A Happy New Year to All

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EDITORIAL

As We See It

A former Roosevelt Ambassador to the Court of St. James and an ex-President and the elder statesman of the Republican party have of late given voice to their views of the international situation by which we now find ourselves confronted. Their opinions are strikingly alike. There can be no doubt whatever that they have expressed what is in the minds of many thoughtful Americans at this time. It is for that reason, as much as for any other, that what they have said has attracted so much attention both here and abroad, and given rise to wild charges of various things, at times almost reaching the point of accusing the speakers of a lack of good faith or of good sense.

It would be exceedingly unfortunate if partisanship, the natural resentment against the regime whose soldiers are killing ours in Korea, or emotionalism of any kind should lead the American people not to give the most careful thought to the evidently most carefully considered warnings of Mr. Kennedy and Mr. Hoover. We may venture to hope even that the Administration will not fail to weigh what these distinguished citizens of the United States of America have had to say. It may be embarrassing to President Truman and Secretary Acheson to have these things said at this time. It may or may not have given the Kremlin an opportunity to make good propagandistic use of these dissenting views. The

Continued on page 28

A Close Look at the U. N.

By WILLIAM A. ROBERTSON
Member of the New York Bar

Contending United Nations Charter proposes world be governed by standing committees, Mr. Robertson points out vices and defects of this system of organization. Cites poor record of such standing bodies as Interstate Commerce Commission and Federal Reserve Board and concludes a world assembly is one of clumsiest instrumentalities for preserving or making peace. Calls United Nations oligarchy.

The United Nations has now been with us between four and five years. It cannot be unfitting to ask certain questions about it. This article does not try to consider what it has done. We seek, rather, to ask what it seems likely ever to accomplish. In brief, we will try to look the United Nations full in the face with the special purpose of studying its methods and internal machinery, because it is upon these that reliance must be placed for accomplishing any of its numerous and ambitious reforms. Many a promising plan for world improvement has ended as a distressing failure because it could not be carried into practice. Our discussion is necessarily somewhat technical, though we regret it.

The Two Chambers of the United Nations

We touch lightly upon the divisions of authority between the two legislative chambers of the United Nations—the General Assembly and the Security Council. The latter is by far the more important of the two; it is the center of real authority. It is composed of the "Big Five" who hold permanent seats, namely, China, England, France, Russia and the United States. In American parlance, they are "the whole thing." Six other countries constitute the non-permanent members, and are elected by the General Assembly for a term of two years. Three of the six retire every year.

The General Assembly consists of the 60 members of the United Nations. Each member has one vote, the United States being no better off in this respect than

Continued on page 28

Business and Financial Outlook for 1951

By ROGER W. BABSON

Mr. Babson foresees more government controls, with "brain trusters" overlooking fact that boom is already old and Korean War has merely postponed downturn. Looks for tight labor situation with firm commodity prices. Says domestic trade will be less, but stock prices may work higher in first half of 1951, and decline later.

(1) Excluding defense orders, the total business volume in 1951 will be less than that for 1950. However, National Income in 1951 will be the highest ever recorded, as war orders take the place of peace production and high prices prevail.

Roger W. Babson

(2) The outstanding feature of 1951 will be the ever-increasing interference of the government in the lives of businessmen and consumers.

(3) The Administration and its economic advisors are firmly convinced that radical inflation is about to break out next year. But the "brain trusters" are overlooking the fact that the boom is already old and that it was creaking badly when the Korean War broke out. War postponed the downturn which would have taken place much sooner. The date of the slide has only moved ahead.

(4) Rushing to catch up on its neglected defense program, the Administration is anxious to shrink business volume to an unnecessary degree. Efforts at first will be along the line of tighter credit curbs, such as restrictions on mortgage and instalment loans and increased bank reserve requirements.

(5) As 1951 wears on, the effect of credit controls will cause a decline in legitimate business. Civilian production will decline more than armament production

Continued on page 30

PICTURES taken at the Annual Election Meeting of the Security Traders Association of New York at Produce Exchange Luncheon Club, appear on page 19, 20, 21 and 22.

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

Panhandle Eastern Pipe Line Co.—Carl C. Brown, Partner, Laurence M. Marks & Co., New York City. (Page 2)

Western Maryland Railway—Alexander B. Johnson, Partner, Cyrus J. Lawrence & Sons, New York City. (Page 2)

CARL C. BROWN

Partner, Laurence M. Marks & Co., Member, New York Stock Exchange

Panhandle Eastern Pipe Line Co.

The recent decision of the U. S. Supreme Court, upholding the Oklahoma minimum price law of 7c/mcf of natural gas; the similar pending minimum price law of Kansas of 8c/mcf; and the possible action of Texas adopting a like statute, should have an important bearing on the potentials in the common stock of Panhandle Eastern. Apart from being one of the older natural gas pipe line systems in the country, serving important growing markets, the company owns substantial mineral leases, particularly, in and adjacent to the Hugoton and Panhandle Fields in Kansas, Oklahoma and Texas.

Carl C. Brown

Panhandle Eastern, engaged in interstate transmission of gas, is subject to the regulatory provisions of the Natural Gas Act administered by the Federal Power Commission. Among other things, such regulation not only limits the earnings of the pipe line to a fair rate of return, but more important currently results in producing a negligible profit on the valuable gas supplies owned and utilized in the day-to-day operations. This comes about by virtue of the fact that the Company's large gas reserves, acquired over a span of years at advantageous prices, produce an unrealistically low valuation basis if subjected to the present regulatory concept of permissible earnings. It results in the dilemma of having three field prices in the same location: (1) the legal minimum required by the State Law, on which minimum royalty payments must be paid; (2) the price obtained by independent producers; and (3) the price, to which a Federal regulated company, such as Panhandle Eastern, is limited. A constructive change in this confusing and unfair result is inevitable. The aforementioned State price laws will greatly accelerate a correction of this condition. Panhandle's remedy lies either in getting the Federal Power Commission to exempt its gas producing activities from regulation or to sever its transmission and production activities by corporate action.

As of Sept. 30, 1950 Panhandle Eastern owned or controlled 1,100,000 acres in productive areas, of which over 71% is already proven for gas production with an estimated reserve of approximately 7 trillion cubic feet. Of this amount about 3 trillion cu. ft. are owned reserves, which total may be enhanced by deeper zone production.

In 1948 Panhandle Eastern transferred approximately 97,000 proven but undeveloped acres of gas reserves to Hugoton Production Company, the stock of which company was distributed to the Panhandle Eastern stockholders as a liquidating dividend. This move was litigated by the Federal Power Commission but ultimately was approved by the U. S. Supreme Court. The property was carried on the books of Panhandle Eastern at $135,000; reserves were estimated at about 1 trillion cu. ft.; so that the carrying value was equal to only 0.0135 cents/mcf. Through the introduction of a modest amount of working capital and a bank loan, and the signing of a favorable long-term sales contract, the equity of this company has been enhanced enormously. The stock market, in effect, has presently assigned a value of approximately $18 million or 1.8 cents/mcf to these reserves, many times the value that would be used for regulatory purposes. This background is cited to point up the vast prospective value of the 3 trillion reserves still owned by Panhandle Eastern.

Panhandle Eastern's acreage which is presently well developed with wells, gathering lines, etc., and supplying one-third of the requirements of the system, is carried on the books for $2.5 million or 0.083c/mcf of reserves. At the same valuation that the market assigns to Hugoton Production, namely 1.8c/mcf, these reserves would have a value of $54 million. The management, however, is of the opinion that gas in the ground in the Hugoton-Panhandle region, which is presently bringing in excess of 10c/mcf at arm's length bargaining, indicates a value in the neighborhood of 4c/mcf. On such a basis Panhandle's reserves could have a value exceeding $120 million. Since Panhandle has 3,240,000 shares of common stock outstanding the potential value to the stockholders, ranges on such a basis from $17 to $37 per share or more.

Over and above these reserve values, Panhandle's pipe line will earn $3 per share for 1950 and has paid $2 in dividends. The tax position of the company under the new proposed bill is favorable. Its expanded system should permit higher earnings in 1951. In 1952 the completion of the Trunkline Gas Supply, Inc. system, in which Panhandle has a 51% interest, should boost earnings substantially. Panhandle stock is currently selling around 40 affording a yield of 5% and is selling in line with natural gas pipe lines that own nominal or no gas reserves. As a pipeline stock, a good case can be made out for its attractiveness at today's prices with higher earnings and greater dividend prospects. The large gas reserve value can be acquired at no cost!

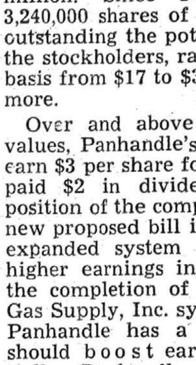
ALEXANDER B. JOHNSON

Partner, Cyrus J. Lawrence & Sons, New York City

Members of New York Stock Exchange

Western Maryland Railway

One of the securities which I like best for long-term appreciation is Western Maryland Railway common stock, selling at approximately 22 on the New York Stock Exchange.



Alex. B. Johnson

The Western Maryland Railway is a part of the shortest route from the Great Lakes Industrial area to Tidewater at the port of Baltimore. The road is also an important north-south "bridge" carrier, connecting with the Reading at Shippensburg, Pa., the Norfolk and Western at Hagerstown, Md., and the Baltimore & Ohio, at Cherry Run, W. Va. Large tonnages of coal are originated by the road in the Elkins, W. Va., area.

For the future, the traffic picture seems to be rather dramatically favorable for the Western Maryland. Beginning in 1951 and in increasing volumes for the following five years, substantial new tonnages are expected to be originated for shipment over Western Maryland lines as iron ore from Venezuela and from Liberia begins to come in through the port of Baltimore for delivery to Republic Steel, United States Steel, Bethlehem Steel, and other plants west of Baltimore. It has been estimated that eventually some 15 million tons of ore will pass through the port of Baltimore, of which some five million may be shipped over Western Maryland. In addition, large increased tonnages of coal and limestone are expected to be originated at certain captive mines of the Bethlehem Steel Corporation and mines owned by the Pittsburgh Consolidation Coal Company, served by the road.

Potential earning power of the Western Maryland road has been estimated at as much as $13 to $14 per share on the presently outstanding common stock, assuming a 45% tax rate. For the year 1950, earnings are expected to be in the neighborhood of $5,500,000, equal to approximately $7 per share on the present common stock at tax rates prevailing in the year 1950.

Western Maryland stock is 43% owned by the Baltimore & Ohio Railroad (all classes). The first 7% preferred stock, which has been paying for a number of years at the prescribed dividend rate, is in dividend arrears in an amount equal to an aggregate of $24,200,000, or $136.50 per share. This stock is 94% owned by Baltimore & Ohio.

In October, 1950, a management plan for capitalizing the preferred dividend arrears under the Mahaffie Act was submitted to stockholders and met with substantial opposition in view of the indicated large potential dilution of the common and second preferred equities under this plan. Under the Mahaffie Act, 75% of each class of stock affected must vote in approval to make the plan operative. Strong minority common and second preferred stockholder interests claiming to represent in excess of 25% in each class are known to exist. Recently, a committee was appointed by the Western Maryland management, representing the various classes of stock, to amend the proposed plan and arrive at a new plan upon which all classes of stock might agree. This committee is reported to have made progress toward a plan which would capitalize the preferred arrears through a small cash payment and the issuance of new first preferred stock. In any event, whether or not a plan for capitalizing the preferred arrears is imminent, it would appear that earnings-wise, the passage of time is highly favorable to the Western Maryland equities.

We Must Maintain a Strong And Healthy Economy!

By HON. JOHN W. SNYDER*
Secretary of the Treasury

Asserting our present prosperity is due largely to confidence in ourselves and faith in our future, Secretary Snyder stresses need for maintaining a sound and healthy economy on the home front. Says strong economy requires sound government fiscal situation along with balanced budget, and urges shift of Federal debt from commercial banks to non-bank holders. Asks all-out cooperation in fight against inflation.

America's example has served to inspire an increasing number of other nations to strive toward a greater measure of individual freedom, and toward higher national standards of individual well-being. This development does not represent a new trend, but a continuation of one that has long been under way. Throughout recorded history, in fact, the struggle of mankind has been toward an ever larger measure of self-government and personal freedom.

John W. Snyder

But today this historic trend, and especially our own way of life, is threatened by a communist ideology that directly and brutally strikes at our ideals of freedom, of justice, and of individual opportunity.

Here in America, we are too likely to take our freedom for granted. We forget how short in time, and how limited in extent, has been the actual experience of human freedom.

Of necessity, the events of recent years are bringing a noticeable change in thought to the Western world. We have seen freedom-loving nations swallowed up, one after another, through engineered internal dissension or inability to defend themselves. We are only now learning that freedom is something that can be maintained only through continual unremitting effort.

Twice, within the short space of less than one decade, our own Nation has been called upon to marshal its greatest military might to resist powerful forces of aggression who sought—and even now are still seeking—to destroy the meaning of America. It was just nine years ago this month that our nation was infamously attacked at Pearl Harbor. We were plunged into fighting the greatest war of all time. It was a war for survival, and we were soon to prove to ourselves and to the world that a Nation of individuals, united in purpose and dedicated to the perservation of individual freedoms, not only could outfight but could outproduce the aggressors who then sought to force their autocracy upon us.

Today we are facing a new period of world crisis. The invasion of Korea, which warned the world of the real designs of the Communist regime, has forced us again to take strong defensive measures for the protection of our freedom. The grave turn in the Korean situation during the past month has made even more urgent the need for a powerful defensive military establishment.

Our Economy Is Strong

Despite the upheavals and strains of the past ten years, our traditional American institutions and our traditional American system of competitive enterprise have so far proved equal to all the demands made upon them. Today, we can build up the defenses of our country with a national economy which is sounder, more flexible, and more vigorous than it was nine years ago or five years ago.

We had no idea what our capacities were, when we faced the responsibilities we did in the bleak days following Pearl Harbor. We hoped; we set what seemed to us somewhat visionary production goals; we were determined to try to carry them out; but we were not at all sure we could. Nevertheless, we went to work, and the world soon found out what we could accomplish by cooperative effort.

We expanded our nation's industrial plant to unprecedented heights and built the most efficient war production machine in world history. Between 1941 and 1945, the government alone invested some $16 billion for new plants and equipment. And private industry's contribution in the same period was even greater.

Your own city of Cleveland became one of our most productive arsenals. Here it was that the seeds of many diversified peacetime industries grew into some of the greatest wartime production lines the world had ever known. By the time our war effort was at its height, Cleveland had nearly doubled its immediate prewar number of manufacturing workers and tripled its industrial output.

We won that war, and we hoped we had made safe our freedoms. With the ending of hostilities we set about to direct our new-found energies into the paths of peace.

Our present record prosperity is due in large measure to two fundamental traits in our American character—confidence in ourselves and faith in our future. To my mind, no finer expression of these traits can be found than in

Continued on page 18

*An address by Sec. Snyder at a Dinner Meeting of the 50 Club of Cleveland in Cleveland, Ohio, Dec. 21, 1950.

INDEX

*See article by Mr. May on page 5.

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The Outlook for 1951

By JAMES M. DAWSON*
Economist, the National City Bank of Cleveland
Cleveland, Ohio

Assuming a stepped-up defense spending that will reach $50 billion annually, Cleveland bank economist foresees adequate sources of additional national output in longer working hours, more employment, and slight gain in productivity. Under present conditions looks for not more than $5 billion annual decline in civilian goods and services, but says this may mean 50% cut in durable consumer goods by 1952. Holds higher taxes, restricted consumer credit and increased savings can hold down public buying power. Sees no need for "roll backs" or price ceilings, unless war comes.

Today let us assume that current conditions continue during 1951 in military and political affairs. Under this assumption, 1951 would be a year of continued international tension, with purely localized hostilities underway during at least part of the year in Korea or elsewhere. With those conditions, what is the outlook for business activity and prices, for government controls over the economy and consumer living standards?


James M. Dawson

Any forecast of 1951 economic developments must begin with an estimate of government spending for national defense. Just before Korea the annual rate of expenditure was $14 billion; currently it is about $18 billion. Perhaps by next June the rate may be about $30 billion, and by this time next year the figure may approximate $50 billion. World War II gives us a precedent for a rate of expansion of this magnitude. Early in 1941, 10 months before Pearl Harbor, defense spending represented about the same proportion of the nation's total output that it does today. Furthermore, spending in early 1941, when put in terms of today's prices, was about the same as the current rate. A year later defense spending reached an annual rate of $50 billion in terms of today's prices, and, therefore, it seems reasonable to assume the attainment of that level by this time next year.

An even faster speedup in spending is of course possible, but it seems improbable unless all-out war develops. The present uncertainties in the military and international situation make it impossible to know for sure whether total war is a year away or 10 years away or whether it will occur at all. Furthermore, we are not sure where or how such a war will be fought. It seems to follow that considerable emphasis will be placed in 1951 on the improvement and development of weapons, rather than concentrating on costly quantity production and rapid creation of a huge standing army. Perhaps the official Federal budget will allocate considerably larger sums for defense than I have mentioned, but the larger amounts will be there to facilitate contract authorizations and to give the President a little leeway in matters of defense. Actual expenditures are likely to run lower than the amounts provided in the budget.

*An address by Mr. Dawson before the Cleveland Chamber of Commerce, Cleveland, Ohio, Dec. 19, 1950.

Impact of $50 Billion Defense Expenditure

Now let us take that $50 billion figure and discuss its impact on the economy. To begin with, note that it is about $32 billion more than the present rate of defense spending. Where can this extra $32 billion of goods and services come from? If it must all be subtracted from the volume of goods and services currently going to consumers it will mean a reduction of about 15% in living standards. But fortunately there appear to be ways of providing a good part of the additional needs of the military without dipping into the overall total of production for the civilian economy.

One source of additional production may be found in longer hours and more employment. The latest work week figure for manufacturing industries is 41½ hours per week, as against an average of 40 hours for 1948 and 45 hours during the war. Lacking an all-out war, perhaps just two more hours per week will be worked in manufacturing industries and let us suppose that the work week for the economy as a whole moves up one hour per week. That would be a gain of about 2½% in the length of the work week.

How about more employment? An increase of one million workers could come from a reduction in unemployment from 2¼ million, the current level, to 1¼ million. A contraction of that magnitude seems reasonable when it is remembered that unemployment dropped to as low as ½ million during the war. More women can be drawn into the work force. In the war 36% of all women of working age were employed as against 32% today. A 33% figure would mean another ½ million workers. Some retired folks can be persuaded to return to work and those about to retire may be willing to stay on the job, thereby providing another ¼ million. And when the normal growth in the working force is also brought into the picture, it is apparent that an increase of at least 2½ million persons is a reasonable possibility, a gain of 4%. After allowing for 1¼ million more men in the armed forces (and don't forget that the GI's services are part of the gross national product) there can still be a 1¼ million increase in civilian employment for a gain of 2%.

Another possible source of additional output is increased productivity per man hour. Normally this amounts to about 2½% per year and an overall advance of that magnitude may occur in 1951. Particularly good gains may be achieved in distribution, transportation, utilities and service industries. The sales clerk will wait on more people, the railroad conductor will punch more tickets, the telephone operator will handle more calls and the usher at the movies will seat more people. On the other hand, more labor turnover and the difficulties of converting some plants to defense production are probably going to prevent overall productivity gains from exceeding the normal rate of progress.

These three sources of additional output, i.e., longer hours, more employment, and a possibility of a slight gain in productivity, should raise the gross national product from the present level of $285 billion to at least $305 billion, at current prices, by next Christmas—a gain of $20 billion or about 7%. If an increase of 7% seems high to you, consider that from 1939 to 1944, the lowest year-to-year gain in the gross national product was 9%, the annual average was 12%, and that is after adjustment for price changes.

Civilian Inventory Accumulation

Note that this $20 billion increase would take care of almost two-thirds of the estimated expansion of $32 billion in defense expenditures. Is there any other source from which goods and services for defense may come, other than from output now going to consumers? There is at least a possibility in the productive resources now being used to produce goods for inventory. In recent months total business inventories have been expanding at a rate of about $12 billion per year, after adjustment for rising prices and seasonal influences. That means production of civilian goods currently is proceeding more rapidly than is civilian consumption. In the last war total inventories increased until shortly after Pearl Harbor and thereafter held steady. If inventory accumulation were to cease by the end of 1951 enough productive facilities would be released to produce the remaining $12 billion of output needed for defense.

But let us be conservative and assume that inventory accumulation will merely slow down in late 1951 to a rate of $5 billion per year. That would mean that of the $32 billion of additional defense requirements, $7 billion could come from production now going into inventories, $20 billion could come from increased production, with only $5 billion coming out of the flow of goods and services currently being consumed by the civilian economy.

Now let us discuss for a moment the dividing up of the production pie for the civilian economy. How much will civilians get, how much will business get for new plants and equipment, and how much will government get for non-military purposes? Federal, state and local government expenditures on postponable public works, unnecessary services and downright waste ought to be stopped forthwith. But my innate optimism does not go so far as to expect much along those lines. Let us estimate that the government's share will be unchanged.

Business' share will probably be larger. It is helpful to recall that plant and equipment expenditures increased 25% per year from 1939 to 1941, but thereafter declined. Our assumption is no all-out war in 1951 and therefore let us assume 25% greater plant and equipment expenditures in 1951. That means an expansion of $5 billion from present levels.

$5 Billion Cut in Civilian Goods and Service

And so, if the civilian economy as a whole is to get $5 billion less of goods and services by this time next year, and business is to take $5 billion more, that suggests consumers may have to be getting along on $10 billion less goods and services by a year from now than they are currently consuming, or a drop of about 5%. Some of you, I am sure, are thinking that the cut will be a good deal sharper. But consider what happened in World War II. Department of Commerce figures on personal consumption expenditures, adjusted for price changes by using the cost of living index, rose right through World War II so that by 1944 civilians were consuming 14% more goods and services than they were in 1941. If that could occur during an all-out war, I am probably being overly pessimistic when I suggest consumer living standards might suffer from a 5% cut by late 1951.

Now, of course, a mere 5% drop in consumer goods and services does not mean that auto output and refrigerators need be cut only 5%. The consumer will have to get along with far fewer houses, cars and appliances, but he will be able to increase his consumption of food, services, amusements and soft goods.

Some idea of the coming contraction in production of durable consumer goods may be derived from a rough breakdown of how the $50 billion for defense will be spent. Probably a third of it will be needed just to feed, clothe and pay the armed forces. Another third will be needed for such miscellaneous but costly items as the operation and upkeep of existing equipment, training programs and the Korean campaign, research and development work, transportation and communication expense and the civilian payroll of the defense department. The remaining third, roughly $17 billion, would be used to buy new planes, tanks, ships and guns.

Let us relate that slice for new weapons to the consumer durable goods industry. It is roughly 50% larger than the wholesale value of the entire 1951 output of the automobile industry. It is a little more than half as large as total consumer expenditures on all durable consumer goods, which will come to $28 billion this year. This suggests that hard goods output for civilians might have to be cut in half by the time Christmas 1951 rolls around.

Now let us return to the consumers' overall position in late 1951, by which time there may be $10 billion less goods and services for him to buy. Will increased consumer buying power be scrambling for this slightly smaller volume of goods and services? The increase in employment which we are counting on would add $6 billion to gross consumer incomes while longer hours might add another $5 billion. And if the overall increase in rates of income for farmers, wage earners, and salaried people comes to 5%, another $9 billion would be added to gross incomes. The aggregate increase in incomes thus would come to $20 billion dollars.

But actual consumer buying power will not be $20 billion higher. Probably a year from now personal income taxes will be collecting $7 billion more than at present, with about half of that attributable to higher tax rates and the other half due to higher incomes. Buying power will also be reduced because consumers on balance will not be supplementing their incomes by consumer credit or real estate mortgage loans. During most of 1950 debt of these types was expanding at an annual rate of almost $12 billion. Recently the expansion has slowed down but still may be approximately say $6 billion per annum. By this time next year there will be no increase in these classes of debt. In fact, isn't it reasonable to assume that such debt will be shrinking? Total mortgage and consumer debt probably approaches $70 billion and if in late 1951 that is being paid off at a rate of 10% per year it will subtract $7 billion from the consumer buying power levels of today.

When these reductions from current buying power levels are added together, they offset fully the probable expansion in gross incomes, leaving consumer buying power right where it is now. The pure mathematics of that situation, namely the same buying power, versus a 5% cut in available goods and services, suggests a moderate price increase of only 5% in the absence of a program of price controls.

The Trend of Saving

But before we can accept such a happy conclusion, the trend of saving must be considered. If consumers would voluntarily increase their savings by $10 billion next year, the gap between buying power and available goods would be closed, making price controls unnecessary. But on the other hand, if consumers were to save less than now, or even dip into savings, the inflationary gap would widen and exert correspondingly greater pressure on prices.

In some ways conditions are excellent for an increase in the rate of saving. Consumers are probably more saturated with new new houses, new cars, electrical appliances and good clothes than they have ever been before. Did you notice several weeks ago that a representative of a leading electrical appliance company commented that his company will curtail production of appliances 25% on Jan. 1, but that they would have to increase their advertising budget 15% in order to sell the reduced output? Still another current factor which would ordinarily produce increased saving is the rising level of incomes.

But despite these considerations, the atmosphere is not conducive to greater saving. Cuts in residential construction, auto output, and appliance production are news, and they hit the headlines. Families are thereby enticed to buy not only what they need, but what they might need some time in the future. Furthermore, rising prices, even slowly rising prices, always encourage immediate buying. And unfortunately, memories of what happened to

Continued on page 25

The State of Trade and Industry

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

On the industrial front overall output for the nation continued to be sustained at the high level of recent weeks. In a comparison with the corresponding week of last year, total production showed a marked rise. A sharp increase was also noted for the week ended Dec. 2 of this year in both continued and initial claims for unemployment insurance.

Slight slackening of activity is indicated in the steel and metalworking industries over the holidays, says "Steel," the weekly metalworking magazine, this week. Some letdown in operations is expected over the Christmas and New York week-ends, but curtailments will not be as sharp as during normal times. Some metalworking shops will extend shutdowns beyond the holidays to permit usual seasonal inventory-taking, but suspensions generally will be limited with prompt resumption of pre-holiday schedules indicated at most plants the first week in January.

Record-breaking output of steel and pig iron was achieved in the year now closing. Total production of steel is estimated in excess of 96,500,000 net tons of ingots, equivalent to about 71,-400,000 tons of finished steel. The previous record was established in 1944 when 89,641,600 net tons of ingots, about 63,250,519 tons of finished steel, poured from the furnaces. Pig iron output this year is estimated at 65,704,000 tons. The previous record year also was 1944 when 62,072,683 tons were produced. Output of both steel and pig iron in 1950 would have been still greater had it not been for production losses attending the late November blizzard and curtailments throughout the year due to sporadic labor difficulties and raw material shortages.

The outlook for 1951 is for still greater iron and steel production as new blast furnaces and steelmaking units now under construction or projected come into operation. Thirteen new blast furnaces are scheduled to be added in addition to more than 10,000,000 tons of ingot capacity. Not all will be completed next year.

Among new projects not yet announced officially is a new East Coast steel plant to be located in New Jersey on the Delaware River below Philadelphia.

Civilian goods manufacturers are encountering increasing difficulty covering their needs. Their mill allotments for February have been cut sharply, and further reductions in quotas for succeeding months are indicated with defense requirements expected to rise to flood tide in the first and second quarters of next year. Except for rated tonnage the mills generally are booking few orders beyond February and continued shrinkage of commercial tonnage throughout first quarter is indicated.

In the automotive industry a large-scale layoff of automotive plant workers, particularly in the Detroit area, appears to be inevitable in the first quarter of 1951, according to "Ward's Automotive Reports." However, vehicle producing companies and many of their suppliers are expected to keep plant forces as nearly intact as possible by reducing work programs to three or four days a week, it said.

Exact schedules remain undecided, but it appears that material shortages will force several of the large producers to reduce output by about one-third, this agency noted. Steel, rather than nonferrous metals restricted by government order, will be the chief limiting factor, it predicted.

To help stem the tide of rising inflation auto workers' wages were frozen at existing levels until March 1, next, by the Economic Stabilization Agency. The order contains a provision permitting petitions for wage changes to be filed with the agency. The first of its stabilization regulations followed a recent directive calling for the rolling back of prices on 1951 automobiles to Dec. 1 levels.

It is interesting to note that as of July 1, 1950, total car and truck registrations in the United States amounted to 43,488,591 units, a new high record, according to Polk & Co.

The figure compares with 39,818,351 units registered as of July 1, 1949, with 36,573,009 registered as of July 1, 1948, and 33,653,776 units registered as of July 1, 1947.

Continued on page 27

Is It Possible to Forecast The Stock Market?

By A. WILFRED MAY*

Mr. May terms anticipation of short-term market movements "an unattainable goal," citing following reasons: (1) the many imponderables ever present in the external political and economic spheres, including governmental interventionism; (2) the market's recurrently contradictory reactions to the same event; (3) the difficulty of gauging investor psychology; and (4) elusiveness of a price "trend," because of the constant sharp divergences between individual issues and industry groups composing the market. Urges investors to confine their investing approach to appraising individual issues by value standards, as they would in buying a business property or real estate; instead of trying to anticipate short-term swings of the market as a whole.

A. Wilfred May

In discussing stock market forecastability, let us consider first the proper place of forecasting in the investing process; second, the reasons for the continuing boom in the public's forecasting proclivities; third, weighing of the empirical results actually achieved by various categories of experts in their attempts to time market movements; fourth, reasons making the negative results inevitable; fifth, the fundamental fallacy of the concept of "the market" as an entity, or of a "trend"; and sixth, the alternative of a sound investing approach.

It is, of course, true that some amount of forecasting is present in practically all our activities. In conducting a commercial business some risky prediction is done, as in the anticipation of the public's style acceptance by the automobile manufacturer, or perhaps in financing arrangements. And in farming, account is taken of the outlook for the weather and of the likely supply-and-demand situation.

But it must be remembered that in legitimate business and farming, forecasting is engaged in as an unavoidable necessity, as **incidental** to the major productive effort, and is usually minimized as much as possible.

In investing operations, contrastingly, while some assumptions about the future of course must be made, the investment community stresses the forecasting elements far beyond the incidental and the unavoidable. Furthermore, an important standard in defining whether one is acting as an investor, speculator or gambler, is the relative emphasis placed on prediction. The closer one approaches a genuine investment attitude, the more will forecasting, along with other risks, be minimized; conversely, the speculator-gambler, dealing in risks, concentrates on forecasting.

The Prophets Boom

Let's now talk about the remarkable growth of the prophets boom.

In direct contrast to the depression which Wall Street as an investment business has recurrently suffered since the halcyon 1920s, its forecasting "division" assuredly has been enjoying a continuing bull market. This has centered largely in activities attempting to anticipate stock price movements through so-called internal market analysis. The remarkable growth in the popularity of prediction is evidenced in the literature now being broadcast by the services, in the voluminous advertising of their wares in our newspapers and financial journals; the degree of public acceptance seemingly being directly proportioned to the embodiment of the crystal ball.

Its Motivation

There seems to be a variety of reasons, mostly psychological, for such popularity of the "prophecy system" — particularly of the "technical" methods for gauging the action of the market-as-a-whole. An ordered "system," particularly when supported by charting, supplies a welcome emotional escape from the difficulties involved in the alternative approaches, such as the ability and rigorous self-discipline required for the business-like analysis and evaluation of individual securities; and also stems from disillusionment over the well-publicized shortcomings of past business and general economic predictions. The mental gymnastics involved in contemplating a pictorialized market trend (particularly as projected into the future) is tempting for its seeming simplification as well as for pure enjoyment. The illusion that it is easy to "beat the game"—to follow Baron Rothschild's advice to "buy sheep, and sell deer" by catching the swings with "tours-de-hindsight"—seems to be irresistibly fostered by one's reflections over past-performance charts that depict sharp (but completely irregular) up-and-down swings. "How easy to have caught the swings!"

The Game Appeal

Forecasting of all varieties seems to afford a liberal measure of appeal as a *game* as such. While "playing the market" against "the crowd" does not strictly conform to the technical concept of the Theory of Games conceived by authorities as von Neumann and Morganstern, nevertheless, from the attitude of the individual doing the forecasting, it does seem to harbor some connotations therewith. Writing on that concept, John McDonald in "Strategy in Poker, Business and War" (W. W. Norton, N. Y., 1950) says: "The strategical situation in game theory lies in the interaction between two or more persons, each of whose actions is based on an expectation concerning the actions of others over whom he has no control. . . . And regardless of the amount of information given them—short of the ideal of perfect information — they generally act in the final analysis on hunch; that is, they gamble without being able to calculate the risk."

Stock market "playing," as an extension of market forecasting, may be likened to the game of "Musical Chairs," in which someone is certain to lose; but each of the players, hoping it will not be he, meanwhile has a good time.

Another major stimulant to forecasting proclivity stems from the prevelant overemphasis on and misconception of "liquidity," entailing the invalid identification of market *price* with *value*, and concentration of investors' effort on attempts to discern price "trends" in lieu of value determinants.

"Liquidity," Blue Chipitis, and Timing

In complete misconception of the basic nature of the common stock, the market-timing technicians blithely overlook the fact that essentially a share in a busi-

Continued on page 24

*Partial text of an address by Mr. May before the 110th Annual Meeting of the American Statistical Association, Chicago, Ill., Dec. 27, 1950.

Reynolds to Admit Baker, Penick, White; Kidder With Firm

John D. Baker, Jr., John Dabney Penick, and John G. White have been admitted to partnership in Raynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange, and A. M. Kidder will be associated with the firm, it is announced. All the changes are effective Jan. 1.

Mr. Baker has been associated with A. M. Kidder & Co. since 1941 and has been a partner since 1942. Prior to that he was with Pask and Walbridge and before coming to New York associated with Baker & Holmes Co. of Jacksonville, Fla. He is a director of Flour Mills of America and Vinco.

Mr. Penick has been associated with A. M. Kidder & Co. since 1933 and has been a partner since 1946. Prior to joining A. M. Kidder he was with Hornblower & Weeks. During World War II he served in the Air Force. He is a director of S. B. Penick & Co.

Mr. White has been with Reynolds & Co. since 1949 when he opened their Chicago office. Prior to joining Reynolds he was with Hornblower & Weeks. He has been in the investment banking business since 1923. He will be resident partner for Reynolds in Chicago.

Mr. Kidder is the grandson of Amos M. Kidder, founder of A. M. Kidder & Co. After serving as a pilot in the Air Force in World War I, he became associated with A. M. Kidder in 1921 as a partner and was a member of the New York Stock Exchange representing the firm from 1929 until he reentered the Army Air Forces in 1942. He returned to the firm in 1945. Mr. Kidder is a director of Palisades Trust Co., Englewood, N. J., and Borne Scrymser Company.

H. C. Keister & Co. Forming in New York

Announcement is made of the formation, effective Jan. 1, of H. C. Keister & Co., 72 Wall Street, New York 5, N. Y. as successors to Adams, Keister & Co., Inc. H. C. Keister and L. A. Sorneson are general partners. Stafford Hendrix, C. Stanley Kinne, John R. MacNeille, and Bartus Trew are associated with them.

Investor's First Line of Defense

By BRADBURY K. THURLOW
Partner, Talmage & Co.
Members of New York Stock Exchange

Mr. Thurlow points out when sound available equities, representing good earnings properties, are selling at prices near to or below their quick assets, they are the investor's first line of defense. Warns of dangers of hoping to find financial security by merely holding cash.

If we have an honest love for our country and a concern for her future, we can no longer afford to hide from ourselves and others the brutal fact that in the first round of what will probably be a war of annihilation we have been proven diplomatically incompetent, militarily inadequate, and economically overextended. The problem we now face seems essentially to be that of whether or not we are going to remain in existence, both as a nation and as the responsible representative of a mature civilization. If we are not, the consequences to ourselves will be such as to make any preparations hopeless. We shall therefore assume that our way of life is going to continue and that by taking proper defensive measures it will be possible to survive even if one's condition is somewhat battered and one's ideas changed in the process.

B. K. Thurlow

Since this is an investment article and not a speech on public morals we shall confine our discussion of defense to the field of finance, but not without taking one backward glance at the sayings of the great Lenin, the father of a good many of our present woes. It was this gentleman's advice, in attacking opponents, to "confuse their vocabulary." Such phrases as "peace-loving nations," "social fascist," and even "liberal" are examples of this technique in action. Returning to the field of investment, one can draw similar conclusions as to the meaning of "security." Consider, for example, the events of the past two weeks, during which investors, in the name of security, jettisoned millions of shares. Because the Chinese reminded us that they have more men in Asia than we do, investors apparently felt that their greatest security henceforth lay in cash. We believe that old Lenin, had he been on the scene, would have chortled with delight.

In the first place, if you put money in the bank with the idea of hiding your capital in a safe place until the trouble is over, you must logically form some idea of what it is going to be worth when you finally take it out. The fact that a columnist recently suggested alloting $100,000,000,000 for propaganda should give those with idle money in the bank cause for serious concern, if only because such a sum of money is no longer impossible to imagine. The reflection that the German war cost us over $200,000,000,000 in 1939 dollars gives us some suggestion of how many 1950 dollars a long war with Russia would cost.

Those who would sell stocks today on news of total mobilization would do well to consider that if we go to war we may one day find ourselves in the position of Germans of a generation ago who wrapped their bread in million-mark notes because these were cheaper than the same amount of unprinted paper.

Before one can hope to attain security one must assume the position of a defending general whose position is being attacked by an enemy of great strength. It is incumbent on the general to know where he is most exposed to danger, how much he can lose before he is forced to retreat, and how he can secure the greatest defense to his position with the smallest exposure to risk. If we seem unduly brash and outspoken in our opinion that those who hope to find security in cash rather than equities are mistaken, it is because we are speaking from a basic strategic conviction, embracing the most fundamental principles of investment. Those who disagree because of moving volume curves, 44-month cycles, and other stock market alchemy may go their way unmolested. We continue to believe that as long as equities representing good earning properties are available in the market at prices near to or below their net quick assets, they are still the investor's first line of defense. If capital over the next few years is going to be driven to find refuge, we have extreme doubts that it will find the protection it seeks in the value of the dollar.

du Pont, Homsey to Open N. Y. C. Office Under Harry Arnold

Du Pont, Homsey & Co., members of the New York and Boston Stock Exchanges, will open a New York City office at 120 Broadway as of Jan. 15. Harry L. Arnold will be resident manager. Mr. Arnold is well known in trading cirles, having been associated with Paine, Webber, Jackson & Curtis in their trading for many years. He is an officer of the National Security Traders Association and is First Vice-President of the Security Traders Association of New York.

Harry L. Arnold

R. W. Pressprich Admits

Robert LeBrecht, member of the New York Stock Exchange, will become a partner in R. W. Pressprich & Co., 48 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1. Mr. LeBrecht has been active as an individual floor broker.

Harry Kahn, Jr.

WASHINGTON, D. C.—Harry Kahn, Jr. is engaging in a securities business from offices at 3415 Q Street, N. W.

Leith Miles Co.

Leith Miles Co., Inc., is engaging in a securities business from offices at 30 Broad Street, New York City.

From Washington Ahead of the News

By CARLISLE BARGERON

There is an all too general feeling in Congress, as we approach the Happy New Year, that this country is inevitably headed for a controlled economy, the end of which no one in his late 40s or early 50s is likely to see. Of course, there were such dire forebodings when we entered World War I, and they were a hundredfold more pronounced as we embarked upon the Second Grand Adventure. And also, there has been the continuous threat of this regimentation since the New Deal appeared in 1933.

Carlisle Bargeron

The fact that we shook off the shackles after World War I with amazing facility, and that the trend toward the controlled economy has been fairly resisted the past 17 years, including those of World War II, should be an argument against this pessimistic view, you may say, but the collar around the neck has been becoming tighter all the time.

The people turned against the New Deal in 1946, after a "victorious" war, just as they had done against the reformers and adventurers back in 1920. A healthy sign, it was thought, and the road seemed clear ahead. But two years later, the dear old people went right back to their original love. The respite in the struggle against statism was brief.

Then only a few months ago, the politico-labor leaders were soundly rebuked, along with the apostles of socialized medicine and the Brannan Plan. Disgust with the mismanagement of our world affairs had plenty to do with it, of course.

But as we face the current crisis, the impression is, among a majority of Congress, at least, that the people have become inured to their lot. Instead of their crying out against the return of price controls and other restraints they have for months been demanding them. Organized labor has been in the forefront of this demand, along with the unorganized and organized housewives, and organized labor in return, seems to have become willing to accept wage controls. Particularly is this true with that vociferous and influential CIO group that has price-of-living escalator clauses in its contracts. Certainly it has been a long time since the American farmer could be referred to truthfully as that rugged individualist. He wants his regulations and price guarantees.

It is now accepted as one of our "freedoms" that the government guarantees every able bodied person a job, which has meant in the past year or so providing employment for a labor force of some 62 million people. Such economists and writers as John T. Flynn have pointed out that no country can do this, or ever has been able to do it, without a perpetual state of war or crisis. The billions we have passed out around the world have certainly helped this undertaking so far.

Thus, as we move now to meet another crisis, we do so with the attitude of our people having undergone a vast change. An outstanding example has been our failure to get rid of the rent controls of the past war. We seem to want a vast amount of regimentation, to expect it as our God-given right. It is a pretty solid foundation for our planners and regimenters to work upon from now on out.

The last few months in Washington have been most revealing. It is the Republicans in Congress who have sought to force the Administration to impose price and wage controls, to go further with industrial mobilization than the Administration has wanted to go. The loudest clamor for something like Governor Dewey's army of 15 million men and complete industrial mobilization has come from our most conservative newspapers. There is little doubt in my mind that the current struggle between those who want to move more cautiously with our rearmament program and those who are calling for shooting the works and plenty of austerity will be resolved in favor of the latter. Then we will be embarked upon the last grand spree that you and I are likely to see.

Among some Republicans in Congress I find a certain smugness as to the future. They justify their campaign to make the Administration go faster on controls, first on the clamor that they heard from the housewives, and secondly, upon the conviction that if they give Truman enough rope he will surely hang himself. The monstrosity that he is bound to build up, will bog down in a morass of bungling and confusion, they believe, and for that reason their strategy is to heap more upon him, more authority, more money, not try to curb him in the slightest.

Senator Taft is not one of them. In spite of the alarms we have had in the past about the loss of our freedoms, alarms which have not altogether been borne out because of the valiant resistance that has been made, he believes now that Congress has a greater responsibility to the people of this country than it has ever had at any time in history, a responsibility to protect them from an incompetent and utterly bewildered executive branch; indeed, to protect them against themselves.

So he will not be a part of that school which wants to give the Administration plenty of rope. He intends to resist the way we are moving with every ounce of his strength. He seems to be a lonely figure shouting in the wilderness in his fight.

Unsound Government Policies —Our Problem Today

By R. PERRY SHORTS*
President, Second Nat'l Bank & Trust Company of Saginaw, Saginaw, Mich.

Michigan banker attacks spendthrift policy of our government and its trends toward disastrous Socialism as prime cause of inflation. Says government actions destroy incentives to hard work and thrift. Holds the "Defense of the Dollar" as most serious problem today, and advocates return to sound currency. Asserts businessmen, by maintaining and expanding production, are the best friends of common people.

The business of the American banker is to borrow money from depositors at 1 or 2% and loan it out again at 4 or 5%. Simplest business in the world! He doesn't care a "continental" about the character of his depositors (whether capitalists or laborers, Christians or even Democrats) — but the character of his borrowers is a different matter.

R. Perry Shorts

His daily work rubs him against businessmen of all sorts and descriptions—large and small, generous and "Scotch," successful and unsuccessful. He learns their business secrets and all the tricks of their trades, and he soon discovers that if he loans money to a butcher he is temporarily in the meat business. Many a trusting banker has loaned money to a persuasive scrap dealer one day and found himself in the junk business the next. In fact, the hardest job of the American banker these days is to keep in the banking business exclusively—and not get forced into every other business in town. I speak feelingly on this subject.

But all these contacts bring him in close touch with the comedies and tragedies of business life and peculiarly equip him to discuss American Business as it is today and the Signs of the Times which foretell its trends of tomorrow.

No momentous occurrence in this big world of ours happens suddenly and unannounced. "The mills of the gods grind slowly." Prior to every great event some sign or signal always appears, which, if rightly read, gives timely notice of the approaching change. In economics this principle is well established. Business booms and slumps never come unannounced, but only after due notice. Any good student can tell about when to expect them—but no one can give the exact date they will arrive. The last depression surprised us all—although we knew it was on the way. When it finally broke I thought of an epitaph I once saw in a New England churchyard which read, "John Williams — Born 1833—died 1877—I knew it was coming sometime but I didn't expect it so soon."

Our country's most serious depressions have struck us with disturbing regularity. The first came in 1837, during which 168 business firms failed in 43 days in New York City alone; and then the crash of 1857 which threw three large railroads into insolvency and reduced wages 50%. Next came the devastating after-war panic of 1873 which nearly wrecked the nation—during which 65 railroads were sold under foreclosure, 20% of our railroad mileage was in bankruptcy and 39% of all the railroad bonds in the United States went into default. This was followed by the collapse of 1893 with its 554 bank failures, wheat at 54c a bushel, and call money at 74%. Then came the short depression of 1907, followed 13 years later by the "unpleasantness" of 1920; and then the last depression, of the 30's, which went deeper and lasted longer (because of government interference) than its predecessors.

Perhaps the hardest problem in business life today is to tell what is going to happen next week—next month—next year. If you can guess tomorrow's markets you are on the rapid road to riches. Businessmen are forced to study conditions carefully — and then back their conclusions with their money. If their conclusions are more right than wrong, they become successful, but if more wrong than right, then Dun and Bradstreet soon write their epitaphs in red ink among the failures and bankrupts. The commercial cemeteries and hospitals are filled to overflowing with stricken businessmen — dead and dying. Statisticians claim that only 5 in 100 succeed.

And so, you younger men may well ask—just what is American Business anyway, and why is it so "tough" that only 5 in 100 are successful? To view American Business, or any other large object properly, one must stand back a few paces so as to get the right perspective. You cannot even see a mountain if you stand too close. And so, I invite you all for a few moments to get with me into the basket of this large imaginary balloon right here and we will rise straight up into the clear blue sky of heaven, where our vision may not be obscured by the smokes and fogs of men, to an altitude high enough to enable us to see from Maine to California and from Florida to Washington.

Over the basket of our big balloon we can now look down and clearly see that our great country is one vast business plant. Right now it employs about 60 million workmen, serves 150 million people, and represents an investment of over $400 billion. This great plant consists of farms and factories, railroads and ships, banks and buildings and wire and nails and machinery. The output is now valued at over $250 billion per year—nearly all of which is consumed by the American people themselves. Thus our country grows richer each year by its production of new goods and the amount of its profits on the previous year's business—even as it is with you and me.

American prosperity exists when every industry is working steadily, producting just the right amount of its particular products to meet the requirements of all other industries depending upon it for supplies.

But do you know that a variation of only 10% in the quantity of goods produced in any year marks the difference between prosperity and depression—(and during the past 50 years we have had 15 prosperities and 16 depressions, large and small)? This is because our industries are dependent one upon the other—so much so, in fact, that if a Scotchman in Connecticut strikes a match to light his pipe, he spends money (against his will, of course) in nearly every state in the union. First he pays Idaho for the white pine in the match stick; then he pays some transcontinental railroad for hauling that pine across the continent; he pays several southern states for the chemicals in the match head; and he pays machine manufacturers in a large number of states for the machinery with which the match was made.

We are all dependent one upon the other—"all bound round with a woolen string" — whether we like it or not. Viewing it broadly, every state in the union and every workman in every state benefits by virtually everything that is produced in industry. Production means prosperity — nonproduction means depression. You can't increase wealth by not producing goods—law or no law. A new ship in New York calls for a new warehouse in Seattle — and a healthy prosperity in Ohio or Kansas or Illinois spreads its beneficent influence all over our great country. Prosperity is contagious—and so is depression. We are all brothers and sisters—all working together—each in his own particular calling — for the growth and prosperity of our one big American family. This is a healthy thought and helps to churn up the emotions which purify our patriotism — and the true patroit, you know, is the American Businessman who can whistle "My Country 'Tis of Thee" while making out his income tax return.

And now let us bring down our big balloon to earth again and consider some of the forces that make the wheels go around in American business and also some of our great economic problems of today.

Labor of Hand and Brain

It is often claimed that the earth is the source of all wealth. That is true in a sense, but there is no real wealth in raw materials alone—labor must be added. There was more natural wealth in this country 458 years ago when Columbus discovered America than there is today. The American Indians were richer than we are but for the one fact they did not work and produce anything. Our great wealth of today lies in the labor that has been put upon all of the natural products of the soil and the sea. "That's the truth," cries the Labor Leader, "and that's why Labor should own all the wealth." And then the Capitalist shouts—"No, it isn't Labor, it is Capital that produces the wealth."

But wait a minute, let us go a step further. Historians tell us that for centuries it was common custom to respect as property the work of a man's hands—but the labor of his brain was appropriated by everybody without even a thought of pay. It took thousands of years to get the people to see that it was just as much of a crime to steal a man's ideas as to steal his house — and some of our capitalists and labor leaders can't see it even yet. This great change in viewpoint was first emphasized only a little over 300 years ago when England originated the modern patent law—to recognize the labor of brains as property. But now, over 75,000 applications for patents pass through the United States Patent Office every year, and every one is a new idea of some aggressive thinker—and patents prevent the stealing of ideas. They recognize inventions as property.

It is all very well for Labor or Capital to deny this power of brains and attribute all progress to itself—but did either ever stop to think that we can now telephone from New York to San Francisco not because of Labor, and not because of Capital—but because of the brains of Alexander Bell? You have heard it said that Andrew Carnegie wasn't entitled to the $250 million they paid him for his steel business—but did you know that when Carnegie started in that business, iron rails were selling at $130 a ton, and when he quit, he had reduced the cost to $22 a ton—and for steel rails at that? This single price reduction saved our country over $2½ billion on the railroad mileage laid during his career alone—all due to Carnegie's brains.

Every time these men made a dollar for themselves, they probably made $100 for the public in price reductions. Our greatest regret should be that we haven't more of them—for whether they know it or not, these great industrial leaders are all working for you and me, more than for themselves. These agitators who rave about our big men and our big corporations, always fail to tell you that in spite of their faults, they do reduce prices to the public. How much higher would the cost-of-living be today but for mass producing machinery?

And yet, if the laboring man thinks for himself, he will at once see that this advent of brains into industry has not been to the detriment of the man who toils, but rather to his everlasting benefit. Every labor-saving machine that brains has ever produced has in-

Continued on page 26

*An address by Mr. Shorts at the University of Michigan Study Conference of the Michigan Bankers Association, Ann Arbor, Mich., Dec. 7, 1950.

Stock Market and World War III

By J. C. LUITWEILER
Bendix, Luitweiler & Co.
Members, New York Stock Exchange

Mr. Luitweiler, holding we are already engaged in Third World War, stresses importance of expanding production and maintaining confidence in our securities as greatest weapon of free enterprise. Says with a $300 billion national output, $50 billion for defense "won't pinch us."

How often do we hear such remarks from our investing public: "Well, if the Third World War breaks out it won't matter much what we do with our money. If we have a Third World War, there won't be a stock market and no securities will be worth anything."

J. C. Luitweiler

Let us face it. We are already engaged in the Third World War. In fact there is a resemblance to the first six months of World War II when it became popular to refer to it as a phoney war, for there was so little shooting. The English went calmly about their business in a false sense of security, since no bombs were dropping on London; and even the French felt relatively secure behind their vaunted Maginot Line.

The parallel could be carried a step farther. The Nazis first conquered Czechoslovakia, Poland, Denmark, Norway and the low countries before they turned their serious attention to their chief antagonists, France and England. Russia since the close of World War II has made similar conquests of Poland, Czechoslovakia, Hungary, Roumania and Bulgaria — not to mention China! They conquered the little countries by similar Trojan horse methods that the Nazis employed with Denmark and Norway, only the Reds have been still more ruthless.

Looking backward to July of this year, it is a bit shocking to recall the panic that seized a large segment of our investing public when little Korea was attacked and it was announced that our government would fulfill its obligations under the United Nations Charter by aiding the Koreans in resisting the aggressor. One wonders whether, if the Russians had sent a fleet of war planes to help the North Koreans at that time, our stock market would have degenerated into a major debacle. It is perhaps fortunate that we had this nerve testing experience and have become a bit "battle hardened."

Today the world is pretty evenly divided into two hostile camps, Communists and the freedom loving countries. Those who may be classed as neutral, or indifferent to the idealistic warfare in progress, are largely peoples without political consciousness sufficiently developed to appraise the issues.

Let us ask ourselves at this juncture: Do we Americans love and cherish the principles of freedom sufficiently to fight for them—fight for them on all fronts—not simply by sending our teenagers into the battle? Or are we defeatists as the remarks quoted at the beginning of this article imply?

The vast majority of our people are descendants of Europeans who came to this continent with a love of liberty and a passion for freedom that was so all vital they left everything behind and came practically bare-handed to a new and unknown land weeks across the ocean. It was freedom from religious persecution, freedom from political tryanny, freedom to carve out their economic fortunes, that they sought. Do you suppose that the Puritans tilling their fields with a rifle slung over their shoulders felt more secure than we do with the Damocles scimitar of a bomb attack overhanging us? One may doubt it! But they kept right on with their daily lives. In fact when the head of the family was shot down, the woman shouldered the musket, reared her family and did the man's work as

Continued on page 34

Next Step in Treasury Financing

By THOMAS I. PARKINSON*

President, The Equitable Life Assurance Society of U. S.

Mr. Parkinson, holding it is imperative that recent increased money supply be drained off, recommends a new long-term Treasury issue at a 3% rate, which will appeal to investors. Says insurance companies and other investment institutions would acquire such issue.

It is generally agreed that whatever other causes there may be for our current inflationary trend, our increasing money supply has a lot to do with it. The latest Federal Reserve Bulletin shows that the people of this country held money and bank deposits at the end of September in excess of $174 billion. That is the highest figure in our history.

T. I. Parkinson

If we continue to increase our supply of money, we must expect it to cause increased prices and that is exactly what it is doing. Now, the greater part of our money supply is in the form of bank deposits on which somebody has the right to draw. It is these bank deposits which are constantly increasing and producing new peaks in our money supply.

Surely everyone knows now that bank deposits go up every time a commercial bank buys government bonds. If our monetary officials really want to stop the increase in the volume of money, they should devise some means of decreasing the government bonds held by our commercial banks. They are not doing anything of the kind; in fact, they are encouraging our commercial banks to increase their holdings of governments.

The commercial banks prefer to hold short-term paper, and it is significant that every maturity of government bonds since the war has been refinanced with new issues of short-term obligations. As a result, there are at the present moment $50 billion of government obligations which will mature within the year 1951. In addition to refinancing this huge sum of maturing paper, the Treasury may be called upon to issue additional obligations to finance any deficit it may incur during the year. If the Treasury follows its practice in the past few years, it will issue a new stream of short-term paper to provide both for these maturities and such a deficit. It is well known that the commercial banks will be the principal purchasers of such short-term paper, and up will go the bank deposits and the money supply.

In times as explosive and dangerous as these, it would seem imperative that the government meet its borrowing needs by offering to the investing public bonds which would have an investment appeal. When government bonds are bought by non-banking investors there is no increase in bank deposits, because such buyers have to use pre-existing money, their own or other people's savings. They do not pay for their purchases with newly-created bank deposits as do the commercial banks.

Of all the non-commercial bank investors, the life insurance companies are in many ways the most important. They are not interested in short-term government bonds or notes, and their interest needs—indeed, their very solvency—call for a minimum return of 3%. Therefore, what the Treasury should do and do promptly is bring out a long-term, say 35-year, bond at a 3% rate. Such a bond would be sought by the life insurance companies, savings banks, pension funds and other trust funds. The proceeds of such an issue could be used either to finance current deficits or refinance some of those 1951 maturities.

A 3% rate on a 35-year bond would not only meet the needs of life insurance and other investors, but it would be a fair yield in the present securities market.

So long as there is the current demand of non-government borrowers for essential expansion, the Treasury cannot expect investors to be enthusiastic about a long-term government bond at a lower rate. The only alternative is for the Treasury to continue to issue its short-term paper to the commercial banks which make their investments with entries of new deposits. Moreover, the additional cost to the Treasury of a long-term 3% bond would not be any more and, indeed might be less, than the cost of recent increases in the interest rate on short-term government paper at the insistence of the commercial banks. That increase in the short-term rate increases the earnings of the banks and, indeed, encourages them to buy more and more government paper; but it doesn't make any dent on the inflated money supply.

It must be admitted that there is a limit to the amount of long-term bonds which the Treasury could sell in the immediate future, but the sale of a limited amount would put brakes on the persistent trend toward larger supplies of money and would gradually reduce the number of dollars to an amount more nearly consistent with current business needs. The life insurance companies alone will have something like $10 billion of new money and the proceeds of their maturities for reinvestment during 1951, and at least one-third of this could and would be put into a long-term bond if the government paid the 3% rate. Such an investment would be held indefinitely, and it would not be necessary for any Federal agency to support the market prices. It ought to be marketable, but it ought not to be artificially supported, and it ought not to be eligible for the commercial banks. Moreover, such a bond would not seriously interfere with the market prices of outstanding Federals, any more than recent issues of the A. T. & T. at higher returns have interfered with continued holdings of previous issues at a lower coupon rate.

Nothing that the Treasury or the monetary authorities could do would have a more stabilizing effect on our economy than a long-term bond issue purchased by the life insurance and savings funds of the country. We are fast approaching the point where it will be a must for the Treasury and for the Federal Reserve Board; for they cannot, as Mr. McCabe said recently at Chicago, continue to increase our money supply without further, perhaps disastrous, inflation.

The kind of Treasury financing which is here proposed should have been undertaken during the past few years; it is now absolutely essential in the financing which is just ahead of us to meet our defense or war needs.

*A statement by Mr. Parkinson distributed by the Continental Press Syndicate, Brightwaters, N. Y.

Dealer-Broker Investment Recommendations and Literature

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

Bank Stock Holders—Developments of interest: a list of cash dividends and capital changes in recent years—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Consumers Goods Industries—Analysis with data on 14 selected companies—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Economic Aspects of Private Debt—Study—Calvin Bullock, 1 Wall Street, New York 5, N. Y.

It's Easy to Invest Through Bache—Brochure describing the facilities of the company—Bache & Co., 36 Wall Street, New York 5, New York.

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.

Puts & Calls—Explanatory pamphlet—Thomas, Haab & Botts, 50 Broadway, New York 4, N. Y.

Retail Store Stocks—Analysis—Bruns, Nordeman & Co., 321 Broadway, New York 7, N. Y.

Also available is a memorandum on **Sinclair Oil Corp.** and a study of the **Retail Store Industry.**

* * *

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

Atlantic Refining Co.—Memorandum—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Baldwin Securities—Analysis—Abraham & Co., 120 Broadway, New York 5, N. Y.

Corning Glass Works—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Consolidated Rock Products Co.—Memorandum—Gross, Rogers & Co., 458 South Spring Street, Los Angeles 13, Calif.

Eastern Air Lines, Inc.—Analysis—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Erie Railroad Company—Bulletin—Gerstley, Sunstein & Co., 121 South Broad Street, Philadelphia 7, Pa.

Flying Tiger Line, Inc.—Memorandum—Leason & Co., 39 South La Salle Street, Chicago 3, Ill.

Also available is a memorandum on **Texas Engineering & Manufacturing Co.**

Hobart Manufacturing Co.—Memorandum—Goldman, Sachs & Co., 30 Pine Street, New York 5, New York.

Marshall-Wells Company—Detailed analysis—J. M. Dain & Company, 110 South Sixth Street, Minneapolis 2, Minn.

Nickel Plate—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

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

Seaboard Air Line Railroad—Bulletin—Cohu & Co., 1 Wall Street, New York 5, N. Y.

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

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

Western Department Stores—Analysis—J. Barth & Co., 482 California Street, San Francisco 4, Calif.

Steel's High Output Is Nation's Industrial Strength

By WALTER S. TOWER

President, American Iron & Steel Institute

In review of 1950 steel year, spokesman for industry points to expansion of productive capacity, which permitted record output of 97 million tons, a yearly gain of 7½ tons. Cites $2.4 billion invested in plant and equipment since end of World War II, obtained mostly from companies' earnings. Holds military steel demands can be met.

The record in steel is profoundly significant and assuring. This industry, which can outproduce all the rest of the world combined, is enormously stronger than a few years ago, and is making giant strides to increase its size.

Walter S. Tower

A few simple facts tell the story. The steel-making furnaces in the United States poured about 97 million tons of steel during 1950 against the background of intense demand, or about 7½ million tons more than in any previous year. The record high output of 1950 was only 12 days' output short of 100 million tons. In each of several weeks at the peak of the year's activity, production was at an annual rate exceeding 103 million tons. Still, the output of certain types of steel was below the abnormally high demands which derived in part from so-called "scare buying."

No other country can even approach the United States in steel production. In three months our furnaces have been making more steel than can be made in a year in any other country. In one month, those furnaces can exceed the annual production of every other nation except Russia, Great Britain, Germany and France.

Thus the steel industry in the United States is a stout bulwark helping to protect human liberty and enlightenment. And its strength is being increased steadily. At the end of 1952, steel companies' present plans will enable them to produce 22% more steel annually than was made in the peak year of World War II when the United States was sending steel all over the world.

In fact, so many new expansion moves are being planned in steel that the end of their possibilities cannot be foreseen.

Steel companies already are better equipped than ever before. They have invested nearly $2.4 billion on plants and equipment since the end of World War II, or slightly more than their aggregate net income for the period. They have a combined annual capacity of more than 100 million tons as of July 1, 1950. They plan to add about 10 million tons of capacity within the next 26 months. That will mean at least 110 million tons' capacity by the end of 1952. And, possibly, even a larger capacity may be available at that time.

The fact is that whether another world war at some early or later date decides the future fate of mankind, the United States can make all the steel needed for its military requirements and have a very generous amount left over for essential civilian uses. The vast output of steel in 1950 alone was far above the amount produced in the biggest year of World War II. In a war economy, however, there are considerations other than steel capacity which may restrict the uses of steel for civilian goods, such as diversions of manpower from manufacturing plants, scarcities of other metals and nonmetals, controls of credit, priorities on transportation facilities, or even overwhelming war requirements for certain items not heavily produced in peacetime. Thus, despite increasing steel capacity, government policies may closely restrict the output of civilian products in spite of the desires of millions of consumers.

Fortunately, the civilian economy is better equipped now than ever before. Most of the record 1950 production of steel has been used principally to increase the ownership of homes, automobiles, household appliances and other items to the highest point ever attained and to help support an unprecedentedly high level of national employment. Since 1946, the steel companies have made the steel to build over 25,000,000 new autos and trucks, 19,000,000 new refrigerators, 4,500,000 new homes, 54,000 miles of piplines and countless other items in record-making volume.

The net earnings of the steel companies continue to serve as a major source of funds for the huge expansion programs now in progress at ever-mounting costs. It is important that the industry be continued on a profitable basis. Although the companies' earnings were substantially higher in the first three quarters of 1950 than in the somewhat reduced level of 1949, inflation has taken a sharp toll of the profit dollars in terms of their relative purchasing power. Sharp increases have occurred in the cost of everything bought by steel companies. Their total payroll exceeded $2.3 billion in 1950, compared with a little over $2 billion in 1949. Employment rose from 602,000 at the end of 1949 to around 650,000 in the latter part of the year. The average hourly payments to wage-earners averaged $1.72 through most of the year, to which an increase was added in December.

Armament requirements for steel have been small to the present time and detailed information for the future is lacking. But, regardless of what happens, steel companies can be relied upon to do more than their share toward maintaining and increasing the industrial strength of the United States. The record in steel is clear and assuring.

Current Credit Picture

By CARLISLE R. DAVIS*

Vice-President, State-Planters Bank & Trust Co., Richmond, Va.

Southern banker reviews recent developments in commercial banking and analyzes effects of Korean crisis on banking policies. Expresses concern over rise in bank loans and suggests that, while taking care of legitimate credit needs of worthy customers, banks must, at same time, help nation rearm and assist in combating inflation. Calls for cooperation with Federal Reserve and discouragement of speculative loans.

The theme which has been chosen for our deliberations here is certainly holding the interest and concern of all of those who shape lending policies within our banks. Inflation is no longer merely a threat. It is with us today in very real form. Any thoughts which we can obtain which will assist us in slowing to any degree this inflationary tide will be most beneficial. We in the banking business can take pride in our past patriotism. We did have a part, through V and VT loans, rationing, bond sales, and the like, in contributing to the winning of the last war. The fact that we today are considering the opportunity and the obligation which we have within our banks to assist in rearming and to assist in the financing of the war, if a greater and more worldwide war should take place, is but another indication of our desire to perform our task, whatever it may be, in a way which will be of benefit to all concerned.

Carlisle R. Davis

The setting for this conference, to a great extent, is much different from the setting of those in 1948 and 1949. There has been a great deal of change in our economic climate. For example, there are approximately two million more people employed today than were gainfully employed in 1948. Wage rates are higher, and disposable personal income is greater, but people are saving at a lower annual rate. Wholesale prices are greater than they were two years ago and substantially higher than they were 12 months ago. Industrial production is much higher than it was in either of the past two years. Agricultural income continues large. Corporate profits, after taxes, are running this year at a rate never before known. Total demand deposits are larger and, more important, are turning at a more rapid rate than was true in 1948 and 1949. We are all very conscious of the material increase which has taken place in our loan portfolios in the past two-year period, more particularly within the past six months. These things inform us that we are facing somewhat different problems than we were in 1948 and 1949.

These changes have been caused by many factors, but they are the reflection principally of three things:

(1) The high postwar business activity, never attained to such a degree before.

(2) The much lower purchasing power of the dollar, caused to a great degree by almost 20 years of deficit financing.

(3) The Korean war, the Chinese war clouds, and the threat of further Russian aggression in Europe and elsewhere.

High Spots in Banking Situation

Let's sketch briefly some of the high spots in our banking picture in the past few years. We do not have time for a detailed picture but will paint with a very wide brush. Let's consider three periods:

(1) The six-year period from the end of 1939 to the end of 1945.

(2) The end of 1945 to June 30, 1950.

(3) June 30, 1950, to date.

Deficit financing has been a major factor in the rise of our bank deposits. For example, deposits of all banks at the end of 1939 amounted to $68,242,000,000, while at the end of 1945 these had risen to $165,612,000,000. At the end of 1945, we see now that we had no major problem so far as the capital cushion of our banks was concerned, though we recognized the very real fact that our deposit liabilities, in relation to our capital funds, were becoming very, very high. Although loans had increased sizably in that six-year period ending Dec. 31, 1945 (by about $8,000,000,000, or roughly 37% to $30,362,000,000), loans relatively were still very small in relation to capital funds. The cushion for our deposits was small, but the investments offsetting these deposits were low risks assets, for the most part governments, which to a great extent had short maturities. Risk assets, represented primarily by loans, were relatively low in relation to capital funds, on an overall basis loans being less than three times the capital funds of all banks.

In the period from Dec. 31, 1945, to June 3, 1950, however, other changes took place. We saw consumer credit, in and out of our banks, rise to figures never before considered possible. At Dec. 31, 1945, total consumer credit was estimated at $5,627,000,000; but at June 30, 1950, this was $17,651,000,000. A great portion of this consumer credit had been financed by bank loans—direct consumer loans or loans to retailers, to finance companies, and others. Another most inflationary factor at work had been the high activity in the real estate field. This had resulted in a substantial increase in loans based on real estate directly or indirectly, which had about doubled in the four and a half years. Many consider this, next to Federal deficit financing, the most inflationary force which has been at work in our economy. A third factor was the sizable rise in other business loans which reflected both the cheaper dollar and the high postwar business activity. These substantially greater loans had caused a great shift from investments to loans. On June 30, 1950, total loans of all banks were about $52,000,000,000, or approximately a 70% increase over the loan figure of $30,362,000,000 at Dec. 31, 1945. Investments had declined in the same period by about $19,000,000,000.

These additional loans and the high deposit totals necessarily placed greater pressure on the capital funds of our banks. The high deposit figure caused the capital cushion of our banks to be relatively thin. The substantial increase in loans and risks assets reduced the relative quality of those assets in which bank funds were invested. It was not unusual, early in this year, to learn of this bank or that bank which was actually carrying loans beyond the accustomed safety level. Some of our banks for months had been more or less rationing credit. many banks, for the first time in 15 or 18 years, had shown loans payable in the fall of 1949 or early in 1950. Numerous commercial and industrial customers were having difficulty in caring for their working capital requirements because of the depreciated purchasing power of the dollar and the increased business activity. By late May and early June, we knew without question that inflation was taking hold with a vengeance.

Effect of Korean Crisis

Then came Korea. Almost at once, the prospects of rearming caused an acceleration in the already active business volume of our country. Those who had wrestled with shortages before recognized the prospect of similar difficulties developing and, as a consequence, in many instances immediately began to protect themselves against anticipated shortages or controls. We saw building activity accelerated to a greater degree, both in residences and in industrial properties. There was a veritable scramble in many markets by consumers for consumer purchases — automobiles, washing machines, appliances, and the like—with the result that consumer credit rose very, very rapidly. From the end of June to the end of September, consumer credit jumped about $1,600,000,000, or nearly 10%, to $19,293,000,000. Labor's request for wage increases became somewhat more pronounced. Business houses immediately tried to anticipate requirements and ordered and reordered in some instances in an effort to be prepared to care for their future requirements. Business loans rose rapidly and were still rising in late November when this was being written. The prospect of rearming, coupled with this fear activity, brought about some real, but in many instances imaginary, shortages; and these shortages have become more and more real as the months have gone by.

Nearly all of these factors were reflected in rapidly rising bank loans, and this rise has been superimposed upon the large loans already outstanding and normally obtained to care for the seasonal movement of fall crops. These seasonal loans, of course, were also higher, partly due to the depreciated dollar and, in some instances, to a larger volume of agricultural crops. So now, in nearly all the banks, we have reached new loan totals this fall.

Concern Over Rise in Bank Lending

What are the future loan prospects, and what has been done by the Federal Reserve System and the banks in the interest of control?

The Federal Reserve System, as well as all the banks, has been greatly concerned with these developments. The System has made a number of moves and has cautioned banks and business to go slowly. The rediscount rate has been raised. In an effort to control consumer credit, Regulation W has been reimposed and its terms tightened from the original requirements. To curb new residential building, Regulation X has been put into effect. Many announcements, pronouncements, and letters have come from the Board, all in the interest of curbing the inflationary tendencies. The Federal and the Treasury have also had their little misunderstanding about the interest rate on government bonds.

Many feel that these controls of the Federal Reserve System are beginning to have real effect. We have seen the effect of the restrictions on consumer credit and have also noted the effect of Regulation X on real estate loans. The increasing rediscount rate of the Federal and the announcements

Continued on page 23

*Address by Mr. Davis at the Third National Credit Conference of the American Bankers Association, Chicago, Ill., Dec. 16, 1950.

Government War Damage Insurance

By LAWRENCE L. VANCE

Associate Professor of Accounting, University of California

Limiting his discussion primarily to the narrow problem of financial protection of non-productive property from war damage risks, Prof. Vance criticizes method of covering such risks through a government-owned corporation as was done in World War II. Holds war risk damage is responsibility of all and its assumption by government, without premium requirement, logically follows.

The recent resurgence of defense activities has resulted in the suggestion that the War Damage Corporation of World War II be revived to provide insurance coverage of property. It is the thesis of this paper that the program of the War Damage Corporation was based, at least in so far as non-business property was involved, on a false analogy to private insurance operations. This resulted in inequities to property owners and in a substantial waste of resources. Had war damage to properties within the territory of the United States occurred on a scale comparable to that experienced in many other countries the program of the corporation would, in the opinion of this writer, have been rejected by the people and their Congress and would have been superseded by a quite different one.


Lawrence L. Vance

The War Damage Corporation was organized as an RFC subsidiary by Act of Congress to provide "reasonable protection against loss of or damage to property, real and personal, which may result from enemy attack (including any action taken by the military, naval or air forces of the United States in resisting enemy attack)."[1] This protection was offered in the form of policies of insurance for which premiums were charged. As in private insurance operations, carrying of the insurance was purely voluntary with the citizens. The policy form was based upon the fire form of New York State.

This program represents a direct transplantation from private insurance practice to a governmental activity. As in private insurance, premiums collected from persons who need protection were expected to provide coverage for the losses. Such a program ignores the fundamental difference between peacetime risk and risk of war damage. This difference is responsibility for the risk. No individual or group of individuals is responsible for a casualty such as windstorm, for example. Unless we are going to adopt very extreme ideas of social organization and make everyone responsible for the welfare of everyone else such risks must be met by each person on his own responsibility. Conventional insurance is a very appropriate way of doing this. Military action in time of war is, on the other hand, generally acknowledged to be the responsibility of all the citizens of a nation. Even the damage inflicted by enemy attack in undeclared war is looked upon as a loss to be borne by the nation as a whole. This point of view was taken in this country with reference to the damage at Pearl Harbor and in Alaska, and the War Damage Corporation provided compensation to owners of damaged private property in those areas without policies or premiums. The rest of its "protection," however, was provided as indicated above. Where the nation is actively prosecuting a war there can be no doubt of general responsibility of the citizens for the damage resulting. It is therefore not appropriate to expect those suffering damage to stand the loss alone. If everyone is to participate in carrying the burden no premiums should be collected from individual property owners; the cost should be paid, as in the case of Pearl Harbor damage, from the public funds.

There is another aspect of the program as it was set up which merits the most serious attention at the present time. In a future war, it is conceded, extensive property damage in the Continental United States is virtually a certainty. If it is proposed, as before, that insurance policies be issued as the only basis for compensation for damage, the implication is that policy holders will be reimbursed and non-policy holders will not. Where, for example, a row of houses is leveled in an air raid the surviving owner of an insured house would be paid its value and his uninsured next door neighbor would not. The lengths of absurdity to which this mistaken application of private practices could go is to be found in the possibility that a technical error in the policy might void it. Mr. Abe J. Goldin, insurance attorney, wrote of the War Damage policy in 1943:[2] "The description and location clauses in this policy are similar to those in the New York fire policy, and should be construed in the light of present decisions on those clauses. It is of utmost importance to the insured that the applicant in his application correctly describe and properly locate the property to be insured." In view of the general responsibility for prosecution of the war this is not only an indefensible result, it is politically unworkable. The reasonable expectation in such a case is that Congress would extend relief to the uninsured. In so far as the reimbursement to the insured and uninsured has been finally the same, the effort and materials used in soliciting, writing and recording insurance policies would prove to be a waste of resources. *This waste occurred in World War II.* The War Damage Corporation collected, through June 30, 1943, premiums totaling approximately $132,000,000. It issued in excess of 5,000,000 policies.[3] If there had been extensive damage the discrimination between insured and uninsured would surely have been erased by political action. The collection of premiums was an improper demand on property owners and the issue of policies was a waste of resources.

The question then is: What should have been done? The thing needed was a skeleton agency to receive proof of damage and of ownership. Such an agency should set up the necessary procedures and rules, but if no damage occurs no further effort is necessary. Such an agency should take advantage of the skills and organization of the private insurance industry. The industry is proud of its record of cooperation with the War Damage Corporation. Unfortunately, as far as non-business property is concerned, the industry was called upon for the wrong kind of service. What was needed was the experience of the industry in adjusting claims, not in selling policies. The use of the skills and experience developed in this work by the industry as well as the facilities of its widespread offices would be of invaluable service in event of extensive damage.

To this point little reference has been made to the fact that the title of this paper limits the conclusions to non-business property. This limitation was used because the proposition made here seems secure where such property is involved, but other issues arise with reference to business or productive property. Business property is used to provide goods and services which are distributed by means of a price system. If a particular form of business property is relatively costly to create or maintain, that fact will be reflected in relatively high prices for its products. The high prices will "ration" the consumption of the products. Many economists believe that the price system should be relied upon to distribute products in time of war as well as in more settled times. Accordingly, if particular business or productive property is subject to war damage the cost of regular insurance for this risk could be considered a part of the legitimate price of the product. This would tend to discourage creation of business property in risky areas and movement of people into high risk and therefore high cost areas.

The argument based upon the price system is valid, but it is not controlling. In modern war the problem is to use all property as effectively as possible, and minor variations in price are likely to be ignored. Furthermore, modern combat puts all substantial concentrations of property in the risk area, although variations in the extent of risk could be distinguished. Where the risk is more or less uniform the effect of using a regular insurance program is to distribute the burden of damage to consumers as consumers rather than to taxpayers, who would carry it if government funds were the basis for reimbursement. The two groups are practically the same, but the distribution of the burden among citizens is different in the two cases. This difference may not be significant in a situation where income taxes are very high, where a very large part of the national product is devoted to war uses and where consumer goods are rationed, as they certainly would be. Furthermore, in a program of rationing and price control any increase in war risk insurance rates after price ceilings were imposed endangers the ceilings. The increases are likely to be necessary since predictions of war damage on which rates are set are obviously subject to wide error. This situation actually developed in the United States in World War II, with the result that the War Shipping Administration subsidized the risk in order to preserve the ceilings on such commodities as coffee, for example. Widespread use of rationing and price control there-

Continued on page 33

[1] Regulation "A," War Damage Corporation, July 1, 1942, and Public Law 506, 77th Congress, Approved March 27, 1942.

[2] War Damage Insurance, Journal of the Am. Assn. of Univ. Teachers of Insurance, March, 1943, p. 71.

[3] The damage did not develop, since the sphere of the War Damage Corporation was primarily Continental United States. Shipping was covered by the War Shipping Administration.

Railroad Securities

Presumably by the time this column is released one of the major potential trouble spots in the railroad picture will finally have been settled. It was announced last Thursday that representatives of the railroads and various operating brotherhoods had reached an agreement on wage and working rule disputes. Some 300,000 employees are involved. There appears to be little question but that the railroads individually, and the rank and file of the brotherhoods, will ratify the agreements. The settlement will end a dispute that has been going on for nearly two years and which in 1950 has resulted in sporadic, but serious, work stoppages on key railroads and in key terminal areas.

The agreement provides for a three-year moratorium on strikes. Yard service employees are to receive a wage increase of 23 cents an hour, retroactive to Oct. 1, 1950, with an additional two cents an hour starting Jan. 1, 1951. However, the changeover from a 48-hour to a 40-hour week, one of the major stumbling blocks to earlier agreement, will be postponed at least to Jan. 1, 1952. At that time the situation will be reviewed. If the present emergency, with its attendant threat of manpower shortages, still exists the 48-hour week will be continued until a later date.

Road service employees will receive a wage increase of five cents an hour retroactive to Oct. 1, 1950, and an additional five cents an hour after Jan. 1, 1951. In addition, all wages (both yard service and road service) will be subject to cost-of-living adjustments every three months starting April 1, 1951. The adjustments will be made, either upward or downward, on the basis of the Bureau of Labor Statistics' index, with present wages pegged to an index of 176. Each change of one point in the index from that level will be the signal for an adjustment of one cent an hour in wage rates. If adopted, the proposed agreement will mark the first long term labor contract in railroad history.

It has been estimated by railroad management that the wage increases will cost the roads about $130 million annually. Based on the most recent proposal for a Federal Income tax rate of 47%, the net cost would be reduced to $68,900,000. This is less than 1% of annual gross revenues at the estimated 1950 level. With the increased efficiency expected to stem from the continuing property improvements and new equipment being installed, the carriers should have little difficulty in absorbing this newest rise in wage rates at least so long as traffic remains at these high levels. These high traffic levels are expected to continue for the next two to five years unless there is a major change for the better in the foreign situation.

While the operating employees have now been satisfied and the picture cleared for some time to come, the railroads have still to cope with the demands of the non-operating brotherhoods. The non-operating unions have demanded a straight increase of 25 cents an hour, to be effective as of Nov. 25, 1950. The railroads claim that such an increase would cost the industry approximately $525 million annually compared with $400 million claimed by the unions. These demands have not been outstanding long and settlement is not in early prospect. It is hoped, however, that recent action by operating employees will at least set a pattern for the "non-ops" and prevent a crisis.

It is possible, if the government takes steps to freeze wages generally, that the non-operating unions may get no further wage boosts for the duration of the emergency. Even if no freeze is in effect it seems reasonable to assume that final settlement will be substantially below the figure mentioned in the unions' demands. It is hardly likely that the increased wage burden if, and when, it comes will be of sufficient magnitude to materially influence the very favorable railroad earnings outlook for the coming year. Moreover, it seems probable that at least some relief will be forthcoming in the way of rate relief. Other sections of the country may soon join the eastern roads in their request for such an increase in freight rates.

Troster, Singer & Co. To be New Firm Name

Troster, Currie & Summers, 74 Trinity Place, New York City, will change their firm name to Troster, Singer & Co., as of Jan. 2.

Roberts & Company Admits Fred W. Opitz

Roberts & Co., 488 Madison Avenue, New York City, members of the New York Stock Exchange, announce the admission of Fred W. Opitz to general partnership on Jan. 2, 1951.

Chas. Chambers Joins Roberts & Co.

Roberts & Co., 488 Madison Avenue, New York City, members of the New York Stock Exchange, announce that Charles W. Chambers has become associated with the firm as financial consultant. Mr. Chambers, who has been an analyst and consultant for over 20 years, formerly served in that capacity with Wertheimer & Co. From 1941 to 1945, he was a member of the Planning Commission of the War Production Board.

George Liddle Joins First California

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif.—George R. Liddle has become associated with First California Company, 112 South Los Robles Avenue. Mr. Liddle was formerly Vice-President of Jones, Cosgrove & Co. and prior thereto was with First California Company. In the past he conducted his own investment business in Cedar Rapids, Iowa.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, Neb. — Malcolm W. Yarbrough is with Merrill Lynch, Pierce, Fenner & Beane, Patterson Building.

Lehman Brothers Celebrate Centenary

Lehman Brothers, one of America's leading investment banking firms, Dec. 26 celebrated its 100th anniversary. The centennial is being marked by a 53-page book published by the firm, tracing its development since its founding in Montgomery, Ala., in 1850. The book emphasizes the part the firm has played in gathering capital for the rapidly growing businesses of the United States and in broadening the ownership of their securities.

Robert Lehman

The firm, under its century-old name of "Lehman Brothers," was founded by three brothers, Henry, Emanuel and Mayer Lehman, who migrated from the village of Rimpar in Bavaria during the middle of the 19th Century. At the outset, grocery and dry goods were their stock in trade, but shortly the firm became a commodity house, predominantly in cotton.

With New York becoming the center of the cotton crop financing, the firm in 1858 established a New York office at 119 Liberty Street and Emanuel Lehman came to Manhattan to live.

While the blockade of the Confederacy's ports brought the cotton business to a virtual halt, the Governor of Alabama charged Mayer Lehman with the task of persuading the Union authorities to grant permission for some 1,500 bales to pass through the lines to be sold in the North for the benefit of Alabama prisoners in the Union prisons, a scheme that proved futile.

After the Civil War Lehman Brothers' business was resumed at 176 Fulton Street, and moved thence to 106 Water Street, and in 1867 to 133-135 Pearl Street, and again to 40 Exchange Place, the booming center of the cotton trade.

Lehman Brothers was one of the 100 firms which founded the New York Cotton Exchange in 1870, and Mayer Lehman was on the first Board of Directors, a position he occupied until 1884. Three years later, a member of the firm acquired a seat on the New York Stock Exchange, on which the firm has since been continuously represented.

Continuing to adapt itself to the changing economy of the Nation, the firm interested itself in the financing of merchandising and manufacturing businesses. Among these were, in 1897, the Electric Vehicle Co.; in 1899, the Rubber Tire Wheel Co., which eventually was absorbed by the Goodyear Tire and Rubber Co., and the Havana Tobacco Co., which later became a part of the American Tobacco Co.

During the two decades beginning with 1906, almost 100 security issues were underwritten by Lehman Brothers and offered to the public. Most of these issues were joint ventures with Goldman, Sachs & Co., with whom Lehman Brothers enjoyed a mutually productive working partnership for many years.

With the wider range of the firm's interest, it took into the partnership young men of special business experience. The first partner who was not a member of the Lehman family was John M. Hancock, admitted in 1924. He was later to become co-author of the Baruch - Hancock Atomic Energy Report. Monroe C. Gutman, an expert in the securities' field, became a partner in 1927. Among his outstanding contributions has been his stewardship of the highly successful Lehman Corporation, whose policies have largely reflected his investment acumen. Paul Mazur, one of the leading experts in the merchandising and retail fields, became a partner in 1927.

During this period, Philip Lehman, a son of one of the original founders, was the head of the firm, and his son, Robert, was rising through the ranks to become the present head of the partnership upon the death of his father in 1947. Herbert H. Lehman, son of Mayer, meanwhile had followed the family tradition by working for a decade in the cotton goods business before joining the firm in 1908. Two decades later he retired to devote all his time and energies to public affairs, later serving four terms as Governor of New York State, and at present being a United States Senator.

Two of the firm's younger men gave their lives for their country in World War II, Thomas Hitchcock, Jr., perhaps the world's leading polo player, and Peter G. Lehman, a member of the fourth generation of the family. The first member of his generation to become a partner of the firm was Philip Isles, a nephew of Robert Lehman. Two other members of the fourth generation also are now associated with the firm, Orin Lehman and John Lehman.

Since 1906, when Lehman Brothers first underwrote a public issue of stock for Sears, Roebuck & Co., many large businesses which theretofore had been family-owned, found that their capital needs necessitated recourse to the public securities' markets. In the intensive competition for the business, Lehman Brothers forged ahead and from time to time succeeded in making their services available to many companies of national importance whose names are familiar in every American household. Among those for whom it managed or co-managed issues were F. W. Woolworth & Co., May Department Stores, Cluett, Peabody & Co., Inc., S. H. Kress & Co., Endicott Johnson Corp., Jewel Tea Co., Inc., Gimbel Brothers, Inc., R. H. Macy & Co., Inc., Studebaker Corp., The B. F. Goodrich Co., Campbell Soup Co., Philip Morris & Co., P. Lorillard Co., Radio Corp. of America, General Foods Corp. and National Dairy Products Corp. Many others are included in the list of occasional, or steady clients, including leading enterprises in the fields of merchandising, oil, aviation, mining and manufacturing.

Lehman Brothers also has been a leader in helping expanding businesses to obtain capital through the more recently developed channel of private placements, whereby enterprises are enabled to place securities directly with large institutional investors.

The firm, which now has seventeen partners, begins its second century with an expression of the same faith in the future of America that marked the partnership at its inception and determined its development in the service of American industry and investors from generation to generation.

Winters to Be Partner In Abraham

Sidney R. Winters will become a partner in Abraham & Co., 120 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1. Mr. Winters is Manager of the public utility research department.

Canada's Year of Economic Progress

By B. C. GARDNER*

President, Bank of Montreal, Canada

Though stating Canada has experienced a year of economic and financial progress, with prospects for continuation, prominent Canadian banker warns, because of tense international situation and the defense program, "business as usual" is out of question. Says needs of times call for a strict "pay-as-you-go" program for government; for a return to flexible interest rates; and for cooperation in combating hoarding and panic buying.

We meet today under conditions significantly different from those of a year ago. In many important respects the past 12 months have been, for Canada, a period of continued progress. Industrial expansion and development of new resources have been proceeding apace. Export trade has, in total, been running at a high level with increased shipments to the United States more than offsetting inevitable declines in sales to countries overseas. Both our adverse trade balance with the United States and our export surplus in trade with the sterling area have been reduced strikingly. There has been a substantial increase in Canadian official holdings of gold and U. S. dollars, reflecting not only an improvement in patterns of trade but also a marked inflow of U. S. capital. Against this background, a wise and courageous step has been taken in freeing the Canadian dollar from the trammels of a fixed exchange rate. In summary, it may be said the year's developments have once again confirmed the views of those, at home and abroad, who have maintained a reasoned confidence in the Canadian business outlook and in this country's impressive long-run potentialities.

B. C. Gardner

That, in brief, is the brighter side of the picture. But there are shadows also. A year ago it seemed that, on a broad front, the forces of inflation were subsiding. Today we are witnessing a marked revival of inflationary pressures and in Canada both wholesale prices and living costs are at all-time peaks. This, of course, is but one of the manifold problems and anxieties brought about by international tension and unrest. The Korean conflict has been only one manifestation of a condition of world affairs which has much broader and graver implications.

We live today in an eerie twilight, not between peace and war but between cold war and an all-out struggle. Even while we long for peace and work for peace we must meet the exigencies of the present moment and, as best we may, prepare for what the future may bring. The situation is no less serious in that its ultimate size and shape cannot now be determined. But the most disquieting aspect of unfolding events is the absence of a common ideological ground on which to base a meeting of minds. There seems to be no "gold standard" of ideals or conduct to which dictatorships and democracies can give common adherence. Behind the iron curtain truth becomes distorted to serve the ends of propaganda. The dissemination and interchange of ideas which shape the minds of men are brought under subjection. And when enslavement is called liberty, when defense against attack is promptly labeled aggression and when attempts to apply the concepts of justice to the settlement of disputes are decried as the machinations of capitalist imperialism, one's hope for any early or easy resolution of the basic issues dividing the world into two camps cannot find a very firm foundation.

The Challenge of Preparedness

In the face of a continuing challenge to peace Canadians may well look to their defenses. And when I use the word "defenses" I am thinking of the term in the broadest sense of all those influences which are the essentials of national strength.

With respect to the military side of our preparations a banker can make no very useful comment. That is a matter which must be entrusted to those whose responsibility it is. What can more appropriately be done on such an occasion as this is to endeavor to make some contribution to a clear understanding of the economic implications of the new situation facing us all.

In this regard, I think we must accept the fact that the defense program of the immediate future is not something that can readily be brought within the compass of "business as usual." It is quite true that we live in an expanding economy, that our productive capacity in terms of resources, equipment and "know how" is much larger than it was at the beginning of World War II and that further progress in this direction is possible. It is also true that today an annual outlay of a billion dollars for defense and war emergency purposes will require only about 6% of our current national production, although the impact of our own program may be intensified by demands arising from purchases by other countries of war material produced here. But in any event the total claim on our productive capacity involved in defence outlays as now envisaged will be small indeed as compared with the peak of our effort in the last war when military and related requirements represented about 40% of national production. At that time the Canadian economy was to all intents and purposes fully geared to war. Today, by contrast, we are faced with the problem of less than all-out mobilization. To say this, however, is not to underestimate the difficulties inherent in the present situation, particularly if it should continue for an extended period.

The Budgetary Background

Let us look first at the budgetary aspects of the matter. Since the end of 1945 our war-swollen Federal funded debt, direct and guaranteed, has been reduced by over $1,500 million. The extremely high wartime rates of personal income tax have been cut substantially and exemptions raised. Social security expenditures have been greatly increased. Our postwar budgets have therefore reflected not only the desire for a wider range of governmental services but also perhaps the assumption that such benefits could be obtained rather easily and at little cost. But the program of debt reduction, declining direct taxes and increased governmental outlays for civilian purposes was of course greatly facilitated by the sharp drop in defence expenditures after 1945. In other words, we were proceeding on the supposition that Canada, with other nations, could look to a peaceful future, and that after making our contribution to postwar recovery we could, as it were, settle down to enjoy the fruits of progress in an orderly world. We now find that, in a world which is anything but orderly, the additional requirements of defense must be superimposed on a heavy burden of governmental expenditures for civilian purposes. For the time being, therefore, the period of declining taxes would appear to be at an end.

The Economic Background

On the economic side we face the fact that the claims of the increased defense program in terms of manpower and materials come at a time when civilian demand for consumer and capital goods is already pressing heavily upon the ceiling of available supply. Whatever our longer-term potentialities may be, we do not have today the surpluses of quickly available productive capacity and manpower which eased inflationary pressures in the earlier phases of our effort in World War II. In consequence, the additional requirements of partial mobiliza-

Continued on page 31

*An address by Mr. Gardner at the Annual Meeting of Shareholders of the Bank of Montreal, Montreal, Que., Canada, December 4, 1950.

Mutual Funds

By ROBERT R. RICH

Group Securities Foresees Favorable Market

Inflation Controls Insufficient; Stocks Statistically Low

The Investment Management of Group Securities, Inc., in the Report to Shareholders for the 1950 fiscal year ending Nov. 30, points out that common stocks, despite their price advance since June of 1949, still offer outstanding investment values since "earnings and dividends have risen further than prices."

The investment management, declaring that present inflationary controls were insufficient, stated that

"To reduce willingness to spend, the government has increased interest rates somewhat to discourage business borrowing, and tightened mortgage credit and consumer credit to discourage the buying of houses, automobiles and household equipment. Also, the government has inaugurated various stockpiling and allocation controls to redirect raw materials toward military use and away from civilian goods.

"To reduce ability to spend, the government's most positive step has been to increase taxes. This is one of the most effective methods of controlling inflation because increased taxes not only reduce civilian ability to buy, but also provide income for the government's military requirements. Even so, the increased taxes to be paid by the public on 1950 incomes have been more than offset by the continuing new round of wage increases. As a result, the aggregate of personal income after taxes has already reached and will continue on to new highs for a considerable time ahead, new taxes to be passed notwithstanding. Essentially this is true because most of the methods of increasing production—the basic solution to inflation—also increase income.

"While the steps so far taken by government to control inflation have been relatively ineffective, they may be more effective over the next few months as the government takes in more money than it spends during the heavy tax collection period ahead, and while there is a temporary lag in actual defense production. Over the longer term, however, additional steps to control inflation will be necessary because the combined inflationary forces are so great. The reduction of all possible nonmilitary government spending certainly is essential, as is the encouragement of saving; and inevitably direct wage and price controls will be needed—undesirable as they may be from an American-way-of-life viewpoint.

Stock Market Outlook

"In the midst of our inflated economy, selected stocks appear to be the least inflated major commodity. This certainly is true if inflation is a term which describes a condition in which the price of a commodity is historically high in relation to its historical *value*. The average price of the stocks represented by the Dow-Jones Industrial Average, for example, is historically high, but in relation to the earnings and dividends of those stocks—which are the primary determinant of value—their prices are low.

Stocks Still Attractive

"Today, after a rise of nearly 70 points in the Average stock price, all of the attractive *value* position of June, 1949, still exists in these stocks because earnings and dividends have risen further than prices. Undoubtedly, this historically favorable stock price position relative to earnings and dividends reflects a wide expectation of a sizable decline in earnings and dividends.

"A decline in corporate earnings, after taxes, is a logical expectation. Corporate taxes are sure to increase because of both the government's need for increased revenues and as a method of controlling inflation. On the other hand, the very inflationary forces which need controlling also mean a continuing high level of corporate sales and earnings before taxes. Our careful analysis of the outlook for corporate sales, profit margins, and increased corporate taxes leads us to believe that the net earnings on the Dow-Jones Industrials will not run lower than $23 per share next year, and that very likely they will average $25 per share or more. Thus, there is no reason to expect much, if any, decline in the current dividend rate of about $15 on the Average stock.

"Yield—the return on invested money—is the most fundamental basis for appraising securities. Today, the current yield on the Average stock is 6.88%. This is a very high return on the price of such good-grade stocks as those used in the Dow-Jones Industrial Average; it is especially high relative to the return on high-grade bonds.

"In the four periods of high prices in 1929-1937-1946-1950, and the four periods of low prices in 1932-1938-1942-1949, the present is the first time in history that stocks of such high quality have *simultaneously* sold at such high prices *and* yields. Such a situation *might* indicate that dividends were being over-paid or just barely covered. Actually, at none of the eight significant points in history mentioned earlier—either highs or lows—have dividends been so well covered as they are today.

"Successful investing, however, even in this assured period of high business activity, will more than ever depend upon selection of favored industries and individual securities."

The report disclosed that Group Securities assets increased to $72,135,000 for the year ended Nov. 30.

E. W. Axe Analyses Investment Situation

Certain Established Factors Helpful to Investors Today

Emerson W. Axe, President of Axe-Houghton Fund, Inc., in a report on the investment situation stated that "the deterioration of the international situation over the past month introduces serious new hazards into the outlook for securities. In such a situation the investor might well conclude that he must at last surrender his financial soul to the powers of evil and give up the struggle to judge future trends and tendencies.

"Actually, however, nothing could be farther from the truth and the present problem of the investor differs little in its general character from that he always faces. Some of the essential facts required to estimate longer-range investment problems are well established and others can be estimated with a fair degree of probability. It is only a fraction of the investment terrain that is hidden by the fog of politics and war. The business of the investor today is just what it always is, to study the facts that are definitely ascertainable, to make reasonable estimates of the parts of the situation that are uncertain, and to arrive at a rational conclusion based on these facts and estimates, with an allowance for the factors that are unknowable.

Established Factors Present

"Thus in the present situation, although no one can foretell the course of international and political conditions, there are a number of factors which can be established with reasonable certainty or at least with a fair degree of probability:

"(1) General business activity is likely to remain at a very high level for some little time, probably for two or three years at any rate. This is more than we can usually be confident of.

"(2) Inflationary forces which have developed to such magnitude during the past 20 years are certain to be strengthened further.

"(3) In the long run, in spite of controls or high water, the general price level is certain sooner or later to rise substantially.

"(4) In spite of this, money rates are likely to continue at a fairly low level, as long as central bank manipulation can hold them there and that is likely to be for some little time.

"(5) On this basis before-tax earnings are likely to be fairly high in the industries favored by present conditions—which is by no means all industries.

"(6) An excess profits tax will cut down these earnings very unequally. As in the early 1940s some companies will almost certainly find it difficult to increase their net while many others will still be left a wide range for earnings growth.

"It seems probable that these factors will govern the course of security values over the next few years and it is the belief of the management that if investment policy is based on these considerations a satisfactory result is likely to be obtained. It is obvious, however, that this approach requires careful study not only of general conditions, but of industries and of individual securities and careful selection based on such study in relation to the six factors we have mentioned.

American Business Shares Reports for Fiscal Year

American Business Shares, Inc. in its annual report for the fiscal year ended Nov. 30, 1950, shows an increase in net asset value per share of 34 cents since Nov. 30, 1949. Of this amount 20 cents was paid out on Nov. 28. After this payment net asset value was $3.89 per share.

During the year the Company realized $1,898,594 from the sale of securities. In addition unrealized appreciation increased $1,070,028, so that for the year there was an over-all gain, realized and unrealized, of $2,968,622. On Nov. 30, 1950, total unrealized appreciation in the portfolio was $3,390,232.

Pell, de Vegh Reports

Total net assets of the Pell, de Vegh Fund on Dec. 21 were $454,000, ex dividend, as compared to $120,000 on April 5, 1950, when the Fund originated. The number of stockholders was 69 as compared to nine at the earlier date; and the net asset value was $30.42, ex dividend, as compared to $25.13.

A long-term capital gains dividend of 70 cents per share was declared by the Pell, de Vegh Mutual Fund, Inc. on Dec. 21, 1950. This brings distributions for the first nine months of its current fiscal year to a total of $1.

Canadian Banker Urges End of Exch. Controls

Gordon R. Ball, General Manager of Bank of Montreal, at 133rd Annual Meeting of institution, says Canada's gold and dollar holdings are ample, and existing exchange controls impede international investments.

In his report to shareholders at the 133d Annual Meeting of the Bank of Montreal on Dec. 4, Gordon R. Ball, the General Manager, called for an end of all exchange controls by the Canadian Government. In connection with a review of business conditions in Canada, Mr. Ball stated:

Gordon R. Ball

For Canadian business, 1950 has been a year of the unexpected. In its early months, the economy appeared to be threatened by disquieting increases in the number of unemployed, by accumulating difficulties in maintaining overseas export trade and by a generally accepted prospect of some recession in demand, production and prices. But a series of developments which could hardly have been foreseen have since combined to produce a condition of a very different nature. Today, the flush on the face of business is more than the glow of good health. It is heightened by the feverish symptoms of the inflationary virus.

A strong revival of business activity in the United States, together with "delayed-action" effects of the exchange revaluations of the previous September, gave a remarkable stimulus to our exports across the border. Indeed, the expansion of trade in this direction more than offset a continued contraction in the movement of Canadian goods to other areas. It is encouraging to observe, moreover, that an enlarged flow of imports from overseas has done much to mitigate the shortage of Canadian dollars abroad, holding out some promise of improved export prospects in these traditionally important markets.

Within Canada itself, expenditures of a capital nature, which were originally expected at best to hold steady, have risen significantly. The increase has been largely traceable to heavier outlays by governments, utilities and public institutions and to enlarged capital investment in the petroleum industry.

At mid-year the spotlight of Canadian interest and concern switched abruptly to the international sphere with the outbreak of armed aggression in Korea. That situation has emphasized the urgent need to prepare for future eventualities. In consequence, Canada, in company with other free nations, is committed to greatly expanded defense expenditures, which will create new demands on our economy as a major source of strategic materials and military equipment.

During the year, consumer buying has been heavily concentrated on new automobiles and on certain durable items of household equipment, with a growing proportion of these transactions being financed by consumer credit. The number of commercial failures has continued to rise at a more rapid rate than last year. Manufacturers' inventories, which had been subject to some overall reduction in 1949, have been rising noticeably in aggregate value during recent months.

For agriculture, the picture has been rather more mixed. The prairie wheat crop was exceptionally large in quantity, but drastic downgrading caused by frost damage, together with the lower basic price set for the crop year, has reduced the western growers' return per bushel. Other field crops have been good, but fruit harvests were generally light. Dairy products have continued to face marketing difficulties. Livestock products have enjoyed strong demand at good prices.

One of the most significant economic developments of the past year was, of course, Canada's abandonment of a fixed exchange rate and a return to a free rate left to find its own level through the influence of market forces. The events leading up to this major reversal of policy are now history and there is no point in reviewing them in detail here. Suffice it to say that the Canadian experience with fixed rates amply demonstrated the basic fallacy of well-intentioned attempts at price-fixing against a background of fluctuating underlying values.

It is gratifying also that the exchange move will shortly be followed by removal of the emergency import restrictions, which are a legacy of our exchange difficulties of 1947. I would suggest, however, that having gone this far the time may well be ripe for a thoroughgoing examination of the matter of exchange control from the standpoint of its practical usefulness under the new conditions now prevailing.

During the past year I have had an opportunity of studying at close range some of the obstacles impeding the processes of private international investment. Among the many problems involved, exchange control stands high on the list. And there seems to be a real danger that patterns of control adopted under emergency conditions may in many countries be retained after the need for them has passed and may be used for purposes other than those for which they were originally conceived.

In this country we have gone far in many important respects in sincere efforts to break down the barriers to international commerce. But we still have the complex and expensive mechanism of exchange control. Admittedly, these controls have been necessary in dealing with emergencies of the past, and it is always possible that difficulties may again arise in future. But with our holdings of gold and United States dollars at high levels and with the necessity of maintaining a fixed rate of exchange now removed, it would seem appropriate that Canada give a vigorous lead in the elimination of the devices of exchange control as rapidly as conditions permit. In particular, I would suggest that Canada has little to fear with respect to the possibility of flight of capital in an unrestricted market. A fluctuating exchange rate should act as an important brake on any heavy outward capital movement. Further, complete freedom to withdraw one's capital would in itself be a powerful safeguard against excessive use of this right. Finally, I doubt if there is any country in the world which constitutes a more attractive field for foreign investment of a permanent nature than does Canada today.

Mortgage Lending in Defense Program

By WENDELL T. BURNS*

Vice-President, Northwestern Nat'l Bank, Minneapolis, Minn.

Asserting home mortgage lending will be dominated from Washington for probably years ahead, Mr. Burns explains provisions of Regulation X of Federal Reserve Board and urges banks cooperate to assist defense program. Says, however, controls must be supplemented by sound government fiscal policies and curtailment of unnecessary spending. Concludes, if controls are long continued, they will lower individual incentives and bring black markets into being. Sees goal of 850,000 additional housing units adequate.

A realistic discussion of mortgage lending at this time must be based on the knowledge that for months and maybe years to come, the housing field will be under complete domination from Washington. The government has decided that during 1951 residential construction should be limited to approximately 850,000 units, and credit controls have been imposed as the primary device for restructing volume.

Wendell T. Burns

Sections 602 and 605 of the Defense Production Act of 1950 provided for the establishment of construction credit controls, with the power to regulate them lodged with the President. By executive order, he has delegated to the Board of Governors of the Federal Reserve System control over conventional mortgage lending, and to the Housing and Home Finance Administrator control over FHA-insured and VA-guaranteed mortgage loans, with the provisions that the Federal Reserve Board and Housing and Home Finance Administrator should coordinate their regulations. Regulation X of the Federal Reserve Board and reductions of loaning ratios by the FHA and VA are the designs set up for limiting credit in the housing field.

Regulation X, under existing law, can be made to apply only to new construction commenced on or after Aug. 3, 1950. FHA and VA regulations apply to loans on both old and new buildings. In both cases, requirements of down payments by the borrower are the principal credit control.

The National Production Authority, under Section 101 of the Defense Production Act of 1950, has issued regulations forbidding new construction for recreational purposes, and more direct controls may be in the offing.[1] The Federal Reserve Board and the Housing and Home Finance Administrator are devising amendments to Regulation X to include multiple-unit housing.

Why the Regulations

Few would deny that expanding construction—particularly of housing—played a dominant role in keeping business at a high level during the postwar years. Made possible in large part by the liberal financing terms of numerous government agencies, residential building expanded during 1946 to 1949, inclusive, at a pace almost unparalleled in our history. Then early in 1950 VA and FHA terms were further liberalized; and by June and the Korean War, residential housing starts were (for the first six months) at the unprecedented annual rate of 1,300,000 units. While credit expansion, induced by liberal government lending policies, was not the sole cause of the building boom, it was primarily responsible; and the building boom was the core of the durable goods expansion which fed the inflationary fires in this country during most of this period.

The Korean attack and the obvious necessity of preparing for the worst required immediate action. We all dislike regulations or controls of any kind, but controls of the type now employed in the housing field are more palatable than continued inflation or rigid price, material, and wage controls. The new controls serve a dual purpose. In the first place, they fight inflation by checking credit expansion where it has been excessive. By reducing in that way the amount of new construction, there is less demand for labor and materials; and so the upward pressure on wages and prices is lessened. In the second place, reduced requirements in the building industry make more manpower and materials available for defense and at less steeply rising wages and prices. The new controls are intended to assist in preserving a sound economy and to facilitate preparation for resisting a foreign aggressor.

Effects of Controls in the Building Field

Unless the Korean War and the defense program induce more severe controls, 1951 should be another big year for the construction industry. To the proposed 850,000 residential units must be added other normal building and defense construction, both by the military services and by business.

Even without the new regulations, residential construction should have declined in 1951. In 1950, we were trying to build 25% to 30% more houses than the builders of the country could comfortably handle. By midyear, this had already resulted in material scarcities and labor shortages, which were forcing costs up and making building more difficult. Then the Korean War brought forth new pressures. A new wave of building starts by those wishing to get going before restrictions might hold them back further inflated the market.

The restrictions on building credit, combined with other influences, are already having their effect on new construction. Because of the great volume of housing starts arranged for or pushed through in the summer and early fall, the full effects will not be felt for several months.

The smaller builders with moderate means to assist in their own financing may be affected less than the larger contractors. There has been, temporarily at least, practically a cessation of new large development building projects by the larger firms.

Housing credit controls seem to hurt most in cities. Building lots have declined in value, especially good suburban lots.

Already materials in the construction industry are more readily available and often at lower prices. Lumber prices, especially, have dropped. Gray markets in nails, plumbing and heating supplies, plasterboard, and millwork are disappearing. Cement and other materials are more readily obtainable. While it is possible that other factors will next year erase many of these favorable trends, the current situation with building materials is temporarily encouraging.

Many in the building industry have said that the controls are so severe that 850,000 housing units cannot be built next year. Others expect that the backlog of liquid assets in the possession of our people, coupled with rising incomes, will support more than 850,000 new homes in 1951. Change in the regulations may come if the authorities in Washington become satisfied that the goal is either not being reached or is be-

Continued on page 33

*Address by Mr. Burns before the Third National Credit Conference of the American Bankers Association, Chicago, Ill., Dec. 14, 1950.

1 In this manuscript, when the terms "regulations," "controls," and the like, are used, reference is made to the type of Regulation X, unless the context would indicate other controls are referred to or included.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

At the regular meeting of the directors of **The National City Bank of New York,** held on Dec. 19, H. Harold Whitman was appointed Vice-President. Mr. Whitman is one of National City's veterans in South American banking, having served nearly 30 years in that territory. He is now stationed at head office. John W. Roberts and Christopher R. P. Rodgers were appointed Assistant Cashiers at the same meeting.

* * *

At their meeting on Dec. 26 the directors of the **National City Bank,** appointed Percy West and John M. Potter, Vice-Presidents. Both were previously Assistant Vice-Presidents and have been with the National City Organization for 35 and 32 years respectively.

* * *

Following a meeting of the board of directors, Lawrence C. Marshall, President of the **Bank of the Manhattan Company of New York** announced on Dec. 21 that John J. Kelly, Jr., and William Bischofberger were advanced to the rank of Vice-President. Mr. Kelly is attached to the foreign department and Mr. Bischofberger to the Queens division of the bank. Mr. Marshall also announced the promotion of Richard H. Garlock to the rank of Assistant Vice-President and the appointment of the following as Assistant Treasurers: Arthur Beck, Austin W. Beetle, Morris Engelsberg, Ernest C. Hoechner, William A. Kelly, Harold M. Lindstedt, John E. Marshall, Richard W. McCready, John A. Nirmaier and Frank Stadtler.

* * *

Louis B. Tim, special partner in Salomon Brothers & Hutzler, has been elected to the Advisory Board of the 29th Street office of **Chemical Bank & Trust Company of New York** according to an announcement by N. Baxter Jackson, Chairman of the bank. Mr. Tim fills the vacancy created by the death of Benjamin Rosenthal, Chairman of the United States Playing Card Company.

* * *

Ormand Milton, Assistant Vice-President, of **Bankers Trust Company, New York** has resigned effective Jan. 1. He will be Special Consultant to the Director of Finance, Headquarters, U. S. Air Force in Washington, D. C. During 16 years with the bank, he has headed both the transportation division of the Analysis Department and Post-War Division, served as an officer in the special aviation division and for the last four years in the general banking department. Previously, he was an economist for Chas. D. Barney & Co. (now Smith, Barney & Co.); and also as an official of Aero Engineering & Advisory Service, Inc., subsidiary of Aero Underwriters Corporation.

Floyd E. McKee has been elected Assistant Treasurer of Bankers Trust Company and will be assigned to the metropolitan division at the Wall Street Office. Mr. McKee has been associated with the Bank's credit department since his discharge from the Army in 1946. He began his career with the bank in 1934.

* * *

Charles C. Clough, Administrative Vice-President of **Manufacturers Trust Company of New York,** has been elected a director of the company, Henry C. Von Elm, President, has announced. **Mr. Clough** joined the staff of the company in 1921, and was appointed an Assistant Secretary in 1924. Five years later he was placed in charge of personnel at the company's main office and shortly thereafter was appointed Comptroller. He became Vice-President and Comptroller in 1943, and in 1947, with the formation of the General Administrative Board of the company, he was appointed Administrative Vice - President. Mr. Clough is a Vice-President and director of Manufacturers Safe Deposit Company; Treasurer and a director of Hotel New Yorker Corporation, etc.

* * *

James K. Campbell and Gardiner S. Robinson, Assistant Cashiers of the **Commercial National Bank & Trust Company of New York,** have been advanced to Assistant Vice-Presidents, effective Jan. 1, Walter G. Kimball, Chairman of the board of the bank, announced on Dec. 22.

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Directors of **Clinton Trust Company of New York,** at a meeting on Dec. 20 declared a stock dividend out of undivided profits, consisting of 5,000 shares of stock of an aggregate par value of $100,000. If approved by stockholders at the annual meeting on Jan. 17 the stock dividend will be distributed on Feb. 1 to stockholders of record Jan. 5, on the basis of one additional share for each eight shares held. Directors also declared the regular quarterly dividend of 25 cents per share, payable Jan. 2 to stockholders of record Dec. 21.

* * *

Announcement was made Dec. 26 by Thomas J. Shanahan, President of **Federation Bank and Trust Company of New York** that an additional office is being opened in the Grand Central zone on Jan. 3. It is at 6 East 45th Street, in the quarters formerly occupied by Title Guarantee and Trust Company, and more recently by Bankers Trust Company. P. L. Roraback, Executive Vice-President, will be in charge of the new 45th Street office. Federation Bank was formed 25 years ago and its main office is at 34th Street at Eighth Avenue. In the last 10 years its resources have been from $10,000,000 to more than $46,000,000.

* * *

William L. DeBost, Chairman of the **Union Dime Savings Bank of New York,** announces that at the annual meeting of the trustees Walter R. Williams, Jr. was elected Vice-President. He takes the place of Edmund P. Livingston, Vice-President, who retired Nov. 1 after 30 years' service with the bank. Mr. Williams, who for some time has been with the Savings Banks Association of the State of New York, joined the staff of the Union Dime Jan. 1, 1950, as Treasurer. He will continue to serve in that capacity.

* * *

John T. Madden, President of the **Emigrant Industrial Savings Bank of New York,** has announced that the Board of Trustees has appointed John E. McAniff an Assistant Vice-President, Joseph C. Wolf, Secretary, and George F. Wingertzahn an Assistant Auditor of the bank. Mr. McAniff has been a member of the bank's law department for over 10 years. Mr. Wolf has been a member of the same department for over 14 years. Mr. Wingertzahn has been employed in the auditing department for the past five years, and prior to his association with the bank he was Chief Accountant in the

Continued on page 34

Can Britain Do Without Marshal Aid?

By PAUL EINZIG

Dr. Einzig commenting on ending of Marshall Plan Aid to Britain on Dec. 31, holds, despite doubts action is premature, nation should find no difficulty in producing enough for rearmament and for continuation of export drive, provided raw materials can be obtained and unity of sterling area continues.

LONDON, Eng.—On Dec. 31, 1950, Marshall aid comes to an end as far as Britain is concerned. It is true, the joint American-British statement issued on Dec. 13 goes out of its way to emphasize that Marshall aid is only suspended, not terminated, and that the situation would be reconsidered if necessary. "Both governments recognize," the statement declares, "that part of the improvement in the position of the sterling area is due to external factors which may well be temporary. Furthermore, new difficulties and burdens are certain to fall upon the British economy and balance of payments in 1951 as a result of the increased defense program and the impact of higher raw material prices and prospective shortages." The possibility of a deterioration of Britain's dollar position is freely envisaged. Nevertheless, once Marshall aid is suspended it will be very difficult psychologically and politically for the British Government to apply for its resumption, and even more difficult for the United States Government to agree to it. So for all practical purposes Marshall aid to Britain has come to an end.

Dr. Paul Einzig

There are many people in Britain who feel that the termination of American assistance in the interest of British economic reconstruction has been premature. For one thing, the improvement of the dollar position has not been nearly as pronounced as the British Government would like it to appear. A large part of the increase of the gold reserve has been achieved at the cost of a decline in the stocks of commodities imported from the dollar area. Moreover, as far as Britain is concerned, there is still a very considerable dollar gap, offset by the export surplus of the rest of the sterling area in relation to the dollar area. This means that the counterpart of the increased gold reserve was a corresponding increase of Britain's sterling indebtedness to other sterling area countries. Some of these countries are not likely to continue indefnitely to swap their gold for sterling. In fact, Britain had to agree in December to release £4,000,000 of gold to Ceylon. Other Dominions too may feel that they are entitled to spend more of the dollars they earn. Thus, even in the absence of a deterioration of the dollar position of the sterling area as a whole, Britain's dollar position might easily deteriorate.

In any case, interest and capital payment on the American loan of 1945 is due to begin in 1951. Unless Britain should decide to avail itself of the "waiver clause" of the loan agreement (under which interest payment can be suspended if Britain has an adverse dollar trade balance) this will involve a considerable additional burden. The chances are that Britain will not apply for a suspension of interest payments.

There are many other headings under which Britain may have to lose dollars in 1951. This does not necessarily mean, however, that she will become once more dependent on Marshall aid for her economic stability. For there can be no doubt that since the initiation of Marshall aid in 1948, Britain's producing capacity has increased very considerably. Provided that there will be enough raw materials to keep British industries occupied there should be no difficulty in producing enough for rearmament and the continuation of the export drive. What is essential is that home consumption should be curtailed.

What everybody would like to know is whether the United States, having terminated Marshall aid to Britain, would be prepared to grant financial assistance for the purposes of rearmament. In this respect no decision is expected for some months. Meanwhile, there are no indications whether the government intends to await the outcome of military aid discussions with the United States or whether it intends to proceed with rearmament to the full extent envisaged in the £3,600 million three-year program. The view is held in official circles that while Britain may be able to afford to do without Marshall aid she could not afford to embark on rearmament on a large scale without substantial American assistance.

In any event, the fact that it was possible to suspend Marshall aid long before it was supposed to come to an end is rightly quoted as evidence of progress toward reconstruction. Until quite recently most people were worried as to what would happen in 1952 when Marshall aid was due to come to an end. Both opponents supporters of the government envisaged major difficulties unless Marshall aid were to be followed by some other form of American assistance. It is gratifying that the termination of Marshall aid 18 months before it was due to end, can now be envisaged without undue fears, at any rate as far as the immediate future is concerned. It is true, the improvement in the situation that has made it possible to risk the consequences of the termination of Marshall aid has come about almost entirely through the rise in the prices of sterling area raw materials. There seems to be little reason, however, for supposing that this factor would not continue to operate. Provided that the unity of the sterling area is maintained, Britain is likely to be able to carry on without Marshall aid.

Says Women Should Learn Investment Art

Mrs. Arthur Mortimer deBebian points out women own 70% of wealth and therefore should know how to control it.

In speaking before a meeting of the American Affairs Committee of Hadassah at the St. George Hotel in Brooklyn, on Dec. 14, Mrs. Arthur Mortimer deBebian, Secretary-Treasurer of the Federation of Women Shareholders in American Business, warned her audience that women must learn much more about sound investment practice if they are to protect their own capital.

Mrs. deBebian in her talk said: "Today statistics tell us that women own 70% of our country's privately-held wealth—but they do not control it. Why? Simply because they have been so imbued with the idea that there is some great mystery attached to economics and that women 'could not understand'." She also pointed out that in many instances women tell her that they know nothing of investing—"my husband takes care of everything." Mrs. deBebian said she was always appalled at such statements because she felt that women were all too proud of their ignorance instead of having an open mind and trying to learn the basic principles underlying our financial structure.

In elaborating upon this subject, Mrs. deBebian added: "In this country we are all capitalists and we must consider that we have responsibilities as such. We must learn to preserve our own capital—our dividends—and our American way of life."

Mrs. deBebian, in noting that one out of every four women over 60 in the country is a widow—and also that the average inheritance is used up in seven years, commented: "This is a most dangerous state of affairs and in this modern day when women have made such tremendous strides in law, medicine and industry, they are still most uninformed regarding the management of their own capital. While it is possible to secure advice from many reliable sources it is vitally important that women learn the basic principles underlying sound investment practice. "But," she continued, "that is the dark side of the picture—today more and more women are commencing to show some interest in financial matters. The Federation of Women Shareholders in American Business and Town Hall have just finished a short course in finance. This course was said to have had the largest paid enrollment of any course in finance yet presented. Our audience at each lecture was mainly composed of women. Its success was so tremendous that our Brooklyn Federation and the Brooklyn Woman's Club will jointly present a series of five lectures, starting Jan. 18. Other local chapters of the Federation are also planning similar courses after the first of the year."

In closing her talk, Mrs. deBebian said: "We must also learn the value of our proxy votes and make proper use of our power. We must attend annual meetings —we must learn how to evaluate management—we must learn how to act as peacemakers between management and labor. In short, we must awake to the fact that we have duties and must learn how to be good corporate citizens."

J. L. Quinn Elected

WILMINGTON, Del.—Auchincloss, Parker & Redpath, Inc. announce that James L. Quinn has been elected a Vice-President of the corporation.

Recommends Avoidance of Wage-Price Controls

Richard Rapport, Connecticut State Banking Commissioner, in report to Gov. Bowles, favors tighter credit controls and more encouragement of savings. Says deficit financing should not be done through commercial banks.

In his annual report to Governor Chester Bowles, Connecticut State Banking Commissioner Richard Rapport warns of inflationary dangers which may arise from deficit financing through commercial banks, and decries use of wage-price controls, urging, instead, more drastic restrictions of credit and greater savings by public. Mr. Rapport will resign as Banking Commissioner on Jan. 15, 1951, to become Executive Manager of the Connecticut Bankers Association.

Richard Rapport

"Powerful inflationary forces have been dominant in our economy since the end of World War II," Mr. Rapport stated to Governor Bowles, adding: "Although in the early postwar period there was heavy buying of goods because of deferred demands, accumulated shortages and population growth, the most important basis of the inflationary pressures was the unprecedented growth in liquid assets and incomes during the war years. In that period, bank deposits and currency in circulation increased almost three times — from $60 billion to $170 billion. In addition, individuals and businesses bought 100 billion of Government securities, and substantial proportions of both these types of liquid assets were, for the first time, held by relatively low-income groups.

"Private credit expansion added to this huge money supply with new loans to consumers, home owners and businesses. Total personal incomes increased substantially, following rounds of wage increases, and were maintained at high levels in part by Government expenditures and programs in the housing field, foreign aid, defense spending, veterans' benefits, and farm price supports. In the face of all this, while the gross national product rose in terms of prevailing higher prices, the actual physical volume of production—that is, the output in units of goods and services—was, at its maximum in the postwar period, less than twice as high as in the best prewar year. There was, thus, a huge supply of money pressing against a relatively low supply of things to buy.

"The adjustment in 1949, marked by a decline in industrial production and some lowering of prices, was only temporary, even though it had been welcomed by some as a healthy correction of the economic situation.

"By June of this year, at the time of the Korean outbreak, industrial production was at a new high, unemployment was at a minimum, individual incomes had greatly increased, as had consumer expenditures. Businesses were expanding plant and equipment and starts of new housing were increasing by tremendous numbers. We were in a boom period when war started in Korea.

"Immediately following the outbreak of war in June, scare buying and stockpiling were heavy, both on the part of individuals and businesses, and gave such an impetus to our economy throughout the months of July, August and September that by the end of the third quarter we had what amounted virtually to a boom on a boom.

"By Sept. 30th, physical industrial output had risen 7% since the June peak; all types of construction were one-third higher than a year before, while residential construction alone was up 60%. Unemployment was at its lowest level in two years, and this scarcity of labor, coupled with rising prices and business profits, led to widespread wage increase demands. Our total personal income rose to an annual rate of $224 billion, while personal expenditures expanded to a new high annual rate of $195 billion.

"Consumer credit, housing credit and business loans also expanded sharply during the third quarter and added substantially to the money supply. Currency and bank deposits reached a new high of $172 billion, while additional funds for spending came from withdrawals from savings accounts and redemptions of savings bonds. These national trends are reflected in our Connecticut banks, and are shown and discussed in their local relationships in the more detailed pages which follow.

"It is interesting and extremely important to note that the inflation since mid-1949, at a rising peak on Sept. 30th of this year and spilling over into this present quarter, occurred without a substantial increase in Government expenditures. Individuals and businesses have been spending these vast sums and have secured the money from their own growing incomes, by drawing down savings, and by borrowing. These funds added fuel to the inflationary spiral by further increasing personal and business incomes, thus providing the means for more spending.

"Although the figures contained in this report are, by law, a reflection of the condition on Sept. 30th of the institutions under the supervision of the Banking Department, the time necessary to their compilation brings us well into the final quarter of the calendar year. We have at present in our economy a tight labor supply, a physical output at full capacity in some areas and close to it in others, tremendous personal incomes, a large public and private debt, and huge supplies of cash and liquid assets. Under such conditions and with Government defense expenditures just about beginning, it is certain that inflationary pressures will both continue and increase.

"Federal Reserve Board authorities estimate that there will shortly be a military and defense manpower deficit of one million people who must come from the ranks of those now engaged in production for civilian purposes. Civilian goods will, therefore, be in shorter supply and the demand for fewer goods will cause prices to rise. Even if increased production could keep civilian goods to nearly present output, the increased expenditures of billions of dollars would greatly increase incomes and thus create upward pressure on prices of the stable supply of civilian goods. Higher prices mean higher costs, both to business and to individuals. Higher costs to individuals lead to wage increases and resulting larger incomes to press upward on prices. Higher costs to business lead directly to higher prices for finished goods. And so the wage-price spiral whirls ever upward.

"It seems inevitable that, despite higher taxes, the Government will not be able to pay for defense needs on a current basis and will have to borrow to meet its obligations. If this deficit financing is done through the commercial banks, as was the case during World War II, the inflationary pressures would be accelerated. Such borrowings create deposits which could be loaned out to businesses and individuals, thus further stimulating the demand for goods and services.

"It is obvious that the superimposition of government defense demands and expenditures upon an economy already burdened with inflation will create unprecedented pressures upon our price structure. It is unlikely, under the circumstances, that inflation can be held back by increased production. The alternative, if inflation is to be curbed, is a great reduction in spending. Civilian spending must be curtailed by courageous taxation, by strongly tightened credit, and by greatly increased savings. Government itself, on local, state and national levels, must set an example by cutting back all unnecessary and nondefense expenditures. The federal government must, after taxing individuals and business to the delicate limit compatible with maintaining the incentive to produce, finance its deficit, not through the commercial banks, but by spreading its obligations among institutions and individuals where the purchases will immobilize dollars that might otherwise find their way into the spending stream.

"We must avoid direct controls on prices, materials and wages. Not only do they lead to the creation of vast and expensive bureaucracies, but we know now, by the bitter experience of World War II, that such controls do not stop inflation but only postpone it. The pressure remains and breaks out with the disastrous effect the moment the controls are lifted.

"So far, such controls as have been considered necessary are indirect and selective. In the important task of restricting credit, we have two moves which, despite the criticism leveled against them, are proving to be of considerable value. Federal Reserve Board Regulation W, pertaining to consumer credit, and Regulation X, affecting real estate loans, together with the VA and FHA mortgage lending regulations, cover a large part of the credit field, but by themselves are not sufficient to provide all the tightening that is likely to be needed in this area of inflation barriers. These regulations should be vigorously supported and rigidly observed by all lenders. In addition, all type of credit extension by all types of lenders should be carefully screened and limited so that inflationary pressures and handicaps to necessary expansion of military production may be avoided.

"All institutions which garner the savings of people must, as never before, encourage savings, not only because in these times, even more than usually, it is prudent to be thrifty, but because every dollar saved is a dollar taken out of the spending force that pushes upward with such great violence on prices. For the same reason, people must be encouraged to buy Series 'E' Savings Bonds. Such purchases not only keep money from being spent on consumer goods, but also reduce the need for deficit financing through the commercial banks.

"These are not easy measures to adopt or follow. That they be used and pursued, however, with courage and understanding and unselfishness, is of grave importance to the very existence of our country's freedom."

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Operating statements of the principal New York City banks to be published within the next several weeks are expected to make favorable comparisons with those of 1949. Although results will vary for each individual bank, in most instances net operating earnings should show some improvement over those reported last year.

The expansion in loan volume since the outbreak of hostilities in Korea has been one of the outstanding developments affecting commercial bank operations during 1950. For the 21 weekly reporting Federal Reserve member banks in New York City, loan volume has advanced in 28 of the past 29 weeks.

For the week ended Dec. 20, the total for the banks in this area reached a new record of $3,329 million and was $1,516 million or approximately 30% above the total of the same period a year ago.

Another factor which has been favorable to loan operations this year has been the less-than-normal seasonal influences on loans. During the early months of the year, the decline in loans was considerably less than usual. The high and rising level of business for the first half helped to prevent the contraction in loan volume which is normal at that time of year.

Also, the upturn in loans occurred earlier than usual. The latter part of July or August is the normal time for loans to begin to increase. This year, however, the volume began to increase as early as June and has since shown steady gains with the totals reaching record levels in recent weeks. Even in the weeks for which reports have been made so far in December, and during which time business borrowing normally shrinks because of seasonal declines in business and inventories, loans have continued to increase.

Along with this expansion in loan volume there has, within the past few months, been a firming of interest rates. In order to discourage excessive borrowing and as part of an anti-inflation program, the Federal Reserve increased short-term money rates. Commercial banks in the area increased their prime rate from 2% to 2¼% and there was an upward movement in rates all along the line.

These developments in the loaning field are significant to commercial bank operations for a number of reasons. In the first place, loans produce a considerably larger return than most other types of investments. In the second place the loan volume this year has averaged materially higher than in 1949. Whereas a year ago there were deflationary tendencies present in the economy with a resulting pressure on rates, this year the reverse has been true.

Even though the expansion in loan volume has necessitated some reduction in investments, primarily U. S. Government securities, the income derived from borrowings has more than offset this loss with the result that gross income has in most cases shown a considerable gain.

Taxes have been heavier this year and operating expenses have been moderately higher. These two items have absorbed some of the gains in gross income but in general a part of the improvement has been carried through to net income. The result has been a modest improvement in earnings.

These factors were in evidence at the time of the third quarter bank statements. Institutions which had indicated earnings for the nine months above those of the previous year included Bank of Manhattan, Bank of New York & Fifth Ave., Chase National, Chemical Bank & Trust, Corn Exchange, Empire Trust, First National, Irving Trust, Manufacturers Trust, National City Bank, New York Trust, and Public National.

These same factors continued to operate throughout the fourth quarter and reports for the final period should make an equally favorable showing. There could, of course, be some year-end adjustments among individual banks which might alter their final results. For example, with loan volume showing a sharp advance this year, some institutions may find it necessary to make further additions to valuation or bad debt reserves.

There is also uncertainties in the tax outlook with respect to rates and treatment of banks under excess profits tax legislation. As a result some banks may find it necessary to increase tax reserves beyond what was previously believed sufficient.

Regardless of these considerations, however, the operating and condition statements soon to be released should make a favorable comparison with those of a year ago.

Canadian Securities

By WILLIAM J. McKAY

There is little doubt that British Commonwealth economic decisions of the highest magnitude are now in the course of development. Already the British Cabinet and the Economic Policy Committee have met to discuss the arrangements and the problems to be dealt with at the conference of Commonwealth Prime Ministers to be held Jan. 4. The conference will be confined to broad matters of general policy but there is no question that the most important item on the agenda will be the measures to be employed for the obtaining and allocation of raw materials. The opportunity was missed at the similar meeting held last September to take the necessary steps to meet the changed conditions of world markets. Canada alone took advantage of the obvious trend of world prices to set free her exchange, whereas in place of this unilateral action it had been expected that all the Commonwealth members would have acted in unison.

The United Kingdom and Australia in particular are now suffering as a result of the procrastination induced by domestic politics and blind adherence to extreme economic autarchy. India and Pakistan likewise have stubbornly refused to acknowledge the logic of events and by the adoption of divergent exchange policies have erected an almost impenetrable economic barrier between the two countries which only serves to aggravate the existing political differences. The Canadian authorities who have always adopted a thoroughly realistic attitude toward the relationship of the Canadian dollar and the trend of U. S. and world prices did not hesitate to reverse the step taken following sterling devaluation when it became obvious that the predevaluation trend had drastically changed.

When the United Kingdom reluctantly cut the value of the pound, the extent of the slash was motivated by panicky fears of a continuing fall in the level of world prices. From the moment that the trend commenced to reverse itself it became evident that Britain was on the wrong track. Despite the fact that former Chancellor Sir Stafford Cripps at the time of devaluation left the door open for reconsideration in the light of subsequent events, his successor has acknowledged the steady deterioration of the terms of British trade, but has balked at the necessary steps for their correction. In a recent speech before the British Institute of Export, Chancellor Gaitskell admitted that while it was now easy enough for Britain to sell abroad the prices of the many things that the country needed were rising fast. Scarcity and shortages were beginning to appear and the expressive word "bottleneck" was coming into use again. The President of the Institute stated that higher costs of material and labor must increase export prices but he deprecated most strongly the suggestion that British exporters should increase prices beyond that, as he did not believe in a policy of victimizing his foreign customers. Both the problems of Mr. Gaitskell and the British exporters would be largely solved however by the simple expedient of placing the level of sterling in line with current world conditions, or better still, to free sterling and thus permit it to rise to a more natural level in accordance with the method already adopted by Britain's senior Dominion.

So far, however, Mr. Gaitskell has recognized the symptoms of Britain's present economic malady but is reluctant to prescribe the obvious cure. Among the more evident economic ills that have rapidly developed since the over-devaluation of the pound are the following:

(1) Constant deterioration of the terms of trade.

(2) The increasing volume of goods that must be exported to obtain the same amount of predevaluation imports, thereby resulting in the diversion of goods from the home market.

(3) An undue rise in the domestic cost of living which moreover has not yet reflected the recent sharp advance of wholesale prices.

(4) Sale of British goods abroad at artificially low levels induced by the grossly undervalued level of sterling despite the existence of a strong sellers' market.

It is to be hoped therefore that at the forthcoming conference economic realism will prevail over petty politics. Also much of the responsibility for revaluation or freedom of the Commonwealth currencies would be removed from the individual monetary authorities of the countries concerned by concerted action of the Commonwealth members. It can be presumed also that the success of the Canadian currency experiment will serve as a constructive example. In any event in the light of the present world emergency it is difficult to conceive what logical arguments can now be advanced against united Commonwealth action in the exchange field that would do so much to alleviate the economic malaise of the United Kingdom, Australia, India and Pakistan. As far as Canada is concerned general sterling revaluation would also serve to restore the exchange relationship with her fellow Dominions that was dislocated by Canada's independent currency move.

During the week the external section of the bond market continued dull and inactive and there was also little change in the Dominion internals. Corporate bonds on the other hand were higher in fairly active trading. The Canadian dollar remained under the influence of the customary end-year selling due mainly to U. S. repatriation of profits of Canadian affiliates and dividend disbursements. Persistent strength of Canadian dollar futures indicated a reversal of the present trend after the turn of the year. Stocks were mostly firmer in a quiet preholiday market. Gold stocks exceptionally attracted the greatest buying interest on news that a delegation would shortly visit Ottawa to make recommendations for the improvement of conditions in the gold-mining industry. Base-metals and Western oils made moderate progress but the industrials were dull and inactive.

Life Insurance Group Recommends Anti-Inflation Program

Five point program proposes increased taxation; cutting of non-military expenditures to bone; tightening monetary and credit controls; and getting public debt into hands of savers, along with a policy of discouraging wage price spiral.

Speaking on behalf of its 83 million policyholders, the life insurance business called on the government for a stiff program to fight the new threat of inflation arising out of the events in Korea.

This action was taken in a statement adopted Dec. 6 by the board of directors of the Life Insurance Association of America.

At the same time, Carroll M. Shanks, President of the Association, announced that the life insurance business stands ready to give the government any possible aid it can provide in the fight against inflation.

The Association proposed a five-point program to fight inflation and thus to preserve the buying power of the dollar and of the people's savings. The proposals are as follows:

(1) Increased Federal taxation, with the objective of putting the military preparedness program, at least in its present dimensions, and all other government expenditures on a pay-as-you-go basis.

(2) Cutting all non-military expenditures by Federal, State and local governments to the bone, with every effort made at the same time to insure that military expenditures are made efficiently and with a minimum of waste.

(3) Tightened monetary and credit controls, with the Federal Reserve authorities allowed freedom to use their general credit control powers to curtail the money supply even though interest rates rise as a result.

"Neither the government nor the American people can afford a policy of easy money and low interest rates in a period of strong inflation," the Association declared.

(4) An anti-inflationary program of public debt management aimed at getting a substantial part of the debt out of the banking system into the hands of savers, thus reducing the money supply held by the general public. New issues should be made attractive enough to be placed outside the banking system as a vital part of this program.

(5) A strong wage-price policy, with the government and business pursuing a vigorous program of discouraging further rounds in the wage-price spiral.

Inflation can be stopped and held in check if steps along these lines are taken in time by the Federal Government, the Association declared. It warned at the same time, however, that no anti-inflation program can be successful unless there is the fullest co-operation by business, labor and the general public. "Real sacrifice by all of us is needed to wage a successful fight against inflation," the Association stated.

West Coast Exchanges Considering Merger

Los Angeles and San Francisco Stock Exchanges report planning joint organization similar to Midwest Stock Exchange at Chicago.

The San Francisco Stock Exchange and the Los Angeles Stock Exchange, the two principal securities markets in the West, are exploring the possibility of consolidating their operations, according to the joint statement issued on Dec. 20 by Douglas G. Atkinson, Chairman of the Board of the San Francisco market, and Phelps Witter, Chairman of the Los Angeles Exchange.

Messrs. Atkinson and Witter said in their joint statement, "The Governors of each Exchange recognize the vast amount of exploratory work which will be necessary, requiring possibly many months, before any plan for uniting the two markets can be formulated for consideration by the members of each Exchange.

"In authorizing the initial discussions, the governing boards of the two Exchanges were influenced by several basic factors, such as the tremendous increase in population and industry in the West in the past few years, the progressive increase in number of investors in the West and the better public service from the broader markets which inevitably would result if the two exchanges could be united into one large Exchange.

"Advantages of the merger would be broader markets for the public and for the securities of young and growing industries in the West. It would be a healthy move for the securities business. It would mean a securities market better equipped to serve the expansion and growth which the future holds for the West," the Atkinson and Witter statement said.

It is reported that if a consolidation is effected, it might take the name of Pacific Coast Stock Exchange, with northern and southern branches linked by wire for quick exchange of quotations and transactions, and with the two institutions' memberships and listings pooled.

It is probable that the impetus to effect a consolidation was supplied by the success of the Midwest Stock Exchange which was organized on Dec. 1, 1949, and consisted of the former Chicago, St. Louis, Minneapolis, St. Paul, Cleveland and Cincinnati Exchanges. In the first year of its operation its dollar volume amounted to $502,629,264, a 154% increase over the combined business of the component exchanges in the preceding year.

According to the N. Y. "Times," since 1940, the San Francisco Exchange's annual volume has risen from $84,000,000 to about $250,000,000, and the Los Angeles Exchange's from $44,000,000 to about $215,000,000.

The San Francisco Exchange has 351 securities issues listed and the Los Angeles Exchange, 265. Both lists include issues traded also on the New York Stock Exchange or other Exchanges.

A Contrast!

"My attention has been called to proposals put forward allegedly to aid the defense effort, which would relax labor standards of vital importance to full and efficient production.

* * *

"One of the standards which it has been proposed to change is the so-called 40-hour week. I should like to say that there is no prohibition in the Federal wage-hour law against working more than 40 hours a week. If a longer work week is necessary, it can be put into effect under existing law.

Maurice J. Tobin

"The Federal law is flexible and the additional payments required for overtime act as an incentive for drawing workers into essential production jobs and in reducing absenteeism. There is no justification for any change or relaxation in this law.

"As former Secretary of War Patterson stated on a previous occasion, any suspension of the overtime provisions might cause such a 'violent change in the basis on which labor relations have been conducted,' and consequently such 'deterioration of labor relations,' as actually to 'result in decrease of production.'

"I am convinced that the proposals presently being made for the relaxation of labor standards might demoralize our working force to such an extent that it would adversely affect the production of goods and materials which our nation so urgently needs."—Maurice J. Tobin, Secretary of Labor.

In actual practice, these things might work out very much as Mr. Tobin asserts. Indeed, we are inclined to believe they would.

They would do so, however, only because of the "indoctrination" to which wage earners have been subjected of late years, which has led them to refuse to do anything at all unless they "get theirs."

We suggest a comparison (or rather contrast) with the attitude expected of management and investors be forthcoming quite generally.

generally — an attitude which, without doubt, will

Predict Civilian Goods Decline

NAPA Business Survey Committee, headed by Robt. C. Swanton, say however, civilian restrictions on use of strategic materials will not be felt until March. See inventories at low for year

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents' Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Company, Division of Olin Industries, Inc., New Haven Conn., estimates a general decline in production of civilian goods in the first quarter of 1951. The current fairly high output of finished goods, it is held, will continue during January and February as in-process inventories will permit a high roll-out of products for a limited period. The real pinch of restrictions on the use of materials will be felt in March, according to the NAPA survey, which also reported as follows: "Even with the proposed acceleration of defense orders, doubt is expressed that they can be put into production in time to take up the anticipated slack in March and the early part of the second quarter.

Robert C. Swanton

"The President's declaration of national emergency, the creation of the Office of Defense Mobilization, the forecast of price, wage and material controls, the program for greatly increased military requirements and speedier conversion of industry to defense production," the survey states, "revises and, in many cases, reverses the trend of industrial planning and temporarily adds to the confusion created by the materials limitation orders already issued.

"In December, for the first time in four months, the decline in production matched the decline in new orders, a correction considered to be somewhat overdue.

"Prices pushed up again following the steel cost increase. Industrial purchased material inventories continue to drop at about the same rate as the past three months. Employment remains high. Purchasing policy is extending slightly into the four to six months' range as buyers, with government contracts, are out to cover as far ahead as firm delivery commitments can be made.

"Purchasing Agents comment that present priority ratings are not working well. The most frequent complaint is on the demands of suppliers for ratings on items not on the critical materials list, and failure to provide for maintenance, repair and operating supplies. With the step-up in military production, a controlled materials plan may be necessary.

Commodity Prices

"The steel advance, assisted by the threat of controls, inspired another wave of price increases in December. The rollback of automobile prices to Dec. 1 will certainly retrain further price advances. What other products will be rolled back at the request of the government and whether Dec. 1 prices are to set a ceiling are the current $64 question of buyers. Escalators that work both ways protect the buyer with long-term commitments. The NPA copper scrap order eliminating much of the recent conversion activity and turning scrap back into normal channels, is having a depressing effect on the outside copper market prices.

Inventories

"Industrial inventories are at the low for the year, and generally out of balance. From the amount of expediting being done to keep production moving, it seems safe to say that raw material stores are below a practicable working invenory. Promised speed-up of mobilization and the letting of defense contracts poses another inventory problem for industry. From experience, Purchasing Agents know that while equipment may be adaptable to military production, many sizes, types and kinds of materials used in civilian production are not suitable for military use.

Employment

"August was the peak month for new hiring. Since then pay roll growth has been small compared to previous months. Reports from all areas indicate the bottom of the barrel of employables is being scraped. New draft requirements will take more young men out of industry. Replacements may come from housewives, older men, and longer working days and weeks.

Buying Policy

"The range of future coverage was extended a bit in December, putting a few more into the 4- to 6-month bracket. Industries holding government contracts will cover as far ahead as commitments are available. Others are keeping within a 3-month range for delivery, but are cutting back commitments of non-controlled purchased materials, to balance the quantity that can be used with the allowable controlled materials. Industries not yet in defense production (and they are predominant), are taking a very cautious view of the future until they know what, how much, and when they will be required to produce for mobilization."

Hemphill, Noyes to Admit Partners

Hemphill, Noyes, Graham, Parsons & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, will admit William G. Maloney and Lawrence M. Stevens to partnership on Jan. 4. Mr. Stevens is Manager of the firm's Philadelphia office, 1421 Chestnut Street.

Willard I. Emerson will withdraw from partnership in the firm on Dec. 31.

Block & Van Raalte to Form in New York

Effective Jan. 1, the New York Stock Exchange firm of Block & Van Raalte will be formed with offices at 1 Wall Street, New York City. Partners will be J. Horace Block and Arthur Van Raalte, both members of the New York Stock Exchange. Partners in the firm were partners in Block, Maloney & Co.

Midwest Exch. Members

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange has elected to membership:

Robert A. Riley, Chicago, Ill.; Clarence A. Kamrath, Chicago, Ill.; and Robert B. Newman, President of Newman and Company, Colorado Springs, Colorado.

Messrs. Riley and Kamrath will come to the Exchange Floor to act as brokers.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Despite year-end adjustments, somewhat firmer money-term rates and Federal's lowering of the pegs, the government market continues to make a not unfavorable showing. Volume has been increased by switches and swops, but there have also been new money commitments by institutions that until recently have been mainly on the sidelines. The shorter tap bonds seem to have caught the fancy of certain nondeposit bank investors although there has been quite a bit of going away buying in the highest yielding restricted obligations. The partially-exempts continue to be in demand but herein again the supply is still a problem. The limited amounts that are available are being snapped up by both large and small commercial banks.

The highlights of the market as far as individual securities are concerned have been the restricted '59/'62s, the 2¾% tax sheltered issues, and the recently offered 1¾s. Treasury bills are still getting selective and specialized buying, although there appears to be more of a tendency now to length maturities somewhat.

Bear Market Ending

The government market has been irregular. This is due in part to Federal's flexible support, and year-end adjustments which have the tendency to distort the picture temporarily. While the better market action here and there is still too meager to give definite clues, the opinion appears to be more prevalent now that the "bear market" in Treasury securities is coming to an end. This idea, however, does not rule out another shock to the market, which might come if reserve requirements were to be upped to the legal limits. The unsettlement which could come with higher reserves for the commercial banks, it is believed, would not be of long duration and would not be too violent. In other words an increase in reserve requirements and lower prices would be looked upon by many money market followers as a buying opportunity in the government market.

Loan Trend Main Factor

The loan trend is the reason for the uncertainty over higher reserve requirements and it will take a little more time to see if the recently held conferences between private loaning agencies and the monetary authorities can bring about voluntary limitations of these borrowings. Nonetheless, there are other signs appearing in the market which give a more favorable light to the picture. Mortgages, according to reports, are slowing down in many localities due to government regulations and as a result, quite a few of the smaller nonbank investors are now putting some funds into the higher yielding government obligations. These institutions have up until quite recently been on the sell side of the market. There is also a not unimportant amount of buying in the intermediate-term eligibles. This is being done by commercial banks which are heavy in savings deposits, and must have the income. These funds had been going largely into mortgages.

Loans of quite a number of deposit banks in the outlying areas are showing signs of slowing down, principally those that have been made for durable consumers goods. Also it is not expected by most of these institutions that there will be any reversal in this recently established trend, unless there is a complete change in the nation's economy and the international situation. The monies that ordinarily would be going into loans are now being put into the 1¾% notes or the longer taxables, the latter obligations on price weakness.

Savings Banks Now Buying

Savings banks have been coming into the market again, after quite a spell in which they were sellers of various governments. Whether this buying will continue in volume is not clear yet. There are mortgage commitments still to be taken care of, but there will be a slowing down in these in the not distant future. Deposits of these banks have been affected in some measure by the booming stock market, but it is not believed there will be enough of these withdrawals to have an important influence upon investment policies unless there should develop a "wild inflationary psychology." The savings banks have been taking on the 2½s of 1959/62 in sizable amounts with a lesser volume being evident in the other tap bonds.

Life insurance companies have not been as vigorous in their liquidation of Treasury obligations, but this does not yet indicate they are through selling these securities. Nevertheless, time is also running out on this type of market pressure and it should not be too long before the large companies are again in there paying Federal several 32nds for temporarily holding for them the issues they liquidated in order to take on nongovernment commitments.

Pension funds, with large sums to invest, are becoming increasingly important in the government market. They have been taking and beyond doubt will continue to take large amounts out of the market. They are right now mainly working on the Vics. Fire and casualty companies have been more than just token buyers and there are indications of an enlargement in these acquisitions.

Gamwell Co. Admits

Gamwell & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, will admit Herman Hagen to partnership on Jan. 1.

Riter & Co. to Admit

Riter & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, will admit William P. Shirley to partnership on Jan. 1.

Joins Dean Witter

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Bruce G. Kenson is now affiliated with Dean Witter & Co., 632 South Spring Street.

Pearson Winslow

Pearson Winslow died at the age of 57 after a long illness. For a number of years he was a vice-President of Bonbright & Co. of New York.

New York Stock Exch. Weekly Firm Changes

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

Herman Hagen and Pierre Albrecht will retire from partnership in Bendix, Luitweiler & Co. Dec. 31.

Interest of the late Gerald C. Wood in Bosworth, Sullivan & Co. ceased Dec. 6.

James F. Pierce, member of the Exchange, and a general partner in Chauncey & Co., will become a limited partner as of Jan. 1.

Edwin A. Cowen and H. G. Cowen, general partners in Cowen & Co., will become limited partners on Jan. 2.

E. Boudinot Fisher, general partner in Hammond & Fisher, will become a limited partner as of Jan. 1.

F. Dewey Everett will retire as a limited partner in Hornblower & Weeks on Jan. 1, but will remain as a general partner.

Transfer of the Exchange membership of the late Harry A. Augenblick to William A. Klubnik will be considered by the Exchange on Jan. 4.

Agner Lichtman will retire from partnership in Ungerleider & Co. Dec. 31.

Business Man's Bookshelf

Lehman Brothers—1850-1950, A Centennial—Lehman Brothers, 1 William Street, New York 5, N. Y. —paper.

Practical Bank Credit — 2nd Edition — Herbert V. Prochnow and Roy A. Foulke — Prentice-Hall, Inc., 70 Fifth Avenue, New York 11, N. Y.—cloth—$10.

Primer for Americans — Conceived and developed by Sigurd S. Larmon, President of Young & Rubicam, Inc., 285 Madison Avenue, New York 17, N. Y., and his associate, Thomas W. Lapham—Single copies 25c, quantity prices on request. Orders should be directed to Mr. Larmon.

Public Utility Securities

By OWEN ELY

Iowa Power & Light Company

Iowa Power & Light (Ipalco) a former subsidiary of United Light & Railways, has annual revenues of about $21 million, reflecting a gain of 92% in the postwar period despite the broadly rural nature of the area served. The company supplies electricity and natural gas to some 350,000 in Des Moines and other Iowa communities, in two areas—one in the central part and the other in the western. While the two divisions are interconnected, they differ somewhat as to operations, reserve capacity, etc.

The territory is largely agricultural—corn and other grains, livestock, dairying and other farm products—and there is also coal mining. Des Moines is a jobbing and publishing center, with diversified food processing, farm implement manufacturing and light consumer goods.

About 75% of revenues are from electricity while natural gas contributes 24%, and there are also small amounts from ice and heat. Of the electric revenues about 42% is residential and rural, 23% commercial, and only 21% industrial; 82% of gas revenues are residential. The company's electric load has grown at the rate of over 8% annually during the period 1920-49, and an annual growth of 9% in the years 1950-53 is anticipated.

In 1949 the company produced (principally from steam and internal combustion units) about enough electricity to service its retail customers, but substantial amounts were purchased, interchanged, and sold to other utilities. The former susbidiaries of United Light & Railways continue to maintain an important power pool (Interchange Power Service, Inc.) though some changes in power allocation are being made.

Ipalco's central division has just installed a 50,000 kw. unit which brings reserve capacity to 18% (34,000 kw. plus approximately 40,000 kw. available from the pool); the western division has about 11% reserve (5,000 kw. plus about 15,000 kw. from the pool). With these reserves, no early additions to capacity are scheduled, but in three years some 100,000 more kw. may be added (tentative orders have been given for these units, but the exact sizes have not been specified). Ipalco in future will not have to take so much power from the pool for its central division, but the western properties will continue to draw from the pool and from the Omaha Public Power District until the Council Bluffs plant is completed in 1953.

The company is favored by the availability of natural gas for boiler fuel during about half the year, and burns Iowa coal in the winter. It has been buying gas from Northern Natural Gas Company at about 17c per million btu. which is only 63% of the cost of coal. However, Northern Natural is seeking an increase to 19.3c which would cost Ipalco some $438,000 a year. This is on top of a $296,000 increase effective Sept. 27.

However, even if the new increase is approved by the FPC, it seems unlikely to have much adverse effect on net earnings because of the anticipated increase in gas sales, the passing on to customers of part of the cost through fuel or "gate" clauses, and the absorption of 47% of the balance through taxes. The new steam generating unit is expected to save the company about $300,000 per annum of which about 158,000 or 10c a share will remain after income taxes.

It is unlikely that much additional gas will become available for boiler fuel despite gradually increasing supplies made available by Northern Natural Gas, since the increase will be largely absorbed by house-heating customers in Des Moines—of which there are now 17,000 against an estimated potential of 45,000.

Regarding the prospects for Missouri Valley federal power coming into the service area, this is difficult to estimate, but much of any available firm power might be allocated to heavy industries located near the source. However, the Bureau of Reclamation has projected one 115-kv. service line which would cross the company's area in western Iowa, and two 220-kv. lines from the southeast to the vicinity of Sioux City. The company's relations with the REA's, principally in Council Bluffs and the northern area, are quite satisfactory.

There is no state regulation of rates in Iowa, and the franchise situation is reported to be good. A recent candidate for governor, who proposed creation of a state commission, was defeated, but it is said that a bill for this purpose may be introduced at the next session of the legislature. The company has completed an original cost study, but this is not yet approved by the FPC and SEC.

The 1951 construction budget may approximate $7 million, and after the first of the year the company expects to project a five-year budget. The character of 1951 financing has not yet been determined.

Net income declined during the wartime period, but recovered sharply in 1944-5 and has shown a slowly rising trend in later years. For the 12 months ended Sept. 30, share earnings were $1.85 on 1,588,000 shares. It seems unlikely that EPT in 1951 will amount to much (under the present bill) but increased income taxes might reduce earnings by about 16c, according to a rough arithmetic estimate. President Gussett hopes to continue the $1.40 dividend rate "if we can maintain earnings substantially as at present."

The stock has been selling recently on the Stock Exchange around 19 to yield 7.4%.

Savings Gain Continues

A. Livingston Kelley, President of National Association of Mutual Savings Banks, reports November deposits increased $88 million, reaching a total of around $20 billion.

There was evidence during November of a more definite upturn in the trend of savings deposits in the nation's 529 mutual savings banks, according to a report just released by A. Livingston Kelley, President of the National Association of Mutual Savings Banks and President Providence Institution for Savings, Providence, R. I. Regular deposits reached $19,706,000,000, rising $88,000,000 during the month, in contrast to $82,000,000 a year ago.

A. Livingston Kelley

For the first time since May the monthly showing bettered that for the same month last year. The gain in regular deposits in November reflects a lessening in the pressure of withdrawals, so that for the first time since June amounts deposited, excluding dividends, exceeded withdrawals. Amounts deposited during the month were 10% greater and withdrawals 9% greater in 1950 than in 1949, whereas in October deposits had been up 17% and withdrawals up 23%.

The usual seasonal decline—of $141,000,000—occurred in club and other accounts during November, reflecting payment of Christmas Clubs, which reached a record high total of $178,000,000 in 1950.

During November, the savings banks continued to increase their holdings of real estate mortgages—by $149,000,000, in contrast to $177,000,000 the preceding month—to reach $7,847,000,00 on Nov. 30. The gain of $1,368,000,000 since Jan. 1 is 74% above that for the same period last year. The necessary funds were obtained by further reductions of $142,000,000 in holdings of U. S. Governments, of $33,000,000 in corporate and municipal securities, and of $13,000,000 in cash.

Continued from page 3

We Must Maintain a Strong And Healthy Economy!

the record expansion program which business and industry have carried out in the years following the war. Without the investment of a dollar by the government, private business went ahead in the postwar period and, by its own financing, invested over $100 billion in new plant and equipment—a far greater investment than in any other comparable period in our history. In just the first three years following the war, private industry spent a quarter of a billion dollars in Greater Cleveland alone for expanded manufacturing facilities which have contributed materially to the continued growth of this community's industrial empire.

This record industrial expansion means that we are better equipped than ever before for a tremendous productive effort. Our factories have installed the most modern and most efficient machines obtainable anywhere. They have put into effect the most recent developments in production techniques and operating methods, and are continuing to seek new methods that will yield greater productivity.

We are producing steel today at an annual rate 11 million tons above the highest rate of World War II, and a further large expansion in steel capacity is under way. We are producing electric power at a rate 50% above the highest weekly rate of World War II. Our proved oil reserves are more than one-fourth higher than at the end of the war, and are steadily increasing. A record expansion program has been carried out by the petroleum industry, the chemical industry, and many others.

Our Economic Objectives

Unfortunately, however, a strong industrial plant, capable of rapid conversion to the production of war materials, is not in itself a guarantee of eventual success in our efforts toward peace and stability. Equally important are the efforts we make on the home front toward maintaining a sound and healthy economy. We must blend our economic objectives and our defense objectives, so that one will work along with the other.

It is necessary, of course, that we restrict certain activities. We must tighten up in some fields. But we must, at the same time, keep alive that incentive, that drive, and that force that has made us a great nation, while building our defenses strong enough to withstand any force which seeks by military might to destroy our system of free enterprise, our way of life.

A continued strong economy requires in the first instance a sound government fiscal position. We are starting this rearmament program with the finances of the government in a relatively strong position. Revenues currently have come much closer to balancing expenditures than was the case a year ago. This reflects, in part, the current high rates of business activity and the increased taxes voted by the 81st Congress. It also reflects, in part, the fact that expenditures other than defense for the fiscal year thus far have run well below those of a year ago.

But as the defense program gets more fully under way the problem of budgetary balance will become more serious. The President asked for $17 billion of new defense appropriations soon after the Korean situation developed, and the Congress provided the funds. The first of this month he asked for $18 billion more. Only a small part of these funds will be recorded as budget expenditures during the current year, because of the time lag between the placing of orders on the one hand, and the actual expenditures out of the Treasury on the other. In 1952 and in subsequent years, however, defense expenditures will be at a much higher level. If we are to carry out a policy of financing the greatest possible amount of these costs by taxation, much larger increases in taxes will be required than those which have already been provided, or are being considered by the Congress.

While adequate tax revenues are the first essential of a sound Federal fiscal program, they are not the only essential. With a public debt of the present size, the government has an obligation of the highest order to protect the investment of the millions of our citizens in Federal securities. This means a debt management program which is planned and carried out in such a way as to contribute in maximum degree to the stability and well-being of the nation's economy.

In order to accomplish this, we have pursued the policy of shifting the Federal debt out of commercial banks and into the hands of private nonbank investors. During 1950, holdings of government securities by private nonbank investors will be increased by $5 billion, raising them to an all-time peak, while government security holdings of the commercial banking system will be reduced $5 billion to a new postwar low. Over a three-year period, the reduction will total nearly $11 billion. This inflation control action has been one of the important objectives of Treasury debt management.

Credit Restrictions Necessary

In addition to these important fiscal objectives, there are other safeguards necessary at this time. To maintain the soundness of the nation's credit structure, it has been necessary to restrict the expansion of credit for certain civilian uses, while steps have been taken to assure adequate financing where needed to facilitate military production. It has now become necessary under the present emergency mobilization for the government to invoke more direct controls. As individuals, we can contribute to this effort through self-restraint and by increasing our savings.

In a full war emergency, personal restraint and self-sacrifice are demanded of all of us, and this is no less true in the emergency that confronts us today. Certainly no measures which the government may take to hold down inflationary pressures can be fully effective without the wholehearted support and cooperation of every group and every active citizen in our nation.

The defense mobilization job that lies ahead is one that we face with a full sense of its urgency and its meaning. To have to convert the fruits of labor, the products of our raw materials, the benefits of our intelligence of management, of our technical knowledge, into destructive instruments rather than productive machinery is not only a costly process, it is an unhappy process. It is, nevertheless, a job we must do—and do well—if we are to maintain our way of life.

Today the survival of freedom in our own country, in the free nations which look to us for leadership, and in the hearts of all those for whom freedom is still a hope, depends in large part on the policies which we pursue and the individual actions which we take here at home. If we remain strong in faith, clear of purpose, and steadfast in our determination to protect our American beliefs and our American principles, there can be no doubt of the ultimate triumph of the cause of freedom throughout the world.

With A. M. Kidder & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEARWATER, Fla.—Edward G. Stewart is now associated with A. M. Kidder & Co., 405 South Garden Avenue. He was formerly with Smith, Barney & Co.

Joins Daniel F. Rice

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Mrs. Peggy Moore has joined the staff of Daniel F. Rice & Co., 120 Northeast First Avenue. She was formerly with Blair F. Claybaugh & Co.

With Stand. Bond & Sh.

(Special to THE FINANCIAL CHRONICLE)

ROCK ISLAND, Ill.—Harlan B. Tooker has become associated with Standard Bond & Share Co., Rock Island Bank Building.

Joins Goodbody & Co.

(Special to THE FINANCIAL CHRONICLE)

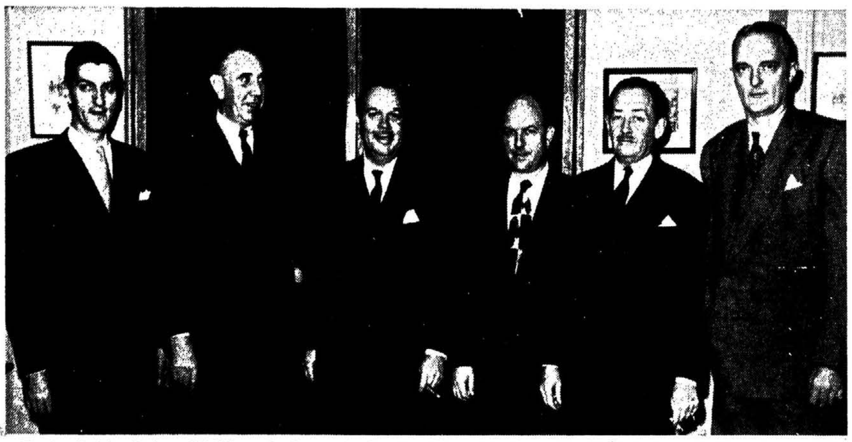
BOSTON, Mass.—Albert N. Salters has become associated with Goodbody & Co., 50 State Street. He was formerly with Investment Research Corp.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

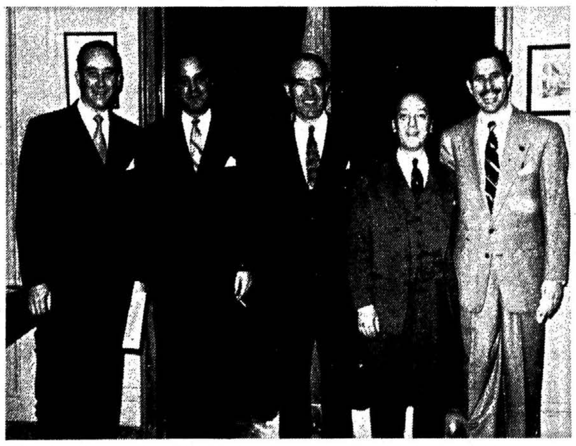
CANON CITY, Colo.—D. Lee Peterson is connected with Waddell & Reed, Inc., of Kansas City.

Security Traders Association of New York



Ernie Robb, *Paine, Webber, Jackson & Curtis;* Chas. Goodeve, *F. B. Ashplant & Co.;* Joe Cabble, *Abraham & Co.;* Fremont W. Robson, *A. E. Ames & Co., Inc.;* John Macdonald, *Dominion Securities Corporation;* Irving Grace, *W. C. Pitfield & Co., Inc.*

Joseph V. Farrell, *McGinnis & Company;* Frank Kane, *Ernst & Co.;* Fred Barton, *Eastman, Dillon & Co.;* Carl Lachman, Jr., *Eastman, Dillon & Co.;* Dick Abbe, *Shields & Company;* Vinnie Lytle, *Shields & Company*



John Sullivan, *Merrill Lynch, Pierce, Fenner & Beane;* Al Powell, *Alfred L. Powell Company;* John Reilly, *J. F. Reilly & Co., Inc.;* Julius Brown, *Hirsch & Co.;* Hank Serlen, *Josephthal & Co.*

John Mayer, *Merrill Lynch, Pierce, Fenner & Beane;* Leslie Barbier, *G. A. Saxton & Co., Inc.*

Arthur Vare, *Hourwich & Co.;* Ernest Lienhard, *Troster, Currie & Summers;* Harry Reed, *Carl M. Loeb, Rhoades & Co.;* Ed Whiting, *Carl M. Loeb, Rhoades & Co.;* Bill Filan, *Carl M. Loeb Rhoades & Co.*

Nat Krumholtz, *Siegel & Co.;* Hoy Meyer, *Gruntal & Co.;* Edwin L. Tatro, *Edwin L. Tatro Company;* Ed Corley, *Blyth & Co., Inc.;* Bert Pike, *Troster, Currie & Summers;* Giles Montanye, *H. M. Byllesby & Co., Inc.*

Ed Gutberlet, *Paine, Webber, Jackson & Curtis;* Bill Eiger, *Goodbody & Co.;* Ree Bolognini, *Lasser Bros.;* Nelson A. Strothmann, *A. M. Kidder & Co.;* Richard M. Barnes, *A. M. Kidder & Co.;* King Ghegan, *Edwin L. Tatro Company*

Al Tisch, *Fitzgerald & Company, Inc.;* S. E. Dawson-Smith, *Bonner & Gregory;* Paul C. Fredericks, Jr., *Warren W. York & Co., Inc.;* Charles M. Kaiser, *Grady, Berwald & Co., Inc.;* Barney Conlon, *P. F. Fox & Co.;* Charles O'Brien Murphy, *Merrill Lynch, Pierce, Fenner & Beane;* William Lally, *J. Arthur Warner & Co., Inc.*

(front) Jack Gertler, *Barr Bros. & Co.;* Ed Ganser, *First of Michigan Corporation;* Roald Morton, *Blue List Publishing Co.;* Taber J. Chadwick, *Taber J. Chadwick Co.;* Charles Horton, *Braun, Bosworth & Co., Incorporated;* Harry Peiser, *Ira Haupt & Co.;* Mel Moore, *Finch, Wilson & Co.;* Jim Musson, *B. J. Van Ingen & Co., Inc.;* Ken Ebbitt, *Shelby Cullom Davis & Co.*

Annual Election Meeting

Ely Batkin, *Batkin & Co.;* Herb Lax, *Stanley Pelz & Co.;* Soren D. Nielsen, *New York Hanseatic Corporation;* Otto Steindecker, *New York Hanseatic Corporation;* Hans E. Ben, *New York Hanseatic Corporation;* Frank Welch, *R. S. Dickson & Co., Inc.;* Arthur Schwartz, *Bache & Co.*

William Korn, *Dominion Securities Corp.;* D. Raymond Kenney, *D. Raymond Kenney & Co.;* Walter Saunders, *Dominion Securities Corp.;* Hugh Kilmer, *Hardy & Co.;* Charles Zingraf, *Laurence M. Marks & Co.;* Jim Torpie, *Torpie & Saltzman*

Sam Gold, *J. Arthur Warner & Co., Inc.;* Jack Sammon, *Andrews, Posner & Rothschild;* Tom Brown, *W. E. Hutton & Co.;* William Tetmeyer, *Dominick & Dominick;* Dan Mullin, *Tucker, Anthony & Co.*

Oscar D. Griffin, *Griffin, Kuipers & Co.;* Rudolph Petke, *Garvin, Bantel & Co.;* Henry G. Kuipers, *Griffin, Kuipers & Co.;* Chas. Jann, *Estabrook & Co.;* Jim Brinkerhoff, *J. C. Bradford & Co., Inc.*

John Fitzgerald, *W. C. Pitfield & Co., Inc.;* Joe Kirk, *Delafield & Delafield;* Tom Worthington, *C. Herbert Onderdonk Company;* Ed Gutberlet, *Paine, Webber, Jackson & Curtis*

Dave Wittman, *Stanley Heller & Co.;* Ted Young, *Theodore Young & Co.;* Harry Casper, *John J. O'Kane, Jr. & Co.;* Tom Davis, *A. C. Allyn and Company, Inc.;* John French, *A. C. Allyn and Company, Inc.;* Nat Greene, *Townsend, Graff & Co.*

Sid Siegel, *Siegel & Co.;* Tom Greenberg, *C. E. Unterberg & Co.;* Stan Pelz, *Stanley Pelz & Co.;* John Preller, *McGinnis & Company;* William Swords, *Zuckerman, Smith & Co.;* Al Kadell, Homer O'Connell & Co.

William H. Boggs, *Hill, Thompson & Co., Inc.;* Harry Arnold, *Paine, Webber, Jackson & Curtis;* Don Sloan, *Donald C. Sloan & Co.*, Portland, Oregon; Walter Saunders, *Dominion Securities Corporation;* Jim FitzGerald, *W. L. Canady & Co., Inc.;* Mike Heaney, *Michael J. Heaney & Co.;* Sam Magid, *Hill, Thompson & Co., Inc.*

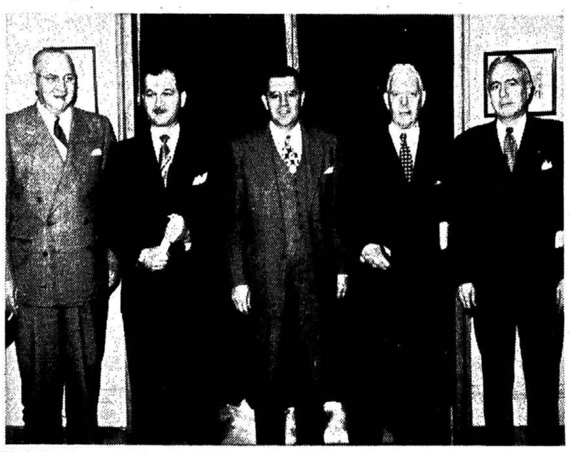
Bill Maddox, *W. E. Hutton & Co.;* Sam Colwell, *W. E. Hutton & Co.;* William Frankel, *J. F. Reilly & Co., Incorporated;* Tom Brown, *W. E. Hutton & Co.;* Sam King, *King & King Securities Corp.;* Sam Gold, *J. Arthur Warner & Co., Inc.*

At the Produce Exchange Luncheon Club

Sam Weinberg, *S. Weinberg & Co.;* Irving Feltman, *Mitchell & Company;* Harry Michels, *Allen & Company;* Bill Weiffenbach, *Theodore Young & Co.;* Charles Ogden, *Ogden, Wechsler & Co.;* Sid Jacobs, *Sidney Jacobs Co.*

Edward Fischer, Robert S. Byfield; Irving Ittleman, *Frank Ginberg & Co.;* Arnold Wechsler, *Ogden, Wechsler & Co.;* John Stein, *Frank Ginberg & Co.;* Elbridge Smith, *Stryker & Brown;* "Duke" Hunter, *Hunter & Co.*

Jim Torpie, *Torpie & Saltzman;* Dan Mullin, *Tucker, Anthony & Co.;* T. Frank Mackessy, *Abbott, Proctor & Paine;* John Kassebaum, *Van Alstyne, Noel & Co.;* In the background, John J. Meyers, Jr., *Gordon Graves & Co.*

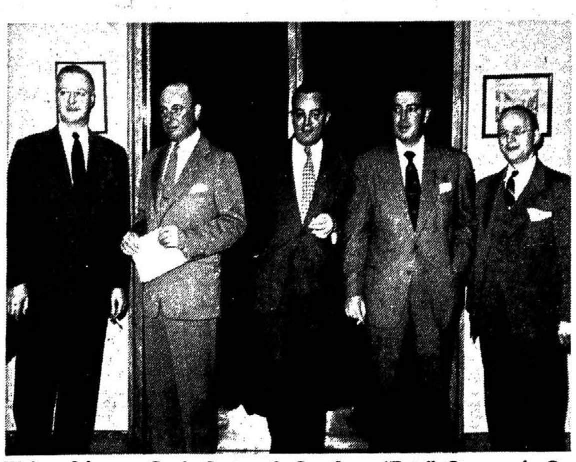


Phil Kullman, *John J. O'Kane, Jr. & Co.;* Henry Gersten, *Gersten & Frankel;* Rudy Petke, *Garvin, Bantel & Co.;* Stanley Eaton, *Bendix, Luitweiler & Co.;* William H. Boggs, *Hill, Thompson & Co., Inc.*

Alfred Tisch, *Fitzgerald & Company, Inc.;* King Ghegan, *Edwin L. Tatro Company;* Bill Kumm, *Dunne & Co.;* Les Frenkel, *Gersten & Frenkel;* Ernest Robb, *Paine, Webber, Jackson & Curtis;* Micky Pinkus, *Troster, Currie & Summers*

Stan Roggenburg, *Roggenburg & Co.;* Herb Seijas, *Blair, Rollins & Co., Incorporated;* Les Barbier, *G. A. Saxton & Co., Inc.;* Henry Bruns. *H. G. Bruns & Co.;* John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.;* Frank McKenna, *Grimm & Co.*

Larry Wren, *Allen & Company;* Harry Pollack, *Leone & Pollack;* Abe Strauss, *Morris Cohon & Co.;* Charles Seaver, *Seaver & Company;* Carl Swenson, *G. H. Walker & Co.;* John Fitzgerald, *W. C. Pitfield & Co., Inc.*



Walter Johnson, *G. A. Saxton & Co., Inc.;* "Pete" Steven, *A. C. Allyn and Company, Inc.;* John Doherty, *A. C. Allyn and Company, Inc.;* Harold Burke, *Auchincloss, Parker & Redpath;* Frank Warner, *G. A. Saxton & Co., Inc.*

Everett F. Wendler, *Mitchell & Company;* Lamar Tuzo, *Union Securities Corporation;* Robert A. Torpie, *Merrill Lynch, Pierce, Fenner & Beane;* Bill Salisbury, *Union Securities Corporation;* Gustave J. Schlosser, *Union Securities Corporation;* William Mulholland, *McLaughlin, Reuss & Co.*

William T. Maddox, Jr., *W. E. Hutton & Co.;* Carl Swenson, *G. H. Walker & Co.;* Sam Colwell, *W. E. Hutton & Co.*

Pronounced Huge Success

Charles Stonebridge, Joseph Mitchell, William Fleckner, Thomas J. Trager, John M. Mayer, Jay Duga, Gene Stark, and Chas. O'Brien Murphy, all of *Merrill Lynch, Pierce, Fenner & Beane*

Bob Frank, *Reinholdt & Gardner;* Wilbur Krisam, *Geyer & Co., Inc.;* Joe Egan, *Frank C. Masterson & Co.;* Jim Brennan, *J. G. White & Co., Inc.;* John Witkowski, *John Witkowski & Co.*

William D. O'Connor, *Fitzgerald & Company, Inc.;* John Butler, *Geyer & Co., Inc.;* Vic Reid, *York Affiliates, Inc.;* Barney Nieman, *Carl Marks & Co., Inc.;* Ree Bolognini, *Lasser Bros.;* Connie Sheridan, *Mitchell & Company*

Samuel Englander, *Marx & Co.;* Tom Reilly, *J. Arthur Warner & Co., Incorporated;* Harry Stillman, *J. Arthur Warner & Co., Incorporated;* Hank Serlen, *Josephthal & Co.;* Ted Plumridge, *J. Arthur Warner & Co., Incorporated;* Mort Weiss, *J. Arthur Warner & Co., Incorporated*

Jack Germain, *J. Arthur Warner & Co., Inc.;* Allen Broomhall, *New York Hanseatic Corporation;* Lester Frenkel, *Gersten & Frenkel* Walter C. Kruge, *James D. Cleland Company*

Henry R. Schmitt, *Pulis, Dowling & Co.;* William H. Boggs, *Hill, Thompson & Co., Inc.;* David R. Mitchell, *Blair F. Claybaugh & Co.;* Edward R. O'Kane, *John J. O'Kane, Jr. & Co.*

S. R. Melven; Jim Currie, *Troster, Currie & Summers;* John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.;* John Sullivan, *Merrill Lynch, Pierce, Fenner & Beane*

Walter V. Kennedy, *Coffin & Burr, Incorporated;* John Gahan, *Schoellkopf, Hutton & Pomeroy, Inc.*

Harry Arnold, *Paine, Webber, Jackson & Curtis;* Don Sloan, *Donald C. Sloan & Co.*, Portland, Oregon; John McLaughlin, *McLaughlin, Reuss & Co.*

Sidney Jacobs, *Sidney Jacobs Co.;* Joseph C. Eagan, *Frank C. Masterson;* Lester Frenkel, *Gersten & Frenkel;* Charles Bodie, *Stein Bros. & Boyce*, Baltimore, Md.

Continued from page 9

Current Credit Picture

and pronouncements of the System, in the opinion of many, are having a dampening effect upon the high loan activity. There are some who believe that these controls, coupled with the normal seasonal reduction in crop movement loans, will bring about a satisfactory decrease in loan totals by the year end. Be that as it may, we still have before us the real problem of high loans; regardless of the controls of the Federal, present and contemplated, we still have a very real problem in caring for the borrowing needs resulting from the rearming activity and from normal civilian business.

Some of our banks have also added their own curbs and controls to those of the Federal Reserve. There has been a higher selectivity of new loans with an attempt to weed out many marginal loans which perhaps five years ago might have been handled. Few banks today are looking for outside investments. It is also true that some banks are reviewing more carefully their present outstanding loans. Loan rates have been increased to a modest extent, principally in the raising of the prime rates. More rapid repayment schedules in certain cases are being demanded. All of these have having effect. Each of us, however, is considering what our own policy should be in the weeks and months which lie ahead. None of us has the answer; but perhaps some suggestions may stimulate our thinking, point up our problems, and possibly help us to formalize to a greater degree our loan policy for the months ahead.

Suggestions for Bankers

I would like to present these suggestions under three captions. I would prefer to think of them as probable practical answers to help us meet certain opportunities and discharge our obligations to our customers and to our nation. I will present these not in the order of their importance. Each is important, and there necessarily is an overlap of one with the other.

First, we have an obligation and an opportunity to serve our customers. They have worked with and for us through the years, and we must consider their requirements. We should take care of all legitimate credit needs of our worthy customers. Observe the qualifications—all legitimate credit needs of worthy customers. These are very important qualifications. To make these loans and to care for these customers is a very real obligation. Many of our customers, borrowing for proper purposes and entitled to credit, are now using our discount facilities for the first time in years. The low purchasing power of the dollar and the higher business activity are responsible in part for this. We must take care of these responsible customers when their borrowing requests are for proper purposes.

Second, we have a very real obligation, and a great opportunity, to help our nation rearm. God forbid that we have a Third World War. The awful conditions in Korea and in China may very well be the preliminary skirmishes of such a conflict. We hope and reverently ask the Almighty that this be not so. But we know that if war is to be averted, or won if it does come, our nation must be militarily strong. To be strong, we must rearm.

We must endeavor to assist in financing defense and war orders to accomplish this purpose. If the integrity and know-how are present, if needed plant facilities are available or obtainable, if the loan is needed in the production of defense or war goods, we should find some way to finance a worthy borrower. The reactivation of Regulation V will assist us in the case of many larger loans and very thin credits. I know, however, that those of us here this morning are hopeful that a good part of this job can be done by the banks without outside protection in the form of guaranties.

Third, we must assist our nation and the world in combating inflation. This insidious thing can undermine and bring about suffering, distrust, weakness, defeat. Some feel that inflation can be the Trojan horse for Russia to defeat from within our great nation. Some liken it to the terminates eating away at the very vitals while outwardly a healthy condition exists. There are several ways in which we can, through our loan policy, assist in this battle against inflation. May I mention a few?

First, let me suggest that we should all continue to cooperate wholeheartedly with the Federal Reserve System in its anti-inflationary efforts. None of us likes regulations. They are difficult to administer. They create strained relations at times between the bank and its customers, regardless of how tactfully they are handled. We hate to see certain of our good friends affected adversely by any regulation; and we have observed with regret the effect of Regulation W, for example, on our automobile dealers; of Regulation X on some of our real estate customers; as well as the frustration of some of our individual customers who have been unable to obtain loans to carry out some of their plans. Despite this, I feel that we in the banks should cooperate to the fullest degree, adopting the spirit as well as the letter of the present regulations or any others which it may be necessary for the Federal to impose. We should not look for loopholes in the regulations, but we should try so far as possible to bring about sincere cooperation from our customers with the anti-inflation program of the Federal. The future welfare of our nation, and perhaps of the world, depends in a great measure upon our ability to hold, if possible—in any event to slow down—the strong, dangerous, inflationary tide.

Second, I think we should discourage, so far as possible, all speculative loans as well as any loan which can with propriety be deferred. Now, I am frank to admit that it is not an easy thing to differentiate at times between loans resulting from "good business judgment" and those which are speculative. Where good judgment stops and speculation begins is oftimes hard to determine. When does the accumulation of a reasonable inventory pass from the bounds of good business judgment to that of speculation? Despite this difficulty, however, I think without a doubt that we should try to make the distinction and have the courage to refuse those loans which are for pure speculation.

Also, some loans can be deferred properly; and these we should likewise discourage. I think we should consider very carefully the types of loans which we should handle. In the time when we were looking for loans, we were delighted to handle all loans which could be made safely. Some of these today should be discouraged. We should have firmly in mind at all times the fact that we must direct our efforts toward doing what we can to curb inflation, and undoubtedly this is one means.

Third, we should do all that we can to encourage loans for productive purposes. It has been said that production to a great extent won World War II, and that production can and will lick inflation. There are instances in which we should increase our loans—go all out—in assisting worthy customers to increase their production. At times, this may call for new machinery, as well as additional working capital funds. Wherever possible, if safe loans can bring about additional production, we should see that those loans are made. This may call for a good bit of ingenuity at times, but it is one very important way in which we can help to curb inflation.

Lastly, if we are to help to combat or curb inflation, it seems to me that we should reconsider and adjust to present-day emergency conditions some other of our loan policies. May I suggest a few which we might reconsider.

Most of us have loans on our books which are good, but which have been slow. These are well-secured, perfectly safe obligations. If at these time we can encourage, and at times insist, that the borrower increase his curtailments on these slow loans, it will help in several ways in the inflationary battle. He will have less money available for spending. It will tend to reduce the deposit money created by his loan. It will help to curb inflation.

Also, I think that we should carefully consider this question of repayment requirements on new loans. The more rapid repayment schedule we can arrange with propriety, the better job we are doing for the country and for our banks.

Again, we should consider the question of rates on loans. The rate on short-term money, in the opinion of many, does not have an outstanding deterring effect on short-term borrowing; but it does have its effect. For years we have been bidding for loans; and competition has been driving our rates down, down, down, until frequently we have been poorly paid, if not actually underpaid, for our money. Many of us who are handling loans are finding it somewhat difficult to change our pace and properly price our loans. Not so much from the standpoint of income, but more from the standpoint of placing a brake on borrowings, we should continue to increase our loan rates on new and present borrowings to a point more in keeping with realistic figures today. This will also serve to some degree in combating inflation.

Of course, we should also consider our analytical methods and our credit techniques and bring them down to date so that we can assist in this battle against inflation as well as in the rearming for defense of this country of ours. This requires intelligent appraisal of the facts and a proper knowledge of when and how to use other than the customary plan of loan procedure.

We are feeling inflation with a vengeance, and our study of the map of history will clearly point out the rocks and shoals which are ahead unless our course is changed. We in the banks have a very difficult problem in trying to handle the loan portfolios of our banks in these days of high business activity, depreciated dollars, and at a time when we must rearm our nation. The prospect of handling the loans for defense on top of our very high present loan volume is one which causes us to realize how thin our capital cushion is in relation to the prospective loans which must be handled. The insidious and increasing inflation, the probability of larger bank loans, and the prospect of further deficit financing, all forecast additional deposits with relatively thinner capital funds.

To accomplish our job, we will have to change our loan policies in many cases. We must take care of all legitimate credit needs of our worthy customers. We must handle all loans which can be properly arranged and which are to assist in rearming. We must cooperate with the Federal in its anti-inflation efforts. We should discourage speculative loans and be more selective in the choice of our loan risks. We should encourage loans that will increase production, needed both for rearming and for our civilian needs. We must arrange intelligent repayment programs on our new loans, at the same time encouraging the more rapid liquidation of some of our present loans which are good, but which have been slow. We should be intelligent in the pricing of our money, recognizing this as a means to assist in curbing inflation to some extent.

These are some of the facets of a loan policy which will help us meet the opportunities of serving and of discharging our obligations to our customers, our nation, and the world.

Richard Morey to Be A. G. Edwards Partner

Richard Morey

ST. LOUIS, Mo.—Richard Morey will be admitted to partnership in A. G. Edwards & Sons, 409 North Eighth Street, members of the New York and Midwest Stock Exchanges, on Jan. 4. Mr. Morey is Manager of the firm's municipal department.

With Inv. Service Corp.

DENVER, Colo. — Bernard C. Smith is now associated with Investment Service Corporation, 650 Seventeenth Street.

Securities Salesman's Corner

By JOHN DUTTON

On Nov. 28, a large size advertisement which took up almost an eighth of a full newspaper page, carried a story about Mutual Funds that was entirely different than the ordinary financial advertisement that we are so used to seeing in our daily papers. This ad was signed by a group of dealers. Sixteen West Coast dealers got together and placed an advertisement that had some selling copy in it for a change.

Here is a resume of the way they put their story across. At the top of the ad (taking almost a half of the space) was a reproduction of many famous well-known trade marks such as Zenith, R.C.A., Remington Rand, Great Northern Railway, Ethyl Gas, Pequot Sheets, Bell Telephone, etc. Here was the heading "How to Put Trade Marks Like These to Work for You."

Then copy such as this followed: How would you like to have money invested in 50 or 60 nationally-known business firms like those whose trade marks are pictured above? Well, you can do it for as little as $25. Mutual investment funds give you the advantage of investing your savings, regardless of how small or large, in a single security that is backed up by many individual stocks and bonds. The value of your investment company share is a direct reflection of the stocks and bonds back of it.

Regarding dividends the ad said: You can have ownership in a widely diversified list of securities. You share in their earnings. When dividends are paid you get them.

And it went on: The risk present in every form of investment is spread out among many issues. This is the most satisfactory form of investment for the man or woman of limited means. Over 750,000 people own them.

No Mystery About It. There is nothing mysterious about buying investment fund shares. The price is plainly marked. There is a sales charge to the investor included in the offering price of investment company shares offered by dealers. For details thereof, and appropriate material information, see the prospectus. And the advertisement concluded by suggesting that the reader call one of the 16 dealers who were named at the bottom of the page, and it also gave their individual addresses and telephone numbers.

I don't know if this ad brought any inquiries, but I believe it is pointed in the right direction. Group advertising of this type is something new, but I don't see any reason why security dealers in each community cannot get together and share the costs of this type of educational advertising. The more people know about investing in securities, in Mutual Funds, and what you are offering in the way of investment service and advice, the easier it will be for your salesmen to go out and do business.

In my opinion this is the sort of advertising that people will read. It is definite and clear. It promises nothing that isn't entirely correct in every way. Isn't it much more effective than some of the ads that we see so often such as: "We Handle All Mutual Funds," followed by the dealer's name and address?

Some of the phraseology in this ad might be worth remembering and putting into your sales talk on Mutual Funds. For example, why not say, "Instead of a few securities here you have ownership in a widely diversified list of securities. The risk is divided among many issues. You share in their earnings. When dividends are paid you get them." It seems to me that this is both good advertising and good salesmanship.

When 16 dealers get together and place an advertisement for the joint benefit of each one of the participants, possibly there is an idea in it for many other groups of this kind throughout the country. The ads could deal with educational material that would be helpful in setting the public straight on the securities business, they could build goodwill for your own business, and they could help you and your salesmen sell more and do a better job in every way.

Once again I'll say, "Happy New Year, and may it bring all of you success and the health to enjoy it."

Continued from page 5

Is It Possible to Forecast The Stock Market?

ness listed on an Exchange is not different from a share in a business not listed; and cause the business-value elements of the listed share to be dwarfed in importance by their rapidly changing attitudes toward the market as a whole. In their "liquidity" concept the forecasters make of a security a king of counter in the ebb and flow of market movements. Without realizing it, no doubt, they are dealing in prices in lieu of value, attempting to anticipate the extent to which their fellow-public will subsequently cause the price level to diverge from value, to outwit the market's other buyers and sellers, to out-forecast their fellow-forecasters.

In this vein of liquidity overemphasis is the "window-dressing" urge on the investor to protect himself from potential criticism or his own conscience if his money should become lost in other than "good company." This pragmatic as well as psychological motive, governing individuals in the handling of their own as well as other people's money, has resulted in the market's growing foible of what I call Blue Chipitis; that is, the cumulative concentration on "good" — that is, popular—issues irrespective of the price-value relationship, with major attention centered on attempts to predict their future price behavior as a kind of elite group.

Beauty Contest Analogy

In this process of style-forecasting also the investment community has become engaged in a kind of strategic game akin to Machiavelli's practicing of the *Second Degree Lie*—in contrast to value analysis. This "indoor sport" aspect, as engaged in on both sides of the Atlantic, has been aptly described by Lord Keynes as follows:

"Professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole, so that each competitor has to pick not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view. It is not a case of picking those who, to the best of one's judgment, are really the prettiest, or those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degree."*

Thus, the investor relying on forecasting price movements in lieu of value analysis, must be a successful style merchandiser as well as crowd psychologist.

Here let me most urgently advise him to realize that a prerequisite for his stocks' good behavior is for him to behave himself!

The Results in Practice

It is important to weigh empirically the results that have been achieved in actual practice in the market place by various categories of forecasters. This is most important; if the desideratum of over-all market prognostication were an achievable goal, our objections would be merely academic.

Fortunately, there are available findings along this line, which are disinterested and reliable. The Cowles Commission for Research in Economics in two major studies found that the forecasting efforts of financial publications, services, and of Dow Theory practitioners, have been generally abortive. Similar negative results in predicting and interpreting movements of the market-as-a-whole (in contrast to their fine work in analyzing individual issues) were arrived at from an extensive survey of brokerage house opinion made by E. F. Underwood and M. C. Nelkin under the direction of Benjamin Graham at the Columbia University School of Business in 1948.

Further indications of the experts' trend-forecasting difficulties is furnished by the performance of those investment companies which center their efforts on timing the market movements of the standard issues. The long-term record, substantiated by a recent exhaustive study, shows that, in lieu of swing-catching, better results were gained through continued holding of the same issues or of those in the Dow-Jones Average.

Further evidence of the market-forecasting shortcomings by the Street's professional element is offered by the varying size of the short interest, as published monthly by the New York Stock Exchange. These data, usually showing a diminution of the bears' commitments at market peaks and their enlargement at bottoms, show how the highest echelon of market professionals fails to anticipate market swings.

Likewise abortive in forecasting general market movements are the efforts of the economists, statisticians and analysts, who are so able in forming conclusions about individual securities. In fact, Wall Street sophisticates, including these experts themselves, are prone to use "bucketting" of (i. e., acting contrary to) the experts' majority forecast as a guide to the market's future — and the greater the majority, the more confidence is there in the bucketting.

The Insuperable Causes of the Negative Forecasting Results

Within our time limitations we can only outline a few of the reasons why attempts to time market movements must fail.

First let us consider such prediction based on *external* factors—political, economic, and financial. In these spheres the forecaster is always faced with a great number of imponderables.

In their forefront is the steadily rising government interventism which continually confronts the short-term market forecaster with the necessity of foretelling and interpreting highly relevant Washington moves.

It may even be an open question whether governmental measures restricting civilian goods production actually are wholly bad for business; or, on the other hand, whether they perhaps will serve as a means of building up a pent-up backlog of demand such as helped to avoid a traditional postwar depression after 1945.

The current politically-governed tax outlook typically typifies another important imponderable as far as its investor effects are concerned. While in the past, gradual rises in the corporate income tax rate have not resulted in profit destruction, it could happen that further "heated war" boosts to 50 or 60% will this time turn out to be the long-feared confiscator of net corporate earnings and of the present liberal dividend yields. And the prospective excess profits taxation, as this is being written, is incalculable as to its sharply divergent effects throughout the market as well as its overall impact.

The currently popularized "inflation" threat confronts the short-term forecaster with another dilemma. Is whole-hog dollar-depreciation to result from enormous armament needs, deficit spending, and wage spiraling; or, on the other hand, will these inflationary elements be counter-balanced by the nation's enormous productive capacity, credit restriction, and general controls?

The "Parlayed" Double Forecast

The forecaster's difficulties are further enormously increased by the fact that he must be correct in foretelling not only such external events, but also **their effect on the stock market.** Like the difficult feat in horse racing of winning a *parlayed* bet, he must make a correct double forecast.

And the market effect is fully as difficult to anticipate, since psychological forces govern the market participants' reactions to external events. Identical events often have successively opposite market effects.

For example, in the period following World War II the minority forecaster who turned out to be correct in his expectations of good business instead of a demobilization depression such as had occurred after all previous wars, was nevertheless "wrong" on the market, for it dropped 22% in 1946, and continued its bearish behavior until late 1949.

Outbreak of war furnishes another example of the difficulty of drawing the correct market conclusion from the correctly-predicted event. Throughout the first eight months of 1939, those expecting the outbreak of world-wide war sold stocks. But the actual occurrence of the event was followed by an immediate market *rise* averaging 20%. On the other hand, the Korean outbreak of last June was greeted by a market *drop* of 15%.

Inflation's Uncertain Market Impact

The inflation factor also manifests the difficulty of making short-term market assumptions from a correct long-term economic prediction — particularly when stocks are out of line from value criteria. There are many instances of severe market falls midst an inflationary environment. During the wartime inflation of 1917 stocks broke 50% in a seven-month period. There was also a halving of stock market prices midst the 1937-'38 period of monetary expansion. Similarly in the post-OPA decontrolling period of 1946-'48 when inflation really took hold on the economy and commodity prices rose by 40% and the cost of living by 30%; the stock price averages nevertheless fell by 10% net. Likewise, over the longer term, the 82% rise in commodity prices since 1929 has been accompanied by a net decline of 40% in the price of stocks.

Overall corporate profits constitute an example where correct prediction of short-term changes in even a quantitative element—a difficult enough achievement in itself—does not necessarily supply the key to the future action of the market as a whole. From 1946 to 1947 the per share earnings on the issues comprising the Dow-Jones Industrial Average rose by 40% (from $13.63 to $18.80), yet the mean of their market price range concurrently fell by 7% (from 188 to 175).

Small wonder then that in the output of the statistical services there is sharp contrast between the constructive usefulness of the *factual* data and the abortive results in their *forecasting* phases.

Internal Market Analysis

Time limitations prevent us from making more than a brief reference to some of the fundamental fallacies embodied in the current mass effort to anticipate stock price movements by means of so-called *internal market analysis.*

The basic fallacy common to the plethora of "technical" methods used in stock market forecasting is the implied major premise that the *future* course of a price can be determined from its *past* behavior; disregarding the hard-and-fast line between the past and the future. This error of the technicians applies not only to the charters of Dow Theory, of ratio systems, of **action reaction signals** ("according to Newton's Third Law") **explosions points; tonometers,** and **"island reversals"**; but as well to the more respectable sun spot cycle theory, and formula-timing practitioners. (Market conclusions tied to sun spots and stellar radiation result from other fallacies.)

Dow Theory's Basic Fallacies

Let us now very briefly summarize the fallacies contained in the popular Dow Theory, which are common to most of the other internal market analysis techniques. Charting the market's course according to its concepts of tops and bottoms, secondary areas, major and minor reversals, break-through points, valid and invalid penetrations, confirmations, primary and secondary advances, etc., the Dow theorists attempt to define whether the market is bull or bear. As a **definition** of the present this is useful, but as **prediction** it signifies nothing. It functions merely as a weather vane that shows which way the wind has been and is blowing; whether up or down the hill. Actually, it does not thereby give any clue as to how long it will continue to blow that way — not even whether it will continue to blow for another day (that is for another up-tick). The weather vane does not insure continuation of the wind; similarly recording of a past price trend does not guarantee its continuation. Stripped of its surrounding copious jargon, the Dow principle is a logical absurdity.

In effect, I am convinced that essentially the market technicians' assumptions about *trend* behavior commit the error involved in the mathematical principle of "the maturity of the chances" which Steinmetz called "the most mischievous of gambling superstitions." This principle embraces the psychological fiction of which Dow thinking is a variation: that when there has been a repeated run in a series, the mere reoccurrence of that repetition alters the mathematically correct odds concerning the probable outcome of the next event.

This is the foible leading boys gambling on coin-tossing to vary their bets on the belief that a series of successive heads is more than 50% probable to be followed by a tail; and the same misconception exists in most systems for outwitting the inexorable mathematical facts of dice or of black-and-red turns on a roulette wheel. The roulette player often becomes thus bankrupted by an extraordinary run of the same color against him.

Essentially Dow's theory and other systems likewise follow the principle that the chances of a succession of identical results are other than even; thereby assuming either extension or reversal of a "trend," whose course over the next tick, day, week or month, is evidenced from its past direction.

Incidentally—when a system for beating the stock market or a game of chance comes a cropper, its practioner is quick to blame himself for faulty interpretation and exculpate the sacrosanct system (a masochistic mental somersault).

"The Market" and the Elusive "Trend"

Those trying to time movements of the stock market considered as an entity, or at least as containing a "trend," overlook the obstacle thereto resulting from the constant divergences within that overall tent termed "the market."

Between 1901 and 1936, while the market as measured by the Dow Jones Average of Industrial Stocks almost tripled in price (64 to 184), concurrently the 20 most popular dividend-paying issues (as measured by their trading volume at the beginning) suffered an overall decline of 39%. Although 13 of the most popular issues were railroads, the industrial as well as the rail components contributed to the record that one-half of the issues shrank by 50% or more.†

In the interval from 1929's peak of all time to the present, in contrast to the 40% decline in the Dow-Jones Industrial Average, and 21% in the Standard and Poor's Composite Price Index (comprising one-third of all listed stocks in number, and 90% in market value); nevertheless over 300 issues are now selling above their 1929 highs. (Among these are such standard issues as Aluminum, Chrysler, Continental Casualty, Deere, DuPont, General Mills, General Motors, International Business Machines, Penney, Procter & Gamble, Sears Roebuck, Socony Vacuum, Texas Co., Union Carbide, etc.)

Likewise while the 50 stocks in Standard and Poor's Daily Index have during this 1929-1950 period fallen from 200 to 157, ten of the component issues have risen.

As this is being written the Dow-Jones Industrial Average exceeds its 1946 top by 11%; nevertheless a majority of the component issues (17 of the total of 30) are selling substantially lower.

Intra-Industry Divergence

Even greater divergence has occurred among the railroad issues during the same period. Although the Dow-Jones Railroad Average as a unit stands about 4% above the 1946 high, no less than 16 of the component issues are lower.

Similarly in this year's market, we see that from Jan. 3, 1950 to the present, while the Dow-Jones Industrial Average advanced by 15%, of the 1249 round-lot common stocks traded in on the New York Stock Exchange 918 rose, 305 declined and 26 remain unchanged. The advances have ranged up to 140%, and the decline to 35%.

Single day performances likewise portray the elusiveness of *trend.* As this paper is being written, the preceding day's market session left 504 issues up, 360 down, one leading index registering a rise, another a decline; all of which led to this descriptive caption on a newspaper's morning-after account: "STOCK INDEX IS DOWN, BUT LIST IS HIGHER."

Great divergence has likewise occurred in the price behavior of individual industries. Of the 50 industry groups recorded by Standard and Poor's, in the face of a 57% rise above the 1935-39 average price that has occurred in their Composite Index comprising all the industries, seven groups now show absolute declines (ranging to 42% by Canadian gold mining issues) and 38 have advanced less than the composite.

During the past 12 months, November, 1949-50, while the Composite group was rising by

* "General Theory of Employment, Interest and Money," J. Maynard Keynes, p. 156, N. Y., 1936.

† Cf "Condensed Summary Tables of Certain Active Securities for the Years 1901, 1910, 1919, and 1926 compared with 1936," published by Brown Brothers, Harriman & Co., New York, 1937.

11%, 15 groups declined and 15 others have remained unchanged. In the midst of the averages' rise to the highest levels in 20 years during the first 11 months of 1950, the food product, building trades, and tobacco groups have actually declined.

The non-existence of a market appraisable as an entity and the difficulty of defining a "trend" that is inclusive create an insuperable obstacle to forecasting of "the stock market." And those investors basing their prediction on a market-as-a-whole or a conceived-of representative *trend* also must win a "paralayed" bet—in this case first on the overall trend and second on the divergent component issues.

* * *

The Constructive Alternative of a Sound Investing Approach

Having reached the conclusion from the foregoing analysis, that success in anticipating market movements is unattainable as well as inconsistent with genuine investment principles, nevertheless we fortunately do not need to leave our audience without a constructive alternative in the form of a sound and logical investing method.

Our own investment value approach is based on the premise that market price recurrently departs from value, in this way creating valid occasions for purchases and sales (in the **genuine** sense of buying cheap and selling dear). We assume further that the investor must estimate in a realistic way the likely return from a share of stock considered as an interest in a property, as he would in investigating a privately owned business; that similar to the buyer of real estate or a business, the holder of a share in a listed company cannot be guaranteed constant liquid market cashability without loss; but that he can legitimately secure reasonable expectation of an investment return on his capital sufficient to compensate him for the use and risking of his money.

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

Realistic Valuation

Instead of trying to gear investment operations to *timing* in one way or another, we should determine the present worth of a stock by capitalizing its carefully-estimated long-term future average annual dividend at a rate that reflects the going yield of riskless interest to serve as the rental value of our invested principal, plus an increment for annual amortization to compensate for the risk involved. The risk components and rental of our capital should be taken care of in the buying price, to give the "hard-boiled" investor a reasonable expectation of recouping his principal-with-interest plus a chance for profit. Through this quantitative concept, capital can be employed realistically with account taken of the calculable risks.

This gives real meaning to the composition of the earnings and dividend yield; and rationality to the multiplier in arriving at the market price; in lieu of leaving it haphazardly fixed according to the dictates of historical precedent, convention, style, window-dressing or some other non-quantitative standard.

(Incidentally, practical experience shows that this approach of appraising individual issues happens ancillarily also to furnish a good clue to the short-term speculative prospect. In the case of the market as of individual issues, good investment turns out to be good speculation as well.)

Under our method, a cost price which gives an annual dividend return of 6½% on the price paid would roughly in 25 years afford complete amortization of the invested capital. That is, after deducting the rental value of his money of 2½%, it leaves him 4% for annual amortization, which, times the 25-year deduction, will then give the investor his share in the property and working capital written down to nothing.

Similarly, a 7½% instead of 6½% capitalization of the expected dividend will give him his money back in 20 instead of 25 years (a 20-year amortization requiring a 5% annual reserve to be added to the 2½% rental value).

Amortization As an Offset to Risk

The crux of the amortization process will be how soon the inherent risks become effective; that is, there is a kind of race between the risk and the amortization process. In connection with estimating the degree of risk, and the amount of annual amortization that is needed to "win the race" against risk, the balance sheet of the respective company is a vital determinant. In cases of a high net-quick liquidating figure or general financial strength, the amortization can be longer-running or even incomplete. In cases of "unclean" balance sheets, on the other hand, either we must estimate the proportion of the anticipated earnings to be capitalized as dividends to turn out less than the average, or our amortization for risk must be increased or accelerated.

The prospective buyer can look at this method of appraisal from another angle. Alternatively, he can consider that with a 6½% dividend yield, together with a strong asset position and other favorable conditions, he will be getting a fair rental value for his money plus an indeterminable return (my major emphasis being on actual return) ranging somewhere around the remaining 4%—perhaps less, or perhaps more in case of windfall prosperity for the company. What he will finally get in addition to the rental return will chiefly depend on the actual outcome of the inherent risks for which the amortization provisions have been made.

Value Appraisal and Portfolio Management

Value-appraisal activities should be practiced as part of consistent long-term portfolio management. They should be used against the background of liberal diversification of one's entire portfolio between equities and fixed-interest securities in the following way:

Primarily, we would continually inspect individual issues according to our evaluation technique, both those which we do and do not already own. We would at all times buy undervalued issues, under the sole proviso that their total should be limited by a predetermined maximum limitation on our entire portfolio's proportion of equity share holdings (say from 50-70%). Similarly, in dealing with appraised over-valuations, we would sell off such issues, but under the proviso that the total of our portfolio's share holdings should never decline below a predetermined minimum (say 20-40%).

The overall aim is to insure continuing proper diversification but not in blind subservience to formula-timing schedules. In other words the formula is distinctly secondary to the value criteria.

Even investors who accept the principle of value-analysis of one kind or another, still want to use market-timing simultaneously as a so-called "tool." The "when vs. what" alternatives as a guide to action then present a continuing problem to most market followers. How shall they weigh their timing efforts against evaluating individual issues on a business-appraisal basis? Which choice shall they make when discerning opportunities to buy good values at a time when the market averages are at historically high level?

My own answer, made on the basis of experience as well as logic, is that, rigorous though it may be, a black-and-white choice between timing and valuing must be made; that compromise means falling - between - two - stools into constant confusion of investment with speculation; and finally that the decisive principle must be: **any time is a good time to buy a good value!**

* * *

Summary and Conclusions

Now let me offer the following summary and conclusions to my remarks on this question of stock market forecastability:

(1) Some amount of forecasting is necessary in investment, business and agriculture; but in the latter two fields it is kept incidental, while in securities operations it is usually engaged in to exert a major influence. Minimization of the forecasting element determines classifications of behavior as investing, in lieu of speculating or gambling.

(2) "Wall Street" has been experiencing a continuing and growing boom in forecasting, in contrast to the recurrent post-1929 depressions in its other activities.

(3) The motivations for this proclivity to forecasting overemphasis include: the psychological desire to *escape* from the rigors and evidenced difficulties involved in appraisal methods; the ordered system appeal; the temptation to pictorialize the future from the past; misconceptions about market "liquidity"; confusion of value with price; and enjoyment of prediction as a game.

(4) The empirical results actually achieved in market timing by various categories of experts have been decisively negative.

(5) As the causes making such abortive results inevitable, we have cited:

(a) the many imponderables everpresent in the market as well as in the external outlook;

(b) the market's habit of contradictory reactions to the same event;

(c) its changing and illogical selective emphasis among conflicting elements; resulting in the insuperable obstacle of having to be correct on both the external eventualities and the market's reactions thereto;

(d) increasing government interventionism and its unpredictability;

(e) in theories of internal market analysis and trend-projection, basic fallacies as assumption of the future from the past; and

(f) the constant sharp divergence between the price action of the individual issues and groups composing the market.

(6) As the alternative to the unattainable goal of anticipating market movements, we offer the would-be genuine investor the constructive alternative of confining himself to appraising individual issues according to valid business-value standards, as he would in estimating the worth of a going business property or real estate.

Auerbach, Pollak to Admit Rosenberg

Robert Rosenberg will be admitted to partnership in Auerbach, Pollack & Richardson, 30 Broad Street, New York City, members of the New York Stock Exchange, on Jan. 1. Mr. Rosenberg was formerly with W. E. Hutton & Co.

Continued from page 4

The Outlook for 1951

the purchasing power of savings over the past decade seems to put a premium on spending. In short, it will not be easy to induce an increase in the rate of saving.

Note that this points up a way in which every person in this room can do something worth while, starting right now. If you cut down on your spending for consumer goods and services, you are helping to preserve the value of our money, you are helping to preserve our free economic system, and you are helping your country prepare to defend itself. Many of you, furthermore, are in a position to advise others to do the same. Granting the possibility that a dollar saved today may be worth somewhat less ten years from now, the person who saved will still be vastly better off than the fellow who has squandered all his money. If you think inflation inevitable, then you had better start saving more, not less.

It may be too late for a marked trend toward greater saving to prevent the imposition of general price ceilings. I have the impression that those who have the power to impose controls have already decided they would prefer on OPA to even moderate inflation. But please note that my comments about the need for greater saving are equally applicable, with or without price ceilings. The more savings are increased, the less we will have to endure black markets, rationing, quality deterioration, unbalanced production, and the other unattractive features of OPA which so many people seem to have forgotten.

No Rollbacks Needed

Let me make a few other comments on how controls are likely to work. For one thing, they will work infinitely better if there is no rollback. To the extent prices are lowered by a rollback, a gap between buying power and the supply of goods is created immediately. More goods are bought, an apparent shortage develops, and the controllers are quickly stuck with the problem of rationing. A rollback, furthermore, will create vast enforcement and administration problems, and overnight the controllers will be swamped with thousands and thousands of applications for upward price adjustments. The controllers will have enough trouble trying to adjust ceilings to changing future circumstances, without creating an immediate set of problems by rolling back prices to the no longer practicable levels of the past.

Assuming there is no rollback, the ceilings should appear to work fairly well for awhile. In the three-year period from mid-1942 to mid-1945 the BLS Cost of Living Index moved up only 10%, and the BLS Wholesale Price Index advanced only 7%. Those were years of total war; certainly in 1951, with the supply of goods and buying power only a little out of balance, price ceilings should be able to keep price indexes fairly stable. Furthermore, the mere existence of ceilings will encourage saving because there will be less advantage in buying in anticipation of future price rises. Finally, the price ceilings will at least slow down the upward trend of wages and will thereby restrict one of the major causes of this whole inflation problem.

It is not 1951 that worries me insofar as a general control program is concerned. What bothers me is that the program, once started, may be with us for years and years and years. You do not have a competitive free enterprise system when the government sets prices for every item that is produced, and ultimately that is just what price controls lead to. The competitive free enterprise system is what has brought this country the highest living standards in the world, and it is what has made this country capable of defeating an enemy in time of war. I hate to see anything get started that may harm that system unless it is absolutely necessary. And I don't happen to think controls are necessary unless all-out war comes.

Forecast Summary

I understand that tradition requires that the Chamber of Commerce forecasting session end with about a dozen very specific forecasts of what lies ahead of us in 1951. As of Dec. 19, 1950, here is what 1951 looks like to me:

(1) Industrial Production—The Federal Reserve Index averaged 200 for 1950. It should average at least 220 in 1951.

(2) Business Activity in the First Quarter of 1951—Raw material restrictions are not going to cause more than a slight drop in overall business activity. The stock-piling program will certainly curtail production schedules of many companies, but curbs that cut too sharply will be eased. Defense production will take up some slack, and industry will perform miracles with substitute materials.

(3) The Gross National Product—The current rate is about $235 billion, and the total for 1951 should exceed $300 billion.

(4) Price and Wage Controls—Those who have the power to impose them seem to expect them. What can I say except to agree with them.

(5) Consumer and Wholesale Prices—They will move higher in 1951, but average figures for the year may not exceed current levels by more than 5%.

(6) Wages and Salaries—They will increase in 1951 but not at the rapid pace of the past six months.

(7) Federal Finances — The Treasury will have a cash deficit in calendar 1951, but I will be surprised if it exceeds $5 billion.

(8) Department Store Sales — The dollar volume of sales in 1951 should exceed 1950 figures by about 10%.

(9) Automobile Production — The industry may turn out about 5 million cars and trucks in 1951 compared with about 8 million this year.

(10) Banking — Interest rates and total loans will hold close to current levels, and the growth in demand deposits will be moderate and perhaps less than that of 1950.

(11) Corporate Earnings—Earnings before taxes will be as high as in 1950, but profits after taxes will, of course, be lower.

(12) For Good Measure—The Cleveland Indians will win the pennant and draw more fans than in 1950.

Fahnestock & Co Opens Branch in Jacksonville

JACKSONVILLE, Fla.—Fahnestock & Co., members of the New York Stock Exchange, have opened a branch office in the Barnett National Bank Building, under the management of Harold I. Clayton. Mr. Clayton was formerly with Merrill Lynch, Pierce, Fenner & Beane.

Robert McManamy, Jr.

Robert McManamy, Jr., President of McManamy & Co., Inc., New York City, died on Dec. 21 shortly after suffering a heart attack.

Continued from page 7

Unsound Government Policies —Our Problem Today

creased the country's wealth, and this new wealth in turn has built new industries and employed more labor. Today we have more automobiles, telephones, radios and a host of other products in America alone, than in all the other countries of the world combined. They say we now have an automobile for every horse in the country—(and sometimes it seems for every jackass too — the way some people drive). The only time a horse gets frightened nowadays is when it meets another horse on the road.

Brains Are Highest Price Commodity

In any event, this evolution of the centuries has finally brought us to the point where today you can hire labor for so-much an hour, money for 3% or 4%—but brains are the highest priced commodity in the world.

And so today, American business recognizes and rewards all three of these elements of production. Henry Ford had a good idea —but no money. He finally induced a few men who had money to risk $28,000 of it to make more money by developing his idea. Thus, one man with an idea, other men with "risk capital," and a few good workmen, went into partnership, and they all prospered—and in the process many other stockholders have since benefited and new jobs have been created for 150,000 employees. **Here, and right in front of our eyes, is the American free enterprise system at its best**—a combination of Capital and Labor and Brains — and through its country-wide operation prosperity has been passed around among millions of our people and we have become the richest and strongest nation on the earth. The ownership of the American Tel. and Tel. alone is spread over 975,000 stockholders. Critics attack our capitalistic system, but no one attacks the standard of living it provides—highest wages, shortest hours, lowest prices, greatest abundance of the good things of life, and every man free to work **when, where,** and **if** he chooses. Away back in ancient times, Horace, the wise old philosopher, said: "If a better system is thine, impart it; if not, make use of mine." This is America's economic challenge to the world today.

But after all, every young man must know that neither Capital nor Labor nor Brains will ever develop a substitute for personal courage. Obstacles appear at every turn in the road — and obstacles are things to test the stuff we are made of. You can't win all the time in any line of endeavor. The best baseball team in the world loses from 50 to 60 games a season. Frank Woolworth worked hard to save his first $50 and then saw three of his first five chain stores absolutely fail. Cyrus H. K. Curtis lost over $800,000 on the "Saturday Evening Post" before he could make it pay a single dollar of profit. DuPont worked 11 years and spent $27 million before the first pound of nylon was sold. Frank Munsey's remarkably successful career, after repeated failures, might be tersely described as: "40 failures, 40 successes, $40 million." Abraham Lincoln suffered one failure after another—was badly defeated in five different elections—and finally became our country's greatest man.

Unfortunately, we hear many loose statements these days to the effect that about 80% of all the wealth of our country is owned by only 2% of the people—and that a share-the-wealth program is therefore in order. The main trouble with this statement is that it is not true. Who owns the United States, anyway — with its estimated wealth of over $400 billion? Cameron's statistics show that 22% is invested in 25 million homes; 12% is in six million farms; 11½% is in personal property including over 45 million automobiles which swarm our highways; 2% is in retail stores, nine-tenths of which are owned by small merchants; 5% is in local buildings; about 5½% is in public property; 14% is in transportation and public utility companies owned by about 12 million people —45% of whom are women; 9% is in 200,000 factories; and the small balance is in money and other miscellaneous property. These figures show that about 70% of our wealth is owned by average, not wealthy people—and no matter how you dviide it up, there just isn't enough to go around and provide everybody with the abundant life.

And don't let anyone tell you that business is dishonest. The history of American business is but the history of the growth of high ideals, of men's confidence in one another, until today over 90% of all our country's billions of dollars of business per year is done, not by the exchange of money, but by the exchange of little pieces of paper on which honest businessmen sign their names. "This (as Bruce Barton says) is the magnificent edifice of American Business—a 'Temple of Trust'." And the wonderful thing about it all is that you and I and every businessman, large or small, in every town in every state in the union, has a chance to make this "Temple of Trust" a little stronger and nobler by his living—or, if he chooses, a little weaker and more insecure. These young men of today as they become our business leaders of tomorrow will find it a little easier to trust each other—or a little harder—by your conduct and mine.

Problem of Today—Unsound Government Policies

So much then for American Business—and now, what about its biggest problem of today? To my mind, its biggest problem is **unsound government policies**—and it is about time for businessmen to stand up and speak their views on this subject. A famous writer once said: "To sin by silence when we should protest, makes cowards out of men. The human race has climbed on protest." No matter how successful a man may be in his business or profession, all of his carefully laid plans for the future may come to naught if his government is unsound. A government is only as sound as its directors—and they are politicians.

A sound politician is a fine asset for our country (and we have a good number in both parties—more, in fact, than we had before the recent election), but we still haven't enough of them. Our form of government is the best in the world — it's the spendthrift politicians we criticize. They have a program which is steeped in politics. They figure that every time they increase pensions or subsidies or wages, they gain votes. Today, 1 man in every 7 is receiving money directly or indirectly from the government. The terrific cost of all this is paid out of taxes—but they conceal the fact that about half is hidden taxes which must be paid by the poor as well as the rich—5¢ on a loaf of bread, 8¢ on a quart of milk, and 116 different hidden taxes on a single suit of clothes. Last year, these hidden taxes amounted to over $790 per average family. They buy the people's votes with their own money—a giant give-away, free-lunch counter program.

Businessmen are adders and multipliers by occupation. They increase the wealth of the country —make more goods, more jobs, more prosperity for all the people. Unsound politicians are subtractors and dividers. They produce no new wealth and are constantly promoting schemes for dividing the wealth we already have. "Share-the-other-man's-wealth" has been their slogan for 3,000 years. In the fiscal year 1939, they spent $9½ billion, and now in 1950 (just 11 years later), they've spent over $42 billion—and if President Truman has his way with "security" for everybody they'll want $10 billion more. As a matter of fact, the only place to get "security" is in a penitentiary, and you can't get it even there without giving up your freedom. Security and freedom cannot live together.

The Roman Empire fell through Socialism by taxation — Greece fell the same way—and England, though only 18% socialized, is already gasping for breath. Throughout all history, every time a government attempted to provide greater benefits for more people than it could currently support, it first took away their freedom, then lowered their standards of living, and finally ceased to exist.

Do you know that during the 4½ years since World War II ended, up to January 1, 1950 — all in peacetime—this Administration spent $179 billion, which is about $12 billion more than was spent by our government during the whole 152 years from George Washington's time to the beginning of World War II (including the cost of the Civil War, the Spanish American War and World War I). And when you hear these politicians brag about how prosperous we all are today under their planned economy (and they plan everything but economy), I can see you bankers wondering with puzzled brains just how much of this prosperity has been manufactured out of the $258 billion of borrowed money. Anyone can look prosperous on borrowed money—until his note comes due. In 18 out of the last 20 years, our government has spent more than it took in—and staggered further down the deficit path toward inflation. And, Socialistic ideas grow as a nation's debt grows.

Downie tells us that if every insured person in the United States cashed in his life insurance — (total $44 billion)—it would only run this Administration for about 1 year. If every farmer sold his farm machinery and live stock—(total $25 billion)—that wouldn't run it for 7 months. These are shocking statements — and it is even more shocking that they are true.

Spendrift Policies

Who pays for all this spending anyway? We, the people, must pay for every dollar of it either by increasing our own taxes or by borrowing on bonds—and bonds are but deferred taxes to be paid by our children. When the government borrows, billions of new money pour into circulation and every extra dollar buys less goods — and prices rise. We have too much money for the supply of goods. Price controls and rationing only postone the evil day — and when they are finally lifted, prices go higher than ever. From 1939 to 1950 our deposits and money in circulation nearly tripled—but the dollar value dropped to 59¢ and prices went up over 75%. On that basis the $100 you get today for your "E" bond isn't worth as much as the $75 you paid for it 10 years ago with all the 10 years' interest added—and to add insult to injury you must pay income taxes on the interest.

This Administration's inflationary policies have built up a perfect background to encourage the people to buy stocks, but no background at all to buy bonds—for advancing prices appreciate stocks and depreciate bonds. Sometimes I think the government will either have to make its bonds partially or wholly tax-free—or else guarantee the bond buyer that the money he receives on maturity will buy as much as the money he paid when he bought it; i.e., tie bond and coupon dollars to the cost-of-living like some employers do the wages of employees. This plan, however, might make inflation worse — and therefore the one and only permanent remedy is to stop the inflation itself. Otherwise, how are you going to sell bonds in the face of a constantly depreciating dollar? To make bonds good investments you must keep purchasing power level.

And the worst of it all is that these spendthrift policies are cruelly hurting the very poor people they claim they are trying to help. Nothing the poor man buys today has risen so high as the cost-of-government. Since 1940 the cost-of-living has increased about 75% but the cost of government has increased 274%. Politicians try to tell you that this outrageous increase is due to defense spending (of which we all approve), but the truth is that non-defense spending is now running about $25 billion per year — over 4 times what it was 10 years ago—and every time Congress increases costs by voting another bonus, another pension, another price support, another wage raise or another bureaucrat, your hard earned dollar goes lower and lower. The handwriting is on the wall. How much will your "Social Security" money be worth by the time you get it? A chief reason for the high cost-of-living is the high cost-of-government—and the only way to change it is to vote these spendthrifts out. They are wasting our seed corn.

Take Co-ops. The government taxes an industry so heavily as to retard expansion—and then uses some of this tax money to wreck it by giving competing "Co-ops" tax exemption. Back in 1916, when income taxes were 1%, tax-free "Co-ops" began with small groups of farmers who sold their products together for a little better price. Nobody complained about that. But these "Co-ops" and "Tax-exempts" have since grown by such leaps and bounds that today they compete with our taxpaying Businessmen at the rate of scores of billions of dollars of business per year and escape about $3 billions of taxes. Why should not building and loan associations, farmer elevators, labor, educational and religious business "Co-ops" be taxed the same as the business concerns they compete against? Why this 45% tax advantage? Why not tax the untaxed first? They now own over 25% of the total productive wealth of the nation. Here is injustice that concerns every taxpayer—and it is about time we all got mad. And while we are at it, why not get the goverment out of business too? If democracy means anything, it means the less government, the better.

And take Price Supports. In the old days no farmer was crazy enough to even dream of bumper crops and bumper prices the same year. But now, the politicians try to "by-pass" the old law of supply and demand and manufacture perpetual prosperity for the farmer. Price supports help one class and hurt all others. So far our government has spent over $500 million to help one small class of farmers and keep 150 millions of the rest of the people from buying potatoes cheaper. They pass a law to force business to hold prices down — and then continue price supports to hold prices up. They pass another law to penalize hoarding — and then finance the Agricultural Department to hoard over $4 billion worth of food. **How can you square an honest desire to stop inflation and help the poor with a guaranteed support price for anything?** The politician who **talks** "help the poor" and **votes** "price supports" is talking east and voting west—a hypocrite in every man's language.

Inflation—The Politician's Cocktail

And there is inflation — the politician's cocktail to keep the people happy while it ruins them. Inflation makes people think they are richer than they are, gives them a feeling of security which is false, hits the hardest and the most helpless among us (even the widows and orphans), encourages extravagance, and destroys all assurance that thrift and hard work today will bring security and comfort in old age. To my mind, our greatest economic problem of the day is the Defense of the Dollar. Monkey with a nation's currency and you jeopardize all values. Our government started this inflation when it took us off the Gold Standard in 1933 and started its "pump priming" and spending sprees, and it will never stop it until it puts us back on again and quits spending more than it takes in. But, of course, politicians don't like sound money because it restrains their spending.

The true welfare of the people is advanced by more production, more wealth—not by more money —and the only thing that will increase wealth is hard work. Let us discard the old destructive political slogan "Tax — Spend — and Elect"—and adopt the constructive economic slogan "Produce—Produce—and Produce." And then, for the good of our economy, let us translate this increased productivity not into higher wages to feed the flames of inflation — but rather, into lower prices to help quench them. Any government that promotes inflation is betraying the welfare of its own people—and remember that only the government can start or stop inflation.

True wages could be much higher if the "Boss" were not taxed so much to pay for all these unsound policies. Any employer would rather pay money to his own employees than to an extravagant government. Some day, some smart Labor Leader will see that the best way to get an increase in the employee's wages is to get a decrease in the employer's taxes. **There's more danger in big government than in big business.** In 1948, our government collected in taxes an amount equal to all the wages paid to all the persons working in all the factories and all the mines throughout the entire country. I wonder if the Labor Unions know that. This can mean only one thing—the government gets richer and stronger and the people get poorer and weaker and that is bad news for every man who works for a living—and wants to stay free. In the last analysis, all this leads to Socialism —and the only allurement that Socialism has ever had to offer is a promise of greater abundance in exchange for liberty, and even that promise has never yet been fulfilled.

The American businessman is not for and is not against any particular political party. He stands for sound economy which will insure the continued growth and development of America. He wants ability, efficiency and integrity in office. He doesn't believe in laws which benefit one class and penalize another, nor in practices that line one class against another. He knows that the true welfare of our country rests on economic grounds; that when business prospers, everybody prospers; and that any law that hurts business hurts everybody. And above all, he knows that the best friend of the common people is not the politician, nor the government, but rather the businessmen of our country whose success or failure casts a profound influence upon every job, every school, every community and every home in the whole United States. **Bankrupt business and you bankrupt everybody** — including the government.

The Democratic Party boasts of Thomas Jefferson as its inspiration. And what was his philosophy of government? Let Jefferson answer that in his own words: "I place economy among the first and most important virtues, and public debt as the greatest of dangers. We must make our choice between economy and liberty or profusion and servitude."

The Republican Party boasts of Abraham Lincoln as its inspiration. And what was his philosophy of government? Let Lincoln answer that in his own words: "You cannot strengthen the weak by weakening the strong. You cannot help the wage earner by pulling down the wage payer. You cannot establish sound security on borrowed money. You cannot keep out of trouble by spending more than you earn."

And so we see that these spenders, these creeping, flirting, or actual Socialists (whatever they may be), are certainly not Jeffersonian Democrats and certainly not Lincoln Republicans—and yet they are demoralizing both parties and threatening the stability of America.

Jefferson and Lincoln—two of the grandest men in American history — differed in political faiths, but there was one doctrine on which they both agreed — sanity and solvency in government. Let us, as patriotic businessmen who are deeply concerned about the future of our country—and before it is too late—exert the best efforts we have in us to throw out these spendthrift politicians and restore to America, sanity and solvency in government. Here lie our outstanding obligations of today.

And now, just one more thought and I am through. You and I are under great obligations to America for being able just to live and to work in this great country. America has been good to us, and we, as intelligent men, must know that we are indebted in very large part for all we possess of freedom and happiness and intelligence and wealth to the labor and sacrifice and heroism of those who have gone before us. And so, as we now enjoy this fruit as it falls to us from the orchards which others have planted, let us not destroy the trees that feed us, but rather, in true thankfulness, plant new trees for still others to enjoy. This is the scheme of life—and this is the constructive patriotic philosophy to guide every true American today.

At this crucial time, when our whole system of government is being challenged by a foreign power, let us not adjourn a large meeting like this without reaffirming our allegiance to our country and rededicating our lives and our fortunes to the noblest cause we know. This is the highway for us.

"To every man there openeth
A way, and ways, and a way,
And the High Soul climbs the high way
And the Low Soul gropes the low,
And in between, on the misty flats,
The rest drift to and fro;
Yet to every man there openeth
A High Way and a Low
And every man decideth
Which way his life shall go."

Continued from page 5

The State of Trade and Industry

The total for this year is made up of 35,921,941 passenger cars and 7,566,650 trucks.

Reflecting the increase in national production the current year shipments of machine tools in November, the National Machine Tool Builders' Association reports, reached the highest monthly rate since August, 1945, and new orders were the second highest for any month this year.

The association's index for shipments in November was 110.9, compared with 100.9 in October and 67.6 in November last year. The index is based on the average annual shipments of 1945-47 as 100. Average annual shipments for that three-year period are estimated at $354,000,000.

The November new order index was 292.7 against 289.6 in October and 84.3 in November a year ago. The previous high this year was 305.1, reached in August.

Living costs climbed to a further new high and consumer prices rose to 175.6% of the 1935-39 average on November 15, the Bureau of Labor Statistics reports. This compares with 175.1% a month earlier. It was 3.2% above the mid-June level, 4.2% higher than a year ago and 31.7% above June, 1946. Prices of all major groups of commodities moved up in the latest period, led by a spurt of 1.3% in house furnishings. Average retail food prices jumped 0.2%.

Steel Production Scheduled to Fall Due to Christmas Holiday

Voluntary price controls are doomed to failure even before they begin. Trying to hold prices in check by publication of "fair pricing standards" is as futile as trying to stop an avalanche by frowning at it. Mandatory price controls are sure to be installed as soon as the Economic Stabilization Agency can collect a big enough staff to enforce them, states "The Iron Age," national metalworking authority this week.

Meanwhile, manufacturers are pondering over the new pricing standards, trying to decide what course they should follow. Most companies will comply with the government request. But many firms are facing a pricing dilemma. Contracts based on cost plus, escalator clauses and average prices will probably have to be reviewed individually. Many hardship cases will have to be studied. There will be a lot of headaches and a lot of conferences before price controls reach their final form, this trade weekly adds.

A careful check by "Iron Age" editors in widely separated areas indicates that there is practically no hoarding of steel by regular customers. Inventories are below normal. Most manufacturers, large and small, have less steel than their production requirements would dictate.

Steel quotas of regular customers are being slashed to the bone—more than 50% on some products. With some manufacturers it is nip and tuck between depleted steel and nonferrous metals as to which will finally force production schedules to fall down.

This week there are indications that the defense program is moving ahead at a faster pace. Several large orders have been placed and some very large construction projects are near the contract stage, the magazine asserts.

Some steel people are now convinced that a controlled materials plan will be placed in effect as early as March or April. Their conviction is based on the impact of DO orders and allocation programs already felt and the additional ones that are expected nearly next year. Some steel companies are booking DO orders far beyond the limits they are required to accept.

In order to meet DO and allocation demands a gradual change in product mix is taking place. This is working hardships on some companies from a profit standpoint. Companies who formerly sold more profitable specialty items now find themselves making more of the bread-and-butter products for the defense and allocation programs, "The Iron Age" points out.

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 100.1% of capacity for the week beginning Dec. 26, 1950, compared to an average of 100.8% a week ago, or a decline of 0.7 of a point.

This week's operating rate is equivalent to 1,930,600 tons of steel ingots and castings for the entire industry, compared to 1,944,200 tons a week ago. A month ago when storms in the Midwest affected operations, the rate was 81.7% and production amounted to 1,575,800 tons, a year ago, it stood at 93.1% and 1,716,300 tons.

Electric Output Continues to Break All-Time High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 23 was estimated at 7,032,740,000 kwh., according to the Edison Electric Institute.

Electric output in the above week broke through previous week's all-time high level to attain a new historical high record for the industry.

It was 47,319,000 kwh. higher than the figure reported for the previous week, 1,038,797,000 kwh., or 17.3% above the total output for the week ended Dec. 24, 1949, and 1,524,500,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Advance in Latest Week

Loadings of revenue freight for the week ended Dec. 16, 1950, totaled 772,902 cars, according to the Association of American Railroads, representing an increase of 6,159 cars, or 0.8% above the preceding week.

The week's total represented an increase of 133,174 cars, or 20.8% above the corresponding week in 1949, and an increase of 18,350 cars, or 2.4% above the comparable period of 1948.

Auto Output Lower for Week But Higher Than Year Ago

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 160,431 units, compared with the previous week's total of 172,307 (revised) units and 116,567 units a year ago.

The drop was attributed by Ward's to the closing of Chrysler's passenger care divisions for model changeovers.

Total output for the current week was made up of 118,899 cars and 33,196 trucks built in the United States and a total of 5,992 cars and 2,344 trucks built in Canada.

For the United States alone, total output was 152,095 units, against last week's revised total of 164,318 units, and in the like week of last year 110,594. Canadian output in the week totaled 8,336 units compared with 7,989 units a week ago and 5,973 units one year ago.

Business Failures Climb

Commercial and industrial failures increased to 174 in the week ended Dec. 21 from 150 in the preceding week, Dun & Bradstreet, Inc., reports. They compared with 196 a year ago, and 116 in the similar week of 1948. Continuing well below the prewar level, failures were down 31% from the 1939 total of 249.

Casualties involving liabilities of $5,000 or more increased to 139 from 119 last week and compared with 154 a year ago. Small failures with liabilities under $5,000 rose to 35 from 31 in the preceding week and compared with 42 in 1949.

Wholesale Food Price Index Reaches New Post-Korea High

A rise of 3 cents the past week put the Dun & Bradstreet wholesale food price index for Dec. 19 at $6.80, a new high since Sept. 21, 1948, when it stood at $6.82. Compared with the pre-Korea level of $5.96, the current index represents an advance of 14.1%, and it is 18.7% above the $5.73 recorded on the corresponding date a year ago.

The index represents the sum total of the price per pound of 31 foods in general use, and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Reflects Rise of 19.1% From Pre-Korea Level

The upward movement in many wholesale commodity markets was accelerated last week as a result of the President's proclamation of a state of national emergency. A rise of 8.17 points during the week lifted the Dun & Bradstreet daily wholesale commodity price index to a new all-time high of 315.36 on Dec. 19, from 307.19 a week earlier.

The latest figure marks an increase of 19.1% from the pre-Korea level of 264.77 on June 24, and is 28.1% above the 246.26 recorded on the corresponding date a year ago.

Grain futures on the Chicago Board of Trade trended consistently upward with all deliveries of wheat, oats and soybeans reaching new seasonal peaks. Mill demand for wheat was quite active and substantial amounts were reported sold for export. A continued lack of moisture in the Winter wheat states lent strength to the market as did heavy snows in some areas which restricted market receipts of cash wheat. Strength in corn was aided by good demand from exporters and domestic processors which carried cash prices for the yellow cereal to the highest levels since October, 1948. Trading in oats was more active. Supplies continued tight and limited receipts were readily absorbed at firm prices. Sales of grain futures on the Chicago Board of Trade averaged 40,700,000 bushels per day for the week ended last Friday. This was little changed from the previous week and compared with a daily average of 32,000,000 bushels in the same week last year.

Flour prices advanced 20 cents per hundredweight as domestic bookings expanded sharply toward the latter part of the week with both large and small baking interests participating in the buying movement. Reflecting good manufacturer buying, cocoa recovered from early weakness and closed only slightly below a week ago. Raw sugar rose to a new high for the current movement, aided by a better demand for the refined product. An improved tone in the green coffee market resulted from sustained demand for roasted coffees as wholesalers and retailers continued to build up their inventories. Heavy buying sent lard prices to new high ground for the season, with strength in vegetable oils a supporting factor. All livestock closed with small net gains for the week.

Trade Volume Reaches All-Time High in Latest Week

Christmas shoppers throughout the nation, with the holidays imminent, brought retail dollar volume to an all-time high during the period ended on Wednesday of last week. Total sales were slightly above the high level for the corresponding week in 1949. While rising prices for many items were considered responsible for much of the record dollar volume, there was also a very slight increase in unit sales from last year's level, Dun & Bradstreet, Inc., reports in its current summary of trade.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 1% to 5% above a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England, East, and Pacific Coast 0 to +4; South +1 to +5; Midwest +3 to +7; Northwest +2 to +6; and Southwest —1 to +3.

Country-wide wholesale buying increased slightly last week, as pre-holiday reorders for immediate delivery continued to mount. The aggregate volume of orders was slightly above the level for the similar 1949 period. The number of buyers attending various wholesale markets declined seasonally and was somewhat comparable to last year's number.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 16, 1950, advanced 9% from the like period of last year. This compared with an increase of 2% for the previous week. For the four weeks ended Dec. 16, 1950, sales showed a rise of 3% from the corresponding period a year ago and for the year to date registered an advance of 5%.

According to the Federal Reserve Board's index, department store sales in New York City, for the weekly period to Dec. 16, 1950, advanced 9% from the like period of last year. In the preceding week an increase of 2% was registered above the similar week of 1949. For the four weeks ended Dec. 16, 1950, an increase of 2% was recorded over that of a year ago, and for the year to date, volume advanced 1% from the like period of last year.

Continued from first page

As We See It

fact remains, however, that what these gentlemen have said is of vital importance to us all. Sound judgment as to the facts and opinions expressed by them could well be the difference between catastrophe and relative safety for this nation.

Name-Calling Doesn't Help

It is, of course, easy enough to label these critics "isolationists" and thus unworthy of attention. It is simple to assert as some have asserted that it is the aim of President Truman to prevent World War III, while Mr. Hoover and Mr. Kennedy appear to be chiefly interested in making certain that we win World War III. Calling people names, however, rarely accomplishes any constructive purpose, and a good many of the comments such as that just cited seem to us a trifle silly. Mr. Hoover might well reply that if we make certain of winning World War III there would be no such war. Indeed, he would then be preaching almost precisely the doctrine that has been issuing from the Administration for a long while past.

But such discussions as this are not very enlightening. Of course, all of us want to prevent another World War if we can. None of us want to lose it if it comes. Few, we believe, would care to assume much risk of losing it in order to gamble on preventing it. The problem is how to proceed. That problem will not be solved by glossing over facts or ignoring unpleasant situations. We have blundered our way into a very difficult state of affairs, and we can afford very few major blunders henceforth if we are to escape with a whole hide. We now need to take, indeed we must now take, a long, broad view of it all and arrive at conclusions which are in accord with all the facts and which take full cognizance of the blundering history which has led to the present impasse.

To begin with it is necessary, at the risk of becoming tiresome, again to recite the general nature of the major blunders which have given birth to our plight at this moment. Since the days of Woodrow Wilson, a substantial number of people in this country have cherished the notion that war could be banished from the world by some kind of international organization which would be guided, not by selfish interests of its members, but by some high moral or humanitarian principle. Wilson and his supporters were never able to convince the majority of the voters of this idea, and we, accordingly, were not members of the League of Nations, which very promptly revealed its impotence. It was relatively easy when World War II broke out to make headway with the claim that had we not been "isolationist" in those intervening years, but had on the contrary taken an active part in world affairs, the human race might have been spared the horrors of the years 1939-1945. At any rate by the time Japan had capitulated in 1945, the Government of the United States, and so far as can be determined the people of the United States, were the world's leading exponents of another, bigger and better League of Nations—which finally took shape in the United Nations, an organization which was to put an end to "aggression" throughout the world.

Only Some Thieves Destroyed

Meanwhile we had taken a decisive part in destroying three of the four powers in the world with imperialistic ambitions of importance. The fourth was relatively speaking thus placed in a position of unparalleled power, and soon made it clear that it had lost not one whit of its appetite for conquest and expansion. The United Nations soon became hardly more than a debating society with the Kremlin and its satellites on one side of virtually all questions and the remainder of the world on the other. Outside the halls of the grandiose world organization, the Kremlin, far from disarming as the remainder of the world proceeded to do, steadily built up the strength of its armed forces and those of its allies and associates. Thus at this moment nothing resembling any sort of "balance of power" exists anywhere in the world.

Not only is there nothing resembling equality of military might in being between the Kremlin and those who would hold it in check, but the theoretical opponents of the Soviets have all too often until quite lately been held together—if they have been held together at all—only by some vague hope of maintaining peace without any real display of force. It has now become fairly clear, we believe, to all that the only way to restore any "balance" in the older sense of the term (and very probably of maintaining peace in the world) is by building up the strength of the anti-Kremlin world. It is evident that harsh words will not stop the Kremlin any more than Britain's pledge to Poland prevented the outbreak of World War II. It should have been foreseen — all of this — but apparently it was not.

Here Are the Real Questions

But how and where is this building up of force to be undertaken? That is the question that has concerned Mr. Hoover, Mr. Kennedy and thousands of others throughout this country during the past year, and particularly during the past two or three months. It is most frequently said that all of Western Europe, including West Germany and Spain, should be armed and otherwise prepared at the earliest possible moment. But where among these peoples is there real will to fight and can they be re-armed and trained (even if they are ready to do all they can to help themselves, which often appears doubtful) without precipitating a war with the Kremlin which at this moment almost certainly could not be contained. Essentially the same questions are to be raised as respects Japan, where a large potential military might exists. And, of course, we should have to face the possibility that an aroused nationalism in Japan and in Germany would, when arms are again available, recreate imperialistic ambitions.

These are some of the problems which are weighing heavily upon the minds of Mr. Hoover and Mr. Kennedy—and a good many others of us — and they can not be shrugged off.

Continued from first page

A Close Look at the U. N.

Haiti or Burma. Its actual authority is about that of a glorified debating society.

Aims and Purposes—A World-Wide Domination

The United Nations aspires to nothing short of ruling the whole world—a task never before seriously undertaken by any one save the old League of Nations. The League of Nations failed. Is the United Nations better equipped for so tremendous a task? The question is of the first importance.

The World to Be Governed by Standing Committees

A scrutiny of the charter of The United Nations shows that its government is to be conducted principally through a series of standing or permanent committees, or councils, of which the Security Council is the chief. The goal which the organization has in sight is internationalism brought to pass through the instrumentality of small groups of persons constituting committees or commissions supposed to be possessed of talents, foresight, self-control and wisdom such as have never at any time been embodied in human beings.

The realization of this truth is a step of great importance in forming any estimate of The United Nations.

Standing Committees or Commissions—"Open Secrets" About Them

Anyone who has had experience with boards or commissions in governmental administration knows that there are certain vices which infect them all. Briefly, these are: (1) Often they are honeycombed with prejudices, political and personal; (2) members are seldom free from vague notions of a duty to represent the section or the country from which they are appointed; (3) only too often members are obsessed with an overpowering determination to use their official positions as springboards for reaching something higher, more attractive, and more remunerative. (4) A single pig-headed crank "reformer" or "do-gooder" upon a commission is able to negative completely its usefulness. As world governors, boards and commissions are simply impossible.

There is an important distinction between a "standing" or "permanent" committee of a body like The United Nations, which is subject to but few and gradual alterations or to direct outside influence such as popular elections; in contrast with the ordinary committees of our State Legislatures or of Congress. These latter constantly vary in membership with every election that occurs, and reflect popular thought in a way that the commissions of The United Nations could hardly approach.

Burke's Opinion of Office-Holders

Edmund Burke once said to the House of Commons that office-holders who are "too much conversant in office are rarely minds of remarkable enlargement." He thought them too attentive to forms, and added:

These forms are adapted to ordinary occasions; and therefore, persons who are nurtured in office do admirably well, as long as things go on in their common order; but when the high-roads are broken up, and the file affords no precedent, then it is that a greater knowledge of mankind, and a far more extensive comprehension of things is requisite than office ever gave, than office can ever give.—Burke's speech on "American Taxation," Goodrich's "British Eloquence," p. 251.

The truth of this is illustrated by our own experience here in America. Let us speak of two of our outstanding governmental commissions.

The Interstate Commerce Commission

The ICC body was created in 1887, to regulate railroad freight and passenger rates, and prevent unjust discrimination.

Its history has been checkered and colorful, at one time sinking so low as to be hardly more than a polite cipher. Only an immense and lavish extension of jurisdiction, and a dangerous enlargement of power (given to it because of a deep-seated and ignorant popular prejudice against railroads) saved it from a condition of "innocuous desuetude." It has now swelled into an authority so great as to be almost a law unto itself—a condition to which every government bureau aspires.

It seems unlikely that anyone at all familiar with history would have the hardihood to draw an inference from the career of the Interstate Commerce Commission in favor of the creation of any world commission, to control international trade and business. Only an intense enthusiasm for the methods of the Interstate Commerce Commission could support such a notion.

Questions involving charges for transporting merchandise are complex and burdensome, even when there is no interference by Congress, and no local pressure from outside Congress.

The attempt to regulate one line of business (transportation) within the limits of a single country has proved a dismal failure. How much greater would be the difficulty, and more numerous the tragic mistakes, were the field of operation to become, not nation-wide, but world-wide, and were the jurisdiction to embrace a multitude of activities and transactions of 60 nations, composed of individuals and races differing from one another in almost every imaginable degree, as respects race, language, color, religion, temperament, experience in life, methods of business and character of commodities, as well as physical and mental capacity and development? The mere suggestion is startling.

We pass to another governmental agency.

The Federal Reserve Board

The Federal Reserve System was such a distinct step forward in certain ways that it is easy to overlook one important fact. The little group of individuals who were to supervise the system were furnished by the law with only vague and uncertain objectives. They were to establish an elastic currency, and to fix a rate of discount (or rediscount) "with a view to accommodating trade and commerce." This looseness and generality of language gave the Board its opportunity, from 1927 to 1929, to follow the policy of "cheap money," with results in 1929 which will not be soon forgotten. If we recall the ardent hopes that accompanied the creation of the Federal Reserve System in 1913, we shall especially understand the bitterness of the failure in the 1920s, and at the present time, though in not so severe a degree as in the 'twenties.

The Quandary of the Federal Reserve Board in 1929

Does not the whole episode furnish a forcible illustration of the truth of the statement of Edmund Burke already quoted? Does it not suggest that 1929 was a time of stress, when "the file afforded no precedent," and the members of the Federal Reserve Board were accordingly unable to meet the situation? The Board failed to heed the remonstrances addressed to it by the Federal Advisory Council (made months in advance); it hesitated between a wish to tighten money in order to curb speculation in stocks, on the one hand; while on the other it wished to refrain from tightening money abroad, by raising the rate of discount here. This acted like a palsy; and it illustrates the weakness and evil that would paralyze any council or commission of world government that might be set up.

The Federal Reserve Board's Condition Today

The Board today, instead of being a great independent power for steadiness and correction, is closely linked up with the Treasury Department, and is subordinated to the fiscal policies of the Administration. Thereby it is robbed of much of that authority given it in 1913; and it is very nearly "harmless" for some of the purposes expected of it by its creators; e.g., its control over the rate of discount. Yet this is something that was then deemed of especial importance. A world governmental committee in control of banking and finance would have even a harder time to maintain itself or preserve a semblance of independence.

Can even the most ardent disciples of World Government contemplate the picture of a "World Reserve Board" today attempting to rule over the finances and the currencies, the banking operations and the business affairs of the 60 nations that compose The United Nations, most of them bankrupt, their currencies depreciated if not worthless, and their credit gone? Think of the pictures drawn at Bretton Woods in 1945 as to what great things the World Bank and the International Fund were to do. The less said the better. Dare any one suggest what nations would constitute the membership of a "World Reserve Board"? Would the United States or Great Britain or France or Canada have a seat, or would the Board be managed by representatives from Pakistan, China, Egypt and Iraq?

The Aims of The United Nations

Turning away from this not very inspiring picture of our own experience with governmental commissions, it is now in order to look at two of the objects or aims which are foremost in the list of results which The United Nations was created to accomplish: (1) The prevention of war; (2) The employment of "international machinery for the promotion of the economic and social advancement of all peoples." In plain English, this last includes "full employment" as the greatest step to such an end.

Universal Peace

Desirable and noble as is this goal, one must be a careless reader of history if he supposes that such machinery as the United Nations can offer can command respect or inspire confidence to effectuate the desired result. This weakness cannot be better stated than by Mr. Nicolson in the following passage from his "Life of Lord Curzon":

Curzon had little faith in international conferences, knowing too well that the dramatic staging of such meetings involves public anticipation and a consequent need of subordinating concrete achievements to apparent results. At the best, they were "long, complicated, and often vexatious discussions." At the worst they achieved compromises or panaceas which either misled the public mind, or inflated the currency of international contract.—"Curzon, the last Phase," by Harold Nicolson, p. 42.

But actions speak louder than words. Guns, tanks and airplanes are terribly serious—more so than 50 "cease-fire" orders from a body that lacks power to enforce. In letters of fire, Korea has pointed to the weakness of government by boards and commissions for waging war. If they are feeble and disappointing as peace negotiators, they are doubly so as directors of armies. Within the last few months, the Commander-in-Chief of our armies in Asia may well have been puzzled to know what were the true and ultimate aims of the United Nations, especially as the army neared the 38th parallel. Certainly, we in our American homes have wondered.

Speaking of the responsibility which falls upon a military leader to keep his troops supplied with food, Napoleon once observed, "if he allows himself to be guided by the commissaries, he will never stir." Today, he might add with increased emphasis, that if he must await the decisions of a commission made up of representatives of many nationalities and races, divided in language and religion, as well as in opinions and aims, (and subject to the paralysis of veto) he will never stir till the supreme moment has passed.

A world assembly is about the clumsiest instrumentality imaginable for making peace or waging war. We pass to another of the great aims of the United Nations.

"Full Employment"

It would be of interest to learn just what the advocates of "full employment" mean by the term. It seems to contemplate a complete and continuous "bull market" for the whole world in all important lines of business.

Has such a development ever occurred? History shows the opposite. Our own United States have had a fairer opportunity to achieve it than any other nation, but we have never come even "within hailing distance." What is the reason? When learned men have so pointedly differed as to the precise answer, only the foolhardy would attempt any complete explanation in such an article as this.

Underlying Reasons for Failing to Avoid Panics and "Hard Times"

Very cautiously, however, it may be suggested that, perhaps, the heart of the problem lies far below the surface, and is in the very character of human nature itself, and in the way that business is forced to accommodate its methods to human conduct, rather than follow any rigid or ideal plan. Here are the views of two very careful thinkers of our own land, one in the latter part of the 19th century; the other an esteemd economist of our own time, only recently deceased.

Views of William Walter Phelps

In our House of Representatives, Hon. William Walter Phelps used this language in 1874: "Even with honest currency, we shall still have panics. A world which does its business on credit cannot escape them; and this basis is one which grows wider as the world grows older."

A Quotation from the Late Colonel Leonard P. Ayres

In his work on "Turning Points in Business Cycles," Colonel Ayres says:

Business cycles result from the fact that all industrial nations produce their durable goods in waves or surges of output, instead of manufacturing them in steady flow, varying little in volume from month to month and from year to year. By contrast, they manufacture their non-durable goods . . . in comparatively steady volume of production. These non-durable goods have to be produced in fairly regular amounts, for we are constantly using them up, or wearing them out, and replacing them. Most of them are necessities of life, and so we consume almost as much of them in hard times as we do in prosperity.—"Turning Points in Business Cycles," Preface, by Leonard P. Ayres.

A Clash Bound to Result Between "Full Employment" and Enforced Maintenance of International Trade and Commerce

Observations like the foregoing must be met; they cannot be ignored, however embarrassing to those who would compel business activity, and would galvanize into existence an international trade, whether profitable or not. Advocates of uninterrupted and extended international trade may well pause to reflect that both "full employment" and "complete international trade" cannot receive equal treatment and equal consideration at the hands of legislators. The two horses do not trot evenly in the same shafts. If you insist upon "full employment," as having first consideration, you must be willing to make international trade take second place. A nation which is intent on keeping its own farms and mills and mines at work to the full, will not hesitate to sacrifice the business and welfare of others. It has been forcibly observed by Mr. Philip Cortney in his valuable work, "The Economic Munich," at p. 36, "In socialist language, full employment is an end in itself, and jobs are to be made available whether or not they contribute to production and exchange, and regardless of political and social consequences." And the same author, quoting a statement from the late Lord Keynes, shows that even so ardent an apostle of full employment as his Lordship made the admission that "while the crux of a full employment program is a sound wage policy," yet "the combination of the two is extremely difficult." ("The Economic Munich," at p. 36.)

What Remedy Has The United Nations For This Discord?

Has The United Nations any means of reconciling the two things? Each one is viewed by internationalists as an "essential," for any sound world economy. "Full employment" has become a fetish. International trade holds so high a place that months of deliberation and ponderous sums in dollars (mostly of American taxpayers) have been devoted to the subject at international gatherings, notably at Geneva and Havana. A happy world under United Nations rule, but without international trade, would be the drama of "Hamlet" without the Prince of Denmark.

The situation is replete with embarrassment and perplexity.

Disturbing Shadows for the Future

We have hardly more than skimmed the surface of a very large subject. We close with only a very few suggestions or comments. If from what has been said, it is clear that the successful government of the whole world by a series of committees is impossible, there is nevertheless one other side to the picture which ought not to be overlooked. It is this: Suppose the United Nations could succeed: What sort of world would we have to live in if the reins of government were really in the hands of the kinds of men who compose the commissions of The United Nations? Would life be worth living? Would it be tolerable to any American or Englishman reared in the traditions of individual freedom? Has not every nation or people demanded the right to be the architect of its own fortunes, let mistakes be what they may? Is there any nation that would entrust its future to any series of world committees that ever could be formed? "This above all, to thine own self be true," is a maxim so sacred that no set of people worthy of freedom has ever been willing to forget it.

The Fallacy of One World

The existence of the United Nations is itself but one example of a blind and almost thoughtless drift toward what is called "unity," but what is only too often hardly more than a mere "getting together." This movement is showing itself in both church and state. The feeling seems to arise from a notion that, if only people can be got together in large numbers or masses, the result must necessarily be an increase in strength and solidity. This, however, occurs only where there is a real community of interest, along with something akin to similarity in fundamental attributes, such as race, language, religion, coupled with those of character, training, and habits of life. Conditions of that sort make it possible for individuals to join together for some common good. But where these conditions are absent, or where their influence is feeble and ineffective, there is real danger. In such case, everybody tends to lean on everybody else; and the whole has no more stability than a house of cards, where all the parts stand together in perilous uncertainity, no card sure of itself, and every one relying on the next. The displacement of a single card brings the entire structure down in ruin.

The Atlantic Pact

Just such a distrust of self has possessed many of the nations or countries in Europe since the making of the Atlantic Pact. There is a distressing absence of old-time self-reliance and initiative. Countries are reluctant to make efforts to guard against Russian aggression. The impression has gained ground that the Atlantic Pact is to work like a European extension of the Monroe Doctrine, making people content with the thought that "rich" America will furnish all the defense needed. This unpleasant truth has been realized thus far by only a few of us Americans. The late Professor Arthur T. Hadley, of Yale, once said: "Plans for making every one rich usually end by making every one poor." Doctor Hadley's thought holds good with a different application: "Plans for making every one safe may produce little else than skulkers and cowards."

U. S. Policy a Tragedy of Errors

It was a capital error for the United States to enter a world federation. All sign-posts of experience pointed the other way. Our geographical location; our commercial interests; our habits of thought and our political traditions and customs; the advice of our statesmen for a century—all these should have served to warn us from so michievous a step.

England herself had set us a far wiser example. When the wars of Napoleon ended, she resolutely refused to become a partner in that dreamy and impossible Holy Alliance. For a short period she was willing to try what might be accomplished for united action through the conference system of the great powers. But in the fifth conference, that at Verona in 1822, she broke away abruptly because of a proposal to interfere mischievously in Spain. Presently, her great Foreign Minister, George Canning, flung defiance at the rest, and recognized the independence of Spain's colonial subjects in South America; as did also our own President Monroe, laying the foundation for our established "Monroe Doctrine."

Thereafter, all that England sought to do in continental affairs was, on special occasions of importance, to join in that somewhat vague but useful combination that came to be called the "Concert of Europe." In this way, she found that when she did intervene, her influence was of weight. She was a looker-on across the Channel.

Our own country once stood in a position to play very much such a part in European affairs, even perhaps in Asiatic affairs. Our position in the Western World, removed from Europe not only in mileage, but (what was more important) from the mean jealousies and selfish intrigues of European politics, coupled with our wealth and strength, and our disinterestedness so far as any desire for more territory was concerned, might have caused our counsels and advice to be respected and heeded in moments of unsual danger or difficulty. We used to be generally respected and trusted, even though we were not liked. Just as we intervened in 1823, with most beneficent results, so we did once more in 1905, when President Theodore Roosevelt persuaded Russia and Japan to meet at Portsmouth, N. H., and terminate the Russo-Japanese War. These are striking illustrations of our influence, but perhaps not entirely the only ones.

All this high ground has been abandoned by stepping down from our position of advantage, and lending our influence to the ambitious plans of selfish foreign countries. The United States has forfeited the confidence of the world; for our conduct of affairs in foreign politics has been a tragedy of errors.

The United Nations an Oligarchy

The United Nations is not even a really popular or democratic form of government. It is an oligarchy where, of necessity, the strings are pulled by a few nations possessed of some character and authority, or at least supposed to be. Read over the full membership of the 60 countries in the fold of The United Nations. You will then realize that a government of the world which is administered by those who have conspicuously failed to govern themselves is fit only to raise a derisive laugh. The charter of The United Nations is about as valuable for world government as is the plan for a universal language. How many of the swarming millions of this world ever heard of "esperanto" or "volapuk"? Would any of them surrender the speech of their fathers and forefathers, derived from a period "when the memory of man runneth not to the contrary" in favor of a substitute which might be the most scientifically framed language that scholars and savants ever constructed? The one is full of life and power, and is a nation's own production; the other is mechanical and dead. So also is the frame of The United Nations; a thing of cardboard and plaster of paris, that is threatening even now to fall to pieces in the using. To quote the words of Gentz, the Austrian statesman so prominent at the Congress of Vienna, "Upon the shifting sands of modern politics how difficult it is to build on solid foundations."

Enthusiasm, patriotic love for one's own people and country and love of the very land itself, and willingness to die for it—these great thoughts are impossible for such a nondescript thing of paper as The United Nations.

Paul H. Gaither Is With Ball, Burge Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Paul H. Gaither has become associated with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Midwest Stock Exchange. Mr. Gaither was formerly associated with Gottron, Russell & Co. for many years.

Axe Securities Corp. Formed in NYC

Axe Securities Corporation has been formed with offices at 730 Fifth Avenue, New York City, to continue the investment business of Leffler Corporation.

Patton, Lanktree With Central Republic Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, Neb.—John H. Patton and Hugh J. Lanktree have become associated with Central Republic Co., Farnam Building. Mr. Patton was formerly co-manager of the Omaha office of Paine, Webber, Jackson & Curtis and in the past was an officer of Burns, Potter & Co.

Joins Dickson Staff

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Elbert C. Blackwell is with R. S. Dickson & Co., Wilder Building, members of the Midwest Stock Exchange.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

At this time I should take a long look ahead and write about the new year, its hopes, fears and what to expect. Before you are frightened off let me hasten to assure you that I have no intention of doing any such thing.

* * *

First of all I have no idea what 1951 will bring. If there are any other reasons they're insignificant.

* * *

Having sounded off about what I won't write about, I might point out some of the obstacles the market will be faced with in the immediate and near future. Practically all of them are interrelated to the Korean war and its possible effect on our relations with the European countries, plus the taxes that will be levied to implement our foreign policy.

* * *

Now, if anybody can answer these problems I'll gladly turn over this space to him.

* * *

Last week I ended the column by warning that a reaction was around the corner and advising holders to clear some of their holdings in preparation for the blow. So far the market hasn't declined, or for that matter has it gone up. The best that can be said for the majority of stocks is that they've acted in a hesitant fashion.

* * *

Of course the holidays have had something to do with it. Major decisions to be announced seldom are issued during the Christmas - New Year period. They wait until the holidays are over. I'm not referring to emergencies. They're something else. All of this means that we are, and will probably continue to be, in a news market. Putting it into simpler language, the news will determine the immediate trend.

* * *

Because I don't know what the news will be I have to look to the market for clues. The market is saying that the first blush of inflation is over (hence the hesitation) and the new selling recently coming in presages unsettling or even bad news. This is particularly evident in the action of the industrial averages.

* * *

To change the picture somewhat there is this to say for the market. On any subsequent decline the industrials should not go below the 225 figure; the rails below 75. If they fall back, but hold these levels, you can look for another period of strength.

* * *

Because I don't know if they'll hold, but I do see signs of down in the market action, I take the attitude that no matter how minor a coming storm, I prepare for the worst. If they hold, you've taken some profits and still have a partial position. If they break and your original position is sound you can average it at a lower figure.

[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.]

Schweickhardt Co. Formed in New Orleans

NEW ORLEANS, La.—Schweickhardt & Company has been formed with offices in the Hibernia Building to act as underwriters, distributors and dealers in general madket and municipal securities. Partners are Erwin R. Schweickhardt, member of the New Orleans Stock Exchange, Evangel N. Anagnosti and Vincent D'Antoni. Mr. Schweickhardt was formerly a partner in Schweickhardt, Landry & Co. Mr. Anagnosti was Vice-President of Weil & Company.

W. S. Salomon With UNO Equities, Inc.

UNO Equities, Inc., 30 Pine St., New York City, announces that W. S. Salomon, formerly associated with various itnernational banking institutions, has been elected Vice-President in charge of their foreign department.

Continued from first page

Business and Financial Outlook for 1951

will increase. The public may then cry "This is a government-made slump; let's get rid of the controls!"

(6) If in 1951 it becomes evident that business is declining too fast as a result of government curbs, the planners at Washington may rush their patient into an oxygen tent.

Labor Outlook Will Continue Tight

(7) Most labor groups will not be successful in getting a sixth round of wage increases in 1951. Although there may be more strikes in the first part of 1951, there will be fewer for the whole year as compared with 1950.

(8) Tightness in the labor supply will be continued as the year wears on, particularly of highly-skilled workers.

(9) The Taft-Hartley Law will not be repealed during 1951 but may be amended. The Administrators of the law will continue to wink at some of its clauses.

Commodity Prices Will Remain Firm

(10) Wholesale prices of many commodities will be marked by a mild decline in 1951 when compared with the price level for December 31, 1950. In some lines the drop may be quite steep from the high levels of late 1950, Retail prices for 1951, I do not now forecast.

(11) The year 1951 should prove an excellent time to keep a tight grip on inventories. Commodity speculation for the rise will not pay in 1951. Futhermore, our expanding stockpiles of strategic materials present a real price threat in the event of a peace scare. Such stockpiles could then act strongly as a depressant on prices.

(12) The cost of living will remain high during 1951. This prediction recognizes that living costs next year may be above the lower levels that existed during the first half of the year now closing.

Farm Outlook Good

(13) Farmers' income for 1951 should average no less than that for 1950. Since the trend in the first half of 1950 was down, this forecast is not so optimistic as it might otherwise seem, for there is likely to be a weakening of the farmers' income position during the latter part of 1951.

(14) Barring crop failures, the total supply of food available should be larger in 1951 than for 1950, since the government will raise planting quotas as part of its attack on inflation. If the weather is extremely favorable, the government will be blamed for farm-price weakness during the latter part of 1951.

(15) With prospects good for a rising supply of feed grains, meat should be more plentiful next year than in 1950. Prices for meat, however, will be held up by continued high National Income and by military needs.

Taxes Will Be Higher

(16) The burden of Federal taxes, both corporate and personal, will be increased again in 1951. State and municipal taxes will remain high.

(17) There will be an excess profits tax in 1951. These excess profits taxes will be milder than those in force during World War II; but they will be inflationary and retard efficiency, economy and incentive.

(18) There will be heavy pressure for increased Federal "sales taxes" to discourage purchasing of luxury and certain nonessential goods. Congress will see the value of some such sales taxes as an inflation road block.

(19) States and municipalities will again be under pressure to find adequate sources of revenue. Further increases in such taxes can be looked for next year with additional cities and/or states adopting sales taxes.

(20) Despite renewed efforts to increase the long - term capital gains tax above the present 25% figure, rates will remain unchanged.

Domestic Trade Will Be Less

(21) Credit curbs will cut into the demand for automobiles and household equipment. Completions of fewer dwellings will also act as a damper on furniture sales.

(22) Falling demand for hard goods should mean a stabilization of the public's spending for food and lower-priced soft goods.

(23) The trend forecast in No. 22 will mean a decline in department store volume, but I predict a rise in the sales of variety chains and of drug chains.

Foreign Trade Outlook Fair

(24) Barring new war developments, I look for continued shrinkage in our exports during 1951. Imports, however, should rise further. Total foreign trade should not be much changed, but the exporters will be on the short end of this business with the importers gaining.

(25) It will become more difficult to convince Congress that additional heavy credits should be granted abroad except for war supplies.

(26) As was the case this year, many domestic manufacturers will feel increasing competition from foreign merchandise. The cry for increased tariff protection will be heard again in the land.

(27) Business and financial forecasts for next year are **not** based on the thought that World War III will start in 1951. Russia is certainly heading for war, but we do not believe she now wants it in Europe. She will be satisfied to have her satellites continue taking unexpected jabs at us, while the Polituro boys hand out the soothing syrup. But we may see another episode like "Korea" in 1951.

More Deficit Financing After June 30, 1951

(28) The first half of 1951 may actually see a budget surplus as a result of high National Income and increased taxation. Later, if Congress goes along with the Administration's plans for huge rearmament, a federal deficit will arise during the last half of the year.

(29) As a result of the preceding prediction, money supplies should not begin to rise until after business has turned down. Increases at such a time are not likely to have much effect on prices.

(30) Government bonds will be held tightly between the floor of Federal Reserve support purchases and the ceiling of Federal Reserve anti-inflation sales. Under such conditions, price changes should be negligible.

(31) A great deal will be heard in 1951 about giving the Federal Reserve Board powerful controls over member bank loaning policies. Congress is not likely to pass such controls, however, unless commodity prices go a lot higher, or World War III comes.

Stock Market and Bond Outlook Uncertain

(32) I see nothing now to indicate that we are entering a period of improved international relations. The danger of war remains. Until it disappears wise people will move out of large bomb-vunerable cities and avoid having investments in such areas.

(33) The Stock Averages may work somewhat higher during the first half of next year, but sometime during 1951 they will sell lower than current quotations.

(34) Stocks now in the best position for 1951 should be those that have not been popular as inflation hedges in the past months. I like good chain store stocks.

(35) Investment Trust funds, pension funds, and insurance companies will provide an excellent backlog of demand for sound Income Stocks where good values can be demonstrated.

(36) The successful investor next year will be the one who follows a carefully planned investment program. Such a program will emphasize diversification—not only by company and industry, but also by quality. Over-concentration will not pay in 1951.

(37) Highest-grade taxable corporate bonds should hold in a narrow price range during 1951, but I see no reason for individual investors buying them. For my forecast for long-term government bonds, see No. 30 above. The only corporation bonds which interest me are **convertibles.**

(38) With income taxes slated to increase in 1951, tax-exempt bonds should continue in good demand. There has been some speculation in these, however, and any downward change in the tax outlook might cause a sudden turnabout in prices for municipals. Investors should see to it that their bond maturities are carefully diversified, with some part of their bond funds maturing each year.

Real Estate Activity Will Decline

(39) The real estate outlook for 1951 will be strongly affected by curbs on mortgage credit. Much of the recent boom was the result of easy credit—almost nothing down and small easy payments for years hence.

(40) New home construction will suffer a greater decline than other lines. Nonessential commercial building will also be hit.

(41) The coming decline in new building will throw a wet blanket over speculation in vacant suburban lots.

(42) The scare caused by the Korean-China War and fears of an early outbreak in other sections will adversely affect the demand for big city real estate. Lower business volumes and the draft next year will also curtail such demand.

(43) Small sustenance farms should hold up well in price as demand will be spurred by those seeking refuge outside the big cities. Demand for large commercial farms, however, should weaken as the year progresses.

(44) The swing back toward rent control will act as a further damper on new building. There is no incentive to build homes for rental income.

(45) Tighter credit controls will make it more difficult to purchase older residential properties, and the prices for these should weaken.

(46) As building volume slackens in 1951, the quality of available materials and workmanship should improve. This will help those who have saved their money and can pay for at least half the cost of a new home.

Defense Orders and Politics Will Increase

(47) Those who can do so should attempt to get defense orders as a means of holding up production volumes and reducing overhead. Not too much profit from such war business should be expected, however, as these contracts will be subject to tight-fisted renegotiations.

(48) The political outlook for 1951 will be completely dominated

Continued from page 5

Is It Possible to Forecast The Stock Market?

ness listed on an Exchange is not different from a share in a business not listed; and cause the business-value elements of the listed share to be dwarfed in importance by their rapidly changing attitudes toward the market as a whole. In their "liquidity" concept the forecasters make of a security a king of counter in the ebb and flow of market movements. Without realizing it, no doubt, they are dealing in prices in lieu of value, attempting to anticipate the extent to which their fellow-public will subsequently cause the price level to diverge from value, to outwit the market's other buyers and sellers, to out-forecast their fellow-forecasters.

In this vein of liquidity over-emphasis is the "window-dressing" urge on the investor to protect himself from potential criticism or his own conscience if his money should become lost in other than "good company." This pragmatic as well as psychological motive, governing individuals in the handling of their own as well as other people's money, has resulted in the market's growing foible of what I call Blue Chipitis; that is, the cumulative concentration on "good" — that is, popular—issues irrespective of the price-value relationship, with major attention centered on attempts to predict their future price behavior as a kind of elite group.

Beauty Contest Analogy

In this process of style-forecasting also the investment community has become engaged in a kind of strategic game akin to Machiavelli's practicing of the *Second Degree Lie*—in contrast to value analysis. This "indoor sport" aspect, as engaged in on both sides of the Atlantic, has been aptly described by Lord Keynes as follows:

"Professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole, so that each competitor has to pick not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view. It is not a case of picking those who, to the best of one's judgment, are really the prettiest, or those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degree."*

Thus, the investor relying on forecasting price movements in lieu of value analysis, must be a successful style merchandiser as well as crowd psychologist.

Here let me most urgently advise him to realize that a prerequisite for his stocks' good behavior is for him to behave himself!

The Results in Practice

It is important to weigh empirically the results that have been achieved in actual practice in the market place by various categories of forecasters. This is most important; if the desideratum of over-all market prognostication were an achievable goal, our objections would be merely academic.

Fortunately, there are available findings along this line, which are disinterested and reliable. The Cowles Commission for Research in Economics in two major studies found that the forecasting efforts of financial publications, services, and of Dow Theory practitioners, have been generally abortive. Similar negative results in predicting and interpreting movements of the market-as-a-whole (in contrast to their fine work in analyzing individual issues) were arrived at from an extensive survey of brokerage house opinion made by E. F. Underwood and M. C. Nelkin under the direction of Benjamin Graham at the Columbia University School of Business in 1948.

Further indications of the experts' trend-forecasting difficulties is furnished by the performance of those investment companies which center their efforts on timing the market movements of the standard issues. The long-term record, substantiated by a recent exhaustive study, shows that, in lieu of swing-catching, better results were gained through continued holding of the same issues or of those in the Dow-Jones Average.

Further evidence of the market-forecasting shortcomings by the Street's professional element is offered by the varying size of the short interest, as published monthly by the New York Stock Exchange. These data, usually showing a diminution of the bears' commitments at market peaks and their enlargement at bottoms, show how the highest echelon of market professionals fails to anticipate market swings.

Likewise abortive in forecasting general market movements are the efforts of the economists, statisticians and analysts, who are so able in forming conclusions about individual securities. In fact, Wall Street sophisticates, including these experts themselves, are prone to use "bucketting" of (i. e., acting contrary to) the experts' majority forecast as a guide to the market's future — and the greater the majority, the more confidence is there in the bucketting.

The Insuperable Causes of the Negative Forecasting Results

Within our time limitations we can only outline a few of the reasons why attempts to time market movements must fail.

First let us consider such prediction based on *external* factors—political, economic, and financial. In these spheres the forecaster is always faced with a great number of imponderables.

In their forefront is the steadily rising government interventionism which continually confronts the short-term market forecaster with the necessity of foretelling and interpreting highly relevant Washington moves.

It may even be an open question whether governmental measures restricting civilian goods production actually are wholly bad for business; or, on the other hand, whether they perhaps will serve as a means of building up a pent-up backlog of demand such as helped to avoid a traditional postwar depression after 1945.

The current politically-governed tax outlook typically typifies another important imponderable as far as its investor effects are concerned. While in the past, gradual rises in the corporate income tax rate have not resulted in profit destruction, it could happen that further "heated war" boosts to 50 or 60% will this time turn out to be the long-feared confiscator of net corporate earnings and of the present liberal dividend yields. And the prospective excess profits taxation, as this is being written, is incalculable as to its sharply divergent effects throughout the market as well as its overall impact.

The currently popularized "inflation" threat confronts the short-term forecaster with another dilemma. Is whole-hog dollar-depreciation to result from enormous armament needs, deficit spending, and wage spiraling; or, on the other hand, will these inflationary elements be counter-balanced by the nation's enormous productive capacity, credit restriction, and general controls?

The "Parlayed" Double Forecast

The forecaster's difficulties are further enormously increased by the fact that he must be correct in foretelling not only such external events, but also **their effect on the stock market.** Like the difficult feat in horse racing of winning a *parlayed* bet, he must make a correct double forecast.

And the market effect is fully as difficult to anticipate, since psychological forces govern the market participants' reactions to external events. Identical events often have successively opposite market effects.

For example, in the period following World War II the minority forecaster who turned out to be correct in his expectations of good business instead of a demobilization depression such as had occurred after all previous wars, was nevertheless "wrong" on the market, for it dropped 22% in 1946, and continued its bearish behavior until late 1949.

Outbreak of war furnishes another example of the difficulty of drawing the correct market conclusion from the correctly-predicted event. Throughout the first eight months of 1939, those expecting the outbreak of world-wide war sold stocks. But the actual occurrence of the event was followed by an immediate market *rise* averaging 20%. On the other hand, the Korean outbreak of last June was greeted by a market *drop* of 15%.

Inflation's Uncertain Market Impact

The inflation factor also manifests the difficulty of making short-term market assumptions from a correct long-term economic prediction — particularly when stocks are out of line from value criteria. There are many instances of severe market falls midst an inflationary environment. During the wartime inflation of 1917 stocks broke 50% in a seven-month period. There was also a halving of stock market prices midst the 1937-'38 period of monetary expansion. Similarly in the post-OPA decontrolling period of 1946-'48 when inflation really took hold on the economy and commodity prices rose by 40% and the cost of living by 30%; the stock price averages nevertheless fell by 10% net. Likewise, over the longer term, the 82% rise in commodity prices since 1929 has been accompanied by a net decline of 40% in the price of stocks.

Overall corporate profits constitute an example where correct prediction of short-term changes in even a quantitative element—a difficult enough achievement in itself—does not necessarily supply the key to the future action of the market as a whole. From 1946 to 1947 the per share earnings on the issues comprising the Dow-Jones Industrial Average rose by 40% (from $13.63 to $18.80), yet the mean of their market price range concurrently fell by 7% (from 188 to 175).

Small wonder then that in the output of the statistical services there is sharp contrast between the constructive usefulness of the *factual* data and the abortive results in their *forecasting* phases.

Internal Market Analysis

Time limitations prevent us from making more than a brief reference to some of the fundamental fallacies embodied in the current mass effort to anticipate stock price movements by means of so-called *internal market analysis.*

The basic fallacy common to the plethora of "technical" methods used in stock market forecasting is the implied major premise that the *future* course of a price can be determined from its *past* behavior; disregarding the hard-and-fast line between the past and the future. This error of the technicians applies not only to the charters of Dow Theory, of ratio systems, of **action reaction signals** ("according to Newton's Third Law") **explosions points; tonometers,** and **"island reversals"**; but as well to the more respectable sun spot cycle theory, and formula-timing practitioners. (Market conclusions tied to sun spots and stellar radiation result from other fallacies.)

Dow Theory's Basic Fallacies

Let us now very briefly summarize the fallacies contained in the popular Dow Theory, which are common to most of the other internal market analysis techniques. Charting the market's course according to its concepts of tops and bottoms, secondary areas, major and minor reversals, break-through points, valid and invalid penetrations, confirmations, primary and secondary advances, etc., the Dow theorists attempt to define whether the market is bull or bear. As a **definition** of the present this is useful, but as **prediction** it signifies nothing. It functions merely as a weather vane that shows which way the wind has been and is blowing; whether up or down the hill. Actually, it does not thereby give any clue as to how long it will continue to blow that way — not even whether it will continue to blow for another day (that is for another up-tick). The weather vane does not insure continuation of the wind; similarly recording of a past price trend does not guarantee its continuation. Stripped of its surrounding copious jargon, the Dow principle is a logical absurdity.

In effect, I am convinced that essentially the market technicians' assumptions about *trend* behavior commit the error involved in the mathematical principle of "the maturity of the chances" which Steinmetz called "the most mischievous of gambling superstitions." This principle embraces the psychological fiction of which Dow thinking is a variation: that when there has been a repeated run in a series, the mere reoccurrence of that repetition alters the mathematically correct odds concerning the probable outcome of the next event.

This is the foible leading boys gambling on coin-tossing to vary their bets on the belief that a series of successive heads is more than 50% probable to be followed by a tail; and the same misconception exists in most systems for outwitting the inexorable mathematical facts of dice or of black-and-red turns on a roulette wheel. The roulette player often becomes thus bankrupted by an extraordinary run of the same color against him.

Essentially Dow's theory and other systems likewise follow the principle that the chances of a succession of identical results are other than even; thereby assuming either extension or reversal of a "trend," whose course over the next tick, day, week or month, is evidenced from its past direction.

Incidentally—when a system for beating the stock market or a game of chance comes a cropper, its practioner is quick to blame himself for faulty interpretation and exculpate the sacrosanct system (a masochistic mental somersault).

"The Market" and the Elusive "Trend"

Those trying to time movements of the stock market considered as an entity, or at least as containing a "trend," overlook the obstacle thereto resulting from the constant divergences within that overall tent termed "the market."

Between 1901 and 1936, while the market as measured by the Dow Jones Average of Industrial Stocks almost tripled in price (64 to 184), concurrently the 20 most popular dividend-paying issues (as measured by their trading volume at the beginning) suffered an overall decline of 39%. Although 13 of the most popular issues were railroads, the industrial as well as the rail components contributed to the record that one-half of the issues shrank by 50% or more.†

In the interval from 1929's peak of all time to the present, in contrast to the 40% decline in the Dow - Jones Industrial Average, and 21% in the Standard and Poor's Composite Price Index (comprising one-third of all listed stocks in number, and 90% in market value); nevertheless over 300 issues are now selling above their 1929 highs. (Among these are such standard issues as Aluminum, Chrysler, Continental Casualty, Deere, DuPont, General Mills, General Motors, International Business Machines, Penney, Procter & Gamble, Sears Roebuck, Socony Vacuum, Texas Co., Union Carbide, etc.)

Likewise while the 50 stocks in Standard and Poor's Daily Index have during this 1929-1950 period fallen from 200 to 157, ten of the component issues have risen.

As this is being written the Dow-Jones Industrial Average exceeds its 1946 top by 11%; nevertheless a majority of the component issues (17 of the total of 30) are selling substantially lower.

Intra-Industry Divergence

Even greater divergence has occurred among the railroad issues during the same period. Although the Dow-Jones Railroad Average as a unit stands about 4% above the 1946 high, no less than 16 of the component issues are lower.

Similarly in this year's market, we see that from Jan. 3, 1950 to the present, while the Dow-Jones Industrial Average advanced by 15%, of the 1249 round-lot common stocks traded in on the New York Stock Exchange 918 rose, 305 declined and 26 remain unchanged. The advances have ranged up to 140%, and the decline to 35%.

Single day performances likewise portray the elusiveness of *trend.* As this paper is being written, the preceding day's market session left 504 issues up, 360 down, one leading index registering a rise, another a decline; all of which led to this descriptive caption on a newspaper's morning-after account: "STOCK INDEX IS DOWN, BUT LIST IS HIGHER."

Great divergence has likewise occurred in the price behavior of individual industries. Of the 50 industry groups recorded by Standard and Poor's, in the face of a 57% rise above the 1935-39 average price that has occurred in their Composite Index comprising all the industries, seven groups now show absolute declines (ranging to 42% by Canadian gold mining issues) and 38 have advanced less than the composite.

During the past 12 months, November, 1949-50, while the Composite group was rising by

* "General Theory of Employment, Interest and Money," J. Maynard Keynes, p. 156, N. Y., 1936.

† Cf "Condensed Summary Tables of Certain Active Securities for the Years 1901, 1910, 1919, and 1926 compared with 1936," published by Brown Brothers, Harriman & Co., New York, 1937.

11%, 15 groups declined and 15 others have remained unchanged. In the midst of the averages' rise to the highest levels in 20 years during the first 11 months of 1950, the food product, building trades, and tobacco groups have actually declined.

The non-existence of a market appraisable as an entity and the difficulty of defining a "trend" that is inclusive create an insuperable obstacle to forecasting of "the stock market." And those investors basing their prediction on a market-as-a-whole or a conceived-of representative *trend* also must win a "paralayed" bet—in this case first on the overall trend and second on the divergent component issues.

* * *

The Constructive Alternative of a Sound Investing Approach

Having reached the conclusion from the foregoing analysis, that success in anticipating market movements is unattainable as well as inconsistent with genuine investment principles, nevertheless we fortunately do not need to leave our audience without a constructive alternative in the form of a sound and logical investing method.

Our own investment value approach is based on the premise that market price recurrently departs from value, in this way creating valid occasions for purchases and sales (in the **genuine** sense of buying cheap and selling dear). We assume further that the investor must estimate in a realistic way the likely return from a share of stock considered as an interest in a property, as he would in investigating a privately owned business; that similar to the buyer of real estate or a business, the holder of a share in a listed company cannot be guaranteed constant liquid market cashability without loss; but that he can legitimately secure reasonable expectation of an investment return on his capital sufficient to compensate him for the use and risking of his money.

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

Realistic Valuation

Instead of trying to gear investment operations to *timing* in one way or another, we should determine the present worth of a stock by capitalizing its carefully-estimated long-term future average annual dividend at a rate that reflects the going yield of riskless interest to serve as the rental value of our invested principal, plus an increment for annual amortization to compensate for the risk involved. The risk components and rental of our capital should be taken care of in the buying price, to give the "hard-boiled" investor a reasonable expectation of recouping his principal-with-interest plus a chance for profit. Through this quantitative concept, capital can be employed realistically with account taken of the calculable risks.

This gives real meaning to the composition of the earnings and dividend yield; and rationality to the multiplier in arriving at the market price; in lieu of leaving it haphazardly fixed according to the dictates of historical precedent, convention, style, window-dressing or some other non-quantitative standard.

(Incidentally, practical experience shows that this approach of appraising individual issues happens ancillarilly also to furnish a good clue to the short-term speculative prospect. In the case of the market as of individual issues, good investment turns out to be good speculation as well.)

Under our method, a cost price which gives an annual dividend return of 6½% on the price paid would roughly in 25 years afford complete amortization of the invested capital. That is, after deducting the rental value of his money of 2½%, it leaves him 4% for annual amortization, which, times the 25-year deduction, will then give the investor his share in the property and working capital written down to nothing.

Similarly, a 7½% instead of 6½% capitalization of the expected dividend will give him his money back in 20 instead of 25 years (a 20-year amortization requiring a 5% annual reserve to be added to the 2½% rental value).

Amortization As an Offset to Risk

The crux of the amortization process will be how soon the inherent risks become effective; that is, there is a kind of race between the risk and the amortization process. In connection with estimating the degree of risk, and the amount of annual amortization that is needed to "win the race" against risk, the balance sheet of the respective company is a vital determinant. In cases of a high net-quick liquidating figure or general financial strength, the amortization can be longer-running or even incomplete. In cases of "unclean" balance sheets, on the other hand, either we must estimate the proportion of the anticipated earnings to be capitalized as dividends to turn out less than the average, or our amortization for risk must be increased or accelerated.

The prospective buyer can look at this method of appraisal from another angle. Alternatively, he can consider that with a 6½% dividend yield, together with a strong asset position and other favorable conditions, he will be getting a fair rental value for his money plus an indeterminable return (my major emphasis being on actual return) ranging somewhere around the remaining 4%—perhaps less, or perhaps more in case of windfall prosperity for the company. What he will finally get in addition to the rental return will chiefly depend on the actual outcome of the inherent risks for which the amortization provisions have been made.

Value Appraisal and Portfolio Management

Value-appraisal activities should be practiced as part of consistent long-term portfolio management. They should be used against the background of liberal diversification of one's entire portfolio between equities and fixed-interest securities in the following way:

Primarily, we would continually inspect individual issues according to our evaluation technique, both those which we do and do not already own. We would at all times buy undervalued issues, under the sole proviso that their total should be limited by a predetermined maximum limitation on our entire portfolio's proportion of equity share holdings (say from 50-70%). Similarly, in dealing with appraised over-valuations, we would sell off such issues, but under the proviso that the total of our portfolio's share holdings should never decline below a predetermined minimum (say 20-40%).

The overall aim is to insure continuing proper diversification but not in blind subservience to formula-timing schedules. In other words the formula is distinctly secondary to the value criteria.

Even investors who accept the principle of value-analysis of one kind or another, still want to use market-timing simultaneously as a so-called "tool." The "when vs. what" alternatives as a guide to action then present a continuing problem to most market followers. How shall they weigh their timing efforts against evaluating individual issues on a business-appraisal basis? Which choice shall they make when discerning opportunities to buy good values at a time when the market averages are at historically high level?

My own answer, made on the basis of experience as well as logic, is that, rigorous though it may be, a black-and-white choice between timing and valuing must be made; that compromise means falling - between - two - stools into constant confusion of investment with speculation; and finally that the decisive principle must be: **any time is a good time to buy a good value!**

* * *

Summary and Conclusions

Now let me offer the following summary and conclusions to my remarks on this question of stock market forecastability:

(1) Some amount of forecasting is necessary in investment, business and agriculture; but in the latter two fields it is kept incidental, while in securities operations it is usually engaged in to exert a major influence. Minimization of the forecasting element determines classifications of behavior as investing, in lieu of speculating or gambling.

(2) "Wall Street" has been experiencing a continuing and growing boom in forecasting, in contrast to the recurrent post-1929 depressions in its other activities.

(3) The motivations for this proclivity to forecasting overemphasis include: the psychological desire to *escape* from the rigors and evidenced difficulties involved in appraisal methods; the ordered system appeal; the temptation to pictorialize the future from the past; misconceptions about market "liquidity"; confusion of value with price; and enjoyment of prediction as a game.

(4) The empirical results actually achieved in market timing by various categories of experts have been decisively negative.

(5) As the causes making such abortive results inevitable, we have cited:

(a) the many imponderables everpresent in the market as well as in the external outlook;

(b) the market's habit of contradictory reactions to the same event;

(c) its changing and illogical selective emphasis among conflicting elements; resulting in the insuperable obstacle of having to be correct on both the external eventualities and the market's reactions thereto;

(d) increasing government interventionism and its unpredictability;

(e) in theories of internal market analysis and trend-projection, basic fallacies as assumption of the future from the past; and

(f) the constant sharp divergence between the price action of the individual issues and groups composing the market.

(6) As the alternative to the unattainable goal of anticipating market movements, we offer the would-be genuine investor the constructive alternative of confining himself to appraising individual issues according to valid business-value standards, as he would in estimating the worth of a going business property or real estate.

Auerbach, Pollak to Admit Rosenberg

Robert Rosenberg will be admitted to partnership in Auerbach, Pollack & Richardson, 30 Broad Street, New York City, members of the New York Stock Exchange, on Jan. 1. Mr. Rosenberg was formerly with W. E. Hutton & Co.

Continued from page 4

The Outlook for 1951

the purchasing power of savings over the past decade seems to put a premium on spending. In short, it will not be easy to induce an increase in the rate of saving.

Note that this points up a way in which every person in this room can do something worth while, starting right now. If you cut down on your spending for consumer goods and services, you are helping to preserve the value of our money, you are helping to preserve our free economic system, and you are helping your country prepare to defend itself. Many of you, furthermore, are in a position to advise others to do the same. Granting the possibility that a dollar saved today may be worth somewhat less ten years from now, the person who saved will still be vastly better off than the fellow who has squandered all his money. If you think inflation inevitable, then you had better start saving more, not less.

It may be too late for a marked trend toward greater saving to prevent the imposition of general price ceilings. I have the impression that those who have the power to impose controls have already decided they would prefer on OPA to even moderate inflation. But please note that my comments about the need for greater saving are equally applicable, with or without price ceilings. The more savings are increased, the less we will have to endure black markets, rationing, quality deterioration, unbalanced production, and the other unattractive features of OPA which so many people seem to have forgotten.

No Rollbacks Needed

Let me make a few other comments on how controls are likely to work. For one thing, they will work infinitely better if there is no rollback. To the extent prices are lowered by a rollback, a gap between buying power and the supply of goods is created immediately. More goods are bought, an apparent shortage develops, and the controllers are quickly stuck with the problem of rationing. A rollback, furthermore, will create vast enforcement and administration problems, and overnight the controllers will be swamped with thousands and thousands of applications for upward price adjustments. The controllers will have enough trouble trying to adjust ceilings to changing future circumstances, without creating an immediate set of problems by rolling back prices to the no longer practicable levels of the past.

Assuming there is no rollback, the ceilings should appear to work fairly well for awhile. In the three-year period from mid-1942 to mid-1945 the BLS Cost of Living Index moved up only 10%, and the BLS Wholesale Price Index advanced only 7%. Those were years of total war; certainly in 1951, with the supply of goods and buying power only a little out of balance, price ceilings should be able to keep price indexes fairly stable. Furthermore, the mere existence of ceilings will encourage saving because there will be less advantage in buying in anticipation of future price rises. Finally, the price ceilings will at least slow down the upward trend of wages and will thereby restrict one of the major causes of this whole inflation problem.

It is not 1951 that worries me insofar as a general control program is concerned. What bothers me is that the program, once started, may be with us for years and years and years. You do not have a competitive free enterprise system when the government sets prices for every item that is produced, and ultimately that is just what price controls lead to. The competitive free enterprise system is what has brought this country the highest living standards in the world, and it is what has made this country capable of defeating an enemy in time of war. I hate to see anything get started that may harm that system unless it is absolutely necessary. And I don't happen to think controls are necessary unless all-out war comes.

Forecast Summary

I understand that tradition requires that the Chamber of Commerce forecasting session end with about a dozen very specific forecasts of what lies ahead of us in 1951. As of Dec. 19, 1950, here is what 1951 looks like to me:

(1) Industrial Production—The Federal Reserve Index averaged 200 for 1950. It should average at least 220 in 1951.

(2) Business Activity in the First Quarter of 1951—Raw material restrictions are not going to cause more than a slight drop in overall business activity. The stock-piling program will certainly curtail production schedules of many companies, but curbs that cut too sharply will be eased. Defense production will take up some slack, and industry will perform miracles with substitute materials.

(3) The Gross National Product—The current rate is about $235 billion, and the total for 1951 should exceed $300 billion.

(4) Price and Wage Controls—Those who have the power to impose them seem to expect them. What can I say except to agree with them.

(5) Consumer and Wholesale Prices—They will move higher in 1951, but average figures for the year may not exceed current levels by more than 5%.

(6) Wages and Salaries—They will increase in 1951 but not at the rapid pace of the past six months.

(7) Federal Finances — The Treasury will have a cash deficit in calendar 1951, but I will be surprised if it exceeds $5 billion.

(8) Department Store Sales—The dollar volume of sales in 1951 should exceed 1950 figures by about 10%.

(9) Automobile Production — The industry may turn out about 5 million cars and trucks in 1951 compared with about 8 million this year.

(10) Banking — Interest rates and total loans will hold close to current levels, and the growth in demand deposits will be moderate and perhaps less than that of 1950.

(11) Corporate Earnings—Earnings before taxes will be as high as in 1950, but profits after taxes will, of course, be lower.

(12) For Good Measure—The Cleveland Indians will win the pennant and draw more fans than in 1950.

Fahnestock & Co Opens Branch in Jacksonville

JACKSONVILLE, Fla.—Fahnestock & Co., members of the New York Stock Exchange, have opened a branch office in the Barnett National Bank Building, under the management of Harold I. Clayton. Mr. Clayton was formerly with Merrill Lynch, Pierce, Fenner & Beane.

Robert McManamy, Jr.

Robert McManamy, Jr., President of McManamy & Co., Inc., New York City, died on Dec. 21 shortly after suffering a heart attack.

Continued from page 7

Unsound Government Policies —Our Problem Today

creased the country's wealth, and this new wealth in turn has built new industries and employed more labor. Today we have more automobiles, telephones, radios and a host of other products in America alone, than in all the other countries of the world combined. They say we now have an automobile for every horse in the country—(and sometimes it seems for every jackass too — the way some people drive). The only time a horse gets frightened nowadays is when it meets another horse on the road.

Brains Are Highest Price Commodity

In any event, this evolution of the centuries has finally brought us to the point where today you can hire labor for so-much an hour, money for 3% or 4%—but brains are the highest priced commodity in the world.

And so today, American business recognizes and rewards all three of these elements of production. Henry Ford had a good idea —but no money. He finally induced a few men who had money to risk $28,000 of it to make more money by developing his idea. Thus, one man with an idea, other men with "risk capital," and a few good workmen, went into partnership, and they all prospered—and in the process many other stockholders have since benefited and new jobs have been created for 150,000 employees. **Here, and right in front of our eyes, is the American free enterprise system at its best**—a combination of Capital and Labor and Brains — and through its country-wide operation prosperity has been passed around among millions of our people and we have become the richest and strongest nation on the earth. The ownership of the American Tel. and Tel. alone is spread over 975,000 stockholders. Critics attack our capitalistic system, but no one attacks the standard of living it provides—highest wages, shortest hours, lowest prices, greatest abundance of the good things of life, and every man free to work **when, where,** and **if** he chooses. Away back in ancient times, Horace, the wise old philosopher, said: "If a better system is thine, impart it; if not, make use of mine." This is America's economic challenge to the world today.

But after all, every young man must know that neither Capital nor Labor nor Brains will ever develop a substitute for personal courage. Obstacles appear at every turn in the road — and obstacles are things to test the stuff we are made of. You can't win all the time in any line of endeavor. The best baseball team in the world loses from 50 to 60 games a season. Frank Woolworth worked hard to save his first $50 and then saw three of his first five chain stores absolutely fail. Cyrus H. K. Curtis lost over $800,000 on the "Saturday Evening Post" before he could make it pay a single dollar of profit. DuPont worked 11 years and spent $27 million before the first pound of nylon was sold. Frank Munsey's remarkably successful career, after repeated failures, might be tersely described as: "40 failures, 40 successes, $40 million." Abraham Lincoln suffered one failure after another—was badly defeated in five different elections—and finally became our country's greatest man.

Unfortunately, we hear many loose statements these days to the effect that about 80% of all the wealth of our country is owned by only 2% of the people—and that a share-the-wealth program is therefore in order. The main trouble with this statement is that it is not true. Who owns the United States, anyway — with its estimated wealth of over $400 billion? Cameron's statistics show that 22% is invested in 25 million homes; 12% is in six million farms; 11½% is in personal property including over 45 million automobiles which swarm our highways; 2% is in retail stores, nine-tenths of which are owned by small merchants; 5% is in local buildings; about 5½% is in public property; 14% is in transportation and public utility companies owned by about 12 million people —45% of whom are women; 9% is in 200,000 factories; and the small balance is in money and other miscellaneous property. These figures show that about 70% of our wealth is owned by average, not wealthy people—and no matter how you dviide it up, there just isn't enough to go around and provide everybody with the abundant life.

And don't let anyone tell you that business is dishonest. The history of American business is but the history of the growth of high ideals, of men's confidence in one another, until today over 90% of all our country's billions of dollars of business per year is done, not by the exchange of money, but by the exchange of little pieces of paper on which honest businessmen sign their names. "This (as Bruce Barton says) is the magnificent edifice of American Business—a 'Temple of Trust'." And the wonderful thing about it all is that you and I and every businessman, large or small, in every town in every state in the union, has a chance to make this "Temple of Trust" a little stronger and nobler by his living—or, if he chooses, a little weaker and more insecure. These young men of today as they become our business leaders of tomorrow will find it a little easier to trust each other—or a little harder—by your conduct and mine.

Problem of Today—Unsound Government Policies

So much then for American Business—and now, what about its biggest problem of today? To my mind, its biggest problem is **unsound government policies**—and it is about time for businessmen to stand up and speak their views on this subject. A famous writer once said: "To sin by silence when we should protest, makes cowards out of men. The human race has climbed on protest." No matter how successful a man may be in his business or profession, all of his carefully laid plans for the future may come to naught if his government is unsound. A government is only as sound as its directors—and they are politicians.

A sound politician is a fine asset for our country (and we have a good number in both parties—more, in fact, than we had before the recent election), but we still haven't enough of them. Our form of government is the best in the world — it's the spendthrift politicians we criticize. They have a program which is steeped in politics. They figure that every time they increase pensions or subsidies or wages, they gain votes. Today, 1 man in every 7 is receiving money directly or indirectly from the government. The terrific cost of all this is paid out of taxes—but they conceal the fact that about half is hidden taxes which must be paid by the poor as well as the rich—5¢ on a loaf of bread, 8¢ on a quart of milk, and 116 different hidden taxes on a single suit of clothes. Last year, these hidden taxes amounted to over $790 per average family. They buy the people's votes with their own money—a giant give-away, free-lunch counter program.

Businessmen are adders and multipliers by occupation. They increase the wealth of the country —make more goods, more jobs, more prosperity for all the people. Unsound politicians are subtractors and dividers. They produce no new wealth and are constantly promoting schemes for dividing the wealth we already have. "Share-the-other-man's-wealth" has been their slogan for 3,000 years. In the fiscal year 1939, they spent $9½ billion, and now in 1950 (just 11 years later), they've spent over $42 billion—and if President Truman has his way with "security" for everybody they'll want $10 billion more. As a matter of fact, the only place to get "security" is in a penitentiary, and you can't get it even there without giving up your freedom. Security and freedom cannot live together.

The Roman Empire fell through Socialism by taxation — Greece fell the same way—and England, though only 18% socialized, is already gasping for breath. Throughout all history, every time a government attempted to provide greater benefits for more people than it could currently support, it first took away their freedom, then lowered their standards of living, and finally ceased to exist.

Do you know that during the 4½ years since World War II ended, up to January 1, 1950 — all in peacetime—this Administration spent $179 billion, which is about $12 billion more than was spent by our government during the whole 152 years from George Washington's time to the beginning of World War II (including the cost of the Civil War, the Spanish American War and World War I). And when you hear these politicians brag about how prosperous we all are today under their planned economy (and they plan everything but economy), I can see you bankers wondering with puzzled brains just how much of this prosperity has been manufactured out of the $258 billion of borrowed money. Anyone can look prosperous on borrowed money—until his note comes due. In 18 out of the last 20 years, our government has spent more than it took in—and staggered further down the deficit path toward inflation. And, Socialistic ideas grow as a nation's debt grows.

Downie tells us that if every insured person in the United States cashed in his life insurance — (total $44 billion)—it would only run this Administration for about 1 year. If every farmer sold his farm machinery and live stock— (total $25 billion)—that wouldn't run it for 7 months. These are shocking statements — and it is even more shocking that they are true.

Spendrift Policies

Who pays for all this spending anyway? We, the people, must pay for every dollar of it either by increasing our own taxes or by borrowing on bonds—and bonds are but deferred taxes to be paid by our children. When the government borrows, billions of new money pour into circulation and every extra dollar buys less goods — and prices rise. We have too much money for the supply of goods. Price controls and rationing only postone the evil day — and when they are finally lifted, prices go higher than ever. From 1939 to 1950 our deposits and money in circulation nearly tripled—but the dollar value dropped to 59¢ and prices went up over 75%. On that basis the $100 you get today for your "E" bond isn't worth as much as the $75 you paid for it 10 years ago with all the 10 years' interest added—and to add insult to injury you must pay income taxes on the interest.

This Administration's inflationary policies have built up a perfect background to encourage the people to buy stocks, but no background at all to buy bonds—for advancing prices appreciate stocks and depreciate bonds. Sometimes I think the government will either have to make its bonds partially or wholly tax-free—or else guarantee the bond buyer that the money he receives on maturity will buy as much as the money he paid when he bought it; i.e., tie bond and coupon dollars to the cost-of-living like some employers do the wages of employees. This plan, however, might make inflation worse — and therefore the one and only permanent remedy is to stop the inflation itself. Otherwise, how are you going to sell bonds in the face of a constantly depreciating dollar? To make bonds good investments you must keep purchasing power level.

And the worst of it all is that these spendthrift policies are cruelly hurting the very poor people they claim they are trying to help. Nothing the poor man buys today has risen so high as the cost-of-government. Since 1940 the cost-of-living has increased about 75% but the cost of government has increased 274%. Politicians try to tell you that this outrageous increase is due to defense spending (of which we all approve), but the truth is that non-defense spending is now running about $25 billion per year — over 4 times what it was 10 years ago—and every time Congress increases costs by voting another bonus, another pension, another price support, another wage raise or another bureaucrat, your hard earned dollar goes lower and lower. The handwriting is on the wall. How much will your "Social Security" money be worth by the time you get it? A chief reason for the high cost-of-living is the high cost-of-government—and the only way to change it is to vote these spendthrifts out. They are wasting our seed corn.

Take Co-ops. The government taxes an industry so heavily as to retard expansion—and then uses some of this tax money to wreck it by giving competing "Co-ops" tax exemption. Back in 1916, when income taxes were 1%, tax-free "Co-ops" began with small groups of farmers who sold their products together for a little better price. Nobody complained about that. But these "Co-ops" and "Tax-exempts" have since grown by such leaps and bounds that today they compete with our taxpaying Businessmen at the rate of scores of billions of dollars of business per year and escape about $3 billions of taxes. Why should not building and loan associations, farmer elevators, labor, educational and religious business "Co-ops" be taxed the same as the business concerns they compete against? Why this 45% tax advantage? Why not tax the untaxed first? They now own over 25% of the total productive wealth of the nation. Here is injustice that concerns every taxpayer—and it is about time we all got mad. And while we are at it, why not get the goverment out of business too? If democracy means anything, it means the less government, the better.

And take Price Supports. In the old days no farmer was crazy enough to even dream of bumper crops and bumper prices the same year. But now, the politicians try to "by-pass" the old law of supply and demand and manufacture perpetual prosperity for the farmer. Price supports help one class and hurt all others. So far our government has spent over $500 million to help one small class of farmers and keep 150 millions of the rest of the people from buying potatoes cheaper. They pass a law to force business to hold prices down — and then continue price supports to hold prices up. They pass another law to penalize hoarding — and then finance the Agricultural Department to hoard over $4 billion worth of food. **How can you square an honest desire to stop inflation and help the poor with a guaranteed support price for anything?** The politician who **talks** "help the poor" and **votes** "price supports" is talking east and voting west—a hypocrite in every man's language.

Inflation—The Politician's Cocktail

And there is inflation — the politician's cocktail to keep the people happy while it ruins them. Inflation makes people think they are richer than they are, gives them a feeling of security which is false, hits the hardest and the most helpless among us (even the widows and orphans), encourages extravagance, and destroys all assurance that thrift and hard work today will bring security and comfort in old age. To my mind, our greatest economic problem of the day is the Defense of the Dollar. Monkey with a nation's currency and you jeopardize all values. Our government started this inflation when it took us off the Gold Standard in 1933 and started its "pump priming" and spending sprees, and it will never stop it until it puts us back on again and quits spending more than it takes in. But, of course, politicians don't like sound money because it restrains their spending.

The true welfare of the people is advanced by more production, more wealth—not by more money —and the only thing that will increase wealth is hard work. Let us discard the old destructive political slogan "Tax — Spend — and Elect"—and adopt the constructive economic slogan "Produce—Produce—and Produce." And then, for the good of our economy, let us translate this increased productivity not into higher wages to feed the flames of inflation — but rather, into lower prices to help quench them. Any government that promotes inflation is betraying the welfare of its own people—and remember that only the government can start or stop inflation.

True wages could be much higher if the "Boss" were not taxed so much to pay for all these unsound policies. Any employer would rather pay money to his own employees than to an extravagant government. Some day, some smart Labor Leader will see that the best way to get an increase in the employee's wages is to get a decrease in the employer's taxes. **There's more danger in big government than in big business.** In 1948, our government collected in taxes an amount equal to all the wages paid to all the persons working in all the factories and all the mines throughout the entire country. I wonder if the Labor Unions know that. This can mean only one thing—the government gets richer and stronger and the people get poorer and weaker and that is bad news for every man who works for a living—and wants to stay free. In the last analysis, all this leads to Socialism —and the only allurement that Socialism has ever had to offer is a promise of greater abundance in exchange for liberty, and even that promise has never yet been fulfilled.

The American businessman is not for and is not against any particular political party. He stands for sound economy which will insure the continued growth and development of America. He wants ability, efficiency and integrity in office. He doesn't believe in laws which benefit one class and penalize another, nor in practices that line one class against another. He knows that the true welfare of our country rests on economic grounds; that when business prospers, everybody prospers; and that any law that hurts business hurts everybody. And above all, he knows that the best friend of the common people is not the politician, nor the government, but rather the businessmen of our country whose success or failure casts a profound influence upon every job, every school, every community and every home in the whole United States. **Bankrupt business and you bankrupt everybody** — including the government.

The Democratic Party boasts of Thomas Jefferson as its inspiration. And what was his philosophy of government? Let Jefferson answer that in his own words: "I place economy among the first and most important virtues, and public debt as the greatest of dangers. We must make our choice between economy and liberty or profusion and servitude."

The Republican Party boasts of Abraham Lincoln as its inspiration. And what was his philosophy of government? Let Lincoln answer that in his own words: "You cannot strengthen the weak by weakening the strong. You cannot help the wage earner by pulling down the wage payer. You cannot establish sound security on borrowed money. You cannot keep out of trouble by spending more than you earn."

And so we see that these spenders, these creeping, flirting, or actual Socialists (whatever they may be), are certainly not Jeffersonian Democrats and certainly not Lincoln Republicans—and yet they are demoralizing both parties and threatening the stability of America.

Jefferson and Lincoln—two of the grandest men in American history — differed in political faiths, but there was one doctrine on which they both agreed — sanity and solvency in government. Let us, as patriotic businessmen who are deeply concerned about the future of our country—and before it is too late—exert the best efforts we have in us to throw out these spendthrift politicians and restore to America, sanity and solvency in government. Here lie our outstanding obligations of today.

And now, just one more thought and I am through. You and I are under great obligations to America for being able just to live and to work in this great country. America has been good to us, and we, as intelligent men, must know that we are indebted in very large part for all we possess of freedom and happiness and intelligence and wealth to the labor and sacrifice and heroism of those who have gone before us. And so, as we now enjoy this fruit as it falls to us from the orchards which others have planted, let us not destroy the trees that feed us, but rather, in true thankfulness, plant new trees for still others to enjoy. This is the scheme of life and this is the constructive patriotic philosophy to guide every true American today.

At this crucial time, when our whole system of government is being challenged by a foreign power, let us not adjourn a large meeting like this without reaffirming our allegiance to our country and rededicating our lives and our fortunes to the noblest cause we know. This is the highway for us.

"To every man there openeth
A way, and ways, and a way,
And the High Soul climbs the high way
And the Low Soul gropes the low,
And in between, on the misty flats,
The rest drift to and fro;
Yet to every man there openeth
A High Way and a Low
And every man decideth
Which way his life shall go."

Continued from page 5

The State of Trade and Industry

The total for this year is made up of 35,921,941 passenger cars and 7,566,650 trucks.

Reflecting the increase in national production the current year shipments of machine tools in November, the National Machine Tool Builders' Association reports, reached the highest monthly rate since August, 1945, and new orders were the second highest for any month this year.

The association's index for shipments in November was 110.9, compared with 100.9 in October and 67.6 in November last year. The index is based on the average annual shipments of 1945-47 as 100. Average annual shipments for that three-year period are estimated at $354,000,000.

The November new order index was 292.7 against 289.6 in October and 84.3 in November a year ago. The previous high this year was 305.1, reached in August.

Living costs climbed to a further new high and consumer prices rose to 175.6% of the 1935-39 average on November 15, the Bureau of Labor Statistics reports. This compares with 175.1% a month earlier. It was 3.2% above the mid-June level, 4.2% higher than a year ago and 31.7% above June, 1946. Prices of all major groups of commodities moved up in the latest period, led by a spurt of 1.3% in house furnishings. Average retail food prices jumped 0.2%.

Steel Production Scheduled to Fall Due to Christmas Holiday

Voluntary price controls are doomed to failure even before they begin. Trying to hold prices in check by publication of "fair pricing standards" is as futile as trying to stop an avalanche by frowning at it. Mandatory price controls are sure to be installed as soon as the Economic Stabilization Agency can collect a big enough staff to enforce them, states "The Iron Age," national metalworking authority this week.

Meanwhile, manufacturers are pondering over the new pricing standards, trying to decide what course they should follow. Most companies will comply with the government request. But many firms are facing a pricing dilemma. Contracts based on cost plus, escalator clauses and average prices will probably have to be reviewed individually. Many hardship cases will have to be studied. There will be a lot of headaches and a lot of conferences before price controls reach their final form, this trade weekly adds.

A careful check by "Iron Age" editors in widely separated areas indicates that there is practically no hoarding of steel by regular customers. Inventories are below normal. Most manufacturers, large and small, have less steel than their production requirements would dictate.

Steel quotas of regular customers are being slashed to the bone—more than 50% on some products. With some manufacturers it is nip and tuck between depleted steel and nonferrous metals as to which will finally force production schedules to fall down.

This week there are indications that the defense program is moving ahead at a faster pace. Several large orders have been placed and some very large construction projects are near the contract stage, the magazine asserts.

Some steel people are now convinced that a controlled materials plan will be placed in effect as early as March or April. Their conviction is based on the impact of DO orders and allocation programs already felt and the additional ones that are expected nearly next year. Some steel companies are booking DO orders far beyond the limits they are required to accept.

In order to meet DO and allocation demands a gradual change in product mix is taking place. This is working hardships on some companies from a profit standpoint. Companies who formerly sold more profitable specialty items now find themselves making more of the bread-and-butter products for the defense and allocation programs, "The Iron Age" points out.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity for the entire industry will be 100.1% of capacity for the week beginning Dec. 26, 1950, compared to an average of 100.8% a week ago, or a decline of 0.7 of a point.

This week's operating rate is equivalent to 1,930,600 tons of steel ingots and castings for the entire industry, compared to 1,944,200 tons a week ago. A month ago when storms in the Midwest affected operations, the rate was 81.7% and production amounted to 1,575,800 tons, a year ago, it stood at 93.1% and 1,716,300 tons.

Electric Output Continues to Break All-Time High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 23 was estimated at 7,032,740,000 kwh., according to the Edison Electric Institute.

Electric output in the above week broke through previous week's all-time high level to attain a new historical high record for the industry.

It was 47,319,000 kwh. higher than the figure reported for the previous week, 1,038,797,000 kwh., or 17.3% above the total output for the week ended Dec. 24, 1949, and 1,524,500,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Advance in Latest Week

Loadings of revenue freight for the week ended Dec. 16, 1950, totaled 772,902 cars, according to the Association of American Railroads, representing an increase of 6,159 cars, or 0.8% above the preceding week.

The week's total represented an increase of 133,174 cars, or 20.8% above the corresponding week in 1949, and an increase of 18,350 cars, or 2.4% above the comparable period of 1948.

Auto Output Lower for Week But Higher Than Year Ago

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 160,431 units, compared with the previous week's total of 172,307 (revised) units and 116,567 units a year ago.

The drop was attributed by Ward's to the closing of Chrysler's passenger care divisions for model changeovers.

Total output for the current week was made up of 118,899 cars and 33,196 trucks built in the United States and a total of 5,992 cars and 2,344 trucks built in Canada.

For the United States alone, total output was 152,095 units, against last week's revised total of 164,318 units, and in the like week of last year 110,594. Canadian output in the week totaled 8,336 units compared with 7,989 units a week ago and 5,973 units one year ago.

Business Failures Climb

Commercial and industrial failures increased to 174 in the week ended Dec. 21 from 150 in the preceding week, Dun & Bradstreet, Inc., reports. They compared with 196 a year ago, and 116 in the similar week of 1948. Continuing well below the prewar level, failures were down 31% from the 1939 total of 249.

Casualties involving liabilities of $5,000 or more increased to 139 from 119 last week and compared with 154 a year ago. Small failures with liabilities under $5,000 rose to 35 from 31 in the preceding week and compared with 42 in 1949.

Wholesale Food Price Index Reaches New Post-Korea High

A rise of 3 cents the past week put the Dun & Bradstreet wholesale food price index for Dec. 19 at $6.80, a new high since Sept. 21, 1948, when it stood at $6.82. Compared with the pre-Korea level of $5.96, the current index represents an advance of 14.1%, and it is 18.7% above the $5.73 recorded on the corresponding date a year ago.

The index represents the sum total of the price per pound of 31 foods in general use, and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Reflects Rise of 19.1% From Pre-Korea Level

The upward movement in many wholesale commodity markets was accelerated last week as a result of the President's proclamation of a state of national emergency. A rise of 8.17 points during the week lifted the Dun & Bradstreet daily wholesale commodity price index to a new all-time high of 315.36 on Dec. 19, from 307.19 a week earlier.

The latest figure marks an increase of 19.1% from the pre-Korea level of 264.77 on June 24, and is 28.1% above the 246.26 recorded on the corresponding date a year ago.

Grain futures on the Chicago Board of Trade trended consistently upward with all deliveries of wheat, oats and soybeans reaching new seasonal peaks. Mill demand for wheat was quite active and substantial amounts were reported sold for export. A continued lack of moisture in the Winter wheat states lent strength to the market as did heavy snows in some areas which restricted market receipts of cash wheat. Strength in corn was aided by good demand from exporters and domestic processors which carried cash prices for the yellow cereal to the highest levels since October, 1948. Trading in oats was more active. Supplies continued tight and limited receipts were readily absorbed at firm prices. Sales of grain futures on the Chicago Board of Trade averaged 40,700,000 bushels per day for the week ended last Friday. This was little changed from the previous week and compared with a daily average of 32,000,000 bushels in the same week last year.

Flour prices advanced 20 cents per hundredweight as domestic bookings expanded sharply toward the latter part of the week with both large and small baking interests participating in the buying movement. Reflecting good manufacturer buying, cocoa recovered from early weakness and closed only slightly below a week ago. Raw sugar rose to a new high for the current movement, aided by a better demand for the refined product. An improved tone in the green coffee market resulted from sustained demand for roasted coffees as wholesalers and retailers continued to build up their inventories. Heavy buying sent lard prices to new high ground for the season, with strength in vegetable oils a supporting factor. All livestock closed with small net gains for the week.

Trade Volume Reaches All-Time High in Latest Week

Christmas shoppers throughout the nation, with the holidays imminent, brought retail dollar volume to an all-time high during the period ended on Wednesday of last week. Total sales were slightly above the high level for the corresponding week in 1949. While rising prices for many items were considered responsible for much of the record dollar volume, there was also a very slight increase in unit sales from last year's level, Dun & Bradstreet, Inc., reports in its current summary of trade.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 1% to 5% above a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England, East, and Pacific Coast 0 to +4; South +1 to +5; Midwest +3 to +7; Northwest +2 to +6; and Southwest —1 to +3.

Country-wide wholesale buying increased slightly last week, as pre-holiday reorders for immediate delivery continued to mount. The aggregate volume of orders was slightly above the level for the similar 1949 period. The number of buyers attending various wholesale markets declined seasonally and was somewhat comparable to last year's number.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 16, 1950, advanced 9% from the like period of last year. This compared with an increase of 2% for the previous week. For the four weeks ended Dec. 16, 1950, sales showed a rise of 3% from the corresponding period a year ago and for the year to date registered an advance of 5%.

According to the Federal Reserve Board's index, department store sales in New York City, for the weekly period to Dec. 16, 1950, advanced 9% from the like period of last year. In the preceding week an increase of 2% was registered above the similar week of 1949. For the four weeks ended Dec. 16, 1950, an increase of 2% was recorded over that of a year ago, and for the year to date, volume advanced 1% from the like period of last year.

Continued from first page

As We See It

fact remains, however, that what these gentlemen have said is of vital importance to us all. Sound judgment as to the facts and opinions expressed by them could well be the difference between catastrophe and relative safety for this nation.

Name-Calling Doesn't Help

It is, of course, easy enough to label these critics "isolationists" and thus unworthy of attention. It is simple to assert as some have asserted that it is the aim of President Truman to prevent World War III, while Mr. Hoover and Mr. Kennedy appear to be chiefly interested in making certain that we win World War III. Calling people names, however, rarely accomplishes any constructive purpose, and a good many of the comments such as that just cited seem to us a trifle silly. Mr. Hoover might well reply that if we make certain of winning World War III there would be no such war. Indeed, he would then be preaching almost precisely the doctrine that has been issuing from the Administration for a long while past.

But such discussions as this are not very enlightening. Of course, all of us want to prevent another World War if we can. None of us want to lose it if it comes. Few, we believe, would care to assume much risk of losing it in order to gamble on preventing it. The problem is how to proceed. That problem will not be solved by glossing over facts or ignoring unpleasant situations. We have blundered our way into a very difficult state of affairs, and we can afford very few major blunders henceforth if we are to escape with a whole hide. We now need to take, indeed we must now take, a long, broad view of it all and arrive at conclusions which are in accord with all the facts and which take full cognizance of the blundering history which has led to the present impasse.

To begin with it is necessary, at the risk of becoming tiresome, again to recite the general nature of the major blunders which have given birth to our plight at this moment. Since the days of Woodrow Wilson, a substantial number of people in this country have cherished the notion that war could be banished from the world by some kind of international organization which would be guided, not by selfish interests of its members, but by some high moral or humanitarian principle. Wilson and his supporters were never able to convince the majority of the voters of this idea, and we, accordingly, were not members of the League of Nations, which very promptly revealed its impotence. It was relatively easy when World War II broke out to make headway with the claim that had we not been "isolationist" in those intervening years, but had on the contrary taken an active part in world affairs, the human race might have been spared the horrors of the years 1939-1945. At any rate by the time Japan had capitulated in 1945, the Government of the United States, and so far as can be determined the people of the United States, were the world's leading exponents of another, bigger and better League of Nations—which finally took shape in the United Nations, an organization which was to put an end to "aggression" throughout the world.

Only Some Thieves Destroyed

Meanwhile we had taken a decisive part in destroying three of the four powers in the world with imperialistic ambitions of importance. The fourth was relatively speaking thus placed in a position of unparalleled power, and soon made it clear that it had lost not one whit of its appetite for conquest and expansion. The United Nations soon became hardly more than a debating society with the Kremlin and its satellites on one side of virtually all questions and the remainder of the world on the other. Outside the halls of the grandiose world organization, the Kremlin, far from disarming as the remainder of the world proceeded to do, steadily built up the strength of its armed forces and those of its allies and associates. Thus at this moment nothing resembling any sort of "balance of power" exists anywhere in the world.

Not only is there nothing resembling equality of military might in being between the Kremlin and those who would hold it in check, but the theoretical opponents of the Soviets have all too often until quite lately been held together—if they have been held together at all—only by some vague hope of maintaining peace without any real display of force. It has now become fairly clear, we believe, to all that the only way to restore any "balance" in the older sense of the term (and very probably of maintaining peace in the world) is by building up the strength of the anti-Kremlin world. It is evident that harsh words will not stop the Kremlin any more than Britain's pledge to Poland prevented the outbreak of World War II. It should have been foreseen — all of this — but apparently it was not.

Here Are the Real Questions

But how and where is this building up of force to be undertaken? That is the question that has concerned Mr. Hoover, Mr. Kennedy and thousands of others throughout this country during the past year, and particularly during the past two or three months. It is most frequently said that all of Western Europe, including West Germany and Spain, should be armed and otherwise prepared at the earliest possible moment. But where among these peoples is there real will to fight and can they be re-armed and trained (even if they are ready to do all they can to help themselves, which often appears doubtful) without precipitating a war with the Kremlin which at this moment almost certainly could not be contained. Essentially the same questions are to be raised as respects Japan, where a large potential military might exists. And, of course, we should have to face the possibility that an aroused nationalism in Japan and in Germany would, when arms are again available, recreate imperialistic ambitions.

These are some of the problems which are weighing heavily upon the minds of Mr. Hoover and Mr. Kennedy—and a good many others of us — and they can not be shrugged off.

Continued from first page

A Close Look at the U. N.

Haiti or Burma. Its actual authority is about that of a glorified debating society.

Aims and Purposes—A World-Wide Domination

The United Nations aspires to nothing short of ruling the whole world—a task never before seriously undertaken by any one save the old League of Nations. The League of Nations failed. Is the United Nations better equipped for so tremendous a task? The question is of the first importance.

The World to Be Governed by Standing Committees

A scrutiny of the charter of The United Nations shows that its government is to be conducted principally through a series of standing or permanent committees, or councils, of which the Security Council is the chief. The goal which the organization has in sight is internationalism brought to pass through the instrumentality of small groups of persons constituting committees or commissions supposed to be possessed of talents, foresight, self-control and wisdom such as have never at any time been embodied in human beings.

The realization of this truth is a step of great importance in forming any estimate of The United Nations.

Standing Committees or Commissions—"Open Secrets" About Them

Anyone who has had experience with boards or commissions in governmental administration knows that there are certain vices which infect them all. Briefly, these are: (1) Often they are honeycombed with prejudices, political and personal; (2) members are seldom free from vague notions of a duty to represent the section or the country from which they are appointed; (3) only too often members are obsessed with an overpowering determination to use their official positions as springboards for reaching something higher, more attractive, and more remunerative. (4) A single pig-headed crank "reformer" or "do-gooder" upon a commission is able to negative completely its usefulness. As world governors, boards and commissions are simply impossible.

There is an important distinction between a "standing" or "permanent" committee of a body like The United Nations, which is subject to but few and gradual alterations or to direct outside influence such as popular elections; in contrast with the ordinary committees of our State Legislatures or of Congress. These latter constantly vary in membership with every election that occurs, and reflect popular thought in a way that the commissions of The United Nations could hardly approach.

Burke's Opinion of Office-Holders

Edmund Burke once said to the House of Commons that officeholders who are "too much conversant in office are rarely minds of remarkable enlargement." He thought them too attentive to forms, and added:

These forms are adapted to ordinary occasions; and therefore, persons who are nurtured in office do admirably well, as long as things go on in their common order; but when the high-roads are broken up, and the file affords no precedent, then it is that a greater knowledge of mankind, and a far more extensive comprehension of things is requisite than office ever gave, than office can ever give.—Burke's speech on "American Taxation," Goodrich's "British Eloquence," p. 251.

The truth of this is illustrated by our own experience here in America. Let us speak of two of our outstanding governmental commissions.

The Interstate Commerce Commission

The ICC body was created in 1887, to regulate railroad freight and passenger rates, and prevent unjust discrimination.

Its history has been checkered and colorful, at one time sinking so low as to be hardly more than a polite cipher. Only an immense and lavish extension of jurisdiction, and a dangerous enlargement of power (given to it because of a deep-seated and ignorant popular prejudice against railroads) saved it from a condition of "innocuous desuetude." It has now swelled into an authority so great as to be almost a law unto itself—a condition to which every government bureau aspires.

It seems unlikely that anyone at all familiar with history would have the hardihood to draw an inference from the career of the Interstate Commerce Commission in favor of the creation of any world commission, to control international trade and business. Only an intense enthusiasm for the methods of the Interstate Commerce Commission could support such a notion.

Questions involving charges for transporting merchandise are complex and burdensome, even when there is no interference by Congress, and no local pressure from outside Congress.

The attempt to regulate one line of business (transportation) within the limits of a single country has proved a dismal failure. How much greater would be the difficulty, and more numerous the tragic mistakes, were the field of operation to become, not nation-wide, but world-wide, and were the jurisdiction to embrace a multitude of activities and transactions of 60 nations, composed of individuals and races differing from one another in almost every imaginable degree, as respects race, language, color, religion, temperament, experience in life, methods of business and character of commodities, as well as physical and mental capacity and development? The mere suggestion is startling.

We pass to another governmental agency.

The Federal Reserve Board

The Federal Reserve System was such a distinct step forward in certain ways that it is easy to overlook one important fact. The little group of individuals who were to supervise the system were furnished by the law with only vague and uncertain objectives. They were to establish an elastic currency, and to fix a rate of discount (or rediscount) "with a view to accommodating trade and commerce." This looseness and generality of language gave the Board its opportunity, from 1927 to 1929, to follow the policy of "cheap money," with results in 1929 which will not be soon forgotten. If we recall the ardent hopes that accompanied the creation of the Federal Reserve System in 1913, we shall especially understand the bitterness of the failure in the 1920s, and at the present time, though in not so severe a degree as in the 'twenties.

The Quandary of the Federal Reserve Board in 1929

Does not the whole episode furnish a forcible illustration of the truth of the statement of Edmund Burke already quoted? Does it not suggest that 1929 was a time of stress, when "the file afforded no precedent," and the members of the Federal Reserve Board were accordingly unable to meet the situation? The Board failed to heed the remonstrances addressed to it by the Federal Advisory Council (made months in advance); it hesitated between a wish to tighten money in order to curb speculation in stocks, on the one hand; while on the other it wished to refrain from tightening money abroad, by raising the rate of discount here. This acted like a palsy; and it illustrates the weakness and evil that would paralyze any council or commission of world government that might be set up.

The Federal Reserve Board's Condition Today

The Board today, instead of being a great independent power for steadiness and correction, is closely linked up with the Treasury Department, and is subordinated to the fiscal policies of the Administration. Thereby it is robbed of much of that authority given it in 1913; and it is very nearly "harmless" for some of the purposes expected of it by its creators; e.g., its control over the rate of discount. Yet this is something that was then deemed of especial importance. A world governmental committee in control of banking and finance would have even a harder time to maintain itself or preserve a semblance of independence.

Can even the most ardent disciples of World Government contemplate the picture of a "World Reserve Board" today attempting to rule over the finances and the currencies, the banking operations and the business affairs of the 60 nations that compose The United Nations, most of them bankrupt, their currencies depreciated if not worthless, and their credit gone? Think of the pictures drawn at Bretton Woods in 1945 as to what great things the World Bank and the International Fund were to do. The less said the better. Dare any one suggest what nations would constitute the membership of a "World Reserve Board"? Would the United States or Great Britain or France or Canada have a seat, or would the Board be managed by representatives from Pakistan, China, Egypt and Iraq?

The Aims of The United Nations

Turning away from this not very inspiring picture of our own experience with governmental commissions, it is now in order to look at two of the objects or aims which are foremost in the list of results which The United Nations was created to accomplish: (1) The prevention of war; (2) The employment of "international machinery for the promotion of the economic and social advancement of all peoples." In plain English, this last includes "full employment" as the greatest step to such an end.

Universal Peace

Desirable and noble as is this goal, one must be a careless reader of history if he supposes that such machinery as the United Nations can offer can command respect or inspire confidence to effectuate the desired result. This weakness cannot be better stated than by Mr. Nicolson in the following passage from his "Life of Lord Curzon":

Curzon had little faith in international conferences, knowing too well that the dramatic staging of such meetings involves public anticipation and a consequent need of subordinating concrete achievements to apparent results. At the best, they were "long, complicated, and often vexatious discussions." At the worst they achieved compromises or panaceas which either misled the public mind, or inflated the currency of international contract.—"Curzon, the last Phase," by Harold Nicolson, p. 42.

But actions speak louder than words. Guns, tanks and airplanes are terribly serious—more so than 50 "cease-fire" orders from a body that lacks power to enforce. In letters of fire, Korea has pointed to the weakness of government by boards and commissions for waging war. If they are feeble and disappointing as peace negotiators, they are doubly so as directors of armies. Within the last few months, the Commander-in-Chief of our armies in Asia may well have been puzzled to know what were the true and ultimate aims of the United Nations, especially as the army neared the 38th parallel. Certainly, we in our American homes have wondered.

Speaking of the responsibility which falls upon a military leader to keep his troops supplied with food, Napoleon once observed, "if he allows himself to be guided by the commissaries, he will never stir." Today, he might add with increased emphasis, that if he must await the decisions of a commission made up of representatives of many nationalities and races, divided in language and religion, as well as in opinions and aims, (and subject to the paralysis of veto) he will never stir till the supreme moment has passed.

A world assembly is about the clumsiest instrumentality imaginable for making peace or waging war. We pass to another of the great aims of the United Nations.

"Full Employment"

It would be of interest to learn just what the advocates of "full employment" mean by the term. It seems to contemplate a complete and continuous "bull market" for the whole world in all important lines of business.

Has such a development ever occurred? History shows the opposite. Our own United States have had a fairer opportunity to achieve it than any other nation, but we have never come even "within hailing distance." What is the reason? When learned men have so pointedly differed as to the precise answer, only the foolhardy would attempt any complete explanation in such an article as this.

Underlying Reasons for Failing to Avoid Panics and "Hard Times"

Very cautiously, however, it may be suggested that, perhaps, the heart of the problem lies far below the surface, and is in the very character of human nature itself, and in the way that business is forced to accommodate its methods to human conduct, rather than follow any rigid or ideal plan. Here are the views of two very careful thinkers of our own land, one in the latter part of the 19th century; the other an esteemd economist of our own time, only recently deceased.

Views of William Walter Phelps

In our House of Representatives, Hon. William Walter Phelps used this language in 1874: "Even with honest currency, we shall still have panics. A world which does its business on credit cannot escape them; and this basis is one which grows wider as the world grows older."

A Quotation from the Late Colonel Leonard P. Ayres

In his work on "Turning Points in Business Cycles," Colonel Ayres says:

Business cycles result from the fact that all industrial nations produce their durable goods in waves or surges of output, instead of manufacturing them in steady flow, varying little in volume from month to month and from year to year. By contrast, they manufacture their non-durable goods . . . in comparatively steady volume of production. These non-durable goods have to be produced in fairly regular amounts, for we are constantly using them up, or wearing them out, and replacing them. Most of them are necessities of life, and so we consume almost as much of them in hard times as we do in prosperity.—"Turning Points in Business Cycles," Preface, by Leonard P. Ayres.

A Clash Bound to Result Between "Full Employment" and Enforced Maintenance of International Trade and Commerce

Observations like the foregoing must be met; they cannot be ignored, however embarrassing to those who would compel business activity, and would galvanize into existence an international trade, whether profitable or not. Advocates of uninterrupted and extended international trade may well pause to reflect that both "full employment" and "complete international trade" cannot receive equal treatment and equal consideration at the hands of legislators. The two horses do not trot evenly in the same shafts. If you insist upon "full employment," as having first consideration, you must be willing to make international trade take second place. A nation which is intent on keeping its own farms and mills and mines at work to the full, will not hesitate to sacrifice the business and welfare of others. It has been forcibly observed by Mr. Philip Cortney in his valuable work, "The Economic Munich," at p. 36, "In socialist language, full employment is an end in itself, and jobs are to be made available whether or not they contribute to production and exchange, and regardless of political and social consequences." And the same author, quoting a statement from the late Lord Keynes, shows that even so ardent an apostle of full employment as his Lordship made the admission that "while the crux of a full employment program is a sound wage policy," yet "the combination of the two is extremely difficult." ("The Economic Munich," at p. 36.)

What Remedy Has The United Nations For This Discord?

Has The United Nations any means of reconciling the two things? Each one is viewed by internationalists as an "essential," for any sound world economy. "Full employment" has become a fetish. International trade holds so high a place that months of deliberation and ponderous sums in dollars (mostly of American taxpayers) have been devoted to the subject at international gatherings, notably at Geneva and Havana. A happy world under United Nations rule, but without international trade, would be the drama of "Hamlet" without the Prince of Denmark.

The situation is replete with embarrassment and perplexity.

Disturbing Shadows for the Future

We have hardly more than skimmed the surface of a very large subject. We close with only a very few suggestions or comments. If from what has been said, it is clear that the successful government of the whole world by a series of committees is impossible, there is nevertheless one other side to the picture which ought not to be overlooked. It is this: Suppose the United Nations could succeed: What sort of world would we have to live in if the reins of government were really in the hands of the kinds of men who compose the commissions of The United Nations? Would life be worth living? Would it be tolerable to any American or Englishman reared in the traditions of individual freedom? Has not every nation or people demanded the right to be the architect of its own fortunes, let mistakes be what they may? Is there any nation that would entrust its future to any series of world committees that ever could be formed? "This above all, to thine own self be true," is a maxim so sacred that no set of people worthy of freedom has ever been willing to forget it.

The Fallacy of One World

The existence of the United Nations is itself but one example of a blind and almost thoughtless drift toward what is called "unity," but what is only too often hardly more than a mere "getting together." This movement is showing itself in both church and state. The feeling seems to arise from a notion that, if only people can be got together in large numbers or masses, the result must necessarily be an increase in strength and solidity. This, however, occurs only where there is a real community of interest, along with something akin to similarity in fundamental attributes, such as race, language, religion, coupled with those of character, training, and habits of life. Conditions of that sort make it possible for individuals to join together for some common good. But where these conditions are absent, or where their influence is feeble and ineffective, there is real danger. In such case, everybody tends to lean on everybody else; and the whole has no more stability than a house of cards, where all the parts stand together in perilous uncertainty, no card sure of itself, and every one relying on the next. The displacement of a single card brings the entire structure down in ruin.

The Atlantic Pact

Just such a distrust of self has possessed many of the nations or countries in Europe since the making of the Atlantic Pact. There is a distressing absence of old-time self-reliance and initiative. Countries are reluctant to make efforts to guard against Russian aggression. The impression has gained ground that the Atlantic Pact is to work like a European extension of the Monroe Doctrine, making people content with the thought that "rich" America will furnish all the defense needed. This unpleasant truth has been realized thus far by only a few of us Americans. The late Professor Arthur T. Hadley, of Yale, once said: "Plans for making every one rich usually end by making every one poor." Doctor Hadley's thought holds good with a different application: "Plans for making every one safe may produce little else than skulkers and cowards."

U. S. Policy a Tragedy of Errors

It was a capital error for the United States to enter a world federation. All sign-posts of experience pointed the other way. Our geographical location; our commercial interests; our habits of thought and our political traditions and customs; the advice of our statesmen for a century—all these should have served to warn us from so michievous a step.

England herself had set us a far wiser example. When the wars of Napoleon ended, she resolutely refused to become a partner in that dreamy and impossible Holy Alliance. For a short period she was willing to try what might be accomplished for united action through the conference system of the great powers. But in the fifth conference, that at Verona in 1822, she broke away abruptly because of a proposal to interfere mischievously in Spain. Presently, her great Foreign Minister, George Canning, flung defiance at the rest, and recognized the independence of Spain's colonial subjects in South America; as did also our own President Monroe, laying the foundation for our established "Monroe Doctrine."

Thereafter, all that England sought to do in continental affairs was, on special occasions of importance, to join in that somewhat vague but useful combination that came to be called the "Concert of Europe." In this way, she found that when she did intervene, her influence was of weight. She was a looker-on across the Channel.

Our own country once stood in a position to play very much such a part in European affairs, even perhaps in Asiatic affairs. Our position in the Western World, removed from Europe not only in mileage, but (what was more important) from the mean jealousies and selfish intrigues of European politics, coupled with our wealth and strength, and our disinterestedness so far as any desire for more territory was concerned, might have caused our counsels and advice to be respected and heeded in moments of unusual danger or difficulty. We used to be generally respected and trusted, even though we were not liked. Just as we intervened in 1823, with most beneficent results, so we did once more in 1905, when President Theodore Roosevelt persuaded Russia and Japan to meet at Portsmouth, N. H., and terminate the Russo-Japanese War. These are striking illustrations of our influence, but perhaps not entirely the only ones.

All this high ground has been abandoned by stepping down from our position of advantage, and lending our influence to the ambitious plans of selfish foreign countries. The United States has forfeited the confidence of the world; for our conduct of affairs in foreign politics has been a tragedy of errors.

The United Nations an Oligarchy

The United Nations is not even a really popular or democratic form of government. It is an oligarchy where, of necessity, the strings are pulled by a few nations possessed of some character and authority, or at least supposed to be. Read over the full membership of the 60 countries in the fold of The United Nations. You will then realize that a government of the world which is administered by those who have conspicuously failed to govern themselves is fit only to raise a derisive laugh. The charter of The United Nations is about as valuable for world government as is the plan for a universal language. How many of the swarming millions of this world ever heard of "esperanto" or "volapuk"? Would any of them surrender the speech of their fathers and forefathers, derived from a period "when the memory of man runneth not to the contrary" in favor of a substitute which might be the most scientifically framed language that scholars and savants ever constructed? The one is full of life and power, and is a nation's own production; the other is mechanical and dead. So also is the frame of The United Nations; a thing of cardboard and plaster of paris, that is threatening even now to fall to pieces in the using. To quote the words of Gentz, the Austrian statesman so prominent at the Congress of Vienna, "Upon the shifting sands of modern politics how difficult it is to build on solid foundations."

Enthusiasm, patriotic love for one's own people and country and love of the very land itself, and willingness to die for it—these great thoughts are impossible for such a nondescript thing of paper as The United Nations.

Paul H. Gaither Is With Ball, Burge Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Paul H. Gaither has become associated with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Midwest Stock Exchange. Mr. Gaither was formerly associated with Gottron, Russell & Co. for many years.

Axe Securities Corp. Formed in NYC

Axe Securities Corporation has been formed with offices at 730 Fifth Avenue, New York City, to continue the investment business of Leffler Corporation.

Patton, Lanktree With Central Republic Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, Neb.—John H. Patton and Hugh J. Lanktree have become associated with Central Republic Co., Farnam Building. Mr. Patton was formerly co-manager of the Omaha office of Paine, Webber, Jackson & Curtis and in the past was an officer of Burns, Potter & Co.

Joins Dickson Staff

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Elbert C. Blackwell is with R. S. Dickson & Co., Wilder Building, members of the Midwest Stock Exchange.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

At this time I should take a long look ahead and write about the new year, its hopes, fears and what to expect. Before you are frightened off let me hasten to assure you that I have no intention of doing any such thing.

* * *

First of all I have no idea what 1951 will bring. If there are any other reasons they're insignificant.

* * *

Having sounded off about what I won't write about, I might point out some of the obstacles the market will be faced with in the immediate and near future. Practically all of them are interrelated to the Korean war and its possible effect on our relations with the European countries, plus the taxes that will be levied to implement our foreign policy.

* * *

Now, if anybody can answer these problems I'll gladly turn over this space to him.

* * *

Last week I ended the column by warning that a reaction was around the corner and advising holders to clear some of their holdings in preparation for the blow. So far the market hasn't declined, or for that matter has it gone up. The best that can be said for the majority of stocks is that they've acted in a hesitant fashion.

* * *

Of course the holidays have had something to do with it. Major decisions to be announced seldom are issued during the Christmas - New Year period. They wait until the holidays are over. I'm not referring to emergencies. They're something else. All of this means that we are, and will probably continue to be, in a news market. Putting it into simpler language, the news will determine the immediate trend.

* * *

Because I don't know what the news will be I have to look to the market for clues. The market is saying that the first blush of inflation is over (hence the hesitation) and the new selling recently coming in presages unsettling or even bad news. This is particularly evident in the action of the industrial averages.

* * *

To change the picture somewhat there is this to say for the market. On any subsequent decline the industrials should not go below the 225 figure; the rails below 75. If they fall back, but hold these levels, you can look for another period of strength.

* * *

Because I don't know if they'll hold, but I do see signs of down in the market action, I take the attitude that no matter how minor a coming storm, I prepare for the worst. If they hold, you've taken some profits and still have a partial position. If they break and your original position is sound you can average it at a lower figure.

[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.]

Schweickhardt Co. Formed in New Orleans

NEW ORLEANS, La.—Schweickhardt & Company has been formed with offices in the Hibernia Building to act as underwriters, distributors and dealers in general madket and municipal securities. Partners are Erwin R. Schweickhardt, member of the New Orleans Stock Exchange, Evangel N. Anagnosti and Vincent D'Antoni. Mr. Schweickhardt was formerly a partner in Schweickhardt, Landry & Co. Mr. Anagnosti was Vice-President of Weil & Company.

W. S. Salomon With UNO Equities, Inc.

UNO Equities, Inc., 30 Pine St., New York City, announces that W. S. Salomon, formerly associated with various itnernational banking institutions, has been elected Vice-President in charge of their foreign department.

Continued from first page

Business and Financial Outlook for 1951

will increase. The public may then cry "This is a government-made slump; let's get rid of the controls!"

(6) If in 1951 it becomes evident that business is declining too fast as a result of government curbs, the planners at Washington may rush their patient into an oxygen tent.

Labor Outlook Will Continue Tight

(7) Most labor groups will not be successful in getting a sixth round of wage increases in 1951. Although there may be more strikes in the first part of 1951, there will be fewer for the whole year as compared with 1950.

(8) Tightness in the labor supply will be continued as the year wears on, particularly of highly-skilled workers.

(9) The Taft-Hartley Law will not be repealed during 1951 but may be amended. The Administrators of the law will continue to wink at some of its clauses.

Commodity Prices Will Remain Firm

(10) Wholesale prices of many commodities will be marked by a mild decline in 1951 when compared with the price level for December 31, 1950. In some lines the drop may be quite steep from the high levels of late 1950. Retail prices for 1951, I do not now forecast.

(11) The year 1951 should prove an excellent time to keep a tight grip on inventories. Commodity speculation for the rise will not pay in 1951. Futhermore, our expanding stockpiles of strategic materials present a real price threat in the event of a peace scare. Such stockpiles could then act strongly as a depressant on prices.

(12) The cost of living will remain high during 1951. This prediction recognizes that living costs next year may be above the lower levels that existed during the first half of the year now closing.

Farm Outlook Good

(13) Farmers' income for 1951 should average no less than that for 1950. Since the trend in the first half of 1950 was down, this forecast is not so optimistic as it might otherwise seem, for there is likely to be a weakening of the farmers' income position during the latter part of 1951.

(14) Barring crop failures, the total supply of food available should be larger in 1951 than for 1950, since the government will raise planting quotas as part of its attack on inflation. If the weather is extremely favorable, the government will be blamed for farm-price weakness during the latter part of 1951.

(15) With prospects good for a rising supply of feed grains, meat should be more plentiful next year than in 1950. Prices for meat, however, will be held up by continued high National Income and by military needs.

Taxes Will Be Higher

(16) The burden of Federal taxes, both corporate and personal, will be increased again in 1951. State and municipal taxes will remain high.

(17) There will be an excess profits tax in 1951. These excess profits taxes will be milder than those in force during World War II; but they will be inflationary and retard efficiency, economy and incentive.

(18) There will be heavy pressure for increased Federal "sales taxes" to discourage purchasing of luxury and certain nonessential goods. Congress will see the value of some such sales taxes as an inflation road block.

(19) States and municipalities will again be under pressure to find adequate sources of revenue. Further increases in such taxes can be looked for next year with additional cities and/or states adopting sales taxes.

(20) Despite renewed efforts to increase the long-term capital gains tax above the present 25% figure, rates will remain unchanged.

Domestic Trade Will Be Less

(21) Credit curbs will cut into the demand for automobiles and household equipment. Completions of fewer dwellings will also act as a damper on furniture sales.

(22) Falling demand for hard goods should mean a stabilization of the public's spending for food and lower-priced soft goods.

(23) The trend forecast in No. 22 will mean a decline in department store volume, but I predict a rise in the sales of variety chains and of drug chains.

Foreign Trade Outlook Fair

(24) Barring new war developments, I look for continued shrinkage in our exports during 1951. Imports, however, should rise further. Total foreign trade should not be much changed, but the exporters will be on the short end of this business with the importers gaining.

(25) It will become more difficult to convince Congress that additional heavy credits should be granted abroad except for war supplies.

(26) As was the case this year, many domestic manufacturers will feel increasing competition from foreign merchandise. The cry for increased tariff protection will be heard again in the land.

(27) Business and financial forecasts for next year are **not** based on the thought that World War III will start in 1951. Russia is certainly heading for war, but we do not believe she now wants it in Europe. She will be satisfied to have her satellites continue taking unexpected jabs at us, while the Polituro boys hand out the soothing syrup. But we may see another episode like "Korea" in 1951.

More Deficit Financing After June 30, 1951

(28) The first half of 1951 may actually see a budget surplus as a result of high National Income and increased taxation. Later, if Congress goes along with the Administration's plans for huge rearmament, a federal deficit will arise during the last half of the year.

(29) As a result of the preceding prediction, money supplies should not begin to rise until after business has turned down. Increases at such a time are not likely to have much effect on prices.

(30) Government bonds will be held tightly between the floor of Federal Reserve support purchases and the ceiling of Federal Reserve anti-inflation sales. Under such conditions, price changes should be negligible.

(31) A great deal will be heard in 1951 about giving the Federal Reserve Board powerful controls over member bank loaning policies. Congress is not likely to pass such controls, however, unless commodity prices go a lot higher, or World War III comes.

Stock Market and Bond Outlook Uncertain

(32) I see nothing now to indicate that we are entering a period of improved international relations. The danger of war remains. Until it disappears wise people will move out of large bomb-vulnerable cities and avoid having investments in such areas.

(33) The Stock Averages may work somewhat higher during the first half of next year, but sometime during 1951 they will sell lower than current quotations.

(34) Stocks now in the best position for 1951 should be those that have not been popular as inflation hedges in the past months. I like good chain store stocks.

(35) Investment Trust funds, pension funds, and insurance companies will provide an excellent backlog of demand for sound Income Stocks where good values can be demonstrated.

(36) The successful investor next year will be the one who follows a carefully planned investment program. Such a program will emphasize diversification—not only by company and industry, but also by quality. Over-concentration will not pay in 1951.

(37) Highest-grade taxable corporate bonds should hold in a narrow price range during 1951, but I see no reason for individual investors buying them. For my forecast for long-term government bonds, see No. 30 above. The only corporation bonds which interest me are **convertibles.**

(38) With income taxes slated to increase in 1951, tax-exempt bonds should continue in good demand. There has been some speculation in these, however, and any downward change in the tax outlook might cause a sudden turnabout in prices for municipals. Investors should see to it that their bond maturities are carefully diversified, with some part of their bond funds maturing each year.

Real Estate Activity Will Decline

(39) The real estate outlook for 1951 will be strongly affected by curbs on mortgage credit. Much of the recent boom was the result of easy credit—almost nothing down and small easy payments for years hence.

(40) New home construction will suffer a greater decline than other lines. Nonessential commercial building will also be hit.

(41) The coming decline in new building will throw a wet blanket over speculation in vacant suburban lots.

(42) The scare caused by the Korean-China War and fears of an early outbreak in other sections will adversely affect the demand for big city real estate. Lower business volumes and the draft next year will also curtail such demand.

(43) Small sustenance farms should hold up well in price as demand will be spurred by those seeking refuge outside the big cities. Demand for large commercial farms, however, should weaken as the year progresses.

(44) The swing back toward rent control will act as a further damper on new building. There is no incentive to build homes for rental income.

(45) Tighter credit controls will make it more difficult to purchase older residential properties, and the prices for these should weaken.

(46) As building volume slackens in 1951, the quality of available materials and workmanship should improve. This will help those who have saved their money and can pay for at least half the cost of a new home.

Defense Orders and Politics Will Increase

(47) Those who can do so should attempt to get defense orders as a means of holding up production volumes and reducing overhead. Not too much profit from such war business should be expected, however, as these contracts will be subject to tight-fisted renegotiations.

(48) The political outlook for 1951 will be completely dominated

by jockeying for position in the Presidential race for 1952. Most of Congress' time will be spent on International Problems; but either War or Peace could come early in 1951, which could make many of the above forecasts useless.

(49) In Domestic Matters, despite recent election changes in party alignment, Congress will still be dominated by conservative coalition of Northern Republicans and "unregenerated" Southern Democrats. When the heat is on in a tough fight, the North-South coalition will still be able to curb onslaughts by New Dealers.

(50) We are gradually headed for a One Party System and finally a Dictatorship. The Republicans will sometimes win with the slogan **"Had enough?"**; but their reign will be short-lived. Too many persons are following the pernicious doctrine of **asking for higher wages and shorter hours, speculating in stocks and goods, growing rich on paper, voting Democratic for selfish reasons and letting the country go to the dogs, war or no war!**

Courtland Mfg. Co. Pfd. Stock Offered

Heimerdinger & Straus, New York, on Dec. 20 publicly offered 12,000 shares of 6% cumulative preferred stock at par ($25 per share) of Cortland Manufacturing Co., manufacturers of mechanical toys. The net proceeds will be used for additional working capital.

The preferred stock may be redeemed at prices ranging from $30 per share on or before Dec. 15, 1952, down to $27.50 per share after Dec. 15, 1960, plus cumulative dividends in each case.

Edgerton Co. Adds Two

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Jack F. Clarke and George T. Wood have been added to the staff of Edgerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Clarke was previously with J. A. Hogle & Co.

Joins Witherspoon

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Stephen Titus is now with Witherspoon & Co., Inc., 215 West Seventh St.

With Davies & Mejia

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—William H. Pabst, Jr. is with Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges. He was formerly with J. Barth & Co.

Arthur S. Leland

Arthur S. Leland died of a heart attack Dec. 22 at the age of 93. Mr. Leland was senior partner of Arthur S. Leland & Co., New York City, private bankers.

With Pohl & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Alfred C. LeFeber is with Pohl & Co., Inc., Dixie Terminal Building.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg.—Bruce H. Russell is with Merrill Lynch, Pierce, Fenner & Beane, Wilcox Building.

E. Victor Loew

E. Victor Loew died Dec. 26 of a heart attack at the age of 77. He had been ill for a year following a stroke. Mr. Loew before his retirement was a member of H. N. Whitney, Goadby & Co.

Continued from page 11

Canada's Year of Economic Progress

tion, while relatively small in themselves, constitute an "extra" involving a degree of inflationary potential far out of proportion to its size.

Different Conditions, Different Methods

It seems apparent, however, that the methods which could be used with some success to restrain inflationary pressures under conditions of complete mobilization are not, from a practical standpoint, appropriate to the present state of affairs. Under the stress of all-out war extremely severe fiscal measures and widespread controls were both necessary and acceptable. Each aspect of the emergency program reinforced the other. High taxation and enthusiastically conducted savings campaigns restrained civilian demand; controls on production and distribution limited and allocated civilian supply and, because fewer consumer goods were available, taxation and saving were in turn facilitated. These measures, together with control of salaries and wages made the price ceiling possible. None of the various devices worked perfectly but there was an element of rough justice and consistency in the over-all program which, in an atmosphere of extreme urgency, commanded the patriotic support of the public.

The lesson which is plain to be seen in past experience, therefore, is that direct controls applied to any one phase of economic activity can accomplish very little unless all other aspects of the economy are similarly brought under restriction. To control price it is necessary to regulate supply through allocation and rationing and to restrict demand through stern fiscal measures and through wage and salary ceilings. Even then there remains the difficulty of protecting the domestic price level against increases in the price of imported goods. These, plus the important problem of obtaining public acceptance of the regimentation involved, are the practical obstacles confronting those who urge that we should now return to the mechanism of widespread control employed in World War II. To attempt such a course under existing conditions could introduce serious elements of friction into the economy.

The Inflationary Threat

This, however, is by no means to dispose of the matter. National security at this critical stage of international developments cannot be maintained "on the cheap." Increased use of manpower and materials for defense inevitably demands some readjustment of our standards of living. This readjustment could, of course, take place through the processes of inflation — by competitive bidding on the part of government and public for scarce resources. We have never in this country had to undergo the cruel hardships of runaway inflation and I would not by any means imply that such a danger faces us now. But we have been experiencing, for a decade, the more subtle processes of creeping inflation with all its attendant strains and injustices. The new turn of events brings with it the manifest danger of a further erosion of the value of a dollar which, on the basis of the cost-of-living index, has already lost over 40% of its purchasing power since 1939. And while wise and fortright governmental policy may do something to check inflationary forces, little can be accomplished unless the understanding, level-headedness and cooperation of the Canadian people in all walks of life can be enlisted for the task.

Fiscal and Monetary Policy

From the standpoint of governmental responsibility it need hardly be said that strict adherence to "pay as you go" should be the foundation stone of a program suited to the needs of the time. Such an objective requires the courage and determination to cut off remorselessly the frills of governmental outlay and to present an uncompromising front to demands, from any quarter, for unnecessary additions thereto. Canadians will, as in the past, accept higher taxation in good spirit if they are assured of the urgency of the need and the equity and wisdom of the measures adopted. But they also have the right to expect some tangible evidence of stringent economy in the administration of the funds which the public provide.

Secondly, it is, I think, obvious that defense against the forces of inflation now requires a bold and flexible use of the weapons of official monetary policy. The last war was financed, in Canada as in the United States and in the United Kingdom, against a background of low and declining interest rates. This feat of financial management, convenient as it was from the standpoint of the treasury, was not however accomplished without substantial additions to the money supply. In other words money could be kept cheap only by its becoming more plentiful. Thus, in Canada, the active money supply tripled during the six war years and has continued to expand in the postwar period although at a considerably slower rate. It is now about three and one half times the level at the end of 1939, an expansion far out of proportion to the concurrent increase in production of goods and services. Admittedly much of this increase was unavoidable. Nevertheless, apart from other contributory influences, the enormous change in the relative size of the monetary base has been a fundamental factor in the broad decline of the purchasing power of the dollar.

Any prolonged economic trend usually seems to build up a philosophy justifying its perpetuation. Thus is was that during the war years and well into the postwar period it was frequently argued that any important change in the basic pattern of interest rates was unnecessary and undesirable. This line of thought was of course heavily influenced by wartime experience, when the rate of saving was determined much more by patriotic motives than monetary considerations, when the demand for capital could be regulated by direct controls and when the inflationary implications of an expanding money supply were temporarily masked by the price ceiling. Moreover, in the early postwar period there was the fear that higher interest rates, brought about by market forces, might be unduly deflationary in their impact. But whatever validity such reasoning may have had in the past, it would seem to have no application to the present situation. In the face of an intensified inflationary threat of indefinite duration, cheap money, accompanied by further sizeble increases in the supply of money, would be a very expensive luxury from the standpoint of the well-being of the economy. The fact of the matter is that this country has been facing, and as far as we can see will continue to face, enormous demands on its capital resources to meet the needs of vigorously expanding development. Well before the Korean crisis it was apparent that the low rates of interest to which we had been accustomed in the past decade were more than a little unrealistic and were giving an inflationary bias to the economic trend. Recent action by the central bank in raising the rediscount rate comes therefore as a clear and welcome official recognition of the role which flexible interest rates can play in an anti-inflationary program.

The Importance of Saving

It follows directly from the foregoing that the process of saving, quite apart from its value to the individual, has once again a special significance in terms of the nation's welfare. As a great savings institution we are very conscious of this fact and careful and energetic attention is therefore being given to this phase of our activities.

The Public's Responsibility

As I have already indicated, fiscal and monetary measures alone cannot provide a smooth transition from a peacetime economy to partial mobilization. Intelligent public cooperation is vitally necessary. Hoarding or panic buying on the part of producers or consumers cannot but weaken our national economic fabric. Moreover, we cannot possibly achieve our broad objectives of national security without a high sense of social responsibility on the part of those concerned with collective bargaining and with relations between industry and labor generally. That mounting living costs lead to wage adjustments should occasion no surprise. But the inescapable fact is, nevertheless, that widespread attempts to obtain increases in income out of proportion to increased living costs and without corresponding gains in productivity can accomplish nothing but a wage-price spiral—a race which no one can win. Putting the matter in its simplest possible terms, if we as a nation insist on doing less and less for a dollar, we can hardly complain if the dollar does less and less for us.

Values to Defend

I have endeavored to outline these basic objectives of an effective approach to the economic aspects of the challenging developments confronting us. I would not for a moment, however, suggest that these objectives can be easily attained.

Indeed, we are coming to learn that national security in a dangerously uncertain world must be paid for by productive effort, by sacrifice and by liberal use of common sense. Above all, let us not forget that we have in this happy country much to defend. To say this may conjure up a picture of material resources — of harvest fields golden in the summer sun, of oil gushing from Prairie wells, of vast forests, of the great northland with its full promise not half disclosed, and of our almost breath-taking pace of industrial growth. But the Canadian way of life is, I suggest, something more than a living standard, something above and beyond the sum total of our material potentialities.

What are the elements of a distinctively Canadian life which we seek to preserve for ourselves and for those who will come after us? They comprise many things which together make up the strands of a rich and satisfying pattern. There is the sense of opportunity — the chance to work and to advance in the job of one's choice in a land where frontiers of progress still beckon. There is the sight of healthy children going happily to school and returning to their play and to their beds in safety. One thinks too of those things that add color and enjoyment to the Canadian scene —of holidays at the beach, the close packed excitement of the hockey match or the football game, the thrill of the ski slopes on a clear winter's day. There come to mind also those fundamental aspects of our heritage—the freedom to worship as one's conscience dictates, the deep confidence in firmly grounded and impartial institutions of law to which even the processes of government must be subject, and the quick sense to recognize and to remedy injustice. Perhaps it can be summed up by saying that, whatever our shortcomings as a nation, the Canadian concept of the good life stems from a belief in the inherent value of the individual, a belief which has its roots deep in religious principle and democratic tradition. These are values which we take for granted and it comes rather as a shock to realize that over large areas of the earth's surface they are not recognized as ideals. To preserve our legacy and to enrich it we, with other nations of good will, must at all costs be strong, resolute and united.

Within the experience of a single generation this country has played a worthy part in two World Wars and in postwar reconstruction. We have also achieved tremendous economic and social progress. Once more we face another challenge, different in nature from those confronting us hitherto. To meet it will test those qualities of enlightened and intelligent citizenship which will determine not only our national stature but also our influence for peace in an uneasy world.

Tero With A. C. Allyn

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Robert J. Tero has become associated with A. C. Allyn & Co., Inc., 100 West Monroe Street. In the past Mr. Tero was with Wayne Hummer & Co. on the unlisted trading department.

E. E. Mathews Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Gerald Barnes is with Edward E. Mathews Co., 53 State Street.

With Tifft Bros.

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, Mass. — Robert H. Marchese has become affiliated with Tifft Brothers, 1387 Main Street, members of the New York and Boston Stock Exchanges.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

PETOSKEY, Mich. — Robert J. Truesdell is with Waddell & Reed, Inc.

Joins Edw. D. Jones

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Robert M. Brown is now affiliated with Edward D. Jones & Co., 300 North Fourth Street, members of the New York and Midwest Stock Exchanges. Mr. Brown in the past was with Herrick, Waddell & Co. and Frugh, Combest & Land.

With Dempsey-Tegeler

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Leslie E. Hart has joined the staff of Dempsey-Tegeler & Co., 210 West Seventh Street. He was previously with Conrad, Bruce & Co.

With Marache Sims

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—John H. Dana is now affiliated with Marache Sims & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange.

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)	Dec. 31	100.1	100.8	81.7	93.1
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 31	1,930,600	1,944,200	1,575,800	1,716,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Dec. 16	5,744,870	*5,825,220	5,882,400	4,979,300
Crude runs to stills — daily average (bbls.)	Dec. 16	‡5,925,000	5,869,000	6,002,000	5,389,000
Gasoline output (bbls.)	Dec. 16	20,498,000	19,188,000	19,702,000	18,329,000
Kerosene output (bbls.)	Dec. 16	2,267,000	2,171,000	2,319,000	2,555,000
Gas, oil, and distillate fuel oil output (bbls.)	Dec. 16	8,864,000	8,297,000	8,231,000	7,263,000
Residual fuel oil output (bbls.)	Dec. 16	8,567,000	8,611,000	8,783,000	8,056,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 16	110,943,000	109,647,000	105,468,000	108,490,000
Kerosene (bbls.) at	Dec. 16	23,152,000	25,047,000	28,382,000	22,267,000
Gas, oil, and distillate fuel oil (bbls.) at	Dec. 16	76,913,000	80,964,000	87,117,000	82,450,000
Residual fuel oil (bbls.) at	Dec. 16	41,598,000	43,307,000	45,600,000	62,786,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 16	772,902	766,743	837,065	639,728
Revenue freight received from connections (number of cars)	Dec. 16	680,044	674,931	704,130	583,183
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 21	$692,041,000	$136,510,000	$235,119,000	$155,507,000
Private construction	Dec. 21	112,439,000	77,641,000	142,919,000	80,135,000
Public construction	Dec. 21	579,602,000	58,869,000	92,200,000	75,372,000
State and municipal	Dec. 21	70,304,000	52,587,000	79,061,000	53,146,000
Federal	Dec. 21	509,298,000	6,282,000	13,139,000	22,226,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 16	11,686,000	11,420,000	11,845,000	9,052,000
Pennsylvania anthracite (tons)	Dec. 16	853,000	751,000	854,000	618,000
Beehive coke (tons)	Dec. 16	152,600	*141,500	149,100	19,100
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 16	650	554	368	584
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 23	7,032,740	6,985,421	6,507,509	5,993,943
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Dec. 21	174	150	146	196
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 19	4.131c	4.131c	3.837c	3.835c
Pig iron (per gross ton)	Dec. 19	$52.69	$52.69	$49.69	$45.88
Scrap steel (per gross ton)	Dec. 19	$45.13	$45.03	$40.75	$26.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 20	24.200c	24.200c	24.200c	18.200c
Export refinery at	Dec. 20	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Dec. 20	154.000c	139.000c	136.500c	78.250c
Lead (New York) at	Dec. 20	17.000c	17.000c	17.000c	12.000c
Lead (St. Louis) at	Dec. 20	16.800c	16.800c	16.800c	11.800c
Zinc (East St. Louis) at	Dec. 20	17.500c	17.500c	17.500c	9.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Dec. 26	101.31	101.32	101.54	104.50
Average corporate	Dec. 26	115.63	115.43	115.63	116.02
Aaa	Dec. 26	119.82	119.61	119.82	121.46
Aa	Dec. 26	118.80	118.60	118.80	119.82
A	Dec. 26	115.04	114.85	114.85	115.63
Baa	Dec. 26	109.60	109.24	109.24	107.80
Railroad Group	Dec. 26	112.19	111.81	111.81	110.88
Public Utilities Group	Dec. 26	115.82	115.82	115.80	117.20
Industrials Group	Dec. 26	119.00	119.00	119.00	120.02
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Dec. 26	2.40	2.40	2.39	2.17
Average corporate	Dec. 26	2.87	2.88	2.87	2.85
Aaa	Dec. 26	2.66	2.67	2.66	2.58
Aa	Dec. 26	2.71	2.72	2.71	2.66
A	Dec. 26	2.90	2.91	2.91	2.87
Baa	Dec. 26	3.19	3.21	3.21	3.29
Railroad Group	Dec. 26	3.05	3.07	3.07	3.12
Public Utilities Group	Dec. 26	2.86	2.86	2.86	2.79
Industrials Group	Dec. 26	2.70	2.70	2.70	2.65
MOODY'S COMMODITY INDEX	Dec. 26	511.6	505.2	476.9	347.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 16	204,724	243,978	228,399	167,383
Production (tons)	Dec. 16	239,164	243,297	237,895	204,204
Percentage of activity	Dec. 16	105	106	103	92
Unfilled orders (tons) at	Dec. 16	681,676	721,122	723,350	377,366
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Dec. 22	146.5	145.1	139.2	124.6
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	Dec. 9	34,021	35,209	28,586	25,561
Number of shares—Customers' total sales	Dec. 9	1,018,326	1,076,459	850,965	776,625
Dollar value	Dec. 9	$41,167,123	$44,167,628	$37,324,115	$30,688,357
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Dec. 9	31,742	34,892	23,798	31,856
Customers' short sales	Dec. 9	319	311	377	187
Customers' other sales	Dec. 9	31,423	34,581	23,421	31,669
Number of shares—Customers' total sales	Dec. 9	945,517	1,062,907	700,913	897,933
Customers' short sales	Dec. 9	11,716	12,667	14,279	6,987
Customers' other sales	Dec. 9	933,801	1,050,240	686,634	890,946
Dollar value	Dec. 9	$36,398,654	$42,311,304	$25,626,727	$30,473,267
Round-lot sales by dealers—					
Number of shares—Total sales	Dec. 9	291,120	405,170	199,740	350,080
Short sales	Dec. 9	------	------	------	------
Other sales	Dec. 9	291,120	405,170	199,740	350,080
Round-lot purchases by dealers—					
Number of shares	Dec. 9	396,690	354,780	351,210	228,910
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Dec. 19	174.7	*173.6	171.2	151.2
Farm products	Dec. 19	187.7	186.5	184.9	155.3
Grains	Dec. 19	184.7	179.2	171.5	160.9
Livestock	Dec. 19	231.3	226.0	219.8	187.9
Foods	Dec. 19	180.2	180.5	177.5	155.1
Meats	Dec. 19	253.1	252.3	240.6	205.3
All commodities other than farm and foods	Dec. 19	165.4	*164.5	162.4	145.6
Textile products	Dec. 19	169.3	*169.3	166.6	138.3
Fuel and lighting materials	Dec. 19	136.0	134.9	135.4	130.7
Metals and metal products	Dec. 19	186.2	185.1	180.4	168.4
Building Materials	Dec. 19	221.8	221.0	218.1	190.6
Chemical and allied products	Dec. 19	138.5	138.3	135.8	115.0

*Revised figure. ‡Includes 535,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION — For Month of October:			
Total gas (M therms)	3,139,986	2,757,951	2,640,278
Natural gas sales (M therms)	2,905,553	2,549,485	2,394,178
Manufactured gas sales (M therms)	141,673	126,949	162,719
Mixed gas sales (M therms)	92,760	81,517	83,381
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of Nov. 30:			
Imports	$233,972,000	$242,687,000	$172,619,000
Exports	88,356,000	34,972,000	43,998,000
Domestic shipments	10,225,000	10,013,000	8,391,000
Domestic warehouse credits	19,060,000	18,585,000	16,547,000
Dollar exchange	2,281,000	1,977,000	------
Based on goods stored and shipped between foreign countries	29,483,000	25,102,000	9,131,000
Total	$383,377,000	$383,336,000	$250,686,000
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of October:			
Manufacturing number	150	147	181
Wholesale number	63	69	109
Retail number	339	314	364
Construction number	91	75	90
Commercial service number	64	43	58
Total number	707	648	802
Manufacturing liabilities	$5,949,000	$5,855,000	$11,897,000
Wholesale liabilities	1,598,000	1,871,000	2,927,000
Retail liabilities	4,683,000	4,775,000	5,833,000
Construction liabilities	2,410,000	1,303,000	1,989,000
Commercial service liabilities	2,009,000	1,450,000	1,248,000
Total liabilities	$16,649,000	$15,254,000	$23,894,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of Nov. 30 (000's omitted)	$325,000	$312,000	$278,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of November	306.4	*321.0	276.3
FAIRCHILD PUBLICATION RETAIL PRICE INDEX — 1935-39 = 100 (COPYRIGHTED AS OF DEC. 1):			
Composite index	143.5	142.6	78.8
Piece goods	134.6	133.2	79.4
Men's apparel	141.4	140.8	78.8
Women's apparel	134.0	133.0	80.7
Infant and children's wear	133.7	132.7	79.0
Home furnishings	156.3	155.4	76.8
Piece goods—			
Rayon and silks	114.7	114.4	88.9
Woolens	147.6	147.0	82.0
Cotton wash goods	155.2	152.5	63.7
Domestics—			
Sheets	186.9	185.2	66.1
Blankets and comfortables	155.6	152.8	70.6
Women's apparel—			
Hosiery	106.1	105.4	77.3
Aprons and housedresses	143.2	143.0	71.9
Corsets and brassieres	137.9	135.0	90.4
Furs	141.8	141.8	67.3
Underwear	135.1	134.7	80.8
Shoes	144.8	143.4	90.0
Men's apparel—			
Hosiery	143.0	142.3	74.1
Underwear	157.7	156.3	76.2
Shirts and neckwear	130.7	130.2	85.8
Hats and caps	127.2	127.2	84.4
Clothing including overalls	132.2	131.9	77.8
Shoes	175.7	175.4	82.0
Infants' and children's wear			
Socks	131.6	130.4	74.7
Underwear	122.4	122.2	79.2
Shoes	151.3	149.6	87.3
Furniture	152.1	151.6	72.2
Floor coverings	180.9	180.7	72.4
Radios	122.2	121.2	86.3
Luggage	133.2	132.6	78.8
Electrical household appliances	146.6	144.8	89.7
China	133.8	133.4	87.0
HOUSEHOLD VACUUM CLEANERS — STANDARD SIZE (VACUUM CLEANER MANUFACTURERS ASSN.)—Month of Nov.:			
Factory sales (number of units)	265,310	331,445	253,516
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Nov.	£14,969,000	£44,158,000	£15,799,000
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of September (in billions):			
Total personal income	228.3	*225.4	203.4
Wage and salary receipts, total	147.5	*145.5	131.6
Total employer disbursements	150.3	*148.5	133.8
Commodity producing industries	66.1	*65.6	56.4
Distributive industries	41.8	*41.7	39.4
Service industries	18.9	18.8	17.4
Government	23.5	*22.4	20.6
Less employee contributors for social insurance	2.8	*3.0	2.2
Other labor income	3.4	3.4	3.0
Proprietors' and rented income	44.6	*46.1	39.2
Personal interest income and dividends	21.4	*18.4	17.0
Total transfer payments	11.4	*12.0	12.6
Total nonagricultural income	211.5	*207.3	187.8
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of November:			
Net sales	------	------	------
Net purchases	$10,695,000	$5,848,750	$11,531,250
U. S. GOVT. STATUTORY DEBT LIMITATION As of Nov. 30 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	257,076,619	256,936,999	256,982,000
Guaranteed obligations not owned by the Treasury	23,504	21,761	29,327
Total gross public debt and guaranteed obligations	$257,100,124	$256,958,761	$257,011,328
Deduct—Other outstanding public debt obligations not subject to debt limitation	707,084	711,040	749,490
Grand total outstanding	$256,393,040	$256,747,720	$256,261,838
Balance face amount of obligations issuable under above authority	18,606,959	18,752,279	18,738,161

*Revised figure.

Continued from page 13

Mortgage Lending in Defense Program

ing exceeded. Modification may come if it appears that present controls will provide more materials and men for the national defense than are required. Until these conditions are determined, there seems little likelihood of an early lifting or important modification of the curbs. On the other hand, if our situation abroad becomes more critical, or if the defense effort is stepped up more rapidly, it is possible that the restrictions on new building may become more severe.

Housing Requirements

In the light of the new building regulations, it is of interest to consider briefly the housing needs of the nation and how they have been and are being met. According to the 1950 census, there are now over 46 million dwelling units in the United States compared to 37.3 million in 1940. This increase of over 8.7 million units [2] is the greatest numerical decade-to-decade increase in the country's history. Understandably, the greatest relative increase occurred in the areas of relatively greatest increase in population. This is shown for the decade of the 1940s by areas, as follows:

Area	Increase in Housing Units
West	44.7%
South	25.9%
North Central	18.9%
North East	17.3%

During this period, while population increased 14.3%, the number of dwelling units increased 23.6%. Hence the number of persons per dwelling unit decreased from 3.53 in 1940 to 3.26 in 1950.

It is also encouraging to know that more than half of all urban families own their own homes.

The 850,000 residential housing units annually, which the new regulations are designed to permit, is a figure which has been estimated as more than meeting the ordinary requirements of new family formations and normal housing obsolescence. When this fact is considered in the light of our present relatively favorable housing situation, and the requirements for defense, the proposed goal of 850,000 housing units seems quite adequate.

Bank Mortgage Lending

Despite the controls, with the high volume of mortgage loans already in their portfolios, there is reason to believe that most bank mortgage lenders will be able to maintain a satisfactory volume of mortgage loans in 1951. As a matter of fact, the controls favor the more conservative lenders who have always advocated larger down payments. The controls also favor the conventional mortgage since both FHA and conventional loan restrictions call for the same percentage of down payments, but it is easier to arrange a conventional loan. Unquestionably, the volume of VA loans will be reduced because of the required down payments, although the controls should not have a material influence on lenders who have insisted on substantial down payments.

Spot checks indicate that lenders who have offered the most liberal terms available through FHA and VA are feeling acutely the effects of the new controls, whereas conservative financing institutions claim that their lending has not yet been affected materially.

In any event, the rules are changed, and we've got to adjust our lending to the new rules. The restraints under real estate credit controls of Regulation X, as well as the consumer credit controls of Regulation W, are deflationary in character and as such are a welcome relief from the prolonged period of inflationary influences which has been foisted upon us by a liberal spending Administration in Washington. Any regulations are objectionable at best, but at this time our economy needs a deflationary program in the nondefense sector. We must take a firm stand outside the needs of the military against all inflationary forces. We must urge that government inflationary programs for civilian purposes which have been originated in recent years be discontinued and that a policy of government economy be substituted. Without this, if we take into consideration the broader aspects of our economy, no controls can be successful. Without this, our efforts for an adequate national defense will be impaired.

It is in the interests of good banking that every support be given to that which is good for our national economy. All business must exercise self-control in these difficult times and not place selfish temporary interests ahead of the general welfare. People respect courage, and we as bankers and leaders in our communities must stand four-square for what we believe to be right against any compromise with the safety of private enterprise or with the security of our people.

Also, in this period, it is just as important as at other times that banks be prepared to do their share of financing the amount of construction desired in our economy. In this connection, we must give earnest attention to the relationship of savings funds to mortgage loans. On June 30, there were in the banks of the country $57.2 billion of savings deposits; $19.7 billion of these savings funds, or 32%, were invested in mortgages. Many banks actively engaged in the savings and mortgage business seek to approach a mortgage portfolio that is 50% of time deposits. Other banks feel that 30%, or even less, is an appropriate ratio for a bank of mixed deposits. Since some banks have reached either their statutory or self-imposed limits, we must not overlook the decline in savings deposits which has taken place in recent months. Many banks, therefore, need to redouble their promotion of savings in order to have sufficient funds to take care of legitimate mortgage requirements. Bankers at this time should especially emphasize savings, as a sound savings program on a broad scale is one of the needs of the nation in combating inflation.

Those banks that have adequate funds but that hesitate to promote the mortgage business at this time on a basis of national policy might consider that while the government wishes to hold residential construction to 850,000 units, it appears at this time not to want to curb the building industry below that figure. Hence it would seem to be a proper policy, unless or until the rules are changed, to make mortgage loans to those who really need more adequate housing or in those areas where there is housing shortage, so long as the loans are eligible under the credit controls.

Conservative Lending Rules

A word of caution might be appropriate. Value of real estate for loan purposes under Regulation X is cost or sales price. Bankers usually have relied on their own appraisals, and recently conservative appraisals have run below cost or sales prices. We must not let the new controls foster less conservative appraisals. We should see to it that on new construction no valuation is given to shelter premiums, unusual builders' profits, or excessive prices paid for materials in a short market. With no new limitations on conventional loans on buildings started before Aug. 3, 1950, financing institutions may be inclined to reach for mortgages on presently built units. We should adhere to conservative appraisals in valuing existing structures.

It seems superfluous to reiterate, but we, as bankers, should always keep in mind other firmly established sound mortgage lending policies. All loans should be amortized. Loans should be diversified, with the majority in residential properties. Large loans and loans on special purpose buildings should generally be avoided. Loans should be geographically diversified within the area or areas where the bank makes mortgage loans.

Items of Current Mortgage Interest

There are a number of items not pertaining to the regulations which are of current interest to many bankers interested in the mortgage field that may be appropriately discussed here.

Here is one that may become important. A belief has been expressed by some mortgage experts that the continued fixed rate of interest which prevails on both veterans' and FHA loans does not permit a flexibility that would always assure a smooth functioning of the financing of home construction. Upon the elimination of 100% guaranteed veterans' second mortgage loans — under Section 505(a) — several large life insurance companies entered the market for veterans' first mortgage loans (under Section 501) in large volume. This has been of material support to the established 4% rate. If these companies should desert the market, a period of difficulty in financing veterans' loans may occur. It seems, therefore, most desirable that the Veterans' Administration and FHA should be prepared to meet a lack of demand for such loans at the presently prescribed low returns by permitting flexible interest rates.

Again, although in the past the ABA has taken a dim view of "open-end mortgages," we have been revising our attitude somewhat. This type of mortgage, as you may know, permits readvances of funds to the borrower for improvements to the extent that the balance plus the new advance does not exceed the original amount of the mortgage contract. This device is being used increasingly by our competitors. Provided the readvances are made conservatively and within the spirit and letter of both Regulations X and W, we believe the open-end mortgage has merit.

It seems wise also to watch the development of new materials and new building techniques which may accelerate obsolescence as soon as the housing shortage is a thing of the past. For instance, in the last few years there has been technological development in heating. Some of the newer systems may afford so much greater comfort and economy that old systems may become virtually obsolete.

We must also adjust our lending to new ventures in the building field. There is a possibility that builders may develop projects for families of higher income. It is argued that many of the high-salaried can't afford new homes unless they have the benefit of savings which come from project development.

Federal Cooperation

We have been pleased to get very satisfactory reports concerning the type of assistance being given by the Federal Reserve banks and other Federal authorities in helping lenders to operate under the regulations. In New York recently the Savings and Mortgage Division of the American Bankers Association conducted a question-and-answer conference. Top officers of the Federal Reserve, Housing and Home Finance Agency, FHA and VA were there to answer questions. A transcript of this meeting will soon be available to ABA members. Similar meetings have been conducted by representatives of the Federal Reserve Board and others in many cities.

Conclusion

In conclusion, let me say that we as bankers should continue to lead the way in conservative mortgage lending. We should keep abreast of the changing conditions in this type of loaning. We should support the controls invoked by the government to assist in the defense program—not just the letter of the regulations but the spirit as well.

For good or evil, real estate credit controls are with us. They offer a challenge to mortgage lenders to prove that a constructive job can be done in the field of home financing without the props of excessively liberal Federal aid. But it is clear that controls alone will not cope with the basic causes of inflation, and that the regimentation of our economy which controls imply will not be helpful to the morale of the people.

Controls must be supplemented by sound government fiscal policies. All nonessential government spending must be curtailed, and a program of taxation on a broad base devised which will reduce the need of extensive government borrowing. People must be encouraged to conserve whatever resources they may have or may acquire, and to release those resources whenever possible to increase productivity consistent with the military needs of the nation.

If the emergency, which makes credit controls necessary, is of short duration, concern over the effects of public regimentation is not of serious importance. But if long required, their effects could have damaging influences. Incentives are lowered, and black markets come into being. The worthy objectives, which were the goals, become endangered of fulfilment.

In the savings and mortgage field, the course of bankers is clear. We must meet the challenge of defeating inflationary forces which would undermine our national economy at a time when our full strength as a nation is required to the utmost. We must cooperate in supplying the needs of the people with mortgage accommodation within the framework of established national policies.

[2] Urban and rural non-farm residential units (the term usually used in describing building starts) increased in the decade $5.9 million. Dwelling units include a detached house, a tenement, flat, apartment, living quarters for a watchman or superintendent, a tourist cabin, trailer, railroad car, boat, tent, etc., but not hotels, missions, military facilities, or homes for the aged.

Continued from page 10

Government War Damage Insurance

fore implies rejection of an ordinary insurance method or must concede the use of rather flexible price ceilings.

Compensation for war damage is not a direct aid in prosecuting a war, since it is basically a means of doing equity among individuals. Indirectly, this may be a significant factor in the war effort, since it affects the morale of the people. The morale of the operators of productive property is essential to the industrial effort upon which modern wars have hinged. This raises a question as to the advisability of putting a compensation program upon a voluntary insurance basis, since those who choose not to insure, those who insure for too little, those who make irretrievable errors in their applications and those who fail to insure as a result of naivete may have their morale and effectiveness considerably diminished by war loss of their property. Another consideration is the amount of possible damage, which could be enough to wreck the private insurance industry if there should be a miscalculation of rates by the industry. On the other side of the picture is the desire of the industry to avoid giving government agencies so large a role in covering casualty risks as to lend comfort to those who would like to nationalize the insurance industry. In view of the peculiar character of the risk involved and the possibility of a cooperative effort between the government and the industry, this fear should not be permitted to dictate the type of program adopted. In any event careful consideration must be given to the problem of the type of protection to be given to productive property.

The same qualifications do not affect non-productive property, but there are some qualifications. If damage is extremely high it is conceivable that the burden of taxation to provide compensation to property owners would reduce general morale more than lack of complete compensation would do. It is therefore appropriate to consider limitations on the protection offered. If limitations are adopted where a governmental compensation is the basic policy it would be desirable to provide excess coverage on a regular insurance basis. Furthermore, certain classes of non-business property may properly be excluded from a public reimbursement program. Such property as museums, public parks and theatres owned by non-profit institutions may be excluded as too remote from the war effort and from equity to any individual as to justify a claim on the public purse. Property of sentimental or associative value only should of course be excluded. In matters of this kind the experience of the industry may be drawn upon to advantage.

This paper has addressed itself primarily to the narrow problem of financial protection of non-productive property from war damage risks. Its conclusion is that the method of the War Damage Corporation involved a substantial waste of effort and inequity to property owners. This conclusion is not clear for productive property. The compensation for war-imposed damage in general involves many more questions of policy which must be considered before a conflict if the best results are to follow. Prominent among them is the question of compensation for personal injury. The fact that our procedure was defective in one area of financial protection in World War II emphasizes the need for a comprehensive study of the problem.

Continued from page 14

News About Banks and Bankers

3rd Naval District of the U. S. Navy department.

* * *

The directors of the **State Street Trust Company, Boston,** on Dec. 18 declared a special year-end dividend of 50 cents a share, payable Dec. 27, and also a quarterly dividend of 50 cents a share, payable Jan. 2, both to stockholders of record as of the close of business Dec. 20, 1950.

* * *

Election of R. G. Rincliffe and Walter J. Beadle to the board of directors of **The Philadelphia National Bank of Philadelphia, Pa.,** has been announced by Frederic A. Potts, President. Mr. Rincliffe, Executive Vice-President and director of the Philadelphia Electric Company, fills the vacancy on the bank's board of the late Sydney E. Hutchinson. Mr. Beadle, Vice-President and member of the Executive Committee of E. L. duPont deNemours, takes the place of William L. Batt who resigned to go to London as the Chief of the Economic Cooperation Administration's Mission to Great Britain. R. G. Rincliffe joined the Philadelphia Electric in 1923; in 1945 was made Vice-President in charge of electrical operations and in February of this year was elected Executive Vice-President and director.

* * *

Sidney B. Congdon, President of **The National City Bank of Cleveland,** has been reappointed as member of the Federal Advisory Council from the Fourth (Cleveland) Federal Reserve District for the year 1950, it was announced on Dec. 15 by George C. Brainard, Chairman of the board of directors of the **Federal Reserve Bank of Cleveland.** Mr. Congdon has been a member of the Federal Advisory Council since Jan. 1, 1949. Besides being a director of a number of companies, he is a past President of the Association of Reserve City Bankers.

The directors of the **First National Bank in St. Louis** on Dec. 12 declared a dividend of $1.10 per share, 60 cents of which is an extra dividend payable Dec. 20 to stockholders of record Dec. 13 and 50 cents payable Feb. 28, 1951 to stockholders of record Feb. 20.

William A. McDonnell, President of the First National Bank in St. Louis, has been reelected Chairman of the board of the St. Louis Chamber of Commerce.

* * *

Wiley R. Reynolds, Jr., President of **The First National Bank in Palm Beach, Fla.,** has announced that the directors, at their monthly meeting held Dec. 14, elected Charles W. Snyder as Assistant Cashier. Mr. Snyder has been associated with the bank since 1949 and was formerly an Assistant Cashier of the Old National Bank, Martinsville, W. Va., prior to locating in Palm Beach in 1947. Mr. Reynolds, Jr., also stated that the semiannual dividend of 75 cents ($75,000) per share was declared, payable Dec. 31 to stockholders of record Dec. 22. With this cash disbursement the total dividends paid during 1950 will amount to $150,000. Deposits of the bank are $36,974,000, an increase of 16% over deposits of last year.

* * *

The opening of the **Bank of Hollywood, Hollywood, Fla.,** first new banking institution established in South Broward County, Fla., in 25 years is announced. The capital and surplus of the bank, according to the provisions of the approved charter, is $400,000—$320,000 being designated as capital, $50,000 surplus and $80,000 undivided profits. The bank has been approved by the Federal Deposit Insurance Corporation. Officers of the bank are: Robert Pentland, Jr., Chairman of the board; Ben Tobin, President; Richard S. Wright, First Vice-President; John A. Elbon, Second Vice-President, and William A. Setchel, Cashier.

* * *

Three San Francisco bankers, John S. Curran, Victor Klinker and Louis Sutter, veteran Vice-Presidents of the **Anglo California National Bank of San Francisco,** will retire from active service at the end of the year under the bank's retirement plan, it has been announced by Allard A. Calkins, President. Mr. Curran entered the banking field in San Francisco in 1907 and has been associated with the Anglo Bank since 1917, starting in the capacity of Assistant Cashier. For many years he has been in charge of the foreign department and of the exchange and collection operations of the bank. In 1939 he was placed also in charge of the banks and bankers' department, embracing correspondent bank relations. He is a past President of the California Bankers Association and of the San Francisco Chapter, American Institute of Banking, an executive council member of the American Bankers Association, and a member of the Association of Reserve City Bankers and of Bankers for Foreign Trade. Mr. Klinker began his banking career as a messenger for the London, Paris & American Bank, Ltd., a predecessor of the present Anglo Bank, whose employ he entered in 1906; he was appointed an Assistant Cashier in 1917, and in 1924 a Vice-President. Mr. Klinker is a past President of the San Francisco Chapter, American Institute of Banking. Mr. Sutter, in point of service the oldest member of the bank staff, has been connected with Anglo Bank and predecessor institutions since 1902; in 1915 he was appointed an Assistant Cashier and was made Manager of the branch bank operated by Anglo at the Panama-Pacific International Exposition. In 1916 he was appointed Cashier and in 1919 Vice-President, Cashier and Treasurer of the old Anglo-California Trust Company. The duties of the three retiring Vice-Presidents will be assumed by other officers on the first of the year.

* * *

The First National Bank of San Jose, Cal., increased its capital, effective Dec. 14, from $850,000 to $1,000,000 by the sales of $150,000 of new stock.

* * *

A. A. Lamm, Vice-President of **California Bank of Los Angeles, Cal.,** completed his 40th year of service with the bank on Dec. 10. A graduate of Santa Clara University, Mr. Lamm joined the bank's staff in December, 1910, and was elected Assistant Vice-President in 1923. He is supervisor of the bank's credit department and was assigned to that department on its organization in 1946.

* * *

Purchase of **The Whittier National Trust and Savings Bank of Whittier, Cal.,** by **California Bank of Los Angeles,** was completed on Dec. 16, according to Frank L. King, President of California Bank. As part of the sale and purchase agreement, **California Trust Company of Los Angeles,** wholly owned affiliate of California Bank, acquired the Whittier bank's trust business. To be called the Whittier Office of California Bank, the bank's official staff consists of Milton A. MacLean, Vice-President and Manager; H. C. Dolde, Vice-President; Chris C. Morgan, Assistant Cashier, and Hoyt Mitchell, Assistant Trust Officer. Resources of The Whittier National Trust and Savings Bank total approximately $16 million and it has been under the same management since its founding in 1901.

* * *

Intention on the part of directors and management of **Bank of America National Trust & Savings Association of San Francisco** to pay a substantially increased rate of savings interest next year was indicated on Dec. 22 by L. M. Giannini, President. Under the new schedule it is contemplated that a rate of 2% per annum, compounded semi-annually, will be earned by savings deposits in all individual pass-book accounts in the bank starting Jan. 1, compared with the rate of 1½% which applied during the past years.

* * *

The increase in the capital of the **National Bank of Commerce of Seattle, Wash.,** from $3,000,000 to $4,000,000, by a stock dividend of $1,000,000, became effective Dec. 12. The plans to increase the capital were noted in our issue of Oct. 26, page 1604.

John A. McDougald has been elected a director of **The Canadian Bank of Commerce,** head office, **Toronto.** Mr. McDougald is Chairman of the Executive Committee and Vice-President of Crown Trust Co., Chairman of the Executive Committee and a director of Dominion Stores Ltd., a director of Massey-Harris Co., St. Lawrence Corp., Hollinger Consolidated Gold Mines and a number of other Canadian companies.

John A. McDougald

NSTA Notes

GEORGIA SECURITY DEALERS ASSOCIATION

Alex. Yearley, IV

James S. Budd, Jr.

Jack C. Morris

At the annual meeting of the Georgia Security Dealers Association at the Capital City Club, Atlanta, the following officers were elected for the calendar year 1951:

President—Alexander Yearley, IV, The Robinson-Humphrey Company, Atlanta.

Vice-President—James S. Budd, Jr., The Citizens and Southern National Bank, Atlanta.

Secretary-Treasurer—Jack Morris, Norris and Hirshberg, Inc., Atlanta.

To serve on the Executive Committee: J. Frazer Durrett, J. H. Hilsman & Company, Atlanta; Lloyd B. Hatcher, Trust Company of Georgia, Atlanta; J. Hollis Austin, J. W. Tindall & Company, Atlanta; Wayne Martin, Milhous, Martin & Company, Atlanta.

DALLAS BOND CLUB

The Dallas Bond Club is reminding members to reserve May 30, 1951 for the Annual Memorial Day Outing (location and details to be announced later) and Oct. 12, 1951, for the Annual Columbus Day Outing (location and details also to be announced later).

Continued from page 7

Stock Market and World War III

well. Shame on their descendants if we shirk from doing the same with our lives!

What is the enemy's over-all strategy? One can read it in the voluminous Red literature as plainly as the Nazi's strategy was outlined in "Mein Kampf." It is to strangle their weaker neighbors, as they have already done, and to bleed white their strong adversaries until sufficiently weakened to give them the *coup de grace.* And some of us are falling for it, by running for our bomb shelters — figuratively speaking—before a single bomb is dropped. Many more will follow suit if we do not recognize the issue and meet it squarely and bravely.

If the present crisis progresses into a shooting war between the major antagonists, it will be a long war, some military opinion to the contrary notwithstanding. Does one suppose if an atomic bomb, or a hundred bombs, are dropped on Russia, it will bring a plea for peace? Little do we know the Russians if we believe that. They are a brave people, a tough people hardened to deprivations unknown to us, and their country is so vast, it would be like throwing pebbles into a lake to raise the water level.

No, we can only win such a war by convincing the Russians that they cannot defeat us. Our country can only be defeated by defeating ourselves. We will defeat ourselves when we abandon our free enterprise heritage and try to outdo the Russians in regimentation of our people and our economy, a mode of life for which we are so ill suited.

What has all this to do with our stock market? Plenty. To convince Russia that we cannot be defeated we must show her that our free enterprise system can function under the strain of all out defense; yes, under the greater stress of war itself. Modern wars are fought in the factories as much as on the battle front. One may well ask, where will be the battle front of World War III if not in every city and town and farm across America? We must produce at an expanding pace, we must transport and exchange goods as freely as in peace time no matter what the handicaps. If and when factories are destroyed, we must rebuild them or build new ones. Money must be found to do this in war as in peace. Money must be found to pay for an expanding war economy. Our securities markets are the heart and arteries through which this life blood must flow.

Why do we so glibly say the job's too big for our free enterprise system; it can't be done? That the government must do everything? Once enough of us get so minded, Russia will have won the war, for we will have replaced our economy with her own pattern. That is all she has asked her satellites to do, plus taking orders from Moscow in the rearrangement of their economies.

Some don't like the expression: "Business as usual." But that is what our pioneer forefathers did in the face of danger. And that is what we must do if we are to preserve our liberties. Once we surrender them to a central authority, we will never regain them. Business as usual in a war economy means for those not in military service or in direct war work, that each carries on his wanted task, only with greater tenacity, effort and efficiency. Let our production reach the $300 billion goal and $50 billion for defense won't pinch us any worse than a tenth of that sum when our production was a tenth as large.

Of course as World War III drags on, there will be a measure of inflation. There always is and always will be accompanying wars. But relatively few people in this country are worse off today in 1950 than they were 10 years ago before World War II. The only ones who are worse off are those who "hid" their talents in the ground" to keep them the more safely. Whoever kept his money at work wisely and profitably has in fact improved his lot and doubled his talents.

So as World War III intensifies, as it well may, let us remember each to do his part. If that means keeping one's money at work in industry and commerce through investments in the stock market, or otherwise, let him do just that and in the spirit of a famous Admiral say, "Damn the torpedoes; go ahead."

War is not pleasant for those in the thick of it, or those behind the lines. But there are some things still worse, among which are, the loss of one's freedom to think, to speak, to do as one pleases with one's own life; and above all, the loss of one's self-respect through defeatism and failure to do one's part.

Opens Office

BALTIMORE, Md.—Evanna B. Ridgely is engaging in a securities business from offices at 4027 Deepwood Road.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Aeolian-Skinner Organ Co., Inc., Boston, Mass.
Dec. 11 (letter of notification) 34,099 shares of 4% cumulative preferred stock to be offered to stockholders only. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—215 Sidney St., Boston, Mass.

Aeronca Mfg. Corp., Middletown, Ohio
Oct. 2 (letter of notification) $50,000 of 4% convertible promissory notes and 50,000 shares of common stock (latter to be reserved for conversion of notes on basis of 1 share for each $1 unit of notes). **Price**—$2.12½ per $1 unit of notes. **Underwriter**—Greene & Ladd, Dayton, O. **Proceeds**—For working capital. **Office**—Municipal Airport, Middletown, O.

Alabama Life & Casualty Insurance Co.
Dec. 11 (letter of notification) 10,000 shares of capital stock. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office** — 718-720 Empire Bldg., Birmingham, Ala.

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.

Ampal-American Palestine Trading Corp., N. Y.
Dec. 8 filed $5,000,000 of 15-year 4% sinking fund bonds, series A, due 1966. **Underwriter**—None. **Proceeds**—To develop and expand agricultural, industrial and commercial enterprises in Israel.

• **Argo Oil Corp., Denver, Colo.**
Dec. 18 (letter of notification) 5,750 shares of capital stock (par $5). **Price**—At the market (approximately $17.37½ per share). **Underwriter**—Carl H. Pforzheimer & Co., New York. **Proceeds**—To A. E. Johnson, President, the selling stockholder. **Office**—1100 First National Bank Building, Denver, Colo.

• **Associated Advisers Fund, Inc., New York**
Dec. 18 filed 50,000 shares of capital stock (par $1). **Price**—First at $20.20 per share, then at market. **Underwriter**—Associated Advisers Management Corp., New York. **Proceeds**—For investment.

Atlantic Oil Corp., Tulsa, Okla.
Nov. 13 (letter of notification) 48,046 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—Continental Corp., Tulsa, Okla. **Proceeds**—To purchase oil and gas properties.

Automatic Baseball Equipment Corp.
Dec. 7 (letter of notification) 300,000 shares of common stock (par 25 cents), of which 275,000 shares are to be sold for the account of the company and 25,000 shares for the account of the underwriter. **Price**—$1 per share. **Underwriter**—Mitchell-Hoffman & Co., Inc., Baltimore, Md. **Proceeds**—To promote sale of Foster pitching arms with automatic feeds for use in baseball batting ranges. **Office**—2439 N. Charles St., Baltimore 18, Md.

• **Axelson Manufacturing Co., Los Angeles, Calif.**
Dec. 13 (letter of notification) 12,000 shares of common stock (par $3) to be offered to employees. **Price**—$8 per share. **Proceeds**—To partially reimburse company for shares acquired on the open market. **Office**—6160 South Boyle Avenue, Los Angeles 58, Calif.

• **Belvedere Country Club, Inc., Hot Springs, Ark.**
Dec. 15 (letter of notification) $160,000 of first mortgage 4½% serial convertible bonds, to be sold in units of $500 and $1,000 each. **Underwriter**—W. R. Stephens Investment Co., Inc., Little Rock, Ark. **Proceeds**—To retire first mortgage debt and for corporate purposes.

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.

• **Boston Herald-Traveler Corp., Boston, Mass.**
Dec. 14 (letter of notification) 1,300 shares of common stock (no par). **Price**—At market (approximately $14 per share). **Underwriter** — Paine, Webber, Jackson & Curtis, Boston, Mass. **Proceeds**—To selling stockholder.

Capital Bakers, Inc., Harrisburg, Pa.
Dec. 18 (letter of notification) $300,000 of general debenture 4% bonds, of which $30,000 are to be issued each year to employees. **Price**—In units of $50 each. **Underwriter**—None. **Proceeds**—To retire outstanding debt. **Office**—58 North 13th St., Harrisburg, Pa.

• **Capital Plastics, Inc. (1/5)**
Dec. 26 (letter of notification) 131,025 shares of capital stock to be offered to common stockholders of Rochester Button Co. of record Dec. 18 on a share-for-share basis. **Price**—At par (1 per share). **Underwriter**—None. **Proceeds**—To pay off five-year note to Rochester Button Co. and for working capital and general corporate purposes. **Office**—300 State Street, Rochester, N. Y.

Central Illinois Public Service Corp.
Nov. 13 filed 267,600 shares of common stock (par $10) to be offered initially to common stockholders at rate of one share for each 10 shares held. **Price**—To be supplied by amendment. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—For construction program. **Offering**—Tentatively expected mid-January.

Chicago Bridge & Iron Co., Chicago, Ill.
Dec. 12 (letter of notification) 8,746 shares of common stock (par $20). **Price**—$34.30 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1305 West 105th St., Chicago 43, Ill.

Circle Wire & Cable Corp.
Nov. 27 filed 200,000 shares of common stock (par $5). **Price**—$15 per share. **Underwriter**—Van Alstyne Noel Corp., New York. **Proceeds**—To four selling stockholders. **Offering**—Expected after Jan. 1, 1951.

• **City Stores Co., Philadelphia, Pa.**
Dec. 22 filed 60,000 shares of convertible preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriters**—Lehman Brothers, New York and A. G. Becker & Co., Chicago. **Proceeds**—From sale of stock, together with funds to be received from a long-term loan of $15,000,000, to be used to refund outstanding obligations and to provide funds for additional working capital and other corporate purposes. Expected second or third week of January.

Clark Controller Co. (1/16)
Dec. 20 filed 50,000 shares of convertible preferred stock (par $30). **Price**—To be filed by amendment. **Underwriters**—Goldman, Sachs & Co., New York, and Fulton, Reid & Co., Cleveland, O. **Proceeds**—To retire notes and for purchase and remodeling of factory building. **Business**—Manufacturer of industrial electric controls.

Colonial Acceptance Corp.
Nov. 20 filed $1,500,000 junior subordinated sinking fund debentures due Dec. 1, 1958, and 30,000 shares of common stock (par $1), to be offered in units of $500 of debentures and 10 shares of stock. **Price**—$500 per unit. **Underwriters**—Straus & Blosser; and Sills, Fairman & Harris; both of Chicago, Ill. **Proceeds**—To reduce bank loans.

Commonwealth Edison Co. (1/9)
Dec. 13 filed $49,000,000 of sinking fund debentures due April 1, 2001. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Morgan Stanley & Co. **Proceeds**—Toward cost of $370,000,000 four-year construction program. **Bids**—Expected to be received up to 11:30 a.m. on Jan. 9.

Community Finance Corp., N. Y. City
Nov. 15 (letter of notification) 20,000 shares of common stock (no par) and 4,000 shares of 7% non-cumulative preferred stock (par $10). **Price** — $12.50 per share. **Underwriter** — None. **Proceeds** — For working capital. Office—2340 Eighth Ave., New York 27, N. Y.

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. **Price**—At 100 issuable in multiples of 100. Statement effective Dec. 7.

Continental Engineering Co., Carrizozo, N. M.
Nov. 29 (letter of notification) 490,000 shares of common stock. **Price**—At par (50 cents per share). **Underwriter**—None. **Proceeds**—For working capital. **Address**—P. O. Box 56, Carrizozo, N. M.

Cosmopolitan Hotel Co. of Dallas, Tex.
Dec. 13 filed $1,500,000 of 2% debentures due 1965. **Price**—At face value. **Underwriter**—None. **Proceeds**—To purchase debentures of Statler Dallas Co., Inc., which company will construct Dallas hotel. **Business**—A non-profit corporation under sponsorship of Dallas Chamber of Commerce to secure construction of hotel.

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.

Daily Reporter, Inc., Tuscon, Ariz.
Nov. 22 (letter of notification) 1,500 shares of preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For equipment and operating expenses.

Dansker Realty & Securities Corp., N. Y. City
Nov. 20 filed 300,000 shares of 6% cumulative convertible preferred stock (par $5) and 300,000 shares of class B common stock (par 35 cents) to be offered in units of one preferred and one class B share "on a best-efforts basis." An additional 25,000 shares of each class of stock are to be issued to underwriters as additional compensation for resale to public. There will be reserved for conversion of the preferred stock 1,300,000 shares of class B common stock. **Price**—$6 per unit. **Underwriter**—Dansker Bros. & Co., Inc., New York. **Proceeds** — For working capital. **Offering**—Expected after the first of the year.

Desert Products, Inc., Las Vegas, Nev.
Dec. 8 (letter of notification) 300,000 shares of common capital stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To purchase machinery and equipment.

Douglas & Lomason Co., Detroit, Mich.
Dec. 6 (letter of notification) 6,000 shares of common stock (par $2). **Price**—$14.25 per share. **Underwriter**—None. **Proceeds**—To Thomas S. Hough, the selling stockholder. **Office**—5836 Lincoln, Detroit 8, Mich.

Dow Chemical Co. (1/3/51)
Nov. 10 filed 200,000 shares of common stock (par $15), of which a maximum of 125,000 shares are offered to common stockholders of record Dec. 21, 1950 at rate of 1 share for each 50 shares held, the remaining 75,000 shares to 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**—$57.50 per share. **Underwriter**—None. **Proceeds**—For working captial. **Statement**—Effective Dec. 15.

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.

• **El Paso Electric Co., El Paso, Tex.**
Dec. 19 filed $4,500,000 of first mortgage bonds due Dec. 1, 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; White, Weld & Co., and Shields & Co. (jointly); Equitable Securities Corp. **Proceeds**—To redeem $1,000,000 of 3½% bonds due 1978, to repay bank loans and to reimburse treasury for construction expenses. Expected next month.

Eureka Telephone Co., Corydon, Ind.
Nov. 27 (letter of notification) 1,700 shares of common stock to be offered to company's telephone subscribers. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For cash equity to secure loan allocation by Rural Electrification Administration.

• **Fairmont Foods Co., Omaha, Neb.**
Dec. 14 (letter of notification) 12,000 shares of common stock (no par) to be offered to employees. **Price**—$25 per share. **Proceeds**—For general corporate purposes. **Office**—1202 Jones Street, Omaha, Neb.

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.

Felters Co., Boston, Mass.
Nov. 14 (letter of notification) 1,750 shares of common stock (par $10). **Price** — At market (estimated at not more than $10 per share). **Underwriter** — H. C. Wainwright & Co., Boston, Mass. **Proceeds**—To two selling stockholders. **Office**—210 South St., Boston, Mass.

• **Food Fair Stores, Inc. (1/15-20)**
Dec. 22 filed 80,000 shares of $4 cumulative preferred stock (par $15). **Price**—To be filed by amendment. **Underwriter**—Eastman, Dillon & Co. **Proceeds**—To redeem 37,807 outstanding shares of $2.50 cumulative preferred stock (par $15) at $53 per share.

General Racing Corp., Providence, R. I.
Dec. 6 (letter of notification) 12,000 shares of common stock and 10,000 shares of preferred stock. **Price**—For common, $2 per share and for preferred, $10 per share. **Underwriter**—None. **Proceeds**—For operating stables, buying, selling, trading, etc. in racing horses. **Office**—818 Industrial Trust Building, Providence, R. I.

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. **Financing Postponed**—On Dec. 1 company stated a new financing plan is being prepared and will be submitted to stockholders.

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.

Hammond Lumber Co., San Francisco, Calif.
Nov. 17 (letter of notification) 7,000 shares of capital stock (par $20). **Price**—$42.50 per share. **Underwriter**—None. **Proceeds** — For working capital. **Office** — 417 Montgomery St., San Francisco, Calif.

Hearn Department Stores, Inc., N. Y. City
Nov. 17 filed 40,000 shares of 5% cumulative convertible preferred stock being offered for subscription by com-

Continued on page 36

Continued from page 35

mon stockholders on the basis of one preferred share for each seven shares of common stock held on Dec. 18, 1950; rights to expire Jan. 10. **Price** — At par ($25 per share). **Underwriter**—None. **Proceeds** — From this offering, plus a $2,000,000 term bank loan, to be used to repay bank loans, for improvements to properties and for working capital. **Statement**—Effective Dec. 15.

Holeproof Hosiery Co., Milwaukee, Wis.
Dec. 7 (letter of notification) 20,000 shares of common stock (par $5). **Price**—$14 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—404 West Fowler St., Milwaukee, Wis.

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.

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.

● **Insulite Corp., Phoenix, Ariz.**
Dec. 19 (letter of notification) 113,840 shares of capital stock (par $1). **Price** — $1.25 per share. **Underwriter** — None. **Proceeds**—For corporate purposes. **Office**—2243 North 16th Street, Phoenix, Ariz.

● **Investors Mutual, Inc., Minneapolis, Minn.**
Dec. 22 filed 4,000,000 shares of capital stock (par $1). **Price**—At asset value, plus loading charge. **Underwriter**—Investors Diversified Services, Inc., Minneapolis, Minn. **Business**—Mutual investment company.

Kaye-Halbert Corp.
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.

● **Lake Superior Refining Co., Superior, Wis.**
Dec. 13 (letter of notification) 2,100 shares of common stock. **Price** — At par ($100 per share). **Underwriter** — None. **Proceeds**—To lease refining facilities and for working capital. **Office**—921 Tower Building, Superior, Wisconsin.

Lincoln Service Corp., Washington, D. C.
Dec. 12 filed 80,000 shares of $1.50 cumulative preferred stock (no par—with stated value of $22.50 per share), with warrants attached entitling the holder to purchase common stock at $12 per share in the ratio of two common shares for each five preferred shares held. Of said 80,000 shares, 46,950 shares are to be offered in exchange for outstanding 7% prior preferred stock (par $50) and 6% participating preferred stock (par $25) on the following basis: (1) For each 7% prior preferred share two new preferred shares; and (2) For each 6% participating preferred share one share of new preferred stock—plus in each case accrued and unpaid dividends and redemption premiums, in cash. The remaining 33,050 shares are to be publicly offered. **Price**—$25 per share. **Underwriter**—Johnston, Lemon & Co., Washington, D. C. **Proceeds**—For working capital and to redeem unexchanged old preferred stock.

Lytton's, Henry C. Lytton & Co.
Nov. 17 filed 83,000 shares of common stock (par $1). **Price**—$8 per share. **Underwriter**—Blunt Ellis & Simmons, Chicago, Ill. **Proceeds**—To the executors of the estate of Henry C. Lytton. Statement withdrawn on Dec. 18. Issue placed privately.

Magnolia Lead & Oil Co., Salt Lake City, Utah.
Dec. 6 (letter of notification) 300,000 shares of capital stock. **Price**—At par (10c per share). **Underwriter**—Cromer Brokerage Co., Salt Lake City. **Proceeds**—To develop uranium oxide ore properties. **Office**—328 Atlas Bldg., Salt Lake City.

Mascot Mines, Inc., Kellogg, Ida.
Oct. 27 (letter of notification) 400,000 shares of capital stock. **Price**—37½ cents per share. **Underwriter**—Standard Securities Corp., Spokane, Wash. **Proceeds**—To purchase controlling interest in Pine Creek Lead-Zinc Mining Co., for development costs and working capital.

Mercantile Acceptance Corp. of California
Dec. 4 (letter of notification) 5,000 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.

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Indefinitely postponed.

Midwestern Insurance Co., Oklahoma City, Okla.
Dec. 6 (letter of notification) 1,250 shares of $5 cumulative preferred stock (par $1), redeemable at $100 per share. **Price**—$100 per share **Underwriter**—None. **Proceeds**—For working capital. **Office**—212½ N. W. Fifth St., Oklahoma City, Okla.

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.

NEW ISSUE CALENDAR

January 2, 1951
Rossville Dyestuff Corp. .... Preferred

January 3, 1951
Chicago, Indianapolis & Louisville Ry. Noon (CST) .... Equip. Trust Ctfs.
Dow Chemical Co. .... Common
New York Central RR. Noon (EST) .... Equip. Trust Ctfs.
Wilcox-Gay Corp. .... Common

January 9, 1951
Commonwealth Edison Co., 11:30 a.m. .... Debentures
Missouri Pacific RR. .... Equip. Trust Ctfs.

January 10, 1951
Erie RR. .... Equip. Trust Ctfs.

January 11, 1951
Texas & Pacific Ry. .... Equip. Trust Ctfs.

January 15, 1951
Food Fair Stores, Inc. .... Preferred

January 16, 1951
Clark Controller Co. .... Preferred

January 17, 1951
Emerson Electric Mfg. Co. .... Preferred

January 23, 1951
Southern Natural Gas Co. .... Bonds

February 1, 1951
Nevada-Tungsten Corp. .... Common

February 6, 1951
Carolina Power & Light Co., noon (EST) .... Bonds

● **Moore Drop Forging Co., Springfield, Mass.**
Dec. 15 (letter of notification) not exceeding 10,000 shares of common stock (par $1). **Price**—At market (about $10 per share). **Underwrters**—G. H. Walker & Co., New York, and Blunt Ellis & Simons, Chicago, Ill. **Proceeds**—To two selling stockholders.

Muntz Car Co., Evanston, Ill.
Nov. 29 (letter of notification) 300,000 shares of common stock (no par) to be sold to a group of 20 individuals. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For operating capital, and to complete purchase of tools, dies and inventory from Kurtis-Kraft, Inc. **Office**—1000 Grey Ave., Evanston, Ill.

National Shirt Shops of Delaware, Inc.
Dec. 18 (letter of notification) 8,000 shares of common stock (par $1). **Price**—$12.50 per share. **Underwriter**—Emanuel Deetjen & Co., New York. **Proceeds**—To four selling stockholders.

Nevada-Tungsten Corp., Jersey City, N.J. (2/1)
Dec. 7 (letter of notification) 2,000,000 shares of common stock (par one cent). **Price**—15 cents per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For working capital. **Office**—15 Exchange Place, Jersey City 2, N. J.

● **Northwest Perlite Corp., Portland, Ore.**
Dec. 11 (letter of notification) $40,000 of 6% 10-year debentures and 649 shares of common stock (no par). **Price**—Debentures at principal amount and stock at $75 per share. **Underwriter**—None. **Proceeds**—To purchase plant for processing of perlite ore and for working capital. **Office**—313 Pacific Building, Portland, Ore.

● **Nu-Form Batteries, Inc., Reno, Nev.**
Dec. 18 (letter of notification) 75,000 shares of common stock. **Price** — At par ($1 per share). **Underwriter** — None. **Proceeds**—For corporate purposes. **Office**—206 N. Virginia Street, Reno, Nev.

Otter Tail Power Co., Fergus Falls, Minn.
Dec. 5 (letter of notification) 4,990 shares of common stock (par $5). **Price**—At approximately market (about $18.75 per share). **Underwriters**—Kalman & Co., St. Paul, Minn.; Glore, Forgan & Co., Chicago, Ill.; and W. R. Olson Co., Fergus Falls, Minn. **Proceeds**—To Thomas C. and Cyrus G. Wright, executors of the will of Grace Clark Wright (deceased).

● **Pacific Asbestos-Cement Products Corp., Los Angeles, Calif.**
Dec. 19 (letter of notification) 850 shares of class A (voting) stock and 400 shares of class B (non-voting) stock to be offered to a limited group of individuals. **Price**—$100 per share. **Underwriter**—None. **Proceeds**—For working caiptal. **Address**—C/o John R. Skidmore, Secretary, 3265 Rowena Avenue, Los Angeles, 27, Calif.

Privat-Ear Corp., New York City
Dec. 12 (letter of notification) 112,500 shares of class A stock (par $1) and 112,500 shares of common stock (par 1¢) to be offered in units of one share of class A and one share of common stock. **Price**—$2.05 per unit. **Underwriter**—Aetna Securities Corp., New York. **Proceeds**—To purchase patents and equipment and for working capital. **Office**—2016 Bronxdale Ave., New York 60, N. Y. Expected after the first of the year.

● **Railway & Light Securities Co., Boston, Mass.**
Dec. 22 filed 252,552 shares of common stock (par $10) to be offered to common stockholders on a share-for-share basis. **Price**—To be filed by amendment. **Underwriter**—Company expects to enter into dealer agreements under which subscriptions will be solicited and transactions may be stabilized. **Proceeds**—To redeem $1,000,000 of outstanding collateral trust 3½% bonds, 12% series, and for additional capital investment. **Business**—Closed-end investment company.

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.

● **Resort Airlines, Inc., Pinehurst, N. C.**
Dec. 18 (letter of notification) 5,500,000 shares of common stock to be offered present stockholders on a pro rata basis, with Fiduciary Management, Inc., principal stockholder having the right to purchase 4,628,096 shares. **Price**—At par (10 cents per share). **Underwriter**—None. **Proceeds**—For cancellation of notes, to purchase aircraft and related equipment and to reduce working capital deficit. **Office**—Resort Field, Pinehurst, N. C.

Rossville Dyestuff Corp. (1/2)
Dec. 14 (letter of notification) 1,000 shares of 6% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To pay debt and for capital improvements and working capital. **Office**—Arthur Kill Road, Staten Island 13, N. Y.

Sanitary Products Corp., Taneytown, Md.
Dec. 18 filed 110,000 shares of common stock (par $1), of which 50,000 shares are to be initially offered to stockholders on basis of three shares for each 10 shares held. **Price**—At $6 per share. **Underwriters**—Ward and Co.; Investing Securities, Inc., and James C. Kennedy, Jr., of New York. **Proceeds**—For construction and working capital. **Business**—Manufacture of hygienic products.

Scott Paper Co., Chester, Pa.
Dec. 5 filed 23,529 shares of common stock (no par) to be offered to employees of the company under its "Employees' Stock Purchase Plan for 1951." The company anticipates a maximum of 5,000 memberships in the plan under which any eligible employee may subscribe for an amount up to but not exceeding 10% of his weekly earnings.

● **Segal Lock & Hardware Co., Inc.**
Dec. 22 (letter of notification) not more than 100,000 shares of common stock (par $1), to be issued in payment of debts or guaranties at the rate of not less than one share nor more than a fractional share for each $1 of debt. **Underwriter**—None. **Office**—395 Broadway, New York 13, N. Y.

Shipley Wholesale Drug Co.
Dec. 15 (letter of notification) 2,900 shares of 4% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To retire $250,000 8% preferred stock (par $100) and to retire sales credits. **Office**—4724 Baum Boulevard, Pittsburgh 13, Pa.

● **Silver Knight Development Co., Ltd., Phoenix, Arizona**
Dec. 11 (letter of notification) 100,000 shares of common stock, of which 50,000 shares are to be exchanged for mining lease and 50,000 shares are to be publicly offered. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For operation of Silver Knight Mine at Prescott, Ariz. **Address**—P. O. Box 2656, Phoenix, Ariz.

Skiatron Electronics & Television Corp.
Dec. 15 (letter of notification) 40,000 shares of common stock (par 10¢). **Price**—$3 per share. **Underwriter**—Leslie d'Avigdor, New York. **Proceeds**—To complete "Subscriber-Vision" tests, to purchase equipment and for general overhead.

● **Socony-Vacuum Oil Co., Inc.**
Dec. 22 (letter of notification) not exceeding 5,000 shares of capital stock (par $15) to be sold through the New York Stock Exchange. **Price**—$24.50 per share. **Underwriter** — None. **Proceeds** — To holders of outstanding series A scrip certificates issued on Dec. 10, 1948.

South State Uranium Mines Ltd. (Canada)
Nov. 30 filed 560,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter-Optionee**—Robert Irwin Martin of Toronto. **Proceeds**—For commissions, exploration and development expenses, and working capital.

South West Box Co., Keokuk, Iowa
Nov. 27 (letter of notification) $200,000 10-year 6% subordinated instalment debenture bonds. **Price**—To be sold in multiples of $100 plus accrued interest. **Underwriter**—None. **Proceeds**—For corrugated machine.

Southeastern Telephone Co., Tallahassee, Fla.
Nov. 20 (letter of notification) 10,000 shares of common stock (par $10). **Price**—$11.25 per share. **Underwriter**—Wagner, Reid & Ebinger, Louisville, Ky. **Proceeds**—For construction and improvement.

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 Fire & Casualty Co., Knoxville, Tenn.
Dec. 11 (letter of notification) 5,000 shares of capital stock (no par), to be offered to company's employees and agents. **Price**—$9.50 per share. **Underwriter**—None. **Proceeds**—To expand operations. **Office**—4277 Lyons View Pike, Knoxville, Tenn.

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.

Southern Natural Gas Co. (1/23)
Dec. 18 filed $17,500,000 of first mortgage pipeline bonds due Dec. 1, 1970. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp.; Equitable Securities Corp.; Kuhn, Loeb & Co. **Proceeds**—To repay bank loans and for expansion program. **Bids**—Expected to be opened on Jan. 23.

Southern Natural Gas Co.
Dec. 18 filed 155,546 shares of common stock (par $7.50) to be offered for subscription by common stockholders on the basis of one share for each 10 shares held, with an oversubscription privilege. **Price** — To be filed by amendment. **Underwrtier**—None. **Proceeds** — To repay bank loans and for expansion program. **Offering**—Expected latter part of January.

Spokane Warehouse & Storage Co.
Dec. 4 (letter of notification) $270,000 of first mortgage 6% bonds due Dec. 31, 1960, and 270,000 shares of common stock (par 10 cents), the bonds to be offered in units of $100 each, or in multiples thereof, with the stock to be issued as a bonus at the rate of one share of stock for each $1 of bonds purchased. **Price** — At principal amount for the bonds. **Underwriter**—Richard W. Bowler, Spokane, Wash. **Proceeds**—To purchase building. **Office**—214 Paulsen Bldg., Spokane, Wash.

Sunshine Packing Corp. of Pennsylvania
Dec. 8 (letter of notification) 2,950 shares of 5% preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For additional operating capital. **Office**—Smedley Street, North East, Pa. **Business**—Processes and cans frozen fruits and fruit juices.

● **Superior Refinery Owners, Inc., Superior, Wis.**
Dec. 13 (letter of notification) 2,800 shares of common stock. **Price**—At par $100 per share). **Underwriter** — None. **Proceeds**—To purchase, dismantle, move and re-erect in Superior a refinery now located at Cut Bank, Mont., formerly owned by the Carter Oil Co. **Office**—921 Tower Building, Superior, Wis.

Texas Illinois Natural Gas Pipeline Co.
Nov. 20 filed 300,000 shares of common stock (par $1), being offered to common stockholders of record Dec. 8 on the basis of one new share for each 7½ shares held. (Peoples Gas Light & Coke Co., owner of approximately 51% of outstanding common stock, will subscribe for its proportionate share of new stock, plus any other unsubscribed shares. Rights will expire on Dec. 28. **Price**—$10 per share. **Proceeds**—To finance proposed pipeline from Texas to Chicago. Statement effective Dec. 8.

Vitro Manufacturing Co.
Dec. 4 (letter of notification) 30,000 shares of common stock (par $1) to be offered to common stockholders of record Dec. 15 on basis of one new share for each 5.64 shares held; rights to expire Jan. 2. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For initial working capital of Vitro Chemicacl Co., Inc., a subsidiary, to be formed in December, 1950, to acquire and operate a plant in Salt Lake City, Utah, for the processing of uranium and manganese ores. **Office**—60 Greenway Drive, Corliss Station, Pittsburgh 4, Pa.

Vulcan Extension, Inc., Wallace, Idaho
Nov. 27 (letter of notification) 250,000 shares of capital stock (par 20 cents). **Price**—31 cents per share. **Underwriter**—J. A. Hogle & Co., Spokane, Wash. **Proceeds**—For initial working capital for ore development. **Address**—c/o H. J. Hull & Sons, Wallace, Idaho.

● **Walker Vitamin Products, Inc., Mt. Vernon, N.Y.**
Dec. 20 (letter of notification) 48,000 shares of class B common stock (par 25 cents) being offered to holders of class A and class B common stock of record Nov. 30 on basis of one share of new class B stock for each eight shares of either class of stock held; rights expire Jan. 12, 1951. **Price**—$5.35 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—17 So. Columbus Avenue, Mt. Vernon, N. Y.

Westerly (R. I.) Automatic Telephone Co.
Dec. 1 (letter of notification) 7,000 shares of common stock to be offered to stockholders of record Dec. 9, 1950, of which total 4,434 shares will be subscribed for by New England Telephone & Telegraph Co. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—38 Main St., Westerly, Rhode Island.

Wilcox-Gay Corp., Charlotte, Mich. (1/3)
Oct. 25 filed 500,000 shares of common stock (par $1). **Price**—$1.62½ per share. **Underwriters**—Gearhart, Kinnard & Otis, Inc., New York, N. Y., and White & Co., St. Louis, Mo. **Proceeds**—To pay obligations to all unsecured creditors. Statement effective Dec. 19.

● **Winter Park (Fla.) Telephone Co.**
Dec. 13 (letter of notification) 1,400 shares of 5% preferred stock, of which 150 shares will be offered to officers and employees and 1,250 shares to public. **Price**—At par ($100 per share). **Underwriter**—Leedy, Wheeler & Alleman, Inc., Orlando, Fla. **Proceeds**—For new equipment and to build a new warehouse.

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.

American Bosch Corp.
Nov. 22 it was announced stockholders will vote Dec. 18 on creating a new issue of 40,000 shares of 5% cumulative preferred stock (par $100), to be issued in series. Of this issue, it is proposed to place privately with a group of insurance companies 16,500 shares of series A preferred, the proceeds to be used to redeem all of the presently outstanding 16,336 shares of 5% cumulative preferred stock.

● **Carolina Power & Light Co. (2/6)**
Dec. 22 it was reported company plans issuance of $15,000,000 new first mortgage bonds due 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and First Boston Corp. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Lehman Brothers; Equitable Securities Corp.; Smith, Barney & Co. **Proceeds** — For construction program. **Registration**—Expected on Jan. 4. **Bids**—Expected to be received up to noon (EST) on Feb. 6.

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.

Chesapeake & Ohio Ry.
Dec. 4 it was reported company contemplates issuance of $7,500,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler. **Bids**—Expected in January.

Chicago, Indianapolis & Louisville Ry. (1/3)
Bids will be received at the company's office in Chicago, Ill., up to 12 o'clock noon (CST) on Jan. 3 for the purchase from it of $1,200,000 of equipment trust certificates to be dated March 1, 1951 and mature semi-annually 1952 through 1966. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers, Bear, Stearns & Co. and Schoellkopf, Hutton & Pomeroy, Inc. (jointly).

Clinton Foods, Inc.
Dec. 12, it was announced stockholders on Jan. 15 will vote on increasing the authorized common stock (par $1) from 1,500,000 to 2,000,000 shares the increase to provide "substantial funds for capital additions and working capital," and "to provide for the conversion of 100,000 shares of unissued and unreserved 4½% cumulative convertible preferred stock." Probable Underwriters: Merrill Lynch, Pierce, Fenner & Beane.

● **Colorado Interstate Gas Co.**
Dec. 15 it was reported company plans to obtain a loan of $12,000,000 to finance construction of a pipeline from Texas to Colorado.

Columbia Gas System, Inc.
Dec. 7 it was reported that corporation may issue and sell $35,000,000 of new securities in the Spring or early summer. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly). Probable bidders for common stock, in event of competitive bidding: Morgan Stanley & Co.; Goldman, Sachs & Co. and Union Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Shields & Co. and R. W. Pressprich & Co. (jointly). Proceeds will be used for expansion program.

Consolidated Gas Electric Light & Power Co. of Baltimore
Nov. 24 it was announced company plans to register with the SEC by the end of December a proposed offering of $25,000,000 new bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and White, Weld & Co. (jointly); Harriman Ripley & Co. Inc. and Alex. Brown & Sons (jointly); Kuhn, Loeb & Co. **Bids**—Expected to be invited during the latter part of January.

● **Emerson Electric Manufacturing Co. (1/17-18)**
Dec. 14 it was announced stockholders will vote on Jan. 16 on authorizing issue of 100,000 shares of convertible preferred stock and on increasing authorized common stock by 250,000 shares. The company plans the sale of the preferred stock first to stockholders on a 1-for-8 basis. **Underwriters**—Smith, Barney & Co.; Van Alstyne, Noel & Co.; Newhard, Cook & Co. **Registration**—Expected about Dec. 29, with standby to begin about Jan. 17-18.

Erie RR. (1/10)
Bids will be received by the company on Jan. 10 for the purchase from it of $5,400,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

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.

● **Foote Mineral Co.**
Nov. 20 company said it may sell during 1951 some additional common stock following proposed 200% stock distribution on March 1, 1951. Traditional underwriter: Estabrook & Co., New York.

Houston Lighting & Power Co.
Dec. 19 it was reported company plans to issue and sell $15,000,000 of new first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Kidder, Peabody & Co.; Equitable Securities Corp.; Union Securities Corp.; Harriman Ripley & Co. Inc.; Smith, Barney & Co. **Proceeds**—For construction program. **Offering**—Expected in January or February.

● **Indianapolis Power & Light Co.**
Dec. 11 company applied to Indiana P. S. Commission for authority to issue and sell $6,000,000 of first mortgage bonds due 1981 and 196,580 shares of common stock (latter to be offered to common stockholders at not less than $25 per share on a one-for-six basis). **Underwriters**—For bonds, to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; W. C. Langley & Co., Shields & Co. and White, Weld & Co. (jointly); Lehman Brothers, Goldman Sachs & Co. and First Boston Corp. (jointly); Union Securities Corp.; Equitable Securities Corp.; Hemphill, Noyes, Graham, Parsons & Co. and Drexel & Co. (jointly). Probable bidders for common stock: Otis & Co.; Blyth & Co., Inc.; Union Securities Corp.; W. C. Langley & Co.; Shields & Co. and White, Weld & Co. (jointly); Lehman Brothers and Goldman, Sachs & Co. (jointly); Wertheim & Co. **Proceeds**—For construction program. **Offering**—Tentatively expected in early part of February.

● **Iowa Power & Light Co.**
Dec. 19 it was said company expects to issue additional securities in 1951 to finance its construction program which is expected to cost between $6,500,000 to $7,500,000. Form of financing will depend on market conditions at the time.

Kansas-Nebraska Natural Gas Co.
Nov. 24 company applied to the FPC for permission to increase capacity from 146,000,000 cubic feet to 164,200,000 cubic feet daily at an estimated cost of $5,201,331, to be financed by bonds, preferred and common stocks. Bonds may be placed privately through Central Republic Co., Chicago. Probable underwriters for the stocks are Cruttenden & Co., Chicago, and First Trust Co. of Lincoln, Neb.

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.

MacMillan Co., New York
Dec. 18 it was reported early registration is expected of approximately 170,000 shares of common stock. **Underwriters**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To selling stockholders. Expected about Jan. 16.

Marion Power Shovel Co.
Dec. 8, the company announced it plans the sale of additional common stock (par $5) so as to add approximately $500,000 to equity capital, such shares to be first offered to present common stockholders on a pro rata basis. **Registration**—Expected to be effected in February, 1951. **Proceeds**—The net proceeds from the sale of the stock, together with proceeds from a proposed term loan of approximately $2,500,000 with banks and an insurance company, will be used to refund $1,175,000 bank loans, payment of preferred dividend arrearages of $1,501,500, and the balance for working capital.

Minnesota Power & Light Co.
Dec. 6, Clay C. Boswell, President, announced that the company expects to raise about $10,000,000 through the sale of new securities within the next year or so. The financing may be either in the form of bonds or preferred stock. The proceeds will be used for the company's expansion program. Probable bidders for bonds may include Halsey, Stuart & Co. Inc.; Shields & Co.; The First Boston Corp. and Glore, Forgan & Co. (jointly); Otis & Co.; White, Weld & Co.; Lehman Brothers and Drexel & Co. (jointly); Union Securities Corp.; Kidder, Peabody & Co.; Coffin & Burr, Inc.

Mississippi River Fuel Corp., St. Louis, Mo.
Oct. 4 it was announced that plans to finance the installation of additional compressor units on the company's pipeline system in Arkansas and Missouri will be supplied later. The estimated cost of the new facilities is $5,500,000. Previous bond financing was arranged for privately through Union Securities Corp., who also acted as underwriter for a common stock issue in April of this year.

● **Missouri Pacific RR. (1/9)**
Bids will be received until Jan. 9 for the purchase from the company of $7,080,000 equipment trust certificates, series PP, to be dated Feb. 1, 1951 and to mature in 15 annual instalments. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.)

● **Monarch Machine Tool Co.**
Dec. 20 stockholders approved a plan to increase the authorized common stock from 250,000 shares to 750,000 shares and to split 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.

Monongahela Power Co.
Dec. 1 it was announced company plans issuance and sale of $10,000,000 of new bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; W. C. Langley & Co. and The First Boston Corp. (jointly);

Continued on page 38

Continued from page 37

Union Securities Corp.; Salomon Bros. & Hutzler; Lehman Brothers; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co. **Proceeds**—For expansion program. **Offering**—Expected in March, 1951.

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. R. M. Heskett, President, stated that about $10,000,000 will be raised within the next six months.

Nevada Natural Gas Pipe Line Co.
Nov. 15 company asked FPC to authorize construction and operation of a 114-mile pipeline for the transportation of natural gas, which, it is estimated, will cost $2,331,350.

● **New York Central RR. (1/3)**
Bids will be received until noon (EST) on Jan. 3 for the purchase from the company of $7,500,000 equipment trust certificates to be dated Jan. 1, 1951 and to mature $500,000 annually from Jan. 1, 1952 to 1966 inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

New York, Chicago & St. Louis RR.
Dec. 8 Lynne L. White, Chairman, announced that the company plans to offer 33,770 shares of common stock at the rate of one new share for each ten common shares held, subject to the approval of the ICC. The offering price to be fixed later, will be below the market price prevailing at time of offering. **Underwriters**—None.

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.

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. Of the total financing, 75% will be in the form of first mortgage bonds to be placed privately with a group of life insurance companies. The remaining 25% would be obtained through the sale of equity securities. Traditional underwriters for Tennessee White, Weld & Co.; Stone & Webster Securities Corp.

● **Oklahoma Gas & Electric Co.**
Dec. 20 D. S. Kennedy, President, said company is considering refunding outstanding $6,500,000 5¼% cumulative preferred stock (par $100) with an equal amount of preferred stock with a lower dividend rate and may issue additional common stock (par $10) provided market conditions warrant such action, to finance construction program. Probable underwriters: Lehman Brothers; Smith, Barney & Co.; Harriman Ripley & Co. Inc.

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 Telephone & Telegraph Co.
Dec. 8 directors voted to offer stockholders the right to subscribe for 569,946 additional shares of common stock on basis of one share for each 10 common and/or preferred shares held. **Price** — At par ($100 per share). **Parent**—American Telephone & Telegraph Co. owns approximately 89% of Pacific's stocks. **Underwriter**—None.

Pennsylvania Electric Co.
Oct. 4 company was reported to be planning the issuance early next year of about $10,000,000 new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co.; Harriman Ripley & Co., Inc. Proceeds are to be used to finance construction program.

Pennsylvania Power & Light Co.
Nov. 9 Chas. E. Oakes, President, stated the company will require about $34,900,000 of new capital over the next four years through the sale of securities. It is reported that not over 75,000 shares of series preferred stock may be sold late this year or early 1951. **Traditional Underwriters**—The First Boston Corp. and Drexel & Co. **Proceeds**—To finance, in part, the company's construction program.

Pittsburgh Brewing Co.
Dec. 12 it was announced stockholders will vote Jan. 16 on authorizing indebtedness up to $6,000,000 for future requirements, if necessary. Company plans to expend $3,500,000 additional for additions and improvements, mostly in 1951.

Potomac Edison Co.
Dec. 1 it was announced that company plans to issue $10,000.000 of new bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and The First Boston Corp. (jointly); Kidder, Peabody & Co. and Alex. Brown & Sons (jointly); Glore, Forgan & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc., and Union Securities Corp. (jointly). **Proceeds** — For expansion program. **Offering**—Expected in April or May, 1951.

Public Service Co. of Colorado
Nov. 1, J. E. Loiseau, President, announced that "it will be necessary to raise additional funds for construction purposes in the second quarter of 1951. The amount needed is estimated at about $7,000,000." 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.

Reading Co.
Dec. 14 it was stated company plans issuance and sale next month of $8,000,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Reliance Electric & Engineering Co.
Nov. 22 directors voted to call a special meeting of stockholders for Jan. 18, 1951, for purpose of increasing authorized common stock from 350,000 shares (209,221 shares outstanding) to 1,000,000 shares and to effect a 2-for-1 stock split-up. The stockholders would then have preemptive rights in 531,558 of the unissued new shares while 50,000 shares would be reserved for future sale to employees and for other corporate purposes. Traditional underwriter: Hayden, Miller & Co.

San Diego Gas & Electric Co.
Dec. 19 it was announced company plans to issue and sell 325,000 additional shares of preferred stock (par $20). **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Salomon Bros. & Hutzler and the Union Securities Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly). **Proceeds**—To repay $3,200,000 bank loans and for expansion program.

Seaboard Air Line RR.
Dec. 13 it was reported company plans issuance of $4,920,000 equipment trust certificates next month. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

South Atlantic Gas Co.
Dec. 11 company sought Georgia P. S. Commission for authority to issue $3,000,000 new first mortgage bonds. May be placed privately. The proceeds will be used to repay bank loans and for expansion program.

South Jersey Gas Co
Nov. 20 an advisory report submitted to SEC provides for sale of entire holdings of United Corp. in the stock of South Jersey Gas Co. (154,231.8 shares, par $5 each.) Probable bidders: Lehman Brothers and Bear, Stearns & Co. (jointly).

Southeastern Michigan Gas Co. (Mich.)
Dec. 1 it was announced that in connection with the financing of the proposed pipeline, the acquisition of distribution facilities and the conversion of the system to natural gas, the company proposes to issue $3,300,000 of first mortgage bonds, $500,000 of 5% prior preferred stock, $200,000 of 6% cumulative preferred stock and $400,000 of common stock, subject to the approval of the Michigan P. S. Commission. The FPC authorized the company to construct natural gas pipeline facilities to serve the southeastern Michigan area.

Southeastern Telephone Co.
Nov. 20 this company, a subsidiary of Central Electric & Gas Co., notified the SEC that it proposes to offer 10,000 shares of common stock (par $10). **Price**—$11.25 per share. **Underwriter**—Wagner, Reid & Ebinger, Louisville, Ky. **Proceeds**—For construction and improvement program.

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 Indiana Gas & Electric Co.
Nov. 6, the company applied to the Indiana P. S. Commission for authority to issue and sell $3,000,000 of 30-year first mortgage bonds. Underwriters—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; First Boston Corp.; Equitable Securities Corp.; Otis & Co.; Carl M. Loeb, Rhoades & Co.; Salomon Bros. & Hutzler. Proceeds—For expansion program.

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.

Southwestern Public Service Co.
Nov. 15, the company announced that it is anticipated that over $17,500,000 will be raised from the sale of securities in the fiscal year to end Aug. 31, 1951. It is expected that the new senior securities to be sold will consist of first mortgage bonds and preferred stock and that a portion of the cash requirements will be derived from the sale of additional common stock. The bonds and preferred stock may be placed privately. The common stock will probably be offered first to common stockholders and underwritten by Dillon, Read & Co. Inc. **Proceeds**—To be used for expansion program.

Tennessee Gas Transmission Co.
See accompanying item on Northeastern Gas Transmission Co.

Texas Eastern Transmission Corp.
Dec. 6 it was announced that the company intends to issue in 1951 an estimated $20,000,000 of equity securities (probably preferred stock). **Traditional Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—For expansion program.

● **Texas & Pacific Ry. (1/11)**
Dec. 19 company applied to ICC for authority to issue and sell $4,000,000 equipment trust certificates, series I, to be dated Feb. 1, 1951, and to mature in 1-to-10 years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Lee Higginson Corp.; R. W. Pressprich & Co.; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly); Blair, Rollins & Co. Inc. Expected on Jan. 11.

● **United Electric Rys. Co.**
Dec. 18 it was reported the New England Electric System will receive bids Dec. 31 for the sale of its 99.143% interest in the 82,507 outstanding shares of United Electric Rys. capital stock (par $100). Probable bidders: Blyth & Co., Inc. and Lehman Brothers (jointly); Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co. Inc. and Goldman, Sachs & Co. (jointly).

United Gas Corp.
Nov. 16, the Division of Public Utilities of the SEC has recommended that SEC order Electric Bond & Share Co. to dispose of its holdings of 2,870,653 shares (26.95%) of United Gas Corp. common stock. In event of competitive bidding, probable bidders may include Lehman Brothers.

United States Pipe Line Co. (Del.)
Sept. 25, it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." The initial financing has been arranged for privately, with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation.

Utah Natural Gas Co.
Nov. 21, the company applied to the Utah P. S. Commission for permission to extend the proposed natural gas line from northeastern Utah to include additional areas in that State. The estimated cost of the project was increased to $32,000,000 (from $25,000,000 in the original application), according to John A. McGuire, President, and the length of the proposed transmission increased from 325 miles to 469 miles.

● **Utah Pipe Line Co., Dallas, Tex.**
Dec. 14 company applied to FPC for authority to build a 392-mile pipeline from Aztec, N. Mex. to the Salt Lake City, Utah, area, at an estimated cost of $22,000,000.

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.

West Penn Electric Co.
Dec. 1 it was reported company plans to sell $7,000,000 of new common stock, either to the stockholders or through underwriting. If through underwriters, stock may be sold at straight competitive bidding. Probable bidders: Lehman Brothers and Goldman, Sachs & Co. (jointly); Morgan Stanley & Co.; W. C. Langley & Co. and The First Boston Corp. (jointly); Harriman Ripley & Co. Inc. **Proceeds**—For expansion program. **Offering**—Expected early in 1951.

Westcoast Transmission Co., Ltd.
Nov. 10, it was announced that Westcoast Transmission Co., Inc., its American affiliate, has filed an application with the FPC seeking authorization to construct approximately 615 miles of pipeline for the transportation of natural gas in the States of Washington and Oregon (this project is estimated to cost $25,690,000). 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 of both companies, to be about 1,400 miles, will, according to estimates, 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.

● **Wisconsin Southern Gas & Appliance Corp.**
Dec. 22 it was stated corporation plans to sell this week $200,000 of 4½% collateral trust sinking fund bonds due 1971 and 13,800 shares of common stock to residents of Wisconsin only. **Price**—Bonds at 99% and stock at $11 per share. **Underwriters**—The Milwaukee Co., Milwaukee, Wis. and Harley Hayden & Co., Madison, Wis.

Our Reporter's Report

Institutional investors were just about out of business this week as they put the finishing touches to their year-end accounts. Bond men expressed doubt that they could have been enticed into the market even by the most "juicy" of opportunities.

But as the year drew to its close there was a growing feeling in many quarters that the municipal market would come in for a sizzling time in the months ahead.

Banks, especially, it was observed, probably will be active in that quarter of the investment field because of the heavier corporate taxes already in sight and likely to be imposed as time wears along and the defense effort picks up greater momentum.

The current pattern of higher taxes, it was pointed out, naturally will tend to put a high premium on the exemption features of municipals. But there is also the recognized fact that as defense activities curb supplies of materials the outpouring of new issues of this type will be curtailed accordingly.

Thus market observers are disposed to anticipate a rather brisk demand for issues already available. The forerunner of such a development was seen in recent heavy whittling away of the record backlog which had been built up in municipal issues.

Some months ago this accumulation was at record levels above the $260,000,000 mark. More recently it had been shrunken well below the $190,000,000 level.

Clean-Up Week

This is the period dubbed "clean-up week" in the underwriting business. And the term does not imply any cleaning up of unsold portions of issues as near as could be earned.

Rather it applies to the disposition of both the underwriter and his customers to clear away the remnants of unfinished business, such as collecting and paying bills.

As far as the customers go the bankers just sum it up in a few words. "You can't get an institution to enter any new lines at this time. They are all hard at work dressing up figures for annual reports to shareholders."

Keeping 'Em Alive

Southern Railway Co. has advised the Interstate Commerce Commission that it is prepared to redeem after the turn of the year, $12,500,000 of first mortgage 4% bonds of its St. Louis division which fall due at that time.

But the company does not wish actually to retire the issue. Rather it would set the bonds aside in the treasury for possible future use.

This would be done by changing the maturity to Jan. 1, 1976, an operation which it has asked ICC to approve.

Two Stores to Finance

Two store firms have filed with the Securities and Exchange Commission to cover projected issues of additional preferred stock.

Food Fair Stores, Inc., has registered 80,000 shares of $15 par cumulative preferred which it plans to issue to redeem outstanding stock and to obtain additional working capital.

Meanwhile City Stores Co. registered for 60,000 shares of $100 par convertible preferred which will be sold to retire bank loans of its wholly-owned subsidiaries.

A T & T Conversions

The rush for conversion of American Telephone & Telegraph Co.'s debentures into capital stock set a faster pace last week. Figures show that a total of $3,135,200 of the issues were turned in against $2,553,500 in the preceding period.

These included $1,859,000 of the 2¾s due 1957; $1,212,500 of the 3⅛s due 1985 and $63,700 of the 2¾s due 1961.

Turning into the current week investors held $60,205,400 of the 3⅛s; $121,000,900 of the 2¾s due 1957 and $266,269,200 of the 2¾s due 1961.

Wm. T. Cobb to Join Investors Diversified

William T. Cobb

William T. Cobb, Vice-President of Distributors Group, Inc., will shortly join Investors Diversified Services, Inc. of Minneapolis. Prior to his association with Distributors Group, Mr. Cobb was with Albert Frank-Guenther Law, Inc.

COMING EVENTS

In Investment Field

Jan. 15-16, 1951 (Point Clear, Ala.)
National Association of Securities Dealers, Inc., Meeting of Governors and Election of Officers at the Grand Hotel.

Feb. 4, 1951 (Houston, Tex.)
Board of Governors of Association of Stock Exchange Firms winter meeting.

Feb. 6-7, 1951 (San Antonio, Tex.)
Board of Governors of Association of Stock Exchange Firms winter meeting.

Feb. 8-9, 1951 (Dallas, Tex.)
Board of Governors of Association of Stock Exchange Firms winter meeting.

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

May 30, 1951 (Dallas, Tex.)
Dallas Bond Club annual Memorial Day outing.

Favors Higher Interest Rates to Check Inflation

Monthly review of Guaranty Trust Company of New York contends "easy money," at this time, places nation and government in a dilemma. Admits recourse to higher rates for Treasury securities present practical difficulties.

The January issue of the "Guaranty Survey," published by the Guaranty Trust Company of New York, carries a leading article, entitled "The Interest Rate Dilemma" in which it is concluded that an escape from the dilemma would seem to be through interest rates, including higher yields on government securities, although the difficulties of such a course are impressive.

Concerning these difficulties and the way out, the article states:

"Existing prices of government securities have become a part of the nation's financial structure. Banks and insurance companies hold such securities equal in value to several times the amount of their capital funds. A substantial decline in market prices could have serious effects on the capital position of some such institutions, and attempts of security holders to avoid losses and to take advantage of higher rates might result in severe market disturbances and in wholesale redemption of savings bonds, unless appropriate steps were taken to prevent them.

"It might be feasible to allow holders of low-coupon issues, including perhaps savings bonds, to exchange them for new securities, as was done during World War I. But this would be a complicated and costly procedure. It might involve the refunding, or possibly several refundings, of the bulk of the public debt. It certainly would not be the easy or inexpensive way to finance rearmament, and the extent of the anti-inflationary effects could not be predetermined."

"These considerations" the article continues, "emphasize anew the importance of combating inflation by holding the Federal budget as close to a balance as possible and by selective controls on consumer and mortgage credit. For, as long as rates of yield on government securities are held down, the possible scope of general credit control will be closely restricted, not only during rearmament but also for an indefinite period thereafter.

"An increase in the cost of carrying the public debt, while certainly not to be desired, would be a small price to pay for any substantial alleviation of the inflationary threat. The broader possible consequences of an aggressive anti-inflationary general credit policy, however, are indeed formidable. Our monetary authorities seem to be facing a choice of evils — comparative impotence on the one hand and a course beset with unknown difficulties and risks on the other."

The Guaranty Survey recalls that the government embarked on an easy money policy during the severity of economic depression, when credit expansion was desirable. Easy money continues to be official policy today under these greatly changed conditions and prospects. The policy has been adhered to for almost two decades, through good times and bad, through war and peace, through years of labor shortage and years of unemployment, through periods of inflationary and deflationary pressure.

Thomson & McKinnon Admits

INDIANAPOLIS, Ind.—Edward S. Dowling will be admitted to partnership in the New York Stock Exchange firm of Thomson & McKinnon on Jan. 4. He will make his headquarters at the firm's Indianapolis office, 5 East Market Street.

J. F. Perkins Co. Formed

DALLAS, Tex.—Jack F. Perkins has formed J. F. Perkins & Co. with offices in the Reserve Loan Life Building, to engage in the securities business.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Nobody of much consequence in this town outside the government takes very seriously the Administration's pretty little formula which is supposed to guide business in voluntarily holding down price increases.

If you ask somebody what he thinks of the formula, he is likely to smile and remark, "ain't it something," and go on to some other subject. If business could figure out the application of the formula to its products and if the formula were enforced it would cause more problems than the Administration's original excess profits tax formula 10 times confounded.

In fact there is no disposition to try to parse the formula, because it is complicated beyond human comprehension in its application to a million items. The attitude of the town is to understand, with somewhat good-natured cynicism, the political problem and political setting of the announcement, order, or whatever it is supposed to be.

This "pricing standards for business and industry" thing thereby is understood as a political rather than an economic document.

In the first place, its issuance was dictated by the urge "to do something" following the revelation of the tough spot in which the country finds itself. It is inevitably a part of the era, which it is hoped will not last too long, of impulsive improvisation with which the panicky Administration reacts to a genuine crisis.

In the second place, the formula is viewed as having been chosen obviously for its political effect. By saying to all business, in effect, that it has no right to raise prices so long as its gross profits before taxes are as high as in the postwar era, the Administration is playing to the lay gallery. Most people are expected to react, "well, why should business raise prices only to raise its profits?" That, of course, is the way the Truman Administration wants the mass of the public to understand the spirit of the price announcement.

Nevertheless, this announcement, by a careful reading, does give a pretty good tip-off on what will happen after mandatory price controls are put into operation two, three, or more months from now.

One of the first things tipped off is that Dec. 1 probably will be used as the breaking point. With a few exceptions, prices in existence prior to Dec. 1 will be given an inferential certificate of legitimacy. Any price increases, whether proposed or since put into existence, after Dec. 1, will have to submit to the burden of proof before the lords of bureaucracy.

Price increases since Dec. 1 will have to be justified on the basis either of (1) hardship, or (2) increased costs, or probably often, of both considerations. And in considering "hardship" a very heavy weight will be given to corporation profits before taxes, without figuring corporation net after higher and higher taxes.

* * *

Whatever has come out of Cy Ching's confabs about "wage stabilization," the long-run accomplishments of the Administration in the way of "wage stabilization" are expected to be little more than a retardation of wage increases.

Neither the Administration nor Cy Ching care much about wage stabilization as evidenced by the recent rail wage settlement concluded at the White House. It is hardly possible to imagine government regulation of wages to be treated as an economic matter. There will be exhortations to labor, yes, to be a little soft on demanding wage increases in the national interest, and there probably even will be formulae which will in a total kind of lingo be palmed off as "wage stabilization."

However, something over seven million organized union workers have obtained, along with their wage increases, contracts which call for rises in wages as the cost of living index rises. Regardless of the outcome of the last Congressional elections, the Administration still rates organized labor as its chief support. Hence few people here actually expect "wage stabilization" to impair seriously these automatic wage increases.

About the most that is expected is that a formula will be worked out which will provide that, despite the automatic wage increase provisions in contracts, labor and management must first submit increases to the government for approval.

And a factor in the background, it is noted, is that the Administration itself is now reconciled to regular deficits of some where around $20 billion annually so long as war production is building up. So the Administration is forced to fight a sort of rear guard action against inflation.

* * *

The new "pricing standards for business and industry" announcement, it is noted, is in no way the creature of Charles E. Wilson, new boss of the mobilization program. Mr. Wilson was designated as chief over economic stabilization as well as over all other facets of the mobilization. However, the "price-profits" formula was cooked up by Mr. Symington's appointee, Dr. Alan Valentine, ESA Administrator, and others before Mr. Wilson came upon the scene. The same is true of initial shadow-boxing moves toward "wage stabilization."

It is pointed out, however, that this announcement gives an indication of some of the practical difficulties which Mr. Wilson will face in making his views felt in the mobilization program. Mr. Valentine is one of Mr. Symington's gentlemen, and many of Mr. Symington's gentlemen as well as his gentlemen's gentlemen will remain on the scene, relics of the previous era of more limited war production efforts.

One of the coincidences of Mr. Wilson's appointment as top boss of mobilization was the resignation from the government of C. Girard Davidson, Assistant Secretary of the Interior. An old-time TVA man, Mr. Davidson was one of the foremost advocates of Federal development of power, and public ownership of power.

Mr. Davidson has been constantly plugging for public power. Under Mr. Symington's mobilization regime, the Interior Department was given control over mobilization of power resources. This authority is now subordinate to Mr. Wilson's direction.

Mr. Wilson's recent speech before the National Press Club (text of Mr. Wilson's speech was printed on page 14 in the "Chronicle" of Dec. 14) takes on an added significance in view of the former General Electric President's appointment as director of the Office of Defense Mobilization.

What Mr. Wilson said, complete with figures, was that the private power industry, unless monkeyed with by the government, could take care of any conceivable maximum load of power for war production. He said that if priorities interfered with achieving the already-planned generating capacity, then the private power industry might not be able to do the job.

Those who have followed the workings of government expected the public power boys to utilize every device they could to hold up the expansion of private power development, thereby creating "gaps" and shortages in generating capacity, which public power would rush in to fill.

Mr. Davidson it is reported has been wanting to resign for a long time. The resignation was announced just last week, a day after Mr. Wilson was sworn in.

Public power, incidentally, lost a battle to "horn in" the middle Atlantic states, as a small part of the $18 billion emergency war production program. The Administration asked for $7 million to build a transmission line to Langley Field, Va., from the Buggs Island power project.

Senator A. Willis Robertson (D., Va.) circulated a letter to his colleagues alleging that (1) the Buggs Island dam would not generate power until 1953, and that (2) when it did provide power, it would merely duplicate transmission facilities of the Virginia Electric Power Co.

In the House this $7 million entering wedge went through with a whoop. After Senator Robertson put the finger on the deal, the Senate knocked it out.

* * *

With any big change in power within the government, such as has followed the replacement of W. Stuart Symington by Mr. Wilson as chief boss of mobilization, government agencies tend to come to a dead stop until the new individual in charge has made known his wishes.

Thus, all major decisions about what shall be done are for the moment in a state of arrested animation. Some things that are obviously necessary, of course, go on. One of these is the National Production Authority's development of orders reducing the supplies of scarce metals and materials for the civilian economy, and making them available for military production.

On the other hand, new policy formulation will await the word from Mr. Wilson as to what he wants. This is inevitable in government. All the many plans that all the agencies have been cooking up, just sit on desks until they can be presented either to Mr. Wilson or some one who can commit that official to approval or disapproval.

Thus, the plans to expand war housing production, reported last week, were temporarily laid aside until Mr. Wilson can pass upon them.

* * *

The net effect of all the feverish activity of the last couple of weeks on the production program so far is only that the letting of contracts will be speeded up, and definitely.

However, there are no figures as yet available as to how much will be ordered, how soon. The Munitions Board has given NPA no revised figures of requirements for materials in any quarter of 1951. If contracts are let as fast as is indicated, the rate of contracting should go up from an average of $2.1 billion for war materials per month so far this year to nearly $3 billion a month from now until June 30.

(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

"One typewriter cover covers my typewriter — the other typewriter cover covers my unfinished work!"

El Salvador Bond Exch. Offer Extended

Holders of Republic of El Salvador 8% sinking fund gold bonds, 7% sinking fund gold bonds, certificates of deferred interest, and convertible certificates for 3% external sinking fund dollar bonds are being notified that the offer of exchange, dated April 26, 1946, has been extended to Jan. 1, 1952 from Jan. 1, 1951. Copies of the offer are available at the Corporate Agency Department of The National City Bank of New York.

Honor Charles Frank

Charles E. Frank, who is retiring at the end of this year after 68 years in Wall Street, is being honored today (Dec. 28) at a small party given by the partners and associates of Delafield & Delafield, 14 Wall Street, New York City, members of the New York Stock Exchange. Prior to his association with Delafield & Delafield, Mr. Frank had been senior partner of his own firm. He came to Wall Street in 1881 at the age of 20 as a clerk and 16 years later became a member of the New York Stock Exchange.