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EDITORIAL

As We See It

In the Soviet system there is an established policy which is officially denominated "self-criticism." To the outsider, it would appear that this is a misnomer; what actually occurs, apparently, is that the Kremlin makes use of one of its organs to call another to account. The analogy between this custom of the Kremlin and the recent action of the President's Council of Economic Advisers may be apparent rather than real. We have no way of knowing, of course, what, if anything, the President had to do with the criticism of the military establishment which seems to be plainly implied in the most recent report of the Council, but it is certain that there are many, many observers (including, apparently, the Budget Bureau) who feel very much as the Council does.

There are advance reports from Washington that Mr. Wilson has already made progress in bringing order out of the confusion and futility which was the rearmament program. Time only will tell how much truth there is in these probably inspired reports. We have a strong suspicion that the fault, in any event, lies not wholly with the military but runs in substantial part at least to the central management of the Administration. In any case, the public is indebted to the Council for focusing attention upon the situation, and one may hope as a result the existing state of affairs will be the sooner corrected.

Meanwhile the Council has at times come rather close to naming some of the right issues —and for that, too, we must all be thankful.

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A Survey View of Business In 1951

By MARTIN R. GAINSBRUGH*
Chief Economist, National Industrial Conference Board

Summarizing viewpoints of economists and businessmen regarding business outlook for 1951, National Industrial Conference Board economist says general opinion is that some serious dislocations are in offing and more inflation is coming, as well as lower profits and civilian cutbacks. Looks for tight manpower situation and restricted elasticity of output, despite increased military production.

Once again the overriding demands of war dominate the outlook for the year ahead, as they have so much of the past generation. In more leisurely retrospect, I believe there will be common agreement that the year 1950 began propitiously. We emerged in record time—as business cycles go—from our first experience with postwar recession, without too many cyclical scars. By the second quarter of 1950, gross national product was back to $270 billion (annual rate, seasonally adjusted). This was $16 billion more than the 1949 trough and actually above the postwar peak of late 1948.


Martin R. Gainsbrugh

As expansion gained momentum, viewpoints about the lessons to be read from the downturn which began in late 1948 became increasingly diverse. In some quarters the mild character of the recession was regarded as a demonstration of the heightened ability of the postwar economy to absorb cyclical shock. Administration spokesmen in Washington stressed the brief duration and dampened-down intensity of the recession as evidence of inherent strength of the economy. Somewhat paradoxically, they also contended that this brief adjustment

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*An address by Mr. Gainsbrugh before the joint meeting of the American Statistical Association and the American Economic Association, Chicago, Ill., Dec. 28, 1950.

Curbing Civilian Demand—Critical Economic Problem

By DONALD B. WOODWARD*
Second Vice-President, Mutual Insurance Co. of N. Y.

Insurance economist, contending civilian demands on national output are excessive, and should be curbed, if defense demands are to be met, recommends: (1) increase in work hours; (2) adding women and children to civilian labor force; (3) raising personal income taxes; and (4) increasing individual savings. Holds national economy is capable of making from $30 to $50 billion in defense expenditures in 1951.

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The Critical Fact and the Critical Problem

A considerable part of the economic discussion of the last 15 years has suggested that much of the writing of the 19th century had little merit. Indeed, there has been some hint that the chief result of the work of that much discussed century has been to confuse the superior minds of the brilliant century which followed, of which we are in the midst. This is neither the time nor the place to argue the general proposition. But I do wish to suggest that the century gave us at least one product not yet surpassed or even equaled. It is a description, written over 100 years ago, of the situation in which we find ourselves today. It was written by Charles Dickens, who put it in the mouth of that unforgettable character, Oliver Twist.


Donald B. Woodward

The words are: "Please, sir, I want some more."

These six words surely describe the condition of the world at mid-century. The American defense forces want some more. The American consumer wants some more. Our friends and allies in Western Europe want some more. So do our

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*An address by Mr. Woodward at the Annual Meeting of the American Statistical Association, Chicago, Ill., Dec. 28, 1950.

The CHRONICLE'S "Annual Review and Outlook Issue," to be published on Thursday, January 18, will contain views of the nation's leading executives on the economic outlook for their respective industries during 1951.

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

Atlas Plywood Corporation—Merritt F. Beal, Analyst, Peter P. McDermott & Co., New York City. (Page 2)

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Ultrasonic Corporation—Cyrus H. Polley, Manager of Trading-Department, Coffin, Betz & Co., Philadelphia. (Page 2)

MERRITT F. BEAL

Analyst, Peter P. McDermott & Co., Members New York Stock Echange Members New York Curb Echange

Atlas Plywood Corporation

My current favorite among industrial issues is the stock of Atlas Plywood Corporation, traded on the New York Curb Exchange. The company is engaged in a stable industry and occupies an outstanding position in it. It has a comparatively modest capital structure, does not carry an excessive investment in fixed assets, has no unwieldy inventories (ratio of net sales to inventories about 5 to 1), has ample working capital, expanding orders and able, aggressive management. Looking to the future, its debt should soon be eliminated and common stock could be increased without becoming burdensome. The dividend yield is high on present prices, and the outlook excellent.

The packaging division of the plywood industry was for years the business of Atlas. It turns out about 70% of all plywood packing cases, noted for light weight and strength. Many tests by shippers, including the government, rate these cases highly. Atlas did very well and has paid dividends at varying rates without interruption since 1936.

To take care of the business established, the company acquired substantial timberlands, now carried on the books at $3,942,000, but worth, according to the President's estimate, about $9 million. Common practice is to buy as much timber as possible and to conserve its own supplies. Plants and properties, aside from timberlands, are carried at $4,860,000, but replacement value is probably well above $11 million. In other words, the company has built up a strong position in its industry and has prospered.

The company's capitalization is simple. It owes $1,250,000, due serially to 1956, borrowed to buy a profitable business now operated as a subsidiary. Following that debt, it has 600,000 shares of $1 par common stock, which is conservative. The latest balance sheet shows current assets $7,940,951, including $2,399,612 in cash or equivalent, against current liabilities $1,633,409. This is a healthy position. Book value of stock $23.59.

Until recently the management concentrated efforts on packing cases, but certain conditions having arisen which seemed to justify diversification, attention was turned to making other plywood lines. In a brief space of time these new ventures fitted perfectly into its other operations and now Atlas has become an important factor in the production of plywood doors, panels, sheathing, pallets, as well as trays, crates and baskets for the fruit and vegetable trade. These articles are mostly high-profit items and at this time about 50% of sales are of goods other than packing cases.

Sales showed a steady expansion for years, mounting from around $4.8 million in 1940 to about $28 million in 1948. There was a decline in 1949, due to general causes, and after inventory adjustment earnings of $2.01 per share were reported for the fiscal year ended June 30, 1949. This was the low point for Atlas in recent years and there is ample evidence that a corner was turned that year and business has surged forward since then. For the year ended June 30, 1950, earnings per share were $2.11 and for the September quarter of 1950, earnings per share of 93¢ were shown. It seems to me the new activities of this company are just beginning to bear fruit. Government orders for shipping cases should be large. Dividends of $1.50 annually are well within earnings ability, and capacity to pay.

The excess profits tax position is comfortable and, in my opinion, Atlas presents a growth situation not discounted by present market prices. It sold as high as 38½ in 1946.

NORMAN de PLANQUE

W. E. Hutton & Co., N. Y. City

National Gypsum Company

National Gypsum common stock, listed on the New York Stock Exchange and selling around 16½, appears attractive at current level because the market is overlooking a great many strong points about the company, and overstressing the anticipated difficulties of the building industry under financing controls.

Norman de Planque

The firm shows a truly remarkable record of consistent growth since its foundation just 25 years ago last summer. In the intervening period, the number of plants has grown from 1 to 23; products from 1 to 150; employees from 50 to 5,000; dealers from 200 to 15,000; stockholders from 704 to 15,000; and sales volume from virtually nothing in the first year to an estimated $74,000,000 for 1950. All this has been achieved in the face of the stiffest and most firmly entrenched competition.

National Gypsum Company is the second largest domestic manufacturer of building materials using gypsum as the basic raw material. Its products, used principally in the building industry, also have wide industrial, agricultural and chemical applications. It is estimated that the company accounts for 25% to 30% of total national sales of gypsum products. Gypsum board accounts for over half of the company's total sales and gypsum plasters for an additional 10% or slightly more. Lime and limestone products account for slightly less than 10%. The remaining 30% is divided substantially equally between rockwood products, fibre insulation board, and metal lath, paint and specialties. Almost 20% of total sales are made in industrial, agricultural and other non-building fields.

The promulgation of Regulation X on Oct. 12, 1950, cast a dark spell over the building stocks, from which they have shown little rallying tendency. However, immediate prospects for National Gypsum favor a continued high rate of operations, since use of gypsum products in home building is generally confined to the latter stages of construction, lagging some 60-90 days behind starts. Building starts in both September and October of 1950 topped 100,000 units, and for November are estimated to have been 85,000. The ultimate effect of Regulation X, as set forth by the Federal Reserve Board, will not become apparent for many months to come. However, in the text of its order the Federal Reserve served notice that its intention was to reduce residential building starts from a figure of about 1,300,000 in 1950 to around 825,000 starts in 1951. The consensus of opinion among materials manufacturers is that any such activity, coupled with government and military needs and a more active home remodelling market, will keep them busy at practical capacity during 1951.

Statistically, the common stock has a great deal to recommend it. Dividends, which were initiated in 1938, have been paid in increasing amounts in each of the past six years, and during 1950 amounted to $1.50 per share. The present regular rate of $1.40 could easily be sustained under presently contemplated excess profits taxes, in view of per share earnings of $2.21 for 1946, $2.89 for 1947, $3.60 for 1948, $2.57 for 1949, and an estimated $4.50 for 1950. Book value of the shares has been built, largely from retained earnings, from $4.38 per share at the end of 1937 to $21.22 per share at Sept. 30, 1950.

The common stock of National Gypsum Company represents an oversold equity of a still-young, dynamically growing enterprise in a most essential industry. Housing must be provided, limited war or no.

National Gypsum common stock, listed on the New York Stock Exchange and also accorded unlisted trading privileges on the Philadelphia-Baltimore Stock Exchange, may be used, in my opinion as an investment vehicle for individuals (both in speculative and conservative accounts) and for institutional investments.

CYRUS H. POLLEY

Manager, Trading Department, Coffin, Betz & Co., Philadelphia, Pa.

Ultrasonic Corporation

Nothing has been of greater interest to me than the aggressive exploitation since 1946, of wartime research and discovery and the promptness with which these advances have been turned to civilian advantage. I think it has been a dynamic factor in our postwar economy and that it offers the scientifically inclined speculator a host of opportunities never before available. I submit, in this category, the Ultrasonic Corporation as the speculation I like best.

Cyrus H. Polley

The Ultrasonic Corporation founded in 1945 in Cambridge, Mass., is believed to be the only company in the United States whose activities are exclusively concerned with the development of sonic energy as an industrial tool. The use of sound in industry is not new, but the performance of actual work done by the use of

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The Urgent Need for Monetary Statesmanship

By WALTER E. SPAHR

Executive Vice-President, Economists' National Committee on Monetary Policy

In attacking present irredeemable currency system, Dr. Spahr contends it deprives people of power over nation's purse and opens gates to extravagant government spending. Says system is incompatible with responsible government. Defends gold as monetary standard and calls for monetary statesmanship as exemplified by John Sherman in restoring gold redeemable currency in 1875. Holds 1934 legislation, abandoning gold standard, was "act of dishonesty, and a pull toward socialism."

The people of the United States lost control of their public purse when an irredeemable currency was thrust upon them in 1933. That was an historic moment for this nation. When governments take possession of the people's purse, autocracy replaces responsible statesmanship. The power of our people to control their government rests not only in the ballot but also in their ability to require redemption of the paper money promises issued by the United States Treasury and Federal Reserve banks. Under our currency system, the important power of the people to demand redemption of these promises has been destroyed and the government has gained a new authority over them. It has taken possession of their gold and has given them, instead, irredeemable promises which can be manufactured at will and used as the government sees fit.

Walter E. Spahr

Even the power of the people over the use of the public purse inherent in the ballot can be seriously impaired when the government is disposed, as is ours, to purchase the support of an effective majority of vote-delivering pressure groups. If as a last resort the people should attempt to control the use of their purse by refusing to purchase government securities, either these would be sold to the banks, which would issue irredeemable money and deposits against them, or the government would resort to the direct issuance of fiat money.

Thus freed from effective control by the people, a government can embark upon a spending orgy without any known limits. Our government, after obtaining the freedom given it by an irredeemable currency, launched out on an adventure in government spending that has continued until the people of the United States now find themselves without any effective check on those that have led and are still leading them far from the safety of sound principles of behavior.

The inability of thoughtful and concerned people to bring the continuation of this course to an end is illustrated by the futility of all efforts thus far made by a multitude of protesting organizations and individuals. Economy groups, taxpayers' organizations, and others have all been defeated. A government with the freedom provided by an irredeemable currency can ignore all protesting organizations and individuals, and can nullify their efforts in behalf of economy.

What Redeemable Currency Can Do

A very different situation prevails when a people's currency is redeemable. Then, every individual, to the extent he has paper money and bank deposits, and without need to join or consult others, can exercise power over the government's use of the people's purse. All those disapproving of the government's huge spending program, with its attendant profligate waste, could demand redemption of their paper money and deposits in gold. Thus red flags of warning to the government would spring up across the country. These signals would be transmitted through commercial banks to the Federal Reserve banks and to the United States Treasury. The gold reserves of the Federal Reserve banks and Treasury would reflect the signals of warning being transmitted from every individual demanding redemption of non-gold currency. A rise in the volume of the signals and a drop in the gold reserves of the Treasury and Reserve banks would put Congress and the Administration on notice that an effective number of the people are exercising their right of protest by wishing to convert their more convenient paper money and bank deposits into gold in order to protect the purchasing power of their dollars. The Treasury, the banks, and Congress would be compelled to respect such protest.

It is in this manner that a redeemable currency keeps the power over the public purse in the hands of the people who must pay the government's bills.

The people may or may not use this power, or they may employ it wisely or unwisely. But the fact that they can and may use it compels the banks, the Treasury, and Congress to proceed with a discretion in the issuance of promises to pay that does not exist under the unrestrained freedom provided by an irredeemable currency. Even if the people do not employ this power wisely,

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*See article by Mr. May on page 5.

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Boston & Maine RR. Takes on New Look With Streamlined Capital Structure

By ALLEN J. McNEAL

Partner, Price, McNeal & Co., New York City

Author contends that with a streamlined capital setup, provided under the Plan of Recapitalization, the securities of this well-managed railroad should attract more investor interest, and dividends should at last be paid on both classes of New Stock, after a long period of forbearance on the part of stockholders. Outlook appears bright and financial and physical condition of the road is excellent.

For many years the Boston & Maine Railroad has been burdened with a capital structure so complex that most Wall Street analysts simply threw up their hands in despair and refused to even mention the road when writing about railroads in general. The result has been a general apathy toward this well-managed railroad and consequently a minimum of interest in its securities.

Allen J. McNeal

However, during the past 11 years Boston & Maine has been putting on a lot of fat which should in due course prove to be of great benefit to the long suffering stockholder.

You can't keep plowing back earnings over a long period of time without having it redound to the benefit of the stockholders in due course, and that is just what has happened in the case of the Boston & Maine Railroad during the past 11 years.

Let's take a look at the record. In the first place the old capital structure consisted of the following:

	Tot. Arrears Dec. 31, 1950
229,414 shares 7% Cum. Prior Preferred	$30,512,062
387,833 shares Cum. 1st Preferred	49,454,289
31,498 shares 6% Preferred Non-Cum.	None
394,728 shares Common	None

Through the Plan of Recapitalization $79,966,351 of dividend accumulations have been eliminated and a clean simplified capital structure established which will give the Boston & Maine Railroad a better credit rating and enable stockholders to again participate in earnings in the way of regular dividend payments.

The new capitalization will consist of only two classes of stock as follows:

275,296 shares ($100 par) 5% cumulative convertible preferred.

547,083 shares ($100 par) common.

Both of these stocks will be listed on the New York Stock Exchange which will mean a better market and a greater speculative following.

Now for a little look into what has happened to the Boston & Maine RR. during the past 10 years.

In 1939 the management of Boston & Maine Railroad was faced with an almost hopeless task. The road was reeling from the paralyzing effect of the 1938 hurricane, with business and revenues falling off, competition from trucks becoming more and more severe, plant and equipment in poor condition and faced with the maturity of $63,300,000 debt due between Oct. 31, 1939 and Dec. 31, 1944, of which $12,660,885 matured in the year 1940 alone.

To meet the debt problem a plan of exchange, providing for a rearranging of the debt structure, resetting of maturities and a reduction of fixed charges was submitted to bondholders and secured creditors, as of Dec. 31, 1939, and declared operative June 13, 1940.

The following is an indication of the progress made in 10 years since Dec. 31, 1939:

	Dec. 31, 1939	Dec. 31, 1949
Net investment in road and property	$247,553,706	$257,677,748
Funded debt and equipment obligations in hands of public	130,067,826	94,069,003
Current assets	12,222,192	28,378,393
*Current liabilities	9,249,071	16,313,072
Net working capital	2,973,121	12,065,321
Cash and equivalent	5,256,424	17,888,252
Total corporate surplus	3,821,124	42,299,589
Total miles of road operated	1,910	1,711
Total fixed charges	7,404,290	3,394,756
Total contingent charges	None	1,121,859
Total operating revenue	46,341,081	82,238,980

*Loans and Bills Payable amounting to $16,467,130 are included in Current Liabilities in the Dec. 31, 1939 statement, but according to the company this belongs properly in Funded Debt and is thus shown in the above figures in that way—otherwise the statement would show a Working Capital deficit of $13,494,009, which is technically incorrect.

Thus from the above figures you will note a vast improvement in the condition of the Boston & Maine Railroad during the past 10 years.

Net investment in Road and Equipment has increased by $10,124,042 while Funded Debt and Equipment Obligations in the hands of the public has decreased by $35,998,822. Funded Debt decreased $39,841,730 and Equipment Obligations increased by $3,842,908.

Working Capital has increased from $2,973,121 to $12,065,321.

Fixed Charges have decreased from $7,404,290 to $3,394,756, with an increase in contingent interest charges from none to $1,121,859.

1950 figures are not yet available but further reduction in debt and interest charges is certain.

All of this has been accomplished through plowing back earnings to the ultimate benefit of the stockholders.

In 10 years the gross equity of the stockholders has been increased by $104,184,646 as shown below:

TOTAL DEBT RETIREMENT PLUS ADDITIONS AND BETTERMENTS

Mortgage bonds and leased line bonds retired	$45,037,730
Equipment trust certificates and conditional sales agreement paid off	22,642,972
Expenditures for additions and betterments	36,503,944
10-year total increase in shareholders' equity	$104,184,646

Total Depreciation and Amortization charges for the period amounted to $37,416,964.

The amount of money that has been "plowed back" into the system to increase efficiency is indeed quite remarkable.

The Plan of Recapitalization will reduce the aggregate par value of the Capital Stock from $104,437,300 to $82,238,031, thus increasing the Capital Surplus by $22,109,269.

This amount added to the $42,299,589 Surplus of Dec. 31, 1949 would give Total Surplus of $64,408,858 against Surplus of only $3,821,124 as of Dec. 31, 1939.

CAPITALIZATION AS OF DECEMBER 31, 1949

(Giving effect to the proposed recapitalization plan)

*Funded debt	$89,482,900
Lease and purchase agreements and equipment	10,436,102
†Preferred stock 5% cum. convertible ($100 par)	27,529,600
Common stock ($100 par)	54,708,300
Total	$182,156,902

*Includes $5,850,000 held by company. †Convertible into 1¾ shares common stock.

EARNINGS

Net earnings applicable to the New Preferred and Common Stock adjusted to 1949 charges

	Net Available for Charges	Interest Requirements Adjusted to 1949 Charges	Net After Charges Before Funds	Per Share New Preferred	Per Share New Common
*1950 Est.	$8,200,000	$4,516,615	$3,683,385	$13.37	$4.22
1949	5,837,715	4,516,615	1,321,100	4.79	---
1948	9,201,362	4,516,615	4,684,747	17.02	6.05
1947	6,714,443	4,516,615	2,197,828	7.91	1.50
1946	5,828,730	4,516,615	1,312,115	4.73	---
1945	4,792,178	4,516,615	275,563	1.00	---
1944	11,245,388	4,516,615	6,728,773	24.44	9.78
1943	13,233,077	4,516,615	8,716,462	31.66	13.42
1942	17,425,964	4,516,615	12,909,349	46.89	21.08
1941	11,745,964	4,516,615	7,229,349	26.26	10.69
1940	8,046,225	4,516,615	3,529,610	12.82	3.93

Sinking funds amount to: 1st 4s $679,102; income 4½s $482,870.

*NOTE—We understand net earnings for 1950 will approximate $2,500,000 after all charges including sinking funds. This would be sufficient to cover full $5.00 on the Preferred Stock and leave over $2.00 per share on the Common Stock. It is expected that a dividend $5.60 will be paid on the Preferred—$0.60 out of 1949 earnings and $5.00 out of 1950 earnings. Also expect a dividend of at least $1.00 on the New Common.

In view of the outlook for railroads in general, it is easy to visualize earnings of $5,000,000 for the new stock of Boston & Maine, which would mean over $6.00 per share on the Common, after allowing full dividends on the 5% Preferred. With such earnings the New Common could easily command a price of $20 to $25 per share against present quotation (W I) of (15-16½).

REDUCTION IN BONDS ISSUED UNDER THE DEBT READJUSTMENT PLAN OF 1940

	Originally Issued	Outstanding in Hands of Public Dec. 31, 1949	Percent Reduction
1st Mortgage 4s, 1960	$67,899,700	$54,526,900	19.7%
Income 4½s, 1970	48,267,500	24,248,000	49.7

The Transportation ratio of Boston & Maine in 1949 amounted to 43.46% against 39.7% average for all Class 1 Railroads, thus if this ratio were reduced by 3.7% it would give Boston & Maine added earnings of approximately $3,000,000.

In 1940 all gross ton miles were handled by steam power, but in 1949 7.8% were handled by steam and 92.2% by Diesel Power.

If the gross ton miles produced by Diesels in 1949 had been produced by steam locomotives at the 1940 unit of coal consumption per 1,000 gross Ton Miles and at present-day coal prices, the fuel cost would have been about $2,100,000 more than actually paid for Diesel oil in 1949.

It is believed that the new securities may be issued in February or March of 1951. In the meantime the new stocks are being traded over-the-counter on a "When Issued" basis. Present quotations are as follows:

New 5% Preferred—"When Issued" (45½-47¾).

New Common—"When Issued" (15-16½).

Colombia Bond Exchange Extended

Holders of Republic of Colombia 6% external sinking fund gold bonds due Jan. 1, 1961 and Oct. 1, 1961, and appurtenant coupons are being notified that the exchange offer, dated June 5, 1941, has been extended to Dec. 31, 1951 from Dec. 31, 1950. Holders of convertible certificates for 3% external sinking fund dollar bonds, due Oct. 1, 1970, are being notified that the period for exchange also has been extended to June 30, 1952 from June 30, 1951.

Haiti Bonds, Certificates Called for Redemption

Holders of Republic of Haiti internal loan (5%) series A bonds and bond certificates, due July 15, 1957, are being notified that $279,700 principal amount of these bonds and certificates will be redeemed on Jan. 15, 1951, at 100%. Redemption will be made at the head office of the Banque Nationale de la Republique d'Haiti, Port-au-Prince, Haiti, and at the head office of The National City Bank of New York.

The State of Trade and Industry

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

The upward trend of industrial production for the nation as a whole was slightly arrested the past week due to the Christmas Holiday. Aggregate output, however, was appreciably above the level for the comparable week a year ago. While initial claims for unemployment insurance continued to show a slight advance in the week ended Dec. 9 (latest figures available), accumulated claims held about steady with a year ago.

Turning to steel and metalworking industries it is found that they enter the new year prepared to make far-reaching changes, according to "Steel," the nation's weekly metalworking magazine. But uncertainties attending development of governmental policies controlling the economy for the duration of the emergency prevent a clear-cut appraisal of the outlook, especially for the near-term future.

More controls are on the way in the near future, but just what final form these will take remains to be determined. In general, they probably will be fashioned pretty much after World War II patterns. Considerable time will elapse, however, before smoothly-running control machinery can be set up.

With an increasing volume of rated tonnage coming out, the steel supply squeeze on the general consuming trade is becoming more pronounced, the trade publication points out. February allocations to nonrated requirements are off sharply from preceding months, and March quotas will be still smaller. This trend is likely to continue through the first half of the year even though larger production of steel is indicated than in 1950. All along the line in the various product markets, increasing shortages are indicated as rearmament shifts into high gear accompanied by supply and distribution disruptions.

At the turn of the year, states this trade weekly, finished steel prices appear well established at the higher levels effected early in December. But a note of uncertainty prevails in the trade as to the status of current schedules under the voluntary rollback policy of the Economic Stabilization Agency. Some steelmakers did not take price action until after Dec. 1, the rollback date. Whether mandatory rollbacks will be ordered in steel is unknown, but the fact that the stabilization authorities have requested steelmakers to submit their prices of record June 15 and Dec. 15, 1950, is considered significant.

Total automotive production for 1950 was estimated at 8,006,000 cars and trucks, setting a new record, "Ward's Automotive Reports" stated at the close of last week. This compares with the previous peak of 6,258,000 units established in 1949. The total for 1950 was made up of 6,663,000 cars and 1,343,000 trucks against 5,126,000 cars and 1,132,000 trucks in 1949.

In an attempt to clear up unfinished urgent business the House on New Year's Day (its next-to-last session in the 81st Congress) sent to the White House a tax bill designed to step up corporate levies between $3,300,000,000 and $5,100,000,000 a year.

President Truman is expected to lose no time in affixing his signature to this measure which combines a two-point increase in the regular corporate rate and an extra 30% levy on excess profits.

In furtherance of defense measures steps were recently taken by the National Production Authority to ban the use of copper in more than 300 nonessential civilian products. The order goes into effect on March 1, next, and it is reported that like bans are taking form to conserve aluminum, zinc and other scarce materials.

Further the Federal Reserve Board last week acted to cope with the inflationary trend confronting the nation by raising the reserve requirements of its member banks two percentage points, and thus help to curtail bank credit. This action, the board said, will increase the reserves which banks are obliged to maintain against deposits by about $2,000,000,000, adding that this $2,000,000,000 might otherwise be the basis for a $12,000,000,000 jump in available bank credit.

For the sixth consecutive month business failures were less numerous than those of a year ago. November casualties totaled 683, a 3% drop from the previous month; they were 18% below the 835 recorded a year ago, but exceeded those of any other November since 1941, according to Dun & Bradstreet, Inc.

November liabilities of business failures rose to $18,864,000, the largest amount in four months. This was a rise of 13% above

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Wadelton Partner In Lord, Abbett & Co.

Francis B. Wadelton, Jr., research director of Lord, Abbett & Co., 63 Wall Street, New York City, since Sept. 1, 1949, has been

F. B. Wadelton, Jr.

admitted to partnership in the firm. Mr. Wadelton has been in the investment advisory field since 1936, and has been associated with the Lord, Abbett organization since Jan. 1, 1948.

Business Man's Bookshelf

Price Control in a Defense Economy—Conference Board Economic Forum — National Industrial Conference Board, Inc., 247 Park Avenue, New York 17, N. Y.—Paper—50c (lower prices on quantity orders).

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.

Study of British Interest Rates for Connecticut General Life Insurance Company — Burton C. Hallowell — Connecticut General Life Insurance Company, Hartford, Conn.—Paper.

Tales of the Observer—Richard H. Edwards, Jr., written for the Centennial of the Jordan Marsh Company — Jordan Marsh Company, Boston, Mass.—Cloth.

W. B. Healy Joins David A. Noyes & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — William B. Healy has become associated with David A. Noyes & Co., 208 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was formerly in the research department of Comstock & Co.

T. Nelson O'Rourke Adds

(Special to THE FINANCIAL CHRONICLE)

DAYTONA BEACH, Fla.—Gilbert A. Suits has joined the staff of T. Nelson O'Rourke, Inc., 356 South Beach Street.

With Founders Mutual

(Special to THE FINANCIAL CHRONICLE)

DENVER, Col. — William J. Lyons is with Founders Mutual Depositor Corp., First National Bank Building.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

MACON, Ga.—Prentiss S. Edwards is now with Merrill Lynch, Pierce, Fenner & Beane, Dempsey Hotel.

International Crisis Pervades Forecasting Sessions

By A. WILFRED MAY

Mr. May views Chicago meetings of Allied Science Associations as evidencing experts' expectations regarding business, finance, and economic developments being completely dependent on factors bound up with international political developments. Extent of government interventionism seen as correlated with the temperature of the "Cold-Hot War"; with anticipation of the Executive Order and future policies fraught with insuperable imponderables.

Chicago, Dec. 30—The annual meetings of the Allied Social Science Associations, which have just come to a close here, have served the important purpose of highlighting the great obstacle which the international crisis has put in the way of arriving at economic, fiscal and business expectations. This was evidenced again and again in the forecasting phases of the remarks of the many participants appearing at the meetings sponsored by the American Statistical Association, the American Economic Association, the Econometric Society, the American Finance Association, etc. (at a plethora of meetings which sprawled over three hotels and as many halls around this town).

A. Wilfred May

This injection of uncertainty was revealed at the top economist level by Dr. John H. Williams, economic adviser of the Federal Reserve Bank of New York and Professor of Economics at Harvard, who is the incoming President of the American Economic Association. In an interview, Dr. Williams, who will shortly be engaged on a special mission in Paris, held that the unfolding of the world's political crisis may make advisable the imposition of altogether novel monetary and fiscal measures, beyond the comparatively orthodox monetary stabilization policies like rises in short-term interest rates, and direct controls as over consumer credit. The urgency of rate flexibility is tied to armament necessities. As the Federal debt gets bigger, theoretically the urge for monetary controls through upping the rate should be stimulated (despite the Treasury's interests). However, the arrival of Hot War would tend to make the freezing of rates necessary, and flexibility impractical, because of the Treasury's needs.

Dr. Williams reminded us how the Cold-to-Hot War transition also changes the savings techniques; Savings Bonds becoming War Bonds with the public's buying motivations equivalently governed by elements of patriotism instead of cold value criteria.

Rearmament And Employment Uncertainties

Like others at the meetings, Dr. Williams feels that the uncertainty of the length and degree of industrial and military mobilization in the coming transition period make gauging of the employment situation extremely uncertain — the amount of possible unemployment depending largely on military needs and the imposition of manpower controls, in which government discretion and labor's cooperation are so vital an element.

Whatever the ultimately decisive policies may turn out to be, Dr. Williams pointed out that in any event the pervasive

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The Need of Widespread Equity Investment

By HOMER P. HARGRAVE*

Chairman of the Board, Midwest Stock Exchange
Partner, Merrill Lynch, Pierce, Fenner & Beane, Chicago

Stressing need of fostering widespread ownership of equity securities, Midwest investment banker contends apathy of public to stocks has been due in large part to demagogic attacks on American business. Says we must sell idea to American public that finest thing individual can do for himself and his country is to buy some ownership in a business and help finance industrial expansion. Points out investing savings in equities is means of combating inflation.

I believe that everyone should own a direct stake in American business. I believe this would make America stronger, more efficient and productive, and place it in a better position to defend itself. I believe it would be good for the individual American too. Furthermore, I think it is a practical goal for us to work toward.

Homer P. Hargrave

We in the investment banking and brokerage business are proud of the job American businessmen have done and are doing, and we are equally proud of the business we are in, which is the business of selling the securities of American businesses. We sell them to the rich man and to the poor man; we sell them to the large fire, life and casualty companies and to the banks who have, and are responsible for, the deposits and the savings of the American public. We deal in securities because we know they are the finest vehicle of investment that has ever been devised.

The Stock Exchanges are proud to have listed on their Exchange, and to have traded on their floor, the stocks and bonds that represent the ownership of these fine American businesses, which are the fruit of the know-how and ingenuity of the American businessman. We help make sound and fluid markets in these securities because we believe in them. We not only believe in them, but we feel that more and more people shold own them, for their own good, and for the benefit of American unity and stability.

We think we know that the individual who owns a direct stake in private enterprise through owning a bond or a share of stock, representing a part ownership in an American business, is a more vigorous champion of the whole American system of business and thought, than the man who has never experienced the thrill and the pride that goes with the ownership of a piece of property.

Property according to a definition in Webster's dictionary is "The exclusive right to possess, enjoy, and dispose of a thing. That to which a person has a legal title, a thing owned, an estate whether in lands, goods or money, or even intangible rights, such as a copyright or a patent, or anything to which a man has a right to be protected by all."

I believe there is no man living who does not basically have the desire to own something, to be the possessor of something no man can take away from him. I think everyone wants to be the owner of a piece of property. I believe he becomes a different kind of a citizen the minute he acquires the title to a portion of the world's wealth. I think we should see to it that everyone finds out that it is possible in this country to own a portion of it. In that I believe the foregoing, I also believe that the backdrop is already hung and the stage is set, and that selling the idea of ownership would be a very simple thing if we would all really try to do it.

*An address by Mr. Hargrave at the Annual Meeting of the American Statistical Association, Chicago, Ill., Dec. 27, 1950.

Myth of the Few Owning American Business

I think you in this room would be utterly amazed to know how many people there are who either don't know that it is possible for them to own a portion of American business, or who have been told that just a few people own everything, and that it just isn't possible for them to ever get their hands on any part of it.

Whole libraries have been written about how this country and other similar territories have been settled and built up. We know from our history that we were populated for the most part by people who left their own country to come here, because it was not possible for them to own any property in the land of their birth. We know that in earlier years, and even now, in the minds of many people, property means only one thing, and that thing is land. We hear now the same thing that was heard in Europe at the time many of our forebears left. "All of the land is gone. It is impossible to acquire any of it. We must have collectivism of some kind so we can all own all of it. It isn't right for just a few people to own it."

Fortunately for you and for me and for the millions of other people in this country who have no desire or adaptability to be farmers or landlords, and have not the brains and the incentive to be inventors, copyright owners, etc., there is another great vehicle of investment, another sound type of property. There is plenty of this property, and it will increase in amount as the demand for it increases, and as the productive power, machinery and earnings of this country increase. It is property that is capable of furnishing us with the same pride of ownership, the same thrill of possession that comes to the man who is the landowner. That kind of property is the securities that represent the ownership of American business, and those securities are available to all of us every day in the year, through the facilities provided for us, by the great American Stock Exchanges and the brokerage and investment banking fraternity.

Public Can Obtain Stocks Easily

If you want to own a part of the company that furnishes you with the light you read by, the power that runs your vacuum cleaner, or if you want to be a part owner of the company that owns the telephone you use or makes the automobile you drive, just tell your broker or your banker that you want it. He will buy it for you. It will be yours and it will pay you dividends. It will give you a direct stake in industry.

If you want to be a stockholder in J. P. Morgan & Company, the Continental Bank here in Chicago, or lend your money at interest to the city or municipality in which you live, all you have to do is to be provident; save your money until you have enough to instruct your broker to buy for you exactly what you want.

No potential farmer can buy a farm one acre at a time, but any person 21 years or over can buy the General Motors Company one share at a time. He is only limited in the amount he can buy by his own desire to be provident, his own will-power to save a portion of his earnings. This is a great country and the American businessman has made it great, by manufacturing earning power that creates the base that warrants this great vehicle of investment. There is a great opportunity for everyone, whether he be a rich man or a person of very meager income.

You possibly are now saying there is a hole in my reasoning, a great flaw in my proposal. You are saying to yourself that there are only just so many shares of stock in existence, and just so much money industry is capable of borrowing, and therefore just so many bonds outstanding. You are thinking that this is already owned by individuals, and if someone else buys some of it, it means that the now owner must sell, so nothing will be accomplished toward really broadening ownership and furnishing opportunities for new people.

This is a point, and one I am most happy to discuss, and without attempting to be profound I will say that this country has grown industrially every minute since it was founded, and there has hardly been a time when capital was not needed to build up additional facilities. I know of no business that doesn't have an expansion program, either in active state of accomplishment, or one tucked in a desk drawer waiting for an opportune time. It is my opinion that there will never be a dearth of investment vehicles in America.

We are a little different in this country than businessmen in other countries, and my attention was invited to this point most forcibly at the recent International Trade Fair that was held in Chicago, and I will tell you about it.

As my wife and I were walking through the miles of exhibits of foreign countries at this fair, we came upon a very unusual sign by the maker of a product. The sign said, "We are sold out for the balance of 1950 and for 10 months of 1951. If you should care to place an order for 1952, see Mr. So and So, Room So and So, at the Drake Hotel." There were not even any samples of goods in the booth.

How different this is from the American businessman. If the American businessman were faced with the beautiful backlog of orders that this foreigner was faced with, he would have been in to see his banker almost immediately. He would have been planning for new plant facilities, he would have been raising new money, he would have been creating new securities, to handle the business he knew he could do, rather than simply locking up his shop and telling people they could not do any business with him for two years.

Postwar Expansion of Investments

During the years since the end of World War II there has been an enormous expansion in the American industrial machine. From the end of 1945 to the end of June, 1950 almost $74,000,000,000 has been spent by American business on new plant and equipment. This is the sum that American business has spent for new machinery, new buildings and all of the other paraphernalia that went to make up our productive capacity.

Where did this money come from? Where did businessmen get it? Well, in the first place, less than $3,000,000,000, or only about 4% of it came from new equity stock. The balance came from bank loans, term loans by insurance companies and other institutional lenders, bonds issues sold mostly to insurance and casualty companies, with additional money obtained through the "ploughed back earnings" method. I think you will agree with me that a much sounder method of financing this great growth period would have been for companies to have accomplished it, by the creation and sale, of new equity se-

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Strategic Economic Policy For Less-Than-Total War

By DR. ALBERT G. HART*
Columbia University

Dr. Hart declares as the immediate goals to be met by American business, industry and agriculture: (1) getting set so in case of war we can mobilize fully in months instead of years; and (2) to develop enough strength in Europe to guarantee us the necessary months in case of war. Cites certain difficulties involved in mobilization hump on way into "a readiness economy," such as weakening of people's savings incentives and sliding-scale wage arrangements. Concludes we will end with both evils of direct controls and inflation.

As the title stresses, this is not a paper about total war. Neither is it a paper about pussy-footing strategy. It deals with a problem which in many ways differs from either. The best label I can put upon it is all-out *readiness*.

Prof. A. G. Hart

Maybe we will be in all-out war soon; maybe not for years; may be not ever. Without guessing at the relative probability of these contingencies (on which an economist is no expert), I propose readiness rather than all-out war as the proper hypothesis for this discussion. This is partly because the differences between the two models need exploration, partly because of the lay of the facts. Whether we will have war—and if so when—is for Russia to decide. If war is merely likely, rather than certain, full mobilization may be a trap, as Secretary Marshall has lately pointed out. The strain of full mobilization is such that we could be worn down rather quickly just by keeping 10 or 12 million men in uniform and making the corresponding economic adjustments. Besides, it takes a clearcut state of war to make full mobilization feasible.

*An address by Professor Hart before The American Economic Association, Dec. 29, 1950.

The Goals

The goals of a readiness program are:

(1) To get set so that if war breaks out we can mobilize fully in months rather than years.

(2) To develop enough ready strength in the crucial European theater to guarantee us the necessary months in case of war.

Production priorities follow. There is plainly a strong preference for producing goods and services which will be useful *either* if war comes quickly or if we have a prolonged armed truce. This includes putting several million man-years into military training to build up ready strength, and providing a large stockpile of finished munitions, so that our ready forces (and those of our allies) would not be scanted in the early months if fighting started. At the bottom of the priority list will come goods whose ingredients have military value, but which as finished goods have only peacetime value. An example is the luxury aspect of auto production. A Cadillac is not much more transportation than a Chevrolet; but it embodies a good deal more materials and a lot more man-hours. A readiness economy cannot afford to treat consumers to the difference in comfort at the expense of the difference in resource-cost.

A readiness economy implies comfortable living for most of us. I do not mean that we owe it to the world to live softly and have plenty of fun. But a good deal of our consumption comes from sources (notably occupancy of existing houses) that cannot effectively be transformed into military power. A good deal, in the perspective of a long period of readiness, is what the classical economists called "productive consumption." Attempts at military diversion of essential foods, medical care, auto repairs, etc., would boomerang in the not-very-long run by reducing production. There is also a long list of consumables which *could* be converted, but at a loss rather than a gain. We could put unassembled parts of Cadillacs into scrap heaps; but it costs less to assemble them than it would presently to produce as much transportation by parts-fabrication plus assembly for an equal number of Chevrolets. We will need more cars before we are out of the woods. Complete production of Cadillacs is beyond our means; but it is also beyond our means to throw away those that are almost produced already.

The control problems of readiness differ in kind as well as in degree from those of full mobilization. Since the readiness-economy may last a decade before we revert to a peace economy, we cannot afford to adjourn controversy and set aside such long-run objectives as the decentralization of political and economic power, efficiency, preservation of economic opportunity. Although the diversions for military use are less intense in readiness than in full mobilization, many control problems are more acute. The lack of a vivid prospect of early victory reduces the incentive value of opportunities to save, of keeping the goodwill of civilian customers, etc.

The lack of wartime patriotic fervor implies more compulsion behind economic policy. Not that unwilling majorities can be coerced. But compulsion is necessary to keep small unwilling minorities from getting rewards for non-cooperation, and setting up pressures which will undermine the willingness of the majority. With a long time to go, we have to be more concerned over the corroding temptations for both controller and controlled which arise when the controller has discretion over matters of vital importance to a firm. But there is also danger of crippling the economy by setting up "red tape" to limit such discretion. Readiness is emphatically not a policy of "half-way"—problem by problem, its strategy is more exacting than full mobilization.

The Inflation Problem

Building up to a plateau of readiness obviously creates an inflation problem. Inflationary pressure arising from the *demand-suction* process may be less intense than in full mobilization. But in exchange the *cost-push* process, with less patriotic restraints, is more intense. Besides, the cost-push process has been modernized by widening the area of sliding scales from farm prices to wages. At the same time, standards of enforceability for anti-inflation programs have to be stiffer.

Nobody needs to be persuaded that inflation is a bad thing. But not all of the popular objections make sense. The objection that inflation reduces mass living standards by eating away the buying power of the dollar smacks of wishful thinking. Keeping price-tags constant does not enable dollars to buy goods unless we have the goods to hang the price tags on. Inflation or no inflation, there are going to be less consumable goods per dollar of income earned. Those who encourage people to believe that price control—without rationing—can conjure shortages out of existence are building up false hopes.

The objection that inflation devalues the military-procurement dollar is also questionable, at a time when appropriations have run far ahead of supplies available for military purchase. It would be at lesat as reasonable to stand this argument on its head and argue *for* inflation as a crude but practical means to get "economy in non-defense expenditure" by forcing each agency either to accept a cut in purchasing power or else persuade Congress (or a local government) to take positive action to increase its funds.

The valid objections to inflation are more sophisticated. Inflation impairs efficiency by bending the measuring-rod of cost accounting and—more important—by making the hoarding of scarce materials a fool-proof road to profit. Inflation impairs work incentives. In particular, since most workers save chiefly by acquiring liquid assets or repaying debts, it cuts into the incentive to earn in order to save. Inflation creates a demand for counter-measures, which are only too apt to take the form of half-baked and half-enforced direct controls, penalizing good citizenship and rewarding evasion.

Worst of all, inflation means squeezing the substance out of the promises by which we guide our economy. Despite all the talk about our dog-eat-dog economy, the fact is that our society rests largely on mutual confidence that bargains will be carried out. If payments regularly turn out to mean less than was understood when they were promised, this confidence is shaken, and every sort of inter-group suspicion and conflict is stirred up.

Economists have an obligation to interpret the problem in terms of these real objections. Obviously, we cannot afford to antagonize real enemies of inflation by charging them with heresy, and insisting that they produce academically respectable reasons for their stand. But neither can we afford to let people pin medals on themselves as leading foes of inflation if their diagnosis and prescription are grossly inadequate—or if they are simply looking for a way to exploit inflation as sellers while resisting it as buyers.

The Mobilization Hump

If the American strategy of deterring aggression succeeds, the eventual plateau of readiness can be maintained without any unbearable strain. But between us and that plateau lies a hump of effort to make up arrears—for all the world the same thing as the investment-hump of the Hicksian trade-cycle model.

One of the clearest humps in sight is in military recruiting. Once our program is well under way, inductions will consist mostly of young men just coming of age. But during the build-up to readiness, we will of course find all the military material we can in slightly older age groups as well. Inductions will have a fairly early hump (perhaps as early as summer 1951), when student deferments expire in large numbers). This implies also a slightly later hump (1952?) of men in training. Since the total number in uniform consists of trainees plus trained men whose service is prolonged to give ready military strength, the hump in total military numbers may come later. But as organized reserves build up, need for ready

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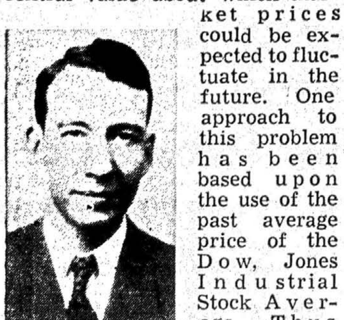
A Simple Formula for Common Stock Investment

By HENRY S. SCHNEIDER*
Market Analyst, Wertheim & Co., Members N. Y. S. E.

Mr. Schneider's analysis of market performance of two stock groups within Dow Jones Industrial Index discloses that those stocks selling highest in relation to their past average prices (the "Dear Group") performed better than those stocks selling lowest in relation to their past performance (the "Cheap Group") from 1914 to 1931; but that in "New Deal Era" from 1932 to 1948 this situation was reversed. Concludes latter period's trend will continue, and selection of "Cheap Stock Group" will offer simple and dependable key to successful stock selection.

One of the primary problems of common stock investment has been the determination of some central value about which market prices could be expected to fluctuate in the future. One approach to this problem has been based upon the use of the past average price of the Dow, Jones Industrial Stock Average. Thus several formula - timing plans have been geared to the price record of this Industrial Stock Index. Under these the investor is instructed to purchase stocks when the Index is selling sufficiently below its previous five-or-ten-year average price, and to sell when the Index is somewhat above the past average.


Henry S. Schneider

The purpose of our research was to test this criterion of past average price, not as applied to the Dow, Jones Industrial Average itself, but to the individual stocks within the Index. For purpose of testing we decided to select two groups of stocks, each comprising roughly one-sixth of the number in the Index. The first group consisted of the stocks selling highest in relation to their past average prices, and the second group consisted of those selling lowest in relation to their past average prices. We called the two groups "Dear" and "Cheap" respectively. For our dates of selection we used year-end prices in all cases. The past average price of each stock was usually taken as the mean of the annual highs and lows for five years prior to the date of selection. (In earlier years the five preceding year-end prices were averaged.) The period of testing covered the 35 years 1914 through 1948. In each year of this period we selected the two groups of stocks, and then tested the market performance of each group against the Average itself as shown by the prices of one, two, and three years later.

Illustration of the Method of Testing

Our method of testing was very simple and I shall illustrate by starting in the year 1914. We first computed the 1910-1914 average price for each stock in the Index; we then took the market prices of the individual stocks in the Index as of Dec. 31, 1914, and divided each by its own past five-year average price. The resulting percentages were arrayed in numerical order ranging from the highest to the lowest. The top one-sixth of the stocks were chosen for the Dear Group and the bottom one-sixth as the Cheap Group. We then measured the percentage price movement of the Dear Group, Cheap Group, and the Industrial Average itself one year, two years, and three years later, as though one share of each stock had been purchased on Dec. 31, 1914 and then sold out on Dec. 31, 1915, 1916, or 1917. In 1915 we followed the same procedure as the above in selecting the two groups of stocks; only this time we used 1911-1915 average prices and 1915 year-end prices. The same was done in all subsequent years through 1948. Thus three tests were made from the groups in

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*A paper presented by Mr. Schneider at the Round Table on Investments, Benjamin Graham, Chairman, before the American Finance Association, Chicago, Dec. 29, 1950.

Dealer-Broker Investment Recommendations and Literature

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

Brief in Support of the Missouri Pacific Reorganization Plan—Gammack & Co., 40 Wall Street, New York 5, N. Y.

Electric and Gas Utility Common Stocks—Under excess profits tax—Study—Newburger, Loeb & Co., 15 Broad Street, New York 5, New York.

Equipment Trust Certificates—Semi-annual appraisal—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

Also available is a semi-annual appraisal of **City of Philadelphia Bonds.**

Mercantile Stocks — Analysis — Dreyfus & Co., 50 Broadway, New York 4, N. Y.

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

Preferred Stocks cumulative as to dividends and free of Pennsylvania Personal Property Taxes—Tabulation—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

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

* * *

Bank of America N. T. & S. A.—Memorandum — Floyd A. Allen Co., 650 South Grand Avenue, Los Angeles 17, Calif.

Burlington Mills Corp.—Memorandum — Shearson, Hammill & Co., 14 Wall Street, New York 5, New York.

Also available is a memorandum on **M & M Wood Working Co.**

Central & Southwest Corporation—Analysis—Kidder, Peabody & Co., 17 Wall Street, New York 5, New York.

Collins Radio Co. — Memorandum—Lee Higginson Corp., 231 South La Salle Street, Chicago 4, Illinois.

Continental Copper & Steel Industries — Analysis — Dansker Brothers & Co., Inc., 511 Fifth Avenue, New York 17, N. Y.

Continental Sulphur & Phosphate Corp. — Memorandum — Beer & Co., Gulf States Building, Dallas 1, Texas.

Also available is a memorandum on **General Sulphur Corp.**

Cummins Engine Co. — Memorandum—A. G. Becker & Co., 120 South La Salle Street, Chicago 3, Illinois.

International Hydro Electric Co.—Memorandum—Josephthal & Co., 120 Broadway, New York 5, N. Y.

Jones & Laughlin—Bulletin—Bache & Co., 36 Wall Street, New York 5, N. Y.

Kaiser Steel Corporation—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Kerr-Addison Gold Mines, Ltd.—Analysis—James Richardson & Sons, 347 Main Street, Winnipeg, Man., Canada, and Royal Bank Building, Toronto, Ont., Canada.

Kold Hold Manufacturing Co.—Memorandum—Goulet & Co., 25 Broad Street, New York 4, N. Y.

Missouri Pacific Railroad Co.—Analysis—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Morris Paper Mills—Memorandum—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Illinois.

Outlook for Fire Insurance Stocks — Data — Laird, Bissell & Meeds, 120 Broadway, New York 5, New York.

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

Also available is a report on **Harbor Plywood Corp.**

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

Ultrasonic Corporation — Analysis—L. H. Rothchild & Co., 52 Wall Street, New York 5, N. Y.

Union Bag and Paper Corporation—Analysis—Hayden, Stone & Co., 25 Broad Street, New York 4, New York.

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

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

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.

June 11-14, 1951 (Jasper Park, Canada)
Investment Dealers Association of Canada Convention at Jasper Park Lodge.

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

Oct. 12, 1951 (Dallas, Tex.)
Dallas Bond Club annual Columbus Day outing.

Nov. 25-30, 1951 (Hollywood Beach, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Smith, Barney Co. Admits Winfield Perdun


Winfield H. Perdun

Smith, Barney & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and other leading exchanges, announce the admission of Winfield H. Perdun to general partnership in the firm. Mr. Perdun's admission to Smith, Barney & Co. was previously reported in the "Chronicle" of Dec. 21.

Selection of Public Utility Stocks by Formula

By EDWARD B. BARRETT*

Market Analyst, Auchincloss, Parker & Redpath, Members New York Stock Exchange

Mr. Barrett's analysis of past performance discloses those issues distributing low proportion of earnings as dividends outperformed the "high payout" issues, and benefited more fully marketwise from dividend increases. Concludes niggardly dividend policy favors sophisticated investor in providing opportunities for buying low payout issues at unduly low prices.

This paper summarizes the results of a study covering the field of operating public-utility common stocks for the years 1930-49.


Edward B. Barrett

Our research was divided into three stages. The first represented an effort to determine the most promising criterion for the selection of utility common stocks, and was based upon a complete examination of a single year's characteristics and performance—1948. In the second stage, the criterion thus suggested was applied to all available operating utilities in successive years from 1929 through 1949, and the market results from such selections were compared with those of the utility group as a whole, and with other indexes. The results shown were so impressive that, in the third stage, a reason was sought to explain the highly favorably market performance of the stocks selected.

The criterion discovered and used turned out to be—somewhat paradoxically—that of a "low payout"—i.e. a low proportion of reported earnings distributed as dividends. It was then assumed that each year a selection of one-fifth of all operating-utility issues would be made by the application of this criterion. The market performance of the successive groups so selected was calculated on the basis of one-year's holding — without inclusion of dividends received. When this performance was compared with that of the large group—the "universe"—significant differences (of more than 5%) were found in 13 out of the 20 years. In 12 out of these 13 important cases the low payout group performed better than the universe. When the percentage changes for each of the 20 years were added up, the selected groups showed a net gain of 337% against 85% for the universe—an annual average of 16.8% against 4.3%. On a cumulative or annual reinvestment basis, starting in 1930 and ending in 1950, the low payout group showed a final net gain of 456%, while the group as a whole showed a small loss of 3%. Comparisons were made also with the performance of a counter-group consisting of the high payout companies, to the number of one-fifth of the universe. These did not do as well as the entire group, and they therefore fell far below the showing of the low payers. Comparisons of dividend yields during the second half of the 20-year period were not unfavorable to the low payout group, but the differences shown were minor. Further investigation revealed that the low payout stocks benefited much more frequently than the entire group from *dividend increases* within a short time after their selection. This circumstance undoubtedly explains in good part the superior market performance of the issues selected by our criterion. Additional details:

How the Criterion Was Determined

We devised the following method for determining the most plausible criterion for selecting utility stocks. First we made up ten different tentative criteria, representing various statistical ratios. These referred to (1) the percent of earnings paid out in dividends, (2-3) earnings vs. price, (4-5) capital structure, (6-7) the operating ratio and the percent of revenue carried down to the common, (8) the percent earned on total capital fund, (9) the maintenance and depreciation ratio, and (10) the relationship between increases in revenue and increases in expenses, since 1937. We worked out all these ratios for 1948 for each of 49 operating utilities, the entire available field in that year. We then divided the 49 companies into quartiles for each criterion—prefering to study market behavior by such groups rather than by individual companies alone. Similarly, we calculated the market performance for each common-stock issue for the 12 months from March 1948 to March 1949, and again divided them into quartiles ranged downward from the best to the poorest performance. Our next step was to correlate the various "selection criteria" with the performance records.

We found that out of the 12 companies with the lowest payout ratio no less than eight appeared in the top market-performance quartile. Conversely, 10 out of the 12 highest payout issues appeared in the two poorest quartiles of performance. This correlation was more impressive than that offered by any of the other criteria—although the simpler one of buying issues earning the largest percent on price came a close second. (The suggestion has been made that someone should make a study parallel to ours, but using this price-earnings-ratio criterion.)

Testing the Pay-Out Criterion Over a Period of Years

We did not compare our original ten criteria in any other sample years, but adopted low payout as our hypothetical touchstone, and proceeded to test it out first for a 10-year and ultimately for a 20-year period. Our comparisons were made (1) with the group as a whole, (2) with a sub-group consisting of the highest payout stocks, and (3) with the two available utility-stock indexes. Over the 20-year period the Dow-Jones and the Standard-Poors Indexes did not do quite as well as our entire group—thus underlining the favorable results obtained by comparing the low payout issues with their universe. These results have improved over the course of the period, as is seen by the following comparisons of successive five-year totals of the annual percentage changes in market price:

5 Year Total for	Low Payout Group	Entire Group
1930-34	Loss 77%	Loss 89%
1935-39	Gain 149%	Gain 79%
1940-44	Gain 166%	Gain 57%
1945-49	Gain 99%	Gain 39%

The only instance in which the low-payers performed significantly worse than the entire group was in the early period of maximum depression 1931-1932. Their loss in that year was 47.1%, against 41.9% for the "universe."

We also made a check, covering the years 1941-1950, of the relative market performance of the individual stocks in the low payout groups. We found that in 41 cases out of 82 their performance ranked in the best performance quartile of the universe, and in only 13 cases they fell into the poorest quartile.

Explanation of Results Shown

The low payout issues were intrinsically cheaper than the others because their small dividend held their price down in relation to their earnings. Furthermore, they were more likely to benefit from dividend increases than other utilities. Such increases, if they eventuated, could be expected to exert an important upward influence on subsequent market price. We assumed that later dividend performance would be found to yield the clue to the favorable market performance, and studied the actual data over the 9-year period March 1941-March 1950. We found that there were 57 dividend increases in these years, and 30 of them applied to stocks in the low-payer group. This is nearly three times as many as their numerical proportion would have warranted. It is clear that the group selected was aided significantly by these dividend actions; it may have been helped as well by anticipations of additional dividend increases.

Niggardly Dividends Not Thereby Justified

It should be unnecessary to add that the superior market performance of the low payout stocks by no means justifies a corporate policy of niggardly dividends. The truth is just the opposite. A niggardly dividend holds the price down, and is clearly harmful to the rank-and-file stockholder. It favors the sophisticated and alert investor, who is enabled thereby to take advantage of the less expert among the public stockholders, by buying the low payout issues at unduly low prices.

The Factor of Capital Structure

A low payout ratio is often occasioned by a low ratio of common stock to total capital. In such cases we do not have the usual grounds for expecting a step-up of the dividend. We made a supplemental study to determine whether it would be better to exclude from the group selected all common stocks with equities below either 25% or 20% of total capital. The results were not conclusive. They indicated that such exclusions would produce better results in years of declining prices, but not in good and bad markets taken together

*A paper by Mr. Barrett presented at the Round Table on Investments, Benjamin Graham, Chairman, before the American Finance Association, Chicago, Dec. 29, 1950.

Three Otis Officers to Make New Connections

CLEVELAND, Ohio—Glenn R. Miller, Executive Vice-President, John A. Kruse, Vice-President, and Lyman Smith, Treasurer, have resigned as officers of Otis & Co., Terminal Tower. New officers will be appointed shortly to replace them.

It is reported that Mr. Miller will be joining Cruttenden & Co. of Chicago and that Mr. Kruse will become a member of Prescott & Co. Mr. Smith, it is rumored, is forming his own securities firm with Harvey and Dan M. Hawkins, who were also formerly associated with Otis & Co.

E. W. & R. C. Miller Add

PHILADELPHIA, Pa.—E. W. & R. C. Miller & Co., 123 South Broad Street, members of the Philadelphia-Baltimore Stock Exchange, announce the association with them of Bayard Wharton.

Morgan Stanley Co. Partnership Changes

Morgan Stanley & Co., 2 Wall Street, New York City, members of the New York Stock Exchange, announce that Harold Stanley will



Perry E. Hall Chester H. Lasell

become a limited partner in addition to continuing as a general partner; Perry E. Hall, a general partner, will be managing partner and Chester H. Lasell is admitted as a general partner of the firm, effective Jan. 1, 1951.

Mr. Lasell became associated with Morgan Stanley & Co. in 1935, having been previously with J. P. Morgan & Co. and Price, Waterhouse & Co.

Landry, Alexander Co. Formed in New Orleans

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, La.—Mrs. Leonie F. Landry and Robert D. Alexander have formed Landry, Alexander & Co. with offices in the Marine Building, to conduct a securities business. Mrs. Landry was formerly a partner in Schweickhardt, Landry & Co. Mr. Alexander was in the corporate trading department of Howard, Weil, Labouisse, Friedrichs & Co.

Pennsylvania Brevities

PTC Signs 2-Year Pact

PHILADELPHIA—Next Feb. 11 will come and go without what has heretofore come to be an annual "show of force" between the Philadelphia Transportation Co. and Local Union 234, Transport Workers Union (CIO). On Dec. 29, the city transit workers voted by a three to two margin to accept the terms of a two-year contract containing a no-strike clause.

The new contract carries wage increases of eight cents per hour for operators and maintenance employees and an additional 2 cents per hour increase for one-man trolley, bus and elevated operators. Certain other groups will receive advances up to 13 cents an hour. Minimum pensions for employees who have reached age 65 with 25 years of service are increased from $100 to $125 per month. Other features are a guaranteed work week and an escalator clause based upon the cost of living.

Negotiations between the company and union representatives were speeded by a mutual desire to reach agreement before the possible imposition of a wage freeze. The adoption of a two-year contract is unprecedented locally.

* * *

Gas Boom in Pennsylvania

Drilling for natural gas in Central Pennsylvania, notably Clinton County, has reached boom proportions and development of the new field as being commercially successful seems assured. At present, 68 wells are in production, being drilled or projected. Approximately 140,000,000 cubic feet daily is flowing from 10 completed and producing wells.

In the Renovo district, gas has been most generally encountered at about 6500 feet and the average cost of drilling to this depth is approximately $50,000. For the most part, land lease rights have been taken up and are held by groups of local residents and workers who have limited individual holdings to from one to five shares of $100 each. Thus wildcat exploitation is restricted and risks are minimized. To date only three wells have turned out to be "dry."

* * *

Check and Double Check

PHILADELPHIA—Philadelphia Gas Works Co.'s projected program of expending $31,900,000 over the next five years to expand its facilities in meeting expected increase in gas consumption has been substantiated by an independent survey conducted by Ebasco Services, Inc., New York engineering firm. The Ebasco report stated it had not reviewed all items of the program but that on the basis of estimates "an amount in the neighborhood of $30,000,000 should be considered," subject to upward revision if conditions so indicate.

Gas send-out in the week ended Dec. 24 was 1,138,513,000 cubic feet, an increase of over 54% over the comparable 1949 week. The company estimates that by the winter of 1955-56, gas used here will approximate 407,000,000 cubic feet daily.

* * *

Morrisville Steel Plant Speeded

Construction work on the U. S. Steel Corp.'s $300,000,000 plant to be built on 3800 acres of land at Morrisville, Pa., across the Delaware River from Trenton, will start in March and be pushed to completion considerably in advance of original schedules. Some finished products will be turned out six to twelve months after construtcion starts although its ultimate capacity of some 1,800,000 tons a year will not be reached until late 1952.

The new plant, to be known as the Fairless Works, will be wholly integrated, producing steel ingots, blooms, billets, bars, rods, plates, steel pipe, hot and cold rolled sheets and strip, black plate and hot dipped tin plate. As by-products, it will produce light oils, ammonium sulphate, napthalene and tar.

Plans for development of the new seaboard site set to coincide with the availability of iron ore from U. S. Steel's Cerro Bolivar deposits in eastern Venezuela, but were expanded and moved forward because of the Korean War and the present national emergency. Until such time—probably 1955—as Venezuelan ore becomes available in larger quantity, the Fairless Works will utilize domestic and other foreign ores.

Construction and maintenance of the new "steel community" will add greatly to the industrial, commercial and residential development of the area between Trenton and Philadelphia with a resultant "lift" to many related business activities. The plant itsef will employ about 4,500 workers, about equal to the present population of Morrisville.

* * *

Baldwin Strike Ended

A two-weeks' strike of pattern makers at the Eddystone plant of the Baldwin-Lima-Hamilton Corp. was settled last week, ending the threat of a lay-off of 4,000 other employees which would have taken place Jan. 3. The terms agreed upon included a 10-cent "package raise" retroactive to last Sept. 1.

* * *

American Stores Sales Up

William Park, President of American Stores Co., said that sales of the grocery store chain, both on a tonnage and dollar basis, were the greatest in company's history for the week ended Dec. 23. Dollar sales were 23.5% greater than in the corresponding 1949 week.

* * *

Two Crossing Sites Approved

A board of engineers, reporting to the Delaware River Joint Commission, last week recommended two sites as being favorable for bridging or tunneling the Delaware between south Philadelphia and New Jersey. Estimated costs of either project were set at $50,000,000.

The report favored a bridge crossing from Oregon Ave., Philadelphia, to a point north of the New York Shipbuilding Corp. yards in Camden. It was estimated that a span at this location would divert 11,005,000 automobiles annually from the present Delaware River Bridge by 1955.

The recommended tunnel site is about three-quarters of a mile farther south where considerable open ground is available for approaches.

The Commission will later decide upon which of the two types of construction it favors and upon the exact location.

* * *

Duquesne Light Seeks Increase

PITTSBURGH—A schedule of higher rates estimated to increase revenues by $7,720,612 annually and the first general raise sought in the company's history has been filed with the Pennsylvania Public Utility Commission by Duquesne Light Co. A decision is expected by Jan. 10.

The light company's brief stated the increase was necessary to sustain its credit and enable it to carry forward its improvement program.

* * *

ACF-Brill Order

ACF-Brill Motors Co. has received an order from Army Ordnance Corps to build 602 motor buses, the "largest single order ever received by ACF-Brill for motor buses," according to C. W. Perelle, President.

* * *

Scott Paper Co.

Sales of Scott Paper Co. for 1950 are expected to exceed $95,000,000, compared with $83,599,960 in 1949, with earnings of about $4.25 per share on the 1,743,696 shares now outstanding. On the basis of the same capitalization, 1949 earnings were $3.04 per share. The installation of new high-speed paper making machinery last October has served to offset higher material costs. Demand for company's products continues at production capacity.

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Allegheny Ludlum Earnings

PITTSBURGH—Per share earnings for Allegheny Ludlum Steel Corp. for 1950 are estimated at around $8, compared with $1.15 in 1949. Sales are expected to exceed $170,000,000, comparing with the previous sales record of $125,500,000 in 1948.

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Dow-Jones estimates Carpenter Steel Co.'s last six months' earnings at $5.50 per share, compared with $1.44 in the like 1949 period.

* * *

Aetna Standard Engineering Co., Ellwood City, Pa., will soon start a $2,000,000 program of plant expansion.

* * *

The Federal Reserve Bank of Philadelphia reported central city department store sales for the week ended Dec. 23 as 13% above the corresponding 1949 week; 5% up for the four weeks and 2% up for the 51 weeks ended on that date.

* * *

Stockholders of Pennsylvania Salt Manufacturing Co. subscribed to 98½% of the 124,879 additional shares offered at $45 per share in the ratio of 1-for-7.

Truman's Economic Advisers Urge More Production and Consumer Controls

In Fifth Annual Report to President, Leon H. Keyserling, John D. Clark and Roy Blough, constituting the Council of Economic Advisers, urge more speed to reach goal of building up maximum strength. Stresses use of full production potentials with accompanying curbs on consumer spending, credit and wages, as supplements of the price system, in achieving purposes of defense production.

In its Fifth Annual Report to the President, which it entitles "The Economics of National Defense," the Council of Economic


Leon H. Keyserling


John D. Clark


Roy Blough

Advisers, set up by the Employment Act of 1946, and now composed of Leon H. Keyserling, Chairman, John D. Clark and Roy Blough, urge "speed and more speed" as imperative to reach the goals set for building-up our maximum strength. The report stresses need for more efficient use of our resources and the importance of increasing military production as well as enforcing effective controls to attain this end, and to maintain stability of the economic system.

Concerning the importance of production and controls, the Report states:

"The programming of resources and requirements serves to reveal shortages of varying degree in many goods and services. In many cases, the problem of shortages can be cut, like the Gordian knot, by rigidly allocating existing supplies among various requirements according to priority. But restraint of demand will not and cannot meet the whole problem. In many instances, production must be expanded—and in the long run, this is the more fundamental remedy.

"It is obvious that, on the economic front, wars whether hot or cold are won or lost on the production line and not simply by restraints. This justifies discussion of why major emphasis in the kind of mobilization now under way should be placed upon production.

"First of all, the current rate of output of some items vital to the defense effort is not enough to satisfy even the primary military and stockpiling requirements which we should now be meeting or will have to meet shortly. Even allowing for an expansion of imports (but allowing also for the possibility that international developments might curtail some imports) the only safe answer in these cases is to expand production of these items.

"Another situation exists in cases where the supply is sufficient for military requirements and stockpiling alone, but not sufficient to cover also the industrial and consumer requirements for an economy supporting a high and expanding mobilization effort for a long time. There has been a tendency in some quarters to subtract the military and stockpiling requirements from the total supply, and to conclude that the situation is not serious if the remainder is well above zero. This neglects the fact that other essential requirements, even with restrictions and sacrifices, may be far above zero and may even exceed the military and stockpiling requirements.

"More generally, the experience in World War II illustrates that, while many lines of production were cut back and many restrictions imposed, total output swelled enormously. On an annual basis, it rose by about three-quarters between 1939 and 1944. If this gain had been only one-half as great, we might have lost the war no matter what else we did.

"In some respects, the expansion of total production, although in an entirely different pattern from in peacetime, may be just as imperative now as during World War II. In a total war, the nation had to draw down very heavily upon its industrial and civilian strength in order to support the military build-up. This follows from the very nature of a total war. In the different situation which we now face, there is no telling how long the burden of the military build-up will last, but informed opinion is that we face many years of very high defense outlays. We must weigh carefully the extent to which we now draw down our industrial and civilian strength, because we do not know at what year in future—if at all—we shall be called upon suddenly to drain that strength to the utmost in support of a total military effort. The safest course, under these circumstances, is to combine the military build-up with the largest feasible support of our underlying industrial and civilian strength. This is necessary not only for purely economic reasons, but also because of the psychological strain involved in carrying a military burden in a democracy without the pressure of an all-out war. The conclusion is that to serve these various needs we must expand total production if we are to achieve optimum strength for the long pull.

"We cannot expand total production anywhere near to the extent that we did between 1939 and 1944, because we had more slack resources in 1939 than we have now. But current and foreseeable planning do not contemplate anywhere near the diversion of manpower and material from availability for the production line to service in the armed forces that was undertaken in World War II; and this differential compensates in substantial measure for the fact that we had more slack resources in 1939 than we have now.

"Moreover, it does not follow that we do not have a great production expansion potential within our economy just because we were near 'full' utilization of manpower and plant by the middle of 1950. We have a growing population and a growing labor force. We can work much longer hours. We have a marvelous technology, and must strive through it to increase productivity. We can further apply the latest results of science and invention to the practical problems of production. It should be possible to increase the total of private and public output by about 25% over the next five years. This is a considerably higher rate of growth than has been experienced in normal peacetime, but the Council believes it can be obtained with the harder work and larger effort which the emergency now imposes upon all.

"A wide range of tools, skillfully employed, will be needed to expand the right lines of production with sufficient rapidity. They include procurement policy, technological development, financial aids for increasing capacity, informational guidance, and training programs. Even restrictive measures, such as taxation, credit controls, allocations of supply, and price and wage controls can contribute to production, by selectively curbing unwise resource use without stifling necessary types of incentive, investment and expansion. It is not the Council's role, at least in this report, to advance detailed production programs.

"We can say this: Whatever controls we may adopt, they will fall far short of those of an opponent whose entire economic and political system is founded upon the most rigid control of every button and every grain turned out by every factory and farm. But we can enlarge our productive superiority, and in setting out to do so we will be choosing the weapon which we know best how to use.

Uses and Limits of Controls

"The argument thus far has been that the first task of economic mobilization is to define and reconcile competing requirements, to match these requirements against available supply, and to service these requirements in accord with priority of need.

"It has also been pointed out that the most fundamental approach to the satisfaction of necessarily enormous requirement is by accenting production. Goods must be made before they can be used.

"But there are various compelling reasons why, in addition to promoting production, it is necessary to restrain demand. The output of some items cannot possibly be expanded rapidly enough to meet the needs of the primary military build-up without cutbacks elsewhere. Reliance upon the competitive bidding up of prices, to determine the allocation of goods which are in short supply relative to the total need, does not service competing needs on the basis of the priorities of national interest. Such hectic price movements create grave inequities which undermine public morale and contribute to the inflationary spiral. In brief, the traditional mechanisms of the free market, which in peacetime are relied upon to balance supply and demand and to respond to the relative wants of a free people as determined by themselves, must be supplemented in a period of economic mobilization.

"While the expansion of production may ultimately reduce the specific inflationary impulses which arise from shortages of specific commodities, it takes allocations and other controls, in many instances, to make scarce manpower and materials available for the most needed production lines. Besides, the expansion of production does not and cannot remove the general inflationary problem in a period of very high and constantly rising defense spending. The reason for this is that the volume of income received by producers and consumers (and thus available for spending) is generated by the totality of production, and increases as the total increases. The only goods available for these buyers, however, are total production minus the large amount purchased by the Government for the defense program and for other programs. Thus, the 'inflationary gap' is not filled simply by expanding production. It is accordingly necessary to reduce consumer and business demand below levels they would otherwise reach.

"Controls — both indirect and direct—are needed to deal with this inflationary danger. There are several different methods which may be employed for restraining demand. First and foremost, incomes may be absorbed through taxation, thus cutting down the amount which consumers and businesses have to spend. Heavy excise taxes may also be used to reduce demand for goods in short supply. Second, demand may be restrained through restricting the expansion of credit. Limitations may be placed on credit used specifically for purchasing durable consumers' goods and housing, and on credit expansion generally. Third, allocations of supply operate to restrict the demands of producers, thus reducing pressures on the prices of scarce raw materials. At the consumer level, rationing may be used to restrict demand for particular goods which are in short supply, although it does not reduce total inflationary pressures. Fourth, demand may be prevented from increasing by keeping incomes from rising. This is the way in which price controls and wage controls help restrain demand. A rise in the prices of goods or services which a person sells results in an increase in income available for spending.

"Finally, demand may be reduced by promoting net saving, that is, by decreasing the spending of current disposable income and previously saved assets. Strong emphasis will need to be placed on the enlargement of saving, as it will be extremely difficult to prevent the amount of disposable income after taxes, which people would normally want to spend on consumption, from exceeding the available supply of consumer goods. To enlarge saving sufficiently, however, will not be an easy task. Several of the control methods listed above operate to encourage net saving, namely, heavy excise taxes, specific credit controls, and rationing. The central effort to increase saving will undoubtedly be through vigorous patriotic campaigns to buy Government bonds. No method for increasing saving should be left unconsidered.

"The different kinds of controls — priorities and allocations, price and wage controls, credit controls, and taxation, both general and special—differ in their operation and effects. In general, controls, when wisely used, supplement the price system in achieving the purposes of the defense program in three ways: First, controls can promote production by channeling resources into the most desirable uses; sec-

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The Fallacies of an Area Defense

By JOHN FOSTER DULLES*
U. S. Delegate to the United Nations

Though asserting there is no occasion for complacency or for whitewash, leading Republican Party spokesman on U. S. foreign policy decries suggestions we abandon policy protection of free nations and restrict our area of defense to Western Hemisphere. Defends U. S. move in Korea as well as North Atlantic Pact, and points out, with aid of Western European production, we can, in event of full scale war, maintain superiority of Russia in industrial and military potentials. Points out Russia's internal vulnerability.

At the end of the year it is our good custom to pause to think about the past so that we can better plan the future. This year's end it is particularly important to do that, and we should be grateful to all who, out of wisdom, experience and proven idealism, help to clarify the grave issues that confront us.


John F. Dulles

As we look back, we need not feel despondent. There are great dangers ahead. There are patches of ground fog. But once we lift our vision, so that we see the present in the light of historical perspective, it is apparent that the five years have been years of great achievement and that our people have already surmounted great peril.

Nations are like people in the sense that while they may die a violent death, they are more apt to die in their beds, particularly as they grow older. The great question of our time has been whether our Western civilization had become so old and decadent that it was bound to pass away, giving place to the younger, dynamic and barbarian society born out of the unholy union of Marx's communism and Russia's imperialism.

For 1,000 years our Western civilization had been dominant in the world. It won and held that leadership on merit. It produced spiritual, intellectual and material richness such as the world had never known before. The fruits of Western society were spread everywhere, and men elsewhere wanted to share them, rather than to destroy their source.

However, a thousand years is a long time, even for a civilization, and many had come to feel that Western civilization had run its course and had become infected with the same decay as had rotted other great civilization of the past. The Communists in particular took that view, claiming that the West could no longer produce the vital leadership or creative acts needed to satisfy the material and political aspirations of the dissatisfied masses.

Taking advantage of Russia's defeat in World War I, the Bolshevik Communists seized the political power there, and from then on Russian state power and Bolshevik party power worked hand in hand to expand their joint control.

Russia's Communist Aggression

With that slogan they softened up the opposition and then moved in with terrorism, subversion, and civil war to gain political control. By those methods the Russian state and the Bolshevist party working hand in hand brought about 800,000,000 people under their control. And still they were rolling on toward their announced goal of a Soviet-designed "One World."

Who was there to stop that movement? Many thought that it was unstoppable, and a bandwagon trend was getting under way.

At this critical moment heavy responsibility fell upon the United States. We were still a relatively young nation, had not been devastated by war and were on that account less susceptible than others to the poison that the Communist party distills. We, if any, could perhaps demonstrate the faith and works needed to rally men to the cause of human freedom.

The whole world watched to see. If, at that juncture, we had sought only to save ourselves that would have been public confession that the Communists were right in the judgment that the West had rotted. The tide of communism would have rolled on irresistibly and we would have been encircled, isolated and finally engulfed. Only as we sought to help others could we save ourselves.

What U. S. Has Done in Opposition

Our people responded to that challenge by a five-year record of which we can be proud.

Consider these deeds:

(1) We showed, by example within our own country, that social justice could be had without traveling the Communist road of violent revolution and materialism. Through graduated income and estate taxes, and social security and pension plans, our capitalistic society has come to approach more nearly than the Communist world the ideal of production according to ability and distribution according to need.

(2) Within five years the colonial system, which had become a festering sore, has been subjected to orderly liquidation. Over 750,000 people have peacefully won political independence. Great Britain, as the principal colonial power, took the lead. Our own direct national contribution has been the granting of freedom to the Philippines and the discrediting of racial discrimination here at home. But in many other ways, we have exerted a powerful influence in this whole great process of building between men of different races, creeds and colors a new relationship of partnership and of equality.

(3) Since the end of World War II we have provided, in loans and grants over $40,000,000,000 for the relief of other people and the reconstruction of other lands, thereby practicing the great commandment that the strong ought to bear the infirmities of the weak.

(4) We took the lead in founding the United Nations as an organization for recording the moral judgments of the world and developing ways to put power behind those judgments so as to promote collective justice and security.

This year, for the first time in all time, a world organization moved with force to halt aggression. It seemed that the hope of ages had come true — whatever now be the disappointments. We can know that sons of the United Nations, who in Korea lay down their lives do so for the noblest cause for which men ever died in battle. They have done the in-

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*An address by Mr. Dulles before the American Association for the United Nations, New York City, Dec. 29, 1950.

Jones, Cosgrove & Miller Is Formed

PASADENA, Cal.—Jones, Cosgrove & Miller announce the merging of the business of Jones, Cosgrove & Co. and of George R. Miller & Co. The new firm, which is a member of the Los Angeles Stock Exchange, will maintain offices at 81 South Euclid Avenue.

Firm Name Now Troster, Singer & Co.

Troster, Currie & Summers, 74 Trinity Place, New York City, members of the New York Security Dealers Association, announce the change of the name of the partnership to Troster, Singer & Co., effective Jan. 1, 1951.

John Tilney Partner In Wood, Walker Co.

Wood, Walker & Co., 63 Wall Street, New York City, members of the New York Stock Exchange, announce that John S. Tilney has been admitted to the firm as a general partner. Mr. Tilney's admission to partnership was previously reported in the "Chronicle" of Dec. 21.

Governmental Sabotaging Of Business Executives

By FOREST D. SIEFKIN*
Vice-President and General Counsel, International Harvester Company

Mr. Siefkin asserts top executives of business find themselves restricted in a progressively smaller corral, with posts, barbed wire, boards and brush consisting of new legislation. Cites new concept of "national emergency" with the unpredictable executive order as adding to the difficulties emanating from statutes involving social security, fair labor standards, labor relations and registration and sale of securities. Maintains today's senior executive compelled to devote to political and labor problems much time which predecessors gave to finance and production.

I
Introduction

We Americans are great people for self-examination. It is usually said that baseball is our national sport, but I believe a good case could be made that soul-searching is at least a close second and may have taken the lead.


Forest D. Siefkin

At the end of a big laundry and a session with the hot stove, the tired housewife settles down with a gripping little article entitled, "Are You Blighting Your Child's Life?" The junior clerk measures himself against the factors set forth in an essay called "The Ten Hallmarks of a Successful Executive." And the executive, at home of a winter's evening, broods over a volume on "The Nine Bad Shots in Golf."

Because of this faculty for self-examination, we have developed an enormous descriptive and critical literature about almost every phase of American life. And of all these, the literature of business is among the most voluminous.

It is a solemn and chastening experience for any business executive to visit the second floor of a book store—up where the business books are usually kept. There he can wander for hours among texts on budgetary control, on corporation finance, industrial and public relations, product design, manufacturing, advertising, sales organization, taxation, industrial relations, accounting, and so on and on.

Try it some time. And then pause to consider that as a business executive you are supposed to have at least a smattering of all these subjects.

So I will not attempt today to describe the functions of an executive. Any of the books will tell you that the management of a business involves the management of men, money, machines and materials. Any of the books will tell you that the executive has three functions—to plan, to organize and to control. Any of them will give you a quick resume of the more commonly used methods for doing those things.

II
The Executive's Habitat

Instead, I should like to use my time for a quick examination of the changes that have taken place and are still going on, changes in the political and economic climates which compose the executive's natural habitat, and changes in the nature and style of the senior executive himself.

As to the first of these, our ordinary speech gives us an instant clue to the nature of the changes. We used to speak of major pioneer businessmen as "empire builders." The heads of large corporations were often known as "captains of industry." The meaning was plain—that such men exercised almost unlimited power within their scopes.

To a large degree that was true. Fifty years ago, the top executives of a major business were relatively as free as a longhorn steer on the unfenced range. The only superior power before whom all of them had to kneel was the choice of the customer; a power, incidentally, in spite of the efforts of advertising, which the customer still exercises freely.

The Smaller Corral

(1) Today the top executive of a business finds himself restricted in a progressively smaller corral. The posts, the barbed wire, the boards and the brush of this corral consist of relatively new legislation. Such acts as those involving social security, fair labor standards, labor relations and the registration and sale of securities, to mention only a few, involve the widespread practice of government by administrative law through boards and commissions. Along with these laws has come the concept of the "national emergency," which, in turn, gives great impetus to the unpredictable executive order. The same intervening years have brought taxation at such levels and of so many kinds as to make the government, from a revenue standpoint, the most important beneficiary of business operations. At the same time, taxation has become so important to the businessman that the impact of taxation forces him to consider it in many decisions to which no one formerly thought it could apply.

Some Illustrations

To illustrate more specifically in several important fields of business administration:

(a) In the field of financing a company. Fifty years ago the XYZ Corporation found itself in need of greater capital to carry out its plans. Its executives then faced a choice from among several alternatives. They could borrow for the short term. They could borrow for the longer term. They could issue additional shares and offer them on the market. Or, if they had been prospering, they could add to their capital by reinvestment of past earnings, thereby increasing production and employment.

Today what do we see? Borrowing is still possible, in most cases. Issuance of new shares is totally impracticable in a large number of cases. The elaborate processes of the Securities and Exchange Commission have made the expense prohibitive or the timing difficult or impossible in

Continued on page 38

*An address by Mr. Siefkin before the American Economic Association and the Chicago Association of Commerce and Industry, Chicago, Dec. 27, 1950.

Testing Formula Plans

By C. SIDNEY COTTLE*
Professor of Business Administration
and
W. TATE WHITMAN*
Associate Professor of Economics,
School of Business Administration, Emory University, Atlanta, Ga.

Messrs. Cottle and Whitman maintain a constant-ratio plan is useful for institutional investors, particularly because of simplicity and relative safety. Emphasize advisability of basic features and operational procedures being understood by non-professional members of finance committees, investment trust shareholders and other owners of the funds which are being administered.


C. Sidney Cottle


Dr. W. T. Whitman

Recognition of the fact that marked fluctuations occur periodically in stock prices and dividends is fundamental to any investment program. In an effort to provide for these cyclical risks, "stock-market timing" has been widely adopted. Specifically, most investors seek to time entry into the market so that stock holdings will be increased in periods of undervaluation and decreased in periods of overvaluation. In other words, they endeavor to "buy bear markets and sell bull markets."

There is general agreement as to the difficulties of timing satisfactorily the purchase and sale of common stocks but much controversy exists as to the method for overcoming them. Many systems have been created and have been employed with varying degrees of success. One of the most significant recent developments has been timing by formula plan.

Within the past ten years investment managers of a constantly growing number of insurance companies, banks, investment trust and educational institutions—as well as individual investors—have adopted the formula plan method of stock-market timing. This marked growth has created widespread interest in the formula technique among all types of investors and students of finance.

Nature of Formula Plans

The objective of all formula plans is to sell stocks on a price rise and to buy with a decline. In this manner they seek to protect the fund against some of the losses of a decline and preserve some of the gains of a rise.

Although important differences exist in certain features of formula plans, all plans are characterized by: (1) the elimination—once the plan has been established — of forecasts as to the course of the market, i.e., the direction and extent of any given movement; (2) the division of the investment fund into aggressive and defensive portions; and, (3) the employment of rules whereby securities are systematically purchased and sold.

There are two broad types of formula plans: constant-ratio and variable-ratio. A constant-ratio plan seeks to maintain a predetermined stock-bond relationship *irrespective* of changes in the level of stock prices, whereas a variable-ratio plan strives to vary the aggressive portion of the portfolio *in accordance with* such changes. An illustration will clarify these differences.

A constant-ratio plan with, say, a 50/50 stock-bond relationship could operate in the following manner: When the value of the equity portion is reduced to, say, 45% of the total as a result of a market decline, bonds are sold and stocks purchased until the two portions are equalized. Conversely, when a price rise increases the value of the aggressive portion to, say, 55% of the total, stocks are sold and bonds purchased until the 50/50 ratio is again restored. Thus, as the market rises and falls, stock-bond transfers will keep the fund at 50/50.

In contrast, if a variable-ratio plan is employed, as the market declines, bonds are sold and stocks bought to *increase* the stock-bond ratio. As the market rises, stocks are sold and bonds bought to decrease the stock-bond ratio. Accordingly a smaller percentage of the fund is held in equity-type securities when the market is at 300 than at 200 or 100.

Analyzing and Testing Formula Plans

Relying on this brief review to provide sufficient background, let us turn to the problems of analyzing and testing formula plans. We shall discuss, first, the principal factors of analysis, second, historical tests and their role in the examination of formula plans, and third, the results of testing constant-ratio plans.

Factors of Analysis

On the surface, it might seem that yield and capital appreciation are the only important considerations in appraising a formula plan. Although yield and appreciation are the foremost factors, certain others require very careful consideration prior to the adoption of any formula plan. Of primary significance are: the nature of the buying and selling action under the plan, including the duration of periods of inactivity and the composition of the fund during such periods; the comparative risks encountered; the understandability of the plan; and the administrative aspects. The importance of these factors may be readily illustrated.

Buying and Selling Action

Consider first the buying and selling action under a plan. Any plan which historically has pronounced intervals of immobility may be of doubtful feasibility solely on psychological grounds. For instance, one plan examined has been inactive since 1945. This inactivity may be fully justified, but would management — unable to establish with finality the reliability of the formula followed and subject to the pressures which develop as the market rises and falls—eventually have its confidence shattered by a continuation of this inactivity? On the other hand, would a plan which resulted in excessive activity be practical from an administrative standpoint? Furthermore, would a plan which has the possibility of whipsawing a fund be viewed with confidence? These and other aspects of activity must be carefully weighed.

Risks

Risk is a vague term which does not lend itself to standardization or accurate measurement. Moreover, it is difficult to segregate exactly the various types of risks. Nevertheless it is possible to classify roughly the primary risks involved in the use of formula plans and thus provide the basis for whatever appraisal may be possible. Through such classification the nature and variety of the hazards requiring consideration will be brought to the attention of the investor.

The principal types of risks involved are: capital risk and income risk. Owing to the greater amplitude of stock-price and dividend cycles over the last 25 years, the foregoing hazards have increased. In seeking to reduce this danger formula plans have created in turn certain other risks. There is always the possibility that in the future some basic feature in a plan will prove unsatisfactory. There also exists the risk that, regardless of its correctness, a plan will not be consistently followed. In addition, a plan may involve rigidities which eventually will prove undesirable.

The characteristics of plans differ, consequently the degree of risk attaching to various plans is not constant. It is essential that the risk of a plan be determined and appraised in terms of investment requirements.

Understandability

An important consideration in the adoption of a formula plan is the ease with which it may be explained and understood. This is doubly important to institutions handling the trust estates of individuals. In such instances the

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*A paper by Professors Cottle and Whitman presented before a "Round Table on Investments," Benjamin Graham, Chairman, before the American Finance Association, Chicago, Dec. 29, 1950.

Valuation of Security Holdings Of Life Insurance Companies

By HAROLD G. FRAINE*
Professor of Commerce, University of Wisconsin

Prof. Fraine describes present system of securities valuation and lists as its weaknesses: (1) overvaluation in prosperity periods; (2) undervaluation in times of depression; (3) overstatement of income during prosperity; and (4) resulting wide fluctuations in company surplus. Recommends valuation of fixed income securities on basis of amortized cost, with provision of reserves for market fluctuations.

The system at present used by the life insurance commissioners for valuing the assets of life insurance companies requires considerable change in order to be appropriate for the needs of the companies, the policyholders, and the rest of the economy.


Harold G. Fraine

Unless changed, the requirements imposed by the commissioners are likely to discourage investment policies needed for long-term protection of the policy reserves and for the healthy and balanced financing of production and trade. Unless changed, they are likely to encourage investment policies that result in unsettlement of the capital market and to discourage policies which would otherwise be followed and which would contribute to stability of that market. Unless changed, the requirements will encourage the disbursement as dividends of funds which should be retained for replacement of depreciated assets. They will result in overvaluation of the assets in times of prosperity and undervaluation in times of depression. They will tend to promote inequities between withdrawing and continuing policyholders and make more difficult the maintenance of solvency in times of business depression instead of cushioning the losses likely to occur in such times.

Before considering a possible remedy, let us get a picture of the principal aspects of the present system and then note more specifically how the continuance of the system is likely to contribute to the unfortunate effects already mentioned.

Brief Description of Present System

Within four days from now the year of 1950 will come to an end. With the end of the year, the life insurance companies will begin the work of preparing annual reports of condition for submission to the state insurance commissioners. These statements will contain totals and detail of assets, liabilities, income, and expenses. The liabilities will consist mainly of a measure of the policyholders' interest in the assets. This interest will not be the aggregate amount to be paid the beneficiaries upon death. Most of the people insured are not likely to die until far in the future. In the meantime the assets will be expected to earn a certain minimum rate of income. Reinvestment of at least that minimum of income at that certain rate should produce growth in the assets sufficient to pay off the face of the policies at the probable time of death. The interest of the policyholder is reflected in the policy reserves, on the liability side of the balance sheet, and these are accumulated at the rate of asset accumulation assumed by the actuary in setting the premium.

Does the statement of condition correctly reflect the amount of assets available for the liabilities? This, of course, depends on how the assets are valued. Considering that a company may have to report its condition to the commissioner of each state in which it does business and considering that each state could differ from the others in valuation requirements, it might seem a hopeless task to try to summarize such requirements. Fortunately, the commissioners have banded together into a National Association of Insurance Commissioners (hereinafter referred to as the "NAIC"). It has been the custom of this association in annual meeting to adopt resolutions defining the valuation requirements for the next annual report and to delegate the administration of these requirements to its Committee on Valuation of Securities (hereinafter referred to as "the Committee"). Our consideration can, therefore, be confined to the system involved in these resolutions.

The underlying concept of the system comprised by these resolutions is simple. The fundamental basis for practically all corporate securities is stated to be market value. This concept is laid down in the opening sentence of the first of the resolutions released by the Committee on June 30, 1950, with regard to valuations for the 1950 statements. That sentence reads as follows:

Resolved, that the inventory of stocks, other than of insurance companies and subsidiaries, and bonds in the annual statements of insurance companies, societies and associations as of Dec. 30, 1950, the following basis is recommended as fair market value:

(1) That all stocks, other than of insurance companies and subsidiaries, and bonds shall be valued at the market quotations as of Dec. 30, 1950, excepting bonds secured by the full faith, credit and taxing power of political subdivisions of the United States of America and political subdivisions of the Dominion of Canada which are not in default as to principal or interest on Dec. 31, 1950.

Although the concept is simple, the complete statement of valuation requirements is lengthy, running to 6½ pages of fine print, and quite complex. To appreciate the complexity, it may be sufficient to note the following facts: The system of valuation is different, depending upon whether the investment is or is not what is commonly called a security. If the investment is in a mortgage, it can be valued at face; if in a housing project, it can be valued at depreciated cost. If the investment is a security, we must first observe whether it is a bond or a stock. If a bond, the basis of valuation depends upon whether it is rated high or low by the investment services. The basis of valuation may also depend upon the spread of its market yield from the market yield of a government bond of corresponding term to maturity. (The government bond must be one of those open to purchase by national banks.) Among the general class of fixed income securities, the basis of valuation of preferred stocks is different than for bonds. And for some of the preferred stocks the basis is different than for common stocks. Preferred stocks that have active market quotations are valued differently from unquoted preferreds.

The complexity and length of the requirements are chiefly due to two causes: One is that most of the corporate securities held by the life insurance business are not quoted in the market; but the system attempts to assign to them an appropriate market value. The other is that an exception to market value is made for securities with certain characteristics. These securities may be valued on what is referred to as an "amortized" basis; that is, cost adjusted annually for the gradual amortization of any difference between cost and maturity value. This relief from a market basis is available for bonds with maturity dates which on June 1, 1950, were rated among the top four ratings by two of the recognized rating services or bonds which on the basis of alternative tests can be regarded as of equivalent grade.

To summarize, the valuation of securities is treated independently of the valuation of other earning assets, such as housing projects and real estate mortgages. Of the types of United States and Canadian securities entering importantly into the life insurance investment picture, we find that most government, state, municipal, and corporate bonds of high or medium grade at the time would be reported on an amortized cost valuation. Other securities, including bonds regarded at the time as below the quality indicated by the Baa rating, all preferred and common stocks, along with defaulted bonds would be reported at the year-end market valuation or the Committee's estimate of an equivalent market value.

Weaknesses of the Present System

Overvaluation in Prosperity Periods. The system tends to overstate values in a time of prosperity. This is likely to be true whether the assets are required to be reported on an amortized basis or on a market basis. Let us first consider the amortized basis. The purpose of amortization of premium and accumulation of discount is to move the valuation systematically and gradually closer and closer to face or maturity value. Such a value must be regarded as a maximum value. The yield to maturity value on a fixed income investment is as much as the average life insurance company can expect to get. The higher increment of yield that is received when a bond is called at a premium does not usually represent a gain, but in effect is rather merely a partial offset to the reduction in income that is almost certain to be suffered upon reinvestment of the proceeds in securities of the same degree of risk. Similiarly, appreciation of the market price above maturity value cannot be realized upon to advantage. Because of the compulsion to keep funds invested, rises in market quotations above cost are rarely realizable to an insurance company for reinvestment would usually have to be made in other securities equally high priced with relation to risk.

Although more than face value is unlikely to be gained, it is almost certain that there will be some ultimate depreciation below this maximum. An investment officer would not invest his company's funds in any particular corporate bond if he expected it to default. But such an officer would not be guilty of such optimism as to think that he will have no more defaults among his corporates than among his United States government bonds of corresponding term. He requires a higher yield to take the added default risk involved in corporates. Defaults have occurred in the highest of the rating grades, Aaa,[1] and yet corporate bonds rated as low as Baa are required to be valued at their maximum values without allowance for any future impairment of that value through future defaults.

Market values, also, as required for other securities, tend, when applied in periods of prosperity, toward overvaluation. This is surely true for the fixed income securities and likely to be true also for the common stocks. The dividends and interest on preferred stocks and bonds in such a period appear more amply covered by earnings than in a business depression. The prosperity values are maximum in the sense that with increased prosperity such securities can yield no higher income payments. Yet with a change from prosperity to depression there is even more likelihood of suspension of dividend and interest payments among their number than in the case of the bonds of the four highest ratings. To value these lower rated bonds and preferred stocks at prosperity prices without allowance for some defaults, with more or less permanent impairment of

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*An address by Prof. Fraine at joint meeting of the American Finance Association, The American Statistical Association and the American Association of University Teachers of Insurance, Chicago, Ill., Dec. 27, 1950.

1 From data furnished by the Corporate Bond Research Project of the National Bureau of Economic Research, under the direction of Dr. W. B. Hickman.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Election of Isaac B. Grainger and Gilbert H. Perkins to the newly created positions of Executive Vice-Presidents of the **Chemical Bank & Trust Co. of New York** was announced on Dec. 29 by N. Baxter Jackson, Chairman of the Board of Directors. Mr. Grainger, who was formerly President of the Montclair (N. J.) Trust Company, joined Chemical Bank & Trust as Vice-President in 1943. He has supervision over the bank's investments and its business in the financial district. As Chairman of the Management Committee, he has charge of the general operating and personnel divisions. Mr. Grainger, a native of North Carolina, was Vice-President of his father's bank in Wilmington, The Murchison National Bank, and later Executive Vice-President of the North Carolina Bank & Trust Co. at Greensboro, N. C.


Isaac B. Grainger


Gilbert H. Perkins

Mr. Perkins has spent his entire business career with the Chemical Bank, starting as an office boy in 1913 and serving in almost every department. He became Vice-President in 1933, and has jurisdiction over all of the out-of-town business of the bank. He is Chairman of the Committee on Correspondent Bank Relations of the Association of Reserve City Bankers and a member of the Executive Committee of the Federal Legislative Committee of the American Bankers Association.

* * *

Arthur S. Kleeman, President of **Colonial Trust Company, of New York** announces the appointment of Terrence C. Blake and Joseph P. Gubiste as Assistant Secretaries and Assistant Treasurers. Except for three years' service with the Coast Guard during the War, Mr. Blake has been with the banking house since 1940. He is a graduate of the American Institute of Banking. Before joining Colonial he had been with Manufacturers Trust Company in this city. Mr. Blake will continue to be associated with the bank's office at Madison Avenue and 28th Street. Mr. Gubiste, previously with National City Bank of New York, joined Colonial Trust Company in 1941. He attended the American Institute of Banking and during the War served for three years in the Army. He will continue with the bank's Bay Ridge office at 6901 Fifth Avenue, Brooklyn.

* * *

William Lazarus has been elected a Vice-President of the **American Trust Company of New York,** Harvey L. Schwamm, President, announced on Jan. 3. He will be in charge of all foreign banking operations. Mr. Lazarus was first associated with the National Bank of Cuba, Havana, Cuba. He came to New York in 1914 and joined the National Park Bank. In 1926, he became Manager of the Foreign Banking Department of C. B. Richard & Company, members of the New York Stock Exchange. Mr. Lazarus formed the firm of William Lazarus & Company in 1930 and for more than 20 years conducted a general import and export financing business.

* * *

The directors of the **Chase National Bank of New York** have elected Gus W. Campbell as a Vice-President of the bank in charge of personnel. During the last war Mr. Campbell conducted a war plant training program in the New York area under direction of the War Production Board and the War Manpower Commission. Since then Mr. Campbell has been President of a firm of business consultants in New York. For the past year and a half he has conducted a training program for supervisors in various departments of the Chase.

* * *

DeCoursey Fales, President of **The Bank for Savings in the City of New York,** announces that Miss Anna M. Flaherty has been appointed an officer of the bank. Miss Flaherty joined the bank in 1929, having formerly been with the National Bank of Commerce in New York. She is in charge of the bank's advertising and will continue to be designated as Advertising Manager.

* * *

Maurice L. Krohn has been elected a Vice-President of **Sterling National Bank & Trust Co. of New York** and will be located as of Jan. 2 at the bank's office in the Chanin Building at 42nd Street and Lexington Avenue. Mr. Krohn has been connected with the Public National Bank & Trust Co. in an official capacity, and has been active in the banking business since 1922.


Maurice L. Krohn

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

	Dec. 31, '50	Sept. 30, '50
Tot. resources	$5,283,011,759	$4,864,416,007
Deposits	4,871,424,028	4,448,165,040
Cash and due from banks	1,499,884,122	1,302,922,651
U. S. Govt. sec. holdings	1,477,758,049	1,492,793,271
Loans and bills discounted	1,815,387,722	1,587,141,192
Undiv. profits	53,007,008	51,750,814

* * *

GUARANTY TRUST COMPANY OF NEW YORK

	Dec. 31, '50	Sept. 30, '50
Tot. resources	$2,540,419,604	$2,749,679,129
Deposits	2,503,010,000	2,312,110,134
Cash and due from banks	731,102,226	589,402,962
U. S. Govt. sec. holdings	802,887,596	993,379,420
Loans and bills discounted	1,230,658,065	992,078,627
Undiv. profits	74,386,332	75,111,116

* * *

MARINE MIDLAND

	Dec. 31, '50	Sept. 30, '50
Total resources	$404,340,977	$354,668,900
Deposits	375,476,603	327,037,005
Cash & due from banks	121,212,890	98,159,811
U. S. Govt. security holdings	135,011,553	115,836,520
Loans & discounts	135,459,536	128,043,699
Undivided profits	3,577,562	3,314,531

* * *

J. P. MORGAN & CO. INC., NEW YORK

	Dec. 31, '50	Sept. 30, '50
Total resources	$661,460,442	$671,822,030
Deposits	582,011,062	593,305,153
Cash & due from banks	147,633,533	165,297,631
U. S. Govt. security holdings	152,219,063	197,154,588
Loans & bills discounted	259,588,908	213,927,640
Undivided profits	12,295,032	11,753,219

BROWN BROTHERS, HARRIMAN & CO., NEW YORK

	Dec. 31, '50	Sept. 30, '50
	$	$
Total resources	256,695,373	247,654,523
Deposits	221,024,643	209,959,297
Cash and due from banks	66,026,213	56,297,596
U. S. Govt. security holdings	57,209,719	50,072,585
Loans and bills discounted	69,722,504	70,001,824
Capital and surplus	14,085,284	14,065,284

* * *

THE NATIONAL CITY BANK OF NEW YORK

	Dec. 31, '50	Sept. 30, '50
	$	$
Total resources	5,526,348,028	5,209,097,814
Deposits	5,130,853,626	4,823,894,308
Cash and due from banks	1,437,981,108	1,300,558,046
U. S. Govt. security holdings	1,724,232,775	1,711,027,802
Loans and bills discounted	1,664,941,944	1,500,435,838
Undivided profs.	58,075,826	56,079,891

* * *

CITY BANK FARMERS TRUST COMPANY, NEW YORK

	Dec. 31, '50	Sept. 30, '50
	$	$
Total resources	147,467,492	133,225,754
Deposits	113,331,634	99,223,220
Cash and due from banks	41,131,215	22,448,822
U. S. Govt. security holdings	81,616,668	89,610,125
Loans and bills discounted	1,395,376	1,010,771
Undivided profits	10,654,930	10,640,671

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From Washington Ahead of the News

By CARLISLE BARGERON

The unusual freedom in moving about and in their reporting which the correspondents in Korea have enjoyed seems not to have given us as clear a picture of happenings as in other wars when they were heavily censored. It is doubtful, in fact, if anything was ever more beclouded by the propaganda and conflicting statements. And if the truth or the approximate truth is known at the Pentagon here, it is carefully hidden in the impressive domes of the high policy thinkers.


Carlisle Bargeron

One wonders, for example, what has become of those Russian tanks which were better than ours and which were added proof of Russia's military might. Earlier dispatches emphasized them and told of other ways in which the North Koreans were equipped. With Russia pouring in modern equipment from her tremendous and superb industrial plant, it was no wonder that our boys were about to be pushed off the peninsula.

Well, we routed that well equipped army; routed it completely and moved all the way to the Manchurian border in one place and to within 40 miles of the Siberian border in another. Then the Chinese moved in and have our boys again with their backs to the wall.

We hear little or nothing now of their being equipped with modern Russian tanks. It seems that what they have is sheer numbers which they throw into the face of our tanks and our mine fields and keep on coming. Indeed, in the welter of propaganda we are hearing that our equipment is doing more harm than good, that it gets in the way and militates against our mobility.

There seems to be little doubt that General MacArthur himself has exaggerated on several occasions the number of Chinese facing him. His public statements are not borne out by the confidential reports to the Pentagon from his own intelligence staff. It is a fact, too, that these confidential reports have never taken the enemy's equipment seriously. Yet there is no doubt that we are taking a beating and except for a relatively brief spree of success, we have been taking it ever since we landed on the peninsula.

I was talking recently with a high officer whom I have known for sometime and who is certainly in a position to know what is going on. I asked him bluntly what we had to gain by remaining in Korea; why not withdraw to Japan and also protect Formosa. He was indignant.

"Let those ignorant, unequipped Chinks run us out," he exclaimed. "Why, it would be an outrage."

He seemed to have no doubt that we would be able to stay on the peninsula, either.

Talking subsequently to another high officer, a friend, and in a position to be in on the know, he said we had to keep up the war in Korea in order to rearm at home. If things down there were to be washed up, he said, the American people would want to return to business as usual. In other words, according to this man, we've got to keep up the Korean war as part of the National Emergency excitement.

I am quite sure I don't know what is going on in Korea or in the minds of our high Administration planners. But I certainly go about conscientiously trying to find out.

We have this sort of muddled picture before us:

We were never really at war with North Korea and we aren't actually at war now with the Chinese. It's all Russia.

The propaganda that North Korea and China are simply stooges of Stalin, I think, we can dismiss. And if we are appraising Stalin's plans on what has happened in Asia we would be better off, I think, if we got away from the propaganda and searched diligently for the truth. There is undoubtedly collaboration between Stalin and the Chinese bandit but the latter is a big shot in his own right and can scracely be considered a stooge. What has been the extent of Stalin's cooperation? If he is supplying the Chinese army, if he supplied the North Koreans, either one of two things must be true: He isn't supplying the Chinese very well if we are to accept the current reports of their ox cart equipment and their coolie methods of transportation, and that North Korean army which he was supposed to have equipped so strongly, toppled over like a house of cards.

We would have far more enlightenment on which to base our plans, to my mind, if we approached matters more directly instead of going after them obliquely and trying to read Stalin's or somebody else's mind. Certain facts stare us in the face but we insist upon looking for intrigue.

There was no intrigue, in my opinion, in the Chinese Communists moving into Korea. They said that was exactly what they would do if we passed the 38th parallel; they kept up a steady warning over their Peiping radio and through diplomatic channels for a period of at least two weeks. General MacArthur's excursion to the Manchurian border is now being justified on the grounds that he had to do this to see if the Chinese were telling the truth. Well, they were and this means here at home, or at least to our government, that Stalin has started the third World War and we have got to go into an armed state to cope with it.

We would be taught to believe that the North Korean invasion of South Korea was purely the machinations of Stalin. Undoubtedly he was a cheer leader but authorities on Asia here, in the cool of an evening, have told me, this invasion was a very logical thing to happen. The country couldn't exist divided, our State Department had informed the world it would not intervene. Invasion seemed a most natural thing for the North Koreans, and to repeat, whatever became of that modern equipment Stalin was supplying them with.

I am convinced we can trace a lot of our troubles and our perils to the so-called thinking that goes on in high places in Washington.

One thing would seem to be certain: If Stalin is determined upon World War III, and has such a war machine as the propagandists say, he isn't going to sit around until we rearm.

John O. Dresser

John O. Dresser passed away following a heart attack Jan. 1. Mr. Dresser before his retirement was West Coast manager for Blair and Co. and later conducted his own investment business.

M. F. Middleton

Melbourne F. Middleton died at the age of 73 as a result of injuries received in an automobile accident. He was a former President of the Philadelphia Stock Exchange.

The Plight of the Investor

By E. W. FLENDER

Partner, C. B. Richard & Co.
Members, New York Stock Exchange

Squeezed between high taxes and rising living costs, Mr. Flender points out the Investor is in a tight spot and should steer clear of fixed interest securities and make selective purchases of stocks.

The American investor is greatly disturbed about the future. His dollar is buying less and less and his net income, owing to heavy taxation and other reasons, is cut. Increases of wages are granted on the grounds of increased cost of living, but the Investor's request for a higher income is rejected. The American virtue of saving is not yet decried as a sin, but the result of saving is. "Redistribution of wealth" is no longer a slogan but a fact.

Ernest T. Flender

For over a century, the little man with a little money looked forward serenely to old age. The sad experience of the French Assignats was soon forgotten. The quick full recovery of the English pound after the Napoleonic Wars and that of the American dollar after the Civil War were comforting experiences. It was not until the 1920's, when the German mark became valueless, that the world was shocked by the realization that the value of a currency could be wiped out completely within the time span of a few years. Since then, the German mark has become valueless another time, the French franc went down to less than 1% of its gold value, and every European currency has suffered to a smaller or to a very large degree. As a matter of fact, there is now not a single currency in the world, including our own, which has not lost greatly during the last 30 years in terms of gold and buying power.

No wonder the Investor feels perplexed and harassed. He worries about what the buying power of his dollar will be in say, 5 or 10 or 20 years. In the last 10 years it has shrunk to half of its former value. Norwithstanding all public utterances of "no inflation," he sees the United States Forces engaged in war in Korea or stationed in many other parts of the world, he staggers at the cost of the rearmament figures and he shudders at the thought of what his dollar may be worth if we should find ourselves in a long drawn out war against the Communists.

As a person of some means, the Investor finds himself rather unpopular and badly treated. If he holds bonds, his income has been reduced by government manipulation of the money market; if he relies on stocks for his livelihood, nobody will concede to him higher dividends in proportion to the rising cost of living; he not only finds the corporate tax increased but an excess profits tax imposed on top and mandatory price ceilings set at levels which may sharply curtail normal profits of his companies and their dividends; he recognizes in the measures that are now being put through Congress part of the program proposed by President Truman in his message on Jan. 7, 1949, and he wonders whether he is justified in hoping for a repeal when the "emergency" is over, if ever. That another slice of his income should go to the Revenue Department through still higher corporate and individual taxes, takes his breath away.

Let us frankly admit that the Investor is in a tight spot. In the last 18 years, the American philosophy of the State propounding the supremacy of the individual has had a complete change. We are now much closer to European thought. The individual is being blanked out in favor of the "common interest" represented by the State. Free capitalism is gone and is being replaced by "controlled economy." Political power has shifted from the wealthier and middle classes to the less propertied segment of our population, and practically all our recent laws, economic, social and financial, show this shift. The trend is worldwide and not likely to be changed by a new Administration, except possibly as to emphasis in one or another direction. Our Investor will do well to adjust his mind to the changed climate.

A real threat to the Investor's financial security is the uncertainty created by the declining purchasing power of the dollar. Undoubtedly, the government wishes to avoid further serious inflation, but its ability to do so must be questioned. We doubt that the rearmament plans, calling for total government expenditures of $75 billion can be financed by taxes alone. Deficit financing seems to be unavoidable for a number of years. Its effect will be inflationary. While some taxes are deflationary, corporate taxes raise the price level. The consumer pays.

To have complete price stability in a controlled economy, necessitates an utterly unselfish civilian morale or all round price and wage controls with teeth. Both are possible at best only in actual war or in a thoroughly disciplined Socialist state, but even the Russians, after the last war, had to cut their currency in the proportion of 10 to 1. The simplest way for a Democratic government, always watching the electorates' reactions, seems to be the one evidently visualized by Keyserling before the emergency, namely one of mild progressive inflation. It causes the least amount of tension. It is the easy way out.

In the expectation of a likely inflationary trend of uncertain duration and of less or more intense character, what will our Investor do for his financial security? The general rule demands that he steer clear of cash, bonds, mortgages, etc. as compared with tangible assets not subject to what one may consider unreasonable City, State or Federal controls. Farms have always been the most ideal inflation hedge for those who are able to work them. Most people, however, are not farmers and they will buy property in the form of stocks representing shares in the nation's enterprises, in mining, manufacturing, transportation, etc.

One frequently hears the argument that stocks should rise in line with commodities. This is not correct. Stocks are not commodities. Ordinarily, their prices are determined by the profits a company is expected to show and the dividends it is likely to pay. Inflation generally gives companies fair inventory profits and business activity, usually resulting from inflationary pressure, is conducive to high earnings. The influence of rising commodity prices on stocks is not direct but indirect.

Barring unforeseen events and in the anticipation that in the visible future there will be a progressively slow inflation, what will the Investors do? Some will buy stocks and hold them indefinitely, irrespective of the likelihood of temporary sharp reverses in trend. More experienced Investors will treat the stock market as they will do in normal times; they will follow a trading policy based on careful security and market analyses; they will make switches from one corporation to another and they will, from time to time, lighten their commitments and go into cash and be ready to take advantage of more favorable buying opportunities as they arise. This seems to us the safer policy to follow. It is obvious that counter-inflationary measures, for instance, excess profits taxes, may seriously affect prices of certain groups of stocks, while on the other hand, large government orders (e.g. aircraft) on the basis of the 62% all over tax as provided in the Excess Profits Bill, may make other shares very promising investments for a number of years. The switches, for instance, made by some Investors during the last few months, selling public utilities and buying rails, or selling building stocks and buying machine tools, have turned out very profitable.

Entirely different will be the behavior of the Investors in times of uncontrolled inflation generally caused or accompanied by record expansion of the currency. We touch on this subject as a matter of academic interest. Based on the experience in European countries, the Investor will do well not to trade in the market at all but will consult his financial advisers and purchase a diversified list of stocks and hold on to it. His entire policy will be guided by the thought that the disease will run its course, that a stable currency will again be established eventually and whatever stocks or property he has retained will, in terms of the stabilized currency, represent a substantial salvage.

This presentation of protective measures in a period of wild inflation is admittedly over-simplified, but it will show the difference in approach. We only need to mention the fact that no Investor can, at the inception of a drastic inflationary move, know what the political and social climate will be at the end. Capitalism, as it is now practiced in Britain, is pretty shop-worn. Ours would be far more ragged. We cannot visualize any such calamity happening except possibly if we should find ourselves bled white in a prolonged global war. We all hope that the anxieties now felt in this respect will prove unfounded.

Continued from first page

Curbing Civilian Demand—Critical Economic Problem

Western Hemisphere chums south of the Rio Grande, our Asian confreres in the United Nations, our important acquaintances and associates in Africa. The Soviets and the Chinese want some more. So do you, ladies and gentlemen. And so do I. And, in addition—and in this the present situation differs from much of history—nearly all who want more also have the means in some form to exert an effective demand, either in money or influence or power.

The critical present fact, to use our more complicated words for Oliver's simpler and more expressive ones, is that demand in later 1950 is excessive. It seems likely to become even stronger and more implacable before 1951 is ended. This is the outlook for 1951 about which I am supposed to talk—so far as one who has not access to either the Pentagon or the Kremlin can judge it. This constitutes the transcending, the overwhelming "Implications of the defense program for finance and industry"—to use the rest of the title assigned to me.

A pre-eminent economic social and political problem of the next year and probably longer is how the adjustment of the limited supply of resources of labor and materials is to be made to this engulfing demand. If we as a country solve this problem poorly the consequences will be exceedingly unhappy. If we do it well, we can repel the threat to our freedom without seriously harmful consequences to our economic system.

I believe that we can adjust the tidal wave of demand to restricted supply without inordinately disturbing the economy and society. I shall spend the rest of my time in explanation of this proposition.

II
The Outlook in "Normal" Conditions

It is trite and obvious to observe that the wave of demand has arisen from noneconomic sources, that international political developments have built it up. Yet, though trite, this fact needs to be observed in order to make a significant point which should not remain unnoted. Suppose—and pray God that it could be so—we were looking at the outlook for 1951 in an environment in which there were sufficient international tranquility that no increase in defense expenditure were in prospect. We would then be examining the business outlook in terms of the techniques of analysis of business cycles. We would be going over the excellent work of Haberler, over the work done for the National Bureau of Economic Research by Mitchell and Burns and Moore and Abramovitz, over Dewey and Dakin, and numerous others.

If this were a world in which we could rely on that traditional and orthodox analysis, we would, I am reasonably convinced, be finding some strong reasons to expect a decline in the volume of business and employment in 1951.

Perhaps a brief summary of what would be prominent in the evidence that would be stressed may not be amiss.

First, there are the inventory investment series suggested by Dr. Abramovitz in his excellent new book, "Inventories and Business Cycles," and the 23 statistical series with the best records of predicting downturns selected from the National Bureau of Economic Research records four years ago by my colleague, John M. Hartwell, Jr., and discussed by me from this platform in Cleveland two years ago. Both of these groups already have signaled a coming decline in general business.

Second, there are the set of 16 leading and coincident series selected by Dr. Moore in his paper, "Statistical Indicators of Cyclical Revivals and Recessions," and the comprehensive series used by Dr. Mitchell in his great but uncompleted synthesis of this economy and its fluctuations, now being edited by Dr. Burns, and soon to appear. These two sets of series indicate that the economy is just now moving into its peak stage.

Third, there surely would be pointed question as to how long this economy would continue to build two new residential units for every newly formed family.

Fourth, a decline in automobile production would almost certainly be widely predicted after a year in which about 8,000,000 cars and trucks will have been produced—following several preceding years of high production.

Fifth, many heart-searching questions would face us about the economic position of foreign countries with the end of Marshall Aid in 1952.

Sixth, faced with possible-probable declines in investment in inventories, housing, automobiles, and abroad there would certainly be apprehension of what the multiplier of these would do to personal incomes and the gross national production.

Seventh, would be the fact that the great American boom would already have gone much higher and lasted much longer than any previous boom, as measured by indexes adjusted for secular trend, such as Barron's, the A. T. and T. and the Cleveland Trust.

Eighth, and finally, the possibility that consumer inventories were large and urgent needs fairly well filled would have raised the question whether investment activity might soon be bedeviled by developments described in the principle of acceleration.

I have not arrayed these evidences which might have caused us concern about a business decline under more normal conditions in order to demonstrate my prowess by knocking down a straw man. We should, I think, have the whole picture before us when attempting a prognosis; perhaps, other doctors will weigh the evidence differently, and so it should not be concealed or neglected. But also, the array of what might have been the central points of discussion at this session is one way of showing how great is the wave of demand and what it is sweeping over.

III
What the Bold Forecasters Are Saying

But the students of the future—and this includes, notwithstanding their many supercilious comments, all businessmen, most governmental, and much academic personnel—do not expect "normal" conditions in 1951. A collection of the major forecasts that have been made during recent weeks on aggregate totals or important constituent parts discloses that those students of the future who have become vocal share the same general expectations. They expect government expenditures to rise sharply in 1951 from 1950; they expect the increase in government use of resources to be supplied partly by a significant rise in gross national production, and partly by diversions from civilian consumption, particularly of consumers' durable goods and housing. Possibly plant and equipment outlays and expenditures on consumers' nondurables will also rise and, if so, these increases must also be met by the sum of increased output and diversion.

While the general pattern is agreed upon by the students of the future, the specific numbers at which they arrive for the various gross national product items spread over a considerable range. The numbers for gross national production, measured without allowance for any change in prices, range from $290 billion to $340 billion and center around something like $295 billion, as compared with $275 billion for this year according to my estimate. Personal consumption expenditures are estimated over a range of $190 billion to $220 billion, centering about $200 billion still in terms of present prices, as compared with a probable $190 billion this year. For government purchases $60 billion is something like a number many contemplate. Private domestic investment is expected to be down about 5%, substantially accounted for by a decline in inventory accumulation, with a rise in producers' durables about balancing a decline in construction of $4 billion.

Before I tell you the numbers at which I have arrived, and for which I am sure you are waiting with bated breath, I should say that at least so far as the vocal students of the future are concerned, there is somewhat more explicitness on the subject of production and distribution of physical resources than there is on the financial counterpart of the distribution and utilization of monetary income. Few published forecasts are specific about commodity prices. Almost none have given attention to interest rates. Of course, only the extremely mundane are interested in the stock market, and most of those who forecast on this subject want a fee; my impression is that most expect higher prices than at present sometime before the end of 1951.

In summary, the great majority of the vocal students of the future expect a continuation through 1951 of a condition of excessive demand. The aggressive "Please, sir, I want some more" is expected to be the theme song for 1951, sung by a truly international chorus, and with some of the domestic singers omitting the "please."

IV
Higher Output and Higher Prices Are Likely

I share the virtually unanimous expectation of continued excessive demand. In this environment, a rise in the physical volume of output of from 7% to 10% seems to me to be likely. In this environment I expect that the price level will rise by 5% to 10%. Using the midpoint of each of these percentage ranges provides a gross national product of about $320 billion compared with $275 billion this year, or an increase of a little more than 16%. On the assumption that the order of magnitude of price and physical volume changes are somewhere near correct, there would still be some decline, but not a large percentage one, in the number of dollars spent in 1951 on consumers' durables, construction and inventory investment, while all other categories would rise.

V
The Real Present Economic Problem

Now, having established some numbers that are within the general range of expectations, I want to talk a little about what they mean.

An 8½% increase in the physical volume of production is expected to be insufficient to satisfy demand so that a price rise seems likely. I think it is extremely important that the rise in prices be curtailed to the utmost, for every rise in prices gives impetus to demands for increases in wages and thus the threat of some more turns in the spiral of inflation. Undoubtedly the redirection of production to larger output for military uses can be best effected by providing the incentives of higher prices and wages in the areas where expansion is wanted. The problem, therefore, is to provide sufficient incentives without setting off the spiral—a nice problem in balancing.

Evidently a greater rise in the physical volume of production than the 8½% here indicated would be most helpful. So let's look at that 8½%. That is the percentage rise postulated for 1951 over 1950. But we are already above the average for 1950, so what is contemplated is a rise in physical output of something like 5½% from the levels of the third quarter of 1950. This can be accomplished by the following combination of forces: a 2% rise in productivity, plus a 2½% rise in hours of work, plus a rise of 400,000 in the civilian labor force. The first two require no explanation; the 400,000 rise in the labor force could result from military withdraws of 1½ million, offset by a reduction in unemployment of 400,000, a "normal" rise in the labor force of 1,000,000, and the pulling into the labor force of 500,000 above normal. This would by no means exhaust our labor resources: for example, there are about 14,000,000 women between ages 18 and 64 whose children are over 12 years of age and so presumably in school most of the time.

When the rise in the physical volume of production is viewed this way, it cannot be viewed as much of a strain. I suppose a rise in productivity is difficult with the turnover involved in losses to military service and redirection of tasks; yet the 2% here used is not high. A rise of hours of only 2½% is very small for a nation in emergency, and so is an increase in the civilian labor force of only 400,000. This country is perfectly capable of far more of a rise in production than 8½%, and in the national interest there ought to be a greater rise than 8½%. A greater rise is needed for the three purposes of protecting our security, preventing inflation and meeting our demands for such a high standard of living as we have.

Now let's look at things from a different angle. Is this price rise that should be curtailed by higher production caused by such great demands for military use that civilian scarcity threatens? The fact is very much the reverse. The total increase in government expenditure for all purposes that is being generally contemplated for 1951 is only something like $20 billion and this is a little less than the *increase* in the physical volume of production if we accomplish a rise of only the 8½% generally expected. In short, the whole presently expected military outlay for a condition less than full-scale war could be met by diverting to it only the 8½% rise in production. The declines in consumer durables are expected to be more than offset by increases in personal consumption of non-durables and services, so that while the composition will be a little changed, total consumption will be higher in 1951 than in 1950 according to most estimates. This certainly does not look like austerity.

This brings us to an identification of the real problem of the United States in 1951. That problem is *not* that productive resources are really being strained, for production could easily be increased substantially and without strain if the people of this country wished. And the problem is *not* that any serious decline in the standard of living is being contemplated; we intend to carry on the military effort without any decline in total consumption whatsoever, but instead, expect it to rise. The critical fact of the case is that American consumers and business enterprises have very high monetary incomes as a result of high production, have very large resources of money and liquid assets accumulated in the past and especially in World War II, and are trying to increase their consumption substantially even from the very high levels of the past several years. Nearly all of current income is being spent for consumption—the 1950 savings ratio promises to be one of the lowest of the past 25 years—and accumulated past savings are being drawn upon as witness the excess of E Bond redemptions over sales.

Here is the real tap root of the problem of excessive demand, the heart of the question of how much defense effort the United States is capable of making, the core of the question of how much inflation the United States is going to experience. Here is the really insistent engulfing, seemingly implacable and inexorable "Please, sir, I want some more." The American civilian economy already has much the highest standard of living in the world, is spending more than seven times as much on its stomach and its back as on protecting its freedom—and is demanding some more so insistently as to threaten the value of its money and perhaps the defense effort as well. This is no suggestion that incomes and consumption are excessive, measured against any ideal, nor necessarily that they are distributed over the population in the most suitable manner, nor that a country derives strength by making itself miserable. But it is to assert that under the very limited willingness to try to raise production and the very real national emergency, American civilian consumption is excessive.

The most critical economic problem of 1951—and right now—therefore is how to curb this ebullient civilian consumption and the voracious civilian bidding for more. If by the grace of God the Russians do not force us to war, the curb need not be very severe; if we must unsheath the sword to defend the right of free existence, heavier restraint will be needed.

VI
Conclusions and Recommendations

My analysis of the "Outlook for 1951" leads to some positive conclusions and recommendations. I'm not sure that forecasters are supposed to offer recommendations; but having long held the view that Dr. E. A. Goldenweiser expounded to this association when he was its President—that the analyst should not be an intellectual eunuch—I'm going to make them.

My conclusion is that this economy is perfectly capable of making defense expenditures in 1951 in the range of $30-50 billion which have been mentioned in the estimates, or of an even larger amount, without hardship and without any serious inflation. All we need is just a little firmer resolve. I think the following policies and actions are especially needed.

First, work hours should be increased. Another two to four hours a week would not hurt anyone. Such an increase should make possible a significant rise in production.

Second, the civilian labor force should be increased. The biggest potential is women with children in school. While most probably they cannot work the full standard day, many could be employed part time. Business management should organize to provide more opportunities for such employment.

Third, personal income taxes should be increased if budgetary requirements call for more money, as they certainly will. There is a limit beyond which personal taxes cannot be imposed without risking economic harm, but at present, with personal taxes taking less than 10% of personal income, that limit is not nearby. The additional taxes should cover a wider part of the population: freedom cannot be defended and the dollar be adequately protected, while at the same time more than two-thirds of personal income is exempted from income taxation.

Fourth, personal savings should be substantially increased. They were less than 3% of personal income in the third quarter of 1950, and this just isn't enough to finance government requirements and capital needs and prevent inflation. The depression-bred view that saving should be discouraged still lingers as a curse in this period. Very little ingenuity has been applied to the stimulation of savings and a major effort is needed. A combined and coordinated effort by government and private organizations, utilizing the many techniques and methods largely or completely untouched, could accomplish much.

In closing, one assertion. This economy has enormous resources and capacities and strength. Its performance can be vastly improved. We should not, and we need not be, satisfied with small gains; we need not be persuaded by those who are fearful or discouraged about the economic outlook or our ability to support the defense of our freedoms. With determination and resolve, accomplishment can exceed almost all anticipations.

Bruns, Nordeman Admits

Bruns, Nordeman & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange, will admit J. Bowling Bruns, Jr., to partnership on Jan. 17.

Sutro to Admit

Sutro Bros. & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit Raoul Cohen to limited partnership on Feb. 1.

Continued from page 2

The Security I Like Best

sound waited upon the development of devices able to produce a much greater acoustic power than possible heretofore. Based upon extensive research work the Ultrasonic Corporation has designed and produced a sound generator able to deliver many thousands of watts of acoustic power, a volume of sound sufficient to accomplish many purposes. As a result of the intensive research work done by the corporation it not only occupies a dominant patent position, both for apparatus and adaptations, but enjoys a very broad patent structure as well. Protection is thus afforded on individual mechanical details and on the general scheme of design and application.

Although the potential uses for sonic energy are seemingly unlimited, the most important field for this new technology has been in the collection of dust particles, fumes or soot from air or other gases. It is planned to adapt the method to all industries having a dust or fume collection problem from exhaust gases, as often for recovery value as for reasons of public health. There is, in fact, an unlimited number of applications for machinery that will successfully, economically and safely eliminate the problem of air pollution.

There are many other uses for sonic energy, all being explored by Ultrasonic Corporation. Acceleration of spray drying processes, improvement in paper making by faster removal of water through sonic treatment, removal of foam created in a chemical process, homogenizing of paint, improvement in the taste of canned juices; these are but a few of the many possibilities for the company's products and research work. Inasmuch as the new ultrasonic method is safer, better and considerably less expensive than the old electrostatic one, there is every reason to look forward to a rapidly growing business in all fields of application. With the possible exception of water problems there is no feature of city life today which has or will receive the attention directed at the elimination of air pollution by industry. This campaign, though still in its infancy, has already had its effect in several metropolitan areas. An economical and effective method will be eagerly sought out by both industry and city government alike.

A perhaps little known but very important development is the use of sonic energy in the laundering of fabrics. It has recently been demonstrated that washing machines designed for sonic energy can operate with virtually no wear on the fabric and in one-fourth the time use by conventional models. It requires little imagination to appreciate the potential of this market.

Lastly, mention must be made of a growing branch of the company's business not strictly along sonic lines but requiring parallel engineering skill. It concerns the manufacture and design of electro-mechanical devices for automatically controlling motion and machinery. Highly technical in nature and of the greatest importance to the military, this non-sonic department of the company may well become of equal importance to any other. Contracts have already been received for initial research work.

Financial and technical aid for the development of the Ultrasonic Corporation came principally from American Research & Development Co., of Boston, and from M.I.T. The former organization has four members on the Board of Directors and the latter is represented by Dr. Richard Bolt, considered by many to be the world's leading sonic engineer.

The company has passed through the period of experimentation and development into the stage of commercial growth. In 1951, I am certain that operations will be in the black and that the rapid acceptance of Ultrasonic's products will support a very strong up trend in sales and consequent earnings per share. Many of the most important fields of application are just being opened up and large orders are expected momentarily. In the meanwhile, control of the company's Board of Directors assures the stockholder of consistently able management during this period of expansion. Because Ultrasonic Corporation has so many possibilities for tremendous growth and profit I consider the company an outstanding speculation in the over-the-counter market.

The market for the common stock is currently about 15¾-16¾.

Lawrence Chait With Ticker Publishing

Lawrence G. Chait has joined the staff of Ticker Publishing Company, publishers of the "Magazine of Wall Street" and "Business Analyst." Mr. Chait will serve as Assistant to C. G. Wyckoff, President of the company. He was formerly Advertising Manager for Arthur Wiesenberger & Co. and prior thereto was with Dow, Jones & Co.

On Jan. 15, Robert B. Birnbaum will also become associated with the company as circulation director.

Daniel F. Rice to Admit Robert F. Sully

Daniel F. Rice & Co., members of the New York Stock Exchange, will admit Robert F. Sully to partnership on Jan. 11. Mr. Sully is resident manager of the firm's New York office, 521 Fifth Ave.

Foresees Sustained Capital Financing in 1951

In Year-End Bond Survey, Halsey, Stuart & Co. Inc. predicts substantial amounts of most types of capital securities will reach market in 1951 with little or no increase in interest rates.

While some retrenchment in municipal financing is probable, the overall outlook is for most types of capital securities to reach the market in 1951 in substantial amounts, with little or no increase in interest rates, Halsey, Stuart & Co. Inc. predicted in its annual Year-End Bond Survey just issued.

"Some restrictions on the volume of state and municipal bonds may be expected in 1951 in view of the necessities of the armament program," the survey said. "In addition, states and municipalities, faced with higher operating expenses necessitating higher local taxes, may find a public disinclined to approve proposals for new debt. At the same time, continuing high taxes and the prospect of still higher Federal income taxes enhance the desirability of their tax-exempt feature, and municipals face an increased demand in the coming year."

The supply of real estate mortgage investments also will be reduced, by the diversion of materials from building to armament and the Federal restrictions already in effect on mortgage financing, Halsey, Stuart declared.

The armament program will have its effect on utilities financing too, the survey continued. As projected, the utilities' expenditures for improvement and equipment will start tapering off in 1951, but "these projected programs may be subject to a speeding up process as the public utilities are encouraged to expand rapidly to keep pace with the defense and armament program. In this case, between refundings and new offerings, utility financing could easily match 1950's volume."

In the railroad field, public financing of equipment was down in 1950 but may show an increase in 1951, said Halsey, Stuart. "The railroads not only will be encouraged but will be pressured to buy all the rolling equipment they possibly can, and the equipment manufacturers will be given the materials to meet the demand," the survey pointed out. "In addition to new railroad financing to pay for the equipment, there are a number of possible refundings, and a continuation of improvement in earnings may permit these refunding plans to be effected."

There will be ample investment funds available to take whatever volume of debt obligations goes to market in 1951, said Halsey, Stuart, pointing out that "a vast reservoir of funds available for bond investment will be created by the activity of normal business plus the stepped-up armament program, and these investment funds will continue to grow—just as World War II created the big investing reservoirs which have since grown apace.

"Life insurance has become a principal field for savings of individuals and increased sales of policies have enlarged the already tremendous sums available for investment by insurance companies. Pension funds, also stimulated by the desire for security and protection, likewise will provide a huge amount of investment money."

New funds of life insurance companies available for investment, aside from reinvestments, probably are running at a rate of $4 billions annually, the survey continued. Besides these funds, it said, pension trusts may be in the market with another billion and banks may be expected to contribute substantially to the demand.

Bond interest rates probably will continue at about present levels in 1951, said Halsey, Stuart. "No one can tell now what the interest rates will be, but evidence of the supply-demand equation indicates little increase, if any," the survey stated. "Due to extraordinary conditions, the amount of new borrowings by the government cannot be estimated. Rates may be determined by such borrowings, and in the event of widespread war the Treasury may be expected to establish rates certainly no higher than those current."

Pointing to the growth of inflation in the United States in recent years, Halsey, Stuart said that in 1950 "the meaning of inflation and the value of the dollar were brought home more forcefully to the man on the street and the woman in the home."

Credit restrictions are ineffective as anti-inflationary measures so long as Congressional action, and inaction, allow the continuation and growth of great Federal deficits, the survey said.

"The basic blame for renewal of inflationary forces rests squarely upon the Administration and the anti-economy blocs in Congress—especially for the stages of inflation that preceded the outbreak of war in Korea," it continued. "All Americans should realize that those who contribute in any way to the forces of inflation are giving aid and comfort to those who oppose our way of living and who are doing everything possible to bring about our downfall as a free nation."

Increased national debt is unavoidable because of the magnitude of the nation's preparedness program and its gift and lending programs abroad, the survey said. Higher taxation is inevitable, it stated, but there is little possibility that Congress will levy enough to effect completely a tax-as-it-spends policy.

Clark, Dodge & Co. Admits New Partners

Clark, Dodge & Co., 61 Wall Street, New York City, members of the New York Stock Exchange, announced that William A. Hobbs and John W. Dayton, Jr., have been admitted to the firm as general partners.

William A. Hobbs

Mr. Hobbs, a former Vice-President and Chief Investment Officer of the National City Bank of Cleveland, has been in charge of the research department of Clark, Dodge & Co. since joining the firm last May. Before going to Cleveland in 1941, Mr. Hobbs had been associated with Bankers Trust Company, New York, as a member of its research staff.

Mr. Dayton, with Clark, Dodge & Co. since 1945, is active in the firm's underwriting syndicate and retail activities as assistant manager of its bond department. From 1941 to 1945, he was on active duty with the Navy in command of a subchaser in the Mediterranean and a destroyer escort in the Pacific, attaining the rank of Lieutenant Commander. Prior to 1941 he was associated with J. W. Seligman & Co. and Union Securities Corporation.

Admission of the two new partners was previously reported in the "Chronicle" of Dec. 7.

The British Rearmament Drive

By PAUL EINZIG

Dr. Einzig, in commenting on developments in British rearmament, points out main problem lies not in raising revenues or in obtaining dollars for additional government expenditure, but rather in finding necessary manpower and raw materials. Looks for more intensified civilian controls in Britain.

LONDON, Eng.—One of the results of the Brussels meeting of the Atlantic Treaty Powers has been the British Government's decision to intensify the rearmament drive. The proclamation of a state of emergency in the United States, and the addition of further billions to the astronomic figures of the American Rearmament Budget has created a profound impression in Britain. It is felt in many quarters that Britain must follow the American example, both in respect of the increase of the arms expenditure and the curtailment of production for civilian requirement by means of controls. Until quite recently the view was taken that the British Government already possesses all the legal powers needed for the reestablishment of wartime economic controls, so that there was no need for enacting any legislation corresponding to the proclamation of a state of emergency in the United States. This is beyond doubt correct. Under the Supplies and Services Act the government can do anything which President Truman is entitled to do in a state of emergency, with the notable exception of the fixing of wages. The question is, to what extent these powers will be used.

Dr. Paul Einzig

It now seems probable that the government will resort to a fairly advanced measure of controls in the near future. It intends to take steps, if necessary, to direct labor into arms industries, to requisition private property, to fix prices and to allocate raw materials. In the absence of such measures it would be idle to try to intensify the rearmament drive. Owing to the increase of profits and the limitation of dividends, it would be possible for industries engaged in civilian production to outbid arms industries in respect of wages, and any effort on the part of the latter to recapture their lost workers would mean a steep increase of the cost of arms. Likewise, it is essential to prevent the scarce supplies of raw materials from going to the highest bidder.

The government realized the need for taking action to intensify rearmament, without awaiting the outcome of negotiations with the United States about the extent and form of American military aid. In August the figure of £3,400 million was given as a total of three years' military expenditure, and in October that amount was raised by a further £200 million in consequence of the increase of Service pay. Even £1,200 million per annum is obviously modest compared with the American arms expenditure, allowing for the difference between conditions in the two countries. Any substantial increase would mean, however, considerable inflationary pressure unless there is a corresponding curtailment of civilian production.

The government is likely to encounter political difficulties if it should decide to raise arms expenditure well above £3,600 million for three years. The left wing of the Socialist Party is firmly opposed to a degree of rearmament which would cut into the standard of living. Their argument runs in the following way: Any reduction of real wages or curtailment of social service benefits would cause grave discontent among the workers, and would pave the way for Communist propaganda. According to them, it is better to rearm on a modest scale only and keep the British workers content and immune from Communist propaganda. This argument recalls the suggestion made by dogmatists of orthodox financing in the late '30s when they sought to persuade the government of the day that it is better to maintain a balanced budget than to unbalance it for the sake of building up national defense.

In respect of the budgetary policy, the government is pursuing strictly orthodox principles. Mr. Gaitskell declared that rearmament must be financed out of current revenue. At present this does not encounter any major difficulty, because the amount needed in 1951-52 can easily be raised. In 1952-53, however, it will call for "heroic" fiscal measures. It is characteristic of the change of mood compared with prewar days that in 1937 Mr. Neville Chamberlain's effort to raise part of the moderate rearmament expenses by means of new taxation encountered the utmost resistance on the part of industry and finance, while at present the need for making sacrifices in the interest of balancing the budget is generally realized. Needless to say, when the additional burden will run into billions of pounds instead of mere hundreds of millions, the idea of meeting it out of current revenue will have to be abandoned.

The main problem is not how to find the necessary money to meet the increased expenditure, nor even how to find the necessary dollars to meet the additional burden on the balance of payments resulting from rearmament. Thanks to the improvement of the dollar position, the latter problem does not at present appear incapable of solution, even though a stage may be reached at which American financial aid would become essential in order to avoid a sharp decline of the gold reserve. The present problem is to find the necessary men and raw materials. In respect of the supply of some key materials, Britain is dependent on the United States. In the absence of American allocations of zinc, sulphuric acid, etc., many British factories would have to reduce their output. This fact increases the bargaining power of the United States Government to no slight degree, because all Socialist politicians are terrified by the prospects of unemployment resulting from shortage of raw materials.

A. P. Shepherd Is With Benj. D. Bartlett

CINCINNATI, Ohio—Alfred P. Shepherd, formerly a partner of Morrill & Shepherd, Financial Counsel, has become associated with the investment firm of Benj. D. Bartlett & Co., 313 Vine Street, members of the New York and Cincinnati Stock Exchanges, it was announced.

Mr. Shepherd, a native of Cincinnati and a graduate of Harvard University, was connected with a Boston investment counsel firm from 1934 to 1942, when he returned to this City. During that time he was engaged principally in the analysis of economic conditions and in the study and selection of investment securities.

He returned to Cincinnati in 1942 to become associated with Logan Morrill, Financial Counsel, and in January, 1947, became a partner in the new firm of Morrill & Shepherd.

During the war, Mr. Shepherd served as a commissioned officer in the U. S. Naval Reserve, returning early in 1946 to resume his investment counsel activities.

In his new association with Benj. D. Bartlett & Co., Mr. Shepherd will devote his primary attention to assisting members of the firm in the research and individual counseling activities carried on by their growing Investment Advisory Department.

Burns, Corbett & Pickard—New Name

CHICAGO, Ill.—Martin, Burns & Corbett, Inc., 135 South La Salle Street, announce a change in firm name to Burns, Corbett & Pickard, Inc. and the association with the firm as Vice-President of Artemas G. Pickard. Mr. Pickard was head of the municipal bond department of C. F. Childs and Company in Chicago for the past 19 years and prior to that was with William R. Compton Co. He is well known in the municipal bond field over the country. Other officers of the firm include: John J. Burns, President and Treasurer; William J. Corbett, Jr., Vice-President and Secretary; C. F. Steinhoff, Vice-President, and G. M. Flanagan, Assistant Secretary.

Callaghan Syndicate Manager For Goldman, Sachs

Goldman, Sachs & Co., 30 Pine Street, New York City, members of the New York Stock Exchange, announce that John W. Callaghan, who has been associated with the firm for many years, has been named Manager of their Syndicate Department.

British Industries Fairs Aided Overseas Business

One important factor that helped Great Britain in 1950 to move out into the overseas markets a volume of goods to enable her to balance her international trade and contribute to the suspension of Marshall Plan aid more than a year ahead of schedule was the British Industries Fair held in London and Birmingham in the early part of the year, according to the American Committee for the 1951 fair.

Just as the 1950 fair helped produce the overseas business that resulted in making Great Britain once more self-sustaining in international trade, so the forthcoming 1951 British Industries Fair is expected to contribute substantially to further improvement of Britain's economy—a vital factor in North Atlantic security.

The British Industries Fair, which will be held in London and Birmingham from April 30 to May 11, is more than an event on a tourist's itinerary. It is a place where overseas buyers and purchasing agents from all parts of the world converge once each year to cover the entire British market in both retail merchandise and in heavy industry, and to place orders which not infrequently are followed up during the rest of the year by re-orders.

Thousands of Items Featured

The 1951 BIF will in effect amount to some 60 trade fairs wrapped up in one huge package. At Olympia and at Earls Court in London, two of the largest exhibition halls in the world, half a million square feet of space will be devoted to the light industries. Here buyers will find Britain's latest and finest in such merchandise as textiles and apparel, shoes and leather goods generally, pottery and china, glass and glassware, sporting goods and camping equipment, gift shop items and novelties, furniture and bedding, and jewelry, clocks, cutlery, silverware, toys, photographic equipment, musical instruments, stationery—in all, thousands of items.

Miles of "Heavy" Displays

In Birmingham, Castle Bromwich (which is 11 times larger than the arena of New York's Madison Square Garden) will house miles of heavy industry displays, ranging from agricultural equipment to mighty industrial machinery. Special transportation arrangements have been made to enable visitors to attend all sections of the Fair—those in London and in Birmingham—in one day should they desire to do so. Displays also have been arranged so that related lines are shown together, allowing buyers who desire to specialize to complete their business in the shortest possible time.

To Spotlight Textile Displays

Highlighted at this year's Fair will be the textile and apparel sections, which will be more than twice as large and much more comprehensive than they were in 1950. The industry has selected 1951 as a "major year" for displaying its wares at the BIF, assuring an extraordinary showing in this field.

The 1950 British Industries Fair attracted 19,005 overseas buyers. This established a record never before achieved in the Fair's 35-year history. Because the 1951 Fair will be larger and more comprehensive than ever before, it is expected to set a new high record in the number of buyers drawn to the exhibits from the United States and other parts of the world.

David T. Moore

David Thomas Moore died at the age of 78 after a long illness. Prior to his retirement he was senior partner in D. T. Moore & Co.

Edwin L. Tatro Co. Now a Partnership


Edwin L. Tatro A. Kingston Ghegan

Edwin L. Tatro, Harold G. Hackradt and A. Kingston Ghegan announce formation of the general partnership of Edwin L. Tatro Company to continue the business of the firm of the same name. Offices will be continued at 50 Broadway, New York City.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of the late Henry H. Cone, Jr., to Robert D. Danks will be considered by the Exchange on Jan. 11.

Augustus Knight retired from partnership in Bacon, Whipple & Co. Dec. 31.

G. Harold Pfau withdrew from partnership in Robert W. Baird & Co. Jan. 1.

Interest of the late Harry H. Moore in Hallgarten & Co. ceased Dec. 31.

Theodore W. Friend, Jr., withdrew from partnership in McKelvy & Co. Dec. 31.

Interest of the late George Shashkan in Shaskan & Co. ceased Nov. 30.

Com. McEntire Takes Issue With Dealer

Holds publication by Thomas Graham of Bankers Bond Company, Louisville, Ky., of what transpired at a hearing before the SEC on Oct. 20 with reference to formation of a mutual fund, was improper and gave erroneous statement of position taken by SEC members present.

Commissioner Richard B. McEntire, of the Securities and Exchange Commission, has addressed a letter, dated Dec. 6, to Thomas Graham, President of the Bankers Bond Company, Louisville, Ky., in which he took exception to Mr. Graham's publication and distribution of a statement having reference to a hearing on Oct. 20 before the Securities and Exchange Commission regarding the formation of a mutual fund. In his statement (see the "Chronicle," Nov. 16, p. 24) Mr. Graham criticized the working of the SEC Acts and expressed opposition to the Frear Bill.

Richard B. McEntire

The text of Commissioner McEntire's letter to Mr. Graham follows:

On Nov. 10, 1950, while on a business trip, I was shown a document labeled "Preliminary Draft—Condensed Statement of Thomas Graham before SEC." Since my return to Washington I have had further occasion to examine this document, which purports to relate the substance of an informal conference had, at your request, with certain members of the Commission on Oct. 20, 1950. It has come to my attention that this "preliminary draft" was publicly distributed by you to a rather wide mailing list before either its existence or contents were made known to us, and that a final statement in printed form also received wide public distribution.

It is regrettable that you have permitted your obvious enthusiasm for the views you espouse to lead to this action. We feel sure you would not have followed this procedure had you stopped to consider its propriety. Surely you must be aware that the Commissioners present at the conference did not contemplate that our informal conversation would be the basis of any such public release or the vehicle by which you would publicize and seek support for your personal views. The Commission, at no time, authorized you to do so. Indeed, we cannot recall that you indicated that any memorandum of our conference was to be prepared, even for our private use. Had we known what you had in mind, it hardly is likely that the conference would have been held; in any event, we most certainly would have insisted upon giving you a formal written statement of such views as we cared to express, so as to avoid any misconceptions and to insure that our comments would appear in context.

The dangers inherent in the practice you have followed are highlighted in this instance. Your recollection of precisely what was said at the meeting from the Commission side of the table apparently is extremely faulty. Thus you have incorrectly attributed to me certain statements which neither I nor any of the other Commissioners made. Although I suggested that the Commission was aware of certain problems relating to so-called "gun-beating," at no time did I state that compliance with the securities laws or regulations of the NASD "would keep the small dealers and small investors from participating in large new issues of securities." I want to make it very clear that such is not and never has been my view.

Furthermore, it would be most unfortunate if any person on your mailing list should get the impression that I expressed agreement with some of the matters on which you voiced such definite opinions. Your statement as to the concern expressed by me regarding "some of the points" mentioned at the meeting is so generalized that it could well be interpreted to constitute a measure of endorsement for almost any one of the views you set forth. The misleading effect thus created is particularly dangerous since the matters under discussion are of real importance in the administration of the Federal securities laws.

In this same connection, we consider that any fair statement of our views would require some indication that we advised you that we did not think it would serve any purpose for us to discuss a number of the points you raised. For example, you will recall that I informed you that I did not wish to again argue with you the merits or demerits of the Frear Bill; that we had done so in the past, and that it was quite plain that our views on the subject were diametrically opposed.

We do not wish to suggest for a moment that we are in any way concerned about the dissemination of your own views on these matters. We do, however, object strenuously to the unauthorized use of a Commission conference for that purpose, and to what seems to us to be inaccurate and distorted reporting of our comments. Since the possible result has been to create confusion as to our position on important matters, we believe it is incumbent upon you to rectify whatever misimpressions you may have caused by distributing this letter to the same mailing list to which your release was sent. The Commission would like to hear from you in this regard at the earliest possible moment.

Yours very truly,
RICHARD B. McENTIRE,
Commissioner.

Bond Club of Buffalo Elects New Officers

BUFFALO, N. Y.—At their annual meeting and Christmas party held at the Saturn Club Dec. 27, the Bond Club of Buffalo elected the following officers for 1951:

President — Carl A. Haller, Schoellkopf, Hutton & Pomeroy, Inc.

Vice-President — Albert J. Wright, 2nd, Bache & Co.

Treasurer—John A. Lautz, Trubee, Collins & Co.

Secretary—Walter H. Boyd, Jr., Marine Trust Company of Buffalo.

Elected as directors of the Club for a two-year term were: Walter H. Boyd; Edward Cornelius, Edw. Cornelius & Co., Inc.; John G. Krans, Manufacturers and Traders Trust Company; and Edwin W. Wunderle, Liberty Bank of Buffalo.

Hayden, Stone Opens Branch in Albany

ALBANY, N. Y.—Hayden, Stone & Co., members of the New York Stock Exchange, announce the opening of an office at 130 State Street, under the direction of Wm. Minot Thomas, resident partner.

Continued from page 6

The Need of Widespread Equity Investment

curities, and by having the employees, the customers of these companies, plus the great American public, furnish the money.

There was no reluctance, I believe, on the part of company management to finance themselves by the equity route, or lack of desire by most companies to pay dividends up to a bigger percentage of their earnings, that forced them into the debt method of financing, rather than equity, or caused them to use such unusual amounts of their earnings during this period. It was simply a proposition of a bad climate, marketwise, for equity securities caused in large part by demagogic attacks on American business in the early thirties, and the threat to the economy some political plans and utterances had caused. Common stocks for the most part all through this period had been selling far below book value and at prices considered too low by company management to make equity capital financing a feasible thing. There were also some unusual tax advantages too important to be overlooked. If you add this to the ease with which bank loans and the other loans I have mentioned could be made, you have the reason why debt financing was more attractive in this period than equity financing.

The ideal and happy economy, I feel, would be one where capital expenditure for the most part (and naturally depending on the type of business) were financed by the sale of equity securities, and one where bank loans and insurance company loans found their place, only as the temporary and short-term variety of financing, rather than the source of money used for permanent capital expenditure.

Please don't believe that I am minimizing or attempting to speak slightingly of that sum of $3,000,000,000 which I said was the amount of new capital created in the last 4½ years, because by that very figure it is obvious that there were thousands of individuals in America who were willing to put their money to work in American industry. On the other hand, I think it is a rather curious circumstance that individual Americans provided directly from their savings only about 4% of the money spent by American industry to finance the great postwar era building and expansion program.

Even though this small sum shows an improvement over the period of the early war years of 1942 and 1943, where the government put up the bulk of the money and individual investors only provided ½ of 1% of it, yet I have a fear for the period just ahead of us and believe the improvement shown in the last few years should not make us too sure that progress is being made. We should take this experience as an indication that equity financing can be done, and we should promise ourselves that we should not let government do it again by the debt route.

Must Sell Idea of Widespread Stock Ownership

There is a big selling job to be done and I know it can be done. We must sell the American public, the worker, the farmer, the professional man and the clerk, that the finest thing he can do for himself and for his country, is to buy himself some ownership in American business and help finance this next period of industrial expansion.

From everything any of us can glean it seems quite evident that a war or a threat of a war is going to be facing us for years to come. Government expenditures for military and for foreign relief and armament of one kind or another will be perfectly gigantic.

If we can believe what we hear, American industry will operate at record levels. Large, new plant capacity will be demanded by industry. Present machinery will wear out rapidly as plants operate at 100% capacity. Replacements will have to be bought at increasing rates, and possibly at much higher than present prices. Old machines and old products will rapidly become obsolete, as research laboratories and designing engineers create new ones. Tremendous sums of new working capital will be needed to finance all of these goods through the countless processes from raw material to finished product. Where is all of this money to come from?

I hope it will come from individual investors. I hope the American public will furnish it. I certainly hope it will not be dished out by benevolent government agencies, helter skelter, in "easy to arrange" loans and advances. I also hope that American businessmen will not fall for some easy and quick means of emergency financing, but will avail themselves of the machinery that is open to them, and take the trouble to go to the public for their money, and thereby create more owners of American property.

We have a large debt. We are all agreed, it should not be larger. We have high taxes, and while we dislike higher taxes, we are all pretty well agreed that our taxes should be higher and that we should do this next chore of ours, whatever it may be, on as nearly as pay-as-you-go basis as we can. If we can do this we will not create a new era of inflation and one that could well be a disastrous era of inflation.

Equity Investment a Means of Avoiding Inflation

What better way of avoiding inflation, than that of syphoning off the surplus earnings of this next big period into equity securities and by selling stock and by making stock ownership popular. We could even create a big "buy a share of stock" era and make it a most patriotic thing to finance whatever big expansion we might have with funds from individual Americans. Let's let business and businessmen finance this next war or this war preparedness program, on a cash basis, as versus the last war, where the government did it on a debt basis.

The machinery is all here. We do not have to create it. There is not a city or small town that doesn't have a fine, well respected, competent securities dealer, or a member of one of the well organized Stock Exchanges of this country. He has the know-how. He knows the people who have the money; that is his business. All that is necessary is to furnish him with the securities and the help, to educate the customers he has, and the new customers he needs. Securities are selling at a 20-year high. The market for securities is vibrant. Individual stocks, while not up to book value in many cases, are still not so low that new equity financing would unduly dilute the equity of present stockholders, and in that the new money needed would have as its purpose, the creation of new earning power and consequent added profits, the dilution angle is of relatively small importance anyway, when the other great benefits that would accrue through such a program are included.

As I understand it, the basic purpose of this entire preparedness program, and the billions of dollars we are going to spend on it, outside of putting ourselves in a position to protect ourselves, is to sell America to the world and demonstrate the advantages of a free economy.

It is a program of loans to other nations, and the general proposition of selling the advantages of this great country of ours, and the system of private ownership, which is our keystone.

We are trying to sell a country where any man can own property, and every man should.

We are trying to sell a free process that gives every citizen a right to select his own piece of property, whether it be an acre of land, his own home or a share of stock representing ownership in an American business.

The American system is an excellent piece of merchandise. No salesman could hope for a better. It has in peace time created for its citizens the highest living standards ever seen in the world. In war time it has succeeded in winning two very large wars for us and now is charged with the responsibility of getting ready for a possible third.

How unintelligent it is to try to sell this system to the world before we have really sold it at home and to ourselves? I feel it really isn't sold very well at home, and that we either haven't tried very hard to sell it, or we haven't tried hard enough. I feel this is true, for if it were not true, we would not be faced with a situation where only some 6,000,000 of our citizens own stock in American business, and thereby own a stake in the thing we are trying to sell to the world.

I was told recently by the Chairman of the Board of the Tokyo Stock Exchange that 12% of the population of Japan owned securities of Japanese businesses. Regardless of the accuracy of the figure of 6,000,000 stockholders in the United States, as reported a year or so ago by the Federal Reserve Bank, it is safe to say, I think, based on the Tokyo contention, that a far smaller percentage of the American population own stock today than do the Japanese.

When reduced to a comparison such as this, the situation is indeed shocking and forcibly illustrates what I mean when I say, American business needs more stockholders, and that we should create a big "buy a share of stock" movement in this country.

If you agree with me that American business will be sounder if permanent capital is obtained by the issuance of equity securities, rather than debt obligations, if you agree with me that a man becomes a better citizen the minute he becomes the owner of a real, direct stake in American business, then I know you will subscribe to the proposition that we must do something to make stock ownership more popular for the rank and file of American citizens, that we must out of our own pockets, and from our own savings, furnish American business with the capital it needs for the great expansion period ahead of us, and that this capital be in the form of equity capital; thereby we will make this country strong and successful and a model which the world will be willing and anxious to copy.

R. G. Nussbaum With Bache Co. in Chicago

CHICAGO, Ill.—Robert G. Nussbaum has become associated with Bache & Co., 135 South La Salle Street, Myron F. Ratcliffe, resident partner, announced. Mr. Nussbaum was formerly with Faroll & Co. and prior to that with the Inland Steel Co., Chicago.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government security market was under pressure most of 1950, especially during the latter part of the year. Higher money rates brought about by the monetary authorities in the fight against inflation were responsible for lower prices of Treasury obligations. A new pattern of rates came into being in 1950 with short-term yields being pushed up sharply, which in turn had an influence upon the yields of the longer maturities. Nonetheless, the 2½% rate for the most distant government obligations remained inviolate. The pattern of yields that evolved under Federal sponsorship in 1950 was from about 1½% to 2½%.

Liquidation of government securities in 1950 by nonbank owners, mainly the large life insurance companies and savings banks, was on a large scale. Federal was the only important buyer, although at times these purchases were made in not too sizable amounts and with considerable selectivity. The funds that were obtained from the liquidation of Treasury securities were reinvested almost entirely in mortgages and other nongovernment obligations. Commercial banks likewise were sellers of governments, although in more moderate amounts. These monies were used principally for loans, which advanced very sharply last year. Fear of larger reserve requirements hung heavily over the government market because of the uptrend in loans. The colossal "flop" of the September-October refunding by the Treasury was one of the outstanding events in the money markets in 1950.

1950 Performance Record

Higher money rates, the last minute announcement of increases in reserve requirements, a minor lengthening of maturities, and the reappearance of the 1¾s were among the important developments affecting the eligible taxable list. The results for the year:

Eligible Taxable Bonds

Issue—		12-30-49 —Closing— Bid Price	Yield %	Price Range —1950— High	Low	12-29-50 —Closing— Bid Price	Yield %	Price Chge. 32nds	Yield Chge. %
2%	9/15/51-53	101.12	1.17	101.12	100.10	100.10	1.47	—1.2	+.30
2%	12/15/51-55	101.17	1.17	101.18	100.14	100.14	1.48	—1.3	+.31
2½%	3/15/52-54	102.24	1.20	102.26	101.2	101.2	1.54	—1.22	+.34
2%	6/15/52-54	101.27	1.23	101.27	100.18	100.18	1.57	—1.9	+.34
2¼%	6/15/52-55	102.12	1.23	102.15	100.28	100.28	1.58	—1.16	+.35
2%	12/15/52-54	102.4	1.26	102.5	100.21	100.22	1.61	—1.14	+.35
1⅜%	3/15/54	102.9	1.30	100.11	99	99.7	1.61	—3.2	+.31
1½%	3/15/55	---	---	100.7	99	99.9	1.66	---	—
1¾%	12/15/55	---	---	100.5	100.2	100.2	1.73	---	—
2½%	3/15/56-58	106.4	1.45	106.9	103.14	103.14	1.79	—2.22	+.34
2¼%	9/15/56-59	104.31	1.46	105.3	102.11	102.11	1.81	—2.20	+.35
2½%	9/15/67-72	105.31	2.09	103.30	103.7	103.17	2.24	—2.14	+.15

The war in Korea, rearmament and higher taxes made the performance of the tax-protected obligations in 1950 not too bad. The last four maturities were the market-leaders in this group. Changes were as follows:

Eligible Partially-Exempts

Issue—		12-30-49 —Closing— Bid Price	Tax-free Yield %	Price Range —1950— High	Low	12-29-50 —Closing— Bid Price	Tax-free Yield %	Price Chge. 32nds	Yield Chge. %
2¾%	6/15/51-54	102.26	.66	102.26	100.24	100.24	.80	—2.2	+.14
3%	9/15/51-55	103.24	.65	103.24	101.10	101.10	.82	—2.14	+.17
2¼%	12/15/51-53	102.24	.70	102.24	101.3	101.3	.83	—1.21	+.13
2%	6/15/53-55	103.25	.73	103.28	102.1	102.5	.86	—1.20	+.13
2¼%	6/15/54-56	105.20	.80	105.23	103.19	103.23	.90	—1.29	+.10
2⅞%	3/15/55-60	109.15	.85	109.20	106.23	106.29	.93	—2.18	+.8
2¾%	9/15/56-59	110.27	.90	111.2	108.3	108.14	.96	—2.13	+.6
2¾%	6/15/58-63	112.4	1.05	112.12	109.31	110.12	1.02	—1.24	—.3
2¾%	12/15/60-65	114.3	1.17	114.12	112.17	112.29	1.08	—1.6	—.9

Heavy liquidation of the ineligibles by nonbank investors, was taken care of by the support buying of the Central Banks. The record for 1950:

Restricted Taxable Bonds

Issue—		12-30-49 —Closing— Bid Price	Yield %	Price Range —1950— High	Low	12-29-50 —Closing— Bid Price	Yield %	Price Chge. 32nds	Yield Chge. %
2¼%	6/15/59-62	103.11	1.85	103.31	100.15	100.22	2.15	—2.21	+.30
2¼%	12/15/59-62	103.10	1.87	103.21	100.13	100.18	2.18	—2.24	+.31
2½%	6/15/62-67	105.19	1.99	105.22	102.13	102.21	2.23	—2.30	+.24
2½%	12/15/63-68	105.2	2.07	105.4	101.20	101.22	2.34	—3.12	+.27
2½%	6/15/64-69	104.22	2.12	104.24	101.3	101.4	2.39	—3.18	+.27
2½%	12/15/64-69	104.17	2.14	104.20	100.31	101.1	2.40	—3.16	+.26
2½%	3/15/65-70	104.13	2.15	104.16	100.29	100.29	2.42	—3.16	+.27
2½%	3/15/66-71	104.11	2.18	104.14	100.27	100.28	2.42	—3.15	+.24
2½%	6/15/67-72	103.27	2.23	103.30	100.22	100.22	2.44	—3.5	+.21
2½%	12/15/67-72	103.27	2.23	103.30	100.22	100.22	2.44	—3.5	+.21

Brooke-Willis Inc. Formed in Richmond

RICHMOND, Va. — John W. Ayres, Robert H. Brooke, Jr., George P. Kenny and Charles E. Willis announce formation of Brooke-Willis, Inc., to transact a general investment business. The firm will maintain offices in Richmond, Va.

Mr. Brooke formerly was Manager of the municipal bond department of Scott, Horner & Mason, Inc., Lynchburg, Va.; Mr. Willis formerly was Manager of Scott, Horner & Mason's Richmond office, while Mr. Kenny and Mr. Ayres were salesmen in the latter office.

Salomon Bros. Hutzler Admits M. D. Freeman

Salomon Bros. & Hutzler, 60 Wall Street, New York City, members of the New York Stock Exchange, announce that Merrill D. Freeman who has been associated with the firm for many years, has been admitted to general partnership. Mr. Freeman's admission to the firm was previously reported in the "Chronicle" of Dec. 7.

Leslie H. Bradshaw

Leslie H. Bradshaw passed away suddenly Dec. 28 at the age of 55. He was editor of "Investment Timing."

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As We See It

The Council, as is its custom, ventures estimates as to future possibilities of expansion in our production mechanism. It apparently is of the belief that by such expansion it may be possible to limit the sacrifices all must make if any such rearmament program as is now apparently envisaged is to be brought into reality. How much dependence can be placed upon such estimates, we do not know. We are always distrustful of these vague, general, "over-all" statistics. In any event, the Council is apparently quite certain that the volume of ordinary civilian goods available to each of us during the next few years is not likely to be as large as at present.

To the Council's Credit

We do not see how there can be much quarrel with this latter view. It is also to the credit of the Council that it seems to recognize that if inflation is to be avoided the flow of income after taxes—not to giant corporations, not to the already over-soaked rich, but to the rank and file—which feeds the demand for consumer goods must be reduced in close relationship to the curtailment in the availability of consumer goods. Its vigorous support of the pay-as-we-go basis, by means of taxes so far and so long as humanly possible, and its recognition that when such a basis ceases to be humanly possible the avoidance of inflation becomes for all practical purposes humanly impossible, should, if widely understood and accepted, prove to be a real contribution to the shaping of popular thought on a matter of vital importance.

The Council's discussion of these aspects of the matter touches certain fundamentals, whether or not this advisory body realizes it or not, and upon the answer to questions thus raised will depend the final economic outcome of what we are now planning. That fundamental is essentially this: Are the vast rank and file of this country prepared to undergo the sacrifices entailed in the defense program upon which we are launching ourselves, or, if not, can they be led to see plainly what is involved? Of course, these sacrifices are inherent in any such program. There is no real possibility of escaping them. The question is whether we are ready to accept this plain truth and to take those steps which will minimize the hardships and make sure that the sacrifice is equitably distributed among the people.

It must be admitted that the Council appears to be a little inclined—possibly for reasons of political strategy—to wince and relent and refrain when it faces this fundamental issue. It, for example, remarks that it is reasonable enough to ask labor to defer efforts to raise its plane of living while this emergency exists. Of course, it is nothing less than essential that such an attitude be adopted by the great rank and file of wage earners, along with the rest of us, if serious inflation is to be avoided. Equally obvious, though, is the fact that such a course on the part of the workmen of the country will not be enough if we are to go through with any such herculean armament effort as is now contemplated. We can not have consumption as usual if we are to devote a very large part of our effort to armament—certainly not consumption as usual of such things as are made of the same materials and in the same factories as guns and planes and tanks and all the rest. That we might conceivably make up the difference by producing goods not particularly wanted by anyone is beside the point.

A Practical Question

To take a strictly practical view of this situation, let us confine our attention to two groups in the population whose political strength is such and whose volume of consumption is such that the course of their behavior would come very close to deciding whether ruinous inflation is avoided. These two elements are, of course, the farm population and the wage earners, including for purposes here in hand, so-called white-collar workers so far as they are organized in aggressive unions. We do not know precisely what part of the normal output of automobiles, washing machines, radios, television sets and the like flow into the hands of members of these groups, but it may be taken for granted that the portion is more or less controlling. And, of course, politically the same is true.

Now the question comes down to this: Is the ordinary man who draws a weekly wage ready—never mind his strong language when referring to the Kremlin or to Mao—to make out as best he can without many of the gadgets and other conveniences to which he has become accustomed in recent years? Is he ready to make out without them not only for the duration, but to continue to do without them after that except so far as they are purchased out of then current income? Is the farmer ready to give the go-ahead signal to Washington on this same basis? Is there anyone in Washington who can persuade such men and women—so far as they need persuasion—that they must do some such thing?

This course would result in giving up a good deal more (at least in terms of money) than they ever gave up during World War II. Are there any among the leaders of labor or of the farmers who have the understanding, the courage and the influence to create such a state of mind among their followers?

If so, we can control inflation while we rearm. If not . . . .

Rauscher, Pierce Elects Three V.-Ps.

DALLAS, Tex. — John H. Rauscher, President of Rauscher, Pierce & Company, investment bankers, has announced the election of three new Vice-Presidents in that firm: John L. Canavan, Dallas; E. Clyde Hawkins, Houston; and Arnold J. Kocurek, San Antonio.

John L. Canavan

Mr. Canavan entered the investment business in St. Louis in 1927 and joined Rauscher, Pierce in 1936, as Manager of the trading department. He is a member of the First Methodist Church, Dallas; Metropolitan Lodge No. 1182, A. F. & A. M.; Dallas Chapter 47 RAM; Dallas Council No. 18; Dallas Commandery No. 6 KT; 32nd degree Knight Commander of the Court of Honor of Dallas Consistory and Hella Temple. He also holds memberships in the Dallas Athletic Club, Dallas Bond Club, Lakewood Country Club and the Cipango Club.

Mr. Hawkins joined Rauscher, Pierce in 1940, after serving as Vice-President of the Ennis State Bank at Ennis, Texas. He has managed the Houston offices of the company since 1944. He served as a 2nd Lieutenant in the artillery in World War I and is a member of the Methodist Church, a Mason, Shriner, and member of the Houston Club and Pine Forest Country Club.

Mr. Kocurek joined Rauscher, Pierce & Co. on graduation from the University of Texas with a BBA degree in 1934 and since 1945 has been in charge of the Municipal Department of the San Antonio office. He is a member of the Catholic Church, Alamo Kiwanis Club, Oak Hills Country Club, San Antonio Club, and Knights of Columbus.

Delafield & Delafield Admit Two Partners

Delafield & Delafield, 14 Wall Street, New York City, members of the New York Stock Exchange, announce that Martin LeBoutillier and Arthur C. Briggs have been admitted as general partners. Mr. Briggs is a member of the New York Stock Exchange.

The firm also announced the retirement as a general partner of Beverley M. Eyre, effective Dec. 31, 1950.

Admission of the new partners was previously reported in the "Chronicle" of Dec. 7.

Royal Bank of Canada Appoints

TORONTO, Ont., Canada—R. F. Garrard has been appointed supervisor of the bank's foreign branches, it was announced by The Royal Bank of Canada.

Mr. Garrard was born in the Transvaal, South Africa, and joined the bank at Winona, Ontario, in 1922. In 1941 he was made Assistant Manager of the bank's main branch in Winnipeg and two years later assumed a similar post at Ottawa branch. In 1946 he was appointed inspector, foreign department, at head office and in that capacity traveled extensively throughout the countries of the West Indies, Central and South America, where the bank has branches.

Fetzer Stock Dept. Mgr. For Kean, Taylor Co.

Kean, Taylor & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announce that Louis Fetzer has become associated with the firm as Manager of its stock department. Mr. Fetzer was formerly with Hayden, Stone & Co.

Triesler Joins Hecker

PHILADELPHIA, Pa.—Hecker & Co., members of the New York Stock Exchange, announce the removal of their Hagerstown, Maryland office to the Hamilton Hotel Building, 10 Jonathan St. Henry C. Triesler has joined the organization as co-Manager with Bayard W. Goslin.

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had been sufficient to provide the necessary correction of price and resource allocations for continued future expansion.

The views of the retiring President of the American Economic Association stand in striking contrast. He found little warrant for the conclusion that "built-in stabilities" and other institutional and social changes had minimized the extent and duration of this recession. Instead, as he viewed it, a recession almost exclusively originating from inventory correction was in itself sufficient to produce drastic curtailment in industrial output and a sharp rise in unemployment. This, to him, was far from convincing evidence that 1949 could rightly be interpreted as a test of the depression-proof character of the postwar economic system.[1] The new war stimuli once more postponed the test of the true quality of the postwar prosperity and its durability.

1950 in Retrospect

The actual rate of upturn in the first half was somewhat sharper than anticipated, particularly for housing and automobiles, but the general trend of business conformed to expectations. By mid-year the consensus for the months immediately ahead had grown more favorable. The results of the various types of foreshadowing statistics we now possess were already more impressive than they were a half year earlier. Capital outlays by business, according to both private and public samples, were to be better maintained in the months ahead than was generally expected. Consumers, when polled, said that they planned to continue purchasing automobiles, homes, furniture and other consumer durables at an unabated rate. The outlook for profits in 1950 was brighter, according to Board and other surveys, as was the new order position of industry.

Thus the forces of recovery were all in their ascendant phases when the initial Korean crisis broke upon us. Even before mid-1950, the nation's plants were once more pouring out goods and services at close to record-breaking volume. We, in turn, were enjoying the fruits of recovery through further increases in our already high living standards. For some months thereafter we clung to the belief that domestic recovery could go on apace, while concurrently we provided the token forces and instruments of war necessary to halt the Korean aggression. Not until the closing weeks of 1950 did we recognize the dislocations to which our civilian economy must again be exposed, if we are to defend successfully the program of action we had underwritten when our troops moved into action against the aggressor.

The 1950 Expansion Basically Civilian

The continuing of all-out war during the past six months should not be permitted to obscure the basic trend of business in 1950; a sharp upturn that took shape long before Korea and retained a predominantly civilian character throughout the year. While the last half of 1950 certainly found some of its stimulus in the events in the Far East, rearmament was carried forward slowly, in an economy still dominated by domestic civilian demand. Military expenditures were still running behind 1949 as late as mid-November. Lead-time on DO orders and forward dating of materials orders left business pretty much to its own resources. And controls placed on consumer credit and business inventories had no conspicuous reflection in employment, output or sales. The most notable impact of Korea appeared in anticipatory buying reactions on the part of consumers and business, and their inevitable repercussions on prices.

The rapid change in the sequence of world events in a few short weeks makes it difficult, if not impossible, for even the trained business analyst to speculate about the pattern of business in 1951. This can be illustrated by the experience of the Conference Board Economic Forum. We arranged for them to meet early in December to appraise the business outlook for 1951 in the light of what was known or discernible at that time. A few days thereafter, the shape of world events was drastically altered by the reversals suffered by our troops and those of the United Nations. In the light of this sudden alteration in the world's balance of power, we felt impelled to ask the members of the Forum to reexamine their findings in the light of the inevitable acceleration in the growing burden of war we in this nation must now assume.[2]

Views of Conference Board Economic Forum

It is significant that virtually all of our Forum participants were in agreement that the year ahead posed difficult challenges on the home front, even before the Korean catastrophe. The resources of our economy were already strained in late 1950 to supply the prevailing high level of civilian consumption and investment under full employment. The Forum, therefore, viewed as remote, at least for the months immediately ahead, the possibility of further marked expansion of total output, as in the initial phase of World War II. For reasons developed at length later in this commentary they held that expansion of war production would take an increasing toll of civilian industries, with growing dislocations for civilian consumers and enterprises alike.

The inflation problem, according to the Forum, therefore will also confront us much earlier than it did a decade ago. In all likelihood individuals will have more income at their voluntary disposal in the year ahead than ever before in this nation's history. At the same time, the volume of goods available for consumers will contract, even as the output of war material is multiplied. As in its previous discussions, the Forum places its emphasis upon higher taxes, expanded savings, curtailment of non-military expenditures and other indirect controls, as the primary mechanisms of price restraint, rather than price, wage and related direct controls.

Business Expectations, 1951—Lower Profits, Civilian Cutbacks

Manufacturers, too, have found it difficult to predict the outlook for their businesses in 1951. There is, however, one point on which most of the executives cooperating in the Board's annual survey agree about the prospects for the year ahead—net profits will decline. High material and labor costs, low-profit government orders, smaller margins on civilian business, and a larger tax bite are expected to substantially reduce net profits, despite an anticipated record output.[3]

Although military orders have not been placed in substantial amounts as yet, over a third of the cooperating companies report that it will be necessary for them to cut back on their shipments of peacetime goods in 1951. Even though the survey indicates that plant expansion may reach an all-time peak in the early part of 1951, increased military orders and serious raw material shortages will reduce the goods available for the civilian economy.

Many companies were already operating at capacity at the close of the year. Expansion of manufacturing output in 1951 is, therefore, largely dependent upon the construction of new plant facilities, improved tooling, and more efficient use of labor.

The salient findings of this survey are:

(1) Capital expenditures, which were at peak levels at the end of last year, are expected to reach new highs in the early part of 1951, providing there are no serious shortages of building materials and industrial equipment.

Over half of the companies cooperating in this month's survey expect to either maintain or increase their rate of investment in new plant and equipment during the first half of 1951. The electrical machinery, heating and plumbing, instruments and controls, chemicals, paper, and steel industries report the largest planned increase in capital expenditures.

(2) Over a third of the companies who were willing to comment on their expected operations in the first half of 1951 believed their rate would be equal to that for the last half of 1950. At least four out of ten expect to put idle capacity to use or operate new facilities, and thus increase their over-all output. Only one in six companies foresees a decline in its production. These declines will result from raw material shortages, government controls, and market shrinkage induced by credit restrictions.

Although a third of the participating companies are producing little or no military goods, the diversion of from 5% to 50% of the capacity of the remaining companies to defense orders is reducing the supply of peacetime goods. Two-thirds of the companies foresee no reduction in the fulfillment of peacetime orders in the immediate future. The remaining third have already cut such shipments or expect to do so within the next six months. The majority of companies, however, acknowledge that any increase in military output may necessarily result in a proportionate decline in civilian output, since operations are at capacity or raw material shortages prevent further increases in production.

More than 15% of the output of the foundry, heating and plumbing, general industrial machinery, instruments and controls, and steel industries, according to the survey, will be diverted to defense in the first half of 1951. Some industries, most notably the machine tool and building material industries, will continue to make the same products, but a substantial proportion of their output will be used in the construction of facilities for defense production.

Cutbacks in civilian shipments ranging from 5% to 20% were anticipated in the electrical ap-

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1 See "Pros and Cons of CEA Policies," *Studies in Business Economics, No. 25*, The Conference Board, 1950.

2 See "Business Outlook for 1951," *Studies in Business Economics, No. 27*, The Conference Board, December, 1950.

3 See "Manufacturing Profits Hit by War Threat," *The Conference Board Business Record*, January, 1951.

Railroad Securities

New York, Chicago and St. Louis

It is normally expected that on the upside the higher priced stocks will be considerably less spectacular percentagewise than than will the medium priced shares of like quality or the more speculative low priced issues. Last year we witnessed a striking exception to this normal pattern in the railroad field. This was the New York, Chicago & St. Louis (Nickel Plate) common. At last Friday's close of 182 (6½ points off the year's top) it had registered a price gain of more than 100% from the 1950 low. This performance is even more notable when it is realized that it is not even paying dividends. Moreover, most railroad analysts visualize a further rise, perhaps reaching similar proportions, over the intermediate term.

Nickel plate is, of course, a very special situation. From a traffic and operating standpoint it has long been recognized as a strong and thoroughly sound railroad property. In this respect its status was further materially bettered late last year by consummation of a lease of the Wheeling & Lake Erie, of which it had been, and is, the majority stockholder. Nickel Plate's major difficulties in the depression decade stemmed almost entirely from a relatively heavy debt structure and, probably more important, periodically recurring maturity crises. These weaknesses were corrected some years ago, but one of the results thereof has lingered on.

Faced with a maturity problem the company discontinued dividend payments on the 6% cumulative preferred stock in 1931. It was not until 1946 that payments were resumed and in that year aggregate disbursements amounted to only $4.00. By that time arrears had mounted to $87.50 a share. Gradual liquidation of the arrears started in 1947, but until 1950 it was considered that the only feasible way to eliminate them entirely in any reasonable time would be through a stock recapitalization. Holders of the common stock were unwilling to accept any appreciable dilution of their equity in any such recapitalization so a stalemate developed. Their stand in this matter has now been more than vindicated.

Payments against arrears last year totaled $28.50 a share in addition to the regular $6.00. At the end of the year the unpaid balance stood at only $45.00 a share, or an aggregate dollar obligation of $16,226,010. Considering the company's earnings prospects (more than $60.00 a share should be reported on the preferred for 1950) and its financial status there should be little problem in liquidating the entire amount in the course of 1951. When this has been accomplished the way will be opened for the common stock to participate directly in the very high earning power that has been developed.

The management has recently announced its intention of offering new common stock, in the ratio of one share for each ten held, to present stockholders under subscription rights. No price has as yet been set for the offering but it was stated that it would be below the then current market price for the shares. The purpose of the offering is to reimburse the treasury for capital expenditures of recent years but the sale of stock will, obviously at least, indirectly release cash to expedite final liquidation of preferred arrears. While the price has not as yet been set the proceeds to the company should be in the neighborhood of at least $6 million. Also, the company proposes to split the common 5-for-1, which should materially increase its market appeal and stimulate higher prices.

Nickel Plate's earnings have been little short of phenomenal, and are expected to continue so, with actual results this year dependent to a considerable extent on tax legislation. For the 11 months through November 1950 earnings on the common, after only the regular dividend requirements on the preferred, amounted to $51.19. In November alone, when many eastern roads experienced heavy expenses in connection with storms, earnings amounted to $5.57 on the common. A year earlier, adjusted to include the Wheeling lease, earnings for the 11 months amounted to $35.40. Probably the company earned around $55.00 for the full year. Even after its spectacular rise, then, the stock is selling only 3.3 times current earnings.

Kidder Peabody & Co. Admits W. J. Grimm

CHICAGO, Ill. — Willard T. Grimm, manager of the Chicago office of the New York Stock Exchange firm of Kidder, Peabody & Co., 135 So. La Salle St., has been made general partner, the firm announced.


Willard T. Grimm

Mr. Grimm was graduated in 1924 from the Northwestern University school of commerce. He joined Kidder, Peabody as Chicago manager in 1937, after serving The First Boston Corporation in its Chicago, St. Louis and St. Paul-Minneapolis offices.

Mr. Grimm was formerly a member of the executive committee of the central states group of the Investment Bankers Association, and is a director of Roberts Dairy Company, Omaha, and Chefford Master Manufacturing Co., Fairfield, Ill.

Mr. Grimm's admission to the firm was previously reported in the "Chronicle" of Dec. 21.

With Inv. Service Corp.

(Special to The Financial Chronicle)

DENVER, Colo.—Jack Adams, Malcolm A. Jones, James L. Larson and Wendell F. Morey have been added to the staff of Investment Service Corporation, Security Building. Mr. Adams and Mr. Morey were formerly with Hamilton Management Corporation.

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pliances and supplies, hardware, non-ferrous metals, steel, chemicals, and paper industries.

(3) Most steel fabricating companies fear that a steel shortage may curb their operations. However, a few industries which had high priority ratings during the last war — electrical machinery, heating and plumbing, machine tools, and general industrial machinery—feel reasonably sure of peak operations during the first six months of 1951.

(4) Among the non-metal industries, chemicals, food, paper, and petroleum foresee the peaks of late 1950 maintained and even surpassed by a small percentage.

(5) At the moment, labor supply does not seem to be as critical as raw material supply. But some companies note that shortages of skilled labor may prevent as much expansion of output as they would like to undertake.

In summary, the expectations of manufacturers who will be called upon to supply the bulk of munitions and material for the expanded defense war program are for modest increases at best in 1951 rate of operations, particularly in terms of total output, accompanied by a decline in net profits. Defense expenditures for the first half of December totaled only $800 million, or little more than $19 billion at an annual rate. Even at the low rate of placement of defense contracts which characterized 1950, however, it remains true that a third of the respondents reported that cutbacks on their production of civilian goods would be required in 1951. True, four of every 10 responding hoped to put idle or new capacity to use and thereby boost their total output. But a somewhat larger proportion foresaw shortages of raw materials or government restrictions which would limit their output to prevailing or even lower levels.

Thus the views of the professional analysts and those of the operating heads of manufacturing enterprises converge on one common characteristic of the year ahead—a low elasticity of supply. Alteration of the product-mix or composition of production should undoubtedly yield a marked increase in production of war goods in 1951. But even on this point we may be abusing the comparison with World War II performance. It is worth recalling that the Chairman of the War Production Board at their one hundredth and final meeting on Oct. 9, 1945 prefaced his catalog of our impressive production accomplishments with:

"This is indeed the record of a great American achievement, but lest we lose the lesson it has taught us, I wish to warn against any complacency regarding the ease of mobilizing the nation for war. In the recent war the United States was not a belligerent until two years after the invasion of Poland. We were able to borrow precious time in which to prepare for the vast production of munitions that doomed the Axis to defeat. This tooling-up process will not be vouchsafed us again. Therefore, we must take steps now to capitalize on the know-how gained in this war to maintain up-to-date plans for rapid mobilization for the next emergency.[4]

The economists, however, placed far greater emphasis upon the restraining influence of a tight labor supply upon the 1951 production equation than did the industrialist. That, coupled with retardation in productivity under growing dislocations in the civilian sectors of the economy, figured significantly in the Forum's findings of a gain in output in 1951 far below the 1941-1945 total experience. Their anticipations centered about a possible 5% increase in total industrial production (or real gross national output) as against annual gains of two to four times that rate during World War II.

Hours of work are admittedly lower than they were during the last war. In the durable sector of manufacturing, the work week in number already averaged 42.5 hours, implying a nominal work week of at least 44 hours. Extension of hours would without question contribute its movement toward greater net output. These are costly hours, however, not only in terms of overtime premium but also because they approach the margin at which output per unit of labor input decreases. For these reasons some analysts contend a rise in the work week beyond 44 hours may add more to demand than it contributes to supply.

Manhour Input

Far more sobering, however, are the demographic changes in the labor force over the past decade. The total labor force rose by about 10 million during World War II; in addition, the number of unemployed declined by almost a like amount. Currently unemployment is nearing its functional minimum, and the possibilities of picking up additional labor force recruits from fringe labor force groups are far more limited than a decade ago, reflecting primarily the low rates of the depressed Thirties. Some of the salient statistics in this connection are:

(1) The greatest gains in total labor force, including the Armed Forces, came in the teen-age groups. Their number in April, 1945—the war peak—was approximately double their peacetime figure. While the total population of the country has increased by nearly 20 million over the decade, the number aged 14-19 years dropped by 1.5 million from 12.3 million in April, 1940 to 10.8 million in mid-1949.

(2) The number aged 19-26 years rose by about 300,000 over the decade, or only 2% as against the national average of 15%.

(3) The number and relative percentage of women in the labor force is significantly above prewar trends. Many more married women are in the labor force than before the war — 23% in 1949 against 15% in 1940.

(4) Married women today have heavier family responsibilities; the number of women aged 15-49 with children under five years is nearly a fourth higher than in 1940. Labor force participation rates of this group are very low, and were not subject to much expansion even during World War II.

That the manpower element is worthy of the stress I have placed upon it is readily evident from appraisals of performance of war economics of the past. According to estimates of the War Production Board, total manhours worked in industry were about 75% greater in 1944 than in 1939.[5] This makes no allowance for the additional drain upon the labor force for military service. Expanded manhour input was the primary factor which made it possible for war production to be a net addition to, rather than a substitute for, civilian production throughout the entire conflict. Expanded capacity, gains in technology and related non-labor inputs contributed toward the great expansion of production of the early Forties. Industrial output was more than doubled in half a decade, increasing by over 15% annually, or twice the rate of increase in World War I. The root core of this expansion was greater labor input. According to WPB estimates, "increased input of manpower accounts for about three-quarters of the total increase in industrial output." All other factors in the production equation were dwarfed by the absolute expansion of the labor force, coupled with an extension of the work week by about 20%.

With the benefit of hindsight, it may be safely said that we entered World War II with a general underestimate of the contribution the slack in our economic resources—particularly in our labor force—could make toward sharply expanded volume. As a result, many warned that civilian consumption and private capital formation would have to be reduced to a subsistence or bedrock basis. Is it likely that we shall again be proved wrong in retrospect for believing that this time we would not repeat the error of a decade ago? Recall the "it's only 10% of gross national product" argument which gained wide acceptance until recent weeks, or its companion piece, further expansion of capacity to meet the defense load without curtailing the take of raw materials and strategic metals by civilian industries. Have we underestimated the impact of defense or war this time?

An economy at full employment—or hyper-full employment—may find it far more difficult to increase manhour input than a decade ago. On the basis of labor force trends during 1920-1940, our total labor force in April, 1950 was already 2.7 million above "normal."[6] In the seven months following, the number of unemployed was further reduced by 1.5 million, so that today we have a fully employed labor force not far below the 1944 peak of 66 million, including the Armed Force of over 11 million at that time. At peak labor force participation rates of World War II—that is under "forced draft"—our labor force currently would gain little more than 5%.

To restate this comparison for purposes of emphasis, peak labor force participation at World War II maxima would mean a total labor force of about 70 million. Allowing for a military drain of 3.5 million, would leave a civilian labor force of 66.5 million. Assuming a civilian labor float of 1.5 million or about 2%, total civilian employment then would equal about 65 million. This would permit a division of about 5% of the peak labor force for war work; beyond that point, and I suspect we are already at it, recruits for war industries would be drawn increasingly from civilian industries.

These, then, are the major factors behind our Forum's belief that the elasticity of supply would be low, at least in the early transition phase of 1951. Labor input, coupled with productivity, yields national output. Forum viewpoints on possible gains in productivity in 1951 were about the same as for labor input. Some increases would arise from the shift of workers from industries with low value-added characteristics (e.g., the source industries) to high value-added sectors (e.g., aircraft, electronics). The entrance of new, highly efficient plant and equip-

4 J. A. Krug, "Wartime Production Achievements," Report of the Chairman of the War Production Board, Oct. 9, 1945, Washington, D. C.

5 War Production Board, "American Industry in War and Transition," Part II, "The Effect of the War on the Industrial Economy," Document No. 27, July 20, 1945.

6 See "Manpower Problems Are Different This Time," *The Conference Board Business Record*, October, 1950, for further development of this and earlier comments on labor force trends.

ment into mass production during 1948-50 has been reflected in improved output per manhour and this would carry over into 1951. These plus factors, in the Forum's judgments, would be about offset by dislocations in civilian industries, resort to substitute materials, imperfect flow of goods through industry, having problems of new recruits to labor force, the resort to submarginal plants and similar negative factors encountered in the last war.

On balance, the majority view of our Forum was for a modest increase in industrial output or real gross national product in 1951. No member of our group expected a repetition of the 15%-25% increases of the 1941-1944 period. Instead, a rise of 3% to 5% in real gross national product might emerge in the second half of 1951. The maximum increase anticipated by any participant was a rise by the year-end of 10% in the index of industrial production and this would, in good part, reflect the imperfections of that index as a measure of war output.

Rukeyser Calls for Armed Preparedness

Economic columnist says it is an insurance policy for perpetuating the American system.

In a talk before the New Rochelle (N. Y.) Rotary Club at the Wykagyl Country Club on Dec. 27, Merryle Stanley Rukeyser, editorial writer for the Hearst newspapers and daily economic columnist for the International News Service, expressed the viewpoint that heightened military preparedness in the United States should be regarded as an insurance policy for perpetuating the American system.


Merryle S. Rukeyser

"Without such insurance," Mr. Rukeyser declared, "the future of the American system would be subject to the will of aggressive international communism. Since experience has clearly demonstrated that the 13 men in the Kremlin respect naked power, the rebuilding of American strength will be a contribution to the peace of the world. The ill-advised dismantling of the American military machine after V-J Day without a commensurate demobilization of the armies of the Soviet Union upset the balance of power in the world, and was regarded by the Red Fascists as an invitation to aggression.

"The voluntary rush after the great victories into 1945 to turn American swords into plowshares (while Russia remained fully armed) exposed the whole free world to dangerous hazards. The remedy is in rebuilding American fire power at the earliest possible date, and the principal element of uncertainty is the time factor.

"On the economic side, the remobilization will doubtless mean current sacrifices in living standards in order to pay the huge insurance premium. But the new insurance commitment is well worth while to the extent that it assures survival. For apart from matters of the spirit and of national pride, the overpowering of the United States by aggressive Communism would inevitably mean a collapse over here of existing high levels of material well being. Accordingly, the most ghastly improvidence conceivable at this time would be for the United States to err again through pursuing a fatuous policy of 'too little and too late'."

Federal Reserve Increases Bank Reserves

The Board of Governors of the Federal Reserve System on Dec. 29 announced it has increased the amount of reserves required to be maintained with the Federal Reserve banks by banks which are members of the Federal Reserve System. The increase will become effective according to the following schedule:

	Effective
On net demand deposits—	
Central reserve city banks:	
From 22 to 23%	Jan. 11, 1951
From 23 to 24%	Jan. 25, 1951
Reserve city banks:	
From 18 to 19%	Jan. 11, 1951
From 19 to 20%	Jan. 25, 1951
Country banks:	
From 12 to 13%	Jan. 16, 1951
From 13 to 14%	Feb. 1, 1951
On time deposits—	
Central reserve city and reserve city banks:	
From 5 to 6%	Jan. 11, 1951
Country banks:	
From 5 to 6%	Jan. 16, 1951

"This action was taken," the Board stated "as a further step toward restraining inflationary expansion of bank credit, in accordance with the statement issued by the Board Aug. 18, 1950, that the Board and the Federal Open Market Committee 'are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the government securities market.'

"The volume of bank credit and the money supply have continued to increase despite previous actions by the Federal Reserve and other supervisory agencies, and efforts of individual banks to be restrictive in granting credit. Loans of member banks have increased by about $7 billion since June, reflecting in part seasonal influences and in part accumulation of inventories at rising prices. This is an unprecedented rate of expansion and has contributed to an excessive rise in the money supply. Moreover, with the end of usual seasonal demands for credit and currency, banks will have additional funds available for lending. The purpose of the announced increase in reserve requirements is to absorb such funds and generally to reduce the ability of banks further to expand credit that would add to inflationary pressures. The increase is timed so as to absorb reserves coming into the banks from the post-holiday return flow of currency.

"The effect of this increase will be to raise the required reserves of member banks by a total of approximately $2 billion which, under our fractional reserve banking system, could otherwise be the basis for about a sixfold increase in bank credit in the banking system as a whole.

"After the increase, reserve requirements at banks other than central reserve city banks will be at the maximum legal limits which prevailed during the war period. Requirements on net demand deposits at central reserve city banks will be two percentage points less than the maximum under existing authority but above requirements that prevailed for these banks during most of the war period."

Robert Meyers With Wm. E. Pollock

CHICAGO, Ill.—Robert L. Meyers has become associated with Wm. E. Pollock & Co., Inc., 231 South La Salle Street.

With Hamilton Managem't

(Special to The Financial Chronicle)

DENVER, Colo.—Felix R. Bailey, Arnold B. Gibbs, Carlton W. Harrod, and Stanley B. Paynter have been added to the staff of Hamilton Management Corporation, Boston Building.

Sutro Bros. & Co. Opens New Branch

WASHINGTON, D. C.—Sutro & Co., members of the New York Stock Exchange, announce the opening of a Washington, D. C., office in the Denrike Building under the management of Irving G. Rudd. The new office will offer a complete brokerage service, both domestic and foreign.

Mr. Rudd has had many years' experience as a securities analyst and broker. During the war he served in the Office of Strategic Services, and also was Special Assistant to Donald Nelson of the War Production Board.

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Testing Formula Plans

basic features and operational procedures have to be understood not only by the staff members of the institution but also by those whose funds they administer. The same is true of investment trusts seeking to sell their shares to the public. Finally, it is essential that the plan be clearly understood by finance committees which—particularly in the case of educational institutions—are usually composed in part of successful business and professional men drawn from fields other than finance.

Administrative Aspects

Prior to the adoption of a plan the administrative costs should be estimated and weighed against any anticipated increased return and against the costs of alternative methods.

Historical Tests

With these primary factors of analysis in mind, let us consider next historical tests and their role in the examination of formula plans. As the success of any formula plan is dependent largely on the nature of unforeseeable market action, it is not possible to determine its effectualness with certainty. Nevertheless testing in detail the operation of a plan over selected periods of the past is essential to adequate appraisal. Experience reveals that only through historical tests can the essential nature of a plan be fully understood and the manner in which it will operate under given market conditions be determined. Furthermore, the operating results derived from such tests provide the basis for evaluating the performance of selected plans in terms of one another and in terms of various types of stock-market fluctuations.

Historical tests cannot reveal the future but they provide answers to such questions as: What would happen under the plan if another 1929-1932 type market is encountered? A 1937-1939 type? Or a 1946-1949 type market? What type of market would cause prolonged inactivity? Could a fund be whip-sawed under the plan? Would the plan have operated in an unsatisfactory manner over any past periods? What yield and appreciation would the plan have provided over selected past periods?

Procedure for Historical Testing

If a detailed examination of a formula plan is to be made, a hypothetical fund must be established and operated. Its composition, fluctuations, yield and other characteristics should reflect those of a representative well-managed fund. For this purpose, one has the alternative of either selecting a specific portfolio or using stock and bond indexes to represent the two portions of the portfolio.

The specific portfolio method had the advantages of apparent realism and simplicity and avoids certain problems which arise from the use of indexes. However, based on our own experience and that of others, following this method would involve numerous difficulties. Serious problems of selectivity would arise both at the beginning and at numerous points throughout the testing period. Hindsight would inevitably creep in, Finally, such an undertaking would be extremely time consuming and the results would not justify the substantial statistical cost involved.

Although such vexing difficulties as selectivity and hindsight may be eliminated through the use of stock and bond indexes, this procedure, in turn, presents other problems. Those arising from the employment of a stock index are relatively minor, as it is reasonable to assume that a stock index can be bought and sold. A bond index can not be employed as readily. In the operation of the bond portion of a portfolio, one is confronted with such problems as maturities and refundings. Bond indexes make no allowance for these factors, accordingly provision must be made for them. Furthermore, procedures must be developed for determining the market value of bonds sold and the income on bonds held. Notwithstanding these difficulties, solutions may be found which render the use of indexes suitable in testing formula plans. It is to be stressed, however, that careful consideration must be given to the specific stock and bond indexes to be employed.

Stock and Bond Indexes Employed

The stock portfolio of the typical institutional investor includes industrial, public utility and railroad common stocks. In order to reflect the price movement and earnings of a common stock portfolio so diversified, a stock average or index composed of the three types of equities is preferable. For this purpose, we consider Standard & Poor's 90-Stock Index to be a satisfactory general measure of portfolio performance.[1]

Although we use Standard & Poor's 90-Stock Index to represent the stock portion of the fund, the timing of stock purchases and sales is guided by the Dow-Jones Industrial Average (DJIA). This may appear to be a contradictory procedure. If the 90-Stock Index best represents the changing market value of the fund and the yield, is it not preferable to use the same index for timing purposes?

The DJIA is employed as the timing guide for the following reasons: (1) Nearly all of the plans presently in use are based on the DJIA. Thus the analysis should be in terms of the plans as presently constituted and employed. (2) A comparison of the DJIA and the 90 Stock Index over the period 1926-1949 reveals that the turning points of both series are for all practical purposes identical. Also analysis shows that the average annual deviation of the DJIA (adjusted to base 1926=100) from the 90 Stock Index was less than minus 8%. (3) Research by ourselves and others on formula plans using moving averages, trend lines or the "intrinsic value" approach have been in terms of the DJIA.

Standard & Poor's Composite Index of A1+ Bonds is used to represent the bond portion of the fund. This index typifies a conservatively managed bond portfolio and yield-wise is comparable to New York legal bonds (excluding 7-a rails).

Valuation of Bond Portfolio

Since the valuation of the bond portfolio presents several knotty problems, we should also like to explain briefly the techniques employed in this respect. First, it is assumed that all bonds are purchased at par at the prevailing yield rate. For example, if the average yield on A1+ bonds in January, 1926 was 4.80%, the assumption is that any bonds bought in that month bear a coupon rate of 4.80% and sell at 100. In this manner the complications resulting from buying at discounts or premiums are avoided. Second, it is assumed that bonds are redeemed at par. Third, it is assumed that the composition of the bond portfolio is always spread evenly between maturities from 1 to 25 years. Thus in the absence of marked refunding, 4% of the portfolio matures annually. In those years in which heavy refunding occurs the 4% rate is increased. In this connection a refunding schedule developed by the Trust Investment Study Committee of the New York State Bankers Association is employed.[2] Fourth, it is assumed that the refundings do not change the composition of the fund maturity-wise. This point may be attacked the most readily, because clearly heavy refundings would tend to "stack up" bonds in the longer maturities. But any attempt to compute probable maturities and to make compensating adjustments in the fund presents overwhelming difficulties.

On the basis of the preceding assumptions, the market value of the bond portion at any given time is arrived at by (a) determining the weighted coupon rate on bonds held, (b) assuming that 12½ years is the average maturity of bonds held, (c) determining the current yield on A1+ composite bonds, (d) determining at the current yield the market value of a 12½ year bond paying the weighted coupon rate, and (e) applying this market value to the bonds held. To illustrate, if at the end of 1949 the weighted coupon rate on bonds in the fund was 3% and the current yield on the A1+ composite was 2.55%, then the market value of the bonds is taken to be the value of 12½ year 3% bonds yielding 2.55%.

It is to be pointed out that this procedure assumes no downgrading. Any change in the market value of the bond portion is confined solely to a change in the interest rate. Thus losses can occur only from the sale of bonds in periods of rising money rates and not from any of the other hazards which confront the bondholder. Because it is well-known that downgrading and defaults were widespread throughout the early 30's, the proposed technique favors bonds. Thus comparison with stock experience is biased in favor of bonds. On the other hand, it is to be pointed out that no allowance is made for refundings at a premium. In our opinion the remaining bias is not sufficient to be detrimental to a study seeking to test the operation of a common-stock timing device.

Test of Constant-Ratio Plans

The preceding technique has been employed in analyzing and appraising several kinds of plans. To demonstrate the significant information which can be developed through such historical tests, let us here consider briefly the testing of constant-ratio plans. Although several constant-ratio plans were examined, consideration is given to a plan employing a 50/50 stock-bond ratio. This plan is better known and more readily lends itself to explanation.

As previously stated, the objective of a 50/50 constant-ratio plan is to equalize the stock-bond proportions whenever a stock-price rise or decline is sufficient to cause the fund to be substantially out of balance. Prior to the establishment of such a plan, the extent to which the fund should be out of balance before stock-bond transfers are made must be decided. In line with the tests of others, we equalize the two portions of the portfolio when a 20% decline or a 25% rise occurred in the DJIA. This resulted in the fund being adjusted when the proportions had reached 45/55 or 55/45.

As the date of establishment is of primary importance, the following significant starting dates were selected: January, 1926, in order to begin at a moderate level prior to the 1929-1932 episode; January, 1930, to determine the results when a fund is originated at a high point in a rapidly declining market; June, 1935, to start at a reasonably recent market level close to the trend lines employed in the Vassar and Oberlin plans: and March, 1937, to initiate a fund near a recent peak from which there was a marked decline.

The dollar results of the tests as applied to a $10,000 fund are set forth in Table I. Two facts stand out. First, as of the end of October, 1950, all of the funds showed some appreciation. Second, those funds started at high points in the market were "under water" for considerable periods. In the explanation of these two facts lies the key to an understanding of constant-ratio type plans.

Consider first the capital appreciation which occurred. Although the level of stock prices at the close of October, 1950 was somewhat higher than at the starting point of three of the funds, the appreciation shown does not result solely from this fact. This may be readily demonstrated by a comparison with 50/50 buy-and-hold plans initiated on the same dates. For example, the appreciation under the equalizing plan established in 1926 was nearly $5,500 whereas that of its counterpart in a buy-and-hold plan was less than $3,000. The difference is due to the fact that under a constant-ratio plan transfers from stocks to bonds in a price rise preserve some of the gains and transfers from bonds to stocks in a decline reinvest these gains at lower levels.

This simple technique assures —insofar as timing is concerned —a modest appreciation whenever the market completes a "round trip." In other words, some gain must result whenever stock prices rise above or drop below a starting level and then return to that level. To illustrate, if the market falls from 100 to 80 and returns to 100, a $10,000 50/50 fund would show a $125 capital gain. In these small but repeated gains lies the strength of a constant-ratio plan.

The second fact indicated by Table I is the number of years that the plans started in 1930 and 1937 had a market-value below the original investment. We wish to stress the point that — contrary to general belief—some forecasting is involved in establishing a constant-ratio plan. Specifically, there is an underlying prediction that in the course of their fluctuations common-stock prices will not for an extended number of years remain below the level at the time the plan is inaugurated. Because of the limited capital appreciation under a constant-ratio plan, a small error in this one prediction may involve a loss which will require a considerable number of years to recover. The plan established in January, 1930 had a market value below $10,000 over most of the 15-year period up to 1945.

Let us summarize, in terms of the previously set forth factors of analysis, the other results of our tests. We found the buying and selling action under the plan reasonably satisfactory. The frequency with which stocks are purchased and sold under a constant-ratio plan is primarily a function of the interval selected between action points. As the interval employed rests with the investor, the amount of activity may be controlled to a considerable degree. The primary factor in this respect is to avoid over-action with its attendant brokerage commissions and administrative problems.

An outstanding feature of the constant-ratio plan is its simplicity. Thus from the standpoint of understandability, this type plan presents no difficulties. Furthermore, for the same reason, it should present no major mechanical problems of administration.

Our studies indicate that a constant-ratio plan is worthy of careful consideration by certain institutional investors. Although the gains are not great and although it may be outperformed by other plans, the constant-ratio plan is characterized by simplicity and a notable degree of safety.

Restricted as this has been to the general results of examining a single plan, only the broader aspects of historical tests of formula plans have been presented. Further insight could be obtained from following tests step by step as the market rises and falls. In this manner such separate features of a plan as intervals between action points or precentage ratio between stocks and bonds may be evaluated. In addition, the results of these tests constitute the best basis we have found for a comparative analysis of plans. Thus, in our opinion, historical tests provide the investor with information essential to an appraisal of formula plans.

TABLE I
Year-End Values of Four $10,000 Funds Operated Under 50/50 Constant-Ratio Plan

Date	—Year-End Values of Funds Established— January 1926	January 1930	June 1935	March 1937
1926	$10,264	----	----	----
1927	11,930	----	----	----
1928	13,909	----	----	----
1929	13,006	----	----	----
1930	11,303	$8,603	----	----
1931	8,189	6,246	----	----
1932	7,749	5,898	----	----
1933	9,742	7,400	----	----
1934	9,855	7,478	----	----
1935	11,794	8,940	$12,238	----
1936	13,589	10,249	13,736	----
1937	10,947	8,127	10,859	$7,671
1938	12,453	9,268	12,443	8,703
1939	12,258	9,160	12,114	8,537
1940	11,361	8,426	11,253	8,040
1941	10,342	7,709	10,327	7,285
1942	11,007	8,167	10,952	7,743
1943	12,032	8,926	12,011	8,493
1944	12,859	9,546	12,884	9,111
1945	14,751	10,994	14,768	10,560
1946	13,905	10,299	13,857	9,872
1947	13,707	10,154	13,675	9,736
1948	13,706	10,152	13,665	9,733
1949	14,536	10,772	14,542	10,341
1950 (Oct. 31)	15,482	11,556	15,342	11,007

1 Standard & Poor's 90-Stock Index is a composite index of 50 industrial, 20 public utility and 20 railroad common stocks. After a study of numerous measures of stock prices, the Cowles Commission concluded that Standard & Poor's indexes are statistically the best constructed from United States data. See Alfred Cowles, 3rd, and Associates, *Common-Stock Indexes* (Bloomington, Indiana, Principia Press, Inc., 1939), p. 35. Furthermore, Standard & Poor's 90-Stock Index has been employed in a comparable way by other research groups. For example, see Arthur Wiesenberger, *Investment Companies* (1950 Edition; New York, Arthur Wiesenberger & Co., 1950), pp. 74-76 *et seq.*, and *A Report by the Trust Investment Study Committee* (New York, New York State Bankers Association, 1949), p. 81 *et seq.*

2 *Op. cit.*, pp. 99.

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The Urgent Need for Monetary Statesmanship

they still should have it. They do not always use their power of the ballot wisely; but, if government dictatorship is to be avoided, they must retain this power just as they should retain the power, provided by a redeemable currency, to control directly and effectively the use of the public purse.

When an irredeemable currency was thrust upon the people of the United States in 1933, the golden wires, as it were, running from all holders of dollars to the central signal station—to the Reserve banks and Treasury — were cut. The lights in the central signal system went out. The people could no longer register their doubts, fears, and protests by choosing from among our various types of dollars the ones they preferred. Though legally all dollars, whether gold, silver, paper, or in bank deposits, were declared to be equal at the rate of $35 per fine ounce of gold after Jan. 31, 1934, the people were no longer permitted to obtain the type of dollar they preferred. They were compelled to take irredeemable promises to pay and an overvalued minor coin. In respect to their currency they became the wards of their government; they were deprived in high degree of their Constitutional position as its master and ultimate source of power.

Irredeemable Money Incompatible With Responsible Government

The management of a people's money by a government freed from the restraints imposed by a redeemable currency is a case of power without effective control by the people. It is incompatible with responsible government. It is perhaps the most potent device a government can employ in leading or forcing a people into a governmentally-managed economy just as a redeemable currency is a people's most powerful weapon against Socialism or totalitarianism in some other form.

The people of a nation ordinarily are not given an opportunity to vote on whether they will or will not have a redeemable currency. Governments plunge them into irredeemable currencies and restore redeemable currencies without their consent and with little understanding on the part of the masses as to the virtues, defects, and implications of these two radically-different types of currencies. As in various fields of human activity, resting upon intricacies understood only by specialists, the field of money is one on which the mass of people must depend upon their statesmen to obtain the proper guidance and to write into law provisions for the best or proper type of monetary standard and system. There is no such thing as educating the mass of people in the principles of good and bad money. Indeed, very few college students have careful training in such principles and very few can be depended upon to provide correct guidance for those seeking reliable advice.

The mass of people in general want the type of currency that injures them most. Because of its convenience, they prefer paper money to gold and silver and, if they have an opportunity to express their opinion, they seem generally to prefer irredeemable to redeemable currency. This popular inclination to prefer money that is injurious probably rests chiefly upon the inability of the mass of people to think beyond the convenience function of certain types of currency to other functions of far-reaching importance such as those related to a good standard of value, a good storehouse of value, a good standard for deferred payments, a good medium in international exchange, and a good reserve against paper money and bank deposits. It seems highly probable, also, that Bryan's famous speech, "Crucified on the Cross of Gold" has permeated our people's thinking — perhaps confirming a vague notion that gold is the rich man's money while paper and cheap metallic coins are the money of "the common man." In more recent decades the people have also been urged by various leaders to believe that gold is a relic of barbarism, that it places undesirable limits on a government's proper management of the people's money, that it caused, or at least did not save us from, the economic collapse beginning in 1929, and that it is an instrument that brings more harm than good. These contentions seem to have strengthened greatly what appears to be man's eternal hope that by means of an irredeemable money a people can really get something for nothing.

All these, and various other, contentions have enabled our government to perpetuate an irredeemable currency in this country, to retain control of the people's purse, to engage in an orgy of spending, to pile up a mountain of Federal debt, and to buy sufficient support to keep itself in power since 1933.

Although the persistent decline in the purchasing power of our dollar appears to be generating an increasing number of fears and complaints, the public's demand is not for a redeemable currency but for more dollar income to meet rising prices. This popular attitude is typical of our history and of that of the people in other countries.

If, therefore, a people are to be saved from the evils of an irredeemable currency, the step must be taken by a nation's statesmen who understand the necessity for such action and will act accordingly. When John Sherman, as United States Senator and Secretary of the Treasury, led this nation back to a redeemable currency, after 17 years of irredeemable money, by means of a law passed in 1875 and made effective Jan. 1, 1879, he did this as a statesman, not as a politician responding to or capitalizing the ignorance of the mass of people, and he did it in the face of a general public hostility including that of many business and other leaders who should have been upholding his hands in every possible way. After the people got their bearings, John Sherman went down in our history as a great statesman—as indeed he was.

Without statesmanship of the Sherman type, there is no way in which a people, ourselves included, can shift from the evils and dangers of an irredeemable currency to the benefits and greater safety of a redeemable money. Neither of our major political parties has produced a leader or leaders in a position or positions of key importance who will fight the battle necessary to give the people of the United States a redeemable currency. Considering the fact that money is the lifeblood of commerce, and that a good monetary standard and a redeemable currency are fundamental to the well-being of a nation, the absence of such statesmanship in both major political parties today bodes ill for the people of this nation. We are in the process of enjoying many of the intoxicating effects generated or made possible by an irredeemable currency. Men who float with the tide at this stage of events are popular because they conform to the people's feelings regarding this particular enjoyment. But they are not far-sighted nor responsible leaders. They are not the experienced doctors who say to the patient enjoying his pipe of opium that there is tragedy at the end of such enjoyment and that sanity must promptly replace the exhilaration initially experienced as one floats away on a sea of irredeemable currency if the natural consequences of tragedy, suffering, and tears, are to be avoided.

A Pull Toward Socialism

Since our government is manned almost exclusively by advocates of an irredeemable currency, and since the great majority of the younger generation of economists, political scientists, and sociologists have gone political—strongly Socialistic—in their activities as "scientists," the people of the United States are apparently caught more tightly in the web of irredeemable currency and the related pull toward Socialism than ever before. Our system of irredeemable currency has the support of the President, the majority of Congress, the United States Treasury, the Federal Reserve authorities, and many leaders outside the government. This is an ominous situation, but it could be changed quickly should a great statesman become the leader of one of our major political parties and head the fight for a redeemable currency.

The officials of the United States Treasury and Federal Reserve banks like irredeemable currency because they are freed from the necessity of meeting their promises to pay. They have privilege without corresponding responsibility, and they have shown themselves willing to defend that arrangement. They escape the restraints on the issuance of money and credit which a redeemable currency would place upon them—for example, they need have little concern over the fact that their reserves, which they do not pay out domestically anyway (only to foreign central banks and governments) are but a fraction of the notes and deposits they issue.

The fact that the issuance of promises to pay without intent to redeem is an act of dishonesty is not a matter that gives concern to these issuers and defenders of an irredeemable currency. They simply avoid the issue; or they insist that there is no matter of dishonesty involved, without stopping to explain why this can be the case. Every adult person knows that we have a large body of contract law designed to prevent any individual from issuing promises to pay that he does not intend to redeem or cannot redeem. The reason for that is that such promises involve an act of dishonesty. Just how irredeemable promises become honest when issued by our Treasury and Reserve banks apparently has never been made clear. There is no logical process of reasoning by which dishonesty can be converted into an act of honesty merely because the dishonesty is on a large scale. Modern governments have developed the technique of the big lie and their subjects are required to accept it, to repeat it, and to become a part of it if they are to have the favor of their government. We are doing substantially that in respect to our use and defense of an irredeemable currency.

The simple fact is unavoidable to intelligent and honest people that there must be a direct relation between the promises to pay and a base of general acceptability into which they are convertible if they are to be honest and reliable in nature. The base for convertibility should have the quality of widest possible acceptability. Gold is the most universally-accepted, and the most widely understood, base mankind has thus far been able to devise. An irredeemable currency and the government se-

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Canadian Securities

By WILLIAM J. McKAY

Despite its little understood status and the complexities surrounding its negotiation, the Dominion of Canada internal bond is nevertheless a desirable medium of conservative investment. There are however two distinct categories of obligations which are at times confused. One is the recorded bond which is purchased on the Canadian market and registered with the Foreign Exchange Control Board. This variety is traded with the FECB registration form No. 106 attached, and commands a premium over the unrecorded bond. The latter form of Dominion internal bond compares unfavorably with the registered type of obligation. The recorded bond can be sold on the government bond market in Canada with no other formality than the production of the Form No. 106. The proceeds can then be freely liquidated on the now widely expanded market for the Canadian dollar.

The market for the unregistered bond on the other hand is almost entirely divorced from its natural market in Canada. It can not be sold on the Canadian market and its price has no direct relationship with the exchange value of the Canadian dollar. The market level of this category of Dominion internal bond is dependent on the estimate placed on its value by the U. S. or other non-resident investor. Naturally the status of the market in Canada and the exchange rate of the Canadian dollar afford a basis of appraisal, but beyond that these factors have no practical bearing. The important distinction between the two varieties of Dominion internal bonds is often disregarded when the general market outlook for Canadian securities is favorable. On the other hand whenever the U. S. opinion of the Canadian situation is on the bearish side the unregistered bonds are highly vulnerable. On such occasions a one-way market usually develops and the premium in favor of the recorded bond widens considerably. During these periods of weakness the unrecorded bonds become attractive for investment as they offer the same basic security as the registered bonds. It is possible also that before the maturity of the obligation the FECB regulations might no longer be in existence; in this event the technical disadvantages of the unrecorded bond would disappear.

Under existing circumstances both the registered and the unregistered bonds are an attractive form of investment. Obviously, however, the registered bond is to be preferred unless the unrecorded variety can be obtained at a worthwhile discount. In recent years the U. S. investor has come to consider the Dominion of Canada internal bond as a security that does not belong in the usual category of foreign investments. It has become the next best thing to the highest grade U. S. obligations. At the present time in fact there are many close observers of the Canadian situation who believe that at their current level the Dominion internals are more attractive than U. S. Governments.

Among the principal reasons given for this opinion are the following:

(1) In a broad sense the Canadian economy is at a stage of dynamic development, which is in no way impeded by any lack of readily available natural resources. On the other hand the U. S. economy has possibly reached a peak level where further expansion places an intolerable strain on the domestic sources of raw materials.

(2) Canadian fiscal and monetary policies are generally more conservative than those south of the border.

(3) Foreign flight capital is commencing to show a preference for Canadian rather than U. S. investment. The abolition of all remaining FECB restrictions on capital movements would greatly accentuate this factor.

(4) The discount on the Canadian dollar is now in the neighborhood of 5%; it is confidently anticipated that parity with the U. S. dollar will ultimately be attained.

(5) The longest term Dominion bond is now at a 3% level in comparison with a 2½% rate south of the border.

The conclusion is reached therefore that at current prices the Dominion of Canada internal bonds deserve more than casual attention on the part of the U. S. investor.

During the week there was little change in a quiet holiday atmosphere in either the internal or external sections of the bond market. The corporate arbitrage rate continued firm but the Canadian dollar in the closing sessions of the year remained on the weak side under the influence of the customary year-end selling. This year the Canadian demand for U. S. dollars was even greater in view of the final removal at the beginning of the year of the restrictions on U. S. imports. Stocks wound up the year with scattered gains with Western oils, basemetals, and industrials especially prominent.

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curities against which it may be issued can be expanded without any known limit with the consequence that the purchasing power of fiat money or irredeemable currency resting upon government debt can be destroyed. This cannot happen to a money redeemable in gold.

Our System Is An Unsound Currency

A currency, the value of which can be impaired or destroyed because of the nature of the asset against which it is issued, is an unsound currency and is injurious to a nation in both war and peace. Despite this fact, our government has chosen the unsound in preference to the sound currency; and, unless we reverse ourselves on that matter as promptly as possible, we are destined to suffer sad consequences in the end. The lessons of the past, revealed again and again, can have no other meaning for us. There is nothing new, in basic principle, in so far as world experiences go, in the course we are pursuing. It is centuries old; it has been seen in operation many times. It apparently is regarded as new only to our present generation whose leaders seem either not to understand or not to respect the lessons of the past regarding what happens when a government plunges a people into a system of irredeemable currency and takes possession of their public purse.

In their efforts to justify and to perpetuate an irredeemable currency in this country, leading advocates in official circles have contended that a redeemable currency did not prevent or save us from the economic collapse beginning in 1929. That is a deplorable method of misleading our people. The facts are that a redeemable currency had nothing whatever to do with that collapse, and no one acquainted with the causes of such economic fluctuations and acting in good faith would ever suggest that the best currency known to man could have prevented it.

A sound currency is like sound rails on the roadbed of a railway system. They are a great facilitating instrument, but they cannot prevent wrecks arising from bad management of the rolling stock. Weak or broken rails can, however, be a causal factor; they can wreck a train regardless of the competence of the engineer and his crew. Similarly, a good (redeemable) currency is a better facilitating instrument than is a weak (irredeemable) one, but it cannot prevent the wrecks arising from bad management of paper money and other forms of credit. A weak—irredeemable—currency, like dangerous railway rails, can be, and tends to be, a very important causal factor in economic wrecks. Some of the worst that the world has ever seen can be traced in large part, sometimes almost exclusively, to the defects inherent in an irredeemable currency. From irredeemable currency to a Dictator has been a common experience in the history of nations.

Our need is for the best possible medium of exchange—a redeemable currency—and the best type of management operating within the limits imposed by such a currency. But even with a redeemable currency and a management appropriate to it, we should expect ups and downs in business activity—even booms and depressions—for the reason that these arise from multitudinous forces of which a redeemable currency is not one. Nor is it a preventive force except in the sense that it cannot cause the catastrophes inherent in, and traceable to, irredeemable currencies.

The proper question is not whether we can avoid up-and-down swings in business activity by the use of a particular type of currency; it is, rather, whether we have the wisdom to avoid the far-reaching evils and possible disaster inherent in an irredeemable currency.

Danger of Overturning Existing Economy

It has been asserted many times, and with accuracy, that there is no subtler, no surer, means of overturning the existing basis of society than to debauch the currency. And an irredeemable currency, regardless of type, is a debauched currency.

The freedom of the people of the United States is now deeply involved. It has been impaired in a multitude of ways because our government has taken advantage of the powers given it by a system of irredeemable currency.

Should a statesman or group of statesmen emerge and lead this nation back to redeemable currency, we would have the far-reaching benefits of the best type of monetary standard and paper money known to man. Multiple quotations for the dollar, a symptom of a defective currency, would disappear. Private enterprise in foreign trade should revive. The return by other nations to redeemable currencies should be made easier. The present discrimination against our own people and in favor of foreign central banks and governments in the redemption of dollars would be eliminated. The reserves in the Federal Reserve banks which are ostensibly held against all Federal Reserve notes and deposits would be paid out upon demand to all holders of these claims, not just to foreign central banks and governments. The same principle would apply to the gold reserves held by the United States Treasury against the paper money it has issued against gold. There should be a revival of well-grounded confidence in individual planning for the future and greater incentive for more work, more production, more saving, more investment, more trade, more and safer prosperity. Our people would once more have direct power over their public purse and an effective protection against Socialism. The fear of the power of the people under a redeemable currency should cause Congress to end its profligate waste of the people's national patrimony. Restoration of a redeemable currency would free our people of the prospects of the great trouble or disaster inherent in an irredeemable currency. Our people would once more have the blessings of an honest currency and the benefits of the higher standards of honesty which such a currency would tend to force upon the managers of our money and credit structure.

Supply of Gold Ample

There is no obstacle to prevent the people of the United States from obtaining these great and far-reaching benefits except the unwillingness of government officials to return to our people the basic freedom which a redeemable currency provides. We have an ample supply of gold to support such a currency at the present rate of $35 per fine ounce of gold, and we should take advantage of its existence while we can. The ratio of our gold stock to total money and deposits is approximately 12%. This compares with an average ratio of 8.6% for the years 1915-1932 during which time the range of yearly ratios was from 10.9 in 1917 to 6.7 in 1920. Considering the road we are traveling, a day can arrive when it will be too late to redeem without a radical contraction of credit or another devaluation of our standard monetary unit. Should that situation arrive, then we will be confronted with a national calamity.

The urgent need of the people of the United States today is for statesmen who will look beyond symptoms, which are the playthings of self-serving politicians, to fundamental causal factors—for statesmen who understand the far-reaching influences being exercised by our system of irredeemable currency and who will assume the leadership in demanding a redeemable and therefore honest currency for the people of the United States. There is no better nor simpler way—indeed there is no other way—to restore to our people their proper power to control their purse and thus to protect their freedom against the encroachments of totalitarianism.

Recognition of these facts and action appropriate to them provide the first and most fundamental test of the degree of statesmanship of those who profess to wish to serve the best interests of the people of this nation.

Paine, Webber Co. Admits Two Partners

Paine, Webber, Jackson & Curtis, members of the New York Stock Exchange and other leading securities exchanges, announces the admission of James E. Davis and Stevens Manning as general partners on Jan. 1, 1951. Mr. Davis will be resident in New York; Mr. Manning in Los Angeles, Calif. The firm also announced the retirement as a general partner of Stanwood G. Bradlee, who will continue as a limited partner.

James E. Davis

Mr. Davis' entire business career has been spent with the firm of Jackson & Curtis and with the successor firm of Paine, Webber, Jackson & Curtis. He started in 1925 and progressed in various capacities until he became senior trader. He served in the U. S. Coast Guard from 1942 to 1945 and returned to the firm following his discharge.

Mr. Manning joined Paine, Webber, Jackson & Curtis in 1946 when the firm opened in Los Angeles. He served in the armed forces in the Pacific area from 1942 to 1946 with the rank of Lieut. Colonel. Prior to his Army service, Mr. Manning had been associated with the National City Company in San Francisco and with Blyth & Co. as Manager of that firm's municipal department in Los Angeles.

Hirsch & Co. to Admit Couig to Partnership

Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit J. Dalton Couig to partnership on Jan. 11. Mr. Couig has been with the firm for a number of years.

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dispensable by showing that world order is a practicable possibility. Nothing now can stop the determination of the people to achieve solidly that goal.

Ground for Criticism

Now, I do not claim for a moment what our nation has done in these respects has been perfectly done. Our own social changes may have gone so far as unduly to curtail incentive and self-reliance. In some cases, political independence may have given to peoples who are so inexperienced in the ways of self-government that it will be hard for them to preserve that independence in the face of the diabolically clever apparatus of Soviet Communism. Our loans and grants to others may sometimes have provided temporary relief rather than incentives to bold new creations of unity and strength. Both the United States and the United Nations may have assumed political responsibilities which they did not yet have the power to back up. Policies, themselves good, often lacked efficient and timely execution. There have been grave and perhaps unnecessary setbacks. Almost surely the free world erred in relying too much on potential power, and in not creating enough military strength in being.

There is no occasion for complacency or for whitewash. There is need to expose errors and to point the way to making better use of all the moral and material assets that our people have shown they could provide. Such constructive pressures are needed and I have been among those who sought to create them. Under our political system that is a special responsibility of the opposition party.

But surmounting whatever may have been the faults and inadequacies of leadership, the deeds of our people over the past five years emerge as a testimonial to greatness and to achievement.

A year ago, on Jan. 1, 1950, "Izvestia's" leading editorial welcomed the new year with these words:

"The forces of this camp are multiplying day by day. The camp of democracy and socialism today includes the great Soviet Union, democratic Poland, Czechoslovakia, Bulgaria, Romania, Hungary, Albania, Northern Korea, the Mongol People's Republic, the Chinese People's Republic, the German Democratic Republic."

And the editorial concluded:

"Communism is conquering, Communism will triumph!"

I do not know what "Izvestia" will say next Monday in greeting to 1951. I do know that, whereas between 1945 and 1950 it was boasting new conquests at the average rate of over two nations a year, there are, this year, no new names of which to boast.

I do not predict the end of Soviet Communist expansion but the free world has found a way to check the ability to expand by cheap methods, short of open war, that is no mean accomplishment.

U. S. Unprecedented Foreign Aid

Communism pitted its youth against what it thought was our isolationism; its revolutionary practices against what it thought was our static mood. It found, to its dismay, a people who, when under pressure, did not decompose into factionalism and frustration. Unitedly, and with unpartisan and bipartisan leadership, they joined in an outpouring in compassion, fellowship and material succor such as history has never before recorded. There is scarcely a man, woman or child in the United States who has not consciously made some sacrifice, out of the highest motives of which human beings are capable. In the process they have ennobled their own character, have given new hope and courage to millions elsewhere and have discomfited the leaders of Soviet Communism.

That is not a performance to belittle; nor is the mood one to be reversed.

We can rejoice in the renewal of the faith that has been the rock of our foundation and out of which have gushed healing waters. We can be confident that that faith, if sustained, assures our capacity to overcome at least one of the twin dangers which, at the end of World War II confronted us. We are not doomed to die in our beds.

So much for the past. Let us look now to the future. Have we renewed our youth like the eagle's only to be shot at in battle? That might be. That was the risk our people took when they decided not to die from the internal diseases of old age.

The leaders of Soviet Communism would have preferred sickness to be the method of our passing. They have great skill in spreading malignant germs and they prefer to practice that art rather than the art of open war, where their nation may have quantitative superiority but has qualitative inferiority. Party leaders have always distrusted the army and the generals, and are reluctant to give them the power that war exacts. If they have to use any army, they would rather use some one else's. Also, so long as they hold the Red Army in reserve to be only a threat, they can still get the advantage of their "peace" propaganda.

But since it seems that the free world has gained a certain immunity to the Communist party poison, their leaders must now decide whether to accept one of those waiting periods which Stalin has taught from time to time be necessary in order "to buy off a powerful enemy and gain a respite," or whether to resort increasingly to open war.

The fact that the free world succeeded, to the degree it did, in slowing up Communist success by methods short of war, automatically increase the risk of war itself.

But risk is not the same as certainty. Just as we surmounted, in recent years, the primary peril of inner decay, so, in the year ahead, we must seek to surmount also the peril of full-scale foreign war. Our search must be for effective deterrents to Russian armed aggression.

Free World Has Superior Military Potential

The free world starts out with certain assets which, I think we would all agree, are capable of being developed into deterrents of a general war of Russian origin. Since moral factors do not weigh heavily in the Russian scale, we are forced to think somewhat in material terms.

Our inventive, resourceful and free society has given industrial productivity far greater than that of Russia. In terms of steel, aluminum, electric power and oil, the United States has a superiority or 3 or 4 to 1 over Russia. That ratio of superiority would not, of course, hold if Russia could take the industrial power of the Ruhr and Western Europe and the oil of the Middle East. So long as there are impediments to that, the free world has an economic power which operates as a major deterrent to open Russian aggression, particularly if we also have the will to forego some of our pleasures and put our economic machine into creating weapons on a mass-production basis.

We have great possibilities of waging psychological warfare. Despotism, when looked at from without, looks solid and formidable, whereas free societies look divided and weak. Actually, that is an optical illusion. The reality is just the opposite.

Take Russia. Out of its 200,000,000 people, only about 6,000,000, or 3%, are members of the ruling Communist party. The political prisoners number from 10 to 15,000,000, or twice the total membership of the party. The party itself is shot through with distrust and suspicion and there are periodic purges as between party factions. No one, even in high authority, feels personally safe. In the case of the satellite countries, the situation is even more precarious. For example, there is much unrest on the China mainland, and in Poland and Czechoslovakia the people are forced to accept officials of Russian nationality because no trustworthy persons can be found at home.

When a few men rule despotically 800,000,000, that is bound to be a vulnerable position. Many of the 800,000,000 are sure to be sullen, resentful and eager for a change. Most of the others will have been so beaten into submissiveness by the harsh discipline of the police state that they have lost all sense of personal responsibility and could not respond to the needs which war disruptions would impose. War can be very unkind to rulers who are despots and who have systematically destroyed the individual initiatives of their people. They know that, and we can increasingly help them to see the light.

No Abandonment of Our World-Wide Defense

When it comes to straight military strategy, the free world seems, momentarily, in a mood of some confusion and without any agreed deterrent program.

The Soviet Union has interior lines. It has concentrated men, tanks, artillery and strategic and tactical planes around the hub of the great circle of its control. The rim starts near the North Pole, swings south along the border of Norway, Finland, Sweden, West Germany, Austria and Yugoslavia; then east along the border of Greece, Turkey, the Arab States, Iran Afghanistan, Pakistan, India, Burma, Indo-China, and Malaya; then northward close to the Philippines, Formosa, Japan, Korea and Alaska. From within this vast orbit, a single will can, in secrecy, plot and act to strike any one of many nations with overwhelming force.

It may be possible, by prearranged defense, to make that attack costly, particularly where sea and air power play a role or where, as in Western Europe, there is depth and numbers and military experience on which to draw.

But with more than 20 nations strung along the 20,000 miles of iron curtain it is not possible to build up static defensive forces which could make each nation impregnable to such a major and unpredictable assault which Russia could launch.

That, however, does not mean that we should abandon the whole idea of collective security and build our own defense area with the help of such other countries as we might pick because of their capacity to be useful to us.

The whole world can be confident the United States will not at a moment of supreme danger, shed allies who are in danger, to whom we are bound by solemn treaty, by common heritage and by past fellowship in war and peace. I do not interpret any one as urging this. Any nation doing that would scarcely be in a position thereafter to do much picking and choosing for its own account. It would have elected a dangerous course, for solitary defense is never impregnable. You can plan on paper what it seems should be an impregnable defense, a China Wall, a Maginot Line, a Rock of Gibraltar, an Atlantic and Pacific Moat. But the mood that plans such a defense carries within itself the seeds of its own collapse. A defense that accepts encirclement quickly decomposes. That has been proved a thousand times.

A United States which could be an inactive spectator while the barbarians overran and desecrated the cradle of our Christian civilization would not be the kind of a United States which could defend itself.

Fortunately, we do not have to choose between two disastrous alternatives. It is not necessary either to spread our strength all around the world in futile attempts to create everywhere a static defense, nor need we crawl back into our own hold in the vain hope of defending ourselves against all the rest of the world. We are not bankrupt in resourcefulness.

Around the rim of the captive world the free world can create enough economic and political vigor, enough military strength and enough will to resist so that these areas cannot be cheaply conquered by subversive methods, by trumped up "civil wars" or even by satellite attacks.

Possibility of Full Scale Soviet Attack

That leaves to be dealt with the possibility of full-scale attack by the Soviet Union itself. As against that, there is only one effective defense for us and others. That is the capacity to counterattack. The existence of that capacity is the ultimate deterrent.

When I was in the Senate, working for the ratification of the North Atlantic Pact, I took the position that it did not commit the United States to the land defense of any particular area; it did commit us to action, but action of our own choosing rather than action that an aggressor could dictate to us.

In Korea, the United Nations forces suffer the grave handicap of trying to repel an aggressor within the limited area he selected for an attack, at the time he selected and with methods of war which are dictated by the terrain and the weather he selected.

Our people have loyally, sacrificially and rightly backed this historic first attempt at organized suppression of aggression. We have done so despite the fact that this effort involves the inevitable defects of any first endeavor. But we instinctively feel that there is something wrong about the methods and do not want to be committed to a series of Koreas all around the globe.

That instinct is quite sound.

Against such military power as the Soviet Union can marshal, collective security depends on capacity to counter-attack against the aggressor. Then the force that protects one protects all, and there is good chance of deterring aggression.

The United States is not without power in this respect. We have our strategic air force, a stock of weapons, naval power and potential strength on the ground. Much more of all of this needs now to be brought into being. Total reliance should not be placed on any single form of warfare or any relatively untried type of weapon. The arsenal of retali-

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ation should include all forms of counter-attack, with maximum flexibility, mobility and the possibility of surprise. The places of assembly should be chosen, not as places to defend but as places suitable for launching the means of destroying the forces of aggression. The United Nations, if it shows that it has the requisite moral courage, should be given the right to determine the fact of aggression so as to insure the charter goal of armed forces not being used save in the common interest.

In such ways the idea of collective security can be given sensible and effective content.

Final Will to War Made in Kremlin

We cannot be sure that anything we now do will, in fact, prevent the awful catastrophe of a third world war. The final decision will be made in the Kremlin. Perhaps it has been made already. That we cannot know. We face a period that is bound to be one of grave anxiety. But so long as the die has not been irrevocably cast for war, we must assume that righteous peace may yet be possible; and we must work with all the power that lies within us to achieve that peace.

It is not pleasant, at this holiday season, to talk about instruments of death. But events in Korea have shown that peace is not to be found in an unbalance of military power. To correct that balance is a grim necessity. But it is a necessity which also requires that we be vigilant to preserve and not relax the moral safeguards with which military power needs always to be surrounded.

We can rejoice that the United Nations forces in Asia and the North Atlantic forces in Europe are under the command of two men, Gen. MacArthur and Gen. Eisenhower, who have demonstrated, in peace and war, that they put material values second and moral values first. That should be the mood of all people.

It is not easy to do what has to be done without whipping up emotions which are provocative of war. Now, if ever, is the time when our people should preserve the calm resolve which, in moments of peril, is the hall mark of true greatness.

Josephthal Admits W. Truslow Hyde, Jr.

W. T. Hyde, Jr.

Josephthal & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that W. Truslow Hyde, Jr., has been admitted as a general partner in the firm.

Mr. Hyde's admission to partnership was previously reported in the "Chronicle" of Dec. 14.

Harry Downs Co. Admits

Harry Downs & Co., 60 Wall Tower, New York City announced the admission of Henry G. Hull to their partnership on Jan. 1.

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Strategic Economic Policy For Less-Than-Total War

force to shield Europe will ease off; so unless other danger points call for more, we can expect the number in uniform to crest over (rather than merely level-off)—perhaps in 1953.

Procurement also presents a hump phenomenon—both item by item and in total. The various types of supplies needed in training will show requirement-schedules of rather the same shape as the curve of inductions — with diverse lags. Overshadowing this problem is the need to stockpile finished munitions. In case of actual war, we would have to be able to give the Atlantic Pact forces in Europe not merely an initial outfit but a rapid flow of supplies. There is no use in having men who are trained as armored divisions or fighter groups in the Air Force standing empty-handed after their initial equipment has been used up in the first weeks of a campaign; to put meaning into our training and organization of men, we must not merely catch up but pull ahead on the procurement side.

Humps are also in sight for various types of munitions-producing equipment, and for types of facilities — steel plant, electric generating capacity, railway equipment—which would be overburdened in a later full mobilization. Besides, there is the problem of civilian protection and dispersal of concentrated targets. *Needs* for these (to reduce incentives to aggression) may have had their peak month-before-last. Actual provision is apt to be largely postponed by the priority system till we are over the munitions-stockpile hump. The hump in military-and-related uses of metals and building materials, therefore, is apt to stretch out for several years (being squeezed against the ceiling, in Hicksian imagery). We can hope to get over the hump much sooner for textiles and perhaps even chemicals.

Counterpart of these humps, of course, is a consumption-goods trough, beginning in 1951, and running for years. Once we are over the munitions hump, we can not only release resources from military uses, but put our economic expansion to work for the consumer. Some key items may be on the upgrade again as soon as 1952. Other items, on the other hand, may go down into the trough very gradually (because of inventories and of the output from facilities we can afford to use but not to replace during the munitions hump), and may still not have reached bottom by 1953.

Unfortunately, many key policy decisions will be taken in a rather unreal climate this spring—just before the demand-suction side of inflation is ready to show its true power. The late winter of 1951 is tax-making season, and also the crucial period for many other lines of policy. But this is just the time when taxes hit their seasonal peak (which seems to have produced a perceptible seasonal deflation in several recent years). Besides, inventories and goods in process will hold volume high for spring clothes, consumer metal goods, and a host of products. If by any chance there is also a temporary reduction of world tension, there will be acute temptations for our political leaders to try to get off too cheap economically. In particular, they may be tempted to lay out a frankly inadequate fiscal and monetary program and plan to get through 1951 by jerry-built "temporary" direct controls, compounding the difficulties of 1952 and later years.

Equilibrium vs. Disequilibrium System

As Galbraith has pointed out, we got through World War II unexpectedly well on the *disequilibrium system.* Our tax and monetary policy left a substantial "inflationary gap." But we repressed the inflation through price control and rationing. The resulting build-up of liquidity had much to do with the postwar inflation, but was not without advantages in avoiding the feared demobilization unemployment.

It does not follow that the disequilibrium system is a good one for handling the problems of the mobilization hump. Galbraith has given us reasons to doubt that it would work as well in a World War III as in World War II. Adapting his list of reasons to the still more difficult situation of a mobilization hump on the way into a readiness economy, it suggests that a disequilibrium system is a very bad gamble at present:

(1) Savings incentives are weakened by 1945-48 experience, and by lack of vivid images of postwar bliss.

(2) Liquidity at the outset is as great as in 1945.

(3) Motives to hoard commodities, in the light of 1942-46 experience, are much stronger than in World War II.

(4) Black-marketeers would not be handicapped by inexperience, nor by restrictions on use of passenger autos.

(5) Patriotic incentives to comply with controls are weakened, and publicity for non-compliance is fuller, making an epidemic more likely.

(6) Sliding-scale wage arrangements promise to amplify the effects of policy errors.

Controllers as well as evaders have more experience to draw upon, of course. But initial moves suggest that much of this is running to waste, and that Congress and the White House are setting patterns which imply any direct-control system must reproduce most of the early fumbling of World War II, without the offsetting advantages of freshness and enthusiasm.

Hesitancy to come out for an equilibrium system seems to rest on two misunderstandings. One is that an equilibrium system means turning our backs on obviously useful direct controls. This is simply not correct. Any workable model of an equilibrium system implies many direct controls in the mobilization process itself, above all price control on actual munitions, and considerable rationing. Besides, an equilibrium system implies direct controls to limit the cost-push.

The second misunderstanding is that an equilibrium system sets unattainable goals for fiscal and monetary policy. This may be true for the most intense part of the hump. But the monetary-fiscal goals implied by the equilibrium system for 1951 and early 1952 are attainable. Beyond that, in view of uncertainties about government spending, about supply possibilities, and about consumer and business reactions, the only sensible policy is to try and see. Since a disequilibrium system has more chance of succeeding with all-out monetary-fiscal policy than with a pussy-footing policy, divergence of forecasts about situations over a year in the future should not divert economists from pressing monetary and fiscal programs.

Monetary-Fiscal Possibilities

By way of combating defeatism on monetary-fiscal policy, we may profitably run over the field of possibilities.

To begin with, the standard of a balance between Treasury cash income and cash outgo *quarter by quarter* is probably a good approximation to a stabilization rule. (At least, it will be if we can keep bank loans tight enough to pass war-plant financing through the Treasury.) In applying the standard, we might well substitute accruals for receipts for the major item of corporation taxes.

Cash outgo will presumably pass the $60 billion level in the spring of 1951. The peak of the cash-outgo hump is hard to place either in time or amount; but if prices hold, we may take as rough figures $90 to $100 billion per year in the latter part of 1952. ($90 billion implies good success in trimming civilian expenditures.) The 1944 ratio (29%) of Treasury cash income to personal income would yield roughly $75 billion at presumptive 1951 income levels, so that taxes on a World War II scale would apparently carry us on a cash-balance basis into 1952.

Projection of tax possibilities from recent experience is if anything more encouraging. To begin with, the argument for stiff excises on scarce items (which economists but not politicians found convincing in 1940-42) is overwhelmingly convincing today. While revenue is merely the byproduct of such taxes, it is apt to be a very handsome byproduct; we may expect $5 billion from this source. When we reckon that this represents in good part price increases that buyers would very likely have to meet anyway, and that in the absence of such excises much of these increases might go into tax-evading black-market income, this program is very attractive.

If the standard for corporate taxes was to hold aggregate corporate income after taxes to the record levels of 1948 (a standard with much appeal in relation to wage stabilization), something like $5 billion could be found here. If we set the Unemployment Insurance account to balance with mild unemployment (comparable to late 1949), well toward a billion would be added to contributions. Stiffening of estate and gift taxes could add something; though this is not very anti-inflationary money.

The main tax possibilities lie in revenue taxes on commodities and personal income taxes. A Federal retail sales tax would presumably yield around $1 billion per point of tax. Rather than accept such a tax, most of us would choose lowering exemptions of the personal income tax, and raising first-bracket rates, as a lesser evil. A one-third cut in exemptions would yield about $4 billion of revenue at present tax rates. As to rate possibilities, we may think (as suggested recently by CED) in terms of capturing part of the balance of income left after exemptions and present taxes. With exemptions reduced to $400 per head, this balance in 1951 would be close to $100 billion. A 10% slice (implying a first-bracket rate of 28% instead of 20%) would yield roughly $10 billion. A 20% slice (implying a first-bracket rate of 36% — or roughly the rate the British appled during the war to the first £130 of taxable income) would yield roughly $20 billion. Locating unreported income ty taxing property income at the source and giving the Bureau of Internal Revenue more staff could add considerable revenue. An all-out personal income tax program could clearly yield at least $25 billion of added revenue. A more modest program to yield $15 billion would be quite simple to design. Such taxation would hurt—as much for economists as for anybody—but it would not hurt as badly as inflation.

Present revenue sources, at late 1951 levels of income, would yield around $50 billion of Treasury cash income. The rough tax calculations just sketched suggest that the maximum attainable revenue is not below $85 billion. The economic ceiling is probably set by enforcement limits; the incentive argument against high taxes which tends to underrate the "income-effect" incentive to effort of having to scramble to keep close to accustomed living standards, may be discounted in this range of taxes. The problem is to get the political ceiling up to the economic ceiling.

On the monetary side, much can be done if we can keep the substance of monetary policy from being sacrificed to tap bank credit for the glory of Treasury security-flotation engineers. (An adequate tax policy, avoiding growth of debt, will reduce temptations for such an evisceration of monetary policy.)

A move which would be striking enough to change the whole liquidity picture is to serve notice that marketable bonds callable in 1951 will not be redeemed before final maturity in 1953-55. The capital gains this announcement would create would largely go unrealized. The liquidity of the public's whole bond portfolio would be reduced; and the Treasury would get a two-year spell during which all bond sales could be used to refinance shorter-term issues. Savings bond maturities and redemptions can be dealt with along lines suggested by CED—by essentially extending present contracts, with attractive yield and tax-deferment terms, in consideration of reduction in the liquidity of these contracts. Such extensions (and new sales) might well offer interest-rewards to holders who would take bonds redeemable only in personal emergencies, rather than bonds redeemable on demand.

Bank reserves can be drawn tight enough to reduce the availability of credit—and to persuade banks to shorten loan maturities, increasing debtors' need for liquidity. This implies use of some combination of interest and security-reserve requirements (rather than of easy reserve positions) to find holders for issues which refund short-term Treasury debt as it matures.

Qualitative controls on installment and real estate credit will be at their most powerful when their effect is compounded with that of drastic shortages of new durable goods to buy. This effect should help us over the early months of the munitions-stockpile hump.

Margin of Safety in Economic Strategy

The hazards of economic forecasting are as great as ever, though their form has changed. We simply cannot forecast accurately how fast supplies will shrink or how fast incomes will rise; how much people will insist on savings; how compliance with direct controls will work out.

The kind of policy this points to may be illustrated by the personal income tax. Fortunately, tax reduction is easy. The upshot is to set a very high standard rate, and to make abatements from time to time if developments show we can afford to collect less. For tax legislation, this implies enacting two or three alternative witholding schedules, deciding from quarter to quarter which is to be in force, and tuning the annual rate at the end of the year to the withholding rates actually applied.

In the monetary field, the parallel strategy is to create a margin of safety by postponing bond refunds and by taking up the slack in bank reserves (including the potential reserves represented by bank holdings of government securities under present policies toward the security market). These moves will do no harm if inflation holds off, but will help to brake it if other policies prove inadequate.

In the direct control field, perhaps the key point is to be ahead of the game rather than behind in setting up rationing machinery. This greatly improves the prospects of "defending a price line" in case strains are greater than forecast. If stabilization policy as a whole has a margin of safety, so that runaway inflation is clearly forestalled, the farm and labor groups with sliding-scale arrangements can reasonably be expected to agree on deferred rather than instantaneous adjustments—which would widen the safety margin.

It is customary to say that if taxes and monetary controls are scamped, the resulting inflationary gap will force us to choose between the evils of inflation and those of across-the-board direct controls. This understates the problem. The political demand for direct controls is so strong, and the patterns of direct control now feasible are so full of holes, that a large gap will force us to accept both sets of evils. Whether we want to keep direct controls as effective as possible, or to minimize their use, we get the same answer: really drastic taxes, and a fresh approach to money and public debt management.

Robert Patterson With Ball, Burge & Kraus

(Special to The Financial Chronicle)

CLEVELAND, Ohio — Robert Patterson has become associated with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Midwest Stock Exchanges. In the past he was a partner in Greene & Brock for many years.

Public Utility Securities

By OWEN ELY

Puget Sound Power & Light Co.

Puget Sound Power & Light Company is one of the few remaining "special situations" among the electric utility operating companies. The company's net plant account at the end of 1949 was almost identically the same as in 1943—around the $100 million level—since natural growth was offset by property sales, mainly to public utility districts.

The company has been able to drive some good bargains in making these sales. Actions brought by five PUDs, for example, resulted in jury awards under condemnation proceedings aggregating $22,100,000 or about twice what the districts considered the properties worth. The company in 1948 sold properties to the PUDs for about $14 million and in 1949 for about $16.5 million. Previously the company had disposed of its transit, gas and telephone properties. As a result, the company was able to carry on normal expansion without new financing and also reduce its long-term debt by some $13 million during 1944-49. Surplus was increased by about $15 million due in part to book profits on properties sold.

The question might well be asked—since the company has been able to make such good bargains with earlier sales, why not continue this piecemeal disposal of the system. The answer is that such dismemberment, if carried much further, will reach a stage where the company cannot efficiently operate the remaining properties. The power situation in the Northwest is very "tight" and it is difficult enough now to obtain power for all needs, even though hydro conditions in 1950 were favorable. Puget Sound along with other utilities is dependent on Federal power for part of its requirements. Sale of too many properties might cripple the company's production facilities and make it difficult to operate (and eventually sell) remaining distributing systems. The best way out is to sell as much as possible of the property as a unit if a fair price can be obtained.

In recent years the company has been concerned about sale of its property in the city of Seattle, where it competes actively with a municipal system. The franchise expires in 1952 and there have been some fears that the company might then be "dispossessed" without proper compensation. After long negotiations the city council and the company arrived at a compromise base sale price of about $25,850,000. The agreement was submitted to the voters Nov. 7, and the vote was exceedingly close. The final count was favorable to the sale by a small margin, but a recount was ordered Nov. 23 and final results of this recheck have not yet been announced. The Seattle competitive area, while it represents about 40% of electric revenues, is only about 25% of the electric plant.

Another important issue still pending is the decision of the Washington State Supreme Court as to the constitutionality of the 1949 state law authorizing two or more PUDs acting jointly to purchase an entire utility system such as Puget's. The Court on Sept. 5 heard the appeal taken from the decision of a lower court upholding the validity of the law. Meanwhile, however, the company has become a "bone of contention" among the various PUDs and municipalities. Four small municipalities on Oct. 17 voted by large majorities in favor of municipal ownership and this has stimulated other cities to consider similar action. Even if the Supreme Court declares the law constitutional, the new competition between various public power groups may make it difficult to develop the "single sale" idea.

A number of condemnation actions have now been instituted by PUDs and cities which seek to acquire properties of all kinds. There are now nine such actions against company properties, and all of the major hydro plants (aggregate capacity about 225,000 kilowatts) are involved in these condemnations. This leaves only the 80,000 kilowatt Shuffleton steam plant (of the major group of power plants) which is not involved in condemnation proceedings.

This complex legal situation makes it very difficult for the Wall Street utility analyst to attempt any estimate of liquidating value. In the past, liquidating value figures for the common stock in the range of 18-23 have been mentioned from time to time. The stock is currently selling over-counter around 16. Earnings in the 12 months ended Oct. 31 were $1.88, but the company pays a dividend of only 80 cents.

Banks and Holcombe Form New Firm

Morton M. Banks   F. J. Holcombe, Jr.

Morton M. Banks and Frank J. Holcombe, Jr., have formed the firm of Banks and Holcombe, 44 Wall Street, New York City, as successors to Louis H. Whitehead Co. in the wholesale distribution of mutual funds.

Mr. Banks has been in Wall Street since 1923 when he became associated with Dominick & Dominick. He was a partner in Luke, Banks & Weeks from 1929 to 1946, and was with Louis H. Whitehead Co. from 1948 to date. During World War II he was an official of the War Production Board and during 1944 and 1945 he served as Director of the Stockpiling and Shipping Division.

Mr. Holcombe was formerly with the Louis H. Whitehead Co. He started his career as a salesman with A. S. Becker & Co. His sales activities have been largely with institutions and with dealer organizations.

Halsey, Stuart Group Offers N. Y. Central RR. Equipment Trust Ctfs.

Halsey, Stuart & Co., Inc. and Associates are offering today (Jan. 4) $7,500,000 New York Central RR. 2¾% equipment trust certificates maturing annually Jan. 1, 1952 to 1966, inclusive, at prices to yield from 1.90% to 2.95%, according to maturity. The group won award of the certificates at competitive sale yesterday on a bid of 99.03%.

The certificates will be issued under the Philadelphia Plan, and are being offered subject to approval of the Interstate Commerce Commission. They will be secured by new standard-gauge railroad equipment estimated to cost $9,631,380.

Other members of the offering group are: R. W. Pressprich & Co.; Blair, Rollins & Co., Inc.; Hornblower & Weeks; L. F. Rothschild & Co.; The Illinois Co.; First of Michigan Corp.; Freeman & Co.; Hayden, Miller & Co.; Wm. E. Pollock & Co., Inc.; Weedon & Co., Inc.; Gregory & Son, Inc., and McMaster Hutchinson & Co.

W. I. Emerson in Cornell Univ. Post

Willard I. Emerson has become Vice-President for Development of Cornell University, it was announced by the institution's board of trustees. Mr. Emerson was formerly a partner in Hemphill, Noyes, Graham, Parsons & Co. His new duties will include acting as executive director of the Cornell Council, recently organized. He is widely known for his activities on behalf of the university and was president of his class.

Askew Co. Formed

DALLAS, Tex. — Askew Co. is being formed with offices in the National City Building to engage in a securities business. Mr. Askew was formerly with Dallas Rupe & Son.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The market prices of five insurance shares showed general improvement during the year 1950.

The trend to higher prices was not uniform, however, and while many individual issues reached new highs, others ended the year below the level existing at the start of the period.

During the early months of the year insurance shares followed the general trend of the stock market. Most issues did not move above the level existing at the end of the year and when it became apparent that results for 1950 would not likely equal the very favorable showing of 1949, there was a tendency during March and April for prices to decline. A contributing factor may also have been the inclination to liquidate stock dividends which were paid by a number of companies at that time.

Quotations improved during May and June as the outlook for business continued favorable. The prospect of larger investment income and the likelihood of larger dividend disbursements later in the year also aided some issues.

The beginning of the Korean conflict at the end of June caused a sharp reaction in stock prices and the trend continued downward for about two weeks, reaching the low of the year around July 15. The recovery of prices after this adjustment was rather sharp and most issues continued to show improvement throughout the final months of the year. Most shares were at or near the best levels of the period as the year closed.

Although the trend of insurance stock prices has followed, in general, that of the stock market, the gains made during the year have not been quite so large percentagewise. For example, the Dow-Jones Industrial Averages ended 1949 at 200.13 and at Dec. 30, 1950, stood at 235.41, or a gain of 17.6% from one year until the next. Barron's insurance average, on the other hand, started the year at approximately 124.44 and on Dec. 28, 1950, was 143.33 or a gain of 15.2%.

The difference between the change in the two groups is small. Insurance shares, because of their investment standing, traditionally are more stable in price than most other stock groups. As a result, in a rising or declining market, insurance stocks tend to lag behind the general trend.

In view of this and the fact that underwriting operations have not been quite so profitable this year as last, the market action of insurance shares is considered favorable.

In the following tabulation the 1950 and 1949 price ranges of the principal stock fire insurance companies are presented. The market prices at the end of each period are also shown as well as the changes between the two periods.

It is interesting to note that the shares which have shown the best gains are among those which have increased their distributions to stockholders either in the form of higher cash payments or through the medium of stock dividends.

	Price Range 1950 High	1950 Low	1949 High	1949 Low	Market Bid Price Dec. 30, 1950	Dec. 31, 1949	Points Change
Aetna Fire	66	49½	62¼	48½	57½	61½	— 4
Agricultural Insurance	76½	63	72	58	68	70	— 2
American Ins. (New'k)	23⅜	17¾	22	15½	22⅝	21⅝	+ 1
Boston Insurance	61⅝	45½	58⅞	48	58¼	56¼	+ 2
Continental Ins.	70¾	50½	62¾	45⅜	70¾	62¾	+ 8
Federal Insurance	76	61	67	54	75	67	+ 8
Fidelity-Phenix	70½	52	61⅜	47⅝	70½	61⅜	+ 9⅛
Fire Association	74¾	54¾	64	46⅜	58	61⅞	— 3⅞
Fireman's Fund	57½	40⅜	47½	38¼	57½	46	+11½
Fireman's (Newark)	23⅛	18⅝	20	14⅞	22¾	20⅛	+ 2⅝
Glens Falls	55½	45½	54½	47¼	53¾	52	+ 1¾
Great American	32¾	27	31¾	24¼	31¼	25⅜	+ 5⅞
Hanover Fire	37	29	36	30	32¾	34	— 1¼
Hartford Fire	144	107	124	88⅛	136	116	+20
Home Insurance	37¾	31	36	27	34½	34¾	— ¼
Ins. Co. of N. A.	132½	98½	111¼	82	128	110	+18
National Fire	65½	53	61	48	55½	60½	— 5
National Union	38½	30½	40¼	30¾	33½	37½	— 4
Phoenix Insurance	87	67½	83⅝	63¼	84	80	+ 4
Providence-Wash.	36½	28¾	36½	30¾	30¼	35	— 4¾
St. Paul Fire & Mar.	114	95	103	75½	114	103	+11
Security Insurance	38¼	29¼	37½	31¼	31¾	37	— 6¼
Springfield Fire & Mar.	48⅜	41¼	50	41	41½	47¾	— 6¼
U. S. Fire	69	63½	67	56½	65	66½	— 1½
Westchester Fire	23	18¾	22¾	18¾	22¼	22⅝	— ⅜

Huggins & Co. Opening

DALLAS, Tex.—Ellis C. Huggins is forming Huggins & Co. with offices in the National City Building to engage in the securities business. Mr. Huggins was formerly an officer of the Liberty State Bank and the Empire State Bank of Dallas.

Joins Boettcher Co. Staff

(Special to The Financial Chronicle)

DENVER, Col. — Herman E. Aulmann, Jr., has joined the staff of Boettcher and Co., 828 Seventeenth Street, members of the New York Stock Exchange. He was formerly with Kirkpatrick-Pettis Co. of Omaha and Harold E. Wood & Co. of St. Paul, Minn.

Mutual Funds

By ROBERT R. RICH

Calvin Bullock Analyzes American Private Debt

Government efforts to restrict credit expansion may be seriously hampered by the fact that somewhat over half of net private debt is in the corporate category and will have to be increased to support greater production for defense and to carry higher priced raw materials, Calvin Bullock concludes in the current "Perspective," entitled "Economic Aspects of the Private Debt."

The report states that a number of means are available for directing the flow of a greater proportion of the gross national product into goods and services for government use, including direct controls upon production and the use of materials and labor, imposition of a tax rate which would leave individuals and corporations with a greatly decreased spendable income, and restriction of credit.

The analysis points out that direct controls and very high tax rates are inadvisable, because direct controls for a long period of emergency are "unsuited to a democratic economy" while extreme tax rates "destroy incentive to produce the things essential for national defense if applied over a long period." If one accepts the premises of this argument, that direct controls and increased taxation are inadvisable, with the result that credit expansion will increase at a decreasing rate, which itself is decreasing at a decreasing rate, then the obvious implications of an intensified inflation provide an even more persuasive reason for inflation-hedge investing in 1951 than in 1950.

National Securities Issues Inflation Book

"Inflation and I," a new 24-page booklet issued by National Securities & Research Corp., New York, discusses in simple terms the subject of inflation—what it is, how it affects one—and what can be done about it. One chart shows that the cost of living over the past 10 years has risen 73%.

The booklet features the following comparison of results in 1950 of a $10,000 investment made in 1940 in various types of asset. Dollar value in 1950 and the value in terms of 1950 purchasing power for each type of asset are shown.

	1940 Dollar Value	1950 Dollar Value	1950 Real Buying Power
Cash	$10,000	$10,000	$5,750
Bank deposits	10,000	12,210	7,060
High grade bonds	10 000	13,360	7,720
Real estate	10,000	20,000	11,560
Indust. com. stocks	10,000	24,170	13,970

The investment in stocks, assuming performance and dividends equal to that of the Dow-Jones 30 Industrial Stock Average, not only kept pace with the 73% rise in the cost of living over the past decade, but showed an increase in real purchasing power for the period. The booklet suggests that if stocks are decided upon as a hedge against inflation, proper selection, diversification and supervision are important investment principles to follow.

McElroy Elected Loomis, Sayles President

The directors of Loomis, Sayles & Company, Incorporated, investment consellors, have elected Robert H. Loomis to the office of Chairman of the board and Floyd L. McElroy as President, effective Jan. 2, 1951, the 25th anniversary of the firm.

Mr. McElroy, until recently a resident of San Francisco, will succeed Mr. Loomis, one of the founders of the company, as President. He is making his headquarters in the firm's New York office.

Following graduation from Stanford University in 1921 and the Harvard Graduate School of Business in 1923, Mr. McElroy had public utility, insurance, and investment banking experience prior to joining Loomis, Sayles in 1927. Since 1932 he has been Vice-President and Pacific Coast Director of Loomis, Sayles & Company and is a member of the firm's executive committee. He is Vice-President and Director of Loomis-Sayles Mutual Fund, Inc. and of Loomis-Sayles Second Fund, Inc. and since 1938 has been consulting professor of investment management at the Graduate School of Business of Stanford University. He is a former President of the Stanford Alumni Association and of the Harvard Business School Club of San Francisco.

Rufus Carter Elected National Vice-President


Rufus Lee Carter

Henry J. Simonson, Jr., President of National Securities and Research Corp., announced that Rufus Lee Carter has been elected a Resident Vice-President. Mr. Carter, formerly sole proprietor of Carter & Co., will continue to direct the distribution on the Pacific Coast of the mutual funds under National Securities' sponsorship and management.

Century Shares Trustees Appoint Underwriter

The trustees of Century Shares Trust announced today the appointment of John Swaney as the principal underwriter of Century Shares Trust. Mr. Swaney will do business under the name of Century Distributors.

Harriman Ripley & Co., Inc. and its predecessor has been the underwriter of the Trust since its organization in 1928. Mr. Swaney, who has been in the investment banking business for over 30 years, has been the wholesale distributor of the Trust for the underwriter for over 12 years.

During this period Century Shares Trust, which is one of the oldest and largest open-end investment companies specializing in bank and insurance stocks, has grown from $11,500,000 to more than $30,000,000.

The Trust is opening its own office at 10 Post Office Square, Boston 9, Mass., which is also the address of the new underwriter.

Bullock Fund Assets At Record High

Bullock Fund reported yesterday the largest total net assets for the close of any fiscal year in its history. Dividends per share paid from net investment income during the year also were the highest on record.

Total net assets on Nov. 30, according to the annual report for the fiscal year ended on that date, were $8,672,659, equal to $21.05 a share, compared with $6,896,199 or $17.80 a share a year earlier. Market value was $1,410,542 greater than the prices at which they were purchased by Bullock Fund, Ltd. A year earlier the market value was $202,844 greater than cost.

Hugh Bullock, President of the Fund, said that extensive changes were made in the company's common stock holdings during the last half of the fiscal year "to bring them more closely into gear with the conditions of a war economy. Holdings of oil, railroad and steel stocks were increased substantially, and principal reductions took place in holdings of public utility, automobile accessory, container, food and pharmaceutical groups."

Nation-Wide Reports

Nation-Wide Securities reports as of Nov. 30, 1950, total net assets of $15,601,721, equal to $14.90 a share on 1,046,779 outstanding shares. A year earlier, on Nov. 30, 1949, total net assets amounted to $12,887,501, equal to $13.56 a share on the 905,445 shares outstanding on that date.

Net assets as of Nov. 30, 1950, were invested, percentagewise, as follows: in common stocks, 45.67%; preferred stocks, 21.01%; bonds and other than U. S. Governments, 17.22%; U. S. Government bonds, 12.27%; and cash, etc., 3.83%.

Technical Fund Reports

Technical Fund, San Francisco, reports that its assets are $3,600,000 compared with approximately $150,000 in November, 1949, when the fund began sales to the public. Stockholders have increased from less than 20 to over 700.

Technical Fund, which is a timing fund, follows the policy of being completely invested in common stocks during bull markets and retaining a completely defensive portfolio during bear markets.

The Fund relies on the conclusions of Technical Trend, an investment advisory publication, for its major conclusions on policy and timing.

Prepared exclusively for investment dealers is the monthly "Technical Record" which is a digest of news and information on investment timing.

New York Stocks Reports Gains

Twenty-one of the twenty-four investment funds comprising New York Stocks, recorded increases in net asset value per share during the fiscal year ended Nov. 30, 1950, according to the annual report of the company released today. With the exception of only four series, dividends paid to shareholders during 1950 were as great or greater than those of the previous year. Increases in dividends per share ranged from one to twenty cents.

Total net assets of New York Stocks, Inc. at the fiscal year-end were over $34 million, while total dividends paid during the 12 months' period amounted to $1,974,694.

In commenting on the business outlook in his letter to shareholders, President Hugh W. Long said, "The business outlook in general, and prospects for individual industries, are dominated by the scope and direction of our government's armament expenditures.

At this writing, projected Federal spending appears to be sufficient to maintain the country's industrial activity at or near record levels. This would permit many companies to enjoy good earnings, and to pay good dividends."

Resources Fund Head Asks Stockpiling Holiday

A stockpiling holiday for copper and zinc for six months was urged on the United States Government by Frank L. Valenta, President of Natural Resources Fund, Inc., in a message to stockholders.

Mr. Valenta emphasized that such a holiday is necessary because of increasing shortages of those metals for industrial production. He explained that the present stockpile of copper amounts to approximately 400,000 tons and that the 1951 program calls for storing from 15 to 25% of the world output.

Natural Resources Fund, operating nine months since shares were made available on Feb. 23, increased its net assets to $665,000 at the end of the fiscal year and to nearly $775,000 when this report went to press. The $775,000 figure represents an increase of more than 700% over the Feb. 23 amount. The Fund has nearly 600 shareholders located in 22 states. Investments include securities in more than 60 companies operating in a broad number of natural resource fields. During the year, the Fund realized capital profits of $15,868 and on Nov. 30 had unrealized appreciation of investments amounting to $22,456.

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The State of Trade and Industry

those of the preceding month and reflected primarily an increase of failures with $100,000 or more liabilities.

The month's decline occurred principally among retail enterprises; manufacturing failures were the same as in the previous month and wholesaling failures increased slightly.

While marked declines from 1949 took place in the majority of regions, increases from a month ago occurred in three areas; the New England, Mountain and Pacific Coast regions. In the last, failures were the most numerous of the past six months.

Steel Mills Schedule Higher Output Despite New Year's Holdiday

This week it is clear that steel priority machinery is being strained to the utmost. Many steel consumers with DO orders are having difficulty locating a steel source, states "The Iron Age," national metalworking authority in its current summary of the steel trade. NPA personnel were being hard-pressed to answer inquiries and render assistance to frustrated holders of priority orders.

Even sources close to NPA this week are convinced that a controlled materials plan is only a question of time. However, it will take from three to five months to collect sufficient personnel to administer the plan.

Mandatory price-wage controls will probably come sooner, the magazine adds. The first enforced controls will be on a selective basis. Nonferrous metals, scrap, and steel will probably be covered in that order. Controls will be broadened to include more commodities and industries as the administrating and policing staff of ESA is increased.

In anticipation of a controlled materials plan they are all vying for available tonnages of "free" steel. Defense and essential civilian steel orders are growing rapidly. Within a few months they will be taking at least one-third of total steel output. Of special concern to steel consumers, they will be taking more than half total production of flat-rolled steel products.

The steel industry enters the new year in the healthiest condition of its history. Earnings for the past two years have been highly satisfactory, due chiefly to the high rate of operations. Expansion plans are being encouraged by fast tax-write-offs. New raw materials sources are being exploited to meet the demands of stepped-up capacity.

Steel production in the United States during 1950 was equal to the combined output of all the other countries of the world, according to "The Iron Age." American steel companies produced 96,954,000 net tons of steel ingots and castings last year, compared with total world output of 194,154,000 net tons.

United States steel production was more than three times that of the Soviet Union. U. S. output, 96,954,000; Russia, 26,500,000. When satellite countries and U. S. allies are included, the weight of steel production is even more preponderantly in favor of the U. S. and barring unforeseen trouble, the steel industry in the U. S. can produce more than 100,000,000 net tons during 1951, "The Iron Age," concludes.

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 101.8% of capacity for the week beginning Jan. 1, 1951, compared to an average of 100.1% a week ago, or an advance of 1.7 points.

This is the fifth successive week of above capacity operations.

This week's operating rate is equivalent to 1,963,400 tons of steel ingots and castings for the entire industry, compared to 1,930,600 tons a week ago, in which the Christmas holiday was included. A month ago the rate was 100.5% and production amounted to 1,938,400 tons, a year ago, it stood at 92.9% and 1,771,600 tons.

Electric Output Slumps in Christmas Holiday Week

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 30, was estimated at 6,479,302,000 kwh., according to the Edison Electric Institute.

It was 553,438,000 kwh. lower than the figure reported for the previous week, 986,628,000 kwh., or 18.0% above the total output for the week ended Dec. 31, 1949, and 917,070,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Turn Downard

Loadings of revenue freight for the week ended Dec. 23, 1950, totaled 747,204 cars, according to the Association of American Railroads, representing a decrease of 25,398 cars, or 3.3% below the preceding week.

The week's total represented an increase of 123,947 cars, or 19.9% above the corresponding week in 1949, and an increase of 138,505 cars, or 22.8% above the comparable period of 1948, which includes Christmas Day.

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 130,200 units, compared with the previous week's total of 160,912 (revised) units and 113,026 units a year ago.

Ward's blamed model changeovers by Chrysler divisions and the Christmas holiday for the decline last week.

Total output for the current week was made up of 94,394 cars and 29,160 trucks built in the United States and a total of 4,710 cars and 1,935 trucks built in Canada.

For the United States alone, total output was 123,554 units, against last week's revised total of 152,705 units, and in the like week of last year 106,744. Canadian output in the week totaled 6,645 units compared with 8,207 units a week ago and 5,269 units one year ago.

Failures Show Sharp Contraction in Christmas Holiday Week

Commercial and industrial failures declined to 125 in the holiday-shortened week ended Dec. 28 from 174 in the preceding week, Dun & Bradstreet, Inc., reports. Despite this decrease, casualties were moderately above a year ago when 109 occurred, but were slightly below the 1948 total of 128. Failures continued below the prewar level; they were 34% below the 190 in the similar week of 1939.

Wholesale Food Price Index Attains 27-Month Peak

In one of the sharpest gains of the year, the wholesale food price index, compiled by Dun & Bradstreet, Inc., rose to $6.90 on Dec. 26, from $6.80 a week previous. The advance brought the current level to the highest since Sept. 14, 1948, when it stood at $6.95. It represents an increase of 20.6% above the $5.72 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 Reaches New All-Time Peak

Although movements were somewhat irregular the general price level continued to edge higher during the past week. The Dun & Bradstreet daily wholesale commodity price index rose to a new all-time peak of 317.62 on Dec. 26. This compared with 315.36 a week earlier, and with 245.55 on the corresponding date last year.

Spurred by talk of inflation and the possibility of price ceilings, new high prices for the season were established in all grain markets. Cash wheat as well as futures continued firm, aided by good demand from both mill and export interests.

A contributing factor was the continued lack of moisture in the southwest Winter wheat area.

Final estimates for 1950 grain crop yields showed little change from previous forecasts and indicated a more than ample supply of wheat for all domestic and export requirements.

The corn crop at 3,131,000,000 bushels was 248,000,000 bushels less than last year and it is the belief that farmers will have to rebuy some grain from the government. Corn prices the past week were stimulated by good demand from exporters as well as from feeders and processors. Sales of grain futures on the Chicago Board of Trade increased to 269,901,000 bushels last week, or a daily average of about 45,000,000 bushels. The latter compared with 40,700,000 bushels the previous week, and 35,000,000 in the like week last year.

Domestic cotton prices moved irregularly over a fairly wide range last week as the result of uncertainties caused by the government's request for a voluntary price freeze at Dec. 1 levels. Following some easiness at mid-week, the market recovered to close about unchanged from a week ago.

Late strength reflected mill price-fixing against textile operations and the belief that the price freeze order did not apply to cotton.

Mill consumption of cotton, according to the Bureau of the Census, totaled 1,008,872 bales for the November period, or a daily average of 41,178 bales, the latter comparing with 35,037 for the same period last year.

Trade Volume Boosted by Seasonal Weather and Heavy Christmas Sales

There was a further rise in consumer spending during the period ended on Wednesday, reflecting a sharp influx of last-minute Christmas shopping. Total dollar volume was slightly above the level for the corresponding week in 1949. The arrival of seasonal weather over much of the nation contributed to rising sales, states Dun & Bradstreet, Inc., in its current summary of trade.

The aggregate amount of apparel bought rose slightly in the week; dollar sales were somewhat above the level of a year ago. Handkerchiefs, hosiery, neckwear and similar small objects of attire were increasingly popular with shoppers; the interest in coats and suits rose slightly in scattered sections, while requests for dresses were largely unchanged from the week before.

Food buying in the nation's stores rose the past week to a point slightly in excess of last year's level.

While unit volume was about even with that of a year ago, price increases for some items helped dollar volume rise above the mark of the similar 1949 period. In line with seasonal expectations, fresh meats, poultry, and produce were especially sought, as well as bakery products and confectionery.

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 the following percentages:

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

With the inclusion of Christmas within the period ended on Wednesday of last week, there was a mild decline in wholesale ordering. Order volume was appreciably above the level for the similar week a year ago. The number of buyers attending various wholesale markets dropped sharply from a week ago, but was almost unchanged from last year.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 23, 1950, advanced 17% from the like period of last year. This compared with an increase of 9% for the previous week. For the four weeks ended Dec. 23, 1950, sales showed a rise of 7% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Retail trade in New York last week was brisk with food sales setting an all-time high in dollar volume and departmnet store sales for the closing week of the year estimated at 10% above the 1949 level.

According to the Federal Reserve Board's index, department store sales in New York City, for the weekly period to Dec. 23, 1950, advanced 17% from the like period of last year. In the preceding week an increase of 9% was registered above the similar week of 1949. For the four weeks ended Dec. 23, 1950, an increase of 8% was recorded over that of a year ago, and for the year to date, volume advanced 2% from the like period of last year.

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A Simple Formula for Common Stock Investment

each year of selection (except, of course, for 1947 and 1948).

Results of Study: Two Periods

After preliminary study, we divided the results of our tests into two periods: (1) Pre-New Deal Era (1914-1931), and (2) New Deal Era (1932-1948). The reason for this division was the strikingly different results obtained in the two periods. For we found that during the 1914-31 period the Dear Group performed considerably better than either the Cheap Group or the Dow, Jones Industrial Average. But with the advent of Roosevelt, the situation was reversed and the Cheap Group turned in by far the best performance, consistently as well as in the aggregate. For purposes of presentation I have broken down the results for each period into two groups: (1) the aggregate percentage pluses and minuses for each group for the one, two, and three year tests, and (2) the number of tests in which the Cheap or the Dear Groups did 5% (or more) better than the Dow, Jones Average, 5% (or more) poorer, and the same as the Dow, Jones Industrial Average. Dividend receipts and commissions are excluded from our figures.

Comparison of the Two Periods

In the first period the advantage shown by the Dear Group appears not only in the better aggregate percentage gains, but impressively also in the number of separate favorable performances as against unfavorable ones. The Cheap Group presents an almost exactly reverse picture in comparison with the Dow, Jones group as a whole. When we move on into the second period the transformation is extraordinary. The aggregate percentage results of the Cheap Group are now far in the lead. More striking still is the fact that in only one test out of 48 did the Cheap Group perform more than 5% worse than the Average; while in no less than 34 tests it beat the Average by more than 5%. Such consistently favorable behavior could hardly be the result of chance. Evidently it stems from some underlying advantage enjoyed by the Cheap Group in the past 15 to 17 years. What can this advantage be, and why was it conspicuously absent in the 1914-1931 period?

A Possible Explanation

The following is advanced as a tentative explanation of these rather perplexing market phenomena. Let us assume that the Dow, Jones list consists of 30 large companies, with considerable variations in their quality and apparent long-term prospects, but all possessing the characteristic of resiliency—i.e., the power to recover from adversity. Assume further that the average price-earnings ratios reflect accepted views as to differences in quality. (We suggest that these assumptions properly describe the Dow, Jones list as it has been constituted since 1932). It might be expected then that the relative price behavior of the individual issues would follow a pattern similar to that of the market as a whole—which means that favorable developments or prospects would tend to receive an exaggerated response on the upside, and conversely for unfavorable ones. In due course these exaggerations would be corrected. In the aggregate the issues that had gone up more than the market as a whole would be found to have advanced too far, and they would lose ground, relatively, in subsequent years. Similarly, those that had lagged behind the market would prove to have overemphasized their unfavorable factors; thus they would subsequently advance more than the market as a whole. The relative action of our Cheap Stocks and Dear Stocks between 1932 and 1948 would seem to conform to this hypothesis.

(1) Pre-New Deal Results (1914-1931)

(A)

	Total Percentage Pluses and Minuses One-Year Tests (18) %	Two-Year Tests (18) %	Three-Year Tests (18) %
Cheap Group:			
Total of plus years	+168	+464	+469
Total of minus years	—198	—254	—276
Grand Total	— 30	+210	+193
Dear Group:			
Total of plus years	+378	+507	+592
Total of minus years	—187	—252	—238
Grand Total	+191	+255	+354
Dow-Jones Industrial Average:			
Total of plus years	+244	+431	+487
Total of minus years	—173	—221	—227
Grand Total	+ 71	+210	+260

(B)

	Dear Group	Cheap Group
Number of tests in which group did 5% (or more) better than Dow-Jones Average	31	13
Number of tests in which group did 5% (or more) poorer than Dow-Jones Average	17	27
Number of tests in which % movement was similar to Dow-Jones Average (remaining tests)	6	14
Total number of tests	54	54

(2) New Deal Results (1932-1948)

(A)

	Total Percentage Pluses and Minuses One-Year Tests (17) %	Two-Year Tests (16) %	Three-Year Tests (15) %
Cheap Group:			
Total of plus years	+425	+570	+754
Total of minus years	— 51	— 54	— 47
Grand Total	+374	+516	+707
Dear Group:			
Total of plus years	+250	+330	+406
Total of minus years	— 90	—129	—134
Grand Total	+160	+201	+272
Dow-Jones Industrial Average:			
Total of plus years	+239	+335	+417
Total of minus years	— 74	— 87	—74
Grand Total	+165	+248	+343

(B)

	Dear Group	Cheap Group
Number of tests in which group did 5% (or more) better than Dow-Jones Average	11	34
Number of tests in which group did 5% (or more) poorer than Dow-Jones Average	23	1
Number of tests in which % movement was similar to Dow-Jones Average (remaining tests)	14	13
Total number of tests	48	48

Quality Differentials Established Early

Why did not this explanation hold good for the earlier years? We suggest the following as the reason. During 1914-1931 the market was gradually establishing those wide quality-differentials which have been so prominent a feature of common stocks ever since the New Era bull market of the late 1920s. In 1914 the dividend yields and earnings multipliers for our large companies were rather homogenous; but as time went on, the "good stocks"—meaning particularly those with favorable earnings trends—became valued more and more generously vis-a-vis the "lower quality" issues. This bias in favor of the quality issues was an accelerating affair; its result was to favor the good stocks in the market year after year, even though they had already outperformed the rest of the list. This bias continued through the great depression culminating in 1932. In those years the quality issues appeared to justify the favor previously accorded them, because they showed better resistance to the hard times.

We suggest finally that the quality differentials had been fully established by 1932, so that the bias in favor of the good stocks was now completely reflected in their prices. From then on the basic element of **fluctuation** reasserted itself: good stocks, like good markets, went up, too high; unpopular stocks, like unpopular markets, went down too far.

If our explanation is a sound one, we would conclude that the performance in the 1932-1948 period is more likely to be duplicated in future years than that of 1914-1931. Our method of selecting "Cheap Stocks"—or something similar thereto—might therefore prove to offer both an extremely simple and a reasonably dependable key to successful stock selection.

Some Additional Observations

Dividend income has been left out of account in our calculations in order to save time and trouble. It is almost certain that the Cheap Stocks would return at least as high a dividend yield as the dear ones over any protracted period of years. The relationship between the results on a one-year basis and those on a two-and-three-year basis involves some peculiarities of the arithmetic of percentage figures. It is not necessary to go into these, because our essential comparisons are based on the same number of years' holdings for the cheap group as against the dear group.

It may be of interest to add some figures which cover two periods in which the general stock-price level did not show a significant net change—thus excluding the factor of secular trend from our comparisons. Only the one year tests are presented.

(a) 1914-1931 (Dow-Jones Average was 55 on Dec. 31, 1917 and 60 on Dec. 31, 1932).

	Aggregate Pluses & Minuses
Cheap Group	— 30%
Dear Group	+191%
Dow-Jones Average	+ 71%

(b) 1936-1947 (Dow-Jones Average was 180 on Dec. 31, 1936 and 177 on Dec. 31, 1948).

	Aggregate Pluses & Minuses
Cheap Group	+115%
Dear Group	+ 15%
Dow-Jones Average	+ 25%

Conclusion

We venture the conclusion that this study yields sufficiently definite and impressive results to offer something of tangible value to investment policy. Many additional investigations of the same type remain to be made, of course, before the ideas set forth may be considered as fully explored. However, there comes a point when action in accordance with the indicated results becomes preferable to further investigation.

In closing this paper I would like to thank Mr. Menko Rose, Mr. Walter Schloss, and Mr. Bernard Werner for their help on some of the computations, and Mr. Benjamin Graham for his advice and suggestions.

Summary of Results (1914-1948)

(A)

	Total Percentage Pluses and Minuses One-Year Tests (35) %	Two-Year Tests (34) %	Three-Year Tests (33) %
Cheap Group:			
Total of plus years	+593	+1,034	+1,223
Total of minus years	—249	— 308	— 323
Grand Total	+344	+ 726	+ 900
Dear Group:			
Total of plus years	+628	+ 837	+ 998
Total of minus years	—277	— 381	— 372
Grand Total	+351	+ 456	+ 626
Dow-Jones Industrial Average:			
Total of plus years	+483	+ 766	+ 904
Total of minus years	—247	— 308	— 301
Grand Total	+236	+ 458	+ 603

(B)

	Dear Group	Cheap Group
Number of tests in which group did 5% (or more) better than Dow-Jones Average	42	47
Number of tests in which group did 5% (or more) poorer than Dow-Jones Average	40	28
Number of tests in which % movement was similar to Dow-Jones Average (remaining tests)	20	27
Total number of tests	102	102

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Truman's Advisers Urge More Production And Consumer Controls

ond, controls can promote economic stability by restraining excessive demand; and third, controls can promote equity in the distribution of goods and services.

"But while controls are useful in promoting these results in a defense program, they may in some degree interfere with them. The outcome depends on how wisely they are used. Thus, it is clear that if the goals are to be achieved, the controls must be geared to the programming of requirements and supply. This will help to indicate clearly the new pattern of resource use which the defense emergency dictates. The nation will then be able to shape the controls more accurately to fulfill their appropriate tasks.

"In particular, controls may interfere with production if they are not applied with great care. It is important to reconcile the imposition of controls with rapid acceleration of some lines of production and with the maintenance and expansion of total production. Actually, controls should be regarded as the handmaiden of production, because even cutbacks of some kinds of goods are ordered to facilitate the production of more of other kinds of goods which are in greater need.

"In the long-drawn-out effort now confronting us, there will be many cases where programs to expedite production and programs to impose restraints complement one another effectively. But there will be other cases—and these will be the hard ones—where to achieve maximum production it is necessary to relax controls at particular points and thereby run the risk of price increases. There is no one rule which will reveal the more desirable of these two alternatives in all cases. Each situation must be handled pragmatically. But it may be safer to run the risk of a minor effect on specific prices than to err on the side of smothering or handicapping our productive genius. In the final analysis, our security depends more on how rapidly we expand our armed strength and productive power than on whether all inflationary forces are rigidly contained over a given period of time.

"This report is not the medium for discussing the details and effectiveness of various controls. That effort is held in abeyance until the January reports transmitted to the Congress by the President.

"But the foregoing discussion points up to this conclusion now: In the worthy desire to be vigorous, we should look where we are going. And we should not too rapidly sacrifice on the altar of automatic conformity the dynamic qualities which thus far have made our industrial system almost as productive as those of all the rest of the world."

Parrish Appoints New Hempstead Managers

The appointments of a new manager and assistant manager of its Hempstead, L. I., office, 243 Fulton Avenue, are announced by Parrish & Co., members of the New York Stock Exchange and other leading stock and commodity exchanges. Raymond W. Oakes was named Manager and Clarence Weekes Campbell was named Assistant Manager of the office. Both men were formerly associated with the Second National Bank & Trust Co., Hempstead, Mr. Oakes as Vice-President and Trust Officer and Mr. Campbell as Assistant Cashier.

Central States Investment Bankers Conduct Chicago Tour

Finance Association Members visit Midwest Exchange and financial district.


James E. Day


Charles R. Perrigo


G. S. Channer, Jr.

Thirty members of the American Finance Association, in Chicago last week attending the Allied Social Science Association meetings, were guests of the Central States Group of the Investment Bankers Association for a tour of the financial district and a luncheon at the Union League Club, Thursday, Dec. 28. The tour started with a visit to the Midwest Stock Exchange where James E. Day, President, discussed the operations of the exchange and answered questions. The guests then went on to the floor of the exchange in small groups under the guidance of staff members.

The party was then divided into three groups to visit the following brokerage offices: Hornblower & Weeks; Merrill Lynch, Pierce, Fenner & Beane; and Paine, Webber, Jackson & Curtis, respectively. The three groups united again at the Union League Club where George S. Channer, Jr., Chairman of the Public Education Committee of the Central States Group and Executive Vice-President of Channer Securities Company, presided at a luncheon meeting. Charles R. Perrigo, Chairman of the Central States Group, extended a message of greeting to the visiting professors, and Erwin W. Boehmler, Educational Director of the IBA, briefly outlined the formal and informal educational programs of the Association.

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International Crisis Pervades Forecasting Sessions

determinant will be the temperature of the Cold-Hot War.

Incidentally, and of interest to the investment community, is this Reserve adviser's conviction that margin control over stock speculation is not important, excepting for psychological effects, in wartime.

Referring to the principles of foreign trade laid down at his major address on foreign economic policy, Dr. Williams readily agreed that their validity is completely dependent on the course of events in the Far East.

Mobilization Humps

Elaborating on the uncertainties in the period immediately ahead, Professor Albert G. Hart, of the faculty of political science of Columbia University, spoke of "the Mobilization Hump"; highlighting the distortion that stands in the way of our coming-to-age in preparedness. "If the American strategy of deterring aggression succeeds," he asserted "the eventual plateau of readiness can be maintained without any unbearable strain. But between us and that plateau lies a hump of effort to make up for errors—for all the world the same thing as the investment hump of the Hichsian trade-cycle model."

He pointed out that not only are humps in sight in munition-production, but also for civilian protection, as affected by the priority system. Dr. Hart observed that while we may get over the difficulties soon for textiles and chemicals, the hump in metals and building materials may stretch out for several years.

Calling a "disequilibrium system" a very bad gamble at present, Dr. Hart cited several reasons for difficulty of mobilization obstructions on the way into a "readiness economy." These include the weakening of savings incentives by the 1945-'48 experience; the motives to hoard commodities, which the 1942-'46 experience have made much stronger than in World War II; the greater experience of black-marketeers; the likelihood of non-compliance with controls because of the weakening of patriotic incentives; and sliding-scale wage arrangements promising to amplify the effects of policy errors.

He pointed to the possibility of recurrence of the early fumbling of World War II, without the offsetting advantages of freshness and enthusiasm.

As Dr. Hart concluded — very wisely in my opinion—"The hazards of economic forecasting are as great as ever, though their form has changed. We simply cannot forecast accurately how fast supplies will shrink or how fast incomes will rise; how much people will insist on saving; how compliance with direct controls will work out."

Business Imponderables

The imponderables injected into the industrial outlook by defense needs and intensified government interventionism, were typically expounded here by Donald Woodward, leading economist and Vice-President of the Mutual Life Insurance Company. He feels that whereas under normal conditions we would be facing a busines decline and depression ushered in by inventory liquidation and decline in investment, actually we will experience "a tidal wave of demand" resulting from the exigencies of the military situation. Crucially, the extension of this demand, as to both time and degree, will depend on the decisions of the Kremlin and the Pentagon. The necessity for maintaining continuing adjustment between uncertain armament produtcion needs and the potentially great civilian consumption, was cited by Mr. Woodward as a basic obstacle to near-time business forecasting. Like Dr. Williams, he too recognized the unforeseeable but serious impact of war demands on the labor force and unemployment. The possibility of increasing work hours is just one of the many uncertainties affecting outlook for the supply side of economic equation.

The international scene's imponderables have hopelessly divided even the experts' convictions about the desirability of price-wage controls. Are we moving too late and too hesitantly? Could direct controls have been avoided if real industrial mobilization had been politically palatable before the November elections? Or are direct controls a mistake at any time? There is seemingly no overall consistent conclusion to be gleaned from even this galaxy of authorities.

Impact on Business Management

In the field of business management also is disturbance from increased government interventionism pictured as a crucially unbalancing element. In the words of Forest D. Siefkin, Vice-President and general counsel of International Harvester Company, "Today the top executive of a business finds himself restricted in a progressively smaller corral." Continuing his comment on the hamstringing of business, he depicted the growing concept of the "national emergency" that stimulates rising use of the executive order.

And in the field of taxation, the likely intensity of our coming armament and war preparations of course pervade all discussion, whether such interference is stated or merely implied.

Partners 50 Years In Dominick Firm

The rare, and perhaps unique, occasion of two men jointly arriving at fifty years' service as partners in the same New York investment firm was marked this week at the offices of Dominick & Dominick, 14 Wall Street, New York City, members of the New York Stock Exchange and important investment bankers. Andrew V. Stout and J. Augustus Barnard both became general partners of the firm in 1901; they became limited partners in 1926 and 1925, respectively, which positions they both hold today.

Both men are well known in the financial community and for their outside activities. Mr. Stout, a former member of the New York Stock Exchange, was until recently a director of the International Nickel Company and the American Bank Note Company, and Treasurer of St. Luke's Hospital. He is at present a director of the New York Air Brake Company and a Trustee of the Museum of the City of New York.

Mr. Barnard is at present a Trustee of the Museum of the City of New York and was formerly a member of the board of directors of the Home Life Insurance Company. After long service with K Company of the old 7th Regiment in New York, including action as captain during the Mexican border incident in 1916, he went overseas in the first World War and was promoted out as a major.

Murray Bittner Joins Shaskan

Announcement is made of the dissolution of Bittner & Co. and the association of Murray C. Bittner with the New York Stock Exchange firm of Shaskan & Co., 40 Exchange Place, New York City.

Return To Bond Price Pegging An Ironical Twist

January "Bank Letter" of National City Bank of New York says, in resuming pegging of government bond prices, the authorities tacitly admit bank reserve increases are too roughshod a weapon and cannot safely be allowed to become fully effective.

In an extended review of recent curbs on credit, the January issue of the "Monthly Bank Letter," published by the National City Bank of New York, criticises the renewed resort to Federal Reserve price pegging of government bonds as an inflationary potential and as offsetting the objective of the recently ordered increase in bank cash reserve requirements. Commenting on the situation, the "Bank Letter" states:

"As the reserve requirement increase was announced, there was evidence in the market that the Federal Reserve Banks had again put pegs under the government security market to maintain their price levels. This recalls the situation prevailing in 1948 when the authorities successively raised reserve requirements and bought up government bonds in huge amounts at fixed prices and thus put the banks in funds to meet the requirements. It is worthy of note that, except for short-term paper, the pegs in the present case are higher than those in force during 1948.

"In pegging the bond market, the authorities tacitly admit that reserve requirement increases are too roughshod a weapon and cannot safely be allowed to become fully effective. What effect is left, when pegs are put under the government bond market, is dubious. It does seem safe to expect that at least some scattered banks, where credit demands have reduced government security holdings to low levels, may be forced to cut back their loans. If their borrowers do not have other credit facilities open to them, credit will be reduced. The most likely casualty, thus, is apt to be a small business borrower with a single line of credit in a local bank.

"For most of the banks, doubtless, the adjustment will be accomplished with the greatest mechanical facility. Government securities will be sold with the Federal Reserve the buyer. In effect, banks will ship a part of their government securities to the Federal Reserve where they will get a credit of idle, unusable cash. By and large, the whole of the operation—increasing cash reserve requirements with one hand and supplying the cash with the other—is self-defeating. There is no escape from the principle, stated by Governor Eccles a year ago:

"'In making a cheap money market for the Treasury, we cannot avoid making it for everybody. All monetary and credit restraints are gone under such conditions; the Federal Reserve becomes simply an engine of inflation.'

"The $2 billion reserve requirement increase was publicized as a step to tie up about $12 billion of 'potential bank credit' because of 'the repeated turnover of funds involved in bank credit transactions.' It is true that the larger the proportion of their resources banks must keep in cash the less they will have to lend. But when the Federal Reserve simultaneously puts pegs under the government security market, the potentialities of credit expansion are not reduced, they are *increased*. Pegs, rigidly maintained, invite any and all holders of marketable government securities to turn their holdings into cash, for spending or lending, any time they please. Those holdings, outside the Federal Reserve Banks and Treasury investment accounts, run to $130 billion. This is the inflationary potential in a re-creation of pegs under the government market.

An Ironical Twist

"The reinstatement of pegs for government securities is an ironical twist, after the long and arduous campaign that Federal Reserve officers have waged for a restoration of flexiblity in the government bond market, and the reapplication of their powers to deal in that market on the statutory principles of 'accommodating commerce and business and with regard for their bearing upon the general credit situation of the country.'

"It would be unfortunate if people should be led to believe that price and wage controls, or changes in bank reserve requirements, will save the dollar from serious depreciation. Neither program goes to the heart of the matter. There must be genuinely effective measures to restrict the supply of money competing for goods, higher taxes, and more saving and less spending for non-essential purposes both by government and by the people."

Gould Partner in Wiesenberger Co.

Edson Gould, Director of Research, became a general partner of the New York Stock Exchange firm of Arthur Wiesenberger & Co., 61 Broadway, New York City, members of the New York Stock Exchange, specialists in investment company securities, as of Jan. 1.


Edson Gould

Widely known as a financial writer and economist, Mr. Gould has had extensive experience in the field of economic and security research and analysis. Prior to his appointment as Research Director of Arthur Wiesenberger & Co. early in 1948, he was associated with Smith, Barney & Co. for more than three years, and previously served Moody's Investors Service for more than 20 years. Mr. Gould will continue to direct the research activities of the Wiesenberger organization and in addition will supervise the firm's Advisory and Investment Service.

Hugoton Plains Notes Placed Privately

An issue of $20,000,000 Hugoton Plains Gas and Oil Co. 4% first mortgage notes, due Jan. 1, 1966, have been placed privately through William R. Staats Co., Los Angeles, Calif.

The Hugoton company has acquired leases in gas fields in the Oklahoma Panhandle and Kansas from former stockholders of the Plains Natural Gas Co. for about $36,000,000, it was announced yesterday (Jan. 3rd).

With Freehling, Meyerhoff

(Special to The Financial Chronicle)

CHICAGO, Ill.—Kurt B. Karmin has been added to the staff of Freehling, Meyerhoff & Co., 120 South La Salle Street, members of the New York and Midwest Stock Exchanges.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

I've just been trying to comb through previous columns to find phrases I could throw at you to prove that I knew all along that this market would go up. But after a few hours of this I gave it up and turned on the television set instead.

* * *

The fact of the matter is that last week I started to warn caution. I can qualify it with some choice words though the answer is that if you hadn't bought stocks up to last week, you'd have found little in my recent column to lead you to take the initial dive.

* * *

As this is being written the industrial averages have pushed through their old highs, thereby confirming the Dow theory that a new bull market was in progress. I'm aware of the fallacies in the Dow theory. I've also read the reports of the various researchers who showed that catch-as-catch-can methods brought larger profits over periods of time than following the Dow theory. I'm also aware, however, that there are thousands of market-minded people who consider the Dow theory as some sort of a religion. When this group acts its action is bound to have an effect on prices. Whether or not the effect will be sustained isn't important for the time being.

* * *

Now what to do about all this?

* * *

I've given one answer, or rather a series of answers in last week's column. As the market reached for new highs I suggested a gradual lightening of positions, though not a complete abandonment. My reasoning was that I prefer to sell when the buyers are many. In many cases the profits were substantial which was another reason to convert paper into actual cash profits.

* * *

Weeks ago I suggested the metals (e. g. steels); oils and utilities without specifying individual issues. If you've followed the market you know where the stocks in these groups have gone to. As the strength acquires new followers the advance will get new momentum. I'm concerned with "accidents" from here on. The greater public participation in the market the greater are the possibilities of "accidents."

* * *

The only insurance I know of (besides puts and calls — which are too complicated to go into here) are flat stops. Last week the industrial stop was 225; make it now 230. The rail stop was 75; make it now 77.

[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.]

Louis H. Whitehead Is With Nat'l Securities

Louis H. Whitehead

National Securities & Research Corporation, 120 Broadway, New York City, announce that Louis H. Whitehead, formerly proprietor of Louis H. Whitehead Co., is joining their organization as Vice-President and member of the Policy Committee. He will direct the distribution of mutual funds under the firm's sponsorship and management.

Thomas J. Welsh Joins Boettcher in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Thomas J. Welsh has become associated with Boettcher & Co., 135 South La Salle Street. He was formerly with Paine, Webber, Jackson & Curtis and Goodbody & Co.

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Governmental Sabotaging Of Business Executives

the case of many corporations. The rate of income taxation has made the shares less desirable in all cases. So most added capital has come from retained earnings. And this source, too, is threatened by so-called "excess profits" taxes and by the recurring schemes for taxation of undistributed profits.

Labor Relations

(b) In the field of labor relations. Twenty years ago, if a company produced pig iron in a small Ohio town, and had a union, the company and the union by more or less amicable processes arrived at an agreement on wage rates. They were locally negotiated and they fitted local conditions and needs.

That was before the creation of the War Labor Board. We are indebted to the War Labor Board for the invention of so-called "national patterns" of wages, and the enforcement of them nationally with all the power of the Federal Government. The board is dead, but its deed lives after it. As a consequence, today we have a situation where the little two-stack steel mill is confronted by an enormous international union, waving a wage scale which it has just wrung from a very large steel company, and demanding acceptance "or else," on the grounds that it constitutes a national pattern for all steel mills.

(c) In the field of the market. No matter how it comes about, when the customer right of choice is restricted, managerial decisions are also restricted. If supplies of certain civilian goods in wartime or defense time do not meet civilian demand, or if government policies such as credit restrictions narrow the market and exclude many persons who would otherwise buy, the point may be reached at which no managerial decisions as to sales are necessary, except to determine how to keep salesmen alive until they are again needed. Recent years have also brought managed currencies and restrictions of all sorts on the flow of international trade so that freedom of decision in such matters is greatly restricted.

These examples could be multiplied by reference to other fields, but these are sufficient to illustrate my first point. It is that the business executive has had his areas of decision restricted, both by direct and indirect effects of actions of the government. Some say this was necessary for the protection of the public or competitors against the horns. Some say it is preliminary to the final slaughter of the animal. However that may be, I do not speak of these bygone days with nostalgia or regret. That was a different world. It might have been a better one. It may have been a worse one, depending on your point of view. But one thing is certain—the changes have been many and radical.

(2) A second impressive factor in the modern executive's surroundings is exhortation.

Oddly enough, along with these restrictions on his action, the executive finds himself subject to more exhortation than ever before. He is told that his production is too low, his prices too high, his profits too big, his taxes too small, his labor policies benighted. At the same time he is told that it is up to him—acting for industry—to provide prosperity for other nations, equip the armies of half the globe, and create and maintain ever-increasing employment. He is frequently summoned to Washington to be told that satisfactory achievement of some new ideal is "industry's responsibility."

It reminds one of the scene in the old melodrama where, after the villain has kicked the heroine, dispossessed her parents, kidnapped her fiancee, and tied her in front of the buzz saw, he leans over her and whispers:

"Nellie—why don't you trust me?"

(3) The executive is confronted as never before with political uncertainties.

Uncertainties are normal in his life. If there were no uncertainties there would be no need for executives. He has always had to confront and deal with the uncertainties of economic forces and of technical progress.

But, in addition, he faces the uncertainties of government control over industry and business. Will the government allow steel for the production of civilian widgets and, if so, how much? Dare he start construction of a new plant or will he find that, half way through, the government has pre-empted all power-house equipment? If his wages are tied to the Bureau of Labor Statistics cost-of-living index, as many wages now are, he knows the Bureau is re-examining the basis of its index. Will the eventual result be a proper index or will it be heavily weighted to bring about wage increases? If he faces a heavy investment in machine tools, what provision should he make for their future replacement, in view of the depreciation of the dollar? Will there be a check on the dilution of the dollar or will it increase or continue at the same rate?

This is a group of new problems, not so much business or economic problems, such as he has been trained to meet, as they are political problems involving political prophecy.

(4) My fourth factor composing the new "executive's natural habitat" is that he is increasingly surrounded by legalistic, economic and technological problems which he cannot possibly comprehend except with the aid of experts (and perhaps not then) but with which he must deal in the overall decisions of business. Fortunately in making those decisions he may have at his call specialists such as market analysts and sales engineers, credit men and labor relations men, research metallurgists and traffic experts, accountants and statisticians, product engineers, process engineers, time study engineers, psychologists, economists and what not. His problem is to see that they are so assigned that all of their special knowledges and skills are brought to bear on the kind of problems on which he needs help. Some of these specialists will be assigned to short range projects aimed at the solution of an immediate problem. Others, as in engineering research, will be employed to see that the business is kept abreast of trends and does not make more long-range mistakes that can be avoided. The top executive does two things with the information which he asks from these specialists (or which they offer to him to keep him advised): (1) He synthesizes all of such information in arriving at his decisions; (2) He may resolve disagreements between the experts.

Thus, the executive's problem is to know how to direct the experts at work which should bring him answers on questions which he has raised and on which he has made assignments for long or short duration, because he needs the answers as parts of the solution to problems which he sees or foresees.

III

When the Experts Fail

What does the top executive do then? You know what he does—he does what he is paid for; takes his own guess based on his own experience and judgment, and awaits the consequences. If he is right oftener than his competitors he is a success. If he is right a lot more he is a business genius.

For with all the books and all the charts and all the expert counsel, the top level administration of a business—50 years ago or now—always requires two things: the willingness to take responsibility for a decision, and the ability to make correct decisions most of the time. Sometimes problems can be studied at leisure. Very often, the executive has to shoot from the hip. In either case, the good executive's success is measured by how good his judgment turns out to be based on all the facts and expert advice at his command.

All species undergo changes with changed environment. Times change and men change. The senior executive of today finds himself devoting to labor relations and public relations and political economy much of the time which his predecessors gave to finance and production. That is true because those are the newer problems, the more pressing problems, the ones where the experts are least expert and the disagreements most frequent. Tomorrow? Who can tell? We only know it will be different.

S. F. Analysts Elect New Officers

SAN FRANCISCO, Calif.—The Security Analysts of San Francisco, an affiliate of the National Federation of Financial Analysts Societies, at its annual meeting elected the following officers for the coming year: President, John R. Beckett of Blyth & Co.; Vice-President, William P. Held of J. S. Strauss & Co.; Secretary-Treasurer, John G. Eidell of Shuman, Agnew & Co.

John R. Beckett

The officers are members of the Board of Governors, which also includes: Charles C. Clarke of Davis, Skaggs & Co.; Herbert Drake, Assistant Vice-President of The Anglo California National Bank of San Francisco; Philip J. FitzGerald of Dean Witter & Co.; Carl Rasmussen of Schwabacher & Co.; Willsie W. Wood, Assistant Vice-President of the Bank of America, N. T. & S. A.; and the outgoing President, Richard W. Lambourne, partner of Dodge & Cox.

Middendorf Partner In Wood, Struthers

Wood, Struthers & Co. announce that Henry S. Middendorf has been admitted to general partnership in the firm. He will be the resident partner in the firm's Boston office, 19 Congress Street.

Mr. Middendorf's admission to the firm was previously reported in the "Financial Chronicle" of Dec. 7.

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Valuation of Security Holdings Of Life Insurance Companies

value, is to give them higher than reasonable values.

In the case of common stocks it is not so clear that prosperity values are maximum values. Unlike the fixed income securities, an increase in earnings accrues to the common stockholder either in the form of an immediate increase in dividend income or in the form of an increase in his investment in the business, which in turn increases the base for future common dividends. Thus we find that for many decades the long-run trend in common stock market values has been upward to the extent of a few percent per year. And if we can ignore the quite unusual extent of the 1929 peak and the 1932 trough, we find that the prosperity values in each cycle have been validated not merely by the values attained in the prosperity phases of later cycles but also by the increase in dividend income and in many cases by the height of even the depression quotations in later cycles. Historically, the risk in common stocks as a class has been a short time rather than a long time risk, a risk of cyclical rather than secular depreciation.

Thus we would not be on firm ground in questioning the use of market quotations as standards of common stock values in times of prosperity were it not for another fact. That fact is that the same system which requires market values in prosperity also requires the use of market quotations in time of depression. While it might be difficult to say that one or the other of these values is wrong, it is certainly clear that they both cannot be right. It is not uncommon for a common stock to sell for two or three times as much in prosperity as in depression. To require that a common stock be written up to market value in a time of prosperity is to impose the likelihood of a greater write-down in the next depression. Such a valuation system manufactures and magnifies capital losses. It is hard to escape the view that the use of market value in time of prosperity without allowance for the write-downs required upon a cyclical downturn amounts to substantial overvaluation.

Undervaluation in Times of Depression. The present valuation system tends to undervalue common stocks and fixed income securities in a depression. In the case of common stocks, the historical evidence is so obvious and conclusive that we may without pause turn our attention to fixed income securities.

Fixed income securities that have defaulted are required to be reported at market value. Such a basis is not inappropriate. There is some evidence of a tendency for the market quotations to undervalue securities at the time of their default.[2] For example, out of almost $25,000,000,000 of corporate bonds outstanding in the hands of all investors on Jan. 1, 1928, about $3,525,000,000 had defaulted by 1940. The market value of these on that date aggregated only $674,000,000 which was $2,851,000,000 less than face. Within four years the aggregate recovery on these bonds had reduced the deficiency from face to $1,782,000,000. This was a substantial recovery from the lower values, but there was still substantial deficiency from face value. Because of the likelihood of a substantial permanent impairment of value, the use of market value in depression for defaulted securities is probably better than its use for any other class.

However, the use of market value for fixed income securities not in default tends toward substantial understatement of their value to the companies as long run investments. As business earnings decline in depression, the investment ratings on many bonds are reduced. This means that many bonds formerly classed as amortizable, because they were rated among the top four rating grades, must now be reported on a market basis, because their ratings have dropped below the limit of admittance to the amortizable classification. Had such a system been applied to all of the corporate bonds outstanding on Jan. 1, 1940, the write-down required on the combined population of defaulted and non-defaulted corporated bonds would have amounted to $5,099,000,000 or almost three times the $1,782,000,000 capital losses as indicated four years later.

That this sort of overstatement of capital losses actually occurs upon application of the present system to life insurance company holdings is evident from data reported for 52 life insurance companies, that account for 82.7% of the assets of all United States legal reserve companies. The peak of their write-offs required by the present system came between 1940 and 1942, when write-offs required for the combined population of non-defaulted and defaulted fixed income securities totaled $640,000,000. This was double the actual losses for the entire period from the end of 1928 to the end of 1948 when losses on sales of securities plus write-down of defaulted issues to market totaled $319,000,000.

The write-downs on non-defaulted securities to depression values do not cushion the more legitimate write-downs on the issues which actually default. The reductions in ratings which add bonds to the market value category and the declines in market prices of non-defaulted issues both come, like the actual defaults, in the depression. The understatement of aggregate asset values by the present system in depression comes mainly from requiring the write-down of non-defaulted issues along with the defaulted ones. The non-defaulted pay out, thus invalidating the depression market value. The defaulted probably retain much of the impairment in value that is indicated by the depression market quotations.

Overstatement of Income in Prosperity. The present system of valuation contributes to the overstatement of income in periods of prosperity in two ways: (1) It treats a rise in securities market quotations as if it represented realized income to the insurance company. (2) It fails to require systematic retention from current interest and dividend receipts in prosperity of amounts to cushion the inevitable decline in future years of the assets from the maximum prosperity valuations the system has required on both the market and amortized bases.

Let us look first at the matter of market appreciation. All concerned in this problem would doubtless agree that in the long run the income from the investments cannot be more than the difference between the cash invested and the cash received. The receipts consist not only of interest and dividend payments but also the amount of cash received upon disinvestment. The system of valuation, however, affects how this income will be spread over the intervening years. It can attempt a systematic and even distribution over all of the years involved in a given investment. Or it can allow the distribution to be affected unsystematically and unevenly by a factor such as fluctuations in market quotations. For many security holdings this latter method is both artificial and unfair. It is artificial in the sense that life insurance companies must keep invested and hence can not generally take advantage of general market appreciation in prices. The gains from disinvestment in one security are offset by an equally high price for other securities in which investment must be transferred. The method is unfair, because it allocates this unearned income to periods of prosperity, in which, as we shall see, the income may already be overstated. It then requires losses on market write-downs to be taken in a period of depression, which will already be burdened by real losses from defaults. Thus a policyholder who withdraws toward the end of a period of prosperity may have received in dividends amounts which are not realized income and a policyholder through the subsequent period of depression may find his capital impaired or at least his dividends diminished as the result of the overpayments to the policyholder who withdrew.

The present system not only overstates income in prosperous years because of artificial and unfair additions; but also because it fails to require certain subtractions. Why does the promised yield on corporate bonds exceed that on United States Governments of corresponding maturity dates? Why does the yield offered on the average preferred stock exceed that offered on the average corporate bond? The answer is, of course, well understood by professional investors and is well established in the literature of the field.[3] The differentials in yield are premiums offered to induce investors to absorb risk of investment mortality. The higher coupon and dividend receipts of good years are then not all income. Some portion must first be reserved against the eventual failure of a fraction of them to pay out. Only then is the income equitably distributed over the various years involved in an investment. Only then is equity preserved between policyholders of different times. By valuing securities in prosperity at maximum values and not providing for retention of assets to replace the probable eventual depreciation from this maximum, the present system allows and even encourages the disbursement of capital as income and fails to preserve equity between policyholders.

An interesting fact is that the present system does to a certain extent observe the principle of requiring systematic adjustments annually for eventual capital change. The system requires that the difference between cost and maturity value of bonds down to Baa in quality grade be amortized. The application of the amortization principle is merely too limited. But the system fails to provide for the amortization of the depreciation below maturity value and below prosperity market quotations that is almost certain to be realized because of occasional defaults.

Possibly the reason for the failure to extend the use of this principle is uncertainty over the exact amount of depreciation that will be suffered and the exact timing of it. After all, the difference between cost and maturity value and the number of years to maturity date of a bond are definite and exact. If this is the reason, the authors overlook three inconsistencies of their position. One is the inconsistency with the record of bond performance. We know from the data gathered by the Corporate Bond Project of the National Bureau of Economic Research that of the corporate bonds issued and extinguished between Jan. 1, 1900, and Jan. 1, 1944, only about a fifth were actually retired at maturity.[4]

A second inconsistency is within the insurance business—more exactly the valuation of the liabilities. It is not known when a man will die. Even the average probability is merely an estimate from which the actual average performance will depart. These uncertainties do not prevent the gradual and systematic accrual of reserve liabilities.

The third inconsistency is with the valuation of long-term operating assets in other businesses. The exact life of such assets is rarely known in advance and the amount they will bring in disposition is problematical. The regular annual deduction from income will, therefore, probably overstate or understate somewhat each year's share of the ultimate depreciation. This fact does not deter accountants and the courts from recognizing that assets and income are thereby more accurately stated by deducting estimated depreciation than if no provision were made.[5]

But are life insurance companies investments long-term operating assets? The liabilities of a life insurance company at year end consist mainly of policy reserves carried at less than the face or ultimate liability of the policies represented. However, the financial problem of the company is not merely to have assets equal to or in excess of the **present** valuation of the liabilities. It is so to invest the funds that cash will be available in the **future** to pay off the higher amounts that will ultimately come due. This means that the investments of a life insurance company must be regarded as long-term assets and as operating assets. There is precedence in the financial field for such a "going concern" basis of valuation. It is found in the valuation requirements for assets of mutual savings banks, as approved by the Federal Deposit Insurance Corporation and which have been in use since about 1946.[6]

Harmful Effects on the Surplus Balance. The present valuation system subjects the surplus balance to unnecessarily wide fluctuations and these are likely to have an adverse effect on investment policy. By surplus, we shall mean here the surplus of assets over liabilities, with the assets valued according to present requirements, with no allowance for future write-downs. (It corresponds to "unassigned funds" plus "below the line" reserves.) Surplus so defined is not permitted to exceed a certain ratio to the liabilities — the New York state limit, for example, is 10%. Within this narrow limit, the surplus balance may fluctuate widely from year to year merely from the impact of the valuation system. It is required to bear the full impact of the write-down to market value of defaulted bonds, but also of the write-downs and write-ups of non-defaulted securities required to be valued on a market basis. That practically all these are unnecessary is evident from the fact that most other businesses succeed in avoiding them by the use of a "going concern" basis of valuation in preference to a "liquidation" basis.

That they are likely to have an adverse effect upon investment policy follows from the fact that life insurance company managements have a strong aversion to exhibiting a decline in their surplus accounts. Their investment decisions, therefore, are likely to be colored by attempts to avoid a short-term surplus decline. How can they through investment policy avoid a short-term surplus decline? The risk can be avoided through confining investments to the highest grade short-term bonds, the type bought by banks, not for earning assets, but for their secondary cash reserves. These yield much less than the rate of interest required to produce the policy reserves and competition for their limited supply would reduce the yield still further. Such a policy of protecting the current balance would not only endanger the future solvency of the policy contracts, but would deprive the economy of much needed financing of long-term business capital needs.

Another way of attempting to avoid the impact of declining market quotations would be to sell bonds during a decline in the market. Such a process involves taking a real immediate capital loss in order to avoid the greater book capital loss that would be suffered upon further decline in the quotations. Not only may such a policy involved impair the assets, but it would probably also mean reduction in future earning power, for reinvestment would have to be made and in higher grade assets. Not only would such a policy affect the assets and earning power of the insurance companies, but it would also contribute toward instability of the capital market. The dumping of securities on a declining market would accentuate and further that decline in market values. The lower quotations thus engendered would increase the book write-downs and reduce the apparent solvency of those life insurance companies that elected to hold such securities for ultimate work-out.

There is a tendency on the part of some people to minimize the danger to the surplus balances of the impact of write-downs to market value in time of depression. For they see on the balance sheets of the companies only a small amount of securities of the types currently exposed to market valuations. We must keep in mind that many bonds now rated high enough for valuation on an amortized basis would in depression have lower ratings and increase the category for which the present system would require valuation at market. Also, the reason that the amount of securities vulnerable to current or potential market valuation is small for many companies is partly because the valuation requirements thus discourage their acquisition. Many investment officers of life insurance companies have told me that they avoid medium grade corporate bonds and preferred stocks that would otherwise be satisfactory for their purposes only because of the possible impact of market valuation on their surplus balances.

Impermanence of the System. It is quite possible that the state insurance commissioners appreciate the weakness of the present valuation system under depression circumstances. What, then, might explain their complacency?

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2 The statistics in this and the following two paragraphs are from the following sources: On all corporate bonds—The Corporate Bond Research Project (see Note 1). On holdings of life insurance companies—The Life Insurance Association of America.

3 See, for example, Dewing, Arthur Stone, *Financial Policy of Corporations,* 1926 Ed., 1174-1180, particularly 1179.

4 Corporate Bond Research Project (see Note 1).

5 "The very words of the statute, 'reasonable allowance' . . . indicate that estimates and averages are in view rather than demonstrated actualities." Grant v. Rose, 32 F. 2d 812, 814 (1929), Aff'd. 39F. 2d 340 (C. C. A. 5th 1930), appeal dismissed 283 U. S. 867, 51 S. Ct. 657 (1931).

6 See Annual Report for 1946 of the Federal Deposit Insurance Corporation, pp. 71-77. Also for Evolution of thought on this subject in the banking field, see Severson, Harry L., *Going Concern Value in Bank Examination,* and *Valuation of Bank Assets,* in "Commercial & Financial Chronicle," Aug. 24, 1944, and April 7, 1949, respectively; and *A Survey of the Economics of Allowances for Bad Debts on Loans Held by Commercial Banks,* "University of Cincinnati Law Review," January, 1950. And Prochnow, Herbert V., *Bank Liquidity and the New Doctrine of Anticipated Income.* "The Journal of Finance," December, 1949.

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The only explanation that has occurred to me is that they are prepared to change the system under stress of circumstances, but see no point in abandoning the system so long as circumstances are favorable.

There is some circumstantial evidence in favor of this explanation. In the first place, the state laws generally give the commissioners discretion as to the standard of value they impose. In the second place, the commissioners in turn have set up machinery by which their valuation committee can depart from the system they have set up in their valuation resolutions. This is found in the paragraph starting at the bottom of page iii of the June 30, 1950, release of the Committee, mentioned above, "*Resolved*, that in order to meet any unforeseen conditions which may arise, the Committee on Valuation of Securities shall have full power to amend the resolutions regarding market and amortized values which have been adopted at this meeting. Such amendments shall become effective immediately upon their approval by the Executive Committee of the Association." In the third place, the commissioners have made no pretense that their requirements are other than temporary. The resolutions as to valuation are passed each year and apply only to the statements for the current year; they are complete in the sense that they do not rest upon or refer to the provisions of a preceding year; and in fact each succeeding year's resolutions have differed from those of the preceding year in at least some minor respect.

Let us suppose we are suddenly in a year of depression, with business earnings falling off rapidly, followed by some reductions in bond ratings, and a movement downward in prices of medium grade bonds, preferred stocks, and common stocks. These are all securities vulnerable, currently or potentially, to market valuation. Should a company sell its long-term investments at already reduced market prices because of the possibility that its surplus may become drastically impaired through the holding of such securities at a substantially lower level of prices? Or should the company gamble that the commissioners will change their valuation requirements? To the uncertainties of the future market there are added the uncertainties as to future valuation requirements. What changes will the commissioners make to alleviate the situation? Will they make them in time? How many companies choosing not to disinvest their income producing securities will needlessly be declared insolvent before the commissioners recognize that the current market prices are too low to represent "fair value"? How much in the way of unnecessary capital loss and loss of income from sale of securities to avoid the impact of further market decline will take place before the Committee realizes the need for action? The fact that during prosperity a system is adhered to which does nothing to build up a cushion for the vicissitudes of depression is little assurance that changes in depression will be made in time. The time is now.

Suggestions for Improvement

It is easily possible to outline a system of valuation that will be more appropriate for the life insurance business. That is we can suggest a system which: (1) preserves better, or at least disturbs less, equity between different generations of policyholders; (2) encourages investment policies that are healthier for both the companies and the rest of the economy; (3) produces values that measure more accurately, and give more substantial encouragement to, ultimate solvency; and (4) is applicable to depression as well as to prosperity conditions.

Conceptually such a system could be quite simple. It could involve, like the present system, cost or amortized cost for some securities and end of year market-quotations for others. An important difference would be the supplementation of these values with reserves for possible depreciation from them. It would also involve the recognition that interest and dividend receipts are not all income, at least not until provision is made for future capital losses.

Outline of a System. All fixed income securities on the asset side of the balance sheet, such as bonds and preferred stocks in good standing, would be valued at cost or amortized cost. (For such securities already on the books at the time of starting the system, book or "Association value" at that time would be used in place of original acquisition cost.)

All variable income securities, such as common stocks and defaulted bonds and defaulted preferred stocks, would be valued on the asset side of the balance sheet at year-end market.

Offsetting the above asset valuations would be two "above the line" [7] reserves: one, for possible capital losses on fixed income securities; and the other, for fluctuations in the value of variable income securities.

The limits of the fixed income security reserve would be set according to findings from research on the past capital losses in various classes of fixed income securities. A wealth of data is available from the Corporate Bond Project of the National Bureau of Economic Research and the investment records of the life insurance companies themselves. This reserve would be a sort of graduated reserve, with higher limits for the securities that involve high risk and low limits for those involving little risk.

The limit of the reserve for market fluctuations of the variable income securities would likewise be set in the light of past experience. Offhand, I should say that a limit of 50% of the market value at all times would appear to be about right.

The reserves would be built up at a regular rate out of each year's income until the limit is reached. Thereafter, the same process would be resumed whenever the reserve fell below its limit.

When losses are incurred in fixed income securities either through sale at less than cost or through write-down to market upon default, the depreciation from cost would be charged against the reserve. Until the reserve has been built up to its limit, gains from sale or redemption above book should be credited to the reserve.

In the case of common stocks and defaulted securities, their reserve would be charged with all write-downs to year-end market values and all losses on sale. Whenever the reserve is below its limit, it would also be credited with all write-ups and gains from sale.

When the reserves are insufficient to absorb write-downs, the remaining impact would be on surplus, as before.

[7] That is, not a "surplus" reserve.

So much for the basic nature of the suggestion for a better system. To be complete, many details would have to be set forth and defended. And many alternative ways of arriving at the ends indicated above would have to be explored and compared.

Definition of Default. There is not space for that here. But I should like to throw in ideas on two points, because they might be controversial. One is that default should be defined as simply failure to pay the amount of interest or dividend according to promise. The omission of such words as principal and sinking fund are deliberate. The NAIC Committee should interpret the word "failure" in a realistic rather than a literal sense. What I am trying to say is that the ascertainment of default may be more a matter of financial than legal analysis. To illustrate: let us suppose that an insurance company holds the entire issues of X Company's 4% Bonds and Y Company's 4% Bonds. The insurance company consents upon request to rewriting the old terms, substituting in each case a 3% rate for the old 4% rate. Are these defaults? If financial analysis indicates that Company X had deteriorated financially to the point that it would have had obvious difficulty in paying the old rate, then the Committee should find that the change in that bond constitutes a default. Perhaps financial analysis of Company Y would show that it is able to pay the old rate very comfortably, and is able to call the bonds for redemption and refinance in the market by the sale of a new issue at a lower rate. In that case the change in contract resulted from strength instead of weakness and the insurance company gave up nothing by the voluntary shift that would not have been accomplished at greater expense by both parties through a public refunding operation. To take another illustration: suppose that the insurance company held all of the bonded debt of Q Company and to avoid a default by Q, loaned additional funds. The Commissioners would then seem to be on realistic grounds in finding that both the old and new issues should be classed as defaults, even though the flow of interest payments had not been interrupted.

Alternative Bases for the Graded Reserve. The other observation is with respect to the graded reserve for the fixed income securities. There are various ways of arriving at the goal of building up the reserve to higher amounts for the riskier securities. One way is by classification of the securities into grades such as Aaa, Aa, etc. and attaching different rates and limits for each grade down to perhaps the highest for preferred stocks. Some securities already bear ratings, but many others, such as mortgages, privately placed bonds, purchase-and-lease-back arrangements, do not.

To avoid the difficulties of classification and still get accumulations substantially correlated with risk, it would be possible to require merely that a certain fraction of the income of any security over a certain basic rate be credited to the reserve for the life of the security or for so many years, whichever was the shorter. Forces of competition in the capital market tend to make for higher yields on the riskier securities, so that such a method would tend to qualify income and build up the reserves according to the probable use of the reserves. The basic rate could be the rate at which the company is required to increase its policy reserves. Another possibility, as a basic rate, would be a so-called "riskless" rate, as say the rate of yield on government bonds of most similar maturity. Under either of these methods no distinctions would be necessary between real estate mortgages and "securities"; between privately placed and publicly quoted securities; and between preferred stocks and bonds. Whichever basic rate is taken, the Committee should designate whether it should be the current differential in yield or the differential at the time of acquisition of the security. There are arguments for each, which will not be taken up here.

Conclusion

Let us conclude by summarizing briefly the ways in which the suggested scheme would be more appropriate for the business. The reserving of a portion of the receipts of good years against the eventual impairment in bad years of some of the assets that produced that income improves equity between policyholders of different times and also contributes to future solvency. The system does not have to be changed in depression; and, since there is a limit on the reserves, it is also fair to years of prosperity. The elimination of most of the unrealized gains and losses from income and the graduation of the deductions for capital losses in accordance with the relative risk of loss qualifies the earnings so that the resulting surplus is more nearly a real surplus. With less worry over the short-term fluctuations of the market, the investment officers can concentrate better on the selection and holding of securities for long-term investment. The assets in good years are more conservatively valued, from Aaa corporates down to common stocks, and there is less danger of undervaluation in depression. We already have a reserve basis for human mortality: this suggests one for investment mortality as well.

With F. S. Yantis Co.

(Special to THE FINANCIAL CHRONICLE)

ELGIN, Ill.—Josephine S. Gamble has joined the staff of F. S. Yantis & Co., Incorporated, Tower Building.

Joins Westheimer Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio — Ervin A. Zern is now affiliated with Westheimer and Company, 322 Walnut Street, members of the New York and Cincinnati Stock Exchanges.

With F. S. Moseley Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — George A. Benway is with F. S. Moseley & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Wylie H. Arnold is with Merrill Lynch, Pierce, Fenner & Beane, Liberty Life Building.

Joins Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

CANTON, Ohio — Richard M. Freeman is now associated with Merrill Lynch, Pierce, Fenner & Beane, St. Francis Hotel Building. He was formerly with Bache & Co.

Securities Salesman's Corner

By JOHN DUTTON

If you are now sending out a monthly, or a semi-monthly letter to clients, or some other data such as compilations of various groups of stocks, investment suggestions, etc., you can use this material to obtain new prospects for your sales force. The next time you have an interesting piece of mail, or something that is connected with the events of the day, you can include a letter suggesting that you will be pleased to send copies to five friends of each person on your mailing list. This letter should be divided down the middle by a vertical line. On the left side of it you can leave spaces for the recipient to fill in the names of his friends. Also, include a return envelope which will require no postage. On the left side of the letter a message something like the following would be satisfactory.

Dear Mr. Customer:

We are enclosing a copy of our "Review and Outlook" letter for the next six months. You will also note that we have included a list of 50 common stocks that have paid dividends for the past 25 years, and which all afford a current income return, above 6%, based upon present market prices, and dividend rates.

Due to the fact that we have had a number of requests for this material from many interested persons, we thought that you might have a few friends that would also like to read it. We will be pleased to *mail* them a copy if you will kindly designate their names and addresses on the opposite side of this page. With kindest personal regards and greetings of the season, we remain,

Very truly yours,

Blank & Co.

A short note should accompany the material. Omit the source of the prospect's name. This gives the salesman an opportunity to use the referral later on when he makes a call in person.

Care should be used by the salesmen in following up these leads. If he goes out and says, "Mr. Prospect, my name is Tom Jones of Blank & Co. and your good friend and ours, Bill Smith, thought you might want to do some business with us," you can be pretty sure that Bill Smith is not going to like it. But there should not be any difficulty if he says something like this, "Mr. Bill Smith, who I understand is a friend of yours, suggested to us several weeks ago that we send you a copy of an interesting memoranda regarding the outlook for business, which I think my firm mailed to you. Of course, he didn't send me around to see you, but my firm did want me to call upon you and make your acquaintance. We would like to send you other material that may be of value to you from time to time. Also, if you own some investments we would be pleased to give you an invitation to use our facilities for advice and research at any time you may wish to do so, without any obligation or cost to you in any way." This should open up the door without antagonizing anyone.

If you use something worthwhile and really interesting as a mailing piece, this should bring in some good prospects. Don't try it unless you have something exceptional which people will read, and afterward feel like they are doing their friends a favor to have them obtain a copy.

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)	Jan. 7	101.8	100.1	100.5	92.9
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 7	1,963,400	1,930,600	1,938,400	1,771,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Dec. 23	5,763,310	†5,723,320	5,887,870	4,995,450
Crude runs to stills — daily average (bbls.)	Dec. 23	¶6,159,000	5,925,000	6,238,000	5,482,000
Gasoline output (bbls.)	Dec. 23	20,075,000	*20,254,000	19,847,000	18,045,000
Kerosene output (bbls.)	Dec. 23	2,600,000	2,267,000	2,386,000	2,525,000
Gas, oil, and distillate fuel oil output (bbls.)	Dec. 23	9,436,000	8,864,000	8,591,000	7,335,000
Residual fuel oil output (bbls.)	Dec. 23	8,715,000	8,567,000	8,470,000	8,046,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 23	112,631,000	110,943,000	106,424,000	110,164,000
Kerosene (bbls.) at	Dec. 23	21,819,000	23,152,000	28,291,000	20,894,000
Gas, oil, and distillate fuel oil (bbls.) at	Dec. 23	73,273,000	76,913,000	86,768,000	78,662,000
Residual fuel oil (bbls.) at	Dec. 23	39,914,000	41,598,000	45,566,000	61,647,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 23	747,204	772,902	701,421	623,257
Revenue freight received from connections (number of cars)	Dec. 23	689,776	680,044	642,159	566,626
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 28	$111,193,000	$692,041,000	$260,346,000	$66,858,000
Private construction	Dec. 28	48,457,000	112,439,000	127,681,000	30,933,000
Public construction	Dec. 28	62,736,000	579,602,000	132,665,000	35,925,000
State and municipal	Dec. 28	59,772,000	70,304,000	101,250,000	29,421,000
Federal	Dec. 28	2,964,000	509,298,000	37,415,000	6,504,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 23	10,960,000	*12,005,000	9,050,000	9,390,000
Pennsylvania anthracite (tons)	Dec. 23	910,000	853,000	692,000	616,000
Beehive coke (tons)	Dec. 23	139,300	*158,500	132,400	19,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 23	636	*638	319	541
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 30	6,479,302	7,032,740	6,716,273	5,492,674
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Dec. 28	125	174	160	109
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 26	4.131c	4.131c	3.837c	3.836c
Pig iron (per gross ton)	Dec. 26	$52.69	$52.69	$49.69	$45.88
Scrap steel (per gross ton)	Dec. 26	$45.13	$45.13	$40.75	$26.58
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 27	24.200c	24.200c	24.200c	18.200c
Export refinery at	Dec. 27	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Dec. 27	150.000c	154.000c	131.000c	78.000c
Lead (New York) at	Dec. 27	17.000c	17.000c	17.000c	12.000c
Lead (St. Louis) at	Dec. 27	16.800c	16.800c	16.800c	11.800c
Zinc (East St. Louis) at	Dec. 27	17.500c	17.500c	17.500c	9.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Jan. 2	101.29	101.31	101.37	100.99
Average corporate	Jan. 2	115.63	115.63	115.43	112.00
Aaa	Jan. 2	119.82	119.82	119.61	118.20
Aa	Jan. 2	118.80	118.80	118.60	116.22
A	Jan. 2	115.04	115.04	114.85	110.70
Baa	Jan. 2	109.60	109.60	109.06	104.14
Railroad Group	Jan. 2	112.19	112.19	111.62	107.09
Public Utilities Group	Jan. 2	116.02	115.82	115.63	112.75
Industrials Group	Jan. 2	119.20	119.00	119.00	116.61
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Jan. 2	2.40	2.40	2.40	2.43
Average corporate	Jan. 2	2.87	2.87	2.88	3.06
Aaa	Jan. 2	2.66	2.66	2.67	2.75
Aa	Jan. 2	2.71	2.71	2.72	2.84
A	Jan. 2	2.90	2.90	2.91	3.13
Baa	Jan. 2	3.19	3.19	3.22	3.50
Railroad Group	Jan. 2	3.05	3.05	3.08	3.33
Public Utilities Group	Jan. 2	2.85	2.86	2.87	3.02
Industrials Group	Jan. 2	2.69	2.70	2.70	2.82
MOODY'S COMMODITY INDEX	Jan. 2	508.9	511.6	485.5	347.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 23	171,484	204,724	181,234	153,405
Production (tons)	Dec. 23	241,058	239,164	228,706	200,595
Percentage of activity	Dec. 23	105	105	100	92
Unfilled orders (tons) at	Dec. 23	598,431	681,676	671,985	327,641
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Dec. 29	147.7	146.5	140.6	124.8
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Dec. 16	36,232	34,021	31,998	28,415
Number of shares—Customers' total sales	Dec. 16	1,117,986	198,326	935,447	876,698
Dollar value	Dec. 16	$45,655,819	$41,167,123	$41,324,077	$34,525,262
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Dec. 16	38,339	31,742	31,053	38,412
Customers' short sales	Dec. 16	310	319	348	200
Customers' other sales	Dec. 16	38,029	31,423	30,705	38,212
Number of shares—Customers' total sales	Dec. 16	1,138,749	945,517	914,278	1,075,662
Customers' short sales	Dec. 16	12,217	11,716	13,046	7,708
Customers' other sales	Dec. 16	1,126,532	933,801	901,232	1,067,954
Dollar value	Dec. 16	$42,405,513	$36,398,654	$36,312,668	$36,658,497
Round-lot sales by dealers—					
Number of shares—Total sales	Dec. 16	392,430	291,120	279,210	427,730
Short sales	Dec. 16	------	------	------	------
Other sales	Dec. 16	392,430	291,120	279,210	427,730
Round-lot purchases by dealers—					
Number of shares	Dec. 16	389,046	396,690	366,980	241,460
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Dec. 26	176.0	174.7	171.7	151.2
Farm products	Dec. 26	191.7	*188.5	185.7	155.7
Grains	Dec. 26	184.6	184.7	172.6	159.8
Livestock	Dec. 26	244.1	231.3	222.1	188.2
Foods	Dec. 26	182.3	*180.8	178.2	155.3
Meats	Dec. 26	256.8	253.1	243.1	203.8
All commodities other than farm and foods	Dec. 26	165.7	*165.2	162.8	145.6
Textile products	Dec. 26	170.4	*170.2	166.2	138.3
Fuel and lighting materials	Dec. 26	136.0	136.0	135.4	130.7
Metals and metal products	Dec. 26	184.1	*184.3	180.6	168.3
Building Materials	Dec. 26	222.0	221.8	219.1	191.0
Chemical and allied products	Dec. 26	139.6	*138.6	136.6	115.0

*Revised figure. ¶Includes 569,000 barrels of foreign crude runs. †Corrected figure.

	Latest Month	Previous Month	Year Ago
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of November (in millions):			
Total new construction	$2,506	*$2,728	$2,044
Private construction	1,867	*2,000	1,484
Residential building (nonfarm)	1,110	*1,232	837
New dwelling units	1,020	*1,130	750
Additions and alterations	72	*84	72
Nonhousekeeping	18	18	15
Nonresidential building (nonfarm)	399	378	270
Industrial	118	111	68
Commercial	146	135	88
Warehouses, office and loft buildings	45	43	27
Stores, restaurants, and garages	101	92	61
Other nonresidential building	135	132	114
Religious	40	39	34
Educational	30	29	24
Social and recreational	22	23	21
Hospital and institutional	30	29	23
Miscellaneous	13	12	12
Farm construction	74	88	87
Public utilities	277	295	283
Railroad	28	29	29
Telephone and telegraph	40	40	40
Other public utilities	209	226	214
All other private	7	7	7
Public construction	639	*728	560
Residential building	29	*30	38
Nonresidential building	218	*227	179
Industrial	30	*31	11
Educational	112	*114	83
Hospital and institutional	37	*39	44
Other nonresidential	39	43	42
Military and naval facilities	17	18	14
Highways	225	290	184
Sewer and water	59	62	51
Miscellaneous public-service enterprises	15	*17	16
Conservation and development	68	*76	71
All other public	8	8	9
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of November:			
Manufacturing number	150	150	197
Wholesale number	69	63	97
Retail number	310	339	395
Construction number	87	91	83
Commercial service number	67	64	63
Total number	683	707	835
Manufacturing liabilities	$8,412,000	$5,949,000	$8,419,000
Wholesale liabilities	1,749,000	1,598,000	2,808,000
Detail liabilities	4,235,000	4,683,000	5,929,000
Construction liabilities	2,726,000	2,410,000	4,362,000
Commercial service liabilities	1,742,000	2,009,000	1,281,000
Total liabilities	$18,864,000	$16,649,000	$22,799,000
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES:			
Lint—Consumed month of November	1,008,872	835,155	772,216
In consuming establishments as of Nov. 30	1,832,015	1,489,660	1,457,073
In public storage as of Nov. 30	6,995,538	6,375,051	10,568,091
Linters—Consumed month of November	118,461	128,940	132,339
In consuming establishments as of Nov. 30	261,001	208,963	248,319
In public storage as of Nov. 30	117,013	110,115	42,913
Cotton spindles active as of Nov. 30	20,751,000	20,758,000	20,315,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to Dec. 13	9,199,668	------	14,775,691
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE — Final report issued Dec. 18 (in thousands):			
Corn, all (bushels)	3,379,436	3,105,436	3,131,009
Wheat, all (bushels)	1,141,188	1,010,069	1,026,755
Winter (bushels)	895,101	740,537	750,666
All spring (bushels)	246,087	269,532	276,089
Durum (bushels)	38,817	33,457	36,064
Other spring (bushels)	207,270	236,075	240,025
Oats (bushels)	1,329,473	1,483,975	1,465,134
Barley (bushels)	236,737	299,954	301,009
Rye (bushels)	18,739	22,509	22,977
Buckwheat (bushels)	5,203	4,740	4,749
Flaxseed (bushels)	43,946	35,224	39,263
Rice (100 pound bag)	40,747	38,022	37,971
Popcorn (pound)	159,291	------	243,025
Sorghum grain (bushels)	152,630	196,344	237,456
Sorghum forage (bushels)	6,541	------	7,360
Sorghum silage (bushels)	4,414	------	5,415
Cotton, lint (bale)	16,128	9,945	9,884
Cottonseed (ton)	6,559	------	4,005
Hay, all (ton)	99,536	107,870	106,819
Hay, wild (ton)	12,296	12,657	12,509
Alfalfa seed (bushels)	1,997	------	1,879
Red clover seed (bushels)	1,319	------	2,638
Alsike clover seed (bushels)	267	------	315
Sweetclover seed (bushels)	943	------	1,404
Lespedeza seed (pound)	248,300	------	163,120
Timothy seed (bushels)	793	------	1,607
Beans, dry edible (100 pound bag)	21,377	16,419	16,843
Peas, dry field (bag)	3,256	2,902	2,979
Soybeans for beans (bushels)	230,897	281,133	287,010
Cowpeas for peas (bushels)	3,032	------	2,983
Peanuts picked and threshed (pound)	1,875,825	1,771,320	2,038,425
Velvetbeans (tons)	337	------	413
Potatoes (bushels)	411,565	430,591	439,500
Sweetpotatoes (bushels)	55,368	59,491	58,729
Tobacco (pound)	1,972,359	2,013,165	2,035,915
Sorgo sirup (gallon)	6,383	6,226	6,013
Sugarcane for sugar and seed (ton)	7,078	7,260	6,552
Sugarcane sirup (gallon)	10,830	9,795	11,920
Sugar beets (ton)	13,383	13,549	10,197
Maple sugar (pound)	262	------	292
Maple sirup (gallon)	1,968	------	1,614
Broomcorn (ton)	26	26	45
Hops (pound)	58,336	58,288	50,796
Apples, commercial crop (bushels)	120,499	120,499	133,743
Peaches, total (bushels)	52,573	52,407	74,818
Pears, total (bushels)	31,263	30,804	36,404
Grapes, total (ton)	2,641	2,539	2,663
Cherries (12 states) (ton)	242	231	250
Apricots (3 states) (ton)	202	198	198
Plums (2 states) (ton)	83	------	96
Prunes, dried (3 states) (ton)	148	------	161
Prunes, other than dried (3 states) (ton)	43	------	129
Oranges (5 states) (boxes)	111,290	------	108,535
Grapefruit (4 states) (boxes)	48,520	------	36,500
Lemons, Calif. (boxes)	12,500	------	11,630
Cranberries (5 states) (barrels)	980	968	840
Pecans (pound)	112,503	110,688	128,174
Tung nuts (5 states) (pound)	39	------	88

*Revised figure.

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News About Banks and Bankers

MANUFACTURERS TRUST COMPANY, NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	2,772,539,261	2,320,044,595
Deposits	2,581,949,234	2,135,910,161
Cash and due from banks	818,188,457	619,939,730
U. S. Govt. security holdings	1,030,956,549	864,942,694
Loans and bills discounted	743,860,414	662,977,764
Undivided profs.	29,936,866	36,452,372

* * *

CHEMICAL BANK & TRUST CO., NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	1,714,391,242	1,533,839,422
Deposits	1,552,289,582	1,377,983,667
Cash and due from banks	475,474,046	378,773,423
U. S. Govt. security holdings	433,228,132	432,702,298
Loans and bills discounted	611,027,408	535,862,281
Undivided profs.	16,799,990	15,919,950

* * *

CENTRAL HANOVER BANK AND TRUST COMPANY, NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	1,769,855,115	1,562,484,722
Deposits	1,616,865,824	1,409,518,387
Cash and due from banks	530,225,048	411,363,312
U. S. Govt. security holdings	605,050,557	526,930,236
Loans and bills discounted	547,060,337	520,547,548
Surp. & undivd. profits	115,159,680	113,769,108

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BANK OF THE MANHATTAN COMPANY, NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	1,320,605,360	1,209,120,087
Deposits	1,212,071,132	1,102,807,978
Cash and due from banks	385,377,437	332,315,176
U. S. Govt. security holdings	292,312,414	288,276,360
Loans and bills discounted	531,836,448	466,677,007
Undivided profs.	15,652,845	15,418,411

* * *

CORN EXCHANGE BANK TRUST COMPANY, NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	829,337,258	795,925,689
Deposits	778,684,575	745,405,655
Cash and due from banks	244,151,013	227,588,047
U. S. Govt. security holdings	436,463,943	441,792,953
Loans and bills discounted	112,109,409	90,078,003
Undivided profits	7,773,639	7,658,428

* * *

THE PUBLIC NATIONAL BANK AND TRUST COMPANY, NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	534,747,521	513,358,225
Deposits	492,859,737	471,514,164
Cash and due from banks	141,939,132	125,739,966
U. S. Govt. security holdings	123,270,950	109,251,250
Loans and bills discounted	234,313,765	243,485,537
Undivided profits	8,611,726	8,324,088

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GRACE NATIONAL BANK OF NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	124,392,436	117,647,648
Deposits	104,638,094	101,838,127
Cash and due from banks	37,664,892	34,593,678
U. S. Govt. security holdings	41,879,927	43,931,184
Loans and bills discounted	32,256,917	27,157,344
Surp. and undivd. profits	4,912,999	4,838,127

* * *

CLINTON TRUST COMPANY, NEW YORK

	Dec. 31, '50	Sept. 30, '50
Total resources	$28,117,188	$27,322,177
Deposits	26,079,125	25,300,754
Cash and due from banks	6,812,744	6,287,327
U. S. Govt. security holdings	10,987,219	12,305,936
Loans and bills discounted	7,910,795	6,866,727
Surp. and undivid. profits	954,248	945,365

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IRVING TRUST COMPANY, NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	1,360,469,826	1,207,324,358
Deposits	1,218,560,042	1,060,832,938
Cash and due from banks	406,990,516	310,751,144
U. S. Govt. security holdings	369,389,749	342,544,894
Loans and bills discounted	519,323,848	486,150,266
Undivided profs.	12,600,284	14,764,650

* * *

THE NEW YORK TRUST COMPANY, NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	797,468,803	745,399,580
Deposits	718,557,649	668,186,127
Cash and due from banks	224,369,971	195,769,585
U. S. Govt. security holdings	289,534,176	280,472,827
Loans and discts.	261,691,616	250,814,189
Undivided profits	13,322,812	13,019,873

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KINGS COUNTY TRUST COMPANY, BROOKLYN, N. Y.

	Dec. 31, '50	Dec. 31, '49
Total resources	$54,150,995	$51,186,129
Deposits	44,594,287	41,407,211
Cash and due from banks	15,180,991	12,627,488
U. S. Govt. security holdings	18,843,658	20,213,327
Loans and discts.	1,651,881	1,535,933
Undivided profits	720,003	890,542

* * *

The consolidation of the **South Shore Trust Company of Rockville Centre, N. Y.,** and **The Franklin National Bank of Franklin Square, Nassau County, N. Y.,** under the charter and title of The Franklin National Bank became effective on Dec. 15. In connection with the consolidation, a branch was established at Rockville Centre to be known as South Shore Office. The initial capital of the consolidated bank will be $1,250,000, in shares of 125,000 common stock, par $10 each. The initial surplus will be $3,000,000, and initial undivided profits not less than $750,000. An item bearing on the consolidation appeared in our issue of Nov. 23, page 2000.

* * *

Effective Dec. 5, the capital of the **Merchants National Bank & Trust Co. of Syracuse, N. Y.,** was increased to the extent of $250,000 by the sale of new stock, raising it from $750,000 to $1,000,000.

* * *

At the meeting of the Executive Committee of the **National Shawmut Bank of Boston,** held Dec. 26, Walter E. Borden was appointed Senior Vice-President and General Manager of the bank. As such he will serve as Chief Executive Officer of the bank under Walter S. Bucklin, President. Mr. Borden, who was graduated from Goldsboro, N. C., High School and the U. S. Naval Academy, Class of 1916, served with the U. S. Navy from 1912 to 1920. Following his naval career, he built the Caribbean Sugar Company plant in Cuba; he was Assistant General Manager of the company until 1928, and is now President and Treasurer of that company. He has been with Shawmut since 1928, serving successively as Assistant Vice-President, Vice-President and Senior Vice-President.

PALISADES TRUST COMPANY, ENGLEWOOD, NEW JERSEY

	Dec. 31, '50	Dec. 31, '49
Total resources	$18,183,833	$18,016,000
Deposits	16,879,478	16,752,000
Cash and due from banks	2,290,663	2,904,000
U. S. Govt. security holdings	10,000,488	10.224,000
Loans and discts.	3,056,655	1,369,000
Undivided profits	185,902	142,000

* * *

Announcement that John J. Germain, Assistant Vice-President of the **Federal Trust Company of Newark, N. J.,** has been made a Vice-President of the company was indicated on Dec. 21 by President David J. Connolly. Mr. Germain joined the Federal Trust in 1928, according to the Newark "Evening News," which reported other promotions as follows:

Leo E. Leichter was made an Assistant Vice-President; John F. Fay Jr. and George V. Gilmartin were named Trust Officers. All had been Assistant Trust Officers. Edmund J. Mahoney and John J. Mooney were made Assistant Secretary-Assistant Treasurers.

* * *

The directors of the **Fidelity Union Trust Co. of Newark, N. J.,** have elected John Goldham a Vice-President, in addition to his post as Treasurer. This is learned from the Newark "Evening News" of Dec. 20 which reports that Mr. Goldham has been with the Fidelity since 1919. From the "News" we likewise quote:

Several other promotions were made: Robert W. Bruce Jr., Charles C. Crissy Jr., and Benjamin F. Leonard, Assistant Secretaries-Assistant Treasurers, and George Zabriskie Jr., Assistant Controller, were named Second Vice-Presidents; William F. Krumwiede, Assistant Manager, became Assistant Secretary-Assistant-Treasurer; Frank W. Heimall and Myron H. Bennett were made Assistant Controllers, and William L. Hoffman was made an Assistant Manager. I. Roger Stevens Jr., Assistant Trust Officer-Assistant Secretary, became a Trust Officer, and Douglas C. Wright and Elliott W. Sparkes were named Assistant Trust Officers-Assistant Secretaries.

* * *

Frederick W. Shelley, President for the past 12 years of the **Morris County Savings Bank of Morristown, N. J.,** has become Chairman of the Board; as President, he is succeeded by Ralph B. Welsh, heretofore Executive Vice-President, who assumed his new post on Jan. 1. According to the Newark "Evening News," Mr. Shelley started with Morris County Savings in 1902. He became an officer in 1922 and in 1932 was made Secretary and Treasurer. Two years later he was elected a member of the board, and in 1938 succeeded the late Philander B. Pierson as President. He was the first President of the Morris Chapter, American Institute of Banking, and was President of the State Association of Savings Banks in 1937-1938. Mr. Welsh, says the "News," has been in banking since 1924. He was a director and Treasurer of Citizens Trust Co., Summit, in 1927, when he resigned to join Morris County Savings. He served two terms as President of the Savings Banks Association of New Jersey. He presently is on the Executive Committee of the State Association. Mr. Welsh is also a member of the Executive Committee of the National Association of Mutual Savings Banks.

THE PHILADELPHIA NATIONAL BANK, PHILADELPHIA, PA.

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	837,430,025	779,159,477
Deposits	765,583,170	708,682,154
Cash and due from banks	274,339,840	231,290,929
U. S. Govt. security holdings	250,905,753	255,959,310
Loans and bills discounted	216,474,266	183,973,649
Undivided profits	12,659,866	12,238,165

* * *

The **National Bank of South Dakota, at Sioux Falls, S. D.,** has been enlarged effective Nov. 30, from $250,000 to $500,000 by a stock dividend of $250,000.

An increase of $50,000 in the capital of the **First National Bank of North Platte, Neb.,** raising it from $150,000 to $200,000, has resulted from the sale of $25,000 of new stock, and a stock dividend of $25,000, the enlarged capital having been made operative on Dec. 7.

* * *

The **First National Bank of Joplin, Mo.,** has been enlarged to the extent of $100,000, or from $100,000 to $200,000, through a stock dividend of $100,000. The new capital was increased as of Nov. 24.

* * *

Stanley Marcus, Executive Vice-President of Neiman-Marcus, Dallas, was elected a director of the **Republic National Bank of Dallas, Texas,** on Dec. 22, it is announced by Fred F. Florence, President of the bank. Mr. Marcus' affiliation with Neiman-Marcus began following his graduation from the Harvard Business School in 1926. He became Secretary, Treasurer, and a director in 1928; Merchandise Manager all apparel divisions, 1929; Executive Vice-President, 1935. He was Chairman of the Board of Trustees of the American Retail Federation, 1949, and is a Trustee of the National Retail Consumers Council. A leader in civic affairs, Mr. Marcus is a past President of the Dallas Symphony Society, and an active member of the Civic Federation of Dallas, Greater Dallas Planning Council, Better Business Bureau of Dallas, Dallas Chamber of Commerce, and other activities.

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The **Montana National Bank of Billings, Mont.,** reports a capital of $275,000 as of Nov. 24, increased from $225,000 through the sale of $50,000 of new stock.

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The directors of the **California Trust Company of Los Angeles** have elected L. M. Eckert Trust Officer, Hoyt Mitchell and G. H. Zimmer, Assistant Trust Officers, and E. L. Johnson, Secretary, Frank H. Schmidt, President, announces. Mr. Eckert, a member of the company's staff since last April, was elected Assistant Trust Officer in May. He was engaged in trust business in Beverly Hills from 1939 to 1945. Mr. Mitchell was formerly Trust Officer with The Whittier National Trust and Savings Bank of Whittier, Calif., where he had been a staff member since 1922; he was elected Assistant Trust Officer of the Whittier bank in 1932 and Trust Officer last January. Formerly Assistant Secretary, Mr. Zimmer was elected to that post in December, 1947. His association with the trust company dates from May, 1945. Mr. Johnson, formerly Assistant Secretary, joined the trust company's staff in February, 1946.

Urges Unfettered Agricultural Program

Dr. E. L. Butz, Head of Dept. of Agricultural Economics of Purdue University, says policy should be for full production, without allocations or price supports, and with emphasis on more efficiency in farm operations.

Speaking at the Third National Credit Conference, sponsored by the American Bankers Association in Chicago on Dec. 14, Dr. E. L. Butz, head of the Department of Agricultural Economics of Purdue University, Lafayette, Ind., stated that "Our farm program must promote the general welfare of agriculture. It must be one that encourages full production; one that somehow lets the individual farmer manage his farm according to the principles of good farm management, and lets him be efficient; one that doesn't place restraints upon his output; one that doesn't come along with a 20% cutback in corn production, and a cutback in this and in that. We need a program that doesn't lead us blindly into a policy of curtailed output, because never can any sector of industry prosper and be prosperous unless it produces fully. The essence of wealth and well being—the essence of prosperity in America—is a full level of production. We must pursue a program that encourages that, and we must pull for a flexible program.

Earl L. Butz

"Now is the time to re-examine the basic principles that we want to undergird our farm programs," Dr. Butz continued, "The recurrence of a war economy with its increased demands may alleviate, temporarily at least, the pressure for price support programs which are unworkable in a peacetime economy from the longer time point-of-view. The next year or two will afford a much needed opportunity for the agriculture community to study its price support programs in an environment free from the pressure of declining prices. We must examine such issues as the level of price supports we desire, whether we want to live under a philosophy of restricted agricultural output or full output, whether we want to have a two-price system or a one-price system, whether we want to espouse the philosophy of cheap subsidized food for American consumers, whether we want to impose limitations on the size of production units on American farms, whether we want to ration 'production rights' among farmers, and whether we want to control the individual farmer or exercise overall control of the agricultural industry leaving the individual farmer relatively free.

"It appears that we are engaged in at least a 10-year conflict with the Communist world, whether complete war comes or not," Dr. Butz asserted. "Agriculture's job is clear. We must increase our total output still farther, and do it with fewer farm workers. We must be careful, however, not to stress current production so much that we sacrifice total production over the entire 10-year period. We must keep our agricultural plant financially sound and continue to invest in those farm improvements which will increase production.

"To get the desired increase in agricultural production in the decade ahead, we must strive constantly to increase our yield per man as well as our yield per acre. This means that we must apply more research and more science to agriculture in the present fight than we have ever done before.

"At the present time, agriculture is financially sound," Dr. Butz said. "We now have the lowest ratio of debt to capital values that we have experienced during the 20th century. Farm earnings should be invested in improvement of the farm and its productive capacity, rather than be used in bidding against other farmers for the scarce supply of land available.

"American agriculture also faces a sociological challenge in the decade ahead," Dr. Butz, stated. "Our rural areas have been chronically plagued with excess population and underemployment on many farms. Even today, about half of our farms produce 90% of our commercial farm products. We should be careful not to throw road blocks in front of opportunities for the excess farm population to migrate to urban employment where they can be more productive in the national defense. This may mean a little tighter labor supply in some rural communities and perhaps higher farm wages. However, in the long-run, both agriculture and the nation will be better off if a part of our underemployed population on American farms can be relocated in American industry."

Joins Merrill Lynch

(Special to The Financial Chronicle)

RALEIGH, N. C. — Bascom T. Baynes, Jr. is now with Merrill Lynch, Pierce, Fenner & Beane, 302 South Salisbury Street.

T. J. Pringle Opens

SHREVEPORT, La.—Towner J. Pringle is engaging in a securities business from offices at 440 Monrovia Place.

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.

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.

• **Bank Building & Equipment Corp. of America**
Dec. 22 (letter of notification) 8,000 shares of common stock (par $3). **Price**—Around current market. **Underwriter**—Scherck, Richter Co., St. Louis, Mo. **Proceeds**—To selling stockholders.

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.

• **Bryant Air Conditioning Corp. (1/15/25)**
Dec. 26 (letter of notification) 11,050 shares of common stock (par $1), of which 6,050 shares were sold between on or about Dec. 28, 1949 and Aug. 1, 1950 for the aggregate sum of $22,030 without qualification under letter of notification and are now reoffered. **Price**—For 3,050 reoffered shares, $3.60 per share; for 3,000 reoffered shares, $3.70 per share; and for remaining 5,000 shares, $3.80 per share. **Underwriter**—None. **Proceeds** — For working capital. **Office** — 915 No. Front Street, Philadelphia, 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 early in January on a share-for-share basis; rights to expire about 15 days after mailing. **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, New York.

Central Illinois Public Service Corp.
Dec. 26 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.

City Stores Co., Philadelphia, Pa. (1/10-15)
Dec. 22 filed 60,000 shares of cumul. conv. pfd. 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.

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**—To be received up to 10:30 a.m. (CST) on Jan. 9 at office of company.

• **Consolidated Gas Electric Light & Power Co. of Baltimore**
Dec. 28 filed $25,000,000 of first refunding mortgage bonds, series X, due Jan. 1, 1986. **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. **Proceeds**—To repay funds borrowed from banks for the redemption of $3,566,000 series Q and R 2¾% bonds on Jan. 3, 1951, and the remainder to finance, in part, the company's large construction program. **Bids**—Expected to be invited during the latter part of this month.

• **Consolidated Textile Co., Inc., New York**
Dec. 27 filed a maximum of 500,000 shares of capital stock (par 10 cents), to be offered in exchange for an unspecified number of shares of common stock of Bates Manufacturing Co. (Consolidated now owns 51,400 shares, or approximately 13% of the 391,500 outstanding Bates shares). **Exchange Rate** — To be supplied by amendment. **Underwriter**—None.

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.

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.

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.
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.

• **E-I Mutual Association, West Orange, N. J.**
Dec. 28 (letter of notification) up to 3,500 shares of class B special stock to be offered employees of Thomas A. Edison, Inc. and its subsidiaries, beginning Jan. 10, 1951. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—To be held in a redemption fund. **Office**—51 Lakeside Avenue, West Orange, N. J.

El Paso Electric Co., El Paso, Tex. (1/16)
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. **Bids**—To be received before 11:30 a.m. (EST) on Jan. 16 at 90 Broad Street, New York 4, N. Y.

• **Emerson Electric Manufacturing Co., St. Louis, Missouri (1/18)**
Dec. 29 filed 57,846 shares of cumulative preferred stock, series A (par $50), convertible into common stock prior to Jan. 1, 1961, to be offered initially for subscription by common stockholders at rate of one share of preferred for each eight shares held, about Jan. 18. Rights to expire about Feb. 1. **Price**—To be supplied by amendment. **Underwriters**—Smith, Barney & Co. and Van Alstyne Noel Corp., of New York; and Newhard, Cook & Co., St. Louis, Mo. **Proceeds**—$1,015,565 to be used to retire presently outstanding 7% preferred stock; $450,000 to cover the cost of a new plant in Bedford, Ind.; approximately $350,000 to reimburse the company's treasury for cash funds used in the purchase of its St. Louis plant from the U. S. Government in September, 1950; and the balance to provide additional working capital.

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.

• **Facsimile & Electronics Corp., Passaic, N. J.**
Dec. 29 filed 400,000 shares of class A stock (par $1) to be offered publicly "as a speculation." **Price**—$2.50 per share, with an underwriting commission of 50 cents per share. **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—To repay indebtedness to RFC, and the balance to develop and produce facsimile transmission equipment and for materials. **Offering**—Expected next month.

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.

• **First National Home Builders Corp., Boston, Massachusetts**
Dec. 20 (letter of notification) 20,000 shares of common stock and 10,000 shares of preferred stock. **Price** — Both at par ($10 per share). **Underwriter**—None. **Proceeds**—To purchase land. **Office**—18 Tremont Street, Boston, Mass.

Food Fair Stores, Inc. (1/16-17)
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.

Continued on page 44

Continued from page 43

● **General Instrument Corp., Elizabeth, N. J.**
Jan. 2 filed 221,715 shares of common stock (par $1) to be offered to common stockholders at the rate of one share for each four shares held on or about Jan. 23, 1951; rights will expire on or about Feb. 8. **Price**—To be supplied by amendment. **Underwriter**—Hirsch & Co., New York. **Proceeds** — To expand plant facilities.

● **Glenmore Distilleries Co., Louisville, Ky. (1/17)**
Dec. 28 filed 159,142 shares of class B common stock (par $1). **Price** — To be filed by amendment. **Underwriter**—Glore, Forgan & Co., New York. **Proceeds**—For working capital and general corporate purposes.

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 common 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.

● **Household Service, Inc.**
Dec. 26 (letter of notification) 748 shares of common stock now offered to stockholders of record Jan. 3, 1951, at rate of one share for each 10 shares held; rights expire Jan. 10. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To repay bank loans and for plant expansion. **Office**—Dwight Avenue, Clinton, N. Y.

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.

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., and Davies & Mejia, San Francisco, Calif. **Proceeds**—To pay off promissory notes and for working capital.

● **Kingfisher Water Co., Kingfisher, Okla.**
Dec. 27 (letter of notification) 250 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For new construction.

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. Expected this month.

● **Macmillan Co., New York (1/16-17)**
Dec. 27 filed 171,971 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To three selling stockholders.

NEW ISSUE CALENDAR

January 5, 1951
Wilcox-Gay Corp. ____ Common

January 9, 1951
Commonwealth Edison Co. 10:30 a.m. (CST) ____ Debentures
Missouri Pacific RR. ____ Equip. Trust Ctfs.

January 10, 1951
City Stores Co. ____ Preferred
Erie RR., noon (EST) ____ Equip. Trust Ctfs.

January 11, 1951
Texas & Pacific Ry., noon (EST) ____ Equip. Tr. Ctfs.

January 15, 1951
Bryant Air Conditioning Corp. ____ Common

January 16, 1951
Clark Controller Co. ____ Preferred
El Paso Electric Co., 11:30 a.m. (EST) ____ Bonds
Food Fair Stores, Inc. ____ Preferred
Macmillan Co. ____ Common

January 17, 1951
Glenmore Distilleries Co. ____ Common
San Diego Gas & Electric Co. ____ Preferred

January 18, 1951
Emerson Electric Manufacturing Co. ____ Common

January 20, 1951
Reading Co. ____ Equip. Trust Ctfs.

January 23, 1951
Southern Natural Gas Co., 11 a.m. (EST) ____ Bonds

February 1, 1951
Nevada-Tungsten Corp. ____ Common

February 6, 1951
Carolina Power & Light Co., noon (EST) ____ Bonds

● **Maltine Co.**
Dec. 26 (letter of notification) 4,000 shares of common stock (par $1) offered to employees of company and its subsidiaries, with rights expiring Jan. 18. **Price**—To be $5 less than the bid price for the stock on the day preceding the offering date, or between $20 and $24 per share. **Purpose**—For corporate purposes. **Office**—Morris Plains, N. J.

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.

● **Moore Drop Forging Co., Springfield, Mass.**
Dec. 20 (letter of notification) 5,000 shares of common stock (par $1). **Price**—Approximately $10 per share. **Underwriters**—G. H. Walker & Co., New York, and Blunt Ellis & Simmons, Chicago, Ill. **Proceeds** — To Alfred H. Chapin, Chairman of the Board, the selling stockholder.

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.

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.

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).

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. Dealer-Managers for latest financing were Stone & Webster Securities Corp.; Estabrook & Co.; The First Boston Corp.; Kidder, Peabody & Co. and Tucker, Anthony & Co. **Proceeds**—To redeem $1,000,000 of outstanding collateral trust 3½% bonds, 12th 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 stockholders of record Dec. 27 on a pro rata basis, with Fiduciary Management, Inc., principal stockholder to acquire 3,000,000 shares; rights expire Jan. 15. **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.
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.

● **San Diego Gas & Electric Co. (1/17)**
Dec. 27 filed 325,000 shares of 4.40% cumulative preferred stock (par $20). **Price**—To be supplied by amendment. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To repay $3,200,000 bank loans and for expansion program.

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 who have agreed to buy 20,000 shares each of the remaining 60,000 shares (preemptive rights to which have been waived by the stockholders) and 50% of the 50,000 shares not subscribed for by stockholders. Augus D. McIntosh of New York will undertake to dispose of any remaining unsubscribed shares on a "best efforts" basis. **Proceeds** for construction and working capital. **Business** — Manufacture of hygienic products.

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.

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.

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 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 at 11 a.m. (EST) 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.

● **Sun Oil Co., Philadelphia, Pa.**
Dec. 28 filed 191,762 shares of common stock (no par). **Price**—At prevailing market (approximately $63 per share). **Underwriter**—None, but will be sold through brokerage firms. **Proceeds**—To 12 selling stockholders.

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.

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. (1/5)
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.

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.**
Jan. 3 company applied to the ICC for authority to issue $8,550,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler. **Bids**—Expected this month.

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.

Erie RR. (1/10)
Bids will be received by the company up to noon (EST) on Jan. 10 for the purchase from it of $5,400,000 of equipment trust certificates to mature in 20 equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros & Hutzler; Harris, Hall & Co. (Inc.).

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.

● **Gulf Oil Corp.**
Jan. 2 the company, together with four other companies, filed plans with Petroleum Defense Authorities in Washington for the construction of a 26-inch crude oil pipe line extending from the West Texas producing area to refineries on the Gulf Coast. Associated with Gulf, are Cities Service Co., Pure Oil Co., Sun Oil Co. and Standard Oil Co. of Ohio. Construction is contemplated to begin in late summer or early fall of this year with completion early in 1952.

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.

● **Michigan Consolidated Gas Co.**
Jan. 3, it was disclosed that the company is planning an $8,000,000 pipe line construction program to increase natural gas deliveries to the Detroit (Mich.) area by 150,000,000 cubic feet a day next winter. The present line has a daily capacity of 325,000,000 cubic feet a day.

Michigan-Wisconsin Pipe Line Co.
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock (latter to American Natural Gas Co., the parent). Previous debt financing was placed privately. If competitive probable bidders may include The First Boston Corp.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co.

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 supplued later. The estimated cost of the new facilities is $5,500,000. Previous bond financing was arranged for privately through Union Securities Corp., who also acted as underwriter for a common stock issue in April of this year.

Missouri 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); 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.

● **Mountain States Power Co.**
Dec. 26 company applied to FPC for authority to split up the present common stock on a three-for-one basis to help facilitate the sale of additional common stock in the near future so as to enable the company to carry out its construction program for 1951. Merrill Lynch, Pierce, Fenner & Beane, New York, was the principal underwriter of a common stock offering in April, 1949. Stockholders will vote Jan. 30 on issuing 900,000 shares of $7.25 par value common stock in exchange for 300,000 shares of no par value common stock.

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.

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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. (1/20)
Dec. 14 it was stated company plans issuance and sale this 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.

● **Seaboard Air Line RR.**
Bids will be received up to 12 o'clock noon (EST) on Jan. 18 at the office of Willkie Owen Farr Gallagher & Walton, 15 Broad Street, New York 5, N. Y., for the purchase from the company of $4,920,000 equipment trust certificates, series I, to be dated Feb. 1, 1951 and to mature serially in 15 equal annual instalments. 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 Gas Transmission Corp.**
Jan. 3 company asked FPC permission for approval of a $42,300,000 construction program, which will include the building of 580 miles of pipe line to supply natural gas in its own mid-Western service area and in Appalachian markets. The program would increase the capacity of the Texas-to-Ohio pipe line system to over 900,000,000 cubic feet per day.

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. Bids expected at noon (EST) 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.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York (STANY) Bowling League standings as of Dec. 29 are as follows:

TEAM	Won	Lost
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	23	12
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	22	14
Krisam (Capt.), Bradley, Montanyne, Weissman, Gannon	22	14
Burian (Capt.), Manson, King, Voccoli, G. Montanyne	21	15
Serlen (Capt.), Gersten, Gold, Krumholz, Young	19	17
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	18	17
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	18	18
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	16	20
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	16	20
Donadio (Capt.), Demaye, O'Connor, Whiting, Workmeister	16	20
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	14	22
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	10	26

Harry Casper (J. J. O'Kane & Co.) is coming along very nicely after an emergency appendectomy. We all wish him a speedy recovery and an early return.

Julie Bean (Singer, Bean & Mackie) and Hoy Meyer (Gruntal & Co.) will bowl off their tie game Jan. 4, 1951.

Wilbur Krisam (Geyer & Co.) and Hank Serlen (Josephthal & Co.) have their teams hot and both won three games to make the race very interesting.

Our Reporter's Report

Consensus in underwriting circles is that a couple of weeks will elapse before anything in the way of formidable new offerings begins to take definite shape.

True, the turn of the year has come and institutional investors once more are in a position to look at new material without worrying about bookkeeping changes that might have been necessary a week or two back where new purchases or sales were made.

But now, it is argued, there is a disposition to hold off and see what the outlook for new taxes may be in the months ahead. Prospective buyers would rather go slowly and set up their portfolio programs to conform with such prospects rather than to rush ahead and then be forced to make subsequent adjustments.

Meanwhile, with defense preparations taking a bigger part in the general economic scheme, industry naturally will be inclined to tread slowly until it becomes clearer just what is expected of the various segments. Quite as important so far as expansion plans are concerned is the need to know just what will be available in the way of materials for such undertakings.

So, bankers are not given to expecting too much of the weeks immediately ahead as far as new emissions are concerned. Moreover, there is some disposition to let the full effect of the Reserve Board's boost in banks' reserve requirements express itself marketwise.

Picture Better Basically

The waning days of 1950, however, brought about considerable betterment in the general position of the underwriting industry.

There was substantial whittling away of backlogs on dealers' shelves and to that extent the situation was greatly improved from early fall.

Among the larger issues which cleared away entirely was the recent Western Pacific offering. Here with only about $2,500,000 of the original issue remaining unsold, one of the bigger insurance companies stepped up and took down the entire amount.

And in the case of numerous other issues which had lagged, the final take-downs were sufficient to lift such offerings out of the "talked-about" stage.

Insurance Co. Funds

Recapitulation of life insurance company investments during the third week of December reveals that the trend of such funds continued strongly toward urban mortgages.

These accounted for almost 38% of the approximate $225,000,000 placed by some 40 major firms. Some 28% of the total went into U. S. government issues

Bonds of industrial companies absorbed just under 20% of the aggregate while purchases of bonds of public utility companies accounted for only about 5.4%.

American Bosch

Aside from a few railway equipment trust issues and a scattering of municipal offerings, this week held little promise of new investment material.

The only issue of any consequence was a block of 16,500 shares of a new issue of 40,000 shares of cumulative 5% preferred $100 par stock of American Bosch Corp.

This stock was sold privately to insurance firms with the proceeds being used to redeem 16,396 shares of outstanding 5% preferred.

$35 Million Credit Granted to Israel

Funds to be used to purchase equipment and materials for agricultural development.

The board of directors of the Export-Import Bank announced on Dec. 26 the authorization of an additional credit of $35 million to the State of Israel to assist in financing the purchase in the United States of equipment, materials and services required for furthering agricultural development in Israel. This credit will bear interest at the rate of 3½% per annum and is to be amortized over a period of 15 years. It will be allocated to projects including fertilizer production, regional irrigation, establishment of farm settlements, and further promotion of citrus fruit culture.

No Friends Like Old Friends

We turned the pages of memory
And the story they told was long,
Graced with many a happy evening,
Cheered by many a lilting song,
And we spoke with tender yearning
Of love ones passed away,
For there are no friends like old friends,
Forever and a day.

Wm. Garfield Lightbowne.

Reveals Impact of Defense Program on Manpower

First National Bank of Boston points out low birth rate in 30's, combined with increase of persons in high age brackets, has created tight manpower situation.

The superimposing of a huge military program on a booming civilian economy will cause a severe strain on our manpower resources, says the First National Bank of Boston. The situation is aggravated by the fact that, largely as a consequence of the low birth rate in the 1930s, the number in the age group 10 to 19 years declined by 1.9 million during the last decade, while those in the age group 19 to 26 years has increased by only about 300,000. On the other hand, because of the large baby crop in the last war period, the number of children under 10 years of age increased by 8.4 million for the 10-year period ending 1950, a gain of 40%, while those 65 years of age and over increased by 27%, bringing the total in this group to 11.4 million. The aggregate number of persons in these two groups—the young and the old—was 41 million and accounted for 27% of our total population in 1950, as against 23% in 1930. The sharp relative increase in the proportion of children and the aged imposes a growing burden on the productive workers of the country.

In view of the heavy demand for manpower in the armed forces and the war industries, it will be necessary not only to divert a large portion of workers from civilian pursuits, but also to expand our labor force and to make the most effective use of our manpower resources. The extent to which these manpower resources will be mobilized will be determined by international developments. The United States Department of Labor, by using the peak of the last war as a pattern, has estimated what the allocation of manpower to the various segments of our civilian-military economy would be if full use were made of our current potential labor force estimated at 69.1 million. Based upon this technique, there would be 12.5 million in the armed forces and a 3 million expansion in "war" industries, but a curtailment of 6.6 million in "civilian" industries. While these estimates based on the experience of the last war have their limitations, as pointed out by the Department of Labor, they may give a rough indication of the possible distribution of the labor force under the conditions indicated.

The largest potential addition to the labor force is women. In the last war, women workers increased by 5 million, and their proportion to the total labor force increased from 25% in 1940 to 33% at the wartime peak, as compared with 30% at present. Approximately one-third of all females 14 years of age and over are now employed, and of those not in the labor force nearly 90% are keeping house. Owing to the high birth rate of the war period, a proportionately smaller number of women will enter the labor market than in the last war. Nevertheless, in case of emergency, the largest reservoir for recruitment of workers would be the 32 million women in the age group 20 to 64 who are not now in the labor force.

There is also an available supply of potential workers among the oldsters. The proportion of males over 65 years of age at work increased from 45% in 1940 to 50% during the war period, while at present it is 44%. If this proportion were again raised to that of the last war, the labor force would be increased by almost 500,000 workers. Another marginal group is the physically handicapped that with proper rehabilitation could add an estimated 1 million new workers.

Since there is a definite limit to our manpower resources, expansion of the labor force must be accompanied by intensive utilization through education and training. While many of our schools and business firms are doing commendable work in providing training for defense purposes, facilities should be greatly expanded to meet the urgent demand for skilled workers.

Productivity of the working force can be increased by lengthening the working period. In October, 1950, the average work week in manufacturing was 41.4 hours. If this were extended to equal the wartime peak in 1944 of 45.2 hours, it would add nearly 10% to the man hours worked and would roughly be the equivalent of 1.4 million additional workers. It has been estimated that the average person achieves maximum efficiency in a work week of 44 to 46 hours. Beyond 50 hours, efficiency drops rapidly.

National security requires that there be a well-balanced distribution of manpower in the military and civilian segments as both are essential for military victory. While there is no fixed ratio, it is roughly estimated that for every man in uniform there must be about two in overalls to provide behind-the-lines facilities, such as food, clothing, shelter, transportation, weapons, and so forth.

To accomplish our objective in the time at our disposal will call for the full cooperation of all groups toward maximum productiveness, for the bitter and perhaps long struggle that lies ahead will be a challenge to all the energy and ingenuity at our command.

DIVIDEND NOTICES

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There is every prospect for prolonged, fundamental, and bitter dissension between the President and the new Congress which convened Wednesday.

This dissension may or may not become publicly apparent, but it probably will ultimately. However, if the Kremlin inspires one move after another which upset U. S. plans about as fast as the government can make them, this will tend to keep the 82nd Congress, like the lame duck session of the 81st, punch drunk and hesitant to express its true feelings.

If this happens then the basic disagreements may smoke and smoulder without flaming up. If the fire does break out, then it is not beyond the imaginable possibilities for the disagreements to become so severe as to lead to a move for the impeachment of the President.

Mr. Truman's personal and private prestige with the great majority of Congress was never lower. The situation is different from 1948, when Mr. Truman's vote-getting power as well as his personal capabilities were held in low esteem by most of the Congress. It is also different from two years ago, in that Mr. Truman still has the following of the ardent left wing, which then was willing to ditch him for any promising candidate, even a conservative who would run as a Democrat.

With a great many members of Congress, the President is tolerated because of the office he holds, because nothing can be done about shortening his tenure in the White House, and because of the war, which demands more than perfunctory efforts at attempting to cooperate with the White House. Hence the members tend to keep their real feelings about Mr. Truman private.

The attitude toward the present occupant of the White House is only in a relatively small proportion the customary attitude of opposition, rooted in hopes that maybe come 1952, there will be a chance for some of the other presidential aspirants. There is less than usual of purely political motivation in the current feeling.

On the contrary there is a grimness and deadly seriousness in the attitude of most of the Congress. It is not that Congressmen by and large are notoriously imbued with a long-range sense of responsibility. They will cheerfully start a new program, often, which any political novice could predict would in 5, 10, or 20 years to come, create nearly insuperable problems, such as "social security." They will do that so long as the reckoning is, say, some five years hence.

The current Congressional attitude, however, is one of thinking that if great mistakes are made this year by the government of the U. S., the grave consequences of these mistakes will be felt relatively soon, certainly by the time of the next election. So the members privately are probably more serious in their approach to public problems than observers have known them to be in a generation.

* * *

This basic disagreement in the making is not, of course, over the "Fair Deal," even though the President is not expected to admit that one smallest part of his social program is in any way undesirable.

The "Fair Deal" is for the most part out for the duration, certainly Federal aid to education, compulsory "health insurance," compulsory social and economic equality for all groups, and so on. Congress simply will spend little time with these projects, even if Mr. Truman cries long and hard for them.

In ruling out major advances of the "Fair Deal," however, do not rule out some substantial nibbling of the present social structure. The left-wingers have shown themselves to be constantly alert for opportunities to slip across phases of their reforms, whenever Congressional eyes are turned the other way—such as toward foreign danger.

* * *

Instead the basic structure of the disagreement is grounded in the belief that there must be far-reaching changes in U. S. policy on foreign affairs and on the organization of the American economy to cope with dangers from abroad; the basis of the disagreement is that although Congressmen think there must be changes they are aware of the utter improbability of persuading Mr. Truman to change his mind in any respect.

All the reports which come in to Washington indicate that for the most part the country is not reacting enthusiastically to the over-reaching globalism of the Truman-Acheson foreign policy. Millions of people are afraid that the United States has promised far more than it can deliver; that they are going to be asked to fight for a cause—such as the security of some remote country—in which they are not interested. Even some of the former "One World" advocates are now coming to say that some redefinition must be made of the basic strategic objectives of U. S. policy.

In a word, there is little doubt but that the most substantial elements within Congress feel that Acheson has taken Mr. Truman too far over the horizon; that there must be an re-examination of foreign policy and the definition of strategic objectives to a basis that will make sense to most people.

Then there is the question of mobilizing labor resources for the vastly-expanding war economy. This, in the light of the present intensely tight labor situation, may prove to be the most difficult conversion problem to solve, and it will become more difficult in proportion as manpower is diverted to the Armed Forces.

So far about all the Administration has to offer is to reward labor with the customary time and one-half, double time, and other premium time for the lengthening of the work week and use of extra shifts. Mr. Truman's Secretary of Labor has violently opposed lengthening of the 40-hour work week—adopted as a spread-the-work measure during the depression—with straight time.

Naturally Congressmen are saying little about this ticklish subject at the moment, but they realize that it is one of the toughest political problems of adjusting to war, as well as an extremely difficult economic problem.

* * *

Basically, however, the greatest problem of all, as it is seen by most Congressmen, is the President's personal inability to compromise upon anything. This attitude was typified by the argument used by some Republicans against the Acheson-removal resolution, that it would just make the President more stubborn. Congress realizes it must act, as it were, like parents who must never let Junior overhear them say they want Junior to eat spinach, for then Junior will never touch the stuff.

Members of Congress are shocked at the complete extent to which the President has come to think that his judgment on all things is infallible, and to have a contempt toward those who dare to disagree with him. Just a week ago, all that Mr. Truman could say about Senator Harry Byrd's serious proposal that the White House cooperate with Congress in achieving a cut of $7.6 billion in non-war expenditures, was that, in the opinion of Mr. Truman, Senator Byrd didn't know much about the budget. Most members of Congress would rate the Virginia Senator as having many times more comprehension of the budget than the President.

* * *

This RFC business, however, provides an almost ultimate illustration of the sheer obstinacy of the President for the sake of being bull-headed. After deciding for the second time, as reported herein previously, to turn down the entire slate of Truman nominees for the RFC, three Senators went to the White House to report to the President some of the information upon which they based their opposition to the RFC nominees, and in effect to offer the President a generous compromise of the impasse.

Investigators have been going over in great detail for months the background of the nominees, and have amassed a considerable file on these men. None of the three members of the Senate Banking committee who privately pleaded with the President to drop the nominees is an inherent Truman opponent.

Their spokesman was Chairman J. William Fulbright (D., Ark.) of the RFC subcommittee of the Senate Banking Committee. Mr. Fulbright is one of the staunchest supporters of Mr. Truman's foreign commitments, and the author, when a member of the House, is the historic "Fulbright resolution" which early in the war committed Congress to the United Nations idea.

Another member who talked with the President was Senator Paul H. Douglas, Illinois Democrat, aggressive, scholarly, and one of the more convincing "liberals." The third was Senator Charles W. Tobey of New Hampshire, a Republican who just barely escaped with his political life because of his notorious friendliness to left-wing projects.

After deciding for the second time to reject the whole slate of RFC nominees, the trio, on behalf of the Banking Committee, proposed to the President that the latter submit a reorganization plan which would establish a single administrator for RFC. This plan would automatically abolish the positions of the present board members and put them out of a job.

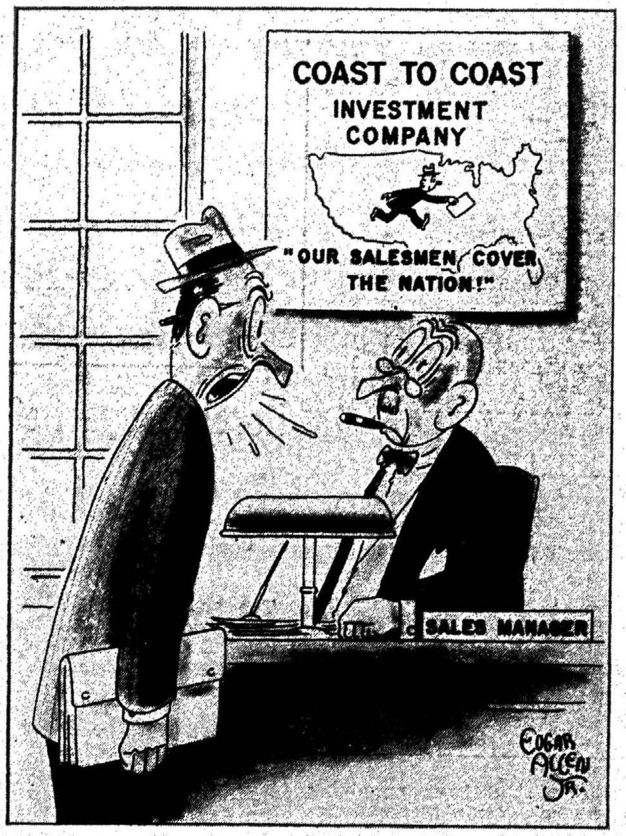
The generosity of the offer was that it would avoid public hearings on the qualifications of the nominees submitted by the President, with the publication on the official committee record of the information gathered by investigators about the nominees, as well as about political interference of the highest order with the lending of public money through RFC. It was also rated as generous because the Executive Order would preclude action on other far-reaching RFC reforms which the Committee has in mind.

Members of this group felt, it was reliably reported, that the President should be spared a public investigation and perhaps inevitable smearing, that perhaps he didn't know himself what subordinates had dished up for him, and in wartime in the interests of unity and respect for government, this "mess" should not be aired.

Instead, the President scornfully rejected the idea. He said querulously a week ago that he had offered the Congress one reorganization plan on RFC (to place RFC within the Commerce Department where it would be subject to potential political control) but that Congress had rejected it. If the Banking Commitee again this year refused to confirm the RFC nominees, Mr. Truman would submit them a third time, he said.

(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



"Of course I don't cover as much as I used to do—does my salary?"

With Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Sheldon D. Gray is now associated with Hornblower & Weeks, Union Commerce Building.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

ZANESVILLE, Ohio — Edward A. Hay has become connected with Merrill Lynch, Pierce, Fenner & Beane, Masonic Temple Building.