City banks which has declared a stock dividend this year is Manufacturers Trust. In connection with the merger agreement with Brooklyn Trust, stockholders of Manufacturers received one additional share of stock for each 12 shares held. The distribution was payable Oct. 16 to stockholders of record Sept. 18.

In January, 1949, Manufacturers Trust paid a stock dividend of one additional share for each 11 shares held. During the two years there has been no change in the annual rate of cash distributions, $2.40 a share, but the increased number of shares outstanding has meant an actual increase in the cash payment.

Earlier this year Public National Bank & Trust paid a stock dividend of 10%. The $2.00 annual dividend has been continued. Thus, this amounts to a 10% increase in the cash distribution to stockholders.

Other banks in this area which have paid higher dividends this year than in 1949 include the following: Bank of Manhattan which increased the quarterly rate in June from 30 cents to 35 cents making total payments for the year $1.40 as against $1.30 including the 10-cent extra paid in January; Bankers Trust which increased the annual rate from $1.80 to $2.00; Corn Exchange whose payments are at the rate of $3.00 as against the former payment of $2.80; Guaranty Trust as a result of a $2.00 extra paid in January will pay $14.00 compared with $12.00 in 1949, and Irving Trust whose payments for 1950 amount to 90 cents as against 80 cents last year.

The only banks among the 17 larger institutions in New York City which have not increased their payments or declared stock dividends within the past year are Bank of New York & Fifth Avenue, Central Hanover, Chase National, Chemical Bank, Commercial National, First National, J. P. Morgan and New York Trust.

So much for the past record. What about the prospects for larger payments?

Considering the current outlook, the recent action of National City is viewed as a favorable indication. Although there are several factors which are considered adverse from the standpoint of bank operations such as increased operating expenses, credit restrictions, higher taxes and the possibility of increased reserve requirements, net current operating earnings this year are expected to compare favorably with those of 1949.

The substantially increased volume of loans which the banks have experienced this year, firmer interest rates and lower charges for assessments and reserves have enabled banks to maintain and in some cases improve their reported earnings.

As bankers are essentially conservative and because of the character of the industry, nothing of a dynamic nature should be expected in the way of dividend payments such as has been the case in some of the industrial fields. However, present payments by many of the banks are conservative in relation to historical and current earnings and it is logical to expect a gradual increase in dividend distributions. The timing and the amount of any increase will depend upon the individual problems and nature of the particular bank and no general action is expected.

Most of the New York banks meet during the next month for dividend action. While the uncertainty about the tax outlook may induce bank directors to move cautiously, it is possible that a number of the institutions may act favorably at this time.

Canadian Securities

By WILLIAM J. McKAY

The future course of the newly liberated Canadian dollar is of primary importance to the large body of U. S. holders of Dominion internal securities as the level of the exchange largely determines the market price of these securities. The tendency of the free Canadian dollar since the establishment of its new status has been almost constantly upwards. From the level of 6½% discount registered on the first day's trading under the new conditions there was a steady appreciation to 4½% before a slight reaction carried the rate to a shade below 5%.

During this time there was slight evidence of any large liquidation on the part of the many U. S. holders of internal bonds who presumably had purchased these securities with the primary object of securing a profit on the exchange. The absence of early profit-taking operations can very likely be ascribed to the limited nature of the profit margin, especially in view of the general expectation at the time of taking the position that the Canadian dollar would attain full parity with the U. S. dollar. A further deterrent to immediate sales is the fact that the bulk of the speculative purchases was made in the period immediately prior to the freeing of the dollar; tax considerations consequently militate against liquidation within six months.

From the 5% level that many observers believed would have been held for some time in order to prevent a precipitate rise to par, which would unquestionably induce a large volume of profit-taking, the rate improved sharply to 3%. It is probable that this movement was largely caused by a second wave of speculative purchases provoked by the existing bright Canadian economic prospects and anticipation of the eventual attainment of the par level. So far this after-the-event chasing of the market has not been eminently successful. Following the abrupt rise to 3% the market subsequently fell away rapidly to 4% but has since advanced slightly above this point.

As far as the future course of the Canadian dollar is concerned there are probably three important considerations to be borne in mind. In the first place the Canadian authorities are keenly conscious of the important volume of hot-money positions overhanging the market, that is likely to be repatriated on a large scale whenever the market approaches the generally considered ultimate peak level of par. It is to be strongly doubted that any assistance will be willingly given to facilitate the taking of large speculative profits. Before the rate is permitted to rise to the presumed goal of par it is reasonable to suppose that the Canadian authorities would prefer to see the unpredictable speculative position largely liquidated.

Another important aspect of the Canadian exchange situation is its bearing on the British position. Canada is now bringing heavy pressure to bear on the Mother Country to relax the current British restrictions on imports from the Dominion. The higher the level of the Canadian dollar the more difficult will it become to persuade the United Kingdom to buy Canadian goods. An alternative approach to this problem would be the consideration of an upward revaluation of the pound; for immediate purposes however this solution does not appear to be favorably regarded.

However the factor that probably will exert the greatest effect on the course of the Canadian dollar in the next few months is the normal seasonal influence. During the winter months it is customary that Canadian exports are at their lowest ebb, but imports on the other hand tend to rise. In the next few months this trend is likely to be unusually accentuated firstly as a result of the final removal of the restrictions at the beginning of next year on imports from this country, and secondly following the greater freedom permitted to Canadian travelers in this country. In view of the present boom conditions in the Dominion the lifting of the curbs on visible and invisible imports can not fail to have a noticeable effect on the U. S.-Canadian balance of payments.

In the event of any pressure on the Canadian dollar for obvious reasons of this kind, the liquidation of speculative positions, which has been conspicuously absent while the exchange has remained strong, will unquestionably become a dominant factor in the Canadian dollar market. It is unlikely therefore that the Canadian dollar will reach its peak level during the coming winter season. On the other hand there is every reason to anticipate that before the new free dollar reaches its ultimate peak, which should logically occur at the height of the next summer season, it will first undergo a sinking spell in the course of the next few months.

During the week the liquidation of a large U. S. account of external bonds continued to be fairly well absorbed. The internals were steady without a high degree of activity. Interest in corporate bonds on the other hand was stimulated by the relative cheapness of the corporate-arbitrage rate at 8½% discount. Stocks recovered most of the ground lost in the recent decline led by the industrials and base-metals. Western oils were steadier with movements within a narrow range, but the golds failed to respond to the general trend and continued their recent downward movement.

Robt. Clark Named Pres. of Bondex

Robert G. Clark has been elected President of Bondex, Inc. Mr. Clark formerly was associated with Pan American World Airways, Inc.

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Fiscal and Credit Control To Beat Inflation

wishes, and without losing—perhaps even making—money on the sale, just so long will he confidently make loans to anyone who meets the minimum standards for a credit risk. But suppose the Federal Reserve backed away now and then, suppose it said, "Well, we'll buy the securities, but we won't pay the price *you* paid for them. We'll just pay a little less than we did last week, and maybe next week the price will be a little lower." The banker is certainly not going to stop making all loans, and nobody wants him to stop completely.

But, perhaps, he'll begin to ration them a bit. Perhaps he'll cut out some of the marginal business he's been taking, such as some of the loans to finance speculative accumulation of inventory. If he does, that's as much as could be hoped for; and by just that much the operation works to restrain the expansion of credit. By just that much, the Federal Reserve avoids injecting high-powered reserve dollars into the banking system of the country. Theoretically, the economists will tell you, those high-powered reserve dollars can furnish a base for a five or sixfold expansion in bank loans.

Interest Rates and the Debt

And this is where we get into what really matters in all the mumbo-jumbo of interest rates and Treasury refunding of the debt. If the Federal Reserve reduces the price at which it is willing to buy government securities, and if it indicates that it is reluctant to buy them at all because it doesn't wish to provide Federal Reserve credit in payment—if it does, then by simple arithmetic the resulting decline in the *price* of those Treasury securities means that the *yield* available on those securities *increases* in the open market. If the market yield increases, then the next time the Treasury has to borrow it has to offer more in interest rates than it did the last time.

This is not a new problem by any means. The Federal Reserve struggled with it all during the postwar inflationary period from 1946 through 1948. It struggled with it earlier this year, before the Korean war. It urged the Treasury this spring to allow slightly higher rates—meaning lower prices—on the securities it planned to offer to the market in June and July. The Treasury did not. At that time it offered to investors a note paying 1¼% interest and maturing in 13 months.

The market thought so little of it that the Federal Reserve was forced to buy a substantial part of the issue in order to support the price. And those purchases, as I have pointed out, were paid for in high-powered reserve dollars, which went into the banking system at a time that the Federal Reserve felt it should have been *tightening up* on bank reserves.

Restraining Expansion of Bank Credit

The Treasury has recently completed an offering to the market of $13½ billion of new securities in exchange for issues maturing on Sept. 15 and Oct. 1. This time the Federal Reserve went beyond urging. It acted in its sphere of primary responsibility for the restraint of further expansion of bank credit and growth of the money supply. The board of directors of the Federal Reserve Bank of New York voted to increase the discount rate from 1½ to 1¾%. This discount rate is the interest charge made to member banks on borrowing from the Federal Reserve Bank, and a change is clearly recognized by the banks as a warning signal from the Federal Reserve.

In August the Board of Governors of the Federal Reserve System approved the increase, and announced it. At the same time, the Federal Open Market Committee, which directs the buying and selling operations in the government securities market, and the Board of Governors publicly announced that they were "prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the government securities market."

The Secretary of the Treasury was of course informed of these actions before the news was released publicly. On the same day, however, he announced that the Treasury would offer in exchange for the bonds and certificates maturing on Sept. 15 and Oct. 1—all $13½ billion of them—the same kind of security that had proved unpalatable in June and July, a 13-month 1¼% note. The Treasury carried out its refunding operation, all right. It found takers for the new securities, however, only because the Federal Reserve was a heavy buyer of the maturing issues as disappointed investors sold them off. The Federal Reserve now owns most of the new notes.

At the same time, to offset the money released to the market by these bail-out purchases, the Federal Reserve was an almost equally heavy seller of other Treasury securities, thereby letting the price of them decline enough to attract willing purchasers.

The Treasury, possibly not giving as much weight to the threat of inflation or the influence of Federal Reserve actions in combating it, has stressed the result of Federal Reserve policy in increasing the cost of carrying the huge national debt, and of introducing doubts about the market behavior of its securities that might cause loss of confidence in the government's credit.

Federal Debt Over Half of Total Debt

The Treasury has warned, for example, that "developments (in the government securities market) have repercussions which fan out through the entire economy." The reason for this strong influence of debt management can be stated briefly. In 1929 the Federal debt was only 8% of all debt, public and private, in the United States; in 1939 it was 24%; in 1950 it is more than 50%. But it is precisely because small changes in the handling of the national debt *can* have a profound influence on the national economy that the influence should be used when needed for fighting inflation or for fighting recession.

I should like to point out that the cost of our defense effort, of foreign aid programs, and of everything else in the budget of the Federal Government will increase substantially if prices rise further and if the dollar loses some more of its purchasing power. Indeed, the increase in these costs to the government, and to all of us, may well be 10 or 100 times the increase in debt service charges resulting from the anti-inflation measures of the Federal Reserve.

An increase of ⅛th of 1% in market rates of interest over the next year need not cost the Treasure more than $55 million on the securities it must refund, for example, while an increase of 1% in the consumers' price index would cost the economy something like $4 billion.

Danger of Loss of Confidence in Dollar

The Treasury itself will be one of the greatest affected from an increase in prices since the government, as a result of the Korean war and our stepped up armaments program, will be one of the biggest buyers of everything.

And if inflation continued long enough and carried far enough, there would be a worse specter to face than a loss of confidence in the Treasury's securities: there would be a loss of confidence in the dollar itself. Already there are many Cassandras warning that it does not pay to buy savings bonds, because the dollars at maturity will buy less than when the bonds were purchased.

This question of battling the *causes* of inflation, or sterilizing the declining purchased power of the dollar, this question is what lies at the bottom of questions of bank credit policy and debt management. The froth at the top of the bubbling pot is the business of slight changes in interest rates, and of conducting the Treasury's refunding operations.

It is unfortunate that these visible signs of the boiling in the pot have made the headlines in newspaper pages, because they are incidental only. Under the froth at the top is cooking the stew that all of us are going to have to eat. We ought to know about the ingredients.

In any case, even if the Federal Reserve is successful in avoiding the injection of high-powered reserve dollars into our banking system, I would not argue that it will therefore be successful single-handed in restraining inflation. A great deal more is necessary.

Treasury Must Sell Bonds to Public

We have now seen the authorization by Congress of controls over the use of consumer credit, and of restrictions on real estate credit. These, too, are extremely useful.

But they will all fail if we do not come closer to paying as we go. We must impose taxes sufficient to cover the costs of government and of war. If we must borrow a part, that borrowing must be done outside the commercial banking system, so that it will not increase the money supply.

The Treasury must sell bonds to the public and not to the banks. But the Treasury may not be able to sell enough bonds to the public unless it acts to help stop inflation instead of adding to the inflationary pressures.

All these measures — Federal Reserve general credit restraints, consumer credit controls, real estate credit restrictions, taxation to restrict consumer spending and to balance the budget—these are the general credit and fiscal controls I mentioned at the beginning. Firmly applied, they can greatly help prevent inflation and the host of problems following in its wake.

Direct Controls Limit Initiative

The alternative is to shackle the economy with direct controls: wage and price fixing, allocations, inventory limitations, formulas, quotas, regulations, directives, and codes.

These direct and specific controls limit the freedom of choice that permits initiative and ingenuity to help us solve our problems of production and distribution. They are expensive, in terms of both money and man-hours, to administer—and, let me add, to comply with. Even at best they only bottle the problem up for a while; the big price rise will still come later, as it did after World War II.

On the other hand, fiscal and credit measures are general and pervasive in their effect, applied equally to all; they leave open a wide area for the exercise of managerial discretion while tending to avert the possibility of any substantial abuses.

Finally, it takes time to get legislation through Congress and then more time to make even selective credit controls effective.

The general credit measures were applied first because they could be adopted at once, as a kind of holding action, until tax laws were changed and consumer credit control made effective. Second, after we get these other things, general credit measures will still be necessary as a supplement and they would have the additional virtue that they can also be speedily adapted to any new economic conditions that might develop. They can be put in reverse as quickly as they were applied.

I want to make it entirely clear that nothing will prevent inflation if the government pursues as it must the policy of winning the war in Korea and arming ourselves and our allies against the Russian threat, and *at the same time* pursues the policy of inflationary civilian expenditures and credits. We cannot do both without having inflation. I believe the American people are ahead of the government leaders in their willingness to face up to whatever is necessary to defeat Stalin's plan for us.

Government should, I believe, recognize the simple fact that basic conditions have changed with the Korean war. If it were important in peacetime to save $500 million annually of interest on the national debt, it is now much more important to save $5 billion to $10 billion annually in the cost of the war by preventing inflationary price rises, and to save $20 billion or $40 billion annually to the men and women of America by preventing inflationary price rises.

Low Interest Rates Not Problem Now

All that would be necessary at the moment is to adjust the present policy to current changed conditions and stand shoulder to shoulder with the Federal Reserve System in using every means available to prevent inflation, including curtailment of unnecessary governmental expenses and civilian expenditures.

In other words, the President would say to the Secretary of the Treasury: (a) Low interest is not now the problem. (b) Stopping inflation is the problem. (c) Stopping inflation is the base for selling bonds to the public in order to balance the budget and avoid deficit financing.

Finally, let me quote some advice handed out to member countries of the International Monetary Fund at its annual meeting in Paris earlier this month. Camille Gutt, the managing director, urged the financiers to start thinking immediately about ways of avoiding inflation which might result from rearmament or war.

"The healthier and more courageous the policy adopted from the very outset," the more inflation and direct controls can be avoided, he said. Secretary of the Treasury Snyder also warned that "increasing defense requirements will intensify inflationary pressures. These, if not accompanied by sound fiscal and monetary measures, may hamper our efforts to carry on the tasks which lie ahead."

Urgent Need for Government Economy

The Federal Reserve System is following this prescription. It is definitely on record to preserve a sound monetary and fiscal system and to thwart any moves that might bring us into the orbit of Communist Russia.

Moreover, what is needed above all is self-control in the government to check the inflationary spiral. There is an urgent need for government economy. We should not continue to spend funds at a delirious pace on non-essential items.

The new economic prophets are convinced that they can "manage" inflation. They might just as well try to "manage" an earthquake or a hurricane. For the pages of history are strewn with the disastrous effects of inflation on a society once that inflation really begins to spiral.

We were lucky to get through with World War II and the postwar years with the dollar dropping only to 59 cents. But we may not be so lucky when we pile a hot war on a cold war and then World War III on top of that.

We have been going through a boom, but it is a government subsidized boom. Many agencies of our Federal Government are subsidizing booms in labor, materials, real estate and agriculture. Through the wide extension of credit, consumer demands are kept at a high level. If this continues there could be keen competition for the labor and materials that will be sorely needed as our military production is increased.

What is really needed is self-control by the government itself in civil expenditures and the credit it grants its innumerable credit agencies to stimulate civil expenditures by others.

As head of a company that manufactures building materials I am well aware of the fact that we have been going through a government subsidized housing boom. But I would rather see the demand for our materials cut by one-third or one-half than see my country beaten either through inflation or through our inability to deliver the goods to our armed services in sufficient quantities and at the right time.

The successful self-government of free men must first be a well-managed government. There is danger to the nation in any government that is so inefficiently organized that vast sums of money are wasted. This is particularly perilous at a time of crisis when the world looks to us for leadership.

This issue is above all petty and partisan politics. No matter what party he belongs to, everyone should join in the movement for cutting unnecessary expenditures, raising taxes, stopping inflation and changing over from eating butter to making guns.

Ten Measures Needed Now

Our country must adopt measures to defeat Stalin's plan. These measures include:

(1) A vigorous curtailment of every non-essential government expenditure and subsidy, in order to concentrate on the war effort. We cannot have both guns and butter.

(2) The elimination of all non-essential employees on the Federal payroll, transferring those qualified over to war activity, rather than simply adding more employees on the war activity.

(3) The levying of enough war taxes on corporations, individuals, manufacturers and sales, as well as excise taxes, to pay for the cost of the war as we go along.

(4) The utilization of the powers of the Federal Reserve System to fight inflation insofar as those powers are capable of helping.

(5) The avoiding of deficit financing as though it were the plague.

(6) The use of selective controls such as allocations when, as and if necessary, but avoiding as far as possible the adoption of direct controls.

(7) Retaining as far as possible a free market and the American freedoms that in the long run will enable America to produce enough to defeat Stalin. If and when we are faced with all-out war preparation, then we may have to accept all-out controls.

(8) The maintenance of the value of the dollar by preventing inflation.

(9) The preservation, in terms of future purchasing power, of the insurance policies, savings and bonds of the American citizen.

(10) The encouragement of the sale of war bonds by instilling confidence in the people, by letting them know that the purchasing power of their bonds will not be lessened by inflation.

Many panaceas have been offered to repay the purchaser of a government bond an amount sufficient to offset the drop in the purchasing power of the dollar due to inflation. This may be popular and an easy way to avoid paying the fiddler at the moment. But it is not a cure. In encourages more inflation.

American People Will Not Choose Inflation

The only realistic approach to this dilemma is to prevent inflation. And I am sure inflation can be prevented if our government has the courage to adopt the measures I have outlined.

If the implications of inflation are really brought home to the American people, if the reasons for promptly taking strong measures to avoid inflation are presented clearly to them, I, for one, am sure that they will support a realistic anti-inflation program. For I have the greatest confidence in the American people and in their courage to face and accept the realities of a situation.

Our present problem is that Congress went home for the elections this fall. With prospects of $30 to $50 billion spending next year for war they levied only $5 billion in additional taxes.

The President has been given many powers including allocations of materials, the guaranteeing of loans to finance defense contracts, control of real estate credit, control of consumer credit (to the Federal Reserve) and control of prices and wages. Some of these powers are now being used. Price and wage controls will probably be postponed.

Yet inflation is rampant right now. Our only hope of holding it down is by a vigorous holding action of the Federal Reserve System, which it is hoped will have the cooperation of the Treasury and the approval of the President when the public comes to realize that Korea has changed conditions and that a small increase in interest rates will cost the government and the public only a fraction of what inflation will cost them if it is not stopped—*now.*

Elisha Walker

Elisha Walker, partner in Kuhn, Loeb & Co., New York City, died at his home on Nov. 8 in his 72nd year.

After completing his studies at Yale and the Massachusetts Institute of Technology in 1902, he entered the banking business. He was associated with Fisk & Robinson and William Salomon & Co. In 1920 he was elected President of Blair & Co., later Bankamerica-Blair. In 1933 he became a partner in Kuhn, Loeb & Co. He held directorates in many companies, was Chairman of the board of Beekman-Downtown Hospital, a member of the Council on Foreign Relations, and a director of the Boys' Clubs of America.

Public Utility Securities

By OWEN ELY

Kansas Gas & Electric Company

The company's operations are all-electric, the gas properties having been disposed of in 1925. Electricity is served in an area of about 6,000 square miles in the southeastern part of Kansas, and a very small section of Missouri near the Kansas state line. (The company is liquidating its Missouri operations, which contribute only about one-tenth of 1% to the total business.) Some 122 communities with a population of 347,000 are served. Wichita, the largest city in Kansas, has a population of 166,000, and the Wichita Division provides over half the total revenues. Electricity is also wholesaled to 23 communities.

The area served by the company is basically agricultural, but the mining and processing of coal, oil and gas comprise a substantial portion of the area's economic activity. Other diversified industries include flour, feed, and alfalfa milling, meat packing, and the manufacture of farm implements, oil-field machinery, heating and lighting equipment, cement, clay products and fertilizers. In addition, Wichita is a major center of the aviation industry in the Middle West.

In the 12 months ended Aug. 31, 1950 residential electric sales provided 28% of revenues, rural 5%, commercial 26%, industrial 33%, and wholesale and miscellaneous 8%.

Average residential revenues in the 12 months ended Aug. 31 were 3.18 cents per kwh and average residential usage was 1,469 kwh. The company has made rate reductions from time to time, including a small reduction in 1950.

The company has begun construction of a new 40,000 kw steam electric station near Wichita, scheduled for operation in April, 1952, which will mean an increase of about 28% in nameplate capacity. The total construction program for the three years 1950-1952 is expected to cost about $20 million.

The company is currently offering for sale 45,000 shares of preferred stock (par $100) and 75,000 shares of common stock (competitive bids will be received on Nov. 20). Proceeds of these sales may provide approximately $6.5 million, and the company plans to sell $5 million debt securities with the next year, which it is anticipated will complete the financing of this construction program.

The company's pro forma capitalization, including the proposed new issues of preferred common stock, is approximately as follows:

Long-term debt	$24,000,000	48%
Preferred Stock	12,700,000	25
Common Stock Equity (775,000 shares)	13,700,000*	27
	$50,400,000	100%

*After deduction of reported intangibles.

The postwar earnings record may be summarized as follows:

	Operating Revenues (000 Omitted)	Gross Income (000 Omitted)	Bal. for Com. Stock (000 Omitted)	Earnings Per Share Common	Dividends Paid
12 Months Ended Aug. 31, 1950	$13,643	$3,548	$2,347	$3.05*	$2.00
Calendar Years:					
1949	13,157	3,383	2,235	3.19	1.95
1948	12,718	2,863	1,473	2.10	1.60
1947	11,777	3,205	1,432	2.05	1.60
1946	10,388	3,269	1,693	2.42	1.30

The common stock is currently quoted over-the-counter around 30½ and is paying dividends at the annual rate of $2 a share, to yield 6.6%. With pro forma tax-adjusted earnings for the 12 months ended Aug. 31, 1950 of $3.05 a share, the price-earnings ratio approximates 10. These ratios compare with 6.8% and 10.4% respectively, for the average electric utility with revenues of $10-25 million (on Nov. 2). The dividend pay-out is only 66%, so that the $2 dividend rate would seem to have better-than-average protection against future inroads of increased Federal taxes.

Toronto Bond Traders Assn. Elect Officers

TORONTO, Ont., Canada—The Toronto Bond Traders Association has elected the following officers for 1950-51:

Honorary President: R. G. Roberts, Dominion Securities Corp. Limited.

Honorary Vice-Presidents: A. W. McLennan, R. A. Daly Co. Ltd., and A. Montye Macrae, Macrae & Co.

President: Derek G. Simpson, Midland Securities Ltd.

Vice-President: W. D. McAlpine, Brawley, Cathers & Co.

Secretary: J. L. Hayman, Goulding, Rose & Co., Ltd.

Treasurer: J. C. Moorhouse, J. R. Meggeson & Co., Ltd.

Committee: T. H. Baker, Milner, Ross & Co.; F. G. Embury, A. E. Ames & Co. Ltd.; J. C. Iliffe, Bank of Nova Scotia; C. G. Lee, Bache & Co.

Ex Officio: A. A. Kirk, Fairclough & Co. Ltd.; T. B. Wilson, Lampard, Francis & Co., Ltd.

Edw. E. Parsons Entertains on Coast

Mr. and Mrs. Edward E. Parsons, of Wm. J. Mericka & Co., Inc., Cleveland, Ohio, entertained at a cocktail party at the Chapman Park, Los Angeles on Nov. 10. They have been visiting in Los Angeles for some time.

Gilchrist, Bliss to Admit Thomas Boylan

Thomas A. Boylan, member of the New York Curb Exchange, will be admitted to partnership in Gilchrist, Bliss & Co., 488 Madison Avenue, New York City, members of the New York Stock Exchange, on Nov. 22. Mr. Boylan has been active as an individual Curb floor broker.

Kroeze, McLarty & Co.

JACKSON, Miss. — The firm name of J. O. Kroeze & Co., Gale Building, has been changed to Kroeze, McLarty and Company.

NSTA Notes

SECURITIES DEALERS OF THE CAROLINAS

J. Lee Peeler

At the recent annual meeting of the North and South Carolina Securities Dealers held at Southern Pines, N. C., the following officers were elected:

President—M. M. Manning, V. M. Manning, Greenville, S. C.

Vice-President—J. Lee Peeler, J. Lee Peeler & Co., Inc., Durham, N. C.

Secretary—Edgar M. Norris, Greenville, South Carolina.

Treasurer—William D. Croom, First Securities Corporation, Durham, N. C.

SECURITY TRADERS ASSOCIATION OF LOS ANGELES

Robert D. Diehl

A. W. McCready, Jr.

The Nominating Committee, consisting of William A. Miller, Fairman & Co., Chairman; L. S. Pulliam, Weeden & Co.; C. E. Poindexter, Wagenseller & Durst; D. E. Summerell, Wagenseller & Durst; and W. J. Zimmerman, Bingham, Walter & Hurry, has nominated the following for officers of the Security Traders Association of Los Angeles for 1951:

President—Robert D. Diehl, Paine, Webber, Jackson & Curtis; A. W. McCready, Jr., Geyer & Co. Inc.

Vice-President—Richard R. O'Neil, Edgerton, Wykoff & Co.; N. B. Van Arsdale, Blyth & Co., Inc.

Secretary—Wm. A. Johnson, Sutro & Co.; Wm. A. Lippman, Jr., Akin-Lambert Co.

Treasurer—Warren B. Hanson, First California Company; Tim D. Spillaine, J. A. Hogle & Co.

Board of Governors (three to be elected)—Jack Alexander, Walston, Hoffman & Goodwin; Harold C. Frankel, Fairman & Co.; Nicholas P. Kirwan, Dean Witter & Co.; A. S. McOmber, Revel Miller & Co.; Scott M. Stout, Morgan & Co.; Gordon B. Tuttle, Gross, Rogers & Co.

Additional nominations may be made from the floor.

DALLAS BOND CLUB

Hugh D. Dunlap

Winton A. Jackson

Joe W. Ellis

Sam Johnson

The Nominating Committee for the Dallas Bond Club. composed of George T. Hemmingson, Central Investment Company of Texas, Chairman; Orville G. Allen, Lynch-Allen & Company; Joe Binford, Binford-Dunlap & Company; Ed W. Franklin, Dittmar & Company, and Gus Rounsaville, Thomson & McKinnon, has selected as nominees for officers of the Dallas Bond Club to serve for the year 1951 the following:

President—Hugh D. Dunlap, Binford-Dunlap & Company.

Vice-President—Winton A. Jackson, First Southwest Company.

Secretary—Joe M. Ellis, Rauscher, Pierce & Company.

Treasurer—Sam Johnson, Southwestern Securities Company.

W. R. Newson, Jr., Sanders & Newsom, retiring President, will be the carry-over member of the Board, with the two new Board members to be selected to serve next year by the officers after the election at the Dec. 1 luncheon of the Club, which will make the total Board of seven.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York Bowling League standings as of Nov. 10 were as follows:

TEAM—	Won	Lost
Beane (Capt.), Kaiser, Growney, Gronick, Rappa	15	6
Leone (Capt.), Krasawich, Nieman, Pollock, Gavin	13	8
Burian (Capt.), Manson, King, Voccoli, G. Montayne	12	9
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	12	9
Krisam (Capt.), Bradley, Montayne, Weisman, Gannon	11	10
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	11	10
Hunter (Capt.), Lytle, Reid, Kruge, Michels	11	10
Serlen (Capt.), Gersten, Gold, Krumholz, Young	11	10
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	9	12
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	8	13
Donadio (Capt.), DeMaye, O'Conner, Whiting, Workmeister	8	13
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	5	16

Joe Donadio (J. F. Reilly & Co.) was high man for the evening with a 206 single game and a 553 high series. Tom Greenberg (C. E. Unterberg & Co.) has been bitterly complaining to his team mates to get the team out of last place, because of the ribbing he has been getting over the telephones and out of town wires. It appears that the standings of the league are being closely watched by the "Chronicle" readers.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York will hold its annual election and buffet supper on Dec. 1 at the Produce Exchange Luncheon Club. Voting starts at 4:30 p.m. and polls will close at 6:00 p.m.

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Greatest Threat to Our Economy Lies Within

country is in no danger of formally espousing socialism in the sense that a sincere socialist of the stripe of Norman Thomas uses the word. . . . But socialism and collectivism do not always have to enter a country by the front door, especially if the rear door is left ajar. . . . The essence of European socialism is not that the state owns the means of production but that . . . it seeks to guide the course of production and distribution by a complex process of controls over prices, materials, imports and exports, and takes on such enormous functions that the private citizen is either subject to perpetual inflation or crushed beneath a staggering load of taxes. This kind of socialism . . . is technically different from the old-fashioned brand. But it leads to the same result—a vast and dangerous increase in the power of the state over men's lives."

Many years ago Norman Thomas said: "The American people will never vote for socialism; but they will vote for government ownership, guaranteed employment, and the other elements of socialism if they bear the label of liberalism."

Creeping Collectivism of Welfare State

Now, many of the proponents and disciples of this creeping collectivism of the Welfare State make frequent reference to Thomas Jefferson; and you might almost infer that he was the father of the idea of maintaining oneself and his party in power by taking from one man who wouldn't vote for you anyway, and splitting with 10 others, some of whose votes you might get. Let Thomas Jefferson speak for himself on this subject: "To take from one because it is thought his own industry and that of his father has acquired too much, in order to share with others, who, or whose fathers, have not exercised equal industry and skill, is to violate arbitrarily the first principle of association—the guaranty to every one of a free exercise of his industry, and the fruits acquired by it."

It is your job and mine and that of every other American who has a stake in this country to do his part to make this issue clear to the people of this country. We must not allow creeping collectivism to come stealthily in by the back door. We must see that the people of this country are not unknowingly and unwittingly drawn into the whirlpool of socialism. We must make it clear to the young that the opportunity to achieve success lies not in less productive effort but in more productive effort—that personal extravagance and unbalanced personal budgets lead to failure and bankruptcy, not to successful achievement. We must make it clear to adults that government deficits leading to immense public debt, devaluation of the currency and inflation only result in robbing them of the capital which they have accumulated as a result of a lifetime of productive work. We must make it clear that the fundamental qualities of industry, thrift, intelligence, ambition, and character pay off in terms of success both for the individual and the nation. Our whole history proves it.

There is nothing wrong about the man who works harder or better having more than his neighbor. That very fact creates the incentive which is the lifeblood of our system. We must encourage and reward success—not penalize it. Success is the hope of youth, and the proceeds of success is the security of old age. To turn away from our fundamental and historical system would mean ultimate personal and national economic and political suicide.

This job of making this issue of individualism versus statism clear must be done at the grass-roots level in our own home towns and communities. Enlisted in the job must be our trade associations, our service clubs, our fraternal organizations, our business institutions, our schools, our churches, our women's clubs, our youth organizations, and every other contact which each one has in his own sphere of influence. This question is larger than any political party, and response can be secured from members of all parties and from men and women in all walks of life.

It has been said that our American system of free enterprise is on trial. By whom and what for, I ask. Does the wretched standard of living in Russia under so-called communism constitute a desirable substitute? Does Britain, gasping from repeated dosages of socialism, suggest a possible alternative? Of course Stalin doesn't like our system. He has lowered an iron curtain to try and isolate the Russian people because he knows how quickly a comparison of the two standards of living by his own people would make them realize what stupid and pitiful victims they are. If this trend toward big government, big taxes, big doles, and big controls is to be arrested, the Federal Government must be reduced in size, in number of departments, in the number of functions it performs, in the number of people on its payrolls, and in the number of doles and subsidies it pays. It is estimated that one out of every 10 of the persons now employed in the United States is on the payroll of government at some level—not including members of the armed forces. This means that they and their families, numbering in the millions, are being carried on the backs of the productive people of this country.

We are now engaged in a great war mobilization program, which will involve huge military expenditures. The Congress is granting large emergency powers over our economy to the President, to enable the government to make quick decisions and take quick action. The liberty-loving, self-governing citizens of this country are for patriotic reasons suffering their liberties to be restricted and their already heavy burdens to be increased. They are doing so on the representation that the powers granted to the government will not be used unless absolutely necessary and that the powers so granted will be suspended as soon as possible. Now is the time, if ever in the history of this nation, for an alert citizenry to stand by as minute men solemnly resolved that wartime controls over the economy and the wartime regimentation of the people shall be terminated at the earliest possible moment. We should resolve that domestic expenditures shall be cut to the bone to prevent the ruination of our economy by war expenditures raised by such deficit financing as will depreciate the value of our dollar and thereby confiscate the capital of our people or by such high taxes as will strangle and destroy our economy. We must stop and stop now the ever increasing expenditures for Federal social welfare programs costing billions of dollars and which are weakening our financial and economic strength. Last year's large Federal deficit was caused by increased domestic expenditures—not by increased military or foreign aid programs. The theorists and economic planners must not be allowed to seize upon such an emergency as an opportunity for socializing our American institutions and our American economy. In 1924, Nikolay Lenin stated: "Some day we shall force the United States to spend itself into destruction." Are we going to stand by and permit our government to fulfill his prediction? We must remember that "eternal vigilance is the price of freedom." We cannot, we must not, and we shall not suffer the loss at home of the very freedoms which we are fighting to preserve abroad.

Responsibility of Bankers

We bankers not only share this responsibility with all other good citizens of preserving, maintaining, and defending the freedom and individual opportunity in our American way of life; but we also have an even greater duty to discharge. We are the custodians of other people's money and property. That money is not impersonal. It is human money. It represents the "blood, sweat, and tears" of millions of people. It is the product of their brain and their brawn, their thrift and their labor, their economy and their industry, and their intelligence. It represents their protection against want in their declining years; it represents the support and education of their children, the care of the family when they are ill, and their comfort and happiness in a thousand ways.

We cannot stand by and see these funds dissipated by inflation, devaluation, and deficit financing, which reduce the purchasing power of the dollar and thereby confiscate this accumulated capital.

We know by experience that neither men nor nations can violate the simple but very fundamental facts of business and economic life without paying a staggering price in terms of human misery.

We know that you cannot borrow and spend your way to sound prosperity. If you borrow and spend more than you take in, you are mortgaging your future; and if you keep it up long enough, you will become bankrupt. The same is true of a nation.

Yes, the American pioneer spirit is today in a conflict here in our own land with another philosophy. The American spirit says: How much can I produce, how far can I travel, how fast can I go, how well can I do my job, how much can I surpass former marks? The other philosophy says: How little must I produce, what is the least distance that I must travel, how slow can I go, how much can I get for doing how little work, and how inefficient can I be and still hold my job? The latter philosophy is one of stagnation and defeat—the former is one of achievement and success. The one says the world (meaning the producers) owes me a living; and they had better give it to me or by weight of numbers I'll appropriate the product of their energy—the other says I am a free-born American; I am vibrant with life and ambition; I live in the land of the greatest individual freedom and opportunity that this old world knows or has ever known. I am willing to pay the price in brain and brawn to achieve success. The right to live this kind of a life is a part of my birthright, achieved at great sacrifice and handed down with great courage by my pioneer forefathers; and by all that is holy, I propose to pass that birthright down to my sons.

Here in America today on many fronts and in many ways the roll of the manhood of this country on this subject is being called. If we believe in American ideals, if we have the instincts, the character, and the hardihood of American pioneers, we will defend those ideals whenever they are put in jeopardy, whenever the time, wherever the place, and whatever the manner. At this critical hour in our history, the time has come for us to stand up and be counted.

R. McLean Stewart Elected Director

R. McLean Stewart has been elected a director of the Cerro de Pasco Copper Corp. Mr. Stewart has been President of South American Mines Co. and its associated companies since March of 1946. He is a director of the Union Sulphur & Oil Corp. and a general partner in William A. M. Burden & Co. In the past he was an officer of Harriman Ripley & Co., Inc.

R. McLean Stewart

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Mr. Lawrence C. Marshall, President of the **Bank of Manhattan Company of New York,** announced on Nov. 8 the appointments of Andrew C. Costarino and Charles W. Gleason to the Brooklyn Advisory Committee of the bank. Both men are favorably known in business and financial circles. Mr. Gleason, who is President of the Greenpoint Savings Bank, succeeds his uncle, Cornelius H. Tiebout, who recently resigned from the Bank of the Manhattan Company's Brooklyn Advisory Committee because of ill health. Mr. Gleason was formerly President of the Gleason-Tiebout Glass Co. Mr. Costarino is President of Hicks-Costarino Co., Inc., the largest dealer in paper mill supplies in Brooklyn.

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S. Sloan Colt, President of **Bankers Trust Co. of New York,** announced on Nov. 13 that the directors had advanced five officers to the position of Vice-President, and at the same time had promoted eight others and elected seven men to official posts. Those who were named Vice-President are Edward M. Andel, Albert Muller, and Gordon Woodward, of the Banking Department; Ralph W. Hemminger, of the Pension Division, and A. Sidney Norton, of the Bond Department. Other promotions were: to Assistant Vice-President—F. D. Flaherty and E. A. Manning, Jr., of the Banking Department; C. W. Farnum, of the Personal Trust Department; G. R. Ince, Frank J. Jones, and J. D. Mulvey, of the Corporate Trust Department. To Trust Officer—S. M. Ensinger and A. E. Scott of the Personal Trust Department. The following were elected to official positions: F. J. Leary, C. M. Mueller and F. F. Stansberry were made Assistant Treasurers; R. W. Halsey, Jr., C. J. Hayes, and W. V. McCarthy, Jr., were made Assistant Secretaries, while H. N. Koster was made Assistant Trust Officer.

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Extra dividends aggregating $1,240,000 or 20 cents per share were declared by **The National City Bank of New York** at its directors' meeting on Nov. 8 and will be paid on Dec. 15 to shareholders of record at the close of business Nov. 24. Of this amount $930,000, 15 cents per share, will be paid by the bank and the remainder by City Bank Farmers Trust Co. Regular quarterly dividends paid this year have aggregated $1.80 per share of which $1.70 has been paid by the bank and 10 cents by the trust company. The extra dividends bring total payments for 1950 to $2 per share of which $1.85 will have been paid by the bank and 15 cents by the trust company.

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Guaranty Trust Co. of New York has announced the appointment of Chesley M. McK. Mercer as an Assistant Auditor.

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The Twenty-five Year Club of the **Union Dime Savings Bank of New York** held its fifth annual dinner on Nov. 13, at Toots Shor's Restaurant. The club welcomed two new members this year. About 25 members attended the dinner, including five members of the staff who are retired. Herbert G. Zilliakus, President of the club, presided. The speakers were William L. DeBost and J. Wilbur Lewis, Chairman and President of the bank, both of whom are members of the club; also Edmund P. Livingston, Vice-President, who retired as of Nov. 1 after 30 years' service.

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The Royal Norwegian Foreign Ministry and the Norwegian Export Council are the joint sponsors of an exhibition of Norwegian scenes and products on display in the windows in New York of the **Colonial Trust Co.'s** Rockefeller Center office on Avenue of the Americas at 48th Street. This exhibit, arranged as a tribute to the bank's correspondents and clients in Norway, will remain until the latter part of November. Arthur S. Kleeman, President of Colonial Trust, announces that in conjunction with the exhibit the trust company has prepared another in its series of international monographs "World Recovery Through Imports." This set, entitled "Trade With Norway," calls attention to the economic necessity for maintaining United States purchases from Norway at a high level. The articles describe several Norwegian products which might profitably be imported into this country. The exhibition and the monograps are the outgrowth of several visits to Norway by Mr. Kleeman and by Mario Diez, Vice-President in charge of the bank's International Division.

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Arthur J. Meuche and C. Reginald Oates have been appointed Trust Officers of **Chemical Bank & Trust Company of New York** according to an announcement by N. Baxter Jackson, Chairman. Mr. Meuche will be identified with the Pension Trust division at the main office and Mr. Oates will be in charge of the Personal Trust division at the Rockefeller Center office.

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Irving Trust Company of New York announces the election of Roland P. Soule as Vice-President of the Company, in charge of its Research and Planning Division. Prior to joining the Irving, Mr. Soule was Vice-President in charge of research and development of American Machine & Foundry Co. in which he still retains a directorship. He is also a director of Interantional Cigar Machinery Corp., and American Management Association and serves on the Advisory Board of "Chemical Industries," a McGraw-Hill technical journal. Mr. Soule has been a lecturer at both Columbia and New York Universities and a contributor to technical journals.

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Construction of the new Little Neck, Long Island, office building of the **Queens County Savings Bank of Flushing, N. Y.,** is nearing its completion and formal opening is scheduled for December, Joseph Upton, President, has announced. Ground for the $250,000 building was broken in April of this year. The new building will be located at Northern Boulevard and 251st Street.

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The absorption of the **United States Trust Co. of Newark, N. J.** by the **National State Bank of Newark,** was announced by the officials of the two institutions on Nov. 8, according to an item appearing in the Newark "Evening News" by C. J. Hamberger, which said:

"The acquisition, made through outright purchase of 24,000 shares of stock at full book value, covers the trust company, its six branches and its $40,000,000 in resources. Announcement of the transaction was made by W. Paul Stillman, President of National State, and J. S. Rippel, an influential stockholder in both banks.

"The deal will give National State resources totaling $165,000,000 and will make it the biggest National bank in the state. National State, with three branch offices of its own, now takes on seven additional sites, including the main office of U. S. Trust. The mechanics of the stock acquisition were approved by U. S. Trust directors after terms were reached with Mr. Stillman. Letters were received today by smaller stockholders calling for a dissolution meeting and telling of the recommendations for appproval of the deal made by the directors and holders of large blocks of stock. Indicated book value of U. S. Trust is between $2,000,000 and $2,500,000, or somewhat over $100 a share. This value is figured on the basis of U. S.'s capital at $1,000,000, surplus at $800,000, undivided profits at $311,649, reserves at $200,000 and other assets.

"The shareholders will have their holdings redeemed in cash and the bank will be liquidated. One of the largest shareholders in the bank is John Milton, Jersey City lawyer and former U. S. Senator. Ralph W. Crum is President of the institution."

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Howard C. Petersen was on Nov. 10 elected President of the **Fidelity-Philadelphia Trust Co. of Philadelphia,** succeeding Stanley W. Cousley, who at the directors' meeting was named Chairman of the Board. Mr. Petersen is to assume his new post on Dec. 1. The Philadelphia "Inquirer," reporting his advancement to the Presidency, said in part:

"Mr. Petersen has been with the bank since July, 1947, when he resigned as the Assistant Secretary of War to join Fidelity-Philadelphia Trust as Executive Vice-President. A graduate of De Pauw University and University of Michigan Law School, he was admitted to the New York bar in 1935, and practiced law in New York City until January, 1941. As a member of the National Emergency Committee of Military Training Camp Assn., he was one of the principal drafters of the Burke-Wadsworth Bill, which became the Selective Service Act of 1940, being later appointed counsel of the Committee by President Roosevelt.

"On Jan. 2, 1941, he was appointed assistant to Under Secretary of War Patterson, later becoming Executive Assistant. When the late Judge Patterson was named Secretary of War, Mr. Petersen was appointed special assistant to the Secretary and later was nominated by President Truman as the Assistant Secretary of War."

Mr. Cousley, who is 63 years of age says the "Inquirer," started with the bank as a messenger at the age of 15. He was elected a Vice-President in 1929, a director in 1941, Senior Vice-President in 1945 and President on May 26, 1947. He served overseas in the first world war as a Lieutenant.

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Through a stock dividend of $400,000 the **Citizens National Bank of New Castle, Pa.,** has increased its capital from $200,000 to $600,000, effective Oct. 27.

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On Oct. 24 the **American National Bank of Noblesville, Ind.** increased its capital from $150,000 to $200,000 by a stock dividend of $50,000.

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On Nov. 9 the stockholders of the **Sears Community State Bank of Chicago** approved plans to increase the capital from $1,200,000 to $1,600,000, mention of which was made in these columns Oct. 12, page 1410. Under the plans the stock will be increased from 48,000 to 64,000 shares, par $25, the additional shares being offered to stockholders at $40 per share on the basis of one for each 3 held. The surplus will at the same time be increased from $800,000 to $1,400,000.

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A stock dividend of $150,000 has served to increase the capital of the **American National Bank of Kalamazoo, Mich.,** as of Nov. 1, from $600,000 to $750,000.

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William G. Brumder, formerly Senior Vice-President, has been elected Chairman of the **First Wisconsin National Bank of Milwaukee,** it was learned from the Chicago "Journal of Commerce" of Nov. 8. It is further stated that William Taylor, formerly Executive Vice-President, was elected President. George F. Kasten, son of the late President, has been elected a director, filling the vacancy caused by his father's death. Joseph W. Simpson, Jr. and John S. Owen were elected Vice-Presidents. Walter Kasten was the late President.

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An increase in the capital of the **Omaha National Bank of Omaha, Neb.** was recently announced, the amount having been raised from $2,500,000 to $4,000,000; of the increase $500,000 came about through the sale of new stock, while $1,000,000 additional resulted from a stock dividend. The new capital became effective Oct. 6.

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The death is announced by the officers of the **Omaha National Bank of Omaha, Neb.,** of their long-time associate, Ray R. Ridge, Senior Vice-President and director of the bank. The announcement states that his passing is a great personal loss to his friends, to our bank, to the community, and to the banking profession nationwide.

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B. W. Jordan was recently elected Vice-President and Manager of **The Southern County Bank's** head office in **Anaheim, Calif.,** R. Foster Lamm, President, announces. In banking since 1929, Mr. Jordan was formerly with Kansas City, Mo., and Los Angeles banks. Founded in 1912, The Southern County Bank has branch offices in Artesia, Buena Park, and El Monte, Calif.

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The conversion of the **Bank of Alaska, at Anchorage, Alaska,** to the National System, under the title of the **National Bank of Alaska in Anchorage** is made known in the Nov. 6 Bulletin of the Office of Comptroller of the Currency. The change became effective Nov. 1. The National Bank has a common capital of $200,000 in common stock. The institution has a branch at Skagway, Alaska.

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Lord Balfour of Burleigh, Chairman of the board of directors of **Lloyds Bank Limited, London,** has announced that on Dec. 31 E. Whitley-Jones, one of the two Chief General Managers, will retire from that position and will assume a seat on the bank's board of directors. From Jan. 1, the Head Office Executive of the bank will consist of: A. H. Ensor, Chief General Manager; R. G. Smerdon and E. J. Hill, Deputy Chief General Managers; R. T. Fagan, A. J. Faux, C. Y. Hinwood and K. L. Boyes, Joint General Managers.

Ralph Langley Opens

WASHINGTON, D. C.—Ralph S. Langley has opened offices at 1435 Chapin Street, N. W., to engage in the securities business.

With Wilson, Johnson Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif. — Albert C. Stubb has become associated with Wilson, Johnson & Higgins, 300 Montgomery Street. He was formerly with Davies & Mejia and Henry F. Swift & Co.

Continued from page 6

A Look Ahead for Economic Progress

be in the neighborhood of $825 billion. The average family income, which this year in the United States is about $4,000, will in the year 2000 be about $10,000. And all of these dollar figures for the decades ahead are expressed in dollars having the same purchasing power as today's dollars. They're not expressed in confederate currency.

The Secret of Progress

Now what's the explanation of this growth, this rise in real income so that the average American family will have a real income in another 50 years 2½ times as great as it has at the present time? It is a combination of factors—a continuing efficacy in our training of our labor force, increased skill in management, a very considerable increase in the quantity of capital goods employed in the production of other goods and services, and, perhaps, most significant of all, a tremendous technological development.

We are going into a period of the fastest technological development which has ever been known in the world. Some future historian may indeed label the period into which we are now moving as the Second Industrial Revolution.

It will be characterized by a continued and increasing output per man hour; and that phrase, "output per man hour," is indeed the magic phrase describing the conditions that determine the standard of living of any people.

Why do we here in the United States have such a large stream of goods and services to consume? Why do we have such a high standard of living? Why are we able to build so many houses, drive so many automobiles, consume so much food and clothing and the other comforts and luxuries of life? We are able to have these goods because we, ourselves, produce them. To be sure, there is a modest amount of foreign trade. We do not ourselves raise coffee, but we pay for such imports with our exports. We send automobiles in payment for the coffee and, therefore, we are entitled to say figuratively, if not literally, that we produce the coffee. And it is because our production is going to be increased that our consumption is going to be enlarged correspondingly. It takes many forms. Even the hens and the chickens seem to cooperate in this process. The average cow is producing 22% more milk today than the average cow did 25 years ago. And the hens are doing even better. The average hen has increased her production 43% in this period. And only now, comes news of a new brand of hybrid chickens which are virtually guaranteed to lay 20 to 30% more eggs than the average hen today.

New Commodities

This higher standard of living is going to be characterized by the introduction of an amazing variety of new commodities. Not only will there be a great increase in the total stream of goods, but there will be produced types of goods which one can hardly imagine. Although feeling fairly certain about these forecasts with respect to total output and production, I do not have a vigorous enough imagination to guess what these new commodities are going to be.

The "Wall Street Journal" recently came out with some suggestions of new commodities which are badly needed, and they may be in the offing. One of these commodities was a fountain pen that would bark if the wrong fellow put it in his pocket. Another was a telescope which would enable us in studying evidences of human life on other planets to find out whether any of them would be interested in borrowing money from us before we get too chummy with them. And a third is a watch that would enable a man to know how late he can be for an appointment with a woman and still get there before she does.

Fifty Years of Progress

The difficulty, however, of predicting exactly what the new types of commodities will be can best be appreciated, I think, if we were to try to put our minds back to the year 1900, 50 years ago, and suppose that we were trying to forecast what new commodities would have been introduced by 1950. Who would have had imagination enough (to mention only a few) to anticipate the development of automobiles, buses, trucks, military aircraft flying faster than the speed of sound, commercial aircraft which would enable one to have breakfast in New York and dinner in San Francisco, widespread use of telephones, including transcontinental and intercontinental telephony, electric lights, washing machines, dishwashing machines, vacuum cleaners, pop-up toasters, penicillin, and streptomycin. And this is by no means the end of the list. Indeed, anyone who had ventured to predict all of these things surely would have been classified in 1900 as an impractical day-dreamer.

And the commodities that are going to be developed in the next 50 years are going to be more remarkable than these, though I cannot say what they are going to be. I feel certain that just as we look back at our grandparents and think that they had it pretty tough, just so, similarly, our grandchildren are going to look back at us and say, "Those poor old duffers had it pretty tough!"

One of the things which I think we can count on with certainty is much better homes. The average family in another 50 years (and partially so during the closer decades ahead) will be able to afford to put two or three times as much money into a home as today's average family can. And the average family will expect to get and will get a home which for attractiveness and charm and convenience and for all sorts of unexpected pleasant aspects of living will pass beyond, I venture to say, the imagination of any of us here present.

In another 50 years the automobile will probably disappear. We shall travel in some sort of aircraft. The contraptions may be helicopters, or some other type of machine; but they will make street and highway travel completely old-fashioned.

Illnesses will be conquered and health improved. It is not impossible that the medical and dental professions will dwindle, as pill-dispensing chemists, and ray-distributing physicists keep the people in good health. Foods will be better and more varied. The men will be taller, and the girls will be prettier. And I think that we males will not be very smart if we don't get rid of the strait-jackets called vests, and the garrotes called neckties.

The Progress of the Communist System

And what of the Communist system during this same period? May not the Soviet Union with a successive series of Five Year Plans catch up with us and even pass us as the proponents of the planned economy would have us believe? I think there is not the slightest possibility of their catching up with us or coming anywhere near to us. Indeed, I think, the Soviets will be doing very well if in the next 50 years they succeed in raising the average real standard of living of Russian families by as much as 50%. Today the average Russian family has a real income and purchasing power equivalent to about $700 a year as against $4,000 in the United States. If this forecast is correct 50 years from now the average Russian family will have an income of $1,000 as against $10,000 in the United States.

Why do I feel so confident that our rate of progress is going to continue to be enormously higher than that of Soviet Russia? Well, in part, it is the lesson of the past historical trends. The Soviets have not shown any ability, despite their stories about mechanization and improvement, actually to raise the standard of living of the Russian people. But there is more to it than that. Much of progress depends upon the efficacy of the system and the Communist system simply inherently is not so efficient a system for many reasons as is the private enterprise system.

Progress depends also on technological improvement, and technological improvement depends on active and free inquiry—upon what is ordinarily called research. At the present time American industry is spending, by far, more money on research than has ever been spent in the past and it is continually bearing fruit. Only the other day the Steel corporation announced a new way of making steel in which a process which formerly took from eight to 12 hours now takes 12 minutes. Recently the papers carried the announcement of a new type turbine automobile engine for trucks which weighs 1/14 as much as the regular type truck engine while delivering the same horse power, and has other advantages. In the Soviet Union, because it is a police state, thinking and having new ideas is in all respects a dangerous activity. The way to get along in a police state is the way which some assert is the way to get along in the army—that is, never stick your neck out. It's dangerous to have ideas in Soviet Russia because there's no knowing when some new idea may turn out to transgress the party line or may turn out to impinge on some high party brass; and, therefore, the safe thing to do is to go right along doing the job according to orders and not undertaking to introduce changes.

In the United States, however, there are literally millions of places where innovations can be developed, tried, and experimented on without getting permission of any commissar and without the danger of losing more than one's pocketbook, certainly not one's neck. There are in the United States nearly five million farmers and nearly six million business and professional men and organizations, in addition to educational institutions and other centers of research and inquiry. And every single one of these men and organizations is a place where something new can be tried. Americans, being the gadgeteers that we are, are always trying something new. It is out of this enormous, widespread series of wellsprings of progress, that American progress has come and is going to continue to come. I think that there is no chance of the Soviet Union matching it in this regard.

Possible Dangers to the American Economy

I have spoken in statistical terms of the prospect of progress in the United States. This is the kind of progress that we are going to get unless something happens to interfere with it. It might almost be said to be automatic and yet, that word would not be strictly applicable, for it is not really automatic. Progress does not come automatically; it comes as a result of the best efforts of men's minds and courage.

What are some of the things that might happen in these decades ahead to interfere with this potential progress under the private enterprise system in the United States?

The first of these, of course, is war—war between ourselves and the Soviet Union. If there should be a war, of course, all of these forecasts are thrown off. The experts say that instead of a population growth, the population of the United States might drop by several tens of millions in the first 24 hours of the war.

I don't know whether there's going to be a war between the United States and Soviet Russia. I do know that we don't want one. And I feel equally sure that if one should occur, although we might be sorely hurt, that the end result would be disastrous for Soviet Russia. Knowing as I know our industrial strength—the great source of power in modern warfare—I have no doubt that such a conflict would end disastrously for Soviet Russia. Therefore, if I were one of the men in the Kremlin, knowing what I know about the United States, I know what I would say when we were assembled together in the most secret place and the doors were carefully locked. I would say, "Comrades, the foreign policy of the Soviet Union must be oriented around one plank—in no circumstances become involved in a war with the United States of America, because if we do, it will mean the end of urban Russia, the end of us personally, and the end of the Communist system. No, by all means stay at peace with the United States. Yes, be difficult, be tough, be intransigent, but be ready to pull back awfully fast if it looks as though war is going to start. Stay at peace with the United States; remain the center of Soviet propaganda for the entire world and see if we cannot carry our propaganda message to the starving millions of the earth, but let's not lose our base of operations by getting involved in a war with the United States."

That's what I would say if I were in the Kremlin. Unfortunately, about the same proposition could have been made with respect to Germany and Japan in 1941, when one could have said if the United States becomes involved in a war with Germany and Japan, the result will be disastrous to these two nations—and yet the Germans declared war against us and the Japanese bombed Pearl Harbor. I suppose it is because the people in these small countries just don't appreciate how big the United States is. And it is hard to appreciate it unless you've traveled all over our country preferably by automobile and have seen it with your own eyes.

In this respect, we may be more fortunate this time. The Russians have a big country, too. In land area, it is enormously larger than the United States—some eight million square miles as against our three million square miles; it

Securities Salesman's Corner

By JOHN DUTTON

Did you ever stop to think that your doctor is the worst salesman in the world—but **you come to him,** and somehow you like it! For years I have been thinking about ways and means of making people come to an office to buy securities; others have been doing the same, but outside of those who sit in a board room all day long, we have not been very successful in this respect. Why shouldn't people come to your office to get investment advice—just as they do in the case of medical advice? Maybe we have been using the wrong tactics.

What happens with your doctor? You get a pain or an ache, you don't feel too well, so you call him on the telephone. An indifferent, highly impersonal, yet efficient female voice answers you, and calmly tells you, "No, you can't see the Doctor today," he's booked solid, but he does have a half-hour tomorrow afternoon," so she will put you down for 2:30 on that day." But you tell her that is not convenient, you are busy, you have an office to attend to, etc., etc. So she says, "Sorree, is it an emergency?" And you say, "No, it isn't, but can't she give you a more suitable time, say perhaps 9:30 a.m. some morning?" And she comes back, "Well, you know the Doctor is very busy, he goes to the hospital at 8:00, etc., etc." So you finally compromise for a week from next Tuesday at 5:00 p.m.

Then you arrive at 5:00 p.m., all tired out from a day's work, and ready to go in and get it over with. But no, you won't be that fortunate, there are three or four more ahead of you, and so you wait. You pick up some magazines and try to read—the light isn't good, the issues are three to four months old, someone sneezes and you look for some ventilation, but all you can smell is the sort of odor that always has been associated with a doctor's office since the time you were a boy of six and haven't yet forgotten it.

Finally your turn comes. You walk in. The nurse is tired, too. Old Doc sits there and eyes you quizzically. He almost makes you feel guilty that he is going to be late for supper. You sit down, and he says, "John, what's the matter?" You start to tell him, you want to make it short, you feel that his time is valuable. Poor guy, he's been working hard all day (so have you, but you've forgotten it). Then he interrupts you, "Take off your short, roll up your sleeves, sit down again." From now on you're his baby. No matter where **you think** it hurts, he is going to **tell you.** YOU DON'T KNOW FROM NOTHIN'! Even if he's wrong he is right. You aren't even supposed to ask how much it is going to cost, or if it will hurt. If anyone is a poor salesman—he is it! You beg him to see you, you may think you know something too, but you must forget it and not question this paragon of wisdom, who takes your money without even talking to you about such gross and common things. That he leaves to this underling—another cool female character, who taps you good when you are leaving, half groggy and bewildered from the session you have just gone through.

Possibly there is a lesson in this—maybe we have been too anxious at times. We may have given away too much, too much for free. Free information, statistics, services, advice, and we have **gone after business.** If we could only get people to **feel the pain in their pocketbook** that bad investment advice will give them, possibly we could get them to call to see their investment dealer at his office. At least it is pleasant there; up-to-date magazines, pretty stenographers, no formaldehyde odors, and free cigarettes and cigars! This column is still groping for the answer. Old Doc has it, and by our standards he is the worst salesman in the world, MAYBE!

P. S.—He told me that he thought I would live!

stretches east to west through 11 time zones—as against our four. In the summer, the sun never sets on the lands of the Soviet Union.

Labor-Management Relations

A second factor that might interfere with the continuing progress of the United States would be a deterioration in labor-management relations. Now in these days when we read so much about strikes in the papers, it may seem like a strange statement, but the fact is that labor-management relations actually are better than we think. And I for one am disposed to hope that they're going to get better all the time. Why can it be asserted that they're better than we think? Well, there are in the United States something over fifty thousand formal labor-management contracts. With a negligible number of exceptions they last for one year, which means that on an average about one thousand are coming up for renewal every week. The overwhelming majority of these are renewed without industrial strikes.

A few, however, are not renewed, and strikes ensue. Naturally, it's the strikes that get into the papers, because strikes are conflicts, and conflict is news. "One hundred thousand workers on strike" is an exciting headline. "Fifty-nine million Americans at work today" will be found tucked away in a small paragraph on the financial page. There's nothing strange about this. If you live at home happily with your husband or your wife, you won't get your pictures in the paper, not at least until you celebrate your golden wedding anniversary, but if you were to go home and take a butcher knife with fatal effect upon your spouse, your picture would be in the paper the next morning. But few, save the most cynical, would suppose that this is the picture of typical American domestic life at home.

I think also that we are going through a period of transition in labor-management relations. Many of the leaders on both sides bear scars, mental and emotional scars—some of them perhaps even physical scars—dating back to the period of tougher industrial relations. There is growing up, however, a new generation; on both sides are people who are resolved to make collective bargaining work and they're doing it. I think we are not giving enough credit to the thousands of men, representatives, on the one hand, of management and on the other hand, of labor, who are gathering around bargaining tables every week in the United States and are making collective bargaining work. I think we ought to take our hats off to these men; they are making a remarkable record of accomplishment and one rarely hears about it.

Creeping Collectivism

A third group of dangers to our system, I put together under the heading "Creeping Collectivism." Public opinion polls have repeatedly shown that the American people are overwhelmingly opposed to collectivism in any form and are equally strongly in favor of the private enterprise system. And yet there remains the danger that by taking a series of steps, each small and insignificant in itself, the private enterprise system might be nibbled away to the point where it would cease to be effective.

What are some of the ways in which this might happen? One way is by too much government spending and taxing, thereby weakening the incentives necessary to the private enterprise system. Federal, State and local taxes today take 25% of the national income. That's too high for peace time; except, of course, that we're not at peace. Any substantial reduction in this figure must depend primarily upon being able to reduce the large amounts spent on national defense and aid to veterans, on assistance to foreign governments, and to a smaller extent on a reduction of such items as subsidies and, that greatest of all the pork-barrel items, the Rivers and Harbors Bill.

There are, as we all know, political difficulties in the way of all these reductions, and they can be achieved only if we as citizens, as we insist upon economy, are willing to accept economy even when reductions in governmental outlays impinge upon us.

A second factor in this process of creeping collectivism would be an excessive development on the part of the citizenry of a "gimme" philosophy and a parallel expansion of the "hand-out state"—processes which would weaken personal self-reliance and individual initiative.

A third point in this composite would be a development of excessive government regulation (which already has gone far) putting the private enterprise system increasingly in a strait-jacket until it ceases to be able to function.

A fourth possibility would be improper government competition with private enterprise. Government enterprises having the apparently bottomless purse of the taxpayer can easily present improper competition to private enterprise, endangering its functioning and its success.

Decline in Spirit of Progressive Enterprise

And, finally in this grouping, the private enterprise system could be seriously injured by a decline in the spirit of progressive enterprise. England's troubles are traceable in my judgment to many things. I see no fewer than 15 different strands of explanation. And one of the most important, as I see it, is the decline in the spirit of enterprise, which began in England many decades ago. During the period of the Industrial Revolution, England was the most energetically progressive nation in the world. This progress enabled her to defeat Napoleon and to go on and acquire wealth, power and empire. In those decades, the world clamored for English goods, and got them, carried in English ships, financed by English banks. Later on, something happened to the spirit of English enterprise. Perhaps it was because the sons and the grandsons and the greatgrandsons of the men who were the energetic promoters of these industries decided to become country gentlemen and spent their time "huntin', shootin' and fishin'" instead of putting their energies and their very real abilities into a continued development of English industries. But whatever the reason, English industrial progress began to slow down in the latter part of the 19th century and this was a long time before many of the current adverse factors put in appearance in that country.

I see little or no sign of this occurring in the United States. There has been perhaps in one or two of the older sections of our land some decline in spirit of enterprise, but even in those sections I think there is today a resurgence of vigorous progress.

A combination of these factors could lead to a decline in the efficacy of the private enterprise system. And the insidious thing about any of them is that the process could go on little by little, here a nibble and there a nibble, none of the steps being significant in themselves. Indeed, the full impact upon our society probably would not be realized until some time of crisis when suddenly, the system, already weakened, would collapse under the impact of dramatic adverse circumtances. At that point, unfortunately, we would have gone past what may be called a point of no return. For at that time, it is surely too much to expect the American people of that day would survey the wreckage and say, "Yes, we see what's happened during these past years; we have taken one step after another which weakened the private enterprise system and now we must reverse all these policies and get back to a vigorous private enterprise system."

No, at that point, being past the point of no return, we would turn as England has done to Socialistic policies.

Is There Danger of Another Depression?

Another factor that could seriously impair the functioning of the private enterprise system and might cause a lurch to the left all over the world would be another major depression in the United States like the one we had in the 1930s. I think this need not occur. Indeed, I have even ventured to suggest one type of solution for preventing its occurrence. But whether my solution is right or not, I cannot for a moment believe that Americans who have displayed such extraordinary cleverness at inventing various amazing devices for stabilizing other things—for stabilizing temperature and pressure and speed, and mechanical devices for flying an airplane, and many others—I don't believe that the American people are incapable of inventing devices that would stabilize our huge and somewhat unruly private enterprise system at a high level of prosperity.

Nor do I believe that we shall be incapable of dealing with the other problems. The important thing is to know that the problems exist, and an informed citizenry is likely to be an effective citizenry. The crucial thing is not to be blind to these possibilities, not to become complacent with our situation or with our expanding progress, but to be well aware that just as eternal vigilance is the price of peace, so eternal vigilance is the price of continued progress and the preservation of our liberties.

A Changing American Culture Pattern

Along with this continued development in the American standard of living there is going to come, I think, something even of greater significance—an amazing and important change in the culture pattern of the American people. I use the term "culture pattern" to refer to the general behavior and the attitude toward living of all of us. Up to the present time, the American culture pattern has been very largely dominated by economic considerations—the problem of making ends meet. In the decades now immediately ahead, for the first time in human history, the economic problem is going to be solved for an entire people; the nation's collective nose is going to be taken off the economic grindstone. We are going to have the time and the interest and the inclination to get on with pleasanter living, with more gracious living, with what the philosophers have been calling for lo these many years, **living the good life.** There will be more gaiety, more fun, more self-confidence, more enjoyment, more courtesy. It may seem Utopian, but the time may come when the average American is as courteous when he's behind the wheel of his automobile as he is when he's on his feet. That problem, however, may have to be solved by giving up automobiles entirely. I think it very unlikely that we should be driving anything so old-fashioned as automobiles in the year 2000.

A Basis for Confidence

For the reasons given above, I believe that the gloomy, pessimistic outlook that so many people have is unjustified. The world situation is disturbing, to put it mildly. But the elements of courage and progress that exist in the American system will provide strength to meet world problems and the basis for a better and richer life for our people in the decades ahead.

Kernan Heads Campaign for "Junior Republic"

Francis Kernan, partner in the investment banking firm of White, Weld & Co., has accepted the Chairmanship of the campaign to raise $360,000 to balance the 1950 budget of the George "Junior Republic," it was announced by Donald S. Stralem, Chairman of the board of directors. During World War II Mr. Kernan was a Lieutenant Commander of destroyer escorts in the Atlantic for three and a half years.

He will give leadership to the fund raising efforts of the 300 men who compose the Republic's Businessmen's Advisory Council, and to several hundred additional volunteers interested in youth problems.

The George "Junior Republic," often called "the smallest republic in the world" is not only a teen-age training center, but the only co-educational project of its kind in the world. It is a 100% youth self-government community, and is credited with being the originator of this principle in 1895.

"The boy and girl citizens govern themselves through annual elections of a President and other officers, and run their Republic according to a constitution based on the Constitution of the United States and of New York State. They have their own judges, courts and lawyers. The unique program features on-the-job training for various crafts, and payment for all work, including attendance at school. They have their own bank and their own monetary system, and their coinage is used exclusively for all transaction within their 550-acre country. With the money they earn, each boy and girl must pay for his room and board, and also pay income taxes to their government. The current rate of exchange is two Republican dollars for one U. S. dollar.

"Among the 6,000 alumni are a Pulitzer prize winner, college professors, lawyers, small businessmen, public officials and other solid citizens. All of them, as a result of the Republic's program, respect law and order, appreciate the value of a dollar, cherish the traditional American freedoms, and support the principles of the free enterprise system."

The Republic is located at Freeville, N. Y., near Ithaca. Its New York office is 175 Fifth Avenue.

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Observations . . .

inherently related value, and hence a mere rise in the general price level need not affect the price of stocks.

The Tax Brake

The tax incidence—both corporate and individual—furnishes another major brake on the stock market effects of monetary inflation. A high levy on individual incomes of course seeps through to deter capital values—although the effect of the progressive tax rate technique is to some extent counteracted by the mutual fund industry's distribution of shareholding among the lower-income groups.

In rebutting the assumption that profits will increase in correlation with depreciation of the currency, Mr. von Mering contends there is no normal profit rate; so profits can drop in terms of the dollar without taking into account its depreciation.

To the inflation-hedging stock owner who typically counts on a rise in commodity prices to result in a higher price level sort of automatically, the author points out that if a rise in commodity prices really had a cause-and-effect relationship to higher stock prices, there would not be so many stocks of well-managed companies selling consistently below their book value. On the contrary, as he states, they would sell well above their book value, because the book value is based on the original cost of production and not on the cost of reproduction, which is necessarily higher in a period of inflation. The evidence persists that the movements of stock prices reflect the prospects of "net-net" earnings far more than book or reproduction values.

The Psychological Determinants and the Mis-Timing Danger

Irrespective of the economic merits of the question, "the publicity campaign" furthering investment in common stock, together with the inundation of the public with inflation fears (or hopes—by those fully-invested), seems to be stimulating a general propensity to transfer from fixed-interest investment to the growingly-respectable equity share.

The extent to which the investing public is being thus swayed by psychological forces lays it open to serious trouble through the *mis-timing* of its hedging commitments, although it does not make its expectation of inflation erroneous over the long term. As C. W. Richardson pointed out in the "Chronicle" of Nov. 9, 1950 (*"Inflation No Safeguard Against Market Decline,"* p. 5), midst the rising-cost-of-living period of 1917 stock prices nevertheless fell by one-half in a 7-month period. Likewise, the general era of expansion of the 1930s did not prevent the severe stock market drop, portrayed by the 1937-'38 halving of price of the Dow-Jones Industrial Stock Average, and its further net fall between 1938 and 1942. Again, in 1946, despite the attending long-term inflationary pressures, the stock market averages fell by 25%.

While we may now be in the mere foothills of inflation with the real peaks still ahead, beginning our investment voyage even at the top of a foothill may well entail plenty of intermittent anguish.

Sound practice would appear to bar inflation-anticipation, along with other factors, as a *single-cause* reason for buying stocks—now as always. Fortunately, the common stockholder's forebearance from the inflation bandwagon is currently rendered easy by the seeming existence of many opportunities for buying issues at prices justified by sound standards of quantitative value-appraisal.

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What Governmental Policies Today?

effort; and our foreign expenditures will rise. The dollar gap will be filled. The dollar will be no more a scarce currency. Indeed even now it is not. Thus has come true, though partly for reasons Keynes could not forsee, the prophecy in his posthumous essay on the Balance of Payments of the United States.

Though we should revive lend-lease, the suggestion of a common fund for defense is not a good one. The American taxpayers who submit themselves to more and more burdensome taxation will not consent to accept a general liability to make up other nations' deficits. Some nations have a long history of preferring currency depreciation to more direct methods of taxation. That is their privilege. We Americans have the opposite preference; although our preference is not always our practice. This fundamentally different approach makes pooling impracticable and unfair. As long as nations have separate governments, separate legislatures and separate systems of taxation and tax habits, they will not pool their assets and liabilities; and they should not. That would be carrying egalitarianism too far.

During the early years of the First and Second World Wars, before we came in, European nations spent their reserves in buying goods and services here and elsewhere. Now our Allies' reserves are spent, and the new weapons, and our Allies' weakness, put us in the first life of defense. A general war, if it comes, like the Korean war, will be primarily ours to win or lose from the beginning. Our men, our goods, our gold, will be at once engaged. Western Europe survived her victories in the two German wars only with American aid. If America makes too lavish civil expenditure at home and abroad, while at the same time making necessary defense expenditure too, who will bail America out when victory is won? Who will give Marshall aid to America then? If the salt have lost his savour, wherewith shall it be salted?

We must help our friends to defend themselves against subversion, revolution and aggression, but there must be no frittering away of our resources in indiscriminate benevolence at home or abroad.

Price-Fixing and Wage-Fixing

So much for self-control by our government—the most difficult of all controls for government to exercise. What of other controls?

Congress appears to have been panicked by our early reverses in Korea, and the fear of general war, and of the election, into conferring on the President powers he did not seek, to control prices and everything. But as we have seen, the problem is to find men and material for defense; and the cure is to decrease the demand for civil purposes as the demand for defense is increased—not to dose the symptoms but to effect a cure. Price-fixing may hide the trouble for a time, but it discourages production and stimulates consumption, and the latent inflation may do more damage when it breaks out later than if it had been allowed to run its course in the first place.

The Russian rulers have it in their power to precipitate a general war now or to defer it for a year or two or ten—or maybe forever. So we must be strongly armed and yet we must remain strong financially and economically. The Russians cannot win a fighting war against us if we arm ourselves and the free Western world; but they could win their misnamed cold war if we give way to extravagant deficit financing and inflation on the one hand, or to freezing our dynamic economy on the other. That may be their best hope: that we shall bleed ourselves white by inflation; or destroy our capitalist system by adopting the state despotism which they practise.

In the period of the decline and fall of the Roman Empire the emperors tried price-fixing and failed. Price-fixing has always failed, from Diocletian to Truman. It behooves us not to be beguiled by the fallacy of the omnipotent state; not to lose our freedom in the right to preserve it. The energy, initiative and resiliency of the American industrial economy must be preserved if we are to win the limited war which the Russian rulers are waging against us. Price and wage controls will be necessary as temporary expedients if general was comes, but as a continuing program for a long period of limited aggression, subversion and revolution, they are likely to be deadening and self-defeating. The government may well influence prices by determining what it will pay for what it wants, by exercising a certain restraint and prudence in stock-piling, by establishing priorities, allocations, and restrictions on civilian purchases. But general price-fixing should be avoided. Free prices provide the best method of stimulating production of the things that are really needed, and of restricting consumption of the things that are in short supply. Frozen prices tend on the contrary to limit production and stimulate consumption. Above all things we need to stimulate production and restrain consumption. The price system is an essential element in our enterprising economy, which has served us long and well. Let us not throw it away hastily.

Wage-fixing should be avoided too. The mobility of labor in the United States has been one of our greatest assets. Frozen wages tend to keep workmen in their old jobs and to reduce the mobility of labor, to retard the movement of men from nonessential to essential jobs, from one place to another, in response to the appeal of better pay. I do not believe in forced labor—or directed labor as the British euphemistically call it—and that is what wage-fixing means. I do hope and believe that in this time of national peril American workmen may be moderate in their demands, if our government stops encouraging their demands and rewarding those who strike, and stops its own inflationary policies which increase the cost of living. But I do not think workmen will submit to be forced to work at a fixed wage for a private employer; and I do not think they should.

The way to deal with the problem is not to freeze everything, but to stop all deferable civil expenditure, impose adequate taxation, and reform our inflationary fiscal and monetary policies.

Taxes

Government should in these boom times, in this period of limited wars, pay as it goes, raise in taxes enough to pay all its expenses. This will avoid a deficit, and deficit financing, which is inflationary.

When the total tax burden is and must be very heavy indeed, the only safe rule is not to rely too heavily on any one tax, but to devise and impose a great diversity of taxes, direct and indirect, none at excessive rates, but so widely distributed in their incidence as to provide great and fairly stable revenue without being crushing in their effect on any particular groups or activities. Taxation is not an exact science and the burden of taxes falls unevenly. It is impossible for the lawmakers to foresee every contingency and everyone's problem. Undue dependence on certain kinds of taxes may have crushing effect in some special cases; and, on the other hand, may make the Treasury's revenues uncertain and erratic. There should be a variety of sources of revenue.

It is well that Congress increased income taxes in September and abandoned the proposed repeal or reduction of excise taxes. In addition to excise taxes we shall need a general retail sales tax at moderate rates. Such a tax, though anathema to some politicians and some theorists, has great practical advantages. It taxes only the last transaction, the sale to the ultimate consumer, and is not (as corporation income tax tends to be) reflected over and over again in costs and prices on the way from production to consumption. A retail sales tax has the social merit, and political demerit, of bringing to the attention of the voters the costs of government. Some local authorities already use it; but they have no exclusive right to it. It ought to be adopted by the United States.

There will have to be more tax increases when rearmament gets going, but there is no great hurry about it. The post-election tax bill should not be panicky or punitive. In spite of all the talk about a deficit, there has been an overall Treasury cash surplus for the five-year period since the Second World War, and also for the first quarter of this fiscal year, beginning July 1, 1950. There may be a cash surplus for the first three-quarters, if not for the whole, of the fiscal year ending June 30, 1951, due to the increased taxes under the 1950 act, the high national income, the low unemployment, and the inevitable lag in actual spending for rearmament; for blue prints are not planes nor tanks nor submarines, alas, and appropriations are not expenditures. It may take some months to catch up with the deficit in our armament and convert it into a Treasury cash deficit. We should pay as we go, but not before we go.

Excess Profits Tax

As actual cash defense expenditures rise, there may have to be what is called as excess profits tax; but it should not be retroactive. If a retroactive excess profits tax is adopted we may have a cash surplus this fiscal year ending June 30, 1951, so large as to be deflationary. An excess profits tax is a bad tax; but need not be so very bad if its terms are fair and moderate. The only and sufficient excuse for it even in an emergency is that the government must take the money wherever it can be got with the least disturbance to the economy; that the government must get the money where the money is. A moderate tax of this type, a supertax for the national defense, would be better than a further increase in the straight income tax on corporations. Companies that have abnormally large income in relation to capital or past earnings are better able to bear more taxes, than companies that are jogging along without benefit of defense spending and that perhaps are even hurt by curtailment of civilian spending. The 45% corporation income tax, however necessary, is too high already to be healthy, to permit fair dividends and adequate reserves, for the jog-along companies.

"Excess profits tax" is a horrid name, for it implies a condemnation of profits if they are large. Large profits are not necessarily excessive. To call them so plays into the hands of the socialists, communists and enemies of free enterprise. We should not adopt the language of our opponents, and of the disgruntled people who think that nobody ought to be able to make any more money than anybody else, whatever his skill, energy, ability and enterprise. Our American enterprise system is the profit system. It is that system that got the production that made victory in two world wars possible; and can do it again. This proposed tax should be called, not an excess profits tax, but a "defense supertax," a name which would indicate the special and temporary character of this tax and the fact that it is an extra tax on those companies best able to bear it.

The defense supertax should be very moderate, or it will lead to wasteful expenditure and discourage enterprise and production. By "moderate" I mean that the tax rate should be low, the base period of past earnings should be recent and fairly long, and the rate of return on capital exempted from the tax should be generous; and that the taxpayer should have the option as between the past earnings test and the capital return test. New companies and new enterprises of old companies should be exempt from the defense supertax altogether since they can have no record of past performance for comparison, and it should be our effort to encourage new undertakings. The proposal made at the last session of Congress to treat a part of the earnings of the base period as excess profits is unfair and would be ruinous to many companies. It is never in the public interest, least of all in a period of national peril, to impose punitive or destructive taxation. Let us postpone our domestic vendettas while the enemy is at the gate.

Provision for renegotiation of war and defense contracts is desirable. It is just another form of tax, and will permit the government to collect sums from war contractors which no general tax at reasonable rates could reach. In order to expedite production, the government must grant liberal terms to war contractors. When they turn out in the event to have been too liberal, renegotiation is only decent.

The proposed withholding tax on dividends, happily discarded in the recent act, should be dropped forever. The paper work would burden the taxpayers and the economy out of all proportion to the real gain to the government. It is dishonest for the government to take money even temporarily which it isn't entitled to and without a claim of right, as in the case of exempt institutions and persons whose income is so small as to be tax free. For the small stockholder the burden is serious. Say a man owns ten shares of A. T. & T. The dividend is $90. The proposed withholding tax is $9. How much paper work would the stockholder have to do to get back his $9? Very likely he would forget or neglect it, in which case the government would have done him out of $9. Pretty petty business, that. All the Treasury needs is full information returns, from corporations and custodians, to catch tax dodgers. Let the tax-gatherer gather his own taxes.

Funding the Public Debt

In preparing to defend ourselves and our economy, we had better get our debts in order. We may have to borrow more, and in these money matters let's take some lessons from the past.

The level of interest rates adopted for financing the Second World War was too low. The extreme cheap-money policy was inflationary. Taken in conjunction with the high level of taxation, and the full taxability of the bonds, it was not conducive to saving and investment. High taxes and low interest rates combined to make the yield of government bonds insufficiently attractive to investors other than exempt and semi-exempt institutions.

The post-war debt policy of our Treasury has been to borrow too cheap and too short. No long-term refunding has been done for five years; and the debt is getting shorter with the lapse of time. That policy is improvident. Our fiscal unpreparedness is comparable to our military unpreparedness.

Funding of some portion of the public debt is a matter of common prudence, and indeed of urgent importance, in view of the gravity of the international situation. Bonds should be sold to the people in as great volume as possible to lap up the savings not reached by taxes. Negotiable bonds should be sold. War loan drives should be instituted to sell them as well as the non-negotiable savings bonds. Such drives would raise more money and they would arouse the interest of the people and give them a sense of participation in the defense effort. Tap issues should be avoided. They kill the market by keeping the supply always ahead of demand.

To promote the wide distribution of a refunding issue among small holders, tax exemption, carefully limited, might be granted to small holdings of persons of small income. I have always opposed tax exemptions in general and, at the Treasury in 1917, in connection with the Second Liberty Loan, I initiated the limited taxation of government bonds, all previous issues having been fully exempt. Later I urged the adoption of a constitutional amendment to permit Federal taxation of future issues of State and municipal and, and *vice versa*, which passed the House of Representatives in January, 1923, but died in the Senate. But the present one-sided system leaves persons of large income free to buy fully tax-exempt State and municipal bonds, of which there are some 20 billion, and offers little inducement to persons of moderate income to buy fully taxable United States bonds. The public debt is too much concentrated now in the hands of corporations that are wholly or partly tax free anyway. The taxation of bond interest to people of small means is more a nuisance than a source of revenue, and limited exemption might stimulate saving and investment. A small sin against sound doctrine might do more good than harm.

Chronic Inflation

For the same good purpose, a cost-of-living bonus bond has been proposed. This would be an automatic self-perpetuating inflation-accelerator. Increasing the public debt and the money supply is a method of inflation; so it is proposed to pay a bonus to bondholders and thus increase the debt and the money supply some more! During and after the First World War a rubber dollar, a price index dollar, was proposed. Now it is proposed to issue a rubber public debt. We are to have an automatic inflation of the public debt in accordance with a price index. Already some companies have given a fillip to inflation by promising an automatic cost-of-living wage increase. It is said that all parts of the community, especially government employees, white collar workers, clergymen, college professors and others should have their compensation linked automatically to the cost of living. Our economy is to achieve perpetual motion by continually pumping in a little more inflation, fairly distributed. One wonders who will pay for it all? The Forgotten Man? He will be sunk without a trace. No, we shall just have to print paper money, so that everybody may pay everybody more and more paper and receive less and less value. Inflation is the most deadly of all economic diseases. There is no way to make it painless. As with drink, the cure is to stop it.

Par-Pegging

One difficulty in the way of refunding the short debt and avoiding inflation seems to be the strange new doctrine of par-pegging: that Secretary Morgenthau's war-time decisions must be maintained and perpetuated, although that modest gentleman would never claim infallibility for himself, and that his level of interest rates must not be breached, that government bonds must never be allowed to fall below par.

The par-pegging policy is, perhaps, an extreme reaction against what was done to Liberty Bonds after the First World War. It was not, however, lack of support, but forced liquidation, that put the 4¼% Fourth Liberty Bonds, for instance, down to about 82 in 1920. The market for Liberty Bonds was supported, though not pegged, by the War Finance Corporation, until the Federal Reserve's deflationary action made further support futile. The bonds had been sold by the Liberty Loan Committees in the course of campaigns in which the people had been urged to borrow to buy them. After the war the Federal Reserve began to raise its interest rates on loans secured by government bonds, in order to force their liquidation, and finally, in 1920, the New York bank rate was raised to 6% in January and 7% in June. That was dear money, indeed, the dearest ever in Federal Reserve history. The dumping of Liberty Bonds in 1920 was thus forced by the Federal Reserve, as part of its policy to control the inflation and to defend the gold standard.

Nobody proposes such a deflationary policy now. But why turn to the other extreme? Why should a long-term bond, a 2½% Victory Bond, of the Government of the United States be made payable on demand by the Federal Reserve Banks at par or better? The little fellow who buys savings bonds, E, F and G bonds, must accept a discount or loss of interest if he cashes them before maturity. Why should the holders of bearer bonds, many of them insurance companies and tax-exempt institutions, be presented on a silver platter, free for nothing, with a market at par or better? This was a gift they hadn't contracted for or paid for.

There is no better way to make a bond attractive to investors than to pay a fair rate of interest for the money. Moderately higher interest rates on new issues should help to widen the market for government bonds, strengthen the government's credit, and reduce the need of resort to bank borrowing by the government, which is inflationary. The level of interest rates in general, for long money as well as short, should be allowed to rise moderately, and bond prices should be allowed to fall commensurately; but an orderly market should be maintained and deflationary interest rates should not be tolerated.

Expanding Credit

It is not merely that the general level of interest rates is too low to be healthy; as it is. Far worse is the Federal Reserve's expansion of currency and credit in order to maintain that unduly low level of interest rates. Between Dec. 24, 1947, and Nov. 10, 1948, the Federal Reserve spent over $9½ million in buying up at par or more the government's funded war debt, and the Federal Reserve sold short Treasury paper, and expanded Federal Reserve credit over $900 million, to pay for the bonds. From the beginning of the Korean war, from June 21 to Nov. 1 of this year, Federal Reserve holdings of all government securities and total Federal Reserve credit increased $1.6 billion. In the midsummer madness of 1950 the Federal Reserve was actually expanding credit. How odd to control credit for consumers and home builders while the source of all credit pumps out more of it to oblige the Treasury. It is penny wise and pound foolish of the Treasury to borrow cheap and short and force the Federal Reserve to create money and credit to keep money cheap, interest rates low, and bond prices up. No wonder inflation threatens. The Treasury pinches some pennies in the form of nominal interest savings and the government and the people pay through their noses in higher prices for what they buy of goods and services. The government, being the biggest buyer, is the biggest sufferer.

Cheap Money, Dear Money and Fair Money

Not only to sell more bonds and refund the short debt, but also as a measure of credit control, the government should revise its extreme cheap-money policy. That policy subsidizes consumer spending and discourages thrift and saving. Cheap money is medicine for bad times, not for boom times. The price of money is just as important as the price of anything else. When government freezes the price of money, as ours has done for years, it prevents the price, or interest rate, from exercising its normal function as a brake on the demand for money; and the Federal Reserve, as we have seen, must increase the supply of money in order to prevent the pressure of increasing demand for it from forcing up the price, the interest rate.

The too-cheap money policy of today is bad, but that is no reason for turning to the other extreme. Not only our own welfare, but the whole structure of the free world's economy, and the national defense, depend on the maintenance of a high degree of prosperity in the United States. Our economy cannot endure the alternation of overeating and overdrinking and overpurging which it was put through in the years before and after 1920, 1929 and 1937. I do not for a minute suggest a dear-money policy or a scarce-money policy; just a fair-money policy. It is not necessary to turn from par-pegging to bond-dumping. It is unnecessary for the Federal Reserve to inflate or deflate us. They might just let us breathe naturally.

Reserve Requirements

Another thing to avoid is an increase in member bank reserve requirements. Indeed, reserve requirements in the central reserve cities should be reduced to the levels in reserve cities, and to that extent geographical discrimination should be eliminated as Federal Reserve authorities have proposed. Making changes in reserve requirements is not a good method of credit control. It is a rough-and-ready method; too rough and too ready. It is a dangerous weapon: the denial of credit without regard to need or merit, instead of merely increasing its cost. The increase in member bank reserve requirements imposed by the Federal Reserve Board contributed decisively to the disastrous depression of 1937-1938, and to the brief recession of 1949. The latter, though mild here and terminated by a prompt reduction of reserve requirements, had unhappy effects on world trade and on the international balance of payments, and helped to force the devaluation of almost all foreign currencies.

The purpose of increasing reserve requirements is to make money and credit scarce, or even unavailable, to industry, agriculture and commerce, for the conduct of their business, without making it dear for the government, and to provide funds for the Federal Reserve to buy in the public debt. What are the commercial banks for if not to lend money to credit-worthy customers for creditable business? Surely the remedy for undue expansion of business loans is not to try to force a denial of credit to industry, agriculture and commerce, but to reduce the inflationary pressures which lead them to seek it. The reason why a company builds a plant or buys equipment or inventory is not that some wicked banker pushes money at it. Quite the contrary, the reason is that money is cheap and the company has seen the need of the plant or the equipment or the inventory in its business; and then, and only then, it goes around to a bank and seeks to borrow the money. And if it is a well-managed company engaged in legitimate business, with a satisfactory balance sheet and income account, it will probably get the money, if its own bank can't find the money then from some other. Until money becomes really scarce, the banks which have liquid assets will continue to meet the demands of their credit-worthy customers engaged in lawful and creditable and profitable business, and will when necessary sell securities in the market or to the Federal Reserve banks to enable them to do so. The Federal Reserve will have to buy these securities at high prices and low yields if it wishes, or is forced by the Treasury, to keep down the level of interest rates. The first results of increasing reserve requirements will be to take business from the poorer banks and give it to the richer banks; and to take earning assets from the member banks and give them to the Reserve banks. The last result, if the increase in reserve requirements goes too far or continues too long, will be deflation and depression. Is that the way to win a war or to defend the nation?

Increasing cash reserve requirements might force the Federal Reserve directly, instead of the member banks, to finance the defense effort in the first place, if and to the extent sufficient taxes are not collected and sufficient bonds are not sold to the investing public. Such direct borrowing by the government from the Federal Reserve, highly agreeable though it is to state socialists, should by all means be avoided. Undesirable as government borrowing from the member banks is, yet if the government must borrow from banks at all, it had much better borrow from the member banks; that they should be enlisted in the defense effort, and stand between the Treasury and the Federal Reserve. Though some member banks may later have to dispose of some of their holdings in the market or to the Federal Reserve, if the Treasury offers them more securities than they can take and keep or distribute, what they continue to hold in government securities will exercise a certain moderating influence upon their lending policies. The necessity of applying to investors, the money market, and the member banks, for funds will exercise a salutary influence upon Treasury policies; while direct borrowing by the Treasury from the Federal Reserve, a thoroughly vicious and unorthodox practice, tends to make the Federal Reserve just a Treasury bureau and the Federal Reserve note just a greenback.

A forced loan by member banks in the guise of a supplementary reserve in certain government paper, as proposed by the Federal Reserve Board, is quite as indefensible as an unduly high cash reserve. In some ways it would be worse. It would force the banks to buy and hold government paper on the government's terms. It would disable them from serving the needs of agriculture, commerce and industry. It would operate unequally and unfairly among the banks, some of which have large and some small holdings of government securities.

It is impracticable to police the loans of the 14,000 member and non-member banks by direct action of the Federal Reserve or of a committee of bankers. "Direct action" was tried and failed in the Twenties. The only fair, effective method of control is an increase in interest rates.

The Treasury and the Federal Reserve

There is nothing new about the present disagreement between the Treasury and the Federal Reserve Board. As an old Treasury hand, and a New York banker, I have a good deal of sympathy for both sides. In my day in the Treasury, upwards of 30 years ago, my dear friend and chief, Carter Glass, then Secretary of the Treasury and ex-officio Chairman of the Federal Reserve Board, got so angry with Benjamin Strong, another dear friend of mine, then Governor of the Federal Reserve Bank of New York, for raising bank rate on government-secured paper, that Glass threatened to have Strong disciplined. It was with no small difficulty that I succeeded in composing the differences, or at least allaying them, between these two very able and patriotic and redheaded gentlemen.

The long struggle between the Treasury and the Federal Reserve has been a losing one for the latter ever since, nearly 17 years ago, Congress reorganized the Board and took the gold behind the Federal Reserve notes away from the Federal Reserve and gave it into the custody of the Treasury. The present struggle about the level of interest rates is important not only because of the small difference of rate involved, but also because of the principle involved, Shall the Treasury arrogate to itself the sole right to determine the level of interest rates for commerce, industry and agriculture, or shall the Federal Reserve have the final decision? There are those who wish to have the issued determined by act of Congress, and power conferred decisively on the Federal Reserve. I think that would be a mistake, although I agree with the Federal Reserve, and disagree with the Treasury, about the interest rate. Our system of government is based upon the theory of checks and balances; and the view of the Founding Fathers, that no one man, or group of men, is infallible, has on the whole been confirmed by history, even by current history. It is far better that the Treasury and Federal Reserve authorities, men patriotic, honest and sincere, viewing the problem from different angles, should debate until they come to a decision in the public interest as they see it, than that either should be given power to control the other.

The Treasury is wrong in this case; but the Federal Reserve is not infallible. In 1920, 1929 and 1937 the Board showed notable unconsciousness of the violence, of the lethal nature, of the weapons which Congress has given them, and a marked tendency to go to extremes in their use. The present Chairman of the Federal Reserve Board in Washington, and the President of the Federal Reserve Bank of New York, are men of wisdom and moderation, but the Washington Board still includes in its membership men who sponsored the disastrous increase in member bank reserve requirements in 1937; and the Board has asked of Congress power to require member banks to increase reserves still further in cash and government securities (up to 61% in central reserve cities) in order to enable the Federal Reserve to buy up the funded debt, if need be, to keep it at par or better. On the whole, in view of its record, it seems just as well that the Federal Reserve has to consult and get along with the political authorities. I see no reason to grant the Federal Reserve power to over-ride the Secretary of the Treasury or *vice versa*. I think they should compose their differences, after fighting it out as equals.

But the course which the Federal Reserve authorities are pursuing of very gently pressing up the level of interest rates is correct. It is intended to exert a steady pressure with a view to preventing a further expansion, and, on the other hand, avoiding contraction. That is a fair-money policy. It is to be hoped that the Secretary will consent to yield to them the moderate increase in interest rates suggested.

Conclusion

We must do everything we can to avoid inflation and cut out avoidable or deferable or wasteful nonmilitary expenditures; but let us not be frightened by the expense of war or rearmament. In view of our great gold reserve, which is so vital to insure our buying power abroad, and more than ever precious as a war chest, there is no financial limit to the ability of the people, the Treasury, the Federal Reserve Banks and the member banks to meet the government's defense needs or war needs. War is economic waste. There can be no pay-as-you-go policy in case of general war. But while Russia's rulers follow the self-saving plan of limited war, of war by proxy, we had better pull up our belts, reduce our luxurious civil spending, public and private, increase our taxes and fund our debt, and pay our way from day to day.

First Boston & Drexel Group Offer Atlantic City Electric Bonds

The First Boston Corp. and Drexel & Co. jointly headed an underwriting group which on Nov. 15 publicly offered $18,400,000 Atlantic City Electric Co. first mortgage bonds, 2⅞% series A, due 1980 at 102.54. The bonds were awarded the group at competitive sale on Nov. 13 on a bid of 102.049.

Proceeds from the sale of the bonds, together with other funds of the company as required, will be used for the redemption on or about Dec. 22, 1950, of the $18,400,000 principal amount of first mortgage bonds, 3¼% series due 1964, of the company at the redemption price of 103% of the principal amount together with accrued interest.

Atlantic City Electric Co. is a public utility engaged in the generation, transmission, distribution and sale of electric energy in the southern part of New Jersey and is also engaged in furnishing hot water heating service in a limited area in Atlantic City and steam for heating and other purposes to two customers adjacent to the company's electric generating station in Atlantic City. The company serves 310 communities in an area having an estimated population of 450,000.

Upon the expected completion in the latter part of 1951 of the Delaware Memorial Bridge, between Wilmington, Delaware, and Deepwater, New Jersey (adjoining the company's generating station there) and the New Jersey Turnpike, with outlets for southern New Jersey and connecting this bridge with New York City via the George Washington Bridge, it is estimated that approximately 10,000 homes and 100 commercial establishments will be added in the territory served by the company.

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Outlook for Private Foreign Lending

America cannot be expected to be arranged in any appreciable amounts.

Of European countries with dollar obligations, Norway, Finland and Belgium are meeting their debts in full. Italy is servicing her bonds according to provisions of the so-called Lombardo Plan. Denmark is paying interest in full, but has suspended sinking funds. All others are in default. As to new private investments on the Continent, it is worth bearing in mind that good credit risks are available at rates which are unattractive compared with similar securities in the home market, while poor risks are unattractive at any rate. Attempts are being made in important quarters to arouse or rather to revive interest in Germany as a field for the placement of American funds. In view of the significant role which the Reich has played in America's financial and political history in the past, and the role it may play in the future, it should be of interest to dwell at some length upon the problem.

Addressing the Investment Bankers Association on May 18, the U. S. Assistant High Commissioner to Germany urged the resumption of private investments in Germany, stating that—

"Enlightened self-interest should spur the outside world to consider making vast investments in Germany, despite the fact that the spot money yields cannot measure up to the risks involved."

The Commissioner added that in regard to the so-called Dawes and Young loans, considered at one time Germany's premier foreign issues—

"Determination of the debtor is in many cases so complicated a legal and juristic problem that it may well have to be left for solution at the Peace Conference, or some international conference of similar nature."

The American Occupation official suggested to potential investors in the Reich to give serious thought to two considerations:

(a) The result to them individually, and to the world in general, if the investment is made in Germany; and

(b) The result economically, financially and perhaps politically, inside Germany and without, if the investment is not made there.

Germany is well and rather unfavorably known as a field for the investment of American capital. America's first venture occurred in 1903, when a New York banking house sold bonds of Frankfort-on-Main, payable in marks or in dollars at the rate on Berlin. In 1924, the German mark collapsed and one dollar which was worth 4.2 marks in 1903, could buy 1,000 billion marks. Thus America's first investment venture in Germany had resulted in a total loss.

Following the defeat of Germany and the collapse of her financial structure in 1918, American investors were tempted to purchase marks and mark bonds in the belief or hope that the currency was bound to recover from the level to which it had fallen. When the mark virtually disappeared—it had dropped to one-trillionth of its prewar parity—American investors had sustained losses estimated at $2½ billion. Thus ended America's second venture in Germany.

It was obvious as time went on that if postwar Europe was to be restored, Germany would have to be rehabilitated. Americans were urged to invest in Germany, as a patriotic duty. Preparations were made for the placement of American funds in Germany on a large scale. The Dawes loan was to lead the procession. Addressing the Associated Press, President Calvin Coolidge stated in part:

"I trust that private American capital will be willing to participate in advancing this loan (the Dawes bonds). . . . It will benefit our trade and commerce, and we especially hope that it will provide a larger market for our agricultural production. . . . Besides this, there is the humanitarian requirement, which carries such a strong appeal, and the knowledge that out of our abundance, it is our duty to help where help will be used for meeting just requirements and the promotion of peaceful purpose."

The "assurance" that loans to Germany would serve three concrete purposes, viz., profit, humanitarianism and peace, appealed to the American investor, and within five years he contributed towards those ends, directly and indirectly, another $2½ billion. About $1½ billion of the total represented bonds of the German Government, states, municipalities and corporations. In some of this financing, an important role was played by the banking house with which the Assistant High Commissioner who so eloquently urged investing in Germany, was prominently identified. It is generally admitted that without America's billions, Germany's ability to wage war would have been greatly impaired.

When Hitler came to power early in 1933, virtually all dollar loans were repudiated. Payments were resumed in part, but ceased completely when war broke out. Not only did Germany default, but practically all the European countries which came or were forced within Germany's sway. Thus ended the third venture of the American investor in the Reich.

Will American investors be prevailed upon to succumb for a fourth time? Pouring billions into Germany may lead to the same tragic results as before. A Third World War will hurt Germany less than the so-called victors of World Wars I and II. American dollars supplied will never be returned. American lives lost could never be restored.

Other frantic attempts are being made to interest American capital in what is known as Point Four. This, in brief, provides for the development, with the aid of American private capital, of undeveloped and underdeveloped areas. How one can seriously expect the resumption of private lending on a large scale in the light of existing tension and fear over the possibility of a new conflagration, is difficult to see. One does not build today what may be destroyed tomorrow, or the day after. Can you conceive of a property owner in Florida adding to, or improving his property at a time when the weather bureau issues warnings that a hurricane is approaching and the property in question is located in the very path of the storm?

Foreign loans underwritten by private institutions and sold to private investors, cannot be expected, unless preceded or accompanied by the elimination or marked reduction of the prevailing fear over a new conflict.

Careful analysis of existing conditions reveals that it may be possible to create an atmosphere conducive to the resumption on an important scale of foreign investments through private channels. Korea, where the United Nations may be assumed to have scored a victory, would seem to afford an opportunity toward that end. Moreover, it may even lead to the revitalization of the United Nations, not through wars and battles, but through peaceful constructive means.

Let the U. N. Economic Committee examine the plans evolved by the League of Nations after World War I which were designed to effect the rehabilitation of Europe. Let the League plan serve as a pattern for the preparation of a program of reconstruction for today, effecting such changes and additions as may have been rendered necessary or desirable by existing conditions.

To be concrete: The U. N. Economic Committee will prepare details of a loan of $250 million to effect the rehabilitation of Korea. Bonds should be secured by a lien on the customs and other important and dependable revenues of the country. The U. N. will appoint an outstanding personality to take charge of and administer the pledged income. The rate of interest will be in line with or somewhat in excess of prevailing rates for comparable or similar obligations. Payments will be in dollars or in other currencies including Korean, at rates prevailing on the day of payment, but not lower than those prevailing at the time of the contract. In the event of inability to effect transfers of payment, it will be provided that native currency deposited to the account of the creditor will be employable without any restrictions whatsoever.

Provisions will also be made for the payment of additional interest contingent upon improvement confidently expected as a result of the transaction. For this purpose, a so-called Prosperity Index will be created which will take into account the major statistical and economic indices of the country. A base will be agreed upon and any improvement will automatically call for an additional distribution. A decline in the Index will not change the original rate. In the event that the index should rise to a point where the contingent payment might appear unreasonably high, the contract will provide for redemption of bonds at an appreciable premium.

In order to appeal to private investors, aside from the humanitarian aspect of the transaction, the Loan, which will be sponsored by the United Nations, will be guaranteed, as to interest and principal, in varying percentages by the major powers, notably those interested in Far Eastern affairs. The guarantor powers should include, among others, the United States, the United Kingdom, the Netherlands, France, India, Australia, China and the U. S. S. R.

Such guaranty, together with the attractive set-up, a minimum reasonable rate, prospects of a considerable increase, thereby providing, to some extent, a most interesting hedge against inflation, as well as the cooperation of the great powers, should insure the success of the transaction. It may even prove a turning point in the international situation and constitute the dawn of a new era, where men, once again, may be permitted to live in peace and without the fear of bombs of the A and H varieties.

That this may come about is mankind's most fervent hope and prayer.

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Some Current Economic Misconceptions

nual rate of at least $30 billion on defense. This would be an increase of about $15 billion over the third quarter of this year. The President also said that in the year after 1951 the country will probably have to spend "much more than $30 billion." Armed forces of 3 million would require continuing expenditures on defense and foreign military aid of around $30 billion a year (Table I). For a year or two, however, while the enlarged armed forces were being equipped, expenditures would have to rise above this amount. Unofficial reports indicate that by the end of 1951 expenditures will be running at an annual rate of about $40 billion and that in the next year they may exceed $50 billion.

III

Let us note a few essential facts about the economic situation. One of the first effects of the Korean War has been to increase the gross national product, corrected for changes in prices, by about $4.8 billion as an annual rate between the second and third quarters of 1950—a gain of 1.8%.

A second effect of the Korean War has been to increase the physical quantity of goods going into consumption by about 3%. In the second quarter of 1950, individuals were spending about 94.4 cents of each dollar of income after taxes on consumer goods; in the third quarter, they were spending about 96.5 cents out of each dollar of income after taxes on consumer goods. This represented a reduction of $4.0 billion in the annual rate of personal saving.

A third result of the Korean War has been to cause business enterprises to raise their expenditures on new plant and equipment. When the Department of Commerce made its survey of spending plans in May, 1950, it found that non-agricultural concerns planned to spend at the annual rate of $17.9 billion on plant and equipment during the third quarter. When a second survey was made in July and August, 1950, enterprises reported that they planned to spend at the annual rate of $20.2 billion on plant and equipment in the third quarter—an increase of 13%. Part of this increase undoubtedly represents the advance in prices and construction costs, but most of it represents an increase in the physical quantities of plant and equipment that business concerns plan to acquire.

A fourth result of the Korean War has been a rapid increase in industrial, commercial, and agricultural loans by commercial banks. These increased in the weekly reporting member banks from $13.6 billion in the week ending June 28 to $16.3 billion in the week ending Oct. 25, an increase of 20%. Last year the increase in the same period was only 3.9%.

A fifth result of the Korean War has been a drop in corporate profits. This statement may surprise you because the Associated Press has recently reported an increase of about 51% in the profits of 486 companies in the third quarter of 1950 over the third quarter of 1949. The error in the profits report of the Associated Press is in its failure to take account of changes in the cost of replacing inventories. As a result, corporate profits this year greatly overstate profits, whereas a year ago corporate profits were understated. The preliminary figures for the third quarter of this year show that profits, after adjustment for the rise in the cost of replacing inventories, are running about 22.8% below last year. I believe the revised figures on third quarter profits will be about $2 billion to $3 billion (as an annual rate) higher than the preliminary figures, indicating a drop of about 10% in profits. In the first quarter of 1950 corporate profits were about 7.8% below 1949 and in

TABLE I

In recent years defense expenditures have been as follows:

	Expenditures (Billions)	†Armed Forces (Thousands)	Expenditures Per Man-Year	**Expenditure Per Man-Year in July, 1950, Dollars
1941	*$13.3	1,470	$9,047.62	$16,044.14
1942	*50.3	3,820	13,167.54	21,099.67
1943	*81.3	8,870	9,165.73	14,467.19
1944	*83.7	11,260	7,433.39	11,651.84
1945	*69.0	11,280	6,117.02	9,494.23
1946	‡21.1	3,300	6,393.94	8,701.51
1947	§12.7	1,440	8,819.44	9,544.40
1948	¶11.2	1,307	8,569.24	8,493.83
1949	¶12.9	1,466	8,799.45	9,195.43

**Survey of Current Business*, February, 1946, p. 8.
†*Economic Report of the President*, January, 1950, p. 157.
‡*Economic Report of the President*, January, 1948, p. 100.
§*Economic Report of the President*, January, 1949, p. 87.
¶*Economic Report of the President*, January, 1950, p. 137.
**Converted into July, 1950, dollars by using wholesale price index for manufactured products.

TABLE II

The following table shows corporate profits, expressed as an annual rate, both before and after taxes and before and after the inventory valuation adjustment. The inventory valuation adjustment represents the difference between the change in the physical volume of inventories and the change in the value of inventories. It measures the change in the cost of replacing inventories and is not to be confused with so-called "inventory profits." In years when the cost of replacing inventories is rising, the inventory valuation adjustment is negative; in years when the cost of replacing inventories is dropping, it is positive.

	Corporate Profits Before Taxes	Corporate Tax Liability	Corporate Profits After Taxes	Inventory Valuation Adjustment	Corrected Corporate Profits
	(Billions at Annual Rate)				
1949—					
First quarter	$28.3	$10.9	$17.4	+$0.5	$17.9
Second quarter	26.4	10.0	16.4	+ 3.9	20.3
Third quarter	28.2	10.8	17.3	+ 3.7	21.0
Fourth quarter	27.6	10.6	16.9	+ 0.8	17.7
1950—					
First quarter	$29.2	$12.0	$17.2	—$0.7	$16.5
Second quarter	37.4	15.1	22.2	— 2.3	19.9
Third quarter	40.0	16.8	23.2	— 7.0	16.2

the second quarter about 2.0% below (Table II).

IV

What are the principal misconceptions about current economic problems that have developed in the last several months? Five seem to me to be particularly important. They are: (1) that preventing inflation is the country's number one economic problem; (2) that increases in taxes on corporate incomes do not contribute to the rise in prices; (3) that an excess profits tax would be anti-inflationary; (4) that it would be wise to pay for the defense program and foreign military aid solely by taxation; (5) that an increase in the price level can be prevented solely by so-called "indirect" methods—that is, by reductions in government expenditures, increases in taxes, stricter terms of credit, and a higher rate of saving.

(1) **The assertion that preventing inflation is the country's number one problem.** Certainly the control of inflation is of great importance, but it is the number two economic problem confronting the country, not the number one problem. Making the United States and its friends so strong as to prevent Communist aggression can be accomplished only by enormous increases in production. Consequently, the United States must be regarded as being engaged in a production race with Russia.

The need for substantial increases in output is indicated by comparison of the normal growth of the economy with the expected increase in expenditures on defense and foreign military aid during the next two years. The normal increase in the national product is around 3% or 4% a year—about $8 billion to nearly $11 billion. But between the fourth quarter of 1950 and the fourth quarter of 1951 expenditures on defense and foreign military aid are expected to rise by about $25 billion and between the fourth quarter of 1951 and the middle of 1952 by an additional $5 billion or more. If defense expenditures rise to the levels now indicated by unofficial announcements, a substantial drop in the standard of living of the country during the next two years can be averted only by an increase in output that is considerably faster than normal. The importance of increasing output is enhanced by the fact that the enlarged expenditures on defense and foreign military aid will be of unforeseeable duration and unforeseeable magnitude. The United States, therefore, must plan for the long-run, not merely the short-run.

(2) **The assertion that increases in taxes on corporate incomes do not tend to increase prices.** An increase in the corporate income tax is certainly an incentive for corporations to raise prices. This follows from the fact that the prospect for making a profit determines the prices at which business enterprises are willing to supply goods. Consequently, a tax on profits raises the prices at which enterprises are willing to supply goods. This does not necessarily mean that corporations are able promptly to pass on an increase in the corporate income tax in the form of higher prices. Whether or not corporations can do this depends upon market conditions. In a sellers' market, however, most corporations will be able to pass on fairly promptly an increase in the corporate income tax.

If it were not possible for corporations to pass on the increases in the corporate income tax, a tax on corporate profits would be grossly unfair. There is certainly no good reason to pick out the stockholders of corporations to bear a tax that the rest of the community does not pay. Furthermore, if an increase in the corporate income tax could not be passed on in the form of higher prices, an increase in this tax would be extremely undesirable because it would lessen the ability of business concerns to finance much-needed increases in plant and equipment.

(3) **The assertion that an excess profits tax would be anti-inflationary.** The usual view of an excess profits tax is that it cannot be passed on in the form of higher prices because it falls on different competitors at different rates. This leads to the conclusion that an excess profits tax is anti-inflationary. This view, however, needs to be qualified in two ways. In the first place, a high marginal rate of taxation of profits would stimulate spending. In the second place, a high marginal rate would weaken resistance of employers to the demands of unions for wage increases. Indeed, the belief that an excess profits tax will make it easier to win wage increases seems to be a principal reason why unions are demanding such a tax. In other words, unions are asking for an excess profits tax, not because it is anti-inflationary, but because it would have some inflationary effects that they like.

The net effect of an excess profits tax upon inflation is in doubt. Its anti-inflationary effects might be more than offset by its tendencies to encourage spending and to weaken resistance to wage demands. To the extent that an excess profits tax was anti-inflationary, it would diminish the funds available to industry to increase plant and equipment, thereby handicapping the United States in winning the production race with Russia.

(4) **That it would be wise to pay for the defense program and foreign military aid solely by taxation—the so-called "pay-as-you-go policy."** Proposals that the defense program be paid for entirely out of taxes overlook (a) the large increases that are proposed in the size of defense expenditures; (b) the difficulty in raising such large amounts by methods that are non-inflationary or that do not limit the ability of the country to finance increases in plant and equipment; (c) the fact that a substantial part of increases in defense expenditures will be temporary; and (d) the necessity of the economy's adjusting itself after several years to a drop in expenditures on defense.

If defense expenditures rise to an annual rate of $45 billion in the calendar year 1952, increased revenues of more than $30 billion above those of the recently ended fiscal year would be necessary—less any savings that might be achieved in the non-military expenditures of the government. Perhaps savings of $3 billion might be achieved. Allowance must be made for the fact that the cash budget in the fiscal year 1949-50 was in the red by over $2 billion. Increases in production and income and recent increases in taxes would raise the yield of taxes by about $17 billion above the fiscal year 1949-50. In order for the cash budget in the calendar year 1952 to be in balance, new taxes yielding roughly $12 billion a year would be necessary.

It would be very difficult to raise this amount by methods that are not inflationary (as is an increase in the normal corporate income tax in a sellers' market) or that do not limit the volume of investment-seeking funds. Since the expenditures on defense and military aid will be abnormally high while the enlarged armed forces are being equipped and will drop when expenditures for equipment are on a replacement basis, it is desirable to meet part of the increased outlay by borrowing, provided the borrowing is financed by the real savings of individuals and not by the creation of money by the commercial banks. If the government meets part of the outlay for defense through borrowing from individuals, the upward pressure on prices would be less than if the government raised the same amount of money by increasing the general corporate income tax. Furthermore, the economy would adjust itself more easily to the eventual drop in expenditures on defense. Millions of individuals would have become owners of government securities and millions of others would have increased their holdings. These additions to the assets of individuals would increase their ability and their willingness to spend as the drop in defense expenditures eventually makes possible increases in civilian output. Thus the country would be able to adjust itself more smoothly to the eventual drop in expenditures on defense and foreign military aid.

(5) **The assertion that an increase in the price level can be prevented by so-called "indirect" methods, such as reductions in government expenditures, increases in taxes, stricter terms of credit, and a higher rate of saving.** This assertion overlooks the fact that there are two sides to the problem of controlling prices. One is the demand side; the other is the cost side. The so-called indirect controls affect only the demand for goods. But every day the newspapers carry reports of new wage increases. If the government draws a million and a half men into the armed services during the next 14 months, the labor market will be considerably tighter than it is now. Under these circumstances unions are likely to have as much success in raising wages as they had in 1947 and 1948 when unemployment averaged around 2.1 million. In 1947, hourly earnings in manufacturing advanced by 12.8 cents per hour, or 10.9%, and in 1948 by 10.3 cents, or 7.9%.

During the next year, when there will be large shifts occurring in the labor force and important changes occurring in the goods produced, the rise in output per manhour, as I have pointed out, is likely to be less than usual. Hence, wage increases will have a greater tendency than ever to raise labor costs. If labor costs advance, offsetting increases in prices will, as a general rule, be necessary. Many people believe that higher labor costs can be absorbed out of profits. This is true in a few cases, but for corporate industry as a whole corporate profits, after inventory valuation adjustment, are running below last year. Furthermore, if increases in labor costs were not offset by advances in prices, the ability of corporations to finance much-needed purchases of plant and equipment would be impaired. The only way in which the so-called indirect methods can prevent an advance in the price level would be by creating so much unemployment that unions are not able to raise wages faster than the advance in output per manhour. Unemployment of well over three million, and probably over four million, would be needed to prevent unions from raising labor costs. The country would not tolerate sufficiently drastic cuts in government expenditures, increases in taxes, or stiffening of credit terms to raise unemployment to three million or four million. Furthermore, such a large waste of labor would be intolerable at a time when the country needs every bit of output that it can get. It is high time that the country face honestly and frankly the fact that sole reliance upon indirect methods of price controls will mean at least a slowly rising price level. A slowly rising price level may be preferable to direct controls, but let us realize that the country must choose which of these two evils is less objectionable.

V

Of the many unsettled questions and issues of current economic policy that confront the country, five impress me as particularly important: (1) how large an increase in production can the economy achieve during the next year or two; (2) how can the country finance adequate expenditures in the plant and equipment of the country by non-inflationary methods; (3) should the country accept a slow increase in the price level (say between 10% a year or a little less) rather than impose direct controls on wages and prices; (4) if the country prefers not to impose legal ceilings on wages and prices, can the bargaining process be regulated by agreement or moral suasion so that wage increases will not substantially raise labor costs; (5) if the country accepts a slow rise in prices as preferable to direct controls, what steps should be taken to keep the inequities of inflation to a minimum.

(1) **How large an increase in production can the country achieve in the next year or so?** The actual increase will depend upon the rise in output per manhour and the growth in the number of people at work. The normal increase in output per manhour seems to be about 2.5%. During a year when there are abnormally large shifts of inexperienced workers into the labor force, of experienced workers into the armed services, and of workers from one plant to another, when there are important changes in the kind of production turned out by industry, and when there are bound to be many shortages of raw materials, the normal rise in output per manhour will probably not be achieved. Perhaps there will be no increase at all, and a small drop would not be surprising.

A considerable rise in the number of people at work is probable. In the third quarter of 1950, unemployment averaged nearly 2.7 million—considerably above both 1947 and 1948 when it was 2.1 million. It is unlikely that unemployment will be reduced to the low levels of the war period, but a further reduction of at least a million is probable. The normal increase in the labor force between July, 1950 and July, 1951, would be about 600,000. This assumes that the same proportion of population of working age will be in the labor force next year as this (Table III). It ought to be possible, however to raise the labor force, including men in the armed services, by next July to around 66.4 million—an increase of 1.1 million over July, 1950. This assumes no change in the proportion of males in the labor force except a rise in the proportion of males 65 years of age or more in the labor force to 50%—approximately the war-time peak. It assumes no change in the proportion of women between 14 and 44 years of age in the labor force, but it assumes that the proportion of women of 45 to 64 years of age in the labor force will increase by about the same rate as it did between July, 1949 and July, 1950. Working has been growing rapidly in popularity among women in this age group for some time.

During the year July, 1951 and July, 1952, an increase in the labor force of 1.1 million ought to be possible. This assumes that there is no change in the ratio of males of 14 years of age or more in the labor force after another 12 months except that the proportion of males of 65 years of age or more in the labor force rises to 55%. It assumes that the proportion of women of 44 years of age or more in the labor force continues at the same rate as 1950 and 1951, and that in other age groups the proportion of women in the labor force remains unchanged (Table IV).

If there were expansion of employment (including the armed services) of 2.1 million during the next year (one million as a result of a drop in unemployment and 1.1 million as a result of growth of the labor force) no increase in output per manhour, and no significant change in the length of the work week, the gross national product in the third quarter of 1951 would be running at the annual rate of $291.4 billion in dollars of present purchasing power. If employment were to increase 2.1 million, output per manhour were to rise by 2.5%, and the length of the work week to remain substantially unchanged, the national product would be running at the annual rate of about $298.7 billion in dollars of present purchasing power. The low estimate gives an increase of about $9.4 billion in the gross national product as an annual rate. This would be a little more than half the increased absorption of goods by defense and military aid on the assumption that this absorption will be running at the annual rate of $30 billion by next summer. The high estimate of increase in output indicates a rise of about $16.7 billion as an annual rate above the third quarter of 1950—just about sufficient to meet the expected rise in the absorption of goods by defense and foreign military aid between the middle of 1950 and the middle of 1951.

By the middle of 1952 the projected increase in the labor force accompanied by no increase in output per manhour and no substantial change in the length of the work week would give an annual product of $296.3 billion in dollars of present purchasing

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TABLE III

It is important to notice that the number of young people between 14 and 24 years of age in the United States will decrease for the next several years—reflecting the small number of marriages and births during the depression of the 1930s. Between July, 1950 and July, 1951, the number will decrease as follows:

	All Persons 14 to 24 Years of Age	MALES 14 to 19 Years of Age	MALES 20 to 24 Years of Age	FEMALES 14 to 19 Years of Age	FEMALES 20 to 24 Years of Age
Number in July, 1950	24,341,000	6,409,000	5,738,000	6,347,000	5,847,000
Number in July, 1951	24,139,000	6,397,000	5,659,000	6,337,000	5,746,000

TABLE IV

The projected size of the labor force on the several dates is as follows:

(Thousands)

	July, 1950			July, 1951			July, 1952		
	Population	Labor Force	Percent	Population	Labor Force	Percent	Population	Labor Force	Percent
Males:									
14 & over	54,804	46,612	85.1	55,258	47,258	85.5	55,750	47,922	86.0
14-19	6,409	4,283	66.8	6,397	4,273	66.8	6,473	4,324	66.8
20-24	5,738	5,172	90.1	5,659	5,099	90.1	5,545	4,996	90.1
25-44	21,763	20,781	95.5	21,983	20,994	95.5	22,188	21,190	95.5
45-64	15,409	13,921	90.3	15,568	14,076	90.3	15,759	14,230	90.3
65 & over	5,484	2,457	44.8	5,632	2,816	50.0	5,785	3,182	55.0
Females:									
14 & over	56,902	18,734	32.9	57,537	19,162	33.3	58,194	19,622	33.7
14-19	6,347	2,379	37.5	6,337	2,376	37.5	6,400	2,400	37.5
20-24	5,847	2,492	42.6	5,746	2,448	42.6	5,629	2,398	42.6
25-44	22,857	8,192	35.8	23,087	8,265	35.8	23,286	8,336	35.8
45-64	15,726	5,083	32.3	16,025	5,432	33.9	16,315	5,792	35.5
65 & over	6,126	589	9.6	6,342	641	10.1	6,565	696	10.6

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Some Current Economic Misconceptions

power. If output per manhour increased 2.5% in both years, the gross national product by the middle of 1952 should be running at the annual rate of $311.3 billion. If output per manhour did not increase in the next 12 months, but increased 2.5% in the following 12 months, the gross national product by the middle of 1952 ought to be running at the annual rate of $303.7 billion. Let us assume that by the middle of 1952 the absorption of goods and services by defense and foreign military aid is running at the annual rate of $45 billion—which is less than unofficial estimates. In that case the low estimate of the gross national product in the middle of 1952 would fall more than $15 billion short of meeting the increased absorption of goods by defense and foreign military aid; the medium estimate would fall short by more than $8 billion; if the high estimate were realized, the rise in production would almost equal the increased absorption of goods for military purposes.

(2) **How can the country finance adequate expenditures on plant and equipment by non-inflationary methods?** I define as "adequate" outlays sufficient to purchase the amount of plant and equipment bought by industry in the second quarter of 1950 (the quarter just before the outbreak of the Korean War) when expenditures on plant and equipment were running at the annual rate of $30 billion. During the four years of the Second World War (1942, 1943, 1944 and 1945) expenditures on plant and equipment were running at the average annual rate of only $11.8 billion in dollars of July, 1950, purchasing power (Table V). A drop such as occurred during the Second World War should not be permitted to happen. Expenditures of $30 billion a year on plant and equipment at present rates of depreciation would mean a net addition of about $18 billion a year. In July, 1950, private industrial plant and equipment represented a cost less depreciation (in July, 1950 dollars) of about $349 billion. Hence an increase at the rate of $18 billion a year would permit an increase in the country's industrial plant and equipment of about 16% in the next three years.

Expenditures of $30 billion a year on plant and equipment could be financed in part out of depreciation allowances which are running at the annual rate of about $12 billion. Accelerated depreciation on new plant and equipment essential for defense might add a billion a year to depreciation allowances. Personal savings and corporate savings in the third quarter of 1950 were each running at the annual rate of about $7.0 billion—a total of $14.1 billion. There is a good prospect that the rate of personal saving will rise as the increase in consumer borrowing is halted. Tradition and circumstances have caused corporations in recent years to make little effort to sell securities to individuals. It is important, however, that corporations get themselves more broadly owned because they appear to have only about 7 million to 8 million stockholders. The prospect that there will be some rise in the price level in the next several years offers corporations an opportunity to fight inflation by encouraging personal saving and at the same time to get themselves some much-needed stockholders. By raising part of their capital requirements through new stock issues, corporations would be giving savers an opportunity to increase the ratio of their equity holdings to fixed-income securities. If the supply of equities is increased, small savers, who must have diversification, will have an opportunity to obtain it by buying the securities of investment trusts which, in turn, are helped to expand by the issuance of new equity issues. An increase in personal savings will be invaluable in retarding the rise in the prices of food products and other non-durable goods.

Corporations will be able to increase their funds available for investment in plant and equipment by paying part of their dividends in stock. Since part of the stock received as dividends would be sold by the recipients, the payment of stock dividends would help corporations increase the number of their stockholders. But a tax on so-called excess profits could materially reduce the ability of business concerns to finance the needed expansion of plant and equipment.

(3) **Should the country accept a slow increase in the price level rather than impose direct controls on wages and prices?** This is undoubtedly the most difficult decision of economic policy now confronting the country—and one of the most difficult decisions that the country has ever faced. The reasons against tolerating even a slow rise in the price level are very persuasive. A 10% rise, if more or less lasting, amounts to the expropriation of huge amounts of property—of about $5 billion of the $50 billion of saving deposits and about $4 billion of the $41 billion of the government bonds owned by individuals (exclusive of unincorporated businesses and trust funds), not to mention the loss to individuals who own corporate bonds or are beneficiaries of life insurance policies. All of these persons are entitled to protection against a rise in prices that in effect deprives them of a considerable part of their property.

On the other hand, the protection given by direct controls of prices and wages is far from effective. Prices, while nominally remaining the same, are raised by cuts in the quality of articles and in the quality of service. Furthermore, the purchasing power of the consumer's dollar is diminished by the fact that price ceilings divert enterprises from making the kinds and qualities of goods that consumers most desire into making the kind and quality of goods that can be most profitably made under the prevailing price ceilings. As for wage controls, they are likely to be effective against weak unions, but not against strong and determined unions. Furthermore, wage controls tend to produce demands for all manner of "fringe" benefits. Some of these involve the waste of labor and are worse for the community than outright wage increases. All in all, it looks as if a slow increase in prices (kept slow by the use of indirect controls that limit the demand for goods) is preferable to comprehensive ceilings on prices and possibly on wages. But it is well to remember that reliance solely upon indirect controls means that the country must live under slowly rising prices. Furthermore, since rising labor costs are a fundamental cause for the rise in prices, some direct controls of wages may eventually be inescapable.

(4) **If the country prefers not to impose legal ceilings on wages, can the bargaining process be regulated by agreement or moral suasion so that wage increases will not substantially raise labor costs?** An agreement between employers and unions defining the terms of a national labor policy would be the ideal way to guide the process of collective bargaining during the time when the country is threatened with inflation. Such an agreement, however, is scarcely a remote possibility. American employers and trade unions are not good at reaching such agreements. Even in Britain, where the tradition of union autonomy is not as strong as in the United States, the recent policy of wage restraint was not the result of an agreement between unions and employers; it was imposed on the unions by a Labor government, and accepted in part because the government *was* a Labor government.

Although an agreement between unions and employers on the substance of a national wage policy is hardly likely, the government in a period of inflation can hardly escape developing general principles to guide wage settlements. This might be done through a wage stabilization board. Certainly wage settlements that raise labor costs more than the rise in the cost of living should be regarded as contrary to public policy unless there are special reasons for making an exception to the general rule. Unfortunately, one cannot be optimistic that the principles of the national wage policy, even enunciated by a tripartite wage stabilization board, will have much influence upon the strongest and toughest unions.

(5) **If the country accepts a slow rise in prices as preferable to direct controls, what steps should be taken to keep the inequities of inflation to a minimum?** This problem will become increasingly important as the rise in prices goes on. Furthermore, one may expect part of the community that suffers from inflation (the white collar workers and the owners of fixed income securities) to be far more articulate and unwilling to submit to injustice than in past inflations. They will not be content to stand meekly by and see trade union members and farmers preserve their standard of living while the standard of living of the country as a whole declines.

The state, local and national governments are in a position to take the lead in mitigating the injustices of inflation by incorporating into their wage and salary scales automatic changes (upward or downward) based upon changes in the cost of living. Private employers should pursue the same policy toward white collar workers. The community should not permit pensions under the Old Age and Survivors' Insurance Plan to lag behind the rise in the cost of living as they did between 1940 and 1950. Pensions should be automatically adjusted to changes in the cost of living. Rent control laws should protect landlords against having rents held down while all other prices are rising.

Most difficult of all is the protection of the owners of savings deposits, corporate and government bonds, life insurance policies and other fixed-income assets against virtual expropriation of part of their property. Current savings can be protected to some extent by being invested in real estate improvements or equities, and the government can offer individuals an opportunity to invest savings in government securities payable in a fixed amount of purchasing power. The problem which largely defies solution is the protection of past savings that have been invested in fixed-income securities. If the rise in prices continues for several years and becomes fairly substantial, consideration should be given to the desirability of exempting income in the form of interest from the basic income tax. Certainly there is a strong case for not taxing incomes that suffer from inflation in the same way as incomes which are increased by inflation.

TABLE V

Outlays on plant and equipment in dollars of July, 1950, purchasing power in recent years are shown below. The figures for the first and second quarters of 1950 are expressed as annual rates. The figures on construction were converted into 1950 dollars by use of the Department of Commerce composite construction cost index; the figures on equipment and the figures for farm equipment and construction by use of the wholesale price index for manufactured products.

	All Equipment and Construction	Non-farm Equipment	Non-farm Construction	Farm Equipment and Construction
	(Billions of July, 1950, Dollars)			
1941	$19.2	$11.7	$5.2	$2.3
1942	11.0	6.6	2.8	1.6
1943	8.7	5.5	1.8	1.4
1944	11.8	7.3	2.6	1.9
1945	15.8	9.8	3.8	2.2
1946	24.6	14.6	6.6	3.4
1947	26.4	15.8	6.5	4.1
1948	28.2	16.6	7.0	4.6
1949	28.5	15.8	6.8	4.9
First quarter 1950	28.3	17.0	6.5	4.8
Second quarter 1950	30.1	18.5	6.6	5.0

Railroad Securities

New York Central

New York Central last week added to the mounting total of constructive dividend news in the railroad industry. Directors declared a dividend of $1 a share, payable Dec. 27 to holders of record Nov. 24. The last previous distribution was one of $0.50 a share in January, 1949. Prior to that no dividends had been paid in either 1948 or 1947, and $1 had been paid in 1946. During the war there were three successive years in which $1.50 had been paid. The favorable action at this time is in recognition of the sharp improvement in earnings in the past couple of months and indications that a high level of traffic will continue for some time to come.

Central's performance since the end of World War II has been spotty and on the whole unfavorable. A very substantial loss was sustained in the first postwar year, 1946. In fact, if it had not been for a large Federal income tax credit the company would not even have covered bare operating costs in that year. There was some improvement in the following two years, with share earnings reaching a postwar recovery high of $2.28 in 1948. Last year the road was severely hampered by labor troubles in the coal and steel industries and earnings again turned downward, amounting to only $1.51 a share.

The road's troubles continued well into 1950. The coal mines were still shut down in the opening months and later the company itself experienced a strike on parts of the system. A railroad strike is a particularly costly affair to the carrier involved, and in many instances to its connections as well. As a result, for the first half year the company did even worse than it had a year earlier. The third quarter, however, has witnessed a particularly sharp rebound. For the nine months through September earnings on the 6,447,410 shares of stock outstanding reached $1.44 a share compared with only $0.53 a share for the like 1949 interim.

Favorable year-to-year comparisons appear assured over the balance of 1950 and the first few months of 1951. Also, Central will be one of the major beneficiaries of the retroactive mail pay increase. It is expected that this will be formally approved by the Interstate Commerce Commission before the end of the year. Inclusion of this windfall, estimated at close to $10,000,000 after Federal income taxes for Central, should boost earnings of the road for 1950 to between $4.50 and $5 a share. Only three times in the past 10 years or more have any year's earnings reached such levels. Earnings were above $5 a share in the three war years 1942-1944, inclusive.

Depite the recent improvement in operations and earnings, and despite expectations that this improving trend will continue for at least a number of months to come, there are still some serious weaknesses in the Central picture. It does a large passenger business and carries a substantial volume of l. c. l. freight. Both of these are inherently expensive phases of the railroad business and costs in connection therewith have mounted particularly rapidly in the postwar era. The road has a large amount of low density branch and feeder lines where the margin of profit is small. Finally, its average freight haul is short in relation to the mileage operated, indicating a substantial proportion of local freight with high handling costs.

Reflecting the above factors New York Central has traditionally been an expensive property to operate. While some improvement has been witnessed in the operating performance recently, the basic weaknesses have not been overcome. Also, the territory served has suffered relatively from a traffic standpoint through the trend toward industrial decentralization. Thus, most railroad analysts are still inclined to look upon the long-term outlook with considerable skepticism. The stock is regarded attractive only on a purely speculative basis, in recognition of the fact that earnings should be well supported for the period of rearmament and that fairly liberal dividend policies appear likely.

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As We See It

Mr. Krock then proceeds to label as debatable the question as to whether the Democratic or the Republican party (as national entities) was the victor—so confused and so complex were the situations in many local communities. He is in no doubt, however, that President Truman and the national Democratic organization, composed so largely of large city organizations and numbering among its members or supporters a huge force of officeholders not only in the cities but in the rural farm areas, were heavy losers as was the Department of State in respect of prestige and influence at home. And then, again to quote Mr. Krock:

"A fourth loser was the unified group of national labor leaders whose score was even less than the State Department's and whose rank and file in Cleveland and other cities deserted in large numbers to the proclaimed 'enemies' of labor.

"This was the most salutary effect of Tuesday's voting. Never has a single economic group, as represented by its appointed spokesmen, made a more autocratic and irresponsible attempt to retire from office legislators who declined to acknowledge it as the master of government and to fill Congress only with those who would."

And Yet . . .!

And, yet, despite all this, with most of which we can find little to disagree, we confess to an abiding feeling that whether two years from now the returns of last week will still seem to have such a meaning will depend upon what has taken place meanwhile. Let it not be forgotten that a much more severe setback for the Administration occurred in 1946. The issues were somewhat different in some particulars at that time, but the voting of the rank and file seemed in that first postwar year to be fully as decisive and meaningful as that of last week seems now. Yet two years later the country was shocked with a reversal of sentiment seldom, if ever, experienced in the history of politics in this country.

We have no intention of undertaking at this point another post-mortem of the 1948 fiasco. We have no doubt that the general conduct of the Dewey campaign had a good deal to do with it. Purely political mistakes during the year 1948, of which there were plenty, without question had their effect. Yet there were longer term causes which had been neglected and ignored for two long years. They bore fruit in 1948. The record of the Republican party as such, in and out of Congress in 1947 and 1948, along with the attitude of its Presidential candidate in the 1948 campaign, could not fail to leave the voter uncertain with what was being promised or what really would happen if that party were to be placed in command of the nation's affairs. We do not share in President Truman's characterization of the 80th Congress, of course. It was not wholly a "do-nothing" Congress; it did some things that were excellent; it did some things which President Truman deeply disliked and often most violently criticized. Neither was it wholly a "no-good" Congress. We much prefer its course to that which the President would have had it follow.

Not an Inspiring Record

But when all is said and done, the 80th Congress and the Republican party which technically controlled it, left the thoughtful elements among the voters of the nation without a great deal of enthusiasm. The situation is, it is true, rather different in several important respects now. The "opposition" now is a sort of bloc comprising large elements of both parties. A definite majority of the Republican party in Congress—but not all the members of that party—are to be included in the anti-Fair Deal "opposition," but not even the entire party could alone make its will effective against the President and his party. Yet in a rather real sense the President is in the minority, since a substantial element of his own party is definitely anti-Fair Deal.

It would be less feasible to pin responsibility for a non-constructive attitude upon the "opposition" in these circumstances than it was in the days of the 80th Congress. That is to say it would be less feasible in a strictly political sense, since the "opposition" owes allegiance to two different and presumably hostile political parties. But despite all this, we are certain in our own minds that if the good work which began to show in last week's voting is to continue, and if we are to be certain that the voters can and will come to the polls in 1952 with a feeling of assurance that a victory for the Republican party would be the natural way to rid themselves of what they now obviously do not want and of what, in our humble opinion they will not want two years from now, it will be necessary for the opposition to convince the public by both deeds and words during the next two years. The year 1951 will be just as important in this respect as 1952 can possibly be.

Of course, the international situation is one which could bring almost anything in the interim, but it would be very poor political strategy to depend upon such factors for success in 1952. Let's get busy.

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The Place of Common Stocks In Trust Investment

mortgages. For this to be a valid reason, it would appear necessary to support a belief that this favorable rate of return will be continued. After all, high rates of return are characteristically associated with a high degree of risk and lack of confidence in their continuity. If good quality common stocks yield twice as much as high grade bonds, the argument will quite properly be advanced that purchase of the common stocks must involve rather substantial risks.

If there were a free flow of savings between all sections of the capital markets, we might logically take this yield differential as a measure of the risk differential. However, it seems to me that through the process of changing saving habits and a greatly altered distribution of incomes, we have succeeded in thoroughly distorting historical relationships between the rates of return provided by different types of securities. Dramatic changes have occurred in recent years. At the present time individuals, particularly those in the lower and middle income groups, are turning over to life insurance companies, mutual savings banks, and savings and loan associations more than $6 billion a year for investment. Substantially all of these funds are used for the acquisition of fixed-income securities. As a consequence of this high and stable flow of institutional savings, we have witnessed an unprecedented narrowing of the spread between government securities and the highest grade corporate bonds, and again between the highest grade corporate bonds and those of lesser quality. Likewise, there has been keen competition for mortgage and real estate investments.

By way of contrast, our highly progressive tax structure has greatly reduced the volume of funds in the hands of wealthy individuals available for investment in common stocks. Except for the vitality of the open-end investment trusts, there would be very little net flow of funds into the equity capital markets. Even here, the amounts are only in the $250 million a year range. The individual investor or the trustee who is not restricted as to the securities he may purchase has a choice before him. Should he compete with the tremendous buying power of the institutional investors in seeking bond investments? Or should he turn to the market for stocks where these institutions as yet have not made their influence felt? It seems to me logical that the individual or the trustee will go more heavily into stocks, where the relative scarcity of his buying power will obtain better investment values, all things considered.

This line of argument makes the reasonable assumption that current dividend rates are provided with satisfactory protection by conservatively estimated earning power, and that the greater part of current yields can be relied upon as reasonably stable in the case of the stronger and better managed companies. Does this mean that stocks in general represent desirable purchases right up to the point where rising prices reduce rates of return to the level provided by high grade preferred stocks or even high grade bonds? In my opinion it does not. There are good reasons for expecting a differential in rate of return greater than shown historically.

In the first place, we have the factor already mentioned of the deterioration in the quality of corporate earnings as reflected in the narrowing of profit margins. It seems to me that lower price-earnings ratios are justified by the greater vulnerability of profits to a decline in volume. Similarly, a higher rate of return is justified from dividends provided from less stable earnings. It is interesting to observe in this connection the experience of manufacturing companies as a group between the fourth quarter of 1948 and the second quarter of 1949. Between these two quarters, sales declined by 10% and net after taxes by 31%. This type of experience, reflecting higher breakeven points and a more rigid structure of costs, establishes, in my mind at least, the logical basis for expecting a significantly higher rate of return on stocks relative to fixed-income securities.

Another reason why trustees should demand real inducements for expanding their common stock commitments is that they have to face a number of unpredictable factors which seriously complicate the problem of selection. We are all well aware of how essential it is to have the experienced personnel required to assure satisfactory performance in our selection of industries and companies for long-term investment. We are certainly thoroughly familiar with the fact that a common stock portfolio does not take care of itself, but that many long hours of careful study and supervision are required to achieve even average results.

At this time, however, we have an additional set of factors to consider in the evaluation of our common stock investments. It is difficult enough to keep abreast of industry conditions, management and financial changes, and the development of new products and processes without having to deal with nonbusiness factors of great importance. At the moment, for example, what can we say with confidence about the extent of the defense program, the size and incidence of new tax legislation, the scope of priorities and allocations, restrictions on selling terms, the availability of an adequate labor supply, or the nature of direct intervention in capital expenditure programs? Even a brief listing such as this of the non-economic factors affecting the business outlook suggests that we cannot hope to know most of the answers. However, the fact that common stocks will bear the full brunt of exposure to these various possibilities is another reason why the differential in rate of return should favor the equity investor.

An Investment Point of View

The preceding observations have been made entirely from the point of view of what suggests itself to me as good investment judgment. I have talked for 25 minutes without mentioning the celebrated case of Harvard College v. Amory, or our favorite New York case of King v. Talbot. In fact, I have not even referred to a prudent man. This may be a record for speakers on the subject of "The Place of Common Stocks in Trust Investment." It is no lack of respect for legal and traditional approaches to the topic which leads me to quote only Alexander Pope on this occasion; rather it is the consciousness which I am certain you share of the hazards of setting forth with the great finality of a court decision any views on trust investment policy. There are several reasons to value a modest approach:

(1) We are discussing the art, not the science, of investment.

(2) We are easily led astray by our emotions, falling prey to waves of mass optimism and pessimism.

(3) We tend to overestimate the value of our judgment and to underestimate the importance of the analytical work necessary for good selection of individual securities.

(4) We have become expert at convincing ourselves that our conclusions, once reached after great hesitation, become immutable when reduced to writing.

With this fair warning as to the fallibility of your speaker, what will you make of the discussion which you have heard this afternoon? I think you should decide not to buy stocks simply to "diversify" a trust fund. I think you should be very wary of the common stock purchase designed to "share in the growth of the country." There is unquestionably something to the argument for buying common stocks to alleviate depreciation in the purchasing power of the income from a trust fund; but there is an important matter of timing involved, dividends are bound to vary, and common stocks have their special problems in an inflation period. Fundamentally, however, common stocks earn an important place in trust investment by paying a better rate of return over a period of years.

Thus, it seems to me, the place of common stocks can be stated in approximately these terms: A trustee can reasonably invest a sizable portion of a fund in common stocks in order to provide a liberal current and prospective income, provided adequate care is taken in selection and supervision. The capital so invested should be regarded as frozen and the stocks as the least liquid asset held since there is no way of determining what they will bring at any future known or unknown date. The requirements for liquidity and for stability of income in any individual account will determine the extent to which stocks may suitably be employed.

NY Security Dealers To Hear Frear

The Honorable J. Allen Frear, Jr., U. S. Senator of Delaware, will be guest speaker at the Silver Anniversary Dinner of the New York Security Dealers Association on Friday, Dec. 8.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

So the elections are over and there is a lot of happiness in the air. The forthcoming Congress will give President Truman his come-uppance; there'll be no excess profits tax; instead of penalizing business, it'll be given a hand, or even maybe a couple of hands up.

* * *

The market, reacting to all these past and potential events, wiped out all the pre-election declines and soared up. The cheerful note was in the ascendant; old holders of stocks stopped glowering at junior partners and customers' men were once again calling potential clients with confidence in their voice.

* * *

All this sounds like we are rapidly approaching the land of milk and honey. Being human, I'd also like to take a few hasty bows and in modest tones announce, "I told you so."

* * *

But having done all this I'd like to point out that all this cheery talk doesn't sit too well with me. Sure, I like to be right, if for no other reason than it permits me to brag. Unfortunately, markets don't stand still. Having once anticipated some event, and perhaps discounting it to some extent, they look forward to other things.

* * *

Last week and the week before I commented pointedly that it doesn't take guts to buy them when they're up. What has happened since is a matter of record. To reverse the procedure again, it takes courage to sell them when everybody else wants to buy them.

* * *

As I write this the Dow averages are flirting with their old highs. The chances are that by the time this reaches you they'll have managed to make the new highs. You can be virtually certain that such an accomplishment won't go unheralded. The bears will be eliminated and a new flock of bulls will have come in, or will come in right after the event. It is interesting to note that practically all of the recent gain was actively participated in by the blue chips—the high quality stocks—while at the same time the so-called cats and dogs did little to speak of. Such action is not conducive to pessimism. But underneath it all there are signs that most of the quality stocks have either finished their long-term moves or are within hailing distance of their long-term objectives.

* * *

My considered opinion is that new highs will be seen all over the list. There'll be plenty of excitement. But it is during this excitement that a gradual withdrawal to cash positions should be started. I don't think there need be any hurry about it. I do think that you'll need plenty of guts not to be sucked in at this late date.

[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.]

Straus & Blosser Add

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Jack T. Vinis has been added to the staff of Straus & Blosser, 135 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was previously with First Securities Company.

Two With F. S. Yantis

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Paul F. Born and William R. Stocks have been added to the staff of F. S. Yantis & Co. Incorporated, 135 South La Salle Street, members of the Midwest Stock Exchange.

With Perrin, West

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Maine—Brewster D. Doggett has become affiliated with Perrin, West & Winslow, Inc. of Boston. He was formerly with A. C. Allyn and Company and Bond & Goodwin, Inc.

Continued from page 2

The Security I Like Best

ELIHU N. KLEINBAUM

Mgr., Investment Department Eisele & King, Libaire, Stout & Co., New York City, Members New York Stock Exchange and Other Exchanges

(Sun Chemical Corporation)

To qualify as a sound investment, a company should be an important factor in a basic growth industry, have a good earnings and dividend record, be in strong financial condition and have an aggressive, experienced management. The following brief analysis of Sun Chemical Corporation, listed on the New York Stock Exchange, and currently selling at about 11, indicates how this company meets the above criteria.

Elihu N. Kleinbaum

Sun Chemical is the outgrowth of a company formed in 1929 known as the General Printing Ink Corporation, which took over the plants and business of five well-known and long established printing ink manufacturers, one of them, George H. Morrill Co., having been established in 1840. These companies make up the graphic arts group producing not only ink but also special machinery and appliances for the printing industry. In 1945 the present title was adopted, when among other companies, Sun made two profitable acquisitions; A. C. Horn Co., an important factor in the paint, varnish, industrial finishes, waterproofing, special building material and building maintenance fields; and the Warwick Chemical Co., specializing in organic chemicals for the textile industry, as well as stearates and micro-crystalline petroleum waxes. Sun Chemical has 12 printing ink plants located on the East Coast, West Coast, Middle West, South West, Canada and Mexico, near important centers of consumption. Paint plants are located in Long Island City and in Newark, in the East, and on the West Coast, as well as in Houston, Texas and Toronto, Canada. Chemical plants are situated in Rhode Island and South Carolina; wax refineries in Texas and Kansas; graphic arts machinery manufacturing plant in New Jersey.

Sun Chemical essentially supplies basic materials for other important industries. Its earnings from printing inks have been relatively stable. The A. C. Horn Division, and the Warwick Chemical Co. have a long record of profitable operations. Sun Chemical has made a profit in every year since its formation in 1929, and in only one year, 1932, were earnings insufficient to fully cover preferred requirements and leave a balance for the common. Dividends on the common have been paid without interruption since the inception of the company in 1929. Growth has been most pronounced since 1945, following acquisition of the two companies referred to above. Sales in 1949 totaled $35,497,000, double the sales in 1945, $17,547,000. Net income in the same period rose from $770,444 to $1,499,041. Share earnings are not comparable due to change in number of preferred and common shares outstanding. In 1949, Sun Chemical earned $1.18 a share compared with 70 cents in 1948, and for the first nine months this year earnings of $1.28 a share were reported, against 67 cents in the same period of 1949. Current dividend rate is 60 cents annually, but in view of today's trend toward extra dividends where current earnings and financial position warrant, discussion by the board of an extra before the end of the year seems not unlikely.

Sun Chemical has funded debt of $3,880,000 (to be reduced this year by operation of sinking fund to $3,760,000) due in 1966 and carrying a 2¾% coupon. Equity capitalization consists of 19,000 shares of $4.50 preferred, and 1,196,283 shares of $1 par common. Of total capitalization, debt accounts for 24.4%, preferred stock for 12.0%, and common and surplus, 63.6%. Sun's financial position at the end of 1949 showed a strong working capital position with current assets of $13,087,473, compared with current liabilities of $4,194,284, leaving net working capital of $8,893,189, up from $8,114,418 at the end of 1948. Bank loans which stood at $1,100,000 in current liabilities at 1948 year end, had been reduced to $400,000 in 1949 and were entirely eliminated this year.

Executive management of the company is presently in the hands of George W. Ullman, President, and A. C. Horn, Chairman of the Executive Committee, both of whom are large stockholders and have an important stake, therefore, in the operations of this company. They are supported by an able and experienced group in charge of various divisions. This management took active hold of the company toward the end of 1948. Since that time unprofitable plants have been eliminated, others have been consolidated, and important economies have been effected throughout the entire organization. In 1947, on a volume of business of $36,646,000, profits were $1,504,000. In 1948, on a volume of about one million less, $35,603,000, profits were $923,000. But in 1949, the first full year of the present management, on a volume of $35,498,000, profits totaled nearly $1,500,000. Earnings for the first three quarters this year show a further improvement, when on sales of $27,784,000 a profit of $1,600,000 was reported, almost double the 1949 profit of $868,000. In addition, research, in which all the predecessor companies have been active, has been accentuated and new and important products are being developed, along with improved methods of merchandising and distribution.

Such, in brief, is Sun Chemical's story, and the manner in which it meets the criteria set forth in our opening paragraph. Sun's equity issues deserve a place in well rounded pension and trust funds, where permitted, and in investment portfolios where growth and income are required.

HAROLD H. VAN METER

President, Hiscox, Van Meter & Co., Inc., Philadelphia, Pa.

(Central Soya Company, Inc.)

Just as "mighty oaks from little acorns grow" so has a new and vital industry appeared on America's industrial horizon—founded on the once despised soybean. Paralleling the phenomenal growth of this industry has been the amazing development of the company which I nominate for your consideration — Central Soya Company, Inc. — a company whose accomplishments present convincing proof of the rich rewards still obtainable through alert and proficient management.

H. H. Van Meter

Central Soya had its modest beginning some 15 years ago, at the bottom of the worst depression in our history. Dale W. MacMillen, Sr., formerly President of Allied Mills, together with a few farsighted associates, built a small soybean processing plant and commenced production in 1934. By 1938 the company was doing nearly eight million dollars worth of business and just 10 years later, in 1948, gross revenues exceeded a hundred and four millions. That year they processed over 15 million bushels of soybeans and the small company that had started out with $125,000 in capital had a common stock equity totalling $16,600,000. The 1950 fiscal year produced net sales slightly in excess of one hundred million dollars and brought the common stock equity to nearly twenty-six millions of dollars.

Today Central Soya is one of the three largest processors of soybeans in the United States and is a major factor in the production of livestock and poultry feeds. Plant facilities at Decatur, Indiana; Gibson City, Illinois; Marion, Ohio; Harrisburg, Pennsylvania, and Memphis, Tennessee, have a combined annual soybean crushing capacity of over 21 million bushels and a feed manufacturing capacity of seven hundred thousand tons. Many of the nation's largest food manufacturers, other processors of livestock feeds, and nearly two thousand commercial feed dealers are numbered among its customers.

The soybean processing industry is still young, relatively, since the first processing plant using domestic beans was operated in 1915, though five years earlier some soybeans imported from Manchuria were processed in a Pacific Coast mill. For 100 years prior to that humble beginning of a great industry the soybean was scorned except as a curiosity and as a forage crop in the Southern States, and early in the nineteenth century, soybeans came to the States from China merely as ballast cargo.

In 1907 there were only 23 known varieties of soybeans in the country—today there are over two thousand. The farmer likes it as a cash crop and under certain conditions may prefer to harvest before the bean matures, thereby obtaining a high quality legume hay. Also, it falls within the category of nitrogen-fixing crops such as clover and alfalfa, hence has great value to the farmer in his over-all program of crop-rotation and soil building. 1950's crop of soybeans is estimated at over 270 million bushels.

However modest its beginnings and belated its recognition, the wheels of progress have turned—agronomists, research scientists, chemists, combined to learn the soybean's diverse properties until today it is a vital source of feed for livestock and food for America's tables. It is a major source of vegetable oil used in food shortenings oleomargarine, salad oils and sauces as well as a multitude of industrial products including paints, soaps, linoleum, explosives, synthetic rubber, and waterproof goods. Soybean meal is processed into livestock feeds and fertilizer while soya products are used to make breads, dehydrated soups, candies, breakfast foods, pancake flours, ice cream and infant goods. Commercial lecithin, a by-product extracted from soybean oil, has become important as an emulsifying agent used in many industrial processes.

My interest in Central Soya dates from late 1945 when earnings prospects began to look attractive. The stock, trading then around 30, appeared to possess more than average promise. And, following a stock dividend of 20% late in that year and a 150% stock dividend in 1946, with steadily mounting earnings and commensurate dividends, I saw my confidence in this company more than adequately justified. Now the stock is trading above 50 and it is planned to declare another stock dividend, this time of 50%.

Much of the speculative risk in this company is removed through their hedging operations in the futures market. Briefly, this consists of making commitments for the purchase of the soybeans as the new crop is harvested, then simultaneously selling all their soy meal and oil in the futures market, excepting for a small amount used monthly in the feed division in the manufacture of concentrates. During the year the feed division purchases its requirements of soybeans in a more or less hand to mouth fashion and since they turn their inventory in this division every 20 days, or about 18 times a year, the risk attending sudden declines in feed prices is minimized. To provide a cushion against possible inventory losses in the event of sharply declining feed prices the company set up a more than adequate contingency reserve of $2 million.

Summarizing the Central Soya picture—here is a company which in the past five years has made capital expenditures totalling $12,300,000 to provide the facilities which their growth demanded—yet beyond those capital outlays they have increased net working capital by approximately eight million dollars and increased net worth by approximately eighteen million dollars. Book value five years ago was $14.50 per share—today it is $38.77. Net working capital in 1946 stood at $14.25 per share — today it is $22.60. The stock is traded in the Over-the-Counter market.

Here is a growth situation that truly promises continued growth. Its excellent historical record bespeaks management at its best, able, dynamic, alert, aggressive yet conservative—typically American in all its basic concepts, and destined, in this writer's opinion, to take its place "in the sun" among America's industrial giants.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Arthur S. McArthur has been added to the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

With Fewel & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Walter A. Wolford has become associated with Fewel & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with Crowell, Weedon & Co. and G. Brashears & Co.

First California Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Charles G. Merrill, Jr., is now with First California Company, 647 South Spring Street.

Joins Holton, Hull

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Louis H. Romey has joined the staff of Holton, Hull & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange. He was formerly with Gross, Rogers & Co. and C. E. Abbett & Co.

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The State of Trade and Industry

behind on some items. They are planning to wipe out the carry-overs and start the new year with a clean slate, this trade magazine adds.

NPA's order assuring warehouses proportionate percentages of steel products based on average shipments during the first nine months is good news to many small manufacturers. But not as good as it sounds. Warehouses received about 20% of all steel shipped during the first nine months, but the hitch is that they will get their 20% after defense and essential priorities have been met. Thus their share will actually be much less than 20% of total steel shipments.

They will be especially hard hit on vital flat-rolled products. By June, defense and essential civilian priorities will be taking about 50% of flat-rolled output. Warehouses will receive their proportionate share of the remaining 50%. Since they have been receiving only about 11% of flat-rolled shipments, by June they will be getting only about 6% of total flat-rolled output (plus replacement of their stock going to DO orders). Of course they will get a bigger share of some other products such as pipe and tubing and wire products, "The Iron Age" points out.

The agreement between Timken Roller Bearing Co. and United Steelworkers of American calling for a 10% wage increase is the first in the country between steelworkers and a steel company since the union demanded substantial wage increases before contracts called for wage reopening talks. The raise at Timken will average 16.4 cents an hour.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steelmaking capacity for the entire industry will be 102.7% of capacity for the week beginning Nov. 13, 1950, compared to 103% a week ago, or a decline of 0.3 of a point.

Output for the current week will represent the ninth 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 1,980,800 tons of steel ingots and castings for the entire industry, compared to 1,986,600 tons a week ago. A month ago, based on new capacity the rate was 102% and production amounted to 1,967,300 tons; a year ago, based on the smaller capacity then prevailing when most of the industry was recovering from the steelworkers' strike, it stood at 57.4% and 1,058,200 tons.

Electric Output Turns Upward to Attain New Historical High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 11, was estimated at 6,574,084,000 kwh., according to the Edison Electric Institute.

The electric light and power industry this week set a new historical high record. The previous high record was established on Oct. 28, last.

It was 23,469,000 kwh. higher than the figure reported for the previous week, 1,139,529,000 kwh., or 21.0% above the total output for the week ended Nov. 12, 1949, and 1,003,317,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Continue Decline of Previous Week

Loadings of revenue freight for the week ended Nov. 4, 1950, totaled 862,184 cars, according to the Association of American Railroads, representing a decrease of 25,423 cars, or 2.9% below the preceding week.

The week's total represented an increase of 283,203 cars, or 48.9% above the corresponding week in 1949, and an increase of 18,598 cars, or 2.2% above the comparable period of 1948.

Auto Output Cut Further by Model Changeover at Ford

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 161,113 units, compared with the previous week's total of 177,096 (revised) units and 114,856 units a year ago.

Model changeover by Ford was primarily responsible for the decline, "Ward's" said, and production was further jeopardized by the wildcat strike at American Metal Products Co. Because of a lack of axle housings from this source, Packard temporarily laid off some assembly workers, the agency added, and other schedules are threatened by the tie-up.

Total output for the current week was made up of 127,462 cars and 26,403 trucks built in the United States and a total of 5,700 cars and 1,548 trucks built in Canada.

For the United States alone, total output was 153,865 units, against last week's revised total of 169,553 units, and in the like week of last year 111,727. Canadian output in the week totaled 7,248 units compared with 7,543 units a week ago and 3,129 units a year ago.

Business Failures Touch Lowest Point Since Late December, 1949

Commercial and industrial failures in the week ended Nov. 9 fell to 135, the lowest level since Dec. 29, 1949, from 181 in the preceding week, Dun & Bradstreet, Inc., reports. Although remaining well above the 1948 total of 96, casualties were down 39% from the 222 recorded a year ago and 50% from the prewar total of 269 in the similar week of 1939.

Most of the decline occurred among failures with liabilities over $5,000 which dropped to 89 from 128 last week. Only one-half as many casualties occurred in this size group as a year ago when 164 were reported. Small failures, those having liabilities under $5,000, dipped to 46 from 53 and compared with 58 in the corresponding week of 1949.

Failures fell in all industry and trade groups during the week with the largest decline in retail trade, which was the lowest level since the end of 1949. In other lines, the decreases were smaller. Trade casualties, both retail and wholesale, were about one-half as numerous as a year ago.

Geographically, a general weekly decline prevailed except for a slight increase in the West South Central States. No region had as many failures as a year ago; while the Mountain and Pacific States each came within 1 of their 1949 totals, other areas reported major declines.

Wholesale Food Price Index Unchanged in Week

Food prices moved irregularly in the past week and the wholesale food price index, compiled by Dun & Bradstreet, Inc., for Nov. 7 remained unchanged at the previous level of $6.52. This compared with $5.74 on the corresponding date a year ago, or a rise of 13.6%.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Makes Further Gains

Continuing its upward movement, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., rose 3.74 points to stand at 297.79 on Nov. 6, from 294.05 a week earlier. The latest figure compares with 245.47 on the corresponding date a year ago, or an increase of 21.3%.

Activity in grain markets increased last week with prices continuing the upward trend of the previous week. Sharp gains in soybeans were attributed to continued holding by producers and good demand for oil and meal. Strength in corn reflected unusually small country marketings and the belief that farmers will retain a large part of their crop for feeding purposes. Total primary market receipts of corn in the first five weeks of the new season were said to be less than half the amount for the same period last year.

Wheat advanced mostly in sympathy with corn and soybeans, with the cash article rising to the highest level in about two years.

Firmness in oats also reflected strength in other grains. Sales of all grains on the Chicago Board of Trade last week amounted to 252,706,000 bushels, or a daily average of 42,200,000 bushels. The latter compared with 33,000,000 bushels the previous week, and with 35,000,000 in the same 1949 week.

The domestic flour market last week was featured by extreme dullness in all types of family and bakery flours. Shipping directions were also very slow due to recent mild weather prevailing over most of the country. Export flour trade continued very quiet.

Slow demand for both coffee and cocoa resulted in lower prices and largely reflected increased offerings from producing countries.

Raw sugar displayed a firmer tone at the week-end, influenced to some extent by developments in the Far East. Despite the strength in vegetable oils, lard showed an easier tone at the close, partly influenced by increased receipts of hogs at Western markets. Lambs closed steady, while steers finished slightly higher, aided by smaller receipts.

Movements in domestic cotton prices were very irregular last week. The New York spot quotation showed only a slight net gain for the week, following the sharp advances of the two previous weeks. The market was sustained at times by mill and export price-fixing, expectations of a tight world supply of cotton, and the announcement that Mexico had placed a ban on further exports of cotton except under government license. Developments in the Korean war situation also stimulated some buying toward the close of the week. Liquidation was influenced by profit-taking and heavy hedge selling against the new crop movement.

Trade Volume Declines Despite Stimulus Given by Election Day Shopping

Nationwide consumer purchasing, adversely affected by credit curbs, unseasonal weather, and the usual pre-holiday lull, declined moderately in the period ended on Wednesday of last week. This decline, according to Dun & Bradstreet, Inc., in its current summary of trade, was forestalled in some vicinities experiencing a large Election Day influx of shoppers. The aggregate dollar volume of consumer spending remained moderately above the level of the similar 1949 week.

Consumers bought slightly less housefurnishings the past week than in the week before, as the impact of increased sales taxes were added to the credit restrictions of the past few weeks. Overall dollar volume was somewhat above the level of a year ago. Much of the decline occurred in the purchasing of such items as furniture, large appliances, floor coverings and television sets. There was a slight increase in interest for some type of furniture, as well as for lamps and housewares.

Total retail dollar volume in the period ended on Wednesday 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 and Southwest +4 to +8; East 0 to +4; South and Midwest +2 to +6; Northwest +5 to +9; and Pacific Coast +3 to +7.

There was a slight rise in wholesale orders during the week; total dollar volume for the country was moderately above the level of the comparable week in 1949. The number of buyers attending various wholesale centers, while slightly lower than that of a year ago, was slightly above the number of the previous week.

Under the impetus of newly-opened shows featuring Spring lines, wholesale apparel buying rose somewhat last week.

Department store sales of a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 4, 1950, remained unchanged from the like period of last year. An increase of 5% was recorded for the previous week from that of a year ago. For the four weeks ended Nov. 4, 1950, sales showed a rise of 5% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Retail trade here in New York last week fell short of the comparative dollar volume of the like period of 1949, notwithstanding a spurt in sales due to Election Day.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Nov. 4, 1950, declined 8% from the like period of last year. In the preceding week a rise of 4% was registered from the similar week of 1949. For the four weeks ended Nov. 4, 1950, an increase of 3% was noted and for the year to date, volume advanced 1% from the like period of last year.

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. 19	102.7	103.0	102.0	57.4
Equivalent to—					
Steel ingots and castings (net tons)	Nov. 19	1,980,300	1,986,600	1,967,300	1,058,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Nov. 4	5,896,450	5,895,250	5,871,900	5,135,600
Crude runs to stills — daily average (bbls.)	Nov. 4	¶6,117,000	6,051,000	6,091,000	5,314,000
Gasoline output (bbls.)	Nov. 4	20,156,000	19,878,000	19,259,000	18,460,000
Kerosene output (bbls.)	Nov. 4	2,309,000	2,288,000	2,240,000	2,114,000
Gas, oil, and distillate fuel oil output (bbls.)	Nov. 4	8,747,000	8,259,000	8,449,000	7,196,000
Residual fuel oil output (bbls.)	Nov. 4	8,454,000	8,449,000	8,156,000	7,728,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 4	104,350,000	105,062,000	103,700,000	104,257,000
Kerosene (bbls.) at	Nov. 4	29,115,000	28,634,000	28,170,000	28,399,000
Gas, oil, and distillate fuel oil (bbls.) at	Nov. 4	86,886,000	84,057,000	78,601,000	92,038,000
Residual fuel oil (bbls.) at	Nov. 4	44,689,000	44,310,000	42,213,000	69,192,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 4	862,184	887,607	863,676	578,981
Revenue freight received from connections (number of cars)	Nov. 4	722,248	729,422	730,156	516,726
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Nov. 9	$101,916,000	$199,716,000	$156,697,000	$111,289,000
Private construction	Nov. 9	39,831,000	89,874,000	88,065,000	47,002,000
Public construction	Nov. 9	62,085,000	109,842,000	68,632,000	64,287,000
State and municipal	Nov. 9	52,924,000	86,392,000	57,306,000	54,745,000
Federal	Nov. 9	9,161,000	23,450,000	11,326,000	9,542,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 4	11,375,000	*11,650,000	11,415,000	2,679,000
Pennsylvania anthracite (tons)	Nov. 4	587,000	1,056,000	1,003,000	1,131,000
Beehive coke (tons)	Nov. 4	151,000	157,400	144,200	2,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 4	315	*313	325	315
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 11	6,574,084	6,550,615	6,508,591	5,434,555
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Nov. 9	135	181	188	222
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 7	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Nov. 7	$49.69	$49.36	$49.19	$45.88
Scrap steel (per gross ton)	Nov. 7	$41.67	$40.67	$40.67	$28.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 8	24.200c	24.200c	24.200c	18.200c
Export refinery at	Nov. 8	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Nov. 8	155.000c	127.000c	112.000c	95.000c
Lead (New York) at	Nov. 8	17.000c	17.000c	16.000c	13.000c
Lead (St. Louis) at	Nov. 8	16.800c	16.800c	15.800c	12.800c
Zinc (East St. Louis) at	Nov. 8	17.500c	17.500c	17.500c	9.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Nov. 14	101.65	101.41	101.60	104.33
Average corporate	Nov. 14	115.43	115.43	115.43	115.24
Aaa	Nov. 14	119.82	119.61	119.82	121.04
Aa	Nov. 14	118.80	118.60	118.60	119.41
A	Nov. 14	114.66	114.66	115.04	114.46
Baa	Nov. 14	109.06	109.06	109.06	106.74
Railroad Group	Nov. 14	111.62	111.44	111.44	109.42
Public Utilities Group	Nov. 14	115.82	115.82	116.22	116.80
Industrials Group	Nov. 14	119.00	119.00	119.00	119.61
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Nov. 14	2.37	2.39	2.38	2.18
Average corporate	Nov. 14	2.88	2.88	2.88	2.89
Aaa	Nov. 14	2.66	2.67	2.66	2.60
Aa	Nov. 14	2.71	2.72	2.72	2.68
A	Nov. 14	2.92	2.92	2.90	2.93
Baa	Nov. 14	3.22	3.22	3.22	3.35
Railroad Group	Nov. 14	3.08	3.09	3.09	3.20
Public Utilities Group	Nov. 14	2.86	2.86	2.84	2.81
Industrials Group	Nov. 14	2.70	2.70	2.70	2.67
MOODY'S COMMODITY INDEX	Nov. 14	487.4	477.5	464.4	343.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 4	321,394	221,590	281,869	275,815
Production (tons)	Nov. 4	236,142	240,123	231,663	203,035
Percentage of activity	Nov. 4	102	104	100	92
Unfilled orders (tons) at	Nov. 4	774,891	694,741	763,679	469,423
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Nov. 10	138.4	138.4	137.8	151.3
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Oct. 28	35,054	32,848	31,014	25,158
Number of shares—Customers' total sales	Oct. 28	1,058,610	1,001,253	941,601	769,079
Dollar value	Oct. 28	$44,640,123	$43,015,819	$41,807,525	$29,985,726
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Oct. 28	36,060	36,075	34,814	27,460
Customers' short sales	Oct. 28	276	186	286	190
Customers' other sales	Oct. 28	35,784	35,889	34,528	27,270
Number of shares—Customers' total sales	Oct. 28	1,044,301	1,034,529	997,313	776,194
Customers' short sales	Oct. 28	10,451	6,711	10,484	6,741
Customers' other sales	Oct. 28	1,033,850	1,027,818	986,829	769,453
Dollar value	Oct. 28	$40,534,080	$38,463,216	$39,247,146	$26,597,749
Round-lot sales by dealers—					
Number of shares—Total sales	Oct. 28	326,910	340,410	342,220	263,590
Short sales	Oct. 28	------	------	------	------
Other sales	Oct. 28	326,910	340,410	342,220	263,590
Round-lot purchases by dealers—					
Number of shares	Oct. 28	347,990	324,180	271,660	253,810
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Nov. 7	170.0	*169.6	168.4	151.6
Farm products	Nov. 7	181.3	179.7	177.9	157.3
Grains	Nov. 7	172.6	167.0	165.4	154.1
Livestock	Nov. 7	225.5	223.9	221.1	191.8
Foods	Nov. 7	173.6	174.0	172.6	159.4
Meats	Nov. 7	237.6	239.8	234.4	212.0
All commodities other than farm and foods	Nov. 7	162.2	*161.9	160.8	144.8
Textile products	Nov. 7	164.7	*163.6	162.2	137.7
Fuel and lighting materials	Nov. 7	135.3	135.5	135.0	129.6
Metals and metal products	Nov. 7	180.6	*178.7	177.5	167.4
Building materials	Nov. 7	217.9	*219.3	220.0	189.7
Chemicals and allied products	Nov. 7	133.7	133.2	130.6	115.6

*Revised figure. ¶Includes 529,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of Oct.	8,718,978	*8,193,194	928,347
Shipments of steel products, including alloy and stainless (net tons) Month of Sept.	6,145,354	6,326,464	5,236,196
AMERICAN PETROLEUM INSTITUTE—Month of August:			
Total domestic production (bbls. of 42 gallons each)	191,043,000	185,019,000	161,246,000
Domestic crude oil output (bbls.)	175,594,000	170,017,000	148,192,000
Natural gasoline output (bbls.)	15,442,000	14,985,000	13,043,000
Benzol output (bbls.)	7,000	17,000	11,000
Crude oil imports (bbls.)	15,539,000	15,076,000	12,795,000
Refined products imports (bbls.)	10,476,000	9,900,000	6,249,000
Indicated consumption—domestic and export (bbls.)	215,742,000	*201,514,000	191,039,000
Increase—all stocks (bbls.)	1,316,000	*8,481,000	†10,749,000
COAL OUTPUT (BUREAU OF MINES)—Month of October:			
Bituminous coal and lignite (net tons)	51,035,000	46,751,000	*10,545,000
Pennsylvania anthracite (net tons)	4,895,000	3,862,000	4,979,000
Beehive coke (net tons)	660,000	*582,300	8,000
COKE (BUREAU OF MINES)—Month of Sept.:			
Production (net tons)	6,244,285	*6,399,936	4,997,900
Oven coke (net tons)	5,661,944	*5,756,064	4,968,300
Beehive coke (net tons)	582,341	*643,872	29,600
Oven coke stocks at end of month (net tons)	851,934	*825,496	1,925,700
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to November 8	6,458,708	------	9,540,708
COTTON PRODUCTION — U. S. DEPT. OF AGRICULTURE—As of November 1:			
Production 500-lb. gross bales	9,945,000	9,869,000	16,127,000
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of September:			
Cotton Seed—			
Received at mills (tons)	601,161	219,721	1,248,093
Crushed (tons)	404,971	228,284	585,732
Stocks (tons) Sept. 30	472,067	275,937	940,795
Crude Oil—			
Stocks (pounds) Sept. 30	63,119,000	*43,033	88,766,000
Produced (pounds)	122,261,000	*72,730,000	184,291,000
Shipped (pound)	93,403,000	85,971,000	123,036,000
Refined Oil—			
Stocks (pounds) Sept. 30	72,988,000	97,930,000	69,708,000
Produced (pounds)	86,001,000	78,244,000	113,309,000
Consumption (pounds)	117,746,000	*155,135,000	115,282,000
Cake and Meal—			
Stocks (tons) Sept. 30	153,830	121,179	98,076
Produced (tons)	181,784	104,675	253,763
Shipped (tons)	149,133	119,498	208,446
Hulls—			
Stocks (tons) Sept. 30	82,256	72,965	111,394
Produced (tons)	93,569	54,617	140,475
Shipped (tons)	84,278	55,286	113,874
Linters (running bales)—			
Stocks Sept. 30	71,574	51,565	140,171
Produced	132,574	68,236	182,038
Shipped	112,565	81,548	150,467
Hull Fiber (1,000-lb. bales)—			
Stocks Sept. 30	969	157	1,428
Produced	1,451	180	1,695
Shipped	639	157	922
Motes, grabbots, etc. (1,000 pounds)—			
Stocks Sept. 30	2,028	1,576	4,861
Produced	2,247	1,321	2,603
Shipped	1,195	2,131	3,179
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100) Month of October:			
Adjusted for seasonal variation	294	320	276
Without seasonal adjustment	312	331	293
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS — Month of Oct.:			
Industrials (125)	6.76	6.45	6.19
Railroad (25)	6.39	6.04	6.35
‡Utilities (24)	6.02	5.82	5.63
Banks (15)	4.63	4.45	4.41
Insurance (10)	3.22	3.27	3.10
Average yield (200)	6.49	6.22	6.11
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100 — As of August 15:			
Unadjusted—			
All farm products	267	263	244
Crops	239	236	214
Food grain	224	226	205
Feed grain and hay	193	195	165
Tobacco	399	387	400
Cotton	311	278	246
Fruit	200	211	181
Truck crops	164	200	170
Oil-bearing crops	293	267	241
Livestock and products	292	287	271
Meat animals	369	371	310
Dairy products	240	232	244
Poultry and eggs	191	173	225
RAILROAD EARNINGS — CLASS I ROADS (ASSOCIATION OF AMERICAN RRS.) — Month of September:			
Total operating revenues	$872,032,232	$889,796,085	$695,310,779
Total operating expenses	600,697,481	626,264,865	541,220,268
Operating ratio-per cent	68.88%	70.38%	77.84%
Taxes	$133,245,141	$126,476,664	$75,548,840
Net railway operating income before charges	122,622,393	122,064,180	63,483,990
Net income after charges (est.)	99,000,000	96,000,000	38,700,000
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of October 31	$256,958,761	$257,235,533	$256,805,409
General fund balance	4,145,258	5,504,682	4,737,054
Net debt	$252,813,503	$251,730,851	$252,068,355
Computed annual rate	2.201%	2.191%	2.222%
ZINC OXIDE (BUREAU OF MINES) — Month of September:			
Production (short tons)	18,949	19,666	13,746
Shipments (short tons)	21,170	22,662	16,307
Stocks at end of month (short tons)	9,354	11,575	15,995

*Revised. †Decrease—All stock (bbls.).

Continued from page 3

Outlook for Railroad Stocks

revenue trend, adjust for seasonal, probably will be more favorable as I look for some improvement in passenger business. The expansion of our armed services has resulted in a reactivation of camps in various sections of the country. So far, the volume resulting therefrom has been moderate, but I'm cynical enough to expect that now that elections are over, the tempo will increase. Keep your eye on passenger business! The first 25% increase will be mainly gravy. A study of the revenues and expenses, as divided between passenger and freight for the years 1940-44, shows that the real bulge in earning power of the railroads in the last war came from their passenger business. The industry as a whole today has enough available cars to take care of a sizable rise in traffic.

Railroad operating expenses and taxes will be higher over the coming year. Railroad labor has begun negotiations for higher wage rates asking for increases that, according to estimates, would aggregate a billion dollars or more a year. I believe that they probably will end up with not more than half of what they are asking for, which at most would mean about one-quarter billion net cost after taxes, before allowing any offsets for improved efficiency on the part of the roads. In this day and age of high finance, a one-quarter billion dollar figure often does not have the shocking effect that it should. It is a mighly important one to the railroad industry and should not be minimized even though the revenue trend and increased efficiency may absorb most of it without detriment to net income figures expected to be shown this year.

The railroad industry's ability to absorb wage increases has been quite remarkable when one considers its competitive position in relation to subsidized truck, bus and airlines operations. Rate increases have helped and more will be necessary so long as we continue to have a government bent on inflating our economy. Railroad rates, however, have not kept pace with the price inflation in agriculture and industry. It has been primarily through large-scale capital investment that the industry has increased its efficiency to the point of absorption of the major part of the wage increases.

Earnings Now at High Level

Railroad earnings on a seasonal basis are now running at a high level. Estimated net income for August, 1950, was the largest total for any peacetime month and was exceeded only a few times in 1942 before the full effects of excess profits taxes were felt. September, except for inclusion of back-mail pay, and October will not be as good as August, as the bulk of the large roads have expanded maintenance expenditures considerably. Despite these increases, net income for 1950 may reach $575 million, which would be about $150 million larger than 1949 and about $125 million under 1948. Projecting August and September on an annual basis, adjusted for seasonal, net income would run about $800 million—a total which provides room for some higher wages. However, if wages and tax rates are increased again next year, the railroads will need a larger amount of revenues either from increase traffic or higher rates, or a combination of both.

The problem of taxes and their effect on net income are uppermost in our minds. Comments emanating from Washington have been quite confusing. I think one thing that we can count on from Wasnington is heavier corporate taxes, whether they come through a lifting of normal and surtax rates or an excess profits tax. In general, the rails have a fairly high excess profits tax exemption so that, in considering the effect of tax increases, the rate of normal and surtax is probably the most important factor on which to calculate. A rail analyst can spend weeks making calculations as to excess profits taxes exemptions, but I believe it a waste of time until the terms of an actual bill are available, as calculated estimates might prove to be far out of line. I don't think I would have enough confidence in any estimate to base an opinion of a particular stock on it. Until the new tax bill is enacted, one should stick to the better individual situations for the major part of a portfolio.

Price Level of Stocks

Industrial and railroad stock prices, as measured by the Dow-Jones averages, are at an historical high level. However, in relation to earnings and dividend return, as well as to the deterioration in the purchasing power of the dollar, the level of the averages appears to be justified and could conceivably go higher over a period of time. The "averages," however, give a false impression of the general status of the market. This is particularly true of the rail average which broke through its 1946 high last month. The only reason this took place was the fact that four stocks in the average—Nickel Plate, Atchison, Union Pacific and Illinois Central—sold above their 1946 tops. The remaining 16 of the 20 stocks in the average are under their 1946 tops. Some of them—Pennsylvania, New York Central and Baltimore & Ohio—are still 50% or more below where they were. It is important to note the divergence in the movement of these "average" stocks and to understand the reasons for it.

The stocks that are above their 1946 tops or relatively close to them, are all, with the exception of Nickel Plate, western or southwestern or southern carriers. If one examines the overall rail stock market, he will find that the same pattern holds true. The reason for this divergence can be simply stated. The operating results of the western, southwestern and southern carriers have been vastly superior to those of the Pocohontas, eastern and northwestern carriers. The whys and wherefores for the better operating results are many. I would like to touch on a few of the basic ones.

(1) The roads outside of the eastern district have had a better revenue trend, the result of industrial growth and greater population growth in the west and south, especially Florida.

(2) The western and southern carriers got the jump on the eastern roads in Dieselization.

(3) The eastern roads handle a larger proportion of passenger traffic and relatively short-haul freight traffic that requires a greater labor factor than do the western and southern carriers.

(4) A substantial part of the traffic movement in the east is coal, which has lost ground to oil and gas in the production of energy.

The foregoing, I know, is an oversimplification of the causes, but I think will suffice for a quick summary of the background behind the divergence in the prices of stocks in the "average."

The fact that stocks are generally at high level does make one more cautious. Earnings, financial position, dividend return can all be relegated to the side lines if fears over controls, increased taxes and higher wages grip the imagination of the investor or speculator. This happpened in 1940 and, despite a rapidly improving traffic level and earnings in 1941, railroad stocks moved generally in a sidewise direction until the middle of 1942. It might be happening again right now, as the trend of stock prices in the past month up to the breaks of the last week, had been relatively flat. The foreign news, as well as comments from Washington, will probably continue to keep the market in an unsettled state and we must look for sharp breaks and rallies. I find it hard to see a sustained slump in rail stock prices at this time in view of my outlook for earnings. I am more inclined to feel that once the "outlook" becomes more settled, selected rail equities could again move forward.

In railroad equities we find a vast majority of stocks selling at less than five times earnings and giving a return of better than 7%. I'd like to talk about a few of them.

Selected Stocks

Atchison, Topeka & Santa Fe sells at about 124%—which just happens to about coincide with the retained earnings for the past 10 years and is about five times probable 1950 earnings. The dividend of $8.50 per share gives about a 7% return. Working capital position is strong—roughly $125 million, or about $50 per share with another $20 in wholly owned subsidiary companies. Thus, basically, half the market price of the stock represents liquid assets, the other half-ownership is one of the best railroad properties in the country, capable of earning over $20 per share, and in the subsidiaries which have land holdings that may be of very substantial value. Santa Fe common sold at 135 this year, or 10 points above the 1946 top and about 35 points above the 1950 low. Technically, it is vulnerable at 125, yet on a statistical basis, it could sell for 200 and still not look unduly high.

Atlantic Coast Line common at 56 is selling for about 60% of the $94 of earnings retained in the property during the last 10 years and about four times probable 1950 earnings. Postwar earnings have averaged better than $8 per share. Coast Line territory has benefited greatly from the industrialization of the southeast and the exceptional growth in Florida, where the bulk of its tracks are located. The company has rebuilt its main line from Richmond to Jacksonville and gone into Dieselization heavily. Fixed charges have been cut from a peak of $7 million to about $4.5 million, all through debt retirement, and over half of its 1952 maturity has been taken care of. As you know, Atlantic Coast Line owns one share of Louisville & Nashville common for each share of its own stock outstanding. With L. & N. selling at 43, Coast Line proper is appraised at about $13 per share, or slightly more than just one times earnings from its properties and income from investments other than L. & N. stock. Coast Line sold at 83 in 1946. The low this year was 41. Here again at 56 one might argue that the stock is technically high —yet, statistically, it looks as if it could exceed the 1946 top and still not be overpriced.

One cannot mention Coast Line without immediately thinking of **Seaboard Air Line**—its next-door neighbor. Seaboard Air Line is a completely different road today from what it was 10-15 years ago. I've just written a memorandum on this road, which I have copies of with me, so I won't go into much detail now. Earnings of the past 10 years retained by the company are equivalent to over $90 per share. This year, before sinking and related funds, earnings could reach $14 per share. Seaboard Air Line common at 40 is less than three times earnings and just about at its 1946 top. Here again one might argue that the stock is technically vulnerable, considering the low of 20 this year, yet, basically, the stock could double its present price and not look too high.

Kansas City Southern has developed into one of the standout roads in the southwest. Operating revenues are now three times the 1940 level. Kansas City Southern and its wholly owned subsidiary, Louisiana & Arkansas, have little branch line mileage, have gone in heavily for Diesel operation, and built up trainload quite substantially. K. S. U.'s operating ratio is one of the lowest in the country. The result of this and the rapid growth of the southwest have combined to lift prewar earnings from the $2 level to the current $10-$12 total. Combining L. & A., which was acquired in 1939, raises current earnings to about $18 per share. K. S. U. is currently selling around 31, or about five times its own earnings and 3½ times combined earnings. Its $4 dividend rate will be covered about 4½ times on a combined basis. Cash resources, which were held at a moderate level due to debt retirement, are building up. K. S. U. top price in 1946 was about 40 when combined earnings totaled about $9. K. S. U. was not on a dividend basis in 1946—in fact, none had been paid since 1931. Considering the vast improvement in position during the postwar period, it is not surprising that the current market value is well above that of 1946.

So far, I have touched on a few of the southwest and southern carriers. I'd like to move over to the east and touch on **Pennsylvania** with first a few words on coal, which I believe is probably the most important factor to consider on the outlook for the eastern carriers.

In 1948, coal had one of the best years in its history. However, a sharp drop in exports coupled with the slowdown in business in this country, which began late in 1948, resulted in a sharp rise in coal inventories early in 1949. Surplus supplies of fuel oil had caused a sharp downward trend in price and finally reached a $1.65 per barrel level in July, 1949, which was about half the 1948 high. Cutbacks in coal production started with the strike in March and the three-day work weeks beginning in July. Most of September and October was lost through strikes. The end result was a drop of about 165 million tons, 1948-1949 (27%). The coal roads obviously felt this decline in production. Earnings in 1949 were generally way under 1948 for this and other reasons. The three-day week production ran over in 1950, culminating in a strike in February, so that the first two months in 1950 were lost in so far as the railroads were concerned.

Fuel oil prices started to rise in the fall of last year and early this spring got back to $2.15 a barrel, which puts coal and oil on about a partity in the eastern market. Reserves of fuel oil have been cut down, particularly since the spring of this year when the oil companies began to restrict the movement into the eastern market. When Korea broke out, it seemed to me that the whole outlook for coal was immediately changed. I visualize a gradual tightening up of the fuel oil picture due to demands by the military forces and figure that with production headed for a fairly high level, there should be a revival in the demand for coal. This has taken place in large measure as you have undoubtedly noted in the weekly carloading figures, which show a very sizable rise in coal loadings. Coal stocks again, however, have gone up, but so far have not caused any talk of a cutback in production and probably won't unless the whole foreign situation looks as though it were going to clear up and that there will be less demand for energy. Fundamentally, however, I think we must reconcile ourselves to the fact that coal during the last decade has become a marginal source of fuel for the production of energy. It will probably maintain that status for another four or five years, or at least until the oil industry is able to build enough new cracking plants to reduce the fuel oil percentage out of each barrel of crude. If I am correct in this thought, then the outlook for coal and the coal railroads will be good only so long as there is a high indicated level of business actually ahead of us.

Pennsylvania Railroad common is selling around the 19 level—way under its 1946 top of 47½. That fact alone makes it intriguing. Pennsylvania, because of its large volume of passenger and short-haul freight business, was harder hit by the postwar inflation of costs than almost any other road. Since the end of the war, Pennsylvania has pushed modernization of its roadway and equipment quite strongly and is not done yet. On a road Pennsylvania's size, the results of the first $100 million Additions and Betterments were hardly noticeable. By June of this year, it had passed the $370 million mark and probably will go over $500 million next year. These A. and B.'s are showing results.

Barring another coal or steel strike, Pennsylvania will probably earn $3 this year, despite the coal strike in February, and could reach $4 to $5 next year. The level of activity in industry is most important to Pennsylvania. Unless war production orders are cut back sharply, it ought to have a good level of traffic. Wages and taxes will obviously cut into the potential increase in earnings that would otherwise result from the present level of traffic and operating efficiency. But I still feel Pennsylvania might surprise us all on what it can do. Earlier, I mentioned watching passenger revenues. Pennsylvania is a road to watch, for any real increase in Pennsylvania's passener business could lift net income quickly and sharply.

John Lewis to Attend "Financial Follies"

John L. Lewis, President of United Mine Workers Union (Ind.), will attend "The Financial Follies of 1950," the annual dinner and show staged by The New York Financial Writers' Association, Inc.

Joseph D'Aleo, President of the association, also announced that the show to be held this Friday, at the Hotel Astor, is now in the final stages of rehearsals. Around 75 members are participating in the production which lampoons business and government bigwigs.

One thousand business and financial leaders have accepted invitations to attend the dinner.

Los Angeles Securities Men Give to Blood Bank

LOS ANGELES, Calif.—The securities men in Los Angeles are proudly wearing "Blood Donor" pins. All last Thursday and Friday, prior to Armistice Day, the boys were contributing in appreciation and remembrance of the work of our armed forces.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

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 Gas & Electric Co.**
Nov. 9 filed 116,662 shares of common stock (par $10), to be offered in exchange for common stock of Central Ohio Power & Light Co. on the basis of 72/100ths of a share of American Gas common stock for each Central Ohio common share. **Underwriter**—None.

● **American Hostess Corp., Cuyahoga, Ohio**
Nov. 2 (letter of notification) 1,400 shares of common stock. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—1752 State Road, Cuyahoga, Ohio.

● **American Investment Co. of Illinois (11/30)**
Nov. 10 filed 97,121 shares of common stock (par $1), to be offered common stockholders of record Nov. 29 at rate of one share for each 20 shares owned. **Price**—To be filed by amendment. **Underwriters**—Kidder, Peabody & Co., Alex. Brown & Sons and Glore, Forgan & Co. **Proceeds**—To retire preferred stock and for general corporate purposes.

● **American Rock Wool Corp., Chicago, Ill.**
Nov. 15 filed 90,000 shares of common stock (par $5), of which 52,263 shares are to be offered by the company and 37,737 shares by certain stockholders. **Price**—To be filed by amendment. **Underwriter**—Bacon, Whipple & Co., Chicago, Ill. **Proceeds**—To company to be used to retire notes and the balance added to general funds. **Business**—Manufactures and sell thermal installation.

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.
Nov. 3 (letter of notification) 1,320 shares of common stock (no par) being offered to stockholders of record Nov. 10 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.

● **B & W Canning Co., Inc., Groveland, Fla.**
Nov. 2 (letter of notification) 1,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For construction and equipment.

● **Bell Co., Worcester, Mass. (11/28)**
Nov. 10 filed 100,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—Kidder, Peabody & Co., New York. **Proceeds**—To certain selling stockholders. **Business** — Manufacturers of worsted fabrics.

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.

● **Botany Mills, Inc.**
Nov. 3 (letter of notification) 100 shares of common stock (par $1). **Price**—At market (estimated at $9.37½ per share). **Underwriter**—Goodbody & Co. and John P. White & Co., both of New York. **Proceeds**—To Otto E. Kuhn, Vice-President, the selling stockholder.

● **Brattleboro Finance Corp., Brattleboro, Vt.**
Nov. 9 (letter of notification) 3,400 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—67 Main St., Brattleboro, Vt.

Carolina Casualty Insurance Co. (N. C.)
Oct. 2 (letter of notification) 100,000 shares of class B (non-voting) common stock (par $1) offered to stockholders on basis of one share for each 2½ shares held on Nov. 1; rights expire on Dec. 14. **Price**—$2.50 per share. **Underwriter**—None. **Proceeds**—To retire 5,784 shares of preferred stock (cost $121,464) and 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 Illinois Public Service Corp. (11/29)**
Nov. 13 filed 267,600 shares of common stock (par $10) to be offered to common stockholders of record on or about Nov. 17 at rate of one share for each 10 shares held; rights to expire Dec. 12. **Price**—To be supplied by amendment. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—For construction program.

● **Central Illinois Public Service Corp. (12/5)**
Nov. 13 filed $6,000,000 of sinking fund debentures due 1970. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Lehman Brothers; Kuhn, Loeb & Co.; Glore, Forgan & Co.; Blyth & Co., Inc.; Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co. **Proceeds**—For construction program. **Bids**—To be received prior to 11:30 a.m. (CST) on Dec. 5 in Room 2154, 20 No. Wacker Drive, Chicago, Ill.

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 and Glore, Forgan & Co. (jointly); 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. **Bids**—Expected to be received up to 12:30 p.m. (EST) on Nov. 28.

● **Clear Lake Park Water Co.**
Nov. 8 (letter of notification) $20,000 of first mortgage 5% sinking fund convertible bonds due 1975, and 300 shares of common stock (par $100), the latter to be reserved for conversion of bonds. **Price**—At 97½% and accrued interest. **Underwriter**—None. **Proceeds**—To pay debt and to install water system. **Office**—159 S. Beverly Drive, Beverly Hills, Calif.

● **Consumers Cooperative Association, Kansas City, Mo.**
Nov. 14 filed $1,000,000 of 5-year 3½% certificates of indebtedness and $2,000,000 of 10-year 4½% certificates of indebtedness to be offered to members of the Association and "to others." **Underwriter**—None. **Proceeds**—To be added to general funds. **Business**—Farmers' cooperative wholesale purchasing association of the federated type.

● **Continental Copper & Steel Industries, Inc.**
Nov. 10 (letter of notification) 4,687 shares of common stock (par $2) and 375 shares of 5% cumulative convertible preferred stock (par $25). **Price**—At market (about $5 for common and $15 for preferred). **Underwriter**—Allan L. Melhado, New York, N. Y. **Proceeds**—For satisfaction of claims.

● **Continental Copper & Steel Industries, Inc.**
Nov. 10 (letter of notification) 4,688 shares of common stock (par $2) and 375 shares of 5% cumulative convertible preferred stock (par $25). **Price**—At market ($5 for common and $15 for preferred). **Underwriter**—Hugh W. Long, New York. **Proceeds**—For satisfaction of claims.

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. Statement effective Nov. 10.

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. Statement effective Nov. 10.

● **Crystal Laundry Co., Denver, Colo.**
Nov. 9 (letter of notification) 600 shares of 6.80% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To pay delinquent Federal and City taxes and for construction and working capital. **Office**—636 So. Broadway, Denver, Colo.

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. (11/20-25)
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.

● **Diversey Corp., Chicago, Ill.**
Nov. 10 filed 143,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—F. Eberstadt & Co., Inc., who recently acquired a 75% stcok interest in company from Victor Chemical Works. **Business**—Chemical specialties.

● **Dow Chemical Co. (1/3/51)**
Nov. 10 filed 200,000 shares of common stock (par $15), of which 122,000 shares will be offered to common stockholders of record Dec. 21, 1950 at the rate of one share for each 50 shares held, the remaining 78,000 shares will be offered for subscription by employees up to 10% of their annual wages on a payroll deduction plan. Both offerings will terminate on Jan. 29, 1951 and are expected to be made on Jan. 3, 1951. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds**—For working capital.

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.

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**—$13 per share. **Underwriter**—None. **Proceeds**—To increase working capital. Statement effective Nov. 10.

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.

● **Factors Corp. of America**
Nov. 6 (letter of notification) $250,000 of 10-year 6% debentures dated Dec. 1, 1950, and 5,000 shares of common stock (par $1), of which the debentures and 3,500 shares of stock are to be offered in units of a $1,000 debenture and 14 shares of stock and 1,500 shares are to be sold to Leonard L. Zeidman, President. **Price**—$1,140 per unit and $10 per common share. **Underwriter**—None. **Proceeds**—To increase working capital and for expansion. **Office**—606 Widener Building, Juniper and Chestnut Streets, Philadelphia 7, Pa.

● **Fafner Manufacturing Co., Cleveland, O.**
Nov. 15 filed 150,000 shares of common stock (par $1). **Price**—12 per share. **Underwriters**—The First Cleveland Corp., Cleveland, O., and A. C. Allyn & Co., Inc., Chicago, Ill. **Proceeds**—To C. Greif Raible, President, the selling stockholder. **Business**—Manufacturer of metal products for industrial and commercial consumption.

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.

Florida Telephone Co., Ocala, Fla.
Oct. 27 (letter of notification) 27,200 shares of common stock (par $10), being 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.

● **General Appliance Corp., Springfield, Mass.**
Nov. 6 (letter of notification) $60,000 of 10-year 6% debentures and 60,000 shares of common stock (par 10c) to be sold in units of $1,000 of debentures and 1,000 shares of common stock. **Price**—$1,000 per unit. **Underwriter**—None. **Proceeds**—To pay debt and for working capital. **Office**—15 Park St., Springfield, Mass.

● **General Computing Machines Corp.**
Nov. 10 (letter of notification) 20,000 shares of common stock (par 1c). **Price**—$2.50 per share. **Underwriter**—None. **Purpose**—To be issued in payment of loans. **Office**—150 Broadway, New York 7, N. Y.

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.

● **Great Lakes Oil & Chemical Co. (11/20)**
Oct. 26 (letter of notification) 284,616 shares of capital stock of which 259,616 shares are to be offered to stockholders at rate of one share for each seven shares held on Nov. 20 (rights to expire on Dec. 11) and 25,000 shares are to be issued upon exercise of stock option held by Herbert Herff. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To develop certain oil and gas lands. **Office** — Michigan National Bank Bldg., Grand Rapids 2, Mich.

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.
Oct. 13 filed 51,026 shares of 4.64% preferred stock (par $100), of which 11,026 will be offered in exchange for $6 preferred stock on a share-for-share basis, with a cash adjustment of $2.35 per share; the offer will expire on Nov. 28. **Price**—To public, $103 per share, plus accrued dividends. **Underwriter**—Harriman Ripley & Co., Inc., were on Nov. 14 awarded the 51,026 shares of new stock on a bid of $100.51 per share for a dividend of 4.64%. **Proceeds**—To redeem $6 preferred stock, and to finance extensions of company's electric system. **Statement**—Effective Nov. 1. **Offering**—Being made today (Nov. 16).

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. Statement effective Nov. 8.

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.

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.

● **Hydrocarbon Chemicals, Inc., N. Y.**
Nov. 6 (letter of notification) 65,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—M. S. Gerber, Inc., New York. **Proceeds**—For new equipment, etc., and working capital. **Offering**—Now being made.

● **Idaho Consolidated Mines, Inc., Seattle, Wash.**
Nov. 2 (letter of notification) 100,000 shares of nonassessable common stock (par 10 cents). **Price**—33⅓c per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—4109 Arcade Bldg., Seattle, Wash.

● **Idaho Maryland Mines Corp.**
Nov. 3 (letter of notification) 40,000 shares of common stock (par $1). **Price**—At current market (about $1.10 per share). **Underwriter**—E. F. Hutton & Co., San Francisco, Calif. **Proceeds**—To two selling stockholders.

● **Infra Roast, Inc., Boston, Mass.**
Nov. 3 (letter of notification) 207,000 shares of common stock to be initially offered to stockholders; unsubscribed shares to public. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To finance the purchase of 100 automatic coffee-roasting machines. **Office**—84 State St., Boston, Mass.

● **International Minerals & Chemical Corp. (12/6)**
Nov. 14 filed 200,470 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—White, Weld & Co., New York. **Proceeds**—For plant expansion.

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). **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) for both issues: Blyth & Co., Inc. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane and Kidder, Peabody & Co. (jointly); Lehman Brothers; (2) on common stock only: Glore, Forgan & Co.; (3) on preferred stock only: White, Weld & Co. and Shields & Co. (jointly); Halsey, Stuart & Co. Inc. **Proceeds**—To pay construction costs, amounting to about $19,500,000 through 1952. **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. Statement effective Nov. 10.

NEW ISSUE CALENDAR

November 20, 1950
Davidson Bros., Inc. — Common
Garrett Corp. — Common
Great Lakes Oil & Chemical Co. — Common
Kansas Gas & Electric Co. 10:30 a.m. (EST) — Common
Kansas Gas & Electric Co., noon (EST) — Preferred
Master Rule Mfg. Co., Inc. — Common
Southern Production Co., Inc. 11:00 a.m. (EST) — Common

November 21, 1950
Gulf States Utilities Co., 11 a.m. (EST) — Preferred
Hawaii (Territory of), 10 a.m. (EST) — Bonds
Skiles Oil Corp. — Preferred & Com.

November 22, 1950
Carolina Telephone & Telegraph Co. — Common

November 28, 1950
Bell Co. of Worcester, Mass. — Common
Central Power & Light Co. 12:30 p.m. (EST) — Bonds
Davison Chemical Corp. — Common
Pennsylvania Power & Light Co. — Common
Tide Water Power Co. — Preferred
Wisconsin Public Service Corp. 10:30 a.m. (CST) — Bonds

November 29, 1950
Central Illinois Public Service Corp. — Common
Federal Water & Gas Corp., 11 a.m. (EST) — Common
Missouri-Kansas-Texas RR. — Equip. Trust Ctfs.

November 30, 1950
American Investment Co. of Illinois — Common
New York, Chicago & St. Louis RR. — Eqp. Tr. Ctfs.

December 4, 1950
Minnesota Power & Light Co., noon (EST) — Common
Providence Washington Insurance Co. — Preferred
Southwestern Gas & Electric Co. Noon (EST) — Bonds
Texas Eastern Transmission Corp. — Preferred

December 5, 1950
Central Illinois Public Service Corp. 11:30 a.m. (CST) — Debentures
Union Electric Co. of Missouri, noon (EST) — Bonds

December 6, 1950
Cleveland Union Terminal Co. — Bonds
International Minerals & Chemical Corp. — Common

December 11, 1950
Carolina Power & Light Co. — Bonds

December 12, 1950
Metropolitan Edison Co., noon (EST) — Pfd. & Bonds

January 3, 1951
Dow Chemical Co. — Common

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.

● **Kwal Paints, Inc., Denver, Colo.**
Nov. 9 (letter of notification) 5,000 shares of preferred stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To repay bank loans and to increase inventory of raw materials. **Office**—800 Water St., Denver, Colo.

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 exercisable on Nov. 26, 1950. **Price**—$22 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes.

● **Lock Joint Pipe Co., East Orange, N. J.**
Nov. 13 (letter of notification) 50 shares of common stock (no par). **Price**—$500 per share. **Underwriter**—H. G. Bruns & Co., New York. **Proceeds**—To Allan M. Hirsh, Chairman of the board, the selling stockholder.

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.

● **Marshall, Neil & Pauley, Inc., Dallas, Tex.**
Nov. 7 (letter of notification) 150 shares of participating, non-voting, non-cumulative redeemable preferred stock. **Price**—At par ($100 per share). **Underwriter** — None. **Proceeds**—For working capital.

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.

● **Master Rule Manufacturing Co., Inc. (11/20)**
Nov. 13 (letter of notification) 1,800 shares of common stock. **Price**—$75 per share. **Underwriter**—None. **Proceeds**—For expansion and purchase of additional equipment. **Office**—40 Mulberry Street, Middletown, N. Y.

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.

Mercantile Acceptance Corp. of California
Oct. 5 (letter of notification) 1,395 shares of first preferred stock, 5% series. **Price**—At par ($20 per share). **Underwriter**—Guardian Securities Corp. of San Francisco. **Proceeds**—For corporate purposes. **Office**—333 Montgomery Street, San Francisco, Calif.

Metropolitan 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.; Kidder, Peabody & Co.; White, Weld & Co. and Equitable Securities Corp. (jointly); Harriman Ripley & Co. and Union Securities Corp. (jointly). (2) For preferred: Drexel & Co.; Smith Barney & Co. and Goldman, Sachs & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); First Boston Corp.; Harriman Ripley & Co., Inc. and Union Securities Corp. (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. **Bids**—Expected to be received up to noon (EST) on Dec. 12.

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 amounting to $10,000,000 have been arranged.

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

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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.

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.
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 T. Norris, President, the selling stockholder. **Offering** — Expected today (Nov. 16).

● **Peerless Casualty Co., Keene, N. H.**
Nov. 10 (letter of notification) 19,500 shares of common stock (par $5). **Price**—$15 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—19 Federal Street, Keene, N. H.

● **Pennsylvania Power & Light Co. (11/28)**
Nov. 9 filed 475,409 shares of common stock (no par), to be offered to common stockholders of record about Nov. 28 on a one-for-seven basis, with an oversubscription privilege; rights to expire on Dec. 14. Unsubscribed shares also to be offered to employees. **Price** — To be filed by amendment. **Underwriters** — The First Boston Corp., New York, and Drexel & Co., Philadelphia, Pa. **Proceeds**—For construction program.

Penton Publishing Co., Cleveland, Ohio
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 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 which became effective Nov. 16 will expire on Nov. 24. **Price**—At par. **Underwriter**—Maynard H. Murch & Co., Cleveland, Ohio. **Proceeds**—Toward redemption of 7% preferred stock and payment of accrued dividends. Statement effective Nov. 9.

● **Pig'n Whistle Corp., Los Angeles, Calif.**
Nov. 10 (letter of notification) 4,000 shares of convertible prior preferred stock (par $2). **Price**—$8 per share. **Underwriter**—None. **Proceeds**—To Steven Kormondy, the selling stockholder. **Office**—945 Venice Boulevard, Los Angeles, Calif.

● **Producers Finance Co. of Arizona**
Nov. 3 (letter of notification) 300,000 shares of common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—To activate company under terms of trust agreement. Office—26 West First Ave., Mesa, Ariz.

● **Providence Washington Insurance Co. (12/4)**
Nov. 10 filed 80,000 shares of cumulative convertible preferred stock (par $10), to be offered to common stockholders of record Dec. 4 on basis of one preferred share for each five common shares held; rights will expire Dec. 19. **Price**—To be supplied by amendment (expected to be between $48 and $55 per share). **Underwriters**—The First Boston Corp. and Wood, Struthers & Co., both of New York, and Brown, Lisle & Marshall of Providence, R. I. **Proceeds**—To be added to general funds.

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.

● **Rocky Mountain Geophysical Corp.**
Nov. 2 (letter of notification) 1,000 shares of preferred stock (par $100) and 300 shares of common stock (no par) to be offered in units of one share of preferred and 3/10ths of a share of common stock. **Price**—$100 per unit. **Underwriter**—None. **Proceeds**—For working capital. **Additional Offering**—An additional 250 shares are to be sold to All States Geophysical Corp. of Los Angeles and five shares to directors, all at $1 per share.

Safeway Stores, Inc.
Nov. 2 filed 200,765 shares of 4% cumulative preferred stock (par $100), being 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; offer to expire Nov. 27. **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. **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 50c). **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. (11/21)
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.

● **Smith Investment Co., Milwaukee, Wis.**
Nov. 10 (letter of notification) 18 shares of common stock (par $10). **Price**—$5,500 per share. **Underwriter**—Garner F. Dalton & Co., Milwaukee, Wis. **Proceeds**—To selling stockholders. **Co.'s Address**—P. O. Box 584, Milwaukee, Wis.

● **Sollberger Engineering Co., Inc., Marshall, Tex.**
Nov. 2 (letter of notification) 2,450 shares of cumulative preferred stock (no par). **Price**—$20 per share. **Underwriter**—None. **Proceeds**—To pay RFC note and current liabilities. **Office**—510 Hazelwood, Marshall, Tex.

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.

● **Southern Insurance, Inc., Atlanta, Ga.**
Nov. 2 (letter of notification) 30,000 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To purchase stock in Southern Fire & Marine Insurance Co. and to reduce debt. **Office**—79 Ponce De Leon Ave., N. E., 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. **Bids**—Expected to be received up to noon (EST) on Dec. 4. Public offering tentatively set for Dec. 6.

● **Texas Eastern Transmission Corp. (12/4-6)**
Nov. 14 filed 200,000 shares of convertible preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—For expansion and to retire outstanding 2¾% serial notes. Expected early in week of Dec. 4.

● **Thermoid Co., Trenton, N. J.**
Nov. 15 filed 1,500 memberships in Employees' Thrift Bonus Plan which will consist of successive annual trusts for the benefit of employees who have been with the company for not less than two years preceding date of particular trust. Payments made by members of any of these trusts, together with contributions made by the company, are to be invested in the common and preferred stock of the company.

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 (12/5)
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. **Bids**—To be received by company at 60 Broadway, Room 1901, New York 4, N. Y., up to noon (EST) on Dec. 5. **Offering Date**—Tentatively fixed as Dec. 7.

● **United Specialities Co., Chicago, Ill.**
Nov. 8 (letter of notification) 1,000 shares of common stock (par $1). **Price**—At market (approximately $14.25 per share). **Underwriter**—Shields & Co., Chicago, Ill. **Proceeds**—To John T. Beatty, the selling stockholder.

● **Vincent Motor Co., Washington, D. C.**
Nov. 7 (letter of notification) 250 shares of 7% cumulative, non-voting, non-participating, non-convertible preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To Harold B. Vincent, Jr., the selling stockholder. **Office**—5013 Georgia Ave., N. W., Washington, D. C.

● **Western Light & Telephone Co., Inc.**
Nov. 6 (letter of notification) 14,870 shares of common stock (par $10), to be offered to present stockholders. **Price**—To be filed by amendment. **Underwriter**—None. **Proceeds**—For construction program.

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. Expected in about two weeks.

Wisconsin Public Service Corp. (11/28)
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. 28 at the Harris Trust and Savings Bank, Chicago, Ill.

Prospective Offerings

● **Algonquin Gas Transmission Co.**
Nov. 8 the FPC said it was of the opinion that certain of the New England markets should be served by this company, upon showing that it has an adequate amount of gas. Necessary financing, probably about $40,000,000, likely to be 75% bonds and 25% stock, with common stock to be offered first to stockholders. Probable underwriter: Dillon, Read & Co. Inc.

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.

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.

● **Carpenter Steel Co.**
Oct. 30 stockholders voted to increase the authorized common stock, par $5, from 500,000 shares to 1,000,000 shares (there are presently 396,000 shares outstanding). The management has no present plans to issue any additional common stock. Traditional underwriters: F. S. Moseley & Co.; White, Weld & Co.; Hemphill, Noyes, Graham, Parsons & Co., and H. M. Byllesby & Co., Inc.

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.

● **Cleveland Union Terminals Co. (12/6)**
Nov. 9 Gustav Metzman, President, announced company plans to issue a new series of bonds (probably $40,000,000 of 1- to 16-year serial bonds, due $2,500,000 annually). **Underwriters**—To be determined by competitive bidding. Probable bidders may include Morgan Stanley & Co.; Halsey, Stuart & Co. Inc., and The First Boston Corp. **Proceeds**—To provide a major portion of the funds required to redeem $41,614,400 series A, B and C first mortgage sinking fund bonds April 1, 1951.

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.

● **Diamond Match Co.**
Nov. 7, it was announced that stockholders will vote on approving a plan to reclassify each of the 600,000 outstanding shares of 6% cumulative participating preferred stock (par $25) into one share of $1.50 cumulative preferred stock (par $25) and three-tenths of a share of common stock, no par value, and to reclassify each of the 400,000 shares of old preferred stock presently authorized but unissued into one share of new preferred stock to be issued in one or more series. Financial advisors are Blyth & Co., Inc. and Riter & Co., both of New York, who will also assist in the solicitation of proxies.

● **Eureka Williams Corp.**
Oct. 31 stockholders voted to increase authorized common stock (par $5) from 600,000 shares to 1,000,000 shares so that company may be in a position "to act promptly by broadening the scope of business and operations." Traditional underwriters: Hornblower & Weeks and Kebbon, McCormick & Co.

Facsimile & Electronics, Inc.
Oct. 2 stockholders of this company (formerly Finch Telecommunications, Inc.) voted to create an authorized issue of 400,000 shares of class A convertible stock (par $1), all or part of which are to be publicly offered in the near future. **Price**—$2.50 per share. **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—To repay indebtedness to RFC and for working capital.

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. SEC dismissed application on Nov. 13.

Hawaii (Territory of) (11/21)
Nov. 6 it was announced that it is planned to issue and sell $14,000,000 of public improvement bonds, series B, dated Dec. 1, 1950, 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 up to 10 a.m. (EST) on Nov. 21 at Bankers Trust Co., 16 Wall Street, New York, N. Y.

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. **Underwriter**—None.

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).
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).

● **Lone Star Steel Corp.**
Nov. 12, it was reported that company may issue and sell additional securities should it receive government consent to the building of a new plant. Probable underwriters: Straus & Blosser; Estabrook & Co., and Dallas Rupee & Son.

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. **Underwriter**—Blunt, Ellis & Simmons, Chicago, Ill.

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.

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 ot issue $5,700,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers; Harris, Hall & Co. (Inc.); R. W. Pressprich & Co.

● **Monarch Machine Tool Co.**
Nov. 9, it was announced that stockholders will vote Dec. 20 on a plan to increase the authorized common stock from 250,000 shares to 750,000 shares and splitting up the present 210,000 outstanding shares on a two-for-one basis. If any new financing, probable underwriters will include F. Eberstadt & Co., Inc., of New York, and Prescott, Hawley, Shepard & Co., Inc., of Cleveland, Ohio.

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.

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 York, Chicago & St. Louis RR. (11/30)**
Nov. 14 it was announced bids will be opened by the company on Nov. 30 on an issue of $3,120,000 equipment trust certificates to be dated Dec. 15, 1950 and to mature semi-annually June 15, 1951 to Dec. 15, 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Lee Higginson Corp.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

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 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.

● **Northeastern Gas Transmission Co.**
Nov. 8 FPC authorized company to supply part of New England with natural gas, and authorized Tennessee Gas Transmission Co., parent, to carry out a $118,645,545 expansion program, part of which will supply some of Northeastern's gas needs. Traditional underwriters for Tennessee: White, Weld & Co.; Stone & Webster Securities Corp.

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 Lighting Corp.**
Nov. 13 corporation estimated that approximately $24,000,000 will have to be raised through the sale of securities next year to finance its 1951 construction program. Traditional underwriter: Blyth & Co., Inc.

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.

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." Probable bidders for $7,000,000 of debentures which company had planned to issue earlier this year were: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly); The First Boston Corp.; Lehman Brothers; Kidder, Peabody & Co.; Harris, Hall & Co. (Inc.). This latter plan was abandoned last August.

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.

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 (expected 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.

● **Tennessee Gas Transmission Co.**
See accompanying item on Northeastern Gas Transmission Co.

● **Texas Gas Transmission Corp.**
Nov. 9, it was reported that this company is understood to be studying further expansion plans, although no financing is considered imminent. Probable underwriter: Dillon, Read & Co. Inc. New York.

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. Probable underwriter: Dillon, Read & Co. Inc.

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

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In Which Industry Shall I Invest?

Korea, a great many people might have said the television industry, and nobody would have particularly liked the railroad industry; and then if you asked it a week later, after Korea, then they wouldn't have liked the television industry and they would have liked the railroad industry. Now the thing that happened overnight was simply a question of a change in taxes and controls we didn't expect, and a change in the direction of our production and all of those things have to be thought about so that you can't give one overall answer. I'm going to give a suggestion before I get finished, but you just can't answer overall.

I said before that it's also a question of price. Whenever you consider a desirable industry, something that everybody knows is good, like chemicals, which perhaps are the most desirable industry of all, you have to pay a high price for it. For a stock that's in it, likewise, if you buy an obvious growth stock, something that everybody knows is growing, you don't pay for that at today's prices, but you pay the price that people think it might be worth two years ahead; five years ahead and 10 years ahead, and that must be taken into consideration. There's sort of an equation there. If you pay too far ahead or if the estimate of the future is too optimistic, you're making a bad purchase. Likewise, if you take an industry which is unpopular and not right, the price might be low. It might not be a bargain at all. So I point all of these things out because I want to stress more than anything else the difficulties of the situation.

Difficulties

Of course, it's true that some companies are in industries where going with the tide is sort of an easy thing and there are some industries where there is no tide at all and there are some industries where the tide is out and then of course one of the common things is that the tide changes so that it's all very difficult.

My own preference for a group of investors such as I'm talking to today, is to buy at premium and to buy into the better industries rather than try to buy a bargain here and there, and not only the better industries from the standpoint of the business in which they're engaged, but from the standpoint of the people who run them. There's a great difference in personnel. Young people and forward-looking people tend to go to growing industries and also there are many industries where management can play a part. If you're running an automobile company, one man can be smart in his advertising and smart in his production. On the other hand, there are businesses such as perhaps some of the older Eastern railroads where it hardly makes much difference who's running them because there isn't much that can be done; so that is something that I take into consideration. Then, marketwise, you've heard here about mutual funds and all the new buyers which have been coming into the stock market through that group. Most of the money which goes into mutual funds and goes into investment trusts tends to go into the better class stocks. In addition to that, lately we've had more and more pension funds, and they go into the better class stocks, and then we have a new law in New York State, the "Prudent Man Law," allowing trustees to buy common stocks and all this goes into the best stocks so there's a sort of a special market support for those and consequently, I reiterate what I said, that I think I would pick for the group here the very best that we have.

Chemicals the Very Best

The very best that we have is in my opinion probably the chemical stocks. Before I came here today, I looked at a lot of charts over a period of time on different chemical stocks and it's hardly possible to pick a chemical stock that has really done badly. There have been chemical stocks that have done badly for two or three years, but then have recovered and come along, but to really find one that has done badly permanently is very difficult. It's a very fortunate industry all around. Another industry that is right on top is the oil industry. People use more oil and more gasoline all the time and there's nothing in sight to suggest they'll do otherwise. Furthermore, the oils have tax advantages and it's very hard to find an oil stock of any kind that would be listed on the New York Stock Exchange that by and large over a period of time hasn't had a pretty good record.

Two Major Stocks

Then we've got the two major motor stocks which are in a different class from the motor industry as a whole—General Motors and Chrysler.

The questions today is peace or war. These two motors are good in peace or war because in peacetime everybody wants an automobile and all the different other things they make, such as refrigerators and air-conditioners; and in wartime, there's nobody that can build war supplies as well as General Motors and Chrysler. Hence, the oils and chemicals and the major motors, I think, are probably the safest choice, broadly speaking. Now, everybody knows they're good and they sell at pretty good prices. On the other hand, in trying to select something that was a bargain, which would be a speculation when you look at the list of all the stocks that are on the board, there are a very few that are selling low now. The soft-drink stocks are selling low, the motion picture stocks are selling low and they're probably the best examples. Now soft drinks, for instance, have been a nickel for a very long time and the companies have been squeezed, but here and there the price is now six cents and seven cents and if, in the course of the next six or eight or nine months, people began to pay 10 cents generally for coca-cola, we'd have a boom in soft drink stocks, and there's the type of speculation we have to enter into if you want to make a big profit. If you don't get the 10 cents or something, then you're a little out of luck.

Contrast With Stable Industry

I think an easy way of showing what happens to different industries is taking different companies as examples to trace their price. For instance, we talked about a stable industry. Well, perhaps, the most stable industry is the telephone business, and American Telephone, I am told, is supposed to be owned by more women stockholders than any other company. The dividend, as I think everybody knows, is $9 for years. It hasn't been any more or less, but it's a very static thing. But, in 1929, people paid $310 for it and they saw it go down, so that between 1937 and to date it's been between 100 and 200, so it has never really recovered. The persons who paid too much for American Telephone never really recovered the loss simply from the dividends. On the other hand, in 1929, when they paid $310 for American Telephone, supposing instead they went into the chemical industry and picked Dow Chemical. It sold at 15 in 1929 when American Telephone sold at 310. By 1935, it was 16. In other words, only six years after the panic which followed 1929, you'd be even. Then it didn't do very much between 1937 and 1947. The company was very well managed. They paid a low dividend. They put a great deal of money into research and plants, and all of a sudden it all began to tell and now the earnings are up and the dividends are up and the stock is $70, and that's the difference between a vital growth business like chemicals and a static business like telephones. Now, speaking of chemicals, the best known chemical is duPont and in 1929—I'm making adjustments for stock dividends and things so that everything is comparable—duPont sold at $57 a share and it took till 1946 before it sold at $57 a share again. In other words, a person who paid too much for a good thing had to wait many, many years before he got his money back.

It's quite possible—in fact, it's true that many people made much money buying stocks in industries that were inferior to the chemicals and companies that were inferior to duPont. Instead of buying them in 1929 they bought them in 1931 or 1932 and paid the proper price for them and made money right away so that's just again stressing the fact that it isn't just the industry. It's the time you buy it. the price you buy it at, what the outlook is and what the factors are that govern. What you really need is first-class professional advice. It isn't possible, I think, for anyone in his spare time or casually just to keep in constant touch with these things.

I have the record of some other stocks that I wrote down to show the great difference that exists. The telegraph industry was worse than the telephone industry. Anyone who bought into the telegraph industry or the railroad industry or some of the public utilities in 1929 never saw daylight again because their earnings and their dividends completely changed for various reasons. In the case of the railroads, truck competition and more use of the private automobile and so forth, so that a stock like New York Central which in those days earned $16 a share and paid $8, went down from 257 to 6⅝—it's 17 now and missed many dividends and in the same time, if a person had bought into the soft-drink business, say, Coca-Cola, they would have made a good deal of money.

The Individual Stock Important

It is not only a question of which industry but which particular stock is it. Supposing we spoke about the retail trade business. Now anyone who in recent years would have bought Woolworth which is a very well known name, wouldn't have made very much money if they bought it at average prices. It's still at average prices, but if they had bought Sears-Roebuck, they would have made a great deal of money, and in the steel business, if they bought Inland, they'd make and if they bought Crucible, they'd have lost. And in gold mines if they bought Alaska Juneau, they would have lost persistently and if they bought McIntyre Porcupine, they would have been about even and if they bought Kerr-Addison, they would have made a profit. In the food industry, if they had bought General Foods, they would have had a good stable dividend and growth, but if they bought Standard Brands, which makes a great many well-known products, they would have lost money because Standard Brands has been losing ground for years.

In the drug field, if they bought Abbott Laboratories, they'd have made a lot of money; if they bought Lambert, they would have lost a lot. If they bought Parke-Davis, it would have been static until just recently. In the motor industry, they would have made a lot of money in Chrysler and lost a lot in Packard so this more or less tends to illustrate the point I'm trying to make.

The Fallacy of Full Investment

It is a very important point with me: that money always has to be invested and always has to be earning a dividend is a very fallacious one and in my experience since 1921, I have never seen it practiced by anyone who really made a lot of money. I've seen people buy something for 100 to get a $5 dividend and at the end of the year, assuming that they bought it at the wrong time, the stock in question was maybe $75. Maybe they thought they were getting 5% on their money, but with my mathematics, I would just say they lost 20% because I deduct the 25 points they lost and add the $5 dividend, and see where I end up.

When I spoke a few moments ago about industry, I stressed the time element, and the time element is very much more important than the industry element and very much more difficult. The person who knew that it was the right time to buy stocks a year or so ago, if he was sure of that, might have made quite a bad mistake on an industry and still make some money. But the person who bought the right industry at the wrong time really didn't have much chance and, of course, when you talk about time, it means that sometimes you have to have your money in stocks and sometimes you don't have it in stocks and it's very much easier to talk about it than it is to apply it in practice. It's very difficult to apply it in practice, but nevertheless, it's an aim and a very important one.

Over-Diversification

I don't believe in over-diversification ordinarily. The more a person knows about the securities market, the less he diversifies. Diversification is a protective measure when you really don't know what you're doing, but big money is made by being sure of what you're doing and putting everything on one line, but for people who are beginners or for people who are not experts, diversification is a very great safeguard. It will keep you from losing a lot of money, but it will also keep you from making a lot of money.

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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.

● **Westcoast Transmission Co., Ltd.**

Nov. 7, it was announced that Westcoast Transmission Co., Inc., its American affiliate, has filed an application with the FPC seeking authorization to build and operate a pipeline for the transportation of natural gas in the States of Washington and Oregon. Both companies are sponsored by Pacific Petroleums, Ltd., of Calgary, Sunray Oil Corp. and other members of the "Pacific Group" engaged in active oil and gas exploration and development in Western Canada. The completed line, it is estimated, will cost about $175,000,000, to be financed 75% by bonds and the remainder by preferred and common stock. **Underwriters**—Eastman, Dillon & Co. and The First Boston Corp.

Western Pacific RR.

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."

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.

Our Reporter's Report

The situation in the new issue market, far from improving in the past week, showed further signs of deterioration as sellers and potential buyers remained locked in the grip of a struggle over yields.

Although prices, and consequently yield basis, fixed for several current offerings were such as to make prospective returns more attractive, the revision evidently was not enough to bring about any break in the ranks of institutional investors.

The latter once more are adamant in their stand for a yield basis of around 3% and apparently are not disposed to any sudden change of ideas. Presumably the reason that they can employ a fair portion of their investable funds in new mortgages and in director security deals with returns more to their liking.

At any rate three utility bond issues brought to market this week, were not sought after with any vigor. Consequently the backlog building up in the hands of underwriters and dealers continued to mount.

It may be that institutions are disposed to anticipate Federal Reserve action which would cut the availability of funds for investment through raising of reserve requirements of member banks.

Meanwhile in underwriting circles there is some anxiety over the trend, since it develops that some dealers are finding their capital tied up and accordingly the rate of "drop-outs" on new undertakings is rising.

Unsold Inventories

Around the Street it was calculated that bankers and dealers specializing in corporate underwritings came into the current week with about $48,000,000 in unsold new issues on their shelves.

The bulk of this, of course, was represented by the unsold portion of Niagara, Mohawk Power Co.'s recent $40,000,000 offering. The total was exclusive of rail equipments and was indicative of a slight contraction during the week.

But, with more recent new emissions reported lagging noticeably, it was apparent that unless these is a sudden change for the better, the end of the current week should see the backlog considerably larger.

Municipals Backing Up

For a time the municipal, or tax-exempt market, enjoyed the fill afforded by the influence of new and heavier taxes. But even here the situation is one that does not lend itself readily to full satisfaction.

A mid-summer backlog of $203,000,000 had been cut well-below that figure by the temporary rush of demand. Now, however, it appears that buyers once again are backing away from the market.

And the latest available figure for the "blue list," that is the amount of unsold material in dealers' hands, puts the total at better than $226,000,000. And here too new issues appear to be "dragging" more than a little on latest reports.

Harriman Ripley Group Offer Gulf Power Stock

Offering of 51,026 shares of $100 par value 4.64% preferred stock of Gulf Power Co. is being made today (Nov. 16) by Harriman Ripley & Co. Inc., and associates. The stock is priced at $103 per share, plus accrued dividends.

Of the total offering 11,026 shares are being offered to holders of the company's old preferred stock in exchange for the old shares on the basis of one share of new preferred and $2.35 per share for each old preferred share. Holders of the old preferred have until 3 p.m. (EST) on Nov. 28, 1950 to exchange their shares.

Proceeds from the sale of 11,026 shares of the new preferred stock, together with treasury funds, will be used to redeem at $105 per share and accrued dividends, all shares of the old preferred stock not exchanged. Proceeds from the sale of the 40,000 additional shares of new preferred stock, will be used to finance improvements, extensions and additions to the company's utility plant, to reimburse the treasury for expenditures in connection therewith and to provide for the payment, at or prior to maturity, of temporary bank loans incurred for such purposes in August, 1950, in the amount of $500,000.

The new preferred stock will be redeemable at prices ranging from $107 on or before Oct. 1, 1955 down to $106 after Oct. 1, 1960, and $105 thereafter.

National City Bank Syndicate Offers Philadelphia Bonds

The National City Bank of New York and associates on Nov. 14 were awarded $6,600,000 City of Philadelphia, Pa., refunding bonds due July 1, 1952-1976, inclusive. The group bid named a net interest cost of 1.7378% for a combination of 2s, 1½s, and 1¾s.

The bonds are being reoffered to the public at prices to yield 1.10% for those maturing July 1, 1952, to a dollar price of 98¾ for those maturing July 1, 1976.

Included in the underwriting are Harris Trust & Savings Bank; First National Bank of Portland, Ore.; Salomon Bros. & Hutzler; R. W. Pressprich & Co.; Weeden & Co. Incorporated; Aubrey G. Lanston & Co. Incorporated; Butcher & Sherrerd; W. E. Hutton & Co.; The Illinois Co.; Robert Winthrop & Co.; and Coffin, Betz & Co.

HELP WANTED

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Replies will be held in strictest confidence.

Box G 1116, Commercial & Financial Chronicle, 25 Park Place, New York 7.

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

Atlas Corporation

33 Pine Street, New York 5, N.Y.

Dividend No. 36
on Common Stock

A regular quarterly dividend of 40¢ per share has been declared, payable December 23, 1950, to holders of record at the close of business on December 7, 1950 on the Common Stock of Atlas Corporation.

WALTER A. PETERSON, *Treasurer*

November 13, 1950

Manufacturers of AE WALL & FLOOR TILE

AMERICAN ENCAUSTIC TILING COMPANY, INC.

Common Stock Dividend

The Board of Directors has today declared a quarterly dividend of 12½ cents a share on the Common Stock, payable November 29, 1950, to stockholders of record on November 22, 1950.

G. W. THORP, JR.
Treasurer

November 10, 1950.

AMERICAN WOOLEN COMPANY INCORPORATED

"THE GREATEST NAME IN WOOLENS"

AT the meeting of the Board of Directors of American Woolen Company, held today, the following dividends were declared:

A regular quarterly dividend of $1.00 per share on the $4 Cumulative Convertible Prior Preference Stock payable December 15, 1950 to stockholders of record December 1, 1950.

A regular quarterly dividend of $1.75 per share on the 7% Cumulative Preferred Stock payable January 15, 1951 to stockholders of record January 1, 1951.

A dividend of $1.00 per share on the Common Stock, payable December 15, 1950 to stockholders of record December 1, 1950.

Transfer books will not be closed.

Dividend checks will be mailed by the Guaranty Trust Company of New York.

F. S. CONNETT,
Treasurer.

November 15, 1950.

DIVIDEND NOTICES

NATIONAL SHIRT SHOPS of Delaware, Inc.

DIVIDEND NO. 37

The Board of Directors has declared a regular quarterly dividend of 20 cents a share on the common stock, payable November 30th, 1950 to stockholders of record November 22nd, 1950. Transfer books will not be closed.

SYLVAN COLE, Chairman of the Board

LOEW'S INCORPORATED

MGM PICTURES · THEATRES · MGM RECORDS

November 15, 1950

The Board of Directors has declared a quarterly dividend of 37½c per share on the outstanding Common Stock of the Company, payable on December 20, 1950, to stockholders of record at the close of business on December 8, 1950. Checks will be mailed.

CHARLES C. MOSKOWITZ
Vice Pres. & Treasurer

Johns-Manville Corporation

JOHNS-MANVILLE JM PRODUCTS

DIVIDEND

The Board of Directors declared a dividend of 75¢ per share on the Common Stock, and, in addition thereto, a year-end dividend of $1.05 on the Common Stock, both payable December 8, 1950, to holders of record November 27, 1950.

ROGER HACKNEY, *Treasurer*

KENNECOTT COPPER CORPORATION

120 Broadway, New York 5, N.Y

November 13, 1950

A cash distribution of Two Dollars and Twenty-five Cents ($2.25) a share has today been declared by Kennecott Copper Corporation, payable on December 19, 1950 to stockholders of record at the close of business on November 30, 1950.

ROBERT C. SULLIVAN, *Secretary*

ELECTRIC BOAT COMPANY

EB

445 Park Avenue
New York 22, N. Y.

The Board of Directors has this day declared a dividend of twenty-five cents per share on the Common Stock of the Company, payable December 8, 1950, to stockholders of record at the close of business November 17, 1950.

Checks will be mailed by the Bankers Trust Company, 16 Wall Street, New York 15, N. Y., Transfer Agent.

R. P. MEIKLEJOHN
Treasurer

October 26, 1950.

GOODYEAR

DIVIDEND NOTICE

The Board of Directors has declared today an extra dividend on the Common Stock of $1.00 per share, payable December 20, 1950 to stockholders of record at the close of business November 20, 1950.

The Goodyear Tire & Rubber Co.

By W. D. Shilts, Secretary
Akron, Ohio, November 10, 1950

The Greatest Name in Rubber

DIVIDEND NOTICES

TECHNICAL OIL FIELD SERVICES LANE-WELLS COMPANY

Dividend Notice

The Directors have declared a quarterly dividend of 60 cents and an extra dividend of 40 cents per share on the common stock, payable December 15, 1950, to stockholders of record November 22, 1950.

WILLIAM A. MILLER
Secretary-Treasurer

REEVES BROTHERS, INC.

Reeves

DIVIDEND NOTICE

A quarterly dividend of 30c per share has been declared, payable December 26, 1950, to stockholders of record at the close of business December 4, 1950. The transfer books of the Company will not be closed.

J. E. REEVES, *Treasurer*

November 13, 1950.

The UNITED Corporation

The Board of Directors has declared a semi-annual dividend of 10 cents per share on the COMMON STOCK, payable December 18, 1950 to stockholders of record at the close of business November 27, 1950.

WM. M. HICKEY,
President

November 9, 1950

INTERNATIONAL SALT COMPANY

DIVIDEND NO. 146

A dividend of ONE DOLLAR AND SEVENTY-FIVE CENTS a share has been declared on the capital stock of this Company, payable December 20, 1950, to stockholders of record at the close of business on December 5, 1950. The stock transfer books of the Company will not be closed.

HERVEY J. OSBORN
Exec. Vice Pres. & Sec'y.

THE TEXAS COMPANY

TEXACO

—193rd—

Consecutive Dividend and Extra Dividend

A regular quarterly dividend of $1.00 per share and an *Extra* dividend of $1.50 per share on the Capital Stock of the Company have been declared this day, payable on December 9, 1950, to stockholders of record at the close of business on November 10, 1950.

The regular quarterly dividend of $1.00 per share, which is now being paid on December 9, 1950, would ordinarily be paid on January 2, 1951.

The stock transfer books will remain open.

ROBERT FISHER
October 27, 1950 *Treasurer*

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — Business obtained a reprieve of two years from the advance of statism in the recent Congressional elections; it did not obtain a victory. Whether there is a genuine conservative swing which will make possible a reversal of governmentalism cannot be determined with clarity until after the 1952 elections.

This is the advice which is being given to business groups here by an individual who is probably the business community's sharpest and most seasoned political observer. Others might disagree with him on one important respect. Organized labor suffered a crushing defeat throughout the country, and in this sense the election was a victory for conservatism.

What kind of things are stopped by the election are more readily foreseen than what affirmatively, in the way of a legislative program, is likely to result.

As widely noted by observers, the entire "Fair Deal" all but goes into mothballs for the 82nd Congress. Thus, Taft-Hartley will not be "softened." Compulsory health insurance is laid away. Aid to education will be an inactive project for at least two years. Point IV, unpopular with even the majority of the 81st Congress, will emerge if at all only on a strictly limited scale of specific projects where tangible benefits to U. S. military security may be reasonably anticipated.

The excess profits tax will go over until the new Congress after hearings this month. A better form of corporation war profits taxation will emerge than could have been anticipated before the election.

Excise taxes will share with corporation and personal income taxation the burden of an enlarged war spending program. For the first time in many years, Congress may be able to achieve a substantial reduction in expenditures unrelated to military preparedness. The Brannan plan, which months ago the Administration privately recognized as politically unproductive, goes into the discard.

The "coalition" which the daily newspaper boys advertise is going to run the new Congress, probably will be able to achieve all the above. The "coalition," however, is a device of decided limitations.

In the first place, there has never been anything in the way of an enduring formal coalition between conservative Republicans and Democrats. It is essentially a casual relationship. The two like-minded wings of both parties get together to defeat legislation obnoxious to both. About the farthest the "coalition" went recently was to work out an unproved agreement to defeat "anti-discrimination" legislation in the Senate, but leaving GOP members free to condemn publicly the Democratic party for failure to bring about its passage.

Once the parties to the coalition have achieved their specific and limited objective, however, the thing simply doesn't exist until something else comes along which it is their common aim to defeat. Sometimes the "coalition" can write one piece of legislation, like a tax bill.

That the "coalition" is miles away from being a formal, open, defined working agreement is something which old-time politicos warn must always be borne in mind. It is not a thing which can take charge of an entire legislative program, initiate an entire legislative program, attempt to carry it through, and it is without any means of disciplining its alleged followers who fail to hew the line. In fact the discipline is the other way, particularly for Democrats who fight the Administration. They lose patronage and preferment. And, of course, members of a coalition do not campaign for reelection as a common party.

Since the "coalition" just doesn't exist except as a here today and gone tomorrow arrangement, this will be one of the biggest problems of leaders of both parties in the 82nd Congress.

President Truman, on the other hand, even if only the leader of a minority of followers in Congress, still holds that politically precious thing, the initiative. He can propose and let Congress oppose. He also has probably greater power than any man on earth except Stalin. He has vast funds already at his disposal. He has the use of far-reaching laws, such as the Defense Production Act. When he moves in a direction to enhance his political prestige at the expense of Congress, it is difficult and awkward for Congress to circumscribe his use of the powers. Finally, the President has the vast propaganda machine of the government at his disposal.

So if the President should play his hand skillfully he can take a lot of tricks against a dominantly conservative Congress, whose bipartisan conservative dominance so far, at any rate, has never been tightly organized, thoroughly planned, and carefully directed.

Many conservative Democrats have become so fed up with the Truman Administration that they would be perfectly happy to see Truman licked, having their nominal party go into eclipse for at least four years in order that they can cut down to size the labor unions and the pressure groups which had captured the northern wing of their party.

On the other hand, many of the rank and file will hesitate to go that far. If it should become increasingly clear during the 82nd Congress that cooperation with conservative Republicans threatens the control of the Administration, they will sabotage cooperation. In Maryland, for instance, not only the Governorship went down with Tydings, but county commissioners and dog catchers. Local Democrats do not always want to sacrifice their jobs to a blaze of patriotism.

One of the further real problems of the "coalition" is that conservative Democrats will go much farther toward foreign arms and economic aid than the majority of conservative Republicans.

A factor which, on the other hand, will make it easier for conservatives is that the "wobblers" of both parties, having seen the left-wing take a whipping in November, 1950, will be more inclined to "wobble conservative" rather than to the left, and the GOP left-wingers may take a different tack than in 1947-48. The left-wing Republicans during the 80th Congress, and as a matter of fact during the 81st, fought hard to sell "me-tooism." These individuals will have less influence even if they are as aggressive as before, which is open to doubt.

Republicans cannot escape being plagued by rivalries for the 1952 party nomination. The inside, behind the scenes scraps of Taft and Dewey followers, pulling and hauling at legislation, was a frightfully debilitating factor in the "Republican 80th Congress." It may be so again.

The Great Unknown consequence of the recent election is how Truman will take it. Will he continue to advocate the simon-pure, unadulterated line of the "Fair Deal?" Will he instead pull in his hierarchy for a synodical conference to revise the dogma in the light of the new revelations of Nov. 8? Will he be stubborn and fight the Congress at every step? Or will he consider that he had best appear in the light of one abnegating all ambitions and bending every energy to the successful prosecution of the war? These are the questions politicians are asking.

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Insiders say it will be sometime between April 30 and June 30 when a complete controlled materials plan will be in operation under NPA. The priority system is recognized frankly as a faltering devide which breaks down the more it is used. However, because military requirements are at present so vague, it is a device to assure temporarily military production on schedule with work now under contract. When complete materials requirements are known, then a CMP will be adopted and the priorities system will be junked. Meanwhile, the outlook is for a progressively more restrictive program against "non-essentials" until officials are ready to take the leap to CMP.

Officials find a great deal of opposition from businessmen to serving on various industry advisory committees from fear that such service will be subjected later to antitrust law prosecution.

It is only if in a rare case an industry advisory committee is asked to handle a limited distribution program that Department of Justice clearance is necessary. So long as the government presides over industry advisory committee meetings there is absolutely no question of Department of Justice interest, officials assert.

(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

"Ever get the feeling old Blowmore overdoes his Harvard background a trifle?"