ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 173 Number 4976 | New York, N. Y., Thursday, January 11, 1951 | Price 35 Cents a Copy

EDITORIAL

As We See It

Vice is a monster of so frightful mien,
As to be hated needs but to be seen;
Yet seen too oft, familiar with her face,
We first endure, then pity, then embrace.
—*Alexander Pope*

Were the early 18th century poet living today and were his eyes fixed upon the political and economic spheres of activity, he could never arrange iambic pentameters more completely fitting.

More than a few of those now living can remember when "ship subsidies" were regarded as "malodorous," and year after year rejected by Congress despite persistent and ardent lobbies. Thousands can recall, though they may not often do so, the days when President Wilson set out to force interest rates down in remote, high-risk, capital-short regions of the country, chiefly agricultural in nature. They, no doubt, remember the cry that went up from those who respected American traditions and pointed out that here was an outstanding instance of paternalism and favoritism—a plain effort on the part of the Federal Government by use of public credit to interfere with natural forces in the economic world.

A "movement" soon developed in the early days of the Federal Reserve System in support of similar ideas — and again, at once, it was characterized much as was the obvious subsidization of the farmers through the so-called rural credit devices of the Wilson Administration. The postal savings system, too, was vigorously, almost

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Business and the Federal Government

By JOHN J. ROWE*

President, Fifth Third Union Trust Co. Cincinnati, Ohio

Prominent Midwestern banker, in commenting on current inflation trend, denies cause arises from increased credit or bank deposits, which he contends are not now disproportionate to increase in business volume. Lays main causes of inflation to higher payrolls, overtime earnings, and to higher taxes, and advocates abandonment of short work-week and end of government subsidies, including price support and buying of farm surpluses. Decries use of higher bank reserve requirements as inflation curb.

The title, I think, fairly describes the subject which is foremost in my mind. I have no thought whatever of making a forecast, which I am convinced is almost a complete impossibility. Forecasts in the past have been almost universally wrong, and I would like to devote myself to a few comments about where we stand today.

John J. Rowe

I have been in banking continuously since the period immediately before the panic of 1907 and therefore I have had the tremendous advantage of having seen business emerge from a period when corporation balance sheets were guarded by almost complete secrecy to the present period when listed corporations make extraordinarily full disclosure of dollar sales, detailed expenses, and comparative results of the previous year.

When I look at the growth in the volume of business over the span of 43 years, I am literally amazed, and I keep wondering

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*An address by Mr. Rowe, before the Dayton Rotary Club, Dayton, Ohio, Jan. 4, 1951.

Are We Falling Into History's Greatest Trap?

By MELCHIOR PALYI

Dr. Palyi, after describing Soviet aggression patterns, points out fallacy of waiting for next Russian move before acting and failing to call shots in advance by making absolutely clear the lines we are to protect. Favors a new Monroe Doctrine to cover global commitments, and contends cards are not stacked in favor of Russia. Cautions against America bankrupting itself in war preparations, and calls for a "readiness potential" rather than "mobilization potential."

Less than three years ago one of our leading daily newspapers carried an inspired editorial under the headline "E.R.P. (Marshall Plan) or War Preparation." To "insure" peace, we were told, all we need do is give away a few billions each year. Such was the complacent line poured out through the channels of information. Peace, if only a tenuous peace, was a practical certainty. The Korean incident shook the country out of its day dreaming.

Dr. Melchior Palyi

The first reaction was that Korea might be the curtain-raiser for World War III; that the cold war was over and the hot had begun. By August, worry about war with Red China supplanted anxiety about an imminent Russian attack. And if not a big war, Russia might bleed us white by little wars here and there. The sudden realization of the sad state of unpreparedness, after having spent $75 billion on a futile policy of "containing Russia," did not help to quiet the tension. Prepare we must, that was clear at once. But against what, how much and for how long? Just what was the problem we were facing? Or was a preventive war the answer?

Tentatively, we have settled down to a three-million-man armed force at a round $30 billion annual cost, including the cost of rearming our Allies. But that is

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ANNUAL REVIEW ISSUE NEXT WEEK—Next week's "Annual Review and Outlook Issue" will include opinions of nation's leading businessmen on the economic conditions likely to prevail during 1951, also monthly high and low prices for stocks and bonds traded on the New York Stock Exchange in 1950 and similar data on Treasury securities.

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

Garlock Packing Company—W. H. Holly, Sage, Rutty & Co., Inc., Rochester, N. Y. (Page 2)

Long Island Lighting Company—J. W. Leason, Analyst, Shields & Co., New York City (Page 2)

American-LaFrance-Foamite Corporation — Edmond P. Rochat, President, Grady, Berwald & Co., New York City (Page 33)

W. H. HOLLY
Sage, Rutty & Co., Inc.,
Rochester, N. Y.

Garlock Packing Company

My favorite security is the common stock of the *Garlock Packing Company.* Although it is a comparatively small company, it is the largest manufacturer of mechanical packings in the world.

W. H. Holly

Whether this country is at war or peace *Garlock* has no reconversion problems. It is busy at all times making packings for the proper functioning of the thousands of machines and power and processing equipment used in all phases of industry. While the packing used may be only a small part of the machine or equipment, it is a highly important part. The best of machines can quickly break down if the packing is inferior.

Distribution of its products is mainly direct to customers. Garlock products enjoy a ready acceptance wherever machinery is used, and its trademark is known throughout the world. No single industry accounts for as much as 10% of Garlock's business, and no one customer accounts for as much as 1%. The company has branches and distributing points throughout the world, selling packings to the utility companies, aircraft companies, automobile companies, oil companies, chemical and railroad companies, and many others. Direct customers number about 40,000.

Here is a company that has shown an operating profit since its inception in 1887, and has paid dividends without interruption for the past 50 years. Present dividends are at the regular rate of $1 per share, per year, and the company paid an extra 50c dividend in December. Earnings of the six months ended June 30, 1950 were in the amount of $1.59 per share.

In 1929 earned surplus was in the amount of $1,700,000. Today the earned surplus is in excess of $9 million. The gross investment in the company has increased four times over what it was in 1930, and this expansion has been accomplished entirely by plowing back earnings. Garlock's balance sheet, as of June, 1950, shows current assets of $7,900,000 and current liabilities of $1,489,000. Cash was in the amount of $3,100,000.

The company has outstanding a $1,580,000 2½% bank loan due Dec. 31, 1956. Outside of these notes Garlock has no bonds or preferred stock. There are outstanding 418,500 shares of $1 par value common stock. The common stock has a good over-the-counter market and is suitable for conservative individuals and trustees. It is selling around 18, which price is only 2½ points from its low for the past 10 years, and it is 14 points under its 1946 high. There are about 2,300 shareholders and most of the officers and directors of the company are substantial holders of the common stock.

J. WALTER LEASON
Analyst, Shields & Company,
Members New York Stock Exchange

Long Island Lighting Company

Reorganization of the Long Island Lighting Company on Oct. 24, 1950, made available an electric utility stock of unusual promise. The stock is an attractive speculation combining service to one of the country's most rapidly growing residential areas and the certainty of large savings from introduction of natural gas which began December 1950. Since gross income is now only 5.2% of pro forma capitalization and surplus, the company would appear to have a good excess profits tax position. A special dividend of 25¢ has been declared pending establishment of a regular rate. The Stock sells at about ten times earnings of $1.25 in the last 12 months before introduction of natural gas. With natural gas available, earnings for 1951 could approximate $1.60 on indicated tax rates. A regular dividend of $0.80 is a minimum expectation and it is not unreasonable to hope that the 25¢ special dividend may be continued at a $1.00 annual rate. This would indicate a yield range between 6.4% and 8% which is an attractive return considering the dynamic growth of the area served.

J. Walter Leason

Capitalization — Reflecting the reorganization and recent financing, capitalization at Sept. 30, 1950, was:

Long Term Debt	$ 92,717,400	72.75%
Preferred Stock	None	---
Common Equity (3,149,696 shs.)	34,732,634	27.25
	$127,450,034	100.00%

Territory Served—The Long Island Lighting Company system extends over an area of approximately 1,230 square miles along a length of about 120 miles. It extends from the metropolitan New York City area to Montauk Point and, except for a few small local systems, covers all of Nassau and Suffolk Counties and the Rockaway Beach peninsula in Queens County. The rapid spread of New York's population into suburban areas has added a large and stable residential gross to the company's business.

Easy access to New York City has made it one of the most rapidly growing residential areas in the United States. Its present population of about 1,000 000 has increased 54% since 1940. The population served is greater than that of the District of Columbia or any of fourteen states. This growth is reflected in revenues which have increased 128% since 1940 and are now derived 67% from electric and 33% from gas services.

Economy of Area — Economically, Nassau County (adjacent to New York City) is predominantly residential, and Suffolk County agricultural in character, but the last war and expanding population accelerated growth of the Island's industry. Suffolk County is one of the country's most important farming areas with 1949 farm income of $48½ million. Poultry is also important, furnishing cash income of about $8 million annually, and in its territory nearly 60% of the ducks in the United States are raised commercially. Long Island's fishing industry amounted to $11½ million in 1949 and shell fish another $8½ million including 25% of all the country's oyster grounds.

Available information on industrial developement shows a 698% increases from 1939 to 1947 when $164 million of value was added by manufacturing; sale of electric energy has since increased 40%. The aviation manufacturing industry on Long Island is extensive and employed more than 21,000 persons before the current expansion. Other industries show considerable diversity. The Brookhaven National Laboratory, experimenting in atomic energy, is one of the company's large consumers of electric energy.

Electric Business—Average residential electric rates since 1940 have been reduced 23% from 4.89¢ per Kwh. This contributed to an increase of 76% in annual use from the 884 Kwh average in 1940. Latest average residential use of 1554 Kwh is 5% ahead of the Middle Atlantic region average and growing more rapidly; average residential rates of 3.76% per Kwh (before giving effect to a rate reduction on Oct. 25, 1950) were 9% higher. The latest unit of 51,500 Kw capability was placed in service Oct. 1, 1950, bringing total generating capability to 356,000 Kw; another 200,000 Kw will be placed in service during the 1952-53 period.

Natural Gas — Beginning this month, Transcontinental Gas Pipe Line will commence deliveries of natural gas. The company will receive 35 million cubic feet daily which will be used to enrich the manufactured gas to produce a final processed gas of 537 Btu heat content, similar to the present gas sold. This supply of natural gas will permit addition of a large volume of new business, produce operating savings estimated at $3,200,000 the first year ($0.54 a share after 47% tax), increasing to $3 400,000 in the fifth year, and stabilize earnings by reducing dependence on coal and oil which at times fluctuate sharply in price. For the twelve months ended Sept. 30, 1950, gas sendout was 10.96 billion cubic feet, and a conservative estimate indicates sales of 15 billion cubic feet in 1955.

Expansion Program — Though use of natural gas reduces the amount of capital expenditures required to meet future growth, the construction program for 1950 to 1954, inclusive, is very large, being estimated at $137,100,000 of which $16,200,000 was spent to Sept. 30, 1950. Electric property accounts for $101,800,000 of the total, gas property for $31,200 000 and common property $4,100,000. Total utility plant at Sept. 30, 1950, was $170,474,163 against which there was a 26% depreciation reserve of $44.315,689. The 1950-54 expansion program, in effect, contemplates a virtual doubling of the plant investment in a five-year period.

Earnings — Earnings should benefit greatly from use of na-

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Investment During Inflation

By ERNEST W. FLENDER
Partner, C. B. Richard & Co.
Members, New York Stock Exchange

In presenting principles to guide investor in selection of securities during inflation, Mr. Flender advises buying not with idea of absolute gain but with intention of preservation of one's buying power. Holds this means selecting stock representing ownership in tangible assets, such as Oils and Non-Ferrous Metals, and Iron and Steel stocks. Stresses value of groups with growth possibilities.

The inflation-minded investor has to worry about two things, what stocks to buy and the timing of his purchases. This article deals with the easiest of the two by presenting a short outline of what we consider the principle that should be guiding the investor in the selection of securities during inflationary periods.

Ernest W. Flender

We notice that market analysts in increasing number are predicting a sell-off in the stock market owing to what is called its "historically" high level. They may have a fair case but we venture to say that while stocks are not on the bargain counter, a break at this time will, in our opinion, stay within the limits of a correction. Talking to people we find a great deal of confusion about politics here and abroad and a fear that the dollar may be worth very little. Inflation-mindedness will probably remain for some time a very potent factor in the market. Let us hope that as President Truman's "austerity" plans unfold and the transition to a semi-war economy puts a strain on many industries, inflation is recognized for what it is, namely, one of many factors determining stock prices, a factor which acts slowly but steadily in changing rhythm as government regulations and controls are decreed and all around conditions are shaping up.

The best and simplest rule about investments during inflation (meaning in this article the progressive rise of the cost of living) has been phrased cleverly in the short sentence: "Hold only what can hold its own." In other words, carry only such securities which in proportion to the rising cost of living give promise of adequate compensation, actual or potential.

Investments selected in the expectation of progressive inflation should only be made for the long term, not with the idea of absolute gain but with the intention of relative preservation of one's buying power.

Obviously, cash and everything representing currency, such as credit balances, non-convertible bonds and preferred shares, etc., did not "hold their own" in past years. Based on the cost of food figures of the U. S. Bureau of Labor, the 1935 to 1939 dollar is now worth only 46c.

The majority of inflation-minded investors will choose as inflation hedges common stocks representing ownership in tangible assets. Three qualifications will be looked for: first, ownership of valuable property in the form of land, natural resources, buildings, machinery, manufacturing processes, patents, good will, etc.; second, relative freedom from controls; third, good earnings, actual or potential.

In examining specific groups of stocks, we will mention a few companies as examples. The investor's adviser will be able to supply complete lists of stocks having the proper qualifications.

Public Utilities—Utility stocks are very attractive at these levels for people looking primarily for large income, but as long as rates paid by consumers are figured on invested capital and not on "fair value" they are not suited as inflation hedges. Exceptions will probably be found among some natural gas companies (e.g. Panhandle Eastern Pipe Line) possessing large natural gas reserves for which, on the strength of a recent Supreme Court decision, minimum prices at well-head (i.e. higher prices) can be fixed by State Commissions without fear of Federal Power Commission interference.

Railroads are, to a certain degree, in a similar position as the utilities. The invested capital, however, is in all cases so large that for a long time to come a limitation of rates based on invested capital cannot be claimed. Rails are the most vital link in any defense scheme. The Interstate Commerce Commission during the last decade has shown great understanding and fairness in its rate-making policy, and the Excess Profits Tax Act gives the railroads a favored tax position. Traffic for years to come is likely to be very large, particularly in the heavy industry districts. Dividends are high and could be increased. The investor has a wide choice, ranging from the conservative Union Pacific and Atchison to the speculative rails in the East.

Gold stocks were held in great esteem in the early 1930's when devaluation of gold was in the air. Under present circumstances—no devaluation of the yellow metal being in sight—they are unattractive. The price of gold is fixed at $35 per ounce. Costs of mining are constantly rising and the likely withdrawal of more labor will probably bring upon less efficient operation of the mines.

The Oils and non-ferrous metals have great merit as long range inflation hedges, owing to a large portion of their assets being in the

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Regular Features

Published Twice Weekly
The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 7, N. Y.
REctor 2-9570 to 9576
HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager
Thursday, January 11, 1951
Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).
Other Offices: 135 South La Salle St., Chicago 3, Ill. (Telephone: STate 2-0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates
Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $45.00 per year; in Dominion of Canada, $48.00 per year. Other Countries, $52.00 per year.

Other Publications
Bank and Quotation Record — Monthly, $30.00 per year. (Foreign postage extra.)
Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Inflation—The Job Ahead

By ALAN VALENTINE*
Administrator of the Economic Stabilization Agency

Chief wage and price stabilizer, asserting we must win fight against inflation regardless of time and efforts required, acknowledges artificial controls can do little, and urges higher taxes as "most fundamental attack." Says there is also need to divert a larger part of growing purchasing power into savings, and scores selfish interests seeking protection. Pleads for aid of retailers and public in stabilization efforts, and advocates keeping low-end goods on market.

It must no longer be necessary to dwell upon the stakes involved in the titanic struggle which has split our world asunder. Events in Korea have demonstrated that our civilization is in greater peril than ever before. We have been reluctant to recognize the reality and the nature of that challenge. We find it hard to believe that so soon after World War II there are still men who would impose their despotic will around the world. But the facts have become clear, and have forced us to take the measure of the danger. To meet it — and there is so little time — our nation must now move forward vigorously on every front.

Dr. Alan Valentine

Obviously, our first concern is to restore the balance of power which has shifted so gravely against us. This means rearmament on a vast scale—of ourselves and of our allies. Of course, there are risks in such a course, but those risks are unavoidable, for there is no practical alternative.

This new military program, together with necessary efforts to support it in non-military fields of activity, will inevitably impose a terrific strain upon our economy. We have only begun to feel, in mild degree, the pressure of that strain. As men in ever increasing numbers are withdrawn from normal civilian pursuits to make or to use new weapons of defense, their withdrawal from normal production will decrease the amount of civilian goods and services available to all of us. At the same time, the total national payroll will mount to heights previously unknown. Thus there will be fewer goods available and more dollars competing to purchase those goods. Inflation is the inevitable result, and inflation uncontrolled could ruin all of us.

*An address by Mr. Valentine at the 40th Annual Convention of the National Retail Dry Goods Association, New York City, Jan. 8, 1951.

Must Win Fight Against Inflation

No one can foretell how long the present struggle will last, or what form it will take. But one thing is sure; our economic efforts and our fight against inflation must last throughout that struggle, and until complete and final victory is won. To help win that victory is a task assigned to the Economic Stabilization Agency, but not to that Agency alone. It shares the responsibility with other Departments and Agencies of the Government, and it knows that the ultimate responsibility must rest with the American people.

Why is it the business of every American to help curb inflation? Because inflation will pick the pocket of every wage earner. It will reduce the real income of every farmer and also those who live on pensions or on investment returns. It will undermine the value of every life insurance policy. It will hack away at the ability of our endowed universities, colleges, hospitals, schools and philanthropic institutions to perform their essential tasks. It will make the real wages of teachers still tinier; the real value of school budgets still smaller; it will make the costs of instruction, of maintenance, and of textbooks still higher.

Accordingly, inflation is everyone's business! No agency of Government, however buttressed by law or Presidential authority, can succeed in its appointed task without the constant and sincere help of most Americans most of the time. This calls for a degree of self-restraint to which we Americans are not accustomed. It means that every special interest must, for the time being, be subordinated to the common interest. It means that any wage earner, or farmer, or small businessman, or capitalist, who tries to wring from this tense economy special advantages, perhaps justified in peace time, must be curbed and corrected, primarily by the disapproval of his fellow citizens. Only if this can be done, can we be confident that the disastrous effects of inflation can be avoided.

Sacrifice by all hands cannot be avoided. In many civilian lines, the quantities available for the population will be drastically curtailed. If going without a new refrigerator or television set is a sacrifice, then many will be called upon to endure it. One of the painful jobs the Economic Stabilization Agency faces is working out how goods in short supply can be most fairly distributed. Clearly, their distribution cannot be left as in normal times, to the free play of prices in the market place. That would result in most unfair distribution, particularly in respect to items important in the daily living of most of our people, for conditions have brought it about that there is no longer normal free play of prices in the market place.

From that statement might come concern that the Agency I represent may not be as wholeheartedly devoted as you would like to the principle of free play of market prices which is our private enterprise economic system.

Let me reassure you. There is no one in this room more firmly devoted to American private enterprise, adjusted, of course, to its social responsibilities. I firmly believe each of my assistants shares my devotion. We do not regard it as the function of our agency to change our economic system or to assume the mantle of a reformer of American business or American society. Our job is to stabilize our economy, and that is job enough to occupy our minds and our energies. We want to stabilize it with the absolute minimum of impairment to the normal working of our free enterprise system; with the maximum careful guarding of its highly productive power; and with the hope that it can return promptly to the normal economic elbowroom of those who work in it at every economic level.

But the vast added sums directed into our productive system by Government for National Defense; the control of where those funds are placed and how they are used; the controls and priorities of materials, these produce an abnormal condition agumented at present by inherited inflation and by high levels of employment. These factors have already upset that normal relationship between supply and demand, that normal elbow-room by which prices in our free system are determined. Our economics are already out of balance; our free enterprise system is no longer in its free environment; the job of stabilization is to bring those economics into balance until our economy can again be normally free. I promise we shall do so with a minimum of tinkering and with the desire to work ourselves out of our own jobs by making conditions normal as soon as that can be done.

But our work of wage and price stabilization is only a small part of the work which must be done. Our controls will be artificial; they can do little to increase the supply of goods through stimulating production, or to reduce the demand for goods through reducing available funds to purchase them. Such fundamental attacks on inflation come through controls of credit, increased taxes, increased production by greater efficiency or longer hours, and in other ways. The Federal Reserve Board has already made sound moves; other agencies of Government have taken some steps and will take more.

Attack Through Higher Taxes and Savings

Much lies with Congress. The most fundamental attack on inflation is through taxes. There must be a drastic increase in taxes affecting everyone, and taxes until they hurt. There is also need to divert a larger part of the growing purchasing power of the American people into savings. But when all that can be done, there will still be a larger area in which ESA must function if every plane is not to cost twice as many dollars as was estimated when funds were appropriated for it, and if prices are to be kept low enough for people to have the necessities of life.

But among all the other Agencies involved the most important one is the people of the United States. Not all of the other Agencies together can succeed unless the need, the purpose, and the methods are widely understood and generally supported. There are now, as always, powerful special interests which seek in the National Capitol to advance their causes. Whatever may be our attitude toward those pressure groups in peacetime, can we not agree that in times like these, no

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Experimenting in Investment Studies

By O. K. BURRELL*
University of Oregon

Professor Burrell reports on original studies in market structure, on premise stock market action directly reflects how participating individuals behave. Notes controlling tendency to buy dividends; and to identify value with cost, thus stimulating overemphasis on "resistance points." Notes no evidence that volume is instrument for predicting value changes. Concludes concentration on investor psychology is necessary for understanding of market price movements.

It is impossible to define an investment study with any precision. In investment we are interested in what the world will be like tomorrow and consequently almost any kind of general economic inquiry or analysis may be significant from the point of view of investment. In spite of the difficulties of definition there is such a thing as an investment study. It is perhaps useful for our purposes to divide such studies into the following categories:

O. K. Burrell

(1) **Value Studies** — These are studies based on cross cut analysis of value elements in industry groups and particular securities. They are necessarily based on explicit or implicit assumption regarding the future.

(2) **Tests of Results of Alternative Investment or Speculative Policies** — The studies of Edgar Lawrence Smith, Van Strum, Rose, Rodkey and others were based upon this method. More recent studies of formula planning have also followed this method. Essentially this method measures the results of a given policy over what is believed to be a representative segment of time.

(3) **Studies of Market Structure** —These studies involve essentially the behavior of markets and the relationships and patterns of prices. They include a wide variety of topics having to do with market response to both internal and external factors.

This paper is concerned primarily with studies classifed here as studies in market structure. Our thesis is that the behavior of markets is but a reflection of relatively constant human behavior patterns and that experimental studies designed to reveal how men behave in the market may be of value in understanding how security markets work.

Experimental Method Difficult

It is difficult to adapt the experimental method to investigations in finance because it is difficult to approximate the circumstances under which economic decisions are made. But the extensive use of the experimental method in psychology suggests that it may be possible to devise valid experiments that will add to our understanding of how markets work. This does not mean that we should abandon the more conventional types of investment or economic studies. It is only suggested that experimental studies may add to our knowledge of markets and perhaps even be useful to investors in avoiding errors. If, for example, we discover a definite behavior pattern we may be able to infer a resultant security price pattern. We may then logically go to price volume data to see if such a pattern exists. If it does not appear to exist then either the analysis of investor behavior was unsound or other forces have outweighed and overshadowed the effect of the particular behavior pattern.

If we are to undertake experimental studies we must clearly understand that the experimental method is not likely to yield quick and spectacular results. We must not be too quick to accept conclusions based on a single experiment. Experiments must not be conceived as a means of pointing the way to quick profits in the stock market. The experimental method has limited application at best and should be thought of as a means of increasing our understanding of how markets work and without too much immediate concern over how the results should influence investment behavior.

Two Experiments

It is perhaps in order here for purpose of illustration to review and report on two experiments, one published and one unpublished.

The first of these was published under the title, "An Experiment in Speculative Behavior."[1] It attempted to measure investor-speculator response to price level and to price change and to dividends. The experimental group was a class of about 40 students in investments. From this group 33 usable sets of data were obtained. Six class sessions were required to complete the experiment. The assigned objective was to obtain the greatest possible

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*A paper presented by Professor Burrell at the Round Table on Investments, Benjamin Graham chairman, before the American Finance Association, Chicago, Dec. 29, 1950.

1 Bureau of Business Research, University of Oregon, 1950.

The State of Trade and Industry

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

Industrial production on a country-wide basis last week held closely to the level of the previous week, but revealed some slight contraction from December's weekly average by virtue of the loss of a work-day.

Compared with a year ago, aggregate output was markedly above the level for that period. With respect to employment, the latest figures for unemployment insurance claims show a slight increase in scattered industrial sections of the nation. This condition can be attributed in part to the country's industrial conversion to a virtual wartime basis.

To illustrate this point, manufacturers of civilian goods are beginning to cut back operations under the impact of steel and nonferrous metal shortages, according to "Steel," the weekly magazine of metalworking. Some metalworking shops already have curtailed. Others plan to do so shortly as the shift to a defense economy accelerates. But cutbacks to date provide only a foretaste of things to come. Much sharper contraction in hard goods manufacturing looms in the weeks ahead as government curbs on end uses of metal go into effect. Plant shutdowns and accompanying unemployment appear certain before the end of the current quarter, this magazine asserts.

The extent of slackening in general metalworking will depend largely, but not entirely, on the speed with which defense orders are placed. It will take manufacturers time to adjust to new production routines even after they obtain defense orders. In the main, however, it is believed dislocations will be short-lived.

Progressively tight steel supply conditions are indicated through the first half of the new year. But the chief immediate concern of general manufacturing industry centers on the nonferrous metals. Heavy general use, allocations to defense, and government stockpiling are playing havoc with supplies of these metals. The outlook in copper is particularly distressing at the moment.

Far extended delivery promises on fabricated steel are discouraging builders from going ahead with plans for various projects. Building steel is in growing scarcity, and more heavy steel items are scheduled to be diverted from commercial channels for the building of defense plants, including steel expansions.

Clarification of the status of steel prices under the government's rollback order is still awaited, "Steel" points out. Scrap price discussions were held in Washington last week, but no final decisions were reached. Reports in the trade were to the effect a rollback of No. 1 heavy melting steel to $45 Pittsburgh is possible, with unprepared scrap taking a $6 per ton differential under the major grades, this trade paper concludes.

The forecast for passenger car output in the first half of 1951 may fall no more than 150,000 short of the 3,100,000 units turned out in the like period of last year, Ward's Automotive Reports indicates. That would be a drop of less than 5%. The government's stockpiling of metals, creating shortages for civilian uses, may not reduce automobile production much more than did the 100-day Chrysler strike in the first half of 1950, the reporting agency states.

It adds, defense orders thus far are not seriously affecting the motor car industry's operations.

In the President's annual message at a joint session of Congress on the State of the Union, Mr. Truman outlined his foreign and military policy for the United States envisioning a comprehensive and costly program of defense mobilization.

Stating that the United States is willing, as it always has been, to negotiate honorable settlements with the Soviet Union, he stressed the point that "we will not engage in appeasement."

Touching upon additional sources of revenue to assist in implementing the proposed expansive defense program, he added, that major tax increases would be requested, but did not indicate their scope.

According to high-placed officials, the Administration's tax program, which will be in the hands of Congress within the next few weeks, will, they asserted, call for increased tax rates on corporate and personal incomes, more excise levies and steeper rates on many items already taxed. The Treasury wants the

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Wall St. & Investment Analysis Explained

A new book covering a great variety of subjects of interest to investors, dealers, brokers, bankers, educators and the like.

"Wall Street Explains Its Operations to a University Class" is the title of a book just published containing a collection of the transcripts of lectures given by leading investment business executives to a University of Vermont class which visited Wall Street during the Summer of 1950. They appeared concurrently in the columns of the "Commercial and Financial Chronicle."

There are 31 chapters in all dealing with a wide variety of subjects such as: The stock listing requirements of the New York Stock and Curb Exchanges, round and odd-lot trading on the big board, the over-the-counter market in stocks, the corporate bond market, wholesaling of corporate securities, corporate bonds vs. municipals, auto and accessory, chemical and food processing securities and the investment position of mutual funds.

Copies are available at the New York Institute of Finance, 20 Broad Street, New York City 5, N. Y. The price is $3 a copy for single copies, with reductions for quantity orders.

Anyone interested in securities or the operations of Wall Street should find this book, edited by Dr. Philipp H. Lohman and Professor Franc H. Riccardi of the Department of Commerce & Economics, University of Vermont, a valuable acquisition.

Many copies will undoubtedly be donated by investment firms to colleges and high schools throughout the country because of the feeling that this book can be a most useful medium for carrying Wall Street's story to the investor of tomorrow.

'50 Pfd. Stk. Offerings

Union Securities Corporation, 65 Broadway, N. Y. 6, N. Y., has prepared its annual compilation of offerings of preferred stocks. The tabulation, covering the calendar year 1950, disclosed that the number of preferred issues offered during the year increased substantially over the number sold during 1949 and 1948, but decreased very considerably from the number marketed in 1947.

A total of 93 preferred issues was offered during 1950 compared with 69 issues in 1949, 73 issues in 1948 and 181 issues in 1947, according to the analysis. Offerings of preferred stocks of utility companies again predominated; constituting 57 of the total of 93 preferred issues sold last year. In 1949, offerings of public utility preferred stocks numbered 46; in 1948, 38, and in 1947, 45. In addition to the offerings of public utility stocks, senior equity financing during 1950 included issues of industrial companies, chain and department stores, and finance companies. Eleven issues were placed privately during 1950 compared with one private placement in 1949; four in 1948, and 21 in 1947.

The compilation of 1950 offerings lists the 93 issues alphabetically and gives the month in which each offering was made; dividend rates; issue price, and bid and asked prices as of Dec. 30, 1950.

Three With King Merritt

(Special to The Financial Chronicle)

ST. CLOUD, Minn.—George R. Bedard, Harold H. Bergman and Reinhart Rose are now with King Merritt & Co., 1616 St. Germain Street.

Observations . . .

By A. WILFRED MAY

"What Shall I think of My Company's Management?"

The difficulties confronting the investor—expert, semi-expert and completely inexpert—in his status as individual public stockholder are highlighted by three major current projects for appraising company managements.

A. Wilfred May

In one of these, "Forbes Magazine of Business," is for the second year issuing an evaluation of the executive direction of major corporations, giving a specific "score" to the largely intangible qualities of management and its policies.

Operating differently, the American Institute of Management, a non-profit organization, is now enlarging its continuing operation of rating managements and their boards of directors, as a community service.

Another effort somewhat along the same lines, but concentrated on protecting the rights of the individual lay stockholder, is the forthcoming (on Jan. 15) 79-page *Annual Report* by the brothers Gilbert, "Minority Stockholders Numbers One and Two," voluntarily-assumed stewardship of the small investor's interests through their indefatigable attendance at corporation meetings.

Five Management Tests

The Forbes survey, rating 198 managements this year against 149 covered in its initial effort last year, tests them in the following five phases, largely centering on "company manners": (1) executive ability, (2) labor relations, (3) stockholder relations, (4) community relations, and (5) public relations.

The respective management's showings in each of these branches of their activities are explored and rated by means of mailed questionnaires, by personal on-the-spot interviews, and through the opinions secured from industry specialists in the securities field. Some additional reliance is placed intra-industry statistical comparison—a method which, in this writer's opinion, is the most sound and useful, particularly when rating executive ability.

The American Institute of Management, under the Presidency of Jackson Martindell, an experienced Wall Street-er, scrutinizes the workings of 2,400 companies following 301 questions grouped under following 10 subdivisions of the managerial process:

Economic Function.	Research and Development.
Corporate Structure.	Directorate Analysis.
Health of Earnings Growth.	Production Efficiency.
Fairness to Stockholders.	Sales Vigor.
Fiscal Policies.	Executive Evaluation.

All 2,400 companies are specifically rated following these counts; of which 243 have been selected for particular excellence

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Direct Placement of Securities

By DR. GEORGE T. CONKLIN, JR.*
Second Vice-President, Guardian Life Insurance Co.

Dr. Conklin reviews and analyzes private placement of security issues since passage of SEC Acts and indicates nature and importance of this development. Says avoidance of registration expenses is not major factor in growth of private placement, which can better be ascribed to other economic factors, such as savings in flotation costs, and changes in the supply-demand relationship in securities markets. Stresses large increase in institutional investment funds as leading factor for growth of private placements.

The importance of direct placements as a method of distributing corporate bond issues is attested to both by the fact that such issues in the last ten years have totaled almost fifteen billion dollars, and by the fact that discussion of the problems raised thereby has consumed many thousands of pages of testimony before legislative committees, state and Federal. This paper, after consideration of a definition of direct placements, will give some brief historical data and some current factual data, and will then treat some of the more important economic aspects of this method of distributing securities. An attempt will be made to view the situation from the objective viewpoint of an economist rather than from the interested viewpoint of an investment man.


G. T. Conklin, Jr.

Definition

For the purpose of this paper a direct placement (often called private placement) will be considered as an issue of securities with a maturity of over five years and usually ten years or longer, the terms of which are negotiated directly between the borrower and the lender, with or without the aid of an intermediary, and title to which passes directly from the borrower to the lender. The important points of contrast with the publicly underwritten issue are:

(1) The negotiation of the terms, in which negotiation the lender plays a very significant part contrasted to the publicly underwritten security in which the lender plays no direct part, and,

(2) The direct passage of title from the borrower to the lender, as contrasted to the underwritten issue in which the title passes first to the underwriter and then to the lender.

History of Direct Placements

Most people associate direct placements with the passage of the Securities Act of 1933 which provided that security issues offered to the general public had to be registered with the SEC and a registration statement filed therewith, whereas issues in which there was no offering to the general public (hence called private) did not have to go through the registration process. Actually, however, as Fraine has pointed out, from 1900 to 1933 there was no year in which there were no direct placements; in several years such issues amounted to more than 10% of the volume offered publicly and in one year amounted to more than one-fifth of such volume.

Adequate data on direct placements dates from the collection by the SEC of such data beginning in 1934; prior to that time the statistics are very limited and probably understate the amount of such financing.

Since 1933 direct placements have grown substantially in volume and as a percentage of total offerings. In 1948 and 1949 such issues totaled $3,008,000,000 and $2,453,000,000 respectively, and amounted to over 50% of all corporate bond issues. Table I below gives the relevant data from 1934 to date.

Direct Placement by Type of Industry

The significance of the statistics on the total volume of direct placements compared to the total corporate bond offerings is reduced considerably by the fact that there is such a wide variation from one industry to another. Consequently, the change in the percentage of direct placements to total bond offerings from one year to another or over a period of years may merely reflect a changed composition of security offerings, rather than a basic tendency toward or away from direct placement.

Comparable statistics covering total corporate bond offerings by industry and direct placements of bonds by industry over a period of years are not presently available, and constitute a serious gap in direct placement statistics. However, based upon piecing together available information for 1948 and 1949, direct placements would appear to comprise approximately 25% of public utility bond offerings, less than 1% of railroad bond offerings and perhaps in excess of 85% industrial and miscellaneous bond offerings. There appears to be wide variation also within the public utility field; thus in the case of electric companies direct placements comprise less than 20%; gas, reflecting the high percentage of direct placements in natural gas transmission companies, 55-65%; telephone, less than 5%; transportation other than railroad, almost 100%. One possible partial explanation for the higher percentage of total bond offerings accounted for by direct placements in 1948 and 1949 compared to prewar years, is the greater relative importance of industrial issues in total offerings for those years.

The SEC does furnish data on all direct placements (both bonds and stocks) by type of industry, and this is given in Table II below.

Direct Placement by Type of Security

The overwhelming preponderance of direct placements is in corporate bonds (Table III); in 1948 for example almost 98% were bonds, slightly less than 2% were preferred stocks, and a negligible fraction were common stocks. Direct placements may therefore be considered a debt phenomenon as of today, and only direct placements of bonds are considered in this paper.

Direct Placements by Type of Lender

The life insurance companies completely dominate the direct placement field accounting for over 90% of such issues in each of the last several years. Banks are next in importance, accounting in 1949 for slightly less than 5%, and private pension funds are next with somewhere in the neighborhood of 2-3%. Insurance companies, other than life, and all other institutions accounted for less than 1% in 1949. Table IV below gives the relevant available statistics.

Importance of Direct Placement in Investment Portfolios of Life Insurance Companies

Direct placements are of great importance in life insurance investment portfolios. The Life Insurance Association of America has compiled data (Table V) concerning the holdings of 28 life insurance companies, including the 22 largest, which shows that direct placements accounted for 53.5% and 55.8% of total corporate bond portfolios in 1948 and 1949 respectively. Moreover, in the year 1949, approximately 72% of the corporate bond acquisitions of these companies were direct placements.

Reason for Growth of Direct Placements

A great many people have felt that direct placements were caused largely by the registration process necessary for public offerings under the Securities Act of 1933; they reason that the high cost of registration, the civil and criminal liabilities connected therewith, the red tape, inconvenience and delay caused by registration have led corporate management to avoid registration by direct placements of securities.

While it is true that the passage of the Securities Act of 1933 with its exemption for direct placements in all probability gave impetus to this method of financing, it is my opinion that much more fundamental economic forces are responsible for its subsequent growth. This is a conclusion which has also been reached by Fraine in his paper before this group two years ago, by Wilde in his paper given in October, this year, before the American Life Convention, and by Corey in his article in the November issue of the "Harvard Business Review."

The additional costs of offering a security publicly which can be traced to the registration requirements of the Securities Act of 1933 are but a small part of total distribution costs. The latest statistics available on this question are contained in a study of the SEC entitled, "Cost of Flotation, 1945-1947," published in 1949. Table VI below clearly brings out these facts. Thus, for the three-year period 1945-47, of total flotation costs of 1.43% of the gross proceeds of 135 bond issues, costs of flotation attributable entirely to registration amounted to only 0.01%; expenses partly attributable to registration amounted to 0.27%, and expenses not affected by registration amounted to 1.15%. Thus, over 80% of the cost of publicly offering a bond was accounted for by costs not affected by registration. It must be quite clear, therefore, that the avoidance of the expense of registration is not a major factor in leading corporations to finance privately. Other costs of distribution which can be saved by direct placement are far more important; for example, underwriting commissions and discounts which amount to more than 60% of the total flotation costs, can be materially reduced or even eliminated in direct placement.

The other disadvantages of registration mentioned above, namely criminal and civil liabilities, delay and red tape may be of controlling importance in certain instances here and there but in general, they are not of decisive importance in connection with bond financing. In the 1941 Congressional hearings on a proposed amendment to the Securities Act to require registration for all direct placements over $3,000,000, the SEC took the position that such a requirement was not necessary because the large lender did not need the protection, and because it would not in their opinion reduce the volume of direct placements.

There are a number of fundamental economic forces which led to the widespread development of direct placement, and they are all interrelated. The first such development was the changed supply-demand relationship in the market for corporate bonds. Up until the early 1930s the supply of private debt increased more than enough to take care of investment requirements of institutional investors. Corporate long term debt reached a peak just before the passage of the Securities Act of 1933, and declined steadily thereafter until the expansion in debt following World War II. While corporate debt was declining about $10 billion, insurance assets were increasing about $30 billion; moreover, the normal outlet for bank assets, namely bank loans, declined considerably with the result that the demand on the part of banks for corporate bonds increased. Thus, a complete reversal of the supply-demand picture took place almost coincident with the passage of the Securities Act of 1933. At the same time institutional investment interest in industrial bonds increased markedly; prior to the '30s insurance companies invested relatively little in industrial bonds: during the '30s, insurance companies began to invest considerably sums in such bonds. This was the result of several factors; in the first place the whole railroad bond field, which had been the primary bond investment medium for insurance investment, fell into disrepute as a result of the experience of the 1932 depression; secondly the investment repute of industrial bonds increased during the '30s, and they became a natural outlet for institutional funds; lastly the New York Insurance Law was amended in 1928 to allow insurance company investment in unsecured corporate obligations, which greatly facilitated the investment of the large New York companies in industrial bonds. This was a significant development because, as has been pointed out, direct placements are most important relatively in the industrial field.

As a result of this basic change in the demand-supply relationship affecting corporate bonds, and as a result of a definite fiscal policy on the part of the Federal Government initiated during the Roosevelt Administration, interest rates sharply declined. This decline in interest rates coupled with the taxation policy of the Federal Government had two very important results which had considerable influence on the development of direct placements. Corporate borrowers turned heavily toward financing their capital needs by issuing bonds. Not only was equity financing difficult, but it was extremely expensive when compared to bond financing at low interest rates, with interest a deductible item for income taxes. At the same time individual investors who had been heavy investors in corporate bonds during the '20s found them increasingly unattractive due to the lower interest rates and high personal income taxes. Consequently, the individual largely dropped out of the corporate bond market; this was largely the result of his being priced out. The low yield on bonds, particularly after income taxes, was insufficient to attract him, and he turned to the tax-exempt municipal market. This interest of the individual investor in the municipal market, coupled with that of corporate investors and trust funds, in turn priced the insurance companies, who derived little benefit from tax-exempt securities, out of the municipal market and heightened their interest in the corporate bond market.

When all these factors are put together I believe we have the real forces which led to direct placements. In the '20s and prior years, insurance companies and banks were far from a dominant influence in the corporate bond market; the supply of investment outlets was more than ample to take care of their needs and there was no real investment problem. Interest rates were relatively high, and income taxes relatively low, consequently the individual was interested in corporate bonds for investment. The small investor thus was a very important part of the market, and almost any issue of corporate bonds had to be widely distributed in order to secure its success. This meant that investments had to be "sold," and a large sales forces was essential. The developments outlined above changed all this; with the decline in suitable investment outlets there arose a serious investment problem for institutional investors. They became hungry for bonds, and their greatly increased investment funds enabled them to more than supply total corporate debt requirements. Thus, the success of any issue of corporate bonds no longer required widespread distribution; it could be distributed to a few institutional investors, who were eager to secure the opportunity to invest large sums in a qualified issue. Not only was a widespread distribution of bond issues unnecessary to their success; it would have been highly impractical, because the small investor was no longer interested in such issues. Consequently, investment quality bond issues largely "sold" themselves. There was literally no real "selling" problem. Is it any wonder that a distribution mechanism which was appropriate to the conditions of the '20s and prior years would undergo fundamental changes when faced with the greatly changed conditions of the '30s? The key factor in bond distribution prior to the '30s was the underwriter. His function might be classified as four:

(1) To provide the contact between the borrower and the lender;

(2) To serve as consultant to the borrower—to advise him concerning his financing problems in general and on the terms of any particular bond issue;

(3) To provide a degree of protection for the small investor; and

(4) To employ a large force of salesmen to distribute the securities.

Now what functions would it have been logical to expect to

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*Text of an address by Dr. Conklin at the Annual Meeting of the American Economic Association, Chicago, Ill., Dec. 27, 1950.

The Tasks That Confront Us

By MALCOLM P. McNAIR*
Lincoln Filene Professor of Retailing
Harvard Graduate School of Business Administration

Professor McNair lists important tasks confronting nation as, (1) increasing production and (2) control of inflation. Holds price rises cannot be stopped by pay-as-you-go program and main task will be to keep price advances under control. Points out dangers in use of controls and taxation that may hamper defense efforts by destroying business profits and discouraging private savings. Contends excess profits tax is "piece of economic unwisdom." Predicts increase in retail business in 1951, due, however, mainly to higher prices.

The grim developments in Korea since Thanksgiving make it vitally necessary for all of us—business, labor, government, and the general public—to face up squarely and soberly to the job that lies ahead. In raw manpower for armies navies, and air forces we are unlikely ever to equal Russia and her satellites; that is why our supply of machines and equipment for war and our productive capacity are so essential to our safety. Clearly under these circumstances ours is not merely a problem of having given numbers of troops and quantities of weapons available at any given moment but of maintaining the basic capacity for whatever military operations may develop; nor is it so much a problem of peak effort and a swift culmination as of sustained readiness over a period of unknown and perhaps unknowable duration.

Prof. M. P. McNair

Sustained readiness, let it be emphasized, is not a matter of building up an overwhelming supply of weapons — planes, tanks, ships, and atomic bombs — and then standing pat. To suppose that the problem of military preparation is of this character would be to commit the fatal error of the Maginot Line. In such an armament race as that in which we are now engaged weapons become rapidly outmoded, as we have learned to our sorrow in Korea. Sustained readiness, therefore, means not only a supply of the latest and most superior weapons but, even more, a sustained productive capacity able to out match the enemy's both technologically and quantitatively; and that means that we must maintain the flow of private investment unimpaired.

Moreover, we cannot concentrate solely on capacity to produce military end-items. We must also protect civilian morale and worker efficiency, which in turn imposes the requirement of maintaining our capacity to produce an adequate supply of civilian goods and services. For the purposes of sustained readiness it will not be possible to count on civilians living off their accumulated fat as they otherwise could during a limited period of privation. On the contrary, it will be needful to maintain real per capita consumption at a reasonably high level, although this does not need to be at the high levels of postwar years and, in my judgment, definitely should not be at the plush level of 1950.

And we must accomplish this high output of arms, this tolerable standard of living, and this steady flow of investment in new plant and equipment without running into a disastrous inflation. The lesson of France is plain to read. If the necessary defense spending, coupled with shortsighted wage policies on the part of labor leaders or shortsighted price policies on the part of management, together with pusillanimous refusal by politicians to face fiscal realities, were to plunge the United States into inflation that would carry the value of the dollar down to the same extent as the depreciation that has taken place in the franc over the past 30 years, then the resulting social strains and deterioration of moral fiber might well toss America into the lap of the Soviet schemers without the firing of more than a few desultory shots. To lose our economic health in order to achieve adequate preparedness would be tantamount to losing the main battle.

Let us be clear, however, about the relative importance of the tasks we face. Increasing production is by all odds the most important job. Controlling inflation ranks second. To use measures for the control of inflation which would have the effect of hamstringing production would be one of the ways in which we might easily lose the contest. Those who talk about stopping the price rise dead in its tracks by means of a drastic pay-as-we-go taxation program are not dealing with realities. We must accept the fact that government borrowing will be necessary to finance the productive effort and that some degree of price advance is inevitable. The job is to keep the price advance under control at the same time that we accomplish the necessary increase in output. Unquestionably great funds must be raised, but the method of raising those funds is all-important. So far as possible the financing of the productive effort should come from the savings of business and the savings of individuals rather than from commercial bank borrowing. It follows that we shall greatly handicap ourselves for winning the battle if we set up control devices which tend to destroy business profits and hamper private savings. • • •

The Economic Magnitude

So these are the outlines of the task that confronts us, the task of achieving sustained preparation and at the same time of maintaining economic health. Now what are the economic magnitudes of this task? How much can we increase our total output? How large a part of it must be devoted to military preparation? To what extent must we reduce the standard of living? In this area there are a multitude of conflicting opinions. The chances are that as a nation we are still setting our sights too low. For the purposes of this discussion I am going to make the assumption, based on an analysis made recently by a group of us at the Harvard Business School,[1] that we should put four million men in the armed services this year and raise that number to six million in 1952 and thereafter. Also I am going to make the assumption that the rate of cash spending (and that means actual spending, not appropriation) for military purposes should be $36 billion in this calendar year,

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*Part of an address by Prof. McNair at the Top Management Session of the National Retail Dry Goods Association, New York City, Jan. 8, 1951.

1 Professor Edmund P. Learned, Professor John Lintner and Professor Edward C. Bursk, in addition to the author.

FIC Banks Place Debs.

A successful offering of an issue of debentures of Federal Intermediate Credit Banks was made Dec. 19 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $87,790,000 of 1.80% consolidated debentures dated Jan. 2, 1951 and due Oct. 1, 1951. The issue was placed at par.

Of the proceeds, $79,180,000 was used to retire a like amount of debentures maturing Jan. 2, 1951 and $8,610,000 is "new money."

As of the close of business Jan. 2, 1951, the total amount of debentures outstanding amounted to $516,080,000.

COMING EVENTS

In Investment Field

Jan. 12, 1951 (Philadelphia, Pa.)
Philadelphia Securities Association annual meeting and dinner at the Barclay Hotel.

Jan. 15-16, 1951 (Point Clear, Ala.)
National Association of Securities Dealers, Inc., Meeting of Governors and Election of Officers at the Grand Hotel.

Jan. 29, 1951 (Chicago, Ill.)
Bond Traders Club of Chicago Anniversary Mid-Winter dinner at the Furniture Club of America.

Jan. 30, 1951 (Minneapolis, Minn.)
Twin City Securities Traders Association hosts at second stage of NSTA Tri-City Parties.

Feb. 1, 1951 (St. Louis, Mo.)
Security Traders Club of St. Louis Winter Dinner for Tri-City Party of NSTA.

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. 20, 1951 (Detroit, Mich.)
Detroit Stock Exchange Annual Dinner at the Hotel Statler.

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.

Sept. 30, 1951 (Coronado Beach, Calif.)
National Security Traders Association Convention opens at Coronado Hotel.

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.

Dealer-Broker Investment Recommendations and Literature

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

Common Stocks—As protection for savings against a decline in purchasing power — William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

Commonwealth of Massachusetts—43rd edition of booklet giving up-to-date financial statistics on the Commonwealth, its counties, cities, towns and districts, with an outline map showing all its political subdivisions—Tyler & Co., Inc., 11 High Street, Boston 10, Mass.

15-Year Dow Jones Stock Averages (Monthly high, low and close)—chart—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Forecast for 1951—Brochure—Selected Investments Company, 135 South La Salle Street, Chicago 3, Ill.

Foreign External & Internal Securities—Year End Prices for 1950—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Also available is a tabulation of **Preliminary New York Bank Earnings.**

Inflation and the Investor—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York, N. Y.—Paper—50c.

Municipal Bonds for the Individual Investor—Illustrated monograph on municipals—Lebenthal & Co., 135 Broadway, New York 6, New York.

Natural Gas News—Data on 17 companies—Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

New York City Bank Stocks—Year-end comparison and analysis of 18 New York City Bank Stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Offerings of Preferred Stocks—Annual compilation covering the calendar year 1950—Union Securities Corporation, 65 Broadway, New York 6, 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.

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

What's Ahead for Canada in 1951—Analysis—A. E. Ames & Co., Inc., 2 Wall Street, New York 5, New York.

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American Tobacco Company—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, New York.

Associated Transport, Inc.—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is an analysis of **Reading Company.**

Booth Fisheries Corp.—Memorandum—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Illinois.

Canada Iron Foundries, Limited—Bulletin—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

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

Also available is an analysis of **the Harshaw Chemical Company.**

Cascades Plywood Corporation—Field report—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available are field reports on **Cerro de Pasco Copper Corporation** and **Georgia Pacific Plywood & Lumber Company,** and a progress report on **Bullock's, Inc.**

Detroit Hardware Manufacturing Co.—Analysis—De Pasquale Co., 25 Broad Street, New York 4, New York.

Also available is an illustrated folder and report on **Kold Hold Manufacturing Co.**

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

Also available is a memorandum on **Shellmar Products Corp.**

Lehman Corp.—Changes in portfolio—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Maine Central vs. Nickel Plate—Analysis—Raymond & Co., 148 State Street, Boston 9, Mass.

Also available is an analysis of **Verney Corp.**

Pathe Industries — Information—Gottron, Russell & Company, Union Commerce Building, Cleveland 14, Ohio.

Pathe Industries Common—data—Gottron, Russell & Company, Union Commerce Building, Cleveland 14, Ohio.

Pittsburgh Railways Co.—Memorandum—H. M. Byllesby & Co., Stock Exchange Building, Philadelphia 2, Pa.

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

Shawmut Association—Ten-year record—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

Sheller Manufacturing Corporation — Report — Seligman, Lubetkin & Co., 41 Broad Street, New York 4, N. Y.

Southern Production Company—Analysis—American Securities Corporation, 25 Broad Street, New York 4, N. Y.

Marion E. Herndon Joins R. S. Dickson & Co.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Marion E. Herndon has become associated with R. S. Dickson & Co., Inc., Wilder Building. He was formerly with Jackson & Smith and Louis G. Rogers & Co. In the past he conducted his own investment business in Charlotte.

How to Prepare For an Atomic Attack

Research Institute advises businessmen to safeguard positions by inserting war clauses protecting against non-performance of contract and labor agreements; lining up alternative sources of supply and production; and safeguarding records. Warns while too little planning can be fatal, we must avoid an "atomic psychosis."

Individual businesses should do neither too much nor too little planning for an atomic attack, the Research Institute of America has advised its members in a 25-page memorandum, "Your Business and the A-Bomb." While pointing out that the company's time, and the defense effort can both be better served by concentrating on business instead of over-elaborate preparation, the Research Institute of America warns that too little planning can be fatal.

Leo M. Cherne   Joseph Laitin

"Even if war erupted and Russia subjected this country to an atomic attack, the chances of damage to any particular firm are slight. But the problems that would arise are so enormous if a bomb did hit that no alert management can afford to ignore the implications. It must think in terms of possible damage to its own property or to that of its suppliers and customers. Above all it must plan in terms of adequate protection for its staff and work force," the report declares.

"Your best course is to understand thoroughly just what you face; next determine your vulnerability; then appraise what rights the government will give you and what duties you will owe the government, and finally to proceed with those concrete measures which seem most necessary to protect your interest in view of your vulnerability, rights and obligations," continues the report.

Combination of Factors

Whether a company is vulnerable and if so, to what degree, depend on a combination of four factors: location; neighboring industries and facilities; type of construction, and the company's dependence on utilities that are likely A-bomb targets. "Even if you are in a safe location and many miles from the scene of a blast," the Research Institute asserts, "you are vulnerable in a very real sense if you depend on a single railroad or source of power that may become an enemy target. If you fall into this category, start planning now on alternate sources of power, alternate methods of getting the materials you need and alternate transportation facilities to deliver your products, etc."

Legal Relief

Much of the emphasis in "Your Business and the A-Bomb" is on emergency legislation designed to help the victims of enemy action. Even companies outside the danger zones will be vitally affected by Washington action, according to the report, since "their suppliers or customers may be hit and thereby relieved of many legal obligations."

According to the Research Institute, Washington's legislative relief which would be retroactive if a surprise raid occurred, would probably follow the pattern developed in Britain during World War II. The main points of the program, according to the Institute, would include:

(1) **Legal relief for debtors**—Contracts, leases, mortgages, etc. would remain valid but enforcement of rights under these obligations would be suspended for the duration where the debtor could show hardship caused by the war or where the hardship arose after the deal was made. Relief would probably not be given, however, on any judgment for recovery of damages for tort or for recovery of costs, or on any recovery based on the debtor's failure to comply with a specific statutory law.

(2) **Aid on informal adjustments**—Machinery will probably be developed for lubricating compromises an informal adjustments where business deals fall through as a direct result of the war.

(3) **Where evacuation is ordered** moratoriums would probably be provided on all contractual obligations. Rents would be suspended as long as the evacuation order remained in effect as would charges for gas, electricity, water and telephone and all payments under installment plans where the company ceased to do business in an area because of evacuation order.

(4) **War damage insurance** covering all damage to property resulting from enemy action and involving damage incurred in repelling enemy action as well as from bombing.

(5) **Protection of buildings, fixed property, goods and equipment** with free compensation for furniture, clothing, and personal effects damaged in enemy action. (Since free compensation for personal property would probably be limited to a specified amount for any one article, the Research Institute advises its members to "sift out your more valuable personal possessions and work up an insurance scheme that could cover these separately.")

(6) **Protection for workers**—Free medical care for victims, allowances for workers whose injuries prevent their carrying on their work and government-financed leaves of absence for workers whose health is undermined by enemy action are "a sure bet," the Institute says.

Protecting business position

While pointing out that Civil Defense and emergency legislation will help protect a company against hardships resulting from an unexpected A-bomb attack, the Research Institute in its report strongly urges its members to safeguard their positions by:

(1) **Inserting a war clause** in every contract offering protection against non-performance in case of damage. (Government protec-

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What Our Foreign Policy Should Be!

By HON. ROBERT A. TAFT*
U. S. Senator from Ohio

Defending criticism of Administration's foreign policy as essential to nation's safety, Senate Republican Party leader denounces practice of secrecy in initial steps committing U. S. to obligations abroad. Condemns use of U. S. troops on foreign soil without consent of Congress and cites weakness of United Nations and lack of international cooperation with U. S. in Korea and Western Europe. Advocates strong air and sea forces, along with effective intelligence service, and warns Administration's military policy over period of years will lead to serious inflation and loss of liberty at home. Insists, however, Amercia must lead in battle to prevent spread of communism, and preserve liberty of world.

During recent years a theory has developed that there shall be no criticism of the foreign policy of the Administration, that any such criticism is an attack on the unity of the nation, that it gives aid and comfort to the enemy, and that it sabotages any idea of a bi-partisan foreign policy for the national benefit. I venture to state that this proposition is a fallacy and a very dangerous fallacy threatening the very existence of the nation.

Robert A. Taft

In very recent days we have heard appeals for unity from the Administration and from its supporters. I suggest that these appeals are an attempt to cover up the past faults and failures of the Administration and enable it to maintain the secrecy which has largely enveloped our foreign policy since the days of Franklin D. Roosevelt. It was a distinguished Democrat, President Woodrow Wilson, who denounced secret diplomacy and demanded open covenants openly arrived at. The Administrations of President Roosevelt and President Truman have repudiated that wise Democratic doctrine and assumed complete authority to make in secret the most vital decisions and commit this country to the most important and dangerous obligations. As I see it, members of Congress, and particularly members of the Senate, have a constitutional obligation to reexamine constantly and discuss the foreign policy of the United States. If we permit appeals to unity to bring an end to that criticism, we endanger not only the constitutional liberties of this country, but even its future existence.

Certainly when policies have been determined, unity in execution is highly desirable, and in the preparation for and the conduct of was it is essential. During recent months, the Republican minority has joined in granting to the President those powers which may be necessary to deal with the situation. We have not hesitated to pass a draft law, a law granting extensive powers of economic control, and almost unlimited appropriations for the armed forces. No action of the minority can be pointed to as in any way blocking or delaying the mobilization of our resources and our armed forces. If there has been any delay in the rearming, it has been in the Administrative branch of the government.

But it is part of our American system that basic elements of foreign policy shall be openly debated. It is said that such debate and the differences that may occur give aid and comfort to our possible enemies. I think that the value of such aid and comfort is grossly exaggerated. The only thing that can give real aid and comfort to the enemy is the adoption of a policy which plays into their hands as has our policy in the Far East. Such aid and comfort can only be prevented by frank criticism.

Whatever the value of unity, it is also true that unity carried to unreasonable extremes can destroy a country. The Kaiser achieved unity in Germany. Hitler again achieved the same unity at the cost of freedom many years later. Mussolini achieved unity in Italy. The leaders of Japan through a method of so-called "thought control" achieved unity in Japan. In every case, policies adopted by these enforcers of unity led to the destruction of their own country. We have regarded ourselves as safe and a probable victor in every war. Today it is just as easy for us to adopt a false foreign policy leading to the destruction of our people as for any other nation to do so. The best safeguard against fatal error lies in continuous criticism and discussion to bring out the truth and develop the best program.

I have referred to the general tendency towards secrecy on the part of recent administrations. At Teheran and Yalta we secretly agreed to a zone of influence for Soviet Russia in Europe extending through the Baltic States, in the Balkans and into the eastern zones of Austria and Germany. The result was to establish Russia in a position of power in central Europe which today threatens the liberty of Western Europe and of the United States itself. Our leaders secretly agreed to turn over control of Manchuria to Russia, and later hampered the operations of the Nationalist Government in combat against the Communists without consultation of any kind with Congress. In Germany our leaders adopted the Morganthau Plan while constantly denying that they were doing anything of the kind, and without submitting the questions in any way to Congress for discussion. The President without authority, as I pointed out in my speech on June 28, 1950, committed American troops to Korea without any consultation whatever with Congress and, in my opinion, without authority of law. He did not even tell Congress there was a war for two weeks after we were engaged. The President claims the right without consultation with Congress to decide whether or not we should use the atomic bomb.

We see now the beginning of an agreement to send a specified number of American troops to Europe without that question ever having been discussed in the Congress of the United States. The Atlantic Pact may have committed us to send arms to the other members of the pact, but no one ever maintained that it committed us to send many American troops to Europe. A new policy is being formulated without consulting the Congress or the people.

In other cases policies have been developed to a point where the honor of this country is committed before any serious debate is permitted by the public. Thus, in the case of the Marshall Plan and the Atlantic Pact, the programs were broached in the most general terms, then substantially advanced by the State Department through secret briefing conferences with many friendly groups and thorough indoctrination of friendly editors, columnists and commentators before they were submitted to the public or to Congress. After that, if anyone dared to suggest criticisms or even a thorough debate, he was at once branded as an isolationist and a saboteur of unity and the bipartisan foreign policy.

More and more it has become customary to make agreements instead of treaties thus bypassing the power intended to be conferred on the Senate to pass on the wisdom of important principles of foreign policy. It is still fashionable to meet any criticism by cries of isolationism just as Mr. Hoover's recent speech has been treated. Criticisms are met by the calling of names rather than by intelligent debate.

I do not intend to say that a bipartisan foreign policy could not be adopted, but there has been no real bipartisan policy, at any rate since the 1948 election. It is a proper ideal and the minority will always be ready to answer any appeal for advice and cooperation. Only there cannot be a bipartisan foreign policy unless it is a policy on which both parties agree, and it is unlikely that there can be such agreement unless the Administration is more inclined to give consideration to the views of the minority than it has done in recent months. We would be prepared to make concessions, but certainly the policy of concessions should not be a one-way street. I quite realize the difficulty of any President consulting the minority in advance on every question of foreign policy, and I do not blame him for his failure to adopt a bipartisan policy. But certainly the Republican minority cannot be attacked for failure to agree on policies on which they have not even been consulted or which they regard as detrimental to the welfare of the nation.

The result of a general practice of secrecy in all the initial steps of foreign policy has been to deprive the Senate and Congress of the substance of the powers conferred on them by the Constitution.

We would be lacking in our obligations, false to our oaths, if we did not criticize policies which may lead to unnecessary war, policies which may wreck the internal economy of this country and vastly weaken our economic abilities through unsound taxation or inflation, policies which may commit us to obligations we are utterly unable to perform and discredit us in the eyes of the world. Criticism and debate are essential if we are to maintain the constitutional liberties of this country and its democratic heritage. Under the present Administration, at any rate, criticism and debate are essential to avoid danger and possible destruction of our nation.

Our Foreign Policy and the Menace of Communism

The principal purpose of the foreign policy of the United States is to maintain the liberty of our people. Its purpose is not

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*Address by Sen. Taft on the Floor of the Senate, Washington, D. C., Jan. 5, 1951.

Railroad Securities

Resume of 1950 Market Performance

Marketwise railroad securities, and particularly stocks, have just completed their most successful year in recent history. As measured by the Dow-Jones averages railroad stocks last year advanced some 47%, from 52.76 at the 1949 year-end to 77.64 on Dec. 31, 1950. The 1950 closing price was well above the high reached even in the 1946 bull market, although there were many individual stocks, notably those of carriers operating in the eastern section and the Pocahontas coal region, that were substantially lower than they had been in the previous boom.

As usual, and even with the marked strength evident throughout virtually the entire list, there was a wide variation in the action of the individual issues. Presumably this will always be true and is one of the major reasons why railroad analysts consistently stress the advisability of following rail portfolios very closely with a view toward taking fullest advantage of opportunities to improve market potentialities. Taking 49 individual common stocks and speculative preferreds listed on the New York Stock Exchange, individual performances last year ranged all the way from a gain of 278% to a nominal decline. Thirty-three of the stocks, or more than two-thirds of those covered, registered sharper gains than did the Averages.

There were 13 stocks that more than doubled in price last year. The best percentagewise, up 278%, was Chicago & Eastern Illinois common, followed by St. Paul common, up 188%, and Lehigh Valley common, up 182%. To a large extent the widest percentage gains were in the low priced section. Of the group scoring advances of more than 100% there were 10 that had started from below 10 and only two, Missouri-Kansas-Texas preferred and Seaboard Air Line common, that had been above 20 at the close of 1949. It is also interesting to note that nine of the 13 best performers percentagewise did not pay any dividends last year. In fact, quite a few of them are still fairly far removed from any likely dividends.

There were another 11 roads whose stocks scored gains ranging from 70% to 100%. Here again the lower priced issues predominated, although all but one had ended the year 1949 at prices above 10. Seven of the 11, however, started from below 15 and another, Northern Pacific, had been at 17¼ on Dec. 31, 1949. There were two in this group, Denver & Rio Grande Western and Western Pacific (up 92% and 93%, respectively) that had been close to 30 at the beginning of the year. There was one high priced stock, New York, Chicago & St. Louis common, that scored a wide percentage gain. It rose from 100½ to 182. Of the 11 stocks that were up from 70% to 90% only two, Nickle Plate common and Chicago, Indianapolis & Louisville, are non-dividend payers.

Another striking characteristic of the 1950 railroad stock market was the concentration of strength in the stocks of those roads serving the southern and western sections of the country. Of the 13 stocks that rose more than 100% during 1950 only four represented the east. These were Baltimore & Ohio preferred and common, Lehigh Valley, and New York, New Haven & Hartford common. Similarly, of the 11 stocks in the 70%-100% category only three were from the east. These were Erie common, Nickel Plate common, and that perennial boardroom favorite, New York Central.

Of the other end of the scale, the poorest performer was Norfolk & Western common. This long time investment favorite was off fractionally during the year. There were six others where gains were held to less than 30% during the year. The other two so-called Pocahontas carriers were among the poorer performers, with Virginian up only 16% and Chesapeake & Ohio 21%. Percentagewise, Great Northern exactly matched the performance of C. & O. The rest of this lower category consisted of Chicago, Rock Island & Pacific, Pittsburgh & West Virginia and Union Pacific.

Fitzgibbon, Adams Vice-Pres. of Agency

J. A. Fitzgibbon

John W. Adams, Jr.

Joseph A. Fitzgibbon and John W. Adams, Jr. have been elected Vice-Presidents of Albert Frank-Guenther Law, Inc., advertising agency, it has been announced. Mr. Fitzgibbon has been in the agency's news department since he joined the firm in 1929. Mr. Adams has been associated with AFGL since 1948, and previously was Assistant Advertising Manager of the Dictaphone Corporation in New York.

Northern Trust Co. Announces Promotions

Daniel O'Day, heretofore Assistant Manager of the New York office of The Northern Trust Co., has been promoted to Second Vice-President and will assume the position of New York representative of the bank, it is announced.

It was also announced that Pat G. Morris, Vice-President, has become head of the bank's bond department, in Chicago. He succeeds George F. Spaulding, Vice-President, who retired on Dec. 31, 1950.

The bank further announced that Edward D. McGrew, Vice-President, who has been in charge of the New York office for the past five years, is being transferred to Chicago. Mr. McGrew and John M. Maxwell, Vice-President, will be closely associated with Mr. Morris in the management of the bond department, municipal buying operations, and in the management of the bank's investment account.

President Pleads for War Potential Build-Up

In message on State of Union, President Truman asks cooperation and unity of free world to combat Russian aggression. Calls for intensified defense production with goal of 50,000 planes and 35,000 tanks a year. Presents 10-point program covering military needs and revision of laws to expand production, stabilize prices, increase agricultural output, and improve labor-management relations. Recommends major increase in taxes to meet new defense efforts.

President Harry S. Truman on Jan. 8 delivered in person his message to the 82nd Congress on the State of the Union. In his address, the President, asking for unity of a free world as a bulwark against Russian aggression, recommended among other things intensified military expansion, continued military and economic aid to free nations, extension and revision of the Selective Service Law and other defense legislation, as well as imposition of higher taxes as means to stabilize the national economy.

President Truman

The full text of the President's address follows:

This 82nd Congress faces as grave a task as any Congress in the history of our Republic.

The actions you take will be watched by the whole world. These actions will measure the ability of a free people, acting through their chosen representatives and their free institutions, to meet a deadly challenge to their way of life.

We can meet this challenge foolishly or wisely. We can meet it timidly or bravely, shamefully or honorably.

I know that the 82nd Congress will meet this challenge in a way worthy of our great heritage. I know that your debates will be earnest, responsible, and to the point. I know that from these debates there will come the great decisions needed to carry us forward.

At this critical time, I am glad to say that our country is in a healthy condition. Our democratic institutions are sound and strong. We have more men and women at work than ever before. We are able to produce more than ever before—in fact, far more than any country in the history of the world.

I am confident that we can succeed in the great task that lies before us.

"We Must All Act Together"

We will succeed, but we must all do our part. We must all act together as citizens of this great Republic.

As we meet here today, American soldiers are fighting a bitter campaign in Korea.

We pay tribute to their courage, devotion, and gallantry.

Our men are fighting, alongside their United Nations' allies, because they know, as we do, that the aggression in Korea is part of the attempt of the Russian Communist dictatorship to take over the world, step by step.

Our men are fighting a long way from home, but they are fighting for our lives and our liberties. They are fighting to protect our right to meet here today —our right to govern ourselves as a free nation.

The threat of world conquest by Soviet Russia endangers our liberty and endangers the kind of world in which the free spirit of man can survive. This threat is aimed at all peoples who strive to win or defend their own freedom and national independence.

Indeed, the state of our nation is in great part the state of our friends and allies throughout the world. The gun that points at them points at us, also.

The threat is a total threat and the danger is a common danger.

All free nations are exposed and all are in peril. Their only security lies in banding together. No one nation can find protection in a selfish search for a safe haven from the storm.

The free nations do not have any aggressive purpose. We want only peace in the world—peace for all countries. No threat to the security of any nation is concealed in our plans or programs.

We had hoped that the Soviet Union, with its security assured by the Charter of the United Nations, would be willing to live and let live. But that has not been the case.

The imperialism of the Czars has been replaced by the even more ambitious, more crafty, and more menacing imperialism of the rulers of the Soviet Union.

Soviets' Power

This new imperialism has powerful military forces. It is keeping millions of men under arms. It has a large air force and a strong submarine force. It has complete control of the men and equipment of its satellites. It has kept its subject peoples and its economy in a state of perpetual mobilization.

The present rulers of the Soviet Union have shown that they are willing to use this power to destroy the free nations and win domination over the whole world.

The Soviet imperialists have two ways of going about their destructive work. They use the method of subversion and internal revolution, and they use the method of external aggression. In preparation for either of these methods of attack, they stir up class strife and disorder. They encourage sabotage. They put out poisonous propaganda. They deliberately try to prevent economic improvement.

If their efforts are successful, they foment a revolution, as they did in Czechoslovakia and China, and as they tried unsuccessfully to do in Greece. If their methods of subversion are blocked, and if they think they can get away with outright warfare, they resort to extrenal aggression. This is what they did when they loosed the armies of their puppet states against the Republic of Korea, in an evil war by proxy.

We of the free world must be ready to meet both of these methods of Soviet action. We must not neglect one or the other.

The free world has power and resources to meet these two forms of aggression—resources that are far greater than those of the Soviet dictatorship. We have skilled and vigorous peoples, great industrial strength, and abundant sources of raw materials. And above all, we cherish liberty. Our common ideals are a great part of our strength. These ideals are the driving force of human progress.

The free nations believe in the dignity and worth of man.

We believe in independence for all nations.

We believe that free and independent nations can band together into a world order based on law. We have laid the cornerstone of such a peaceful world in the United Nations.

We believe that such a world order can and should spread the benefits of modern science and industry, better health and education, more food and rising standards of living—throughout the world.

These ideals give our cause a power and vitality that Russian Communism can never command.

The free nations, however, are bound together by more than ideals. They are a real community bound together also by the ties of self-interest and self-preservation. If they should fall apart, the results would be fatal to human freedom.

Our own national security is deeply involved with that of the other free nations. While they need our support, we equally need theirs. Our national safety would be gravely prejudiced if the Soviet Union were to succeed in harnessing to its war machine the resources and the manpower of the free nations on the borders of its empire.

If Western Europe were to fall to Soviet Russia, it would double the Soviet supply of coal and triple the Soviet supply of steel. If the free countries of Asia and Africa should fall to Soviet Russia, we would lose the sources of many of our most vital raw materials, including uranium, which is the basis of our atomic power. And Soviet command of the manpower of the free nations of Europe and Asia would confront us with military forces which we could never hope to equal.

In such a situation, the Soviet Union could impose its demands on the world, without resort to conflict, simply through the preponderance of its economic and military power. The Soviet Union does not have to attack the United States to secure domination of the world. It can achieve its ends by isolating us and swallowing up all our allies. Therefore, even if we were craven enough to abandon our ideals, it would be disastrous for us to withdraw from the community of free nations.

We are the most powerful single member of this community, and we have a special responsibility. We must take the leadership in meeting the challenge to freedom and in helping to protect the rights of independent nations.

Our Program to Meet the Challenge

This country has a practical, realistic program of action for meeting this challenge.

First, we shall have to extend economic assistance, where it can be effective. The best way to stop subversion by the Kremlin is to strike at the roots of social injustice and economic disorder. People who have jobs, homes, and hopes for the future will defend themselves against the underground agents of the Kremlin. Our programs of economic aid have done much to turn back Communism.

In Europe, the Marshall Plan has had electrifying results. As European recovery progressed, the strikes led by the Kremlin's agents in Italy and France failed. All over Western Europe, the Communist Party took worse and worse beatings at the polls.

The countries which have received Marshall Plan aid have been able, through hard work, to expand their productive strength—in many cases, to levels higher than ever before in their history. Without this strength, they would be completely incapable of defending themselves today. They are now ready to use this strength in helping to build a strong combined defense against aggression.

We shall need to continue some economic aid to European countries. This aid should now be specifically related to building their defenses.

In other parts of the world, our economic assistance will need to be more broadly directed toward economic development. In the Near East, in Africa, in Asia, we must do what we can to help people who are striving to advance from misery, poverty, and hunger. We also must continue to help the economic growth of our good neighbors in this hemisphere. These actions will bring greater strength for the free world. They will give many people a real stake in the future and reason to defend their freedom. They will mean increased production of the goods they need and the materials we need.

Second, we shall need to continue our military assistance to countries which want to defend themselves.

The heart of our common defense effort is the North Atlantic community. The defense of Europe is the basis for the defense of the whole free world—ourselves included. Next to the United States, Europe is the largest workshop of the world. It is also a homeland of great religious beliefs shared by many of our citizens—beliefs which are now threatened by the tide of atheistic communism.

Defense of Europe

Strategically, economically and morally, the defense of Europe is part of our own defense.

That is why we have joined with the countries of Europe in the North Atlantic Treaty, pledging ourselves to work with them.

There has been much discussion recently over whether the European countries are willing to defend themselves. Their actions are answering this question.

Our North Atlantic Treaty partners have strict systems of universal military training. Several have recently increased the term of service. All have taken measures to improve the quality of training. Forces are being trained and expanded as rapidly as the necessary arms and equipment can be supplied from their factories and ours. Our North Atlantic Treaty partners, together, are building armies bigger than our own.

None of the North Atlantic Treaty countries, including our

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Ehrman, Director

Frederick L. Ehrman, a partner in Lehman Brothers, investment house, was elected a director of Park & Tilford Distillers Corp. at a meeting of the company's board.

Mr. Ehrman has been associated with Lehman Brothers since 1928 and has been a partner since June, 1941. He is also a director of B. T. Babbitt, Inc., and Continental Air Lines, Inc., and President and director of the recently formed Edison Oil Co.

A native of San Francisco, he was graduated from the University of California in 1927. During World War II, he was a commander in the Navy and participated in action off Africa and Sicily.

Herbert J. Schoen Now With Freehling, Meyerhoff

(Special to The Financial Chronicle)

CHICAGO, Ill. — Herbert J. Schoen has become associated with Freehling, Meyerhoff & Co., 120 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was formerly an officer of Ladue & Co.

Horace W. Wells Joins Shelby Cullom Davis Co.

Horace W. Wells has become associated with Shelby Cullom Davis & Co., 110 William Street, New York City. He was formerly with Blyth & Co., Inc., and Blair & Co.

With Atkinson-Jones

(Special to The Financial Chronicle)

PORTLAND, Ore. — Carter E. Gilleland has become affiliated with Atkinson-Jones & Co., U. S. Bank Building.

Economists View 1951 Business Trends

Group assembled by National Industrial Conference Board agree only in predicting higher prices and continued business activity. Opinions vary as to probable extent of inflation and as to increase in industrial productivity.

Several of the nation's leading economists discussed the business outlook for 1951 at the latest "Evening with the Economists," held under the sponsorship of the National Industrial Conference Board, Clyde L. Rogers, Secretary of the Board, presided as Chairman.

Among those participating in the Forum were:

JULES BACKMAN:
Professor of Economics, School of Commerce, Accounts and Finance, New York University.

LOUIS H. BEAN:
Economist, U. S. Department of Agriculture.

LIONEL D. EDIE:
President, Lionel D. Edie and Company.

SOLOMON FABRICANT:
National Bureau of Economic Research, Inc.

M. R. GAINSBRUGH:
Chief Economist, National Industrial Conference Board

EDWIN B. GEORGE:
Economist, Dun & Bradstreet, Inc.

A. D. H. KAPLAN:
The Brookings Institution

O. GLENN SAXON:
Professor of Economics, Yale Universtiy.

HELEN SLADE:
Managing Editor, "Analysts Journal."

BRADFORD B. SMITH:
Economist, United States Steel Corporation.

ALAN H. TEMPLE:
Vice-President, National City Bank of New York.

RUFUS S. TUCKER:
Economist, General Motors Corporation.

LEO WOLMAN:
Professor of Economics, Columbia University.

A summary statement of each participant's views follows:

Temple Sees Employment and Purchasing Power Holding Up "Pretty Well."

. . . I do not go along wth the idea that we shall see anything catastrophic arise from curtailment of construction, automobiles and consumers' durables generally. If we use the supplies that are available, the volume of production of one type or another and the volume of employment and purchasing power derived therefrom will hold up pretty well. Certainly any period of a shift of resource use is bound to produce dislocations. But just to make it concrete, it would seem that we are in for the kind of recession in which the Federal Reserve Index of Industrial Production at worst would drop to 200. If that can be called a recession, then the term is applicable. . . .


Alan H. Temple

. . . I think . . . the cost of living is going up, but I don't think the situation is out of hand, or that it will necessarily get out of hand under defense expenditures, say, up to $45 billion. If we get up to $55 billion or $60 billion in fiscal 1952, then of course, it is a graver problem and there are much tougher pressures.

But I certainly don't believe that, with the longer outlook we have here, an intermediate recession occasioned by a shift of resources is going to be very considerable. I don't believe it is going to produce any substantial unemployment or very much loss of current purchasing power. In the long run it is inconceivable that, with the kind of armament expenditures we are bound to have, the outlook is for anything but a very high level of business activity. . . .

"Bad Year for Automobiles in 1951" Seen by Tucker

When I say that there is a good chance that we are due for a bad year for automobiles in 1951, I want to explain that very carefully. A bad year in 1951 might mean a larger year in terms of cars sold than we ever saw before the war. Each individual company will differ in the extent to which it can adjust itself to a level of around four to four and a half million passenger cars and still make a profit, after having had a year in which we are selling over six million passenger cars. I don't know exactly what the answer will be there, but I do feel sure that the effects of restrictions in the supplies of materials and labor will not be added to any reduction in demand. They simply run along together. Whichever is greater will be effective. . . .


Rufus S. Tucker

Bean Sees Possible Gross National Product of $320 Billion

The Department (of Agriculture) is looking for an increase in marketing in the order of 5% next year. The outstanding discrepancy in production is in cotton—an unusually light crop this season. This year's crop of less than 10 million bales was produced on less than 18 million acres, compared with 27 million acres, in 1949, and a yield per acre of 15% below the 1948 peak. The announced intention is to get out of next year's production something like 6 million more bales, mostly by increase in acreage and, to some extent, by improvement in yields. . . .


Louis H. Bean

If that larger crop materializes, it will throw additional uncer-

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Operating and year-end statements of the principal New York City banks for the period ended Dec. 31 reveal that 1950 was a successful year from the standpoint of earnings and general banking conditions.

From the reports published so far, most banks showed an increase in operating income. Earnings of the others were approximately equal to those of 1949 or only slightly below those of the previous year. Where institutions have not yet issued their operating reports, indicated earnings as computed by changes in surplus and undivided profits, show trends which are similar to those which have prevailed in the operating statements.

Deposits between the two periods showed a substantial gain. Accelerated industrial activity and rising prices during the last six months of the year were accompanied by rapidly increasing inventories and business expenditures. This expansion was particularly evident in the fourth quarter with the result that deposits gained with the increase in credit.

With the exception of three institutions, all of the principal New York City banks showed higher deposits at the end of 1950 than for 1949. Individual totals on the different banks of earnings and deposits are presented in the following tabulation.

	Per Share Earnings		Deposit Totals as of Dec. 31 (000's Omitted)	
	1950	1949	1950	1949
Bank of Manhattan	$2.41	$2.10	$1,212,071	$1,127,809
Bankers Trust	*2.60	*2.31	1,642,085	1,431,528
Bank of N. Y. & 5th Ave.	23.64	21.86	431,515	397,161
Central Hanover	7.78	7.82	1,616,866	1,448,101
Chase National	2.83	2.63	4,871,424	4,384,572
Chemical Bank	*3.07	*2.96	1,552,290	1,449,656
Commercial National	*3.07	*3.20	205,747	176,465
Corn Exchange	4.83	4.96	778,684	766,807
First National	79.50	79.06	580,742	599,387
Guaranty Trust	17.82	17.68	2,503,010	2,299,856
Irving Trust	1.48	1.38	1,218,530	1,052,448
Manufacturers Trust	4.63	4.84	2,581,949	2,281,748
Morgan, J. P.	*16.98	*17.44	582,011	589,603
†National City	4.04	3.65	5,244,186	4,781,197
New York Trust	7.17	6.54	718,557	627,300
Public National	4.55	4.14	492,860	505,319
U. S. Trust	17.11	17.04	137,772	129,691

*Indicated earnings. †Includes figures of City Bank Farmers Trust.

Expansion in loan volume was particularly marked in year-end comparisons. The amount of loans outstanding reached new records and every bank reported an increase in volume at the end of the year. In a number of instances the gains were very substantial.

Holdings of U. S. Government securities, on the other hand, were lower. The decline occurred, for the most part, prior to the last quarter as holdings for the final period showed only minor changes as compared with September statements. In general, the funds received from the liquidation of government securities, plus the increase in deposits, were used to augment the loan totals. Also, a noticeable expansion was made in the holdings of tax-exempt securities.

A comparison of the loan totals and U. S. Government security holdings at the end of 1950 and the year previous is shown below.

	(000's Omitted)			
	Loans and Discounts As of December 31		U. S. Govt. Securities As of December 31	
	1950	1949	1950	1949
Bank of Manhattan	$531,836	$462,758	$292,313	$329,184
Bankers Trust	774,683	576,711	412,006	532,299
Bank of N.Y. & 5th Av.	147,225	113,111	156,048	177,952
Central Hanover	547,060	443,612	605,051	636,352
Chase National	1,815,388	1,350,507	1,477,758	1,819,414
Chemical Bank	611,027	436,846	433,228	598,546
Commercial National	60,357	43,790	84,215	95,944
Corn Exchange	112,109	83,709	436,464	466,541
First National	172,216	126,947	311,055	316,214
Guaranty Trust	1,230,658	954,968	802,888	1,088,072
Irving Trust	519,324	381,224	369,390	452,414
Manufacturers Trust	743,860	557,375	1,030,957	1,078,980
Morgan, J. P.	259,589	173,091	152,219	283,546
†National City	1,666,337	1,382,263	1,805,850	1,986,755
New York Trust	261,691	237,059	289,534	237,035
Public National	234,314	156,562	123,271	232,144
U. S. Trust	66,432	51,925	60,907	57,447

†Includes figures of City Bank Farmers Trust.

Competition From Tax Exempt Business

By HARRY G. GUTHMANN*
Professor of the School of Commerce, Northwestern University

Professor Guthmann, after a thoroughgoing analysis of inequities created by granting tax exemptions to certain forms or ownership of business organizations, such as cooperatives and government-owned utilities, points out, because the weight of taxation has become so heavy, the greatest care is essential that tax exemption be not used to handicap some business organizations by benefiting others. Holds in a given competitive field, objective should be to treat all forms of business organizations alike, regardless of legalistic differences.

This paper is chiefly concerned with tax exemption as a factor giving certain kinds of business an advantage over competing business units which pay such taxes. The field is so broad as to make anything like a full coverage impossible. Consequently, this paper is limited to the tax exemption factor in two important types of business: the cooperative and

Dr. H. G. Guthmann

the government-owned utility. Chief attention is centered on the Federal corporate income tax. The two classifications were selected because of the volume of their operations and their economic and tax importance. With the huge increase in the weight of taxes in recent years, especially since 1940, differential tax treatement can be a decisive factor in giving an exempt business such an advantage over the taxed business as to raise the possibility, if not the certainty, that the former may destroy the latter regardless of its comparative efficiency. Tax immunity permits a business to lower prices to the consumer and to expand more rapidly from retained earnings.

The Cooperatives

For the purposes of this discussion, three types of cooperative organizations will concern us, namely, the consumers' cooperative, farmers' buying cooperatives, and farmers' marketing cooperatives. The first two classes, which are most clearly competitive with other existing business units, have certain characteristics in common with the ordinary business corporation:

(1) They are ordinarily incorporated and enjoy the legal and business advantages growing out of that status.

(2) They are engaged in buying and selling, and frequently engage in manufacturing and processing as well.

(3) They engage competitively in the same fields of business activity.

(4) They may pay dividends to their shareholders for the use of capital funds when, and if, they succeed in earning a net income.

They differ from ordinary business corporations in that:

(1) Their dividend rate to shareholders is generally limited, although the rate legally may run as high as 8%, a figure which most stockholders of business corporations would regard as generous.

(2) They pay a dividend, or "refund" to patrons in proportion to their patronage when net income permits.

(3) The cooperatives may or may not be like the business corporation with respect to the taxability of the net income available for the stockholders. The consumers' cooperatives pay a Federal income tax upon this net income for stockholders; but the farmers' purchasing cooperatives are exempt if they qualify under the law, as are their marketing cooperatives. Furthermore, whatever portion of the net income of any of these types of cooperative is returned or allocated as patronage dividends is not regarded as a part of the balance of taxable net income of the cooperative.

Because of the similarity of operation, the consumers' and the farmers' purchasing cooperative will be considered together. An analysis of the present inequality between these cooperatives and business corporations in tax treatment divides itself into two parts, the exemption of the net income whether actually distributed as dividends to stockholders or retained as unallocated reserves, and the exemption of patronage dividends for both types of cooperatives.

Tax Favor to Farm Co-op Stockholder

Wtih regard to the first, the exemption of the net income after the deduction of patronage refunds, in farmers' buying cooperatives which qualify for exemption, we have a clear-cut case of tax inequality and discrimination —class legislation. Persons who put their money into other incorporated businesses, even in consumers' cooperatives, receive no such advantage. Whether the money is invested in a share of a business corporation, or a consumers' cooperative, or a farmers' cooperative, the earnings for such stock are capital return to an owner and to fail to tax them all equally is to discriminate in favor of the exempted class. It may be argued that farmers are a specially deserving class, but they include well-to-do as well as poor farmers; and if this exemption is for the benefit of poor farmers, what are we doing for the poor industrial worker who owns a few shares in a consumers' cooperative, or the elderly widow who scrimps along on a small income and owns a few shares in a large business corporation. These latter are also deserving, but their corporations have to pay a corporation income tax upon the corporate net earnings without regard to the size of the incomes of the individual stockholders.

Varying Importance of Corporate Income Tax in Competition

Furthermore, this tax differential makes a considerable difference to business corporations which have to compete with the exempt farm cooperatives, but its importance varies greatly with the kind of business. To illustrate, let us take examples of business corporations in four different fields: retail food merchandising, farm implement manufacturing, gas and oil production and distribution, and electric utility service. The figures in Table I are drawn from the 1949 annual reports of Kroger Company, Deere & Company, Continental Oil Company, and Puget Sound Power & Light Company, and show the percentage relation of the Federal corporate income tax and the net profit for stockholders to the sales and the investment of the stockholders of the respective companies. (The rate earned on total investment would be lower than the percent shown in the table for all except Kroger Company because of borrowed invested capital upon which a low return is paid.) An examination of the percentages in the last two columns shows how large the income tax was in relation to the sales dollar and the stockholders' investment. They should be compared with the first two columns. With the increases in corporation tax rates for 1950 and 1951 these percentages would be correspondingly higher.

What the income tax figures in the next to the last column of Table I mean is that an exempt cooperative in the retail grocery business could charge its customers 1.2% less than a competing business corporation and make as much for its stockholders because it has no Federal corporation income tax; in the farm implement business it could charge 8.6% less; in the oil business it could charge 3.3% less; in the electric utility business, 6.3% less. When a cooperative is exempt from the Federal income tax and operates under similar business conditions to that of an ordinary business, it can pay a patronage dividend equal to the percentage of tax to sales shown in Table I and still have as much earnings left over as the ordinary competing business corporation has as its total net profit. Such a competitive advantage is obviously substantial if not overwhelming.

Such figures will vary between companies and in different years. Earnings and tax rates fluctuate. The figures do illustrate vividly the varying importance of the tax factor in merchandising, manufacturing and processing, and in the utility field.

The figures in the last column show how rapidly the capital of a successful exempt cooperative could be built up in good years by retaining earnings derived from income tax saving. If the cooperative could avoid paying stockholder dividends, it could use the sum of the net profits and the tax "savings" for growth. No dividends will be expected in later years on any capital resulting from retained earnings. Most successful farm cooperatives probably rely primarily on this source of ownership capital. One, the Eastern States Farmers' Exchange, Inc., showed no capital stock in its balance sheet for Dec. 31, 1949. (Table II)

To illustrate how the application of the Federal income tax would affect the reported net earnings available for distribution among cooperative members as patronage or stock dividends, some examples may be cited. They represent merchandising, processing, and oil production and refining in varied proportions. (Table III)

The comparative figures for the business corporations help to explain why the farmers' buying cooperatives are and would be expected to continue expansion from buying, or merchandising, operations into manufacturing, processing, oil production and refining. They also explain why the consumers' cooperatives in urban food retailing have caused less concern to their ordinary business competitors in this country. The income tax advantage is of less relative importance in its effect on selling price in urban food retailing than in farm cooperatives. Consequently, businessmen have been less interested in the tax position of the urban consumers' cooperatives than in the farm cooperatives. It is also true that consumers' cooperatives in this country have had to meet the competition of efficient chain stores and mail order houses. In England and Sweden, on the other hand, the consumers' cooperatives were started years earlier and their rapid growth in those countries was the natural outgrowth of their being the first to introduce the economies of mass retailing that were the result of the chain store and mail order movement in this country. In their growth in England and Sweden these cooperatives have however, now expanded into manufacturing in a large way.

Clearly the earnings of a cooperative for its stockholders are capital return just as they are for the stockholders of any corporation engaged in business. To exempt farmers' cooperatives while taxing consumers' cooperatives and business corporations gives the former a large and unfair advantage in their competition with the latter, especially in these recent years of high corporate tax rates.

So long as Congress permits such a major advantage to farmer

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TABLE I

The Relation of Federal Income Taxes and Net Profits to Sales and Stockholders' Investments: 1949

	—Net Profits to—		Federal Income Tax to	
	Sales	Investment	Sales	Investment
Kroger Company	1.7%	17.6%	1.2%	11.8%
Deere & Company	10.9	20.7	8.6	16.3
Continental Oil	11.4	16.5	3.3	4.6
Puget Sound Power & Light	15.7	6.9	6.3	2.8

SOURCE: Compiled from *Moody's Manual of Investments*, 1950.

TABLE II

Patrons' Equity:	
Commodity contingency reserve	$1,584,250
Portion of 1949 savings retained as a reserve for expansion of facilities and equipment	2,543,348
Accumulated savings retained for necessary operating and capital purposes	11,816,419
Total	$15,944,017

TABLE III

Illustration of How an Income Tax of 38% Would Affect Cooperatives in Relation to Sales and Owners' Investments: 1949

	Reported —Net Income to—		After 38% Tax	
	Sales	Investment	Sales	Investment
*Union Equity Cooperative Exchange	1.6%	40.0%	1.0%	24.8%
†Southern States Cooperative, Inc.	3.3	13.5	2.0	8.4
‡Eastern States Farmers' Exchange	5.1	28.0	3.2	17.4
§Farmers Union Central Exchange	8.2	19.5	5.1	12.1

*Year ended April 30, 1948. *History and By-laws of the Union Equity Cooperative Exchange, 1926-1948*, pp. 11-13.

†Year ended June 30, 1950. 27th Annual Report from *Southern States Farmer*, Nov. 1950, pp. 16-18.

‡*Eastern States Cooperator*, April 1950, pp. 16-19.

§*Farmers' Union Central Exchange Messenger*, April-May 1950, pp. 15-17. Applicable tax would probably be less because of petroleum operations, as for Continental Oil Company in preceding table.

*A paper by Prof. Guthmann delivered before a joint meeting of the American Finance Association and the American Economic Association, Chicago, Ill., Dec. 28, 1950.

Mutual Funds

By ROBERT R. RICH

Bullock Warns of Explosive Inflation

Whether the year 1951 brings peace or a major war, the United States is "in for a war economy," with its accompanying high industrial activity, drafts of manpower, civilian restrictions, heavy taxes, more vigorous government spending and expansion of the money supply, Hugh Bullock, President of Dividend Shares, Inc., told the annual meeting of shareholders of the funds in Baltimore, Md., Tuesday, Jan. 9, 1951.

While business volume under the war economy will be high, nevertheless increased costs and severe taxes may well spell lower corporate earnings by the end of the year, he said.

"Normally, this might have a negative influence on prices of common stocks," Mr. Bullock stated, "but the explosively inflationary forces current in a war economy are already making thoughtful investors anxious to try to protect the purchasing power of their savings. While no protection is ever probable, yet more and more people appear to be turning to common stocks of our large and proven corporations."

Fidelity Investment Adopts "H I F C" Plan

Fidelity Investment Associates has declared that "In the future, whenever it sells part of a block of stock acquired at different prices, it will first sell the shares costing the highest price. This system of accounting is called 'HIFO,' meaning 'highest in first out'."

F. I. A. has adopted this plan because it is more interested in building up its per share asset value rather than in paying out large extra dividends from net security profits. The "HIFO" plan, involving a change in the method of cost accounting, has been adopted in order to retain a larger percentage of these profits on its present list of holdings.

This change in accounting will of course substantially improve the performance record of the fund on the basis of share price.

At the present time, Fidelity has substantial profits on its current holdings.

Net assets of the fund have increased from $595,000 on Dec. 31, 1949 to $985,000 on Dec. 31, 1950. For the same period, net asset value per share has increased from $25.12 to $29.67.

Putnam Fund Distributors Opens Chicago Office

Finney & Peterson To Be Co-Managers

Putnam Fund Distributors, Inc., of Boston, the general distributor for The George Putnam Fund, one of the leading mutual funds, on Jan. 2 opened its new Chicago office in the Board of Trade Building, 141 West Jackson Boulevard.

In charge of sales activities in 19 midwest states are H. Ross Finney and William A. Peterson, both of Chicago. Prior to joining Putnam Fund Distributors, both were associated for many years with Standard & Poor's Corporation. Peterson was formerly Midwest Sales Manager, and Finney was Investment Consultant on both private and institutional accounts.

For a number of years, according to G. L. Ludcke, President of Putnam Fund Distributors, the midwestern states have made a major contribution to the growth of The George Putnam Fund, whose assets are today approximately $45,000,000. The opening of the Chicago office will enable the firm to maintain a closer contact with its growing list of correspondent dealers.

Wisconsin Appoints New Eastern Representative

Wisconsin Funds Inc., General Distributor of Wisconsin Investment Company shares, announces that Mr. Hartwell P. Morse, formerly associated with Cohu & Co. and prior to the war a partner in George B. D. Bonbright & Co., now represents them in the eastern territory formerly covered by the Louis H. Whitehead Co.

Wisconsin Investment Company ended 1950 with total net assets of $3,007,000 as compared to $2,016,000 at year's end 1949, an increase of about 50%.

SEC Amends and Adopts Face Amount Regulations

Few Companies Affected; Information Regulation Changed

The Securities and Exchange Commission on Dec. 29 adopted a form for registration statements to be filed under the Investment Company Act of 1940 by registered face-amount certificate companies.

The Commission also adopted an additional article to be added to Regulation S-X governing the form and content of financial statements to be filed with the Commission by such companies.

A rule permitting the use of information previously filed with the Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934 was also adopted.

All of these regulations were previously published in draft form for comments and suggestions by the industry and other interested persons. Extended conferences were held with the representatives of some of the companies affected, and the regulations as adopted by the Commission reflect the incorporation of a number of comments and suggestions received.

Copies of From N-8B-4 and Article 6B of Regulation S-X will be sent to the companies and other persons immediately affected as soon as such copies are available for distribution. Because of the limited number of companies to which the Form and Article apply, copies are not being distributed generally. Interested persons may obtain copies by request addressed to the Publications Unit of the Commission at its principal office in Washington.

The text of the Commission's action follows:

"The Securities and Exchange Commission acting pursuant to the Investment Company Act of 1940, particularly Sections 8 and 38 (a) thereof, hereby takes the following action:

"(I) Rule N-8B-2 is amended by adding thereto an additional paragraph reading as follows:

"'(4) **Form N-8B-4 for Face-Amount Certificate Companies.** This form shall be used for registration statements pursuant to Section 8 (b) of the Investment Company Act of 1940 by all face-amount certificate companies.'

"(II) The Commission hereby adopts Form N-8B-4 as the form to be used for registration statements of face-amount certificate companies registered under the above-mentioned Act.

"(III) The Commission hereby adopts the following new rule, designated Rule N-8C-4, authorizing the use of certain material filed under the Securities Act of 1933 or the Securities Exchange Act of 1934 in filing registration statements on Form N-8B-4:

"'**Rule N-8 C-4. Previously Filed Material.**

"'A registered face-amount certificate company which has securities registered under the Securities Act of 1933 may, in filing a registration statement on Form N-8B-4, incorporate by reference any information, financial statement or exhibit contained in (1) its most recent currently effective registration statement under the Securities Act of 1933, (2) the most recent prospectus filed under that Act, or (3) any report filed pursuant to Section 15 (d) of the Securities Exchange Act of 1934; provided, a copy of such registration statement, prospectus or report is filed with each copy of the registration statement on Form N-8B-4.'

"The Securities and Exchange Commission acting pursuant to authority conferred upon it by the Investment Company Act of 1940, particularly Section 38 (a) thereof; the Securities Act of 1933, particularly Section 19 (a) thereof; and the Securities Exchange Act of 1934, particularly Section 23 (a) thereof, hereby amends Regulation S-X by adding thereto a new article, designated Article 6B, which prescribes the form and content of financial statements to be filed with the Commission by face-amount certificate companies pursuant to any of the foregoing Acts.

"The foregoing action shall become effective Jan. 31, 1951."

National Fund Assets Up 43% Over Year Ago

As of Dec. 31, 1950, total net assets of National Securities Series mutual funds were reported at $78,333,180, up 43% over the 1949 year-end, according to H. J. Simonson, Jr., President of National Securities & Research Corporation, New York. Total assets under "National" management as of the 1950 year-end exceed $84,000,000.

The largest "National" Fund, Stock Series, has net assets of over $22,000,000 at the 1950 year-end with National Income Series, the second largest, at over $21,000,000, up 143% and 39% respectively from the 1949 year-end.

Sales of "National" Funds for the year 1950, the highest year in the history of the company, were reported at over $26,000,000, up 89% from 1949.

Keystone Assets Over 200 Million

Combined net assets of the 10 Keystone Funds on Nov. 30, 1950, amounted to $218,054,500, an increase of $27,568,000 over the total of $190,486,500 at the close of November last year, it is disclosed by the annual report of Keystone Fund S2, made public today. As of the date of the present report, 51,227 shareholders held certificates in one or more of the Keystone Funds.

Net assets of the Income Common Stock Fund S2 increased to $32,112,174 on Nov. 30, 1950 from $30,237,548 at the close of the previous fiscal year. Net asset value per share increased to $15.86 at the end of last November, after payment during the year of a special distribution of 10 cents per share from net realized profits. This compares with $14.26 per share on Nov. 30, 1949. There were 2,025,102 shares outstanding at the close of the latest year and 2,119,767 shares 12 months earlier.

Fundamental Investors Reports 51% Gain

A gain of 51% in net assets was recorded by Fundamental In-

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Back to Controls in Britain

By PAUL EINZIG

Dr. Einzig, noting growing scarcities of raw materials that have become manifest in last few months, points out trend toward abandonment of regimentation and austerity in Britain has been reversed, and new allocation and controls, already begun, are likely to become intensified. Sees little probability, under the circumstances, of return to convertibility of sterling.

LONDON, Eng.—On Dec. 28 the Minister of Supply, Mr. G. R. Strauss, announced the government's detailed plans for allocating zinc among industrial users. Overall supplies of zinc are to be cut by 40%, and as from Feb. 1, 1951, the use of zinc, brass and copper for the manufacture of over 200 categories of consumer goods will be prohibited. This is the first important step towards the restoration of the system of controls which was gradually abandoned by the government during the past two years or so. It is bound to be followed by a series of other similar measures, as zinc and copper are not the only raw materials in short supply. Indeed it is remarkable how deceptive the appearance of the return to the age of plenty has proved to be. Six months ago it looked as if the world might once more be faced with problems of excessive supplies both in manufactures and in raw materials. Gradually the sellers' market gave way to a buyers' market in most directions. International competition among industrial nations was approaching prewar proportions. There was once more a threat of excessive shipping tonnage, and unemployment was beginning to rear its ugly head in the British shipyards. There were indications of a return of cut-throat competition in coal and steel in Europe.


Dr. Paul Einzig

All this is now a matter of the past. It did not take a major war, or even a full-scale rearmament, to bring about a fundamental change in the situation. A minor war in the Far East and the beginning of a rearmament drive were sufficient to bring the period of plenty to an abrupt end. There are now shortages in most raw materials, in coal, in electric power and in shipping tonnage. And yet we have hardly begun to rearm.

Six months ago it looked as though 1951 might see the last of most of the remaining controls, except those which are likely to be retained permanently, such as capital issues and capital exports. Rationing appeared to be approaching its end, and most price controls and material allocation controls were removed. With the increase of the gold reserve there was a renewed pressure on the government to restore the convertibility of sterling, at any rate for the purpose of current commercial transactions. It was expected that the Torquay Conference on tariffs would result in a considerable degree of freeing of international trade. Remarkable progress was made towards freer intra-European trade, and the establishment of the European Payments Union has greatly relaxed exchange difficulties between countries of Western Europe.

There are still many people in Britain who imagine that this trend might continue in spite of the change brought about by the Korean conflict and its consequences. The government is urged from many quarters to proceed faster towards relaxing and removing trade and exchange barriers. To some degree, as far as commercial and financial relations with Western Europe is concerned, there is in fact a possibility for further progress. In December the allowances for tourists traveling in Western Europe were increased from £50 to £100 per annum. Other similar steps are possible, and even probable. But this is due not to economic but political considerations. The importance of strengthening the Western European countries economically, in order to strengthen their resistance to Communist aggression or infiltration, is realized in London, and the British Government is prepared to make sacrifices to that end, though there is a limit to its willingness to do so.

On the other hand, hopes that anything of real importance might emerge from the Torquay Conference have declined to the vanishing point. Britain is now determined not to weaken trade links between countries of the Commonwealth for the sake of doubtful advantages on trade with other countries. In any case, tariffs, the relative importance of which increased in recent years as and when the extent of other trade barirers declined, are likely to become once more a matter of small importance in a sellers' market. Importers will be once more willing to pay high prices augmented by high customs duties, so long as they can get the goods.

Nor is there any likelihood of a return to convertibility. The government is likely to refuse even minor concessions, such as the removal of the ban on the import of pound notes from abroad. This demand has been pressed lately, in view of the strengthening of confidence in the pound. The government is not likely to yield, however, for the wholesale re-import of pound notes would mean a corresponding increase of sterling balances or of unrequited exports. Moreover, the possibility of returning the notes to Britain would increase the demand for them, and this again would facilitate the export of capital in the form of smuggling pound notes abroad.

There is of course no question of further de-rationing. Indeed it would be little short of miracle if an increase of the list of rationed goods could be avoided during 1951. For the present the government hopes to meet the situation created by shortages through control of allocation of raw materials and restrictions on their civilian use. Before very long, however, price controls of consumer goods are likely to be adopted. This would mean that demand for the artificially cheap goods would increase. To prevent the disappearance of their supplies, the government will have to resort to rationing of consumer goods.

Finally, a stage may be reached in 1951 when the restoration of wartime direction of labor may be considered inevitable, in order to secure the manpower necessary for rearmament and for essential industries. The government will defer the decision as long as possible, owing to the unpopularity of this particular type of control. Judging by the extent of the initial shortages, however, its eventual adoption seems to be inevitable.

N. Y. Security Dealers Annual Election

At the 26th Annual Election Meeting of the New York Security Dealers Association, the following Officers and members of the Board of Governors were unanimously elected:

President: David Morris, David Morris & Co.

First Vice-President: Herbert D. Knox, H. D. Knox & Co., Inc.

Second Vice-President: Hanns E. Kuehner, Joyce, Kuehner & Co.

Secretary: George A. Seabright, Eisele & King, Libaire, Stout & Co.

Treasurer: John J. O'Kane, Jr., John J. O'Kane, Jr., & Co.

Board of Governors to serve for a period of three years:

Philip L. Carret, Gammack & Co.; Frank Dunne, Dunne & Co.; Paul Gammons, Bradley, Gammons & Co., Inc.; Hanns E. Kuehner, Joyce, Kuehner & Co.; Harry MacCallum, Jr., MacCallum & Co., Mt. Vernon, N. Y.; Stanley L. Roggenburg, Roggenburg & Co.

Joseph Carson Joins Rambo, Close & Kerner

PHILADELPHIA, Pa.—Rambo, Close & Kerner, Inc., 1518 Locust Street, announces that Joseph R. Carson has become associated with them in charge of their municipal bond department. Mr. Carson was formerly with the Philadelphia municipal bond department of Kidder, Peabody & Co.

Hanley Named Treasurer

PHILADELPHIA, Pa.—H. A. Riecke & Co., Inc., members of the Philadelphia-Baltimore Stock Exchange, announce that Richard J. Hanley, Jr., has been elected assistant treasurer.

With Titus-Miller

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Kenneth S. Vallance is with Titus-Miller & Co., Penobscot Building, members of the Detroit and Midwest Stock Exchanges.

Difficulties Foreseen for Retailers

NRDGA survey indicates possibility of depletion of consumer purchasing power by rising prices, J. Gordon Dakins reports. Expects rising dollar volume in first quarter, with higher inventories, but without corresponding increase in unit sales.

Retailer anticipation of record volumes in 1951 is somewhat tempered by the fear that consumer purchasing power may be depleted through rising prices, according to a survey of its membership just completed by the National Retail Dry Goods Association.


J. Gordon Dakins

Commenting on the survey at a press conference in the Hotel Statler in New York City Friday, Jan. 5, J. Gordon Dakins, the Association's General Manager, declared that the nation's department, chain and specialty stores are looking forward to an increase in dollar volume in the first quarter of this year. He added that a corresponding increase in unit sales was not expected, though inventories would undoubtedly be at higher levels than those of 1950.

More than 400 stores and retail organizations participated in the survey which was conducted by the NRDGA to obtain the retail viewpoint on prospects in every phase of store operations for the year ahead.

Replies to a question on the outlook for dollar volume during Spring, 1951, compared to the same period in 1950, show that 31% of stores answering expect increases of between 1% and 5%. An additional 34% of retailers responding anticipate dollar gains of between 6% and 10%, with the balance of answers showing a divergence of opinions from "no gains" up to over 11% higher dollar volumes.

Soft Goods Resurgence

A breakdown of store departments in which the greatest amount of increased business is expected indicates a resurgence in soft lines. Of the retailers surveyed, 89% mention ready-to-wear as the department slated for the greatest improvement, with men's and boys' wear a second choice. Appliances and other home furnishings are also expected to show gains as revealed by 24% and 55%, respectively, of the answers received.

In response to a survey question on the outlook for increases in unit sales, 58% of the stores replying stated no gains were anticipated. Only 23% foresaw gains of from 1% to 5%, while gains of up to 11% were predicted by the smaller balance of contributors. It is interesting to note that those merchants anticipating increases in unit sales expect them to be evident in the same departments in which the greatest gains in dollar volumes were foreseen — mainly ready-to-wear and men's and boys' wear.

Higher Inventories

Indications point to the fact that inventories during the first quarter of 1951 will be markedly above those in 1950. According to the survey, 40% of responding stores expect inventory increases of up to 10%, while an additional 18% of the stores predict inventory gains of 11% or more. Again, the greatest gains in inventory were anticipated in the ready-to-wear and men's and boys' wear departments, as was the case for anticipated increases in dollar volumes and unit sales.

Orders given to resources are also expected to show gains during the months ahead, the survey indicated. Queried on this subject, 48% of the stores replying foresaw heavier commitments, with the majority of these, or 28%, predicting gains up to 11% or more in the amount of their orders. The greatest increases expected in orders were those emanating from home furnishings departments, which reflect a feel-

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From Washington Ahead of the News

By CARLISLE BARGERON

A skit in a current Broadway show satirizes the literary vogue of writing best selling novels on the plight of the South. A young lady with a wide brimmed hat, just in from the fields, sings of the beautiful flowers and the rippling brooks.

"You ain't goin' to get no royalty checks if you didn't see any share croppers," her parents sing back.

Carlisle Bargeron

Improving the plight of the downtrodden South has been one of the most delightful pleasures of the Washington Bureaucrats ever since that fateful day back in 1933 when the New Deal came into power, and a succession of plays on Broadway depicting the backwardness of the people has regaled audiences of perhaps lesser intelligence and brought in shekels galore to authors and producers. Roosevelt, the Great, once described the South as the Nation's No. 1 economic problem; Madame Perkins, in one of her first utterances as the first woman Cabinet member, told of the highly imaginative plan of the Planners to put shoes on the Southerners. Inasmuch as the shoes would be manufactured in the East, this would set up a train of commerce, she explained with that admirable high-plane thinking that has for these many year of the Roosevelt Revolution baffled sensible men and brought the country to a perpetual crisis state.

The South has undoubtedly made progress in the past 17 years but as to how much the Bureaucrats have had to do with it is a matter of serious doubt. They have added to its population by hordes and very likely added to its market for Cadillacs, or in such garden spots as the TVA, yachts and motor boats.

It has been green pastures for them; of that, there is no doubt. Now, however, there are indications they feel their great works are coming to an end, that there is only so much to the South and they can't "develop" it anymore.

Either this, or they simply want to broaden their domain, because they have their designs on New England. For months they have been propagandizing assiduously that it is the Nation's No. 2 Economic Problem, if not No. 1 now that stilts have been put under the South. They are determined to do something for and to New England and those people up there may as well quit resisting and take the treatment.

It seems that this was once a prosperous and growing area, an area of sturdy people, the home of our earliest settlers, the fountainhead of our culture, but it has become decadent. Progress is passing it by. New Englanders, once known not to have been behind the barns when the brains in the matter of turning a quick dollar were passed out, have become old and tired and need an injection of that dynamic blood which only the Washington Bureaucrats can infuse. The outstanding difference between the New Englanders and the Southerners, before they took the infusion, as I understand it, is that the latter came into the world illiterate and ignorant, while the New Englanders have become effete.

For the past several years the Bureaucrats have been asserting there is a power shortage in New England which is holding the region down, and a too high cost of electrical power that is even causing industries to run away. And just as persistently industrial authorities have been insisting there is no power shortage, that the reserves are ample, and a reward has even been offered for anyon who can come forward with a single industry that has moved because of the alleged high electrical costs.

But, say the Planners, these industrial authorities are dying on the vine, withered and backward looking souls that they are.

Roosevelt, the Great, took some jabs at New England decadence in his day but he never seemed to warm up to this subject, maybe because the family has real estate interests at Campobello and he didn't want to run values down, maybe, too, there was enough work at the time to occupy the Planners in the South.

But in recent months, under that great reformer and farvisioned man, Truman, the campaign against New England has been stepped up. The Federal Power Commission, REA and other agencies, along with Senator Aiken and the CIO, have been doing a "tolerably" fair job for a much longer time.

However, the heat is now on. It may be that New England would have had a longer respite but Leland S. Olds was refused Senate confirmation of his reappointment to the Federal Power Commission some moths ago and the President had to dig up something for him to do which did not require Senate confirmation. A water resources planning commission was set up and its main emphasis in its first report, a voluminous thing, deals with what has got to be done for New England to pull it out of the doldrums. The commission came up with these conclusions, notwithstanding that the great majority of witnesses it heard in hearings held in that region, voiced the conviction that New England was doing all right and preferred to be let alone.

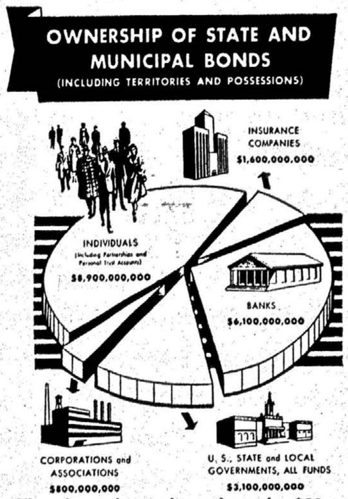
The New Englanders may just as well surrender and permit themselves to be put through the wringer, because these Planners are a determined lot and intend to have their way. You can rest assured that in the next few months, the propaganda, softened only by the National Emergency state, but not so much, will depict these once hardy people as an awfully sorry lot. I expect, in fact, to see another Tobacco Road built around Dartmouth graduates.

Municipal Bonds for Individual Investor

Coincident with the increased interest in tax-exempt bonds stimulated by mounting income taxes, Lebenthal & Co., 135 Broadway, New York City 6, has published a new edition of its 40-page illustrated pamphlet "Municipal Bonds for the Individual Investor" which they are making available to those interested, on request.

The booklet contains many informative charts and tables, with particular emphasis on material of value to the investor concerned with reducing his income taxes. One chart shows the yield needed to net 2½% after income taxes for investors in various income brackets. It shows that in some cases the investor would have to find a security yielding better than 12%. A 2-page table shows the yield necessary to receive on a taxable government or corporate security to give the same net return after taxes as the tax free bond. Special chapters are devoted to "How to Judge a Municipal Bond," including the various types available for specific purposes; and a very valuable one on "Odd Lot Municipals," which are the logical medium for those with limited investment capital.

An interesting table compares the net available yields on 26 leading corporations with the tax-exempt yield on 26 leading municipalities.



The chart above shows how the $20,500,000,000 in municipal bonds outstanding is divided among different categories of owners. Individual holdings of $8,900,000,000, or 43% of the total outstanding, compares with 24% held by individual owners in 1932. This chart is one of a number appearing in a new booklet issued by Lebenthal & Co. called "Municipal Bonds for the Individual Investor."

William Gratza With Paul H. Davis & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — William J. Gratza has become associated with Paul H. Davis & Co., 10 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was formerly in the trading department of Blair, Rollins & Co., Inc. and prior thereto for many years with the First Boston Corporation.

d'Avigdor Co. Offers Skiatron Stk. at 2⅞

An issue of 40,000 shares of common stock of Skiatron Electronics and Television Corp. is being offered by d'Avigdor Company of New York City at $2.87½ per share.

The net proceeds are to be used to complete "Subscriber-Vision" tests, to purchase additional equipment and for general corporate purposes.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

William G. Rabe, Vice-President and Director of **Manufacturers Trust Company of New York,** has been named Chairman of the Trust Committee to succeed the late Ernest Stauffen, it is announced by Henry C. Von Elm, President. Mr. Rabe's entire banking career, extending over the past 35 years, was spent in close association with the late Harvey D. Gibson. He first became associated with Mr. Gibson when the latter was President of the Liberty National Bank in 1916. Mr. Rabe now serves as a Trustee of Mr. Gibson's Estate, of which Mrs. Gibson and Manufacturers Trust Company are Co-Executors. In 1931, when Mr. Gibson became President of Manufacturers Trust Company, Mr. Rabe came to the bank with him as Assistant to the President. He was made a Vice-President in December of that year. In 1947 he was elected a Director, and in 1949 was named to the bank's General Administrative Board.

* * *

James E. Hollingsworth and C. Frank Reavis were elected members of the Board of Directors of **The Commercial National Bank and Trust Company of New York** at the stockholders' meeting on Jan. 9. Mr. Reavis is a partner of the law firm of Hodges, Reavis, Pantaleoni & Downey. He is a Director and member of the Executive Committee of The Baltimore Transit Company, a Director of H. C. Bohack Co., Inc., etc. Mr. Hollingsworth after being associated with other banks, served as Vice-President of the Central Hanover Bank and Trust Company of New York from 1942 until his resignation in 1946, being in charge of its investment portfolio.

* * *

Irving Trust Company of New York announces the election of Charles M. Applegate and William C. Schutt as Assistant Secretaries of the company. Mr. Applegate is located at the bank's Empire State office and Mr. Schutt is at the Woolworth Building office.

* * *

BANKERS TRUST COMPANY, NEW YORK

	Dec. 31, '50 $	Sept. 30, '50 $
Total resources	1,837,554,151	1,728,136,173
Deposits	1,642,085,318	1,522,833,337
Cash & due from banks	530,358,576	445,335,285
U. S. Govt. security holdings	412,005,133	497,176,609
Loans & disc'ts	774,683,405	668,955,542
Undivided profs.	38,960,676	38,255,160

* * *

Following a meeting of the directors of the **Bank of the Manhattan Company of New York,** Lawrence C. Marshall, President, announced the appointment of John B. Goodwin as Assistant Vice-President and of H. Hiter Harris, Jr as Assistant Treasurer. Mr. Goodwin will be attached to the division handling the bank's business in the midwestern states. During recent years he has been associated with the Chase National Bank as Assistant Cashier. Mr. Harris will be associated with the division handling business in the southeastern states. Prior to his new association, he was with the Chemical Bank & Trust Co.

* * *

Francis J. Ludemann has been appointed Vice-President-Secretary of **The Manhattan Savings Bank of New York,** according to an announcement by Willard K. Denton, President. Mr. Ludemann will assume his new position on Feb. 1, succeeding Carl A. Richter, who is retiring after 48 years of service. For the past ten years Mr. Ludemann has held the position of Deputy Superintendent in the New York State Banking Department in charge of savings banks and trust departments of commercial banks. For the preceding four years he was in charge of the savings and loan division. In the earlier years of his 21-year association with the banking department, he was engaged first in general field work and later as a supervising examiner for investment companies, private bankers, credit unions and licensed lenders. Prior to joining the banking department, Mr. Ludemann was for 11 years associated with the Hamilton Trust Co., Brooklyn, which during the period merged into the Chase National Bank, becoming its Brooklyn office. He resigned from his post as assistant head of the Trust Department to become a state examiner in November, 1929. At the convention of the National Association of Supervisors of State Banks in Boston last fall, Mr. Ludemann was elected Secretary of the Association and became a member of its Executive Committee.

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UNITED STATES TRUST COMPANY OF NEW YORK

	Dec. 31, '50	Sept. 30, '50
Total resources	$171,770,725	$148,859,347
Deposits	137,771,392	115,353,887
Cash & due from banks	27,844,870	21,325,271
U. S. Govt. security holdings	60,906,987	63,963,060
Loans & discounts	66,431,564	45,266,680
Undivided profits	2,294,288	2,145,245

Richardson Pratt, managing partner of Charles Pratt & Co., and Ralph T. Reed, President of the American Express Co., have been elected trustees of **United States Trust Co. of New York, it** is announced by Benjamin Strong, President. Mr. Pratt is also Chairman of the Board of Pratt Institute, Brooklyn, and trustee and Secretary of the American Academy in Rome. Mr. Reed is, in addition, Chairman of the Board and director of Wells Fargo & Co., and a director of American Woolen Co., Stone & Webster, Inc., and Western Union Telegraph Co. He is also a member of the Advisory Committee, Foreign Service Institute, State Department, Washington, D. C.

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E. Chester Gersten, President of **The Public National Bank and Trust Company of New York,** has announced that Emanuel Schwartz and Emanuel Weinreb, Assistant Cashiers, have been appointed Assistant Vice-Presidents.

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THE COMMERCIAL NATIONAL BANK AND TRUST COMPANY, NEW YORK

	Dec. 31, '50	Sept. 30, '50
Total resources	$234,678,840	$208,069,584
Deposits	205,747,072	171,175,453
Cash & due from banks	74,428,383	48,530,544
U. S. Govt. security holdings	84,214,618	84,791,679
Loans & discounts	60,356,778	58,511,509
Surplus & undivided profits	14,871,910	14,729,007

* * *

The Board of Trustees of **The Bowery Savings Bank of New York** on Jan. 8 elected Harry Held, Harry C. Burgess, William H. Switzer, William Lumsden and John M. Ohlenbusch Vice-Presidents. Kenneth E. M. Hall and Montague T. Smith were appointed Assistant Vice-Presidents. Richard L. Brower was appointed General Auditor; Walter H. Tietjen, Assistant Secretary; and George F. Butler, principal Executive Assistant. Messrs. Held, Burgess, Switzer, Lumsden and Ohlenbusch were promoted from Assistant Vice-Presidents. Mr. Hall and Mr. Smith were former-

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What Our Foreign Policy Should Be!

to reform the entire world or spread sweetness and light and economic prosperity to peoples who have lived and worked out their own salvation for centuries according to the best of their ability. We do have an interest in the economic welfare of other nations and in the military strength of other nations, but only to the extent to which our assistance may reduce the probability of an attack on the freedom of our people.

After liberty, peace must be goal of our policy and of our leaders—more than it has been in recent years. In order to assure progress and happiness for our people, we must avoid war like poison except when it is absolutely essential to protect our liberty. War not only produces pitiful human suffering and utter destruction of things worthwhile, but it actually may end our own liberty, certainly for the time being. From our experience in the last two world wars, it actually promotes dictatorship and totalitarian government throughout the world. It is almost as disastrous for the victor as for the vanquished. War is to be preferred only to the destruction of our liberty.

It seems to me most unwise ever to admit that war is inevitable until it has occurred, and it seems to me that today our policy is based too much on this premise. It is a possibility which we must face and for which we must prepare, but the theory of a preventive war is contrary to every American principle and every moral principle.

The present situation arises out of the menace of communism and the military strength of Soviet Russia. Soviet Russia has broken every treaty. It has suppressed liberty everywhere within its zone of influence. It engineered a forcible seizure of the government of Czechoslovakia. It promoted the military aggression of the North Koreans. It promoted the military aggression of the Chinese Communists. Those diplomats and soldiers who have had to deal with the Russians find them always unreasonable, uncompromising and truculent. There is sufficient evidence of a determined plan to communize the entire world, which can be clearly outlined from the writings of Lenin and Stalin just as Hitler's intention could be found in *Mein Kampf*. Such a plan is evidenced by the formation of Communist organizations throughout the entire world, acting as agents for the Russian Government, and promoting the communizing of every country by propaganda and infiltration into labor unions, organizations of all kinds and the government itself. We have seen how successful that effort has been in this country.

Does this Russian plan include a military conquest of the world where infiltration is unsuccessful? It is now clear that it does include the use of satellite troops to attack neighboring countries in cases where such military aggression may not necessarily bring a third world war. Up to this time, apparently, the Russians have not been willing to use their own armies in deliberate military aggression for fear of precipitating such a war, but it is pointed out that that may be because they are not yet ready.

I do not myself see any conclusive evidence that they expect to start a war with the United States. And certainly I see no reason for a general panic on the assumption that they will do so. We have clearly notified them that any attack in Europe upon the United Nations means a third world war, and we are obligated to enter such a war under the terms of the Atlantic Pact. Look at it from any point of view—and, I think, particularly from the Russian point of view—and it is difficult to see how the Russians could reasonably entertain the hope that they can conquer the world by military action. It must seem to their thinkers an extremely difficult undertaking. I believe they are still thinking in terms of a slow but steady advance by the methods which they have used up to this time. Those methods are dangerous enough.

Since there is a greater possibility, however, of a destructive war against our liberty than we have ever faced in the past, at least since the Revolutionary War, there is no doubt that we should go just as far toward preparing for war as we can go in time of peace without weakening ourselves in the long run and destroying forever the very liberty which war is designed to protect.

The questions which our government must decide and in which decisions the Congress and the people should have a determined and decisive voice are:

(1) How far can we rely on the United Nations to maintain and restore peace?

(2) What should be our military policy in preparation for a possible attack by Russia on ourselves and our allies?

(3) Is such a policy possible for a long period of years without inflation and the loss of all liberty at home?

(4) How shall we convince the people of the world that liberty is a better way of life than communism can ever be?

(1) **How can we best maintain peace?** The United Nations was established as the great organization to maintain peace. It has failed to do so because of fundamental defects in the Charter which I have frequently pointed out. Certainly I would not advocate a withdrawal from the United Nations at this time. It does give a forum in which matters of differences can be discussed and brought out in the open. If we know what those differences are, there is some better change for adjusting them than if grievances are built up under the surface which break out constantly in unforeseen conflict. When the Charter was before the Senate, I said:

"I believe that an international organization, devoted to the maintenance of peace, to the study of possible threats to peace, and to a constant effort to solve the differences which lead to war, is an essential feature of any peace hope, or peace policy. The United Nations Charter has many faults, some of which I shall discuss, but it provides without question a continuing council table at which are represented all the nations of the world, meeting constantly to solve those problems which in their opinion may endanger international peace. If the men who participate in this continuing conference are men of ability and good faith, I believe that this organization can go far toward preventing war."

But in the present crisis where the entire world is threatened by the Communist menace, the United Nations has proved that it is not only an utterly ineffective weapon to check military aggression, but that it is actually a trap for those nations which rely upon it as an organization to secure action against aggressors.

But the defect of the United Nations lies in the fact that it was never based on law and justice to be interpreted by an impartial tribunal, but on a control of the world by the power of five great nations. Those who wrote the first draft of the Charter at Dumbarton Oaks did not even mention the word "justice," and in the Charter as finally drafted, the Security Council, in deciding on means to preserve the peace, is guided solely by considerations of policy and not of justice. Obviously, in such an organization, there must be a veto power, and that veto power nullifies any effective action by the United Nations. I pointed out in the debate on the Charter that the veto power changed the whole nature of the organization and reduced the United Nations organization to a consulting body. I said:

"All the discussion about force is of minor importance because it can never be used to solve any major crisis. . . . If the Charter had been in effect, Japan would have vetoed any action against itself on the invasion of Manchuria and of China. Italy would have vetoed any action against itself on the invasion of Ethiopia. In some ways the organization would have been less effective even than the League of Nations. The Charter could not use force if Russia were to invade Poland or seize the Dardanelles from Turkey. . . . *Even attacks by satellite nations of one of the great powers might be engaged in safely if a great power had agreed in advance to exercise the veto power.*"

This prediction is borne out today by the Russian use of the veto power to prevent action against Communist China. I said:

"If one of the five great powers violates the Charter and vetoes action against its own violation, the Charter is for all practical purposes dissolved in failure."

When the North Koreans attacked, it happened that Russia was boycotting the Security Council and the resolution calling for action against the North Korean aggression was therefore passed without dissent.

On June 28, 1950, I questioned the legality of the United Nations action because Article 27 of the Charter clearly provides that decisions of the Security Council on all matters shall be made by an affirmative vote of seven members "including the concurring votes of the permanent members." There was no concurring vote by Russia, but we overrode this objection without considering how it might be raised against us in the future. Furthermore, we took this action without considering the fact that, if the Chinese Communists attacked and the Russian representative returned to the Security Council, the United Nations could not follow up its action against the Korean Communists by similar action against Chinese Communists. If the Russians had planned it that way, they could not have done better. Did they arrange the North Korean attack just when they were boycotting the United Nations, so that the United Nations might take an abortive action? Did they deliberately ignore the point I have just made relating to affirmative vote knowing that they could later block action against China? We were sucked into the Korean war by a delusion as to a power

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What Our Foreign Policy Should Be!

which never has existed under the Charter.

We have vainly tried to bypass the limitations on the power of the Security Council by asking for action by the General Assembly. Under the Charter, this body was never intended to have any power to call on governments for action, or do more than recommend. It would be most unwise for us to build up any such power in the General Assembly. No nation has contracted to abide by any decision of the General Assembly. Furthermore, we would only have one vote among 60, which sometime in the future may be inconvenient for us. Certainly, this does not excuse the failure of the Assembly to denounce the Chinese Communists as aggressors. Their failure repudiates the very basic theory of the Charter. But action taken by them today would have only moral effect.

Those who are blaming the United Nations should much more blame the limitations of the Charter and our own government for forcing United Nations action beyond its permanent powers.

May I point out again also that the President incorrectly assumed that the United Nations was an operating organization with power to call on us for troops which we could supply. As a matter of fact, he had no authority whatever to commit American troops to Korea without consulting Congress and without Congressional approval. He could not commit our armed forces to support the United Nations under the terms of the Act which was passed by Congress, for that Act only recognized the commitment of troops in the event of the negotiation of a special military agreement with the Security Council "which shall be subject to the approval of the Congress by an appropriate Act or joint resolution." The Russians have prevented the conclusion of any such agreements. Congress has therefore never acted. The President simply usurped authority, in violation of the laws and the Constitution, when he sent troops to Korea to carry out the resolution of the United Nations in an undeclared war. It may now be argued that Congress by appropriating money for additional Korean action has ratified the Act, but the war was on and we had no choice but to back up wholeheartedly the boys who were fighting in Korea. The calamity into which we have been drawn, and which has resulted in almost as many American casualties as the first World War, arose out of the unwarranted assumption that the United Nations was an operating organization as we would have liked to see it, when as a matter of fact it was a hopeless weapon against aggression from the beginning, and from unauthorized action by the President.

I have suggested that we ought to formulate the amendments which would create an ideal organization, insist upon a full discussion of those amendments and if they are finally blocked by Soviet Russia, bring about the dissolution of the United Nations and the formation of a new organization which could be an effective weapon for peace. For the present we must make use of the United Nations as best we may, as a diplomatic weapon and through it we may hope that more friendly relations can be established with Russia. But as far as military policy is concerned, I see no choice except to develop our own military policy, and our own policy of alliances, without regard to the non-existent power of the United Nations to prevent aggression.

(2) **What then should be our military policy in preparation for a possible attack by Russia on ourselves or on our allies?** Our first consideration must be defense of America. Whatever one may feel about the action of the United States in other parts of the world, no matter how much of an internationalist a man may be, he must recognize that this country is the citadel of the free world. The defense of the United States itself is, of course, the first goal of our own people, essential to protect our liberty; but it is just as important to the rest of the world that this country be not destroyed, for its destruction would mean an end to liberty everywhere and to the hope of restoring liberty where it has been lost. It seems obvious that the immediate problem of defending this country depends upon control of the sea and control of the air.

There is no question that we have the largest navy in the world and certainly while the British are our allies, complete control of the sea throughout the world except as it may be hampered by Russian submarines. We have a powerful air force, but it seems to me vitally necessary that that air force be increased until we have control of the air over this country and over the oceans which surround our continent. It should be capable of expansion in time of war to secure as great control as possible over the rest of the world and over the enemy country. With our resources and with Great Britain as an ally, that is not impossible. By the end of the last war, we had practically complete control of the air over Germany and Japan. Not only is the air force necessary for defense of America, but it is the one weapon which can damage the enemy bases from which air attacks upon us can be made, and which can drop atom bombs where they may be decisive.

Whether war can be ended by air power alone may be open to question, but certainly sea and air power can achieve a complete protection while other forces are being developed to meet whatever goals may seem to be desirable in a third world war. Of course an army of reasonable size has a place in the defense of the American continent. A land army is also necessary for the defense of air bases, further defense of islands near the continental shores, and for such occasional extensions of action into Europe or Asia as promise success in selected areas. But it need not be anything like, as large an army as would be necessary for a land war on the continent of Europe or the continent of Asia.

The fact that the air force has deteriorated is due solely to the shortsightedness of this Administration and the Pentagon policy which in substance refused any increase in air force unless corresponding increases occurred in the Army and Navy. The 80th Congress in 1947 set up a Congressional Aviation Policy Board. This Board reported to the Congress on March 4, 1948, recommending a 70-group air force as a prerequisite for national security. A Citizens' Advisory Commission set up by the President under Mr. Finletter also recommended a 70-group air force. The 80th Congress in the supplemental defense appropriation bill of 1948 provided for such a force and the air force increased from 55 groups in June, 1948, to 59 groups in December, 1948. On Dec. 31, 1948, however, after the 1948 elections, a Presidential directive required the air force to be cut to 48 groups. In 1949 the 81st Congress provided for a build-up of the air force to 58 groups again, 10 more than was recommended by the President, but the President, when he signed the fiscal 1950 military appropriation act, directed the Secretary of Defense to place in reserve the amounts provided by the Congress for increasing the structure of the air force. The amount impounded by direction of the President totaled $775,450,000.

On Oct. 5, 1949, I wrote:

"The possession of the bomb by Russia emphasizes above everything else the necessity of building up an all-powerful air force. The only possible defense is a complete control of the air. If there is ever a third world war, it will be won by the nation who can most completely dominate the air. We should build up our own air force again to 70 groups. We must constantly improve our air force and our air defense."

But until the Korean War, the President still insisted on holding the air force to 48 groups. Now the increase is to be balanced by an even larger increase in the land forces.

Not only is an all-powerful air force the best possible defense for the United States, but it is also the greatest deterrent to war. Winston Churchill has said that the American possession of the atomic bomb and the possibility of using it in an attack on Russia is the greatest possible deterrent to Russian aggression. It seems to me this must be true. The Russians are not going to be deterred by land armies until they are built up to a point threatening aggression against Russia or its satellites, and they can always attack before that point is reached. They know that the destruction of their principal industrial developments by atomic bombs may make it infinitely more difficult for them to succeed in any war. Every consideration, therefore, of American defense, and also of the insurance of peace, depends upon the development of an air force more effective than the world has ever seen.

A superiority in air and sea forces throughout the world can achieve other purposes than mere defense. It can furnish effective assistance to all those nations which desire to maintain their freedom on the continent. It can achieve a balance of power under which more peaceful relations throughout the world can constantly be developed.

While defense of this country is our first consideration, I do not agree with those who think we can completely abandon the rest of the world and rely solely upon the defense of this continent. In fact, the very thesis of an effective control of sea and air by the free nations requires that we do interest ourselves in Europe and the Near East and India and the Far East, so that Communist influence may not extend to areas from which it is still possible to exclude it by many methods other than land armies. Of course, Mr. Hoover's recent speech was completely misrepresented by the Administration press in this regard. He did not advocate retirement to the American continent. He only urged that emphasis be placed on our defense of the Atlantic and Pacific oceans, as it should be particularly if all of our allies should abandon us.

It seems to me that our battle against communism is in fact a worldwide battle and must be fought on the world stage. What I object to is undertaking to fight that battle primarily on the vast land areas of the continent of Europe or the continent of Asia where we are at the greatest possible disadvantage in a war with Russia. The first principle of military strategy is not to fight on the enemy's chosen battleground where he has his greatest strength. We could not have a better lesson than has been taught us in Korea. We cannot possibly transport enough men and equipment to overcome the vast manpower supplied by the teeming millions of Russia and of China. Where there is complete disregard for human life, even the best weapons and equipment will fail to overcome that disadvantage in manpower.

Our opposition is not greatly unlike that of Great Britain which dominated much of the world for 200 years, and brought about the balanced peace of the last half of the 19th century. The British had control of the seas and met every challenge to that control. There was no question of air power. They seldom committed any considerable number of British land troops to continental warfare, and when they did so, they were by no means successful. Marlborough fought very largely with mercenary troops and the troops of his allies. Napoleon was finally defeated by a combination of many nations which did not contain more than 20% of British troops.

Control of the seas enabled the British in many places to develop power on the land as in India. They supported one group in such countries against others, and gave strong support to their friends. They established garrisons at strategic points where sea power could protect them. It was the sea power of Britain which gave Britain a powerful influence on the continent of Europe itself. It seems to me, by reasonable alliance with Britain, France, Holland, Australia and Canada, the control of sea and air can establish a power which cannot be challenged by Russia, and which can protect Europe as it has been protected now for five years through fear of what sea and air power can accomplish against Russia. There is no need for a specific line of defense, but we can exercise a power for peace over a vast area. If the Russians realize that that power cannot be challenged, and can do real damage to their own nation with the atomic bomb and otherwise, their purpose of military aggression may well wither, and gradually peaceful relations in Europe may grow again. The desire of human beings for peace and comfort and normal human relations is a powerful force which will constantly reassert itself.

I do not believe that this sea and air power should be used for aggressive purposes, but I do believe it should be available to assist those nations which ask for assistance to defend themselves against Communist aggression, to the extent that such power can be successfully and effectively used. We must not undertake anything beyond our power, as we have in Korea. We must not assume obligations by treaty or otherwise which require any extensive use of American land forces. In the first place, we should be willing to assist with sea and air forces any island nations which desire our help. Among those islands are Japan, Formosa, the Philippines, Indonesia, Australia and New Zealand; on the Atlantic side, Great Britain, of course.

Japan is a special case. It seems to me we should at once make a treaty with Japan and then declare peace with Japan by joint resolution. Such a treaty should provide for assistance from the United States in the air and on the sea and temporarily perhaps with a few divisions on land until the Japanese can create their own land army for defensive purposes.

I believe the policy would also involve the support of Chiang Kai-shek on Formosa and the providing of arms and other assistance which might enable him to defend himself and contest with the Chinese Communists in China itself at least until peace is made with them. It is ridiculous to talk about avoiding a war with Communist China when such a war already exists. When American boys are being killed by Chinese armies, and Peiping announces that they are fighting the United States and trying to destroy American forces, we might as well have a declared war. It would untie the hands of our military commanders, and force the return of some of their army to China. The operations of Chiang's army and the free Chinese on the mainland should be a real hindrance to the occupation of Southeast Asia by Communist armies. In fact, it would seem to be the only hope. Such a war certainly need not involve the invasion of China by American armies, or cost us one more man, or one more dollar, than the present war in Korea. In fact it would cost us much less.

I do not know enough about the military situation to know whether we can maintain our position in Korea, but certainly we should not jeopardize our army there to the extent of risking its destruction. It is far better to fall back to a defensible position in Japan and Formosa than to maintain a Korean position which would surely be indefensible in any third world war.

There may be some question as to the ability of a sea and air power to defend islands in reasonably close proximity to the coast as are Formosa and Japan. Sea power there is seriously limited by submarines and mines, but we should make every possible effort to establish the ability of our navy and air force to prevent any landing across 100 miles of salt water.

The power of great sea and air forces is not necessarily limited to island nations. The policy I suggest certainly would not abandon to Communist China the continental nations. In the first place, we may give economic assistance to many such nations providing they really want that assistance. We can give arms as we are bound to do under the Atlantic Pact, and as we are now doing in Indo-China, in Greece and in Turkey.

There are some places where it may even be wise to commit some land troops if we can see a reasonable chance of success. Korea does not seem to be such an area, but the entire continent of Africa is connected with Asia and certainly we should assist in defending the Suez Canal as a means of maintaining our connections by sea, and Northern Africa where we hold valuable air bases. It may be possible to assist Spain. I should suppose that Singapore and the Malay peninsula could be defended by land troops if sea and air power is available on both sides of the peninsula. The extension of such aid by land troops, however, is a dangerous experiment as we found in Korea. I doubt if we should enter into any commitments in advance, or undertake the job at all unless we are sure it is well within our capacity, and almost certain of success.

The greatest question of policy before the country and before this Congress, however, relates to our undertakings in Europe. Under the general principles I have laid down, I would say that we had better commit no American troops to the European continent at this time. Some modification is required in that theory because, first, we are now occupying Germany with obligations growing out of the second World War, and, second, we have made certain promises under the Atlantic Pact.

It might be will first to consider just what our obligations are under the Atlantic Pact. One thing seems certain. There is no legal obligation to send American land soldiers to Europe.

Article 5 of the treaty reads:

"The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all; and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defense recognized by Article 51 of the Charter of the United Nations, will assist the Party or Parties so attacked by taking forthwith, individually and in concert with the other Parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area."

By its terms this article clearly leaves us free to determine what action we deem necessary; in other words, we are obligated to go to war with Russia if it attacks any of the Atlantic Pact nations, but we certainly are free to determine how we shall fight that war. A council is set up by Article 9 which is to recommend measures for the implementation of Article 5, but we are certainly not bound to accept any such recommendations.

In July, 1949, on the floor of the Senate, it was even argued that the pact did not obligate us to provide arms and equipment for the parties to the pact. It seems to me, however, that if we ratified the pact we were morally obligated to provide such equipment in view of the promises made by the State Department in connection with the signing of the pact. The amount of this equipment, however, was not to be extensive and certainly it was based on a very large contribution by the other parties to their defense. On the bill implementing the pact, Senator Vandenberg said:

"So I am sure the Senator from Maryland agrees that, in the final analysis, the great strength and authority of the North Atlantic Pact is, not in Article 3, but in Article 5, which is a general notification to any potential aggressor that if he does aggress upon the North Atlantic community, he will confront all the resources of 300,000,000 people to guarantee his defeat."

Mr. Tydings: "I agree thoroughly with the able and distinguished Senator from Michigan."

Senator Vandenberg severely limited even our contributions for arms. He explained in the debate on the bill implementing the pact that the overall assistance was only $1,100,000,000, to be paid out at the rate of $500 million a year. Senator Connally made it clear that the pact did not obligate us to send a land army to Europe. He said:

"This bill does not provide, as has been said by some persons, that we are rearming Western Europe. Western Europe will spend five or six dollars for each dollar contributed by the United States. Let me point out that we are not increasing by this aid the number of armed men in the armies of the North Atlantic Pact nations. We are simply undertaking to modernize their existing armies which they themselves raise by aiding them in obtaining equipment, munitions and supplies. But we are not sending a single soldier to any of those countries for combat purposes, nor are we insisting that they increase the size of their armed forces." (Page 13,020.)

In his appearances before the Foreign Relations Committee, Secretary Acheson denied that we were obligated to send troops or even extensive aid in equipment. He said:

"It is not proposed to increase the establishments beyond what is already provided in their budgets.

"This assistance has to do with the provision of more effective and better rounded equipment for those forces. The European nations will do the great bulk of this equipping themselves. They will enter into—in fact they already have devised the basis of—agreements by which they will help one another get equipment.

"So far as the pact countries are concerned, United States assistance will be somewhere between one-sixth and one-seventh of the total effort which will go into military efforts in Europe. We will provide, as is stated in the statement, approximately $1,130,000,000 for the pact countries."

He was asked the direct question by Senator Hickenlooper:

"I believe you said earlier in your testimony today that it was contemplated that a great portion of the armament, or the developed armament, of western Europe, in the nations of this pact, would be carried under their own weight. I presume that that refers also to the manpower in their armies. I am interested in getting the answers as to whether or not we are expected to supply substantial numbers—by that, I do not mean a thousand or two, or 500, or anything of that kind, but very substantial numbers—of troops and troop organizations, of American troops, to implement the land power of western Europe prior to aggression.

"Is that contemplated under Article 3, where we agree to maintain and develop the collective capacity to resist? In other words, are we going to be expected to send substantial numbers of troops over there as a more or less permanent contribution to the development of these countries' capacity to resist?"

Secretary Acheson: **"The answer to that question, Senator, is a clear, absolute 'No.'"**

Since the sponsors of the treaty backed by the State Department took this position, they can hardly contend now that we have any obligation under the Atlantic Pact to send American soldiers to Europe. We did have warning at the time of the Atlantic Pact that the military authorities in the Pentagon regarded the pact as leading toward a land war with Russia. I pointed out in opposing the pact that we were headed in this direction. I said:

"It is one thing to agree to go to war with Russia if it attacks western Europe. It is another to send American ground troops to defend Norway or Denmark or Holland or Italy or even France and England. I cannot assert positively that we are committing ourselves to a particular type of war, but I am inclined to think that we are. Thus General Bradley testified before the Committee:

"'Finally, after studied appraisal of the future security provisions for our country, the Joint Chiefs of Staff are in unanimous agreement that our strategy, in case we are attacked, must rely on sufficient integrated forces of land, sea and air power to carry the war back to the aggressor, ultimately subjugating the sources of his military and industrial power. Plans for the common defense of the existing free world must provide for the security of western Europe without abandoning these countries to the terrors of another enemy occupation. Only upon that premise can nations closest to the frontiers be expected to stake their fortunes with ours in the common defense.'"

This appears to contemplate a land war with Russia on the continent of Europe. It appears to contemplate later an invasion along the lines which Napoleon and Hitler found to be impossible. It implies that the nations which signed this pact expect us to send American troops to defend their frontiers.

But it was only our military planners who discussed sending American land troops to Europe. Responsible officials of the government absolutely repudiated any idea that the Atlantic Pact contemplated any such aid. If the President in his conference with Mr. Attlee, or Secretary Acheson at Brussels has undertaken to commit the United States to any such assistance before or during a war, they are usurping the authority given by law and their program should be submitted to Congress for consideration. The President has no power to agree to send American troops to fight in Europe in a war between the members of the Atlantic Pact and Soviet Russia. Without authority he involved us in the Korean War. Without authority he apparently is now adopting a similar policy in Europe. This matter must be debated and determined by Congress and by the people of this country if we are to maintain any of our constitutional freedoms. I note that, at his press conference yesterday, the President asserted that he had the right to send additional troops to Europe. Technically, of course, he can send troops to occupied Germany as long as the war status is in effect. But in fact no more troops are needed for the occupation of Germany. In fact, those already there are a heavy burden on the German people. Also, we hope that soon the war status may be ended by resolution. If the President has any technical right to send American troops to Europe, Congress, by resolution, such as the Coudert Resolution, or by restriction in the appropriation bill providing the divisions required, may finally determine the policy to be pursued.

My own views on the general policy of the Atlantic Pact were clearly stated in a speech which I made on the Senate floor on July 11, 1949, in opposing the ratification of that treaty. It has now become an obligation of this country and the situation is therefore somewhat changed. We have two divisions in Germany. If Russia attacks, we will be in the war.

But I do not think we should force our assistance on nations which do not wish to arm themselves. It do not think we should insist or even urge that the European nations form a great international army unless they request us to help them in that project. I do not think we should assume the leadership in the formation of a great international army by the appointment of an American Commander-in-Chief. General Eisenhower is going to Europe to look into the wisdom of this project, and I hope he explores every aspect of such a commitment. If we do so, we will be called upon constantly to increase our contributions to this army, and it will be very embarrassing to decline. On the other hand, if those nations really do desire to build up their own arms, and do so with our assistance, and if the time comes when they see the need of and demand a coordinated defense, and if it appears at that time that that defense has a reasonable chance of success, I should not object to committing some limited number of American divisions to work with them in the general spirit of the Atlantic Pact. Such a program, however, never ought to be a key point in our overall military strategy. And the initiative should be theirs and not ours.

The course which we are pursuing will make war more likely. If this great international force which we envision is gradually built up, the Russians for awhile will gradually increase their strength, but it seems obvious that if they think the Allies are gaining on them too rapidly, they can always begin the war. However defensive and pacific our intentions, to them the building up of this force must look like aggression when it is completed. Someone has invented the theory that the Russians have a particular time-table under which they were at one time looking to attack in 1955, then in 1952 and now perhaps in 1951. I know of no evidence for any such conclusion. If they have an intention to attack, they will obviously attack before the Atlantic Pact forces are built up, and it will take at least three years to build them up. Why should they wait? If they have no intention to attack, then we don't need the armed forces, at least in such coordinated form and in such close proximity to Russia as to seem to threaten an attack.

Furthermore, I am most concerned about the danger and difficulty of committing our greatest efforts to a great land war on the continent of Europe against Russia. Neither Napoleon nor Hitler were ever able finally to defeat Russia on land, although they had more men than we are now planning, certainly in comparison to the number of Russians available. If we send to Europe or promise

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What Our Foreign Policy Should Be!

to send within a few weeks of the beginning of the war, say a million and a half men, there is at least a reasonable chance that that army may be destroyed and may never return to this country. They will certainly be outnumbered. Their defense against Russian hordes apparently depends on the development of new weapons which are still untested. Even then a modern war cannot be won by remaining on the defensive, even behind a Maginot line of Bazookas.

Furthermore, do we not risk the loss of every man we send to Europe? If we have to spend $3 billion building air shelters in this country to protect our people against Russian atom bombs, then surely there is danger that the Russians can destroy all of the ports of the continent which we may be using. One atom bomb at Hungnan might have prevented the escape of every American soldier. They may prevent the landing of our troops, and the furnishing of adequate supplies. They may make even a Dunkirk impossible.

(3) Is such a military policy possible for any period of years without inflation and the loss of liberty at home?

I believe that it is possible for us to maintain our economy if we pursue the air and sea strategy I have outlined. Apparently 700,000 men apiece for the navy and air force would provide a most powerful sea and air defense. I must admit I am guessing as to the figures, but it is at least suggested in the hearings that $10,000,000,000 a year would take care of the current operations of these two forces plus about $10,000,000,000 a year in new equipment. This equipment bill might decrease after several years when the forces reach their full strength. To this $20,000,000,000 must be added another $20,000,000,000 for the army even if we hold that army to approximately a million and a half men. The total expense of $40,000,000,000 a year for military purposes plus domestic expenditures and aid to foreign nations might hold the entire expenditures of the Federal Government within $65,000,000,000. It is possible, in my opinion, to develop taxes which will ultimately meet that bill.

However, those who are thinking of our policy in terms of an American army in Europe and a war there with Russia propose a much larger increase in the army. The program is entirely indefinite at this moment, but I have heard talk of having as many as 4½ million men under arms, which would mean a land army of 3 million men. If we are going to try to put a million and a half or 2 million men in Europe or available for transportation to Europe within a few weeks of Russian attack, this may not be unreasonable. But it would certainly increase the armed forces bill by another $20,000,000,000 to $30,000,000,000 a year. That money would have to be borrowed and we would be perpetually on a deficit basis. I do not believe it is possible to prevent inflation with an annual deficit of $20,000,000,000.

Even with the smaller bill, price and wage controls will probably be necessary and they may be effective to stabilize prices if we are balancing the budget, but even controls cannot prevent inflation and decrease in the value of the dollar if we permit such a tremendous deficit through an increase in army expense.

Furthermore, the larger the army with very little to do, the more difficult it will be to maintain its morale. Before Pearl Harbor, the morale of our army was exceedingly low, with frequent desertions and a complete lack of understanding of the necessity for keeping numbers of boys in camp. Russia could desire nothing more than an indefinite condition of economic weakness and inflation with millions of men taken out of productive work and the inevitable dissatisfaction which will result in turning the United States into a garrison state.

Incidentally, no matter what the program may be, there are certain principles which should be impressed on our army officials. Is it necessary for this country to provide from 60 to 70 thousand men in uniform and half as many more civilians in order to put a division of 18,000 men in the field? Every day industry is creating improvements to increase the efficiency per man of the American population. Every day our inventors are saving manpower. Isn't the army wasting a vast amount of manpower in its operations? Does any other country use as many men to get war power into the front lines? Couldn't we provide twice as many divisions at the front with the same number of men? Every Senator hears daily, stories of the waste in army procurement and in the methods by which that procurement is carried out. This whole problem has become of infinitely greater importance than it ever has been before, because we undoubtedly face a long period of heavy militarization. It should be made the subject of intensive study by men who have had some experience in industrial operations.

Under any program, the American people are going to be called on for vast sacrifices. Nearly every boy of 19 is going to be drafted for two years' military service. Tremendous taxes will be imposed which will reduce the income and standard of living of every American citizen. Surely, they have the right to insist upon a program as economical as it can be made to accomplish the purposes on which I hope we may all agree.

The key to all the problems before this Congress lies in the size of our military budget. That determines the taxes to be levied. It determines the number of boys to be drafted. It is likely to determine whether we can maintain a reasonably free system and the value of our dollar, or whether we are to be weakened by inflation and choked by government controls which inevitably tend to become more arbitrary and unreasonable.

(4) How shall we convince the people of the world that liberty is a better way of life than communism can ever be? Before the advent of communism the best method of showing the benefits of liberty was to set an example by our own policies. Under a free system we have brought about in this country the greatest production, the greatest productivity per person, and the highest standard of living the world has ever seen. Generally speaking, we have successfully maintained liberty and equality for the individual.

But communism has introduced a new spirit of aggression into the world. It has inspired fanatical zeal in its advocates. It has adopted a combination of deceit, propaganda, and strong-arm methods, which has spread its control over hundreds of millions of men and over many countries. Now we are forced to use the same methods which communism has adopted, or be swept away. I have outlined the military preparation which I think necessary. I have supported aid to foreign countries in order that they might more successfully combat the attacks of communism. But I also believe we should adopt aggressive methods of propaganda. We have something to sell. Liberty has always been a more appealing philosophy to the people of the world than totalitarian communism can ever be. We have to convince ourselves first that we really believe in the benefits of liberty, but if we do that we have all the arguments and all the results to point to. If we are sufficiently intelligent and understand the thinking of other people, we should be able to win the battle against communism in the minds of men.

Finally, I believe we should use the same methods of infiltration as have the Russians. We need a much more effective intelligence force. We need to study the methods by which those millions who yearn for liberty in satellite countries may be organized to seize power wherever they have the support of their fellow citizens. We can back Chiang Kai-shek in his operations in China among the free Chinese and the underground. Today, as far as I can see, there is no central agency anywhere to organize the lovers of freedom throughout the world, and keep in communication with them and their programs. There is no plan and no program in this field except the limited propaganda of the Voice of America.

Conclusion

The threat of communism is real. Those who are directing its affairs are brilliant and unprincipled. America must be the leader in the battle to prevent the spread of communism and preserve the liberty of the world. In the field of military operations, our strongest position is in the air and on the sea, and we should not attempt to be also a controlling power on the land. We should not be a military aggressor or give the impression of military aggression or incite a war which might otherwise never occur. Operations on the continents of Europe and Asia, if any, should be undertaken only with the greatest care and under careful limitation. We must not so extend ourselves as to threaten economic collapse or inflation, for a productive and free America is the last bastion of liberty.

And finally the policy we adopt must be approved by Congress and the people after full and free discussion. The commitment of a land army to Europe is a program never approved by Congress into which we should not drift. The policy of secret executive agreements has brought us to danger and disaster. It threatens the liberties of our people.

Halsey, Stuart Offers Chic., Ind. & L. Ctfs.

Halsey, Stuart & Co. Inc. on Jan. 4 publicly offered $1,200,000 of Chicago, Indianapolis & Louisville Ry. 2¾% equipment trust certificates at prices to yield from 1.90% to 2.95%, according to maturity. They will mature annually March 1, 1952 to 1966, inclusive.

Issued under the Philadelphia Plan, the certificates will be secured by new standard gauge railroad equipment estimated to cost approximately $1,550,000.

The certificates were awarded to the bankers at competitive sale on Jan. 3 on their bid of 99.159.

Eldredge Cgo. Sales Mgr. for Reynolds

CHICAGO, Ill.—Charles H. Eldredge has been appointed sales manager of Reynolds & Co. in their Chicago office, 208 South La Salle Street, John G. White, resident partner, has announced.

Securities Salesman's Corner

By JOHN DUTTON

The world is in a pretty sorry state right now, but talking about it with your customers will not help you to do business. Most people do not need much urging to start talking in a pessimistic vein about the future. As soon as they begin to think along these lines your opportunities for selling securities are practically nil.

The next time someone starts to talk about the Korean situation, the national debt, high taxes, or why should anyone try to plan for the future, take the conversation out of this rut as soon as possible. It can be done in a tactful way simply by saying, "You are certainly right, things don't look too bright, but what do you say we talk about this from another angle? Possibly, we will look at this much differently five or ten years from now—our country is still mighty strong compared with most other nations. You know that we have been through some hard times in the past— it is just possible that if we could buttonhole one of our Congressmen and tell him what is on our minds it might do some good. But I think you'll agree with me that talking to each other won't help very much." Then change the subject—you'll find that it won't be difficult, and in fact, the person to whom you have been talking may even feel relieved.

The uncertainties of the present day can be used to advantage, if a salesman only looks behind the motives that prompt his prospect to express his doubts and uncertainties. When conditions are confused, and the outlook for business and securities is as clouded as it is at present, this is the time to talk diversification. What is the only answer when no one knows where safety lies? Isn't it in the age-old, time tested, and soundly conceived plan which provides for spreading risk? This is the sort of situation that is just made to order for the security salesman who can exploit the uncertainties of today, and offer a well balanced program of investment. It is certainly an ideal time to stress the advantages of Mutual Fund diversification. I sometimes think we do not stress the importance of spreading risk as we should.

When your prospect says, "I just don't know what lies ahead, I can't see through the fog;" isn't it better to offer him a solution to his problem, rather than commiserate with him? There is an answer to every financial problem. Isn't it better to ask, "Let's find out where you stand, Mr. Investor. Let us check up and see if you are holding some stocks that could be hurt by priorities, allocations, or higher taxes. Possibly you have some investments that can be improved—either from an income or an appreciation standpoint?" When you start talking along these lines you are doing something positive. Unless you do take the initiative you will find out that your customer will not make any investments, or changes in his portfolio, regardless of whether or not such a course would be of benefit to him.

Coming back to fundamentals, the main reason people do business with you is that they believe that you can help them solve a problem. If you follow the lines of least resistance and talk about the things that are worrying them, you offer no solutions.

It is only when you reach back behind the other man's conversation and discover the one main issue in which he is interested, that you will be able to convert interviews into sales. When you show him how he can solve a problem the rest just follows naturally—you must do business.

Instead of war — sell diversification.
Instead of deficit financing on the part of the government — sell good stocks as inflation hedges.
Instead of taxes — sell portfolio assistance that helps reduce them.
Instead of fear — sell hope and confidence!

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Direct Placement of Securities

change? Certainly it would be logical to expect a change in (4), likewise in (3), and to some extent in (1). Direct placement reflected these changed needs and functions. On the other hand consider the fields where these changed conditions do not apply—where the small investor has an interest and in which his buying power is important—such as for example, municipal bonds and stocks, particularly common stocks—here direct placement is at a minimum and the underwriter is important in all four functions.

At this point it is worthwhile to note that one of the above conditions has changed since the thirties; the thirties were characterized primarily by financing for refunding purposes with total corporate debt declining. Since 1945, however, large scale financing for new capital needs has taken place and long-term corporate debt has increased sharply. That direct placement has increased in importance during this latter period is evidence of its fundamental importance.

So long as conditions approximating those now present continue, it is logical to expect that the system of distribution of investment quality bonds will continue to circumvent at least in part those functions of the underwriter which are no longer as economically necessary as they once were under different conditions. Whether or not direct placements as they are defined in this paper constitute the ultimate answer to the changed conditions is a moot question; but some change along these lines was definitely indicated. Merely to change the law to require registration of all larger direct placements would not alter these economic forces; such a change in the law would, however, reduce the flotation cost advantage of direct placement, and reduce certain other advantages of direct placement. The net effect of such a change in the law, in my opinion, would be to curtail the volume of direct placements, but probably not seriously so.

The Large Company Versus the Small Company in Direct Placements

An opinion held in many quarters and often voiced in Congressional hearings is that direct placements benefit the giant corporations and that they are not available to the small borrower, who is elbowed aside. Nothing is further from the truth. The fact of the matter is that the small borrower derives far greater advantage from direct placement of securities than does the larger borrower. Consider the position of the small relatively unknown company which nevertheless is a sound long-term credit risk. What are its alternatives when it wishes to raise money? Equity money is difficult to raise, and extremely costly. This problem is so much treated elsewhere that it need not be considered further here. As to debt financing, the borrower can go to his bank and get a commercial bank loan payable on demand in 60 or 90 days or a year; such financing is not at all suited to his need for capital investment which is of a long-term nature. Such financing is as a matter of fact very dangerous to him; the bank's lending policy may change and change suddenly as a result either of changed local conditions or a change in conditions beyond their control such as Federal Reserve policy. This may cause the bank to call in the loan, or curtail any additional lending, and the businessman finds all his plans upset; if he has used the money for fixed asset investment, he may face bankruptcy; if he has used it to finance an increased sales volume, he may find it necessary to drastically curtail sales with resulting possible losses. A businessman can never safely plan over the longer term if he is relying on the continuing availability of short-term bank money. In some cases the businessman may secure a term loan from his bank, repayable over a period of five years. This represents a heavy repayment and in the event of poor business conditions may cause him to default. Moreover, the availability of such term credit depends in great degree upon the availability to the bank of regular short-term commercial loans, which are and should be the basic instrument for commercial bank lending. Thus, if plenty of commercial loans are available, little or no term money will be available from the banks, and this is the situation which is apt to prevail when there is great need on the part of the small business for new money.

What then about a public offering of the bonds of such a business? In the first place, this may not be a real alternative, for no underwriter may be interested in his small issue; secondly, if he can find an underwriter, the cost of a public offering will be very high, often prohibitively so. And the smaller the issue, the higher will be the percentage cost of public distribution. The two tables (Nos. VII and VIII) below will illustrate this point.

These tables contain data covering approximately 90% of the securities offered for cash sale to the public through investment bankers. The first important point to note is that there were only two bond issues under $500,000 and only eight under $1,000,000. This in itself is an indication that the public market is not a real alternative for the small borrower or the small issue. Secondly, it can be seen that for the six issues between $500,000 and $1,000,000 the cost of flotation amounted to 8.68% of the gross proceeds. This is a very high cost indeed; translated into interest rate cost, it would mean that a small issue which might command a rate of 4.00% from the investing public would actually cost the borrowing company somewhere in excess of 5.00%, or an increase of over 25% in his effective interest cost. Compare this to the situation at the other extreme in size; namely, issues $50,000,000 and over where the total cost of flotation amounts to only 1.04% as against the 8.68%. When translated into interest cost on a typical issue of this size it would mean that an issue which would command a 3.00% rate from the investing public would cost the borrower approximately 3.06%. Thus, the additional effective interest cost to the small borrower was approximately 1.12%, as against 0.06% for the large borrower. This is a striking difference.

In the face of this high cost of public offering for the small borrower and the small issue, it would be logical to expect the small borrower to turn a hopeful glance toward direct placement in the hope of securing necessary financing on a basis suited to his needs.

What would a small issue like this cost the borrower in the way of flotation expenses if he were to sell it directly. Unfortunately, no statistics are available on this subject. From my own experience, however, I have seen issues of $500,000 or less which have been floated directly at a cost as low as ½ of 1%, and I have seen such issues placed at a cost as high as 2%. Undoubtedly, in some instances the costs may have been higher than this. But in any event I do not think that it can be seriously questioned that direct placement drastically reduces the cost of flotation of a small issue when compared to a public offering. This is definitely not true in the case of the very large issue; in the example cited above if all the costs of public flotation were to be saved by direct placement, it would only have saved 0.06% on the interest cost, and the actual theoretical saving is nearer 0.03%.

What then is the statistical evidence to support the above conclusions? There is certain evidence available. In the first place, based upon the study of Ebasco Services entitled "Anlysis of Public Utility Financing—1949," we made a tabulation (see table IX) of the public utility bond issues offered in 1949 by size of issue and method of distribution which reveals that all of the small issues go directly, and as the size of the issue increases a larger and larger percentage goes through the competitive bidding process. Thus, for issues $1,000,000 or less, 100% went directly; whereas for issues of $10,000,000 and over only 22% of the number went direct. If dollar volume is considered the same results are shown; of the total dollar volume of all issues $1,000,000 or less 100% was placed directly; this percentage declines steadily with the increase in size of issue, and with those over $10,000,000 only 17% of the total volume went directly.

These statistics are subject to justifiable criticism in that many public utilities are forced to go competitive either by the SEC under the Holding Company Act, or by their state public utility commission. Nevertheless, an analysis of offerings reveals that there are a substantial number of instances in which the borrower is free to choose the method of distribution, and if the issue is small he tends to prefer direct placement, and if it is large he tends to favor competitive bidding.

Let us now turn to industrial and miscellaneous corporations where management has complete discretion. One of the best sources is the study made in 1948 and 1949 by E. V. Hale & Co. Table X below, taken from this study for 1949, shows the distribution of direct placement loans by size of issue. According to this study, somewhat over one-fourth of the number of loans made were for amounts less than $500,000; 45% for amounts less than $1,000,000; more than three-quarters for amounts under $3,000,000 and over 80% under $5,000,000. When reference is made to volume as might be expected in view of the predominance of the large size corporation in our corporate structure, the picture is different. Although, accounting for less than 20% of the number of issues, issues over $5,000,000 accounted for about 77% of the total volume.

These figures clearly demonstrate that the small company has taken very extensive advantage of the direct placement method of floating its debt securities. On the other hand when reference is made to industrial securities of small size floated publicly, they are almost nonexistent. For example, in the SEC study of "Cost of Flotation for the Years 1945-1947," there were included only two issues under $500,000, only eight issues below $1,000,000. Contrast these figures with the 156 direct placement issues below $1,000,000 in the single year 1949, and 223 such loans in 1948.

Figures given by Donald B. Woodward in his testimony in December, 1949, before the O'Mahoney subcommittee, and prepared by the Life Insurance Association of America, likewise confirm these findings.

This table (No. XI) brings out the fact that of the total number of industrial and miscellaneous direct placements made by these 17 insurance companies in 1948, 187 or 37% of the total were made to companies having less than $10,000,000 in assets, whereas only one issue purchased publicly fell into the category. On the other hand, less than one-quarter of the number of issues purchased directly were to companies having $50,000,000 or more in assets, where as over 70% of those issues purchased publicly were in this category.

Thus, in my opinion, it may be safely concluded:

(1) That the method of direct placement of debt securities has been of great benefit to the small borrower;

(2) That he has tended to take substantial advantage of this method of financing; and

(3) That he derives greater benefit from it than the larger corporations.

The Large Borrower and Direct Placement

So much then for the small borrower. It has already been indicated that the large borrower derives less of an advantage from direct placement than the small borrower. However, he must still consider that it is advantageous for the alternative of a public offering is definitely available to him. What then are the reasons for his placing so many of his securities directly? There are a number of such reasons which have been offered from time to time; let us take a look at some of them. We have already dealt with the fallacy of the argument that direct placements take place to avoid the cost of registration; other aspects of registration, however, are at times of importance in determining whether an issue is placed publicly or directly. For example, registration is a time-consuming process occupying possibly two months from the initial planning of an issue to final sale. Consequently, when speed is of the essence to meet a certain timing date, direct placement has a considerable advantage.

Likewise, when there is any uncertainty as to market conditions, direct placement also has a very distinct advantage over public offering; this is because at the conclusion of negotiations of terms the institution or institutions taking a direct placement can and will give a firm commitment, whereas in the case of the public offering the underwriter will not usually make a commitment as to price until two or three days before the actual offering. Consequently, an adverse trend in the market between the time of the conclusion of negotiation and the actual offering, after the 20-day period, will result in a higher interest cost to the borrower. This is a risk to which the borrower is not exposed in a direct placement.

The direct negotiation between the borrower and the lender af-

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Hemphill, Noyes Firm Admits Two Partners

William G. Maloney Lawrence M. Stevens

The admissions of William G. Maloney and Lawrence M. Stevens as general partners of Hemphill, Noyes, Graham, Parsons & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, has been announced. Mr. Maloney became associated with Hemphill, Noyes & Co. in 1939 and has been manager of the firm's buying department for the past four years.

Mr. Stevens became associated with Graham, Parsons & Co. in 1942. In 1949, at the time of the consolidation into Hemphill, Noyes, Graham, Parsons & Co., he became co-manager of the Philadelphia office. He will be the resident partner in Philadelphia.

Admission of the new partners was previously reported in the "Chronicle" of Dec. 28.

Robert B. Menschel Opens Own Office

Robert B. Menschel has been admitted to membership in the New York Stock Exchange. Mr. Menschel will make his office at H. W. Goldsmith & Co., 50 Broadway, New York City. Before becoming a member of the Stock Exchange he was active in developing broader knowledge and familiarity of the securities markets by college students and the general public through "Investment Week" exhibits which he sponsored.

C. F. Cassell Co. Adds

CHARLOTTESVILLE, Va.—C. F. Cassell & Co., Inc., 114 Third Street, N. E., announces that Lee A. Everhart, formerly with the Winston-Salem, N. C., office of Harris, Upham & Co., is now associated with them in their Charlottesville office.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market made the turn into the new year with an improved tone in spite of the notice by the monetary authorities that more bank funds would be tied up in the form of larger reserve requirements. The actuality so far has had no ill effects upon Treasury obligations to speak of, because the commercial banks have been carrying on for many months now with the belief that reserve requirements would be upped eventually. Because the deposit institutions know where they stand for a period of time at least, there has been quite a bit more activity among these banks in the market, a good part of which has come about through switches and swaps.

The improved position of the government seems to be due in no small measure to the opinion which appears to be growing that better days are ahead for Treasury obligations. The partially-exempts, the longer maturities, especially, and the Vics have been getting most of the attention in a market which has expanded in volume and activity.

Banks Conditioned for Reserve Increase

Despite increased reserve requirements the tenor of the government market is favorable because the action of the montary authorities seem to have been pretty well discounted. Member banks have been preparing for the larger reserves for some time and the first part of the changeover has been made without important developments. Although money has not been easy and there has been liquidation of the short- and intermediate-term maturities, there has also been more than a passing amount of selective buying in the middle and more distant eligible obligations. There are quite a number of commercial banks with savings deposits that have been taking on the recently offered 1¾s, and these purchases are being made without having to reach for them since the supply has been ample enough. Federal, it is reported, is still supporting the December, 1955s, but this condition is not expected to last too much longer, because more buyers are being attracted to the 1¾s with each passing day.

Partial Exempts in Demand

The partially-exempts continue to be in demand, and this reflects to some extent the buying which has been going on in a sizable way in the fully exempt (non-Treasury) obligations. The acquisition of the tax-protected governments is being done by not only the large deposit banks, but also by many of the medium-sized institutions, which has made the competition rather keen. The last four maturities, as usual, are the favored issues, with the 1960/65s the bellwether of the group. The 2⅞s have been well taken and there has been considerable activity in this obligation because the supply has been larger than in the 2¾s. It was reported that an operation was recently consummated with a couple of large non-bank investors which brought an important amount of the '58/63s and the '60/65s into the market for absorption by some of the big commercial banks.

Ineligibles Attract More Interest

The ineligibles have been giving a better account of themselves recently and the fact that the Vics have been able to get off the "floor" is an indication that a considerable amount of these bonds are going into strong hands. Insurance company and savings bank liquidation of the taps has subsided, but there are no assurances yet that selling by these institutions will not break out again. Nonetheless, there seems to be a more general feeling among buyers of the restricted obligations that these securities are now in an attractive area and this has brought into the market larger orders than had been expected in some quarters. It was believed that scale buying would be done in the taps, but in much smaller amounts than have been appearing. Purchases have been all along the list from the 2¼s through to the Vics. Pension funds appear to be the largest taker of the taps with the longest maturities the principal acquisitions. There has been buying in the shorter taps, the middle maturities and the longs, by trust accounts, fire and casualty companies as well as charitable institutions.

Long Non-Bank 3% Issue Not Imminent

Although there has been quite a bit of talk about a long-term Treasury 3% issue, which should be sold to non-bank investors, mainly life insurance companies and savings banks, nothing of the sort is under consideration, according to informed followers of the money markets. While the Treasury is more than desirous of selling issues to non-bank investors, in order to combat the inflationary forces, it will be some time yet before there will be need to finance a deficit. A great many things can happen in the next six months and if the controls which have been put into effect and others, which will no doubt be enacted, accomplish at least a part of what is expected of them, there should be no great need for higher coupon long-term Treasuries for non-bank investors. If there might be a larger coupon than 2½%, such as a 2¾%, for instance, the maturity will most likely be long enough to have no material effect upon the outstanding 2½s.

Henry R. Schmitt

Henry R. Schmitt, manager of the trading department of Pulis, Dowling & Co., New York City, for the past ten years, passed away suddenly on Jan. 1 at the age of 53. Mr. Schmitt was a member of the Wall Street Post of the American Legion and was active in the Security Traders Association of New York.

New York Stock Exchange Weekly Firm Changes

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

Morris Weil, general partner in Asiel & Co., became a limited partner Dec. 31.

William T. Carter retired from partnership in Montgomery, Scott & Co. Dec. 31.

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Direct Placement of Securities

fords the opportunity for the borrower to secure terms "tailor-made" to his needs. Furthermore, he can experiment with terms which he feels he needs in the negotiation process without impairing the success of his offering, whereas in the process of public offering, if he wishes some unusual provision in the indenture, he has to commit himself to it definitely in advance, and it may cause the issue to be a failure in the market place. Undoubtedly, in certain unusual cases, this ability to bargain directly and to obtain "tailor-made" terms is important, but in the majority of cases it would not seem to be of great importance, especially as the insurance company likewise, and with more reason, feels that "tailor-made" terms redound to its benefit.

Still another reason for corporate management to choose direct placement, and a very real reason, is that this method of distribution is particularly adapted to situations which have some feature or features about them which are not readily understandable by the general public, or which are more or less special situations off the beaten path. Such features are much more easily explained to one or a few sophisticated investors than to the general market. Consequently, the risk margin which will have to be allowed in a public issue of this type may be considerably larger than necessary in a direct placement. Issues of the type of Shell Caribbean Oil, involving complicated problems of international exchange, are a good example, as are issues such as the Kaiser Steel and the Labrador Ore issues, which hinge primarily upon the engineer's report as to economy of the operation and its ability to operate profitably in the future.

Another type issue in which direct placement has a distinct advantage is the construction project, where funds are advanced before construction is begun, as in the case of oil and gas pipe lines, bridges, toll highways, etc., and where a commitment to loan funds may extend over a period of two or three years in the future. Thus, it will be found that almost all of the new natural gas pipe lines construction projects were initially financed directly.

Another factor of importance to the borrower is the close relationship between the lender and borrower, and the consequent ability of the management to sit down with the lender at any time and discuss his problems. Thus, if the borrower's requirements necessitate a change in some indenture provision and it is a change which is justifiable in terms of the welfare of the business and the safety of the investment, such a change can be quickly and expeditiously made with relatively little cost and inconvenience to the borrower. Such is not the case, however, in a publicly distributed bond issue where the securing of assents is a costly and time consuming process, and where often the issue will have to be called and a new one floated.

Relative Interest Cost of Direct Placements to the Large Borrower

What about the relative cost of the two methods, direct versus public offerings? Is direct placement the more economical method? It is definitely true that the cost of flotation of securities publicly is considerably greater than in direct placement. There can be no argument about this fact. The saving, as has already been pointed out, is greatest for the small companies and the small issues and becomes progressively less as the size of the company and the size of the issue increases. Nevertheless, this is not the important thing; what really should matter to the borrower is the cost of his borrowed money, not merely the cost of floating the issue. Thus, he may be penny wise and pound foolish if he pays too much attention to saving $50,000 in flotation expenses by direct placement and on the other hand, incurs an interest burden $100,000 greater than he would have if he had sold the bonds publicly. It has often been stated that in the case of direct placements, the area of bargaining between the borrower and the lender would take place within the range of the flotation cost saving that can be realized by direct placement. Thus, the yield to the lender would be greater than the yield which it could obtain on a similar issue offered publicly by some fraction of the saving caused by direct placement. In other words, the saving would be split in some fashion between the lender and the borrower.

Let us then examine this question, first by attempting to measure this area of savings, and secondly, it determine whether in actuality the bargaining is confined to this area.

Corey, in his recent article in the "Harvard Business Review," cites an example of the comparative cost of direct placement and competitive bidding for a $12,000,000 issue of Idaho Power bonds. Total costs for competitive bidding were $109,550, as against $39,850 for direct placement, a saving of approximately $70,000. This saving, expressed as a percentage of the principal, amounted to 0.58%. This saving on a 30-year, 3% bond would have reduced the effective interest cost to Idaho Power by approximately three basis points, say from 3.00% to 2.97%, if in negotiation it was successful in obtaining for itself 100% of the benefits of the saving, and more important still, if it were certain of getting as good a basic bid as 3.00% in direct placement.

Another computation of estimated expenses, direct placement versus competitive bidding for a utility bond issue of $8,000,000 was made recently by a well known organization in the utility field. This computation is given in Table XII below, and shows a cost for public offering of $105,000 against $54,000 for a private offering, a saving of $51,000 in favor of direct placement, or 0.64% of the principal amount. Again on a 30-year bond this saving would reduce the interest yield to the borrower by approximately three yield basis points—i.e., 0.03%.

In addition, data are available concerning the issuance expenses for 12 utility issues totaling $39,680,000 which were sold directly with the permission of the FPC. The total issuance cost for these 12 issues was $269,868 or approximately 0.68% of the principal amount. The indicated savings as against public offerings of these issues would be in line with those indicated in the previous examples, i.e., a basis point differential in the neighborhood of 0.03-0.04% in interest cost.

In the case of industrial issues reliable data are even scarcer than in the case of utility bonds. In 1949, data are available for one very large industrial issue which indicates a total saving in terms of yield basis points of approximately 0.05%.

The Securities and Exchange Commission now has under way a study of the comparative flotation costs of direct placements as against public offerings, by size of issue, and by industry. This will fill a much needed gap in direct placement statistics.

Based upon data available at this time, it is probable that in the case of large issues the total saving in the cost of flotation by direct placement ranges between three and six yield basis points, and in most cases, would be nearer three than six.

Now what about the bargaining process between the borrower and lender in direct placement? Will it tend to be confined to this narrow area of savings? There can be no assurance that such will be the case, unless one assumes a perfectly competitive market in direct placements. In the case where the lender and the borrower negotiate without any intermediary, such as an investment banker or broker, the advantage in such bargaining would seem to lie on the side of the lender. The investment department of the large institutional lender deals in relative interest cost and market yields every day of the year and knows the market thoroughly; the large corporate borrower, on the other hand, may not know the market as well, for he may have occasion to come into the market for a bond issue very infrequently. Secondly, if the borrower is dealing with only one or two insurance companies, he is dealing only with one segment of the market, which may or may not be typical of the whole market. For example, one company because of its mortgage investment policy might be committed well ahead, and, therefore, might be in a very good bargaining position as regards the interest rate on corporate issues; this might not be at all true of another company. Likewise, one company may differ considerably from another in its investment regard for a certain type of industry. Thirdly, except in the case of the very best issues, there is always something less attractive about an issue which has been turned down by one or more companies, so that the companies to which the issue is first submitted have a certain bargaining edge. This factor varies considerably in importance, but in some cases can be a significant factor in the bargaining process.

There is thus some reason to believe that in the process of direct negotiation, the basic interest cost arrived at, without reference to the savings effected by direct placement, may depart from the price which would be arrived at in a fully competitive market.

Where the borrower employs an investment banking institution to advise him concerning the terms of the issue in negotiation, the bargaining process approaches nearer the competitive market, but it will, to a great extent, depend upon the capabilities and diligence of the investment banking firm. This case is not much different from the position of bargaining between the borrower and the underwriter in a negotiated public offering of securities. In both cases there may be deviation from fully competitive results.

It would thus seem unusual if the bargaining process in direct placements were able to keep within a tolerance of the public offering price plus 0.03-0.06%.

Let us now look to what evidence there is concerning the relative yields of direct placements versus public offerings. By the very nature of the case, there is not a great deal of evidence available, and what there is available may not be conclusive. For truly exact comparison, we would need to have the direct placement price and the public offering price for the identical issue at the same time. Unfortunately, data such as this does not exist, and, therefore, an element of judgment must necessarily enter the picture. Nevertheless, in the public utility field there are a number of cases where an issue was negotiated directly and application was made for exemption from competitive bidding which was denied and the issue therefore was sold competitively. Here, we are treating with the identical security, but the time of the negotiated price and the competitive price are different. Nevertheless, we can allow approximately for this difference in time by referring to the behavior of a market index of yields of similar quality bonds in the interval between the negotiated bid and the competitive bid. In recent years, there have been at least nine such instances involving $190,700,000 principal amount. On each of these nine issues, the competitive bid resulted in the lowest yield cost to the borrower, after taking into consideration the lower flotation cost of the direct placement. The total net savings in interest cost to the borrower for these nine issues amounted to approximately $9,200,000, or 4.8% of the principal amount of the bonds. Treating these nine issues for illustrative purposes as one 30-year, 3% bond, the following would be approximately the comparative yields and costs:

	Competitive Bidding	Direct Placement
Basic bid—i.e. price to public, or insurance company	3.00%	3.196
Underwriting commissions & discounts	.037	----
Expenses	.035	.024*
Total true interest cost to borrower	3.072%	3.22

*Finder's fee included in expenses.

In this example, theoretically the negotiation should have taken place in the range of 3.00%, the competitive rate, and 3.06%, 0.06% being the saving resulting by lower flotation costs in the direct placement. Actually, however, the direct placement negotiation resulted in a basic bid which was almost 20 basis points higher than the competitive bid, as against a flotation cost saving of direct placement of only six basis points, leaving the direct placement cost almost 15 yield basis points higher than the competitive bid interest cost. Here it would have been penny-wise and pound foolish to concentrate on attempting to save some portion of six basis points and wind up thereby losing 15 basis points.

This is conclusive evidence in my opinion that bargaining in direct placement is not always kept within the range of saving of flotation costs. It is not conclusive evidence that this is generally the case, but it would seem that prudent utility managements would consider twice, if interest cost was their primary consideration, before financing large issues directly. It would seem that this is true, for as already previously pointed out the great majority of large public utility bond issues are placed competitively.

In the case of industrial issues, in which at the present time competitive bidding is not practiced, management has full discretion and no exemptions are required from public authority; there is no such data available as in the utility field. Here judgment becomes much more of a factor and conclusions are more subject to error. There are an ample number of cases, however, which in my judgment definitely indicate that the bargaining is by no means always confined to the area of saving of flotation costs. I shall cite only one case, however, that of the two issues of Standard Oil of New Jersey in 1949. The first issue was for $75,000,000, 25-year, 3% notes and was sold directly at a price of 101 to yield 2.949. Costs involved in the direct placement amounted to $90,000 or 0.12% of the principal. Thus, the net price received by the borrower after deducting expenses was 100.88, and his interest cost was 2.956%. The issue was placed January, 1949 when the Moody Average of AAA bonds was at 2.70%; six months later the Company sold to an underwriter for public offering a comparable $150,000,000 issue of 2¾%, 25-year bonds at 100.50 to yield 2.722% to the public; the underwriter's commission and other expenses amounted to 1.01%. Thus, the net proceeds to the company were $99.49, and the interest cost was 2.779% to the company. The issue was well received by the market and immediately went to a premium. At the time of the public offering, the Moody AAA bond yield was 2.67%, a decline of 0.03% from the time of the direct placement.

Comparing the two issues, it can be seen that the company saved a very considerable amount of flotation cost (an estimated $670,000) by placing the issue directly; yet, after reflecting the difference in the market between the two dates, the company paid almost 15 basis points more for its money (0.15%) on an issue of $75,000,000 placed directly than it did on an issue of twice the size, placed publicly six months later. This would mean an additional interest cost over the life of the direct issue of approximately $2,750,000. Had the bargaining area for negotiation been confined to the area of saving of flotation cost 0.06%, it would have been confined to an area of approximately 2.75%-2.81%. Instead, the figure resulting from direct negotiation was 2.95%, considerably outside the range. Other cases could be cited demonstrating the same point.

Competitive Bidding and Its Effect Upon the Relative Economy of Direct Placements

Competitive bidding is by far the dominant method of placing debt security issues today. Competitive bidding has, of course, long been the dominant factor in the municipal market. In the corporate market, the ICC required competitive bidding for equipment trust issues in 1926, and extended the requirement to other bonds in 1944; the SEC adopted Rule U-50 in 1941 requiring competitive bidding for bonds of registered holding companies and their subsidiaries; the Federal Power Commission early this year adopted a similar requirement for companies subject to its jurisdiction; an increasing number of state public utility regulatory commissions require competitive bidding, and, lastly, the Bell System has apparently adopted as a matter of policy, the practice of competitive bidding without any legal compulsion to do so. Thus, industrial and miscellaneous companies constitute the only field in which competitive bidding has made no inroads.

One result of competitive bidding has been to make competition more effective in the distribution of securities, and as a result, the cost of distribution as represented by the underwriters spread has tended to decline materially in the last 10 years. A survey by the SEC covering 159 utility mortgage issues for the five-year period ended Jan. 1, 1940, revealed an average underwriting spread of 2.49 points; only one of the 159 issues had a spread under two points. The results of a similar survey covering 179 issues over the next five years are shown in Table XIII.

Another study of the SEC, revealing the trend in commissions and discounts on bonds to investment bankers for the years ended June 30, 1940-49, is reflected in Table XIV.

Thus underwriting spreads have declined considerably in the last 10 years, and in the case of the large issues of utility bonds such spreads frequently dip below 0.50%. This has been an important tendency as far as direct placement is concerned, for it has reduced the flotation cost advantage of direct placements. Where in many issues this flotation cost saving amounts today to only 0.03% when expressed in terms of interest cost, in the '30s, this saving would have been approximately 0.10%, over three times as great.

Thus, the flotation savings effected by direct placement today are considerably less than they were 15 years ago.

Conclusion As to Relative Interest Cost of Direct vs. Public Issues

On the basis of the available evidence, which admittedly is not all that one would wish, the following conclusions seem justified:

(1) In large issues the saving in flotation costs translated into terms of interest cost amounts to between 0.03% and 0.06%. Thus, on a 3% issue these savings would reduce the interest cost say from 3.00% to 2.94-2.97%. These savings are materially less than they were in the '30s, largely as a result of the effects of competitive bidding.

(2) This would mean an extremely narrow range for bargaining in direct placement; there would be very little tolerance for imperfect market conditions. It would be logical to assume that only in the case of a fully informed perfectly competitive market could the bargaining be kept within such a range. For example, if the knowledge of what the issue would bring in the public market were only slightly in error, it might nevertheless completely nullify the flotation cost savings.

(3) Evidence is available that bargaining is not as a matter of fact confined within the area of savings in flotation costs. It may not even usually be so confined.

(4) In the case of utility issues, the evidence available indicates that in the case of large issues competitive bidding usually results in a lower interest cost to the borrower than does direct placement. This is probably one principal reason why in 1949, 77% of the dollar volume of issues $10,000,000 and over were placed by competitive bidding.

(5) In the case of industrial issues, there is less available evidence, but the burden of proof would appear to be on the shoulders of those who contend that direct placement results in a lower net interest cost to the borrower where the issue is of definite investment quality and has no unusual features.

(6) If all bidding for all types of debt securities—public utility,

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Canadian Securities

By WILLIAM J. McKAY

So far at the London meeting of Commonwealth Prime Ministers the discussions have been concentrated on political and defense matters. Even in these fields there has been little publicity concerning the precise nature of the agreements achieved. At the conclusion of the talks it is probable that only a broad statement covering British policy in general with regard to the international situation will be announced officially. Behind the scenes however there is little question that economic questions of vital importance individually and collectively will be intensively debated.

In view of the fact that the sterling bloc alone comprises more than 50% of the foreign trading area of the world it is inconceivable that the opportunity afforded by the London parleys to discuss economic affairs will be permitted to pass. As far as the British Commonwealth is concerned economic and rearmament matters are inextricably intermingled. In the absence of a strong economic base the British rearmament program cannot be successfully consummated. This is particularly true in respect to the United Kingdom, but it applies also to a greater or lesser degree to all the Dominions. Even Canada's present buoyant situation can be adversely affected by deterioration of the British economic position in general.

At the present time there is on the surface little cause for serious concern. British exchange reserves continue to mount and Commonwealth raw materials are still in urgent demand in this country and elsewhere. But the bogey of constantly rising import costs is now posing an unavoidable problem. The British authorities had counted on sterling devaluation to bring about a normal lowering of world commodity prices. As a consequence of events following the Korean incident this has failed to materialize. Instead British pre-devaluation stocks of food and raw materials are being rapidly exhausted and the cost of replacement is now a cause of grave concern. This situation is further aggravated by the fact that the returns from exports, favorable as they are, are increasingly lagging behind the cost of imports.

In view of the foregoing facts it is highly surprising that appropriate corrective action has not been taken before now. British official procrastination in this respect is all the more inexplicable in view of the involvement of political considerations of considerable importance. Failure to compromise for example in the meat negotiations with Argentina has brought about a reduction of the already meagre British ration of this vital food item; this will undoubtedly impose a further strain on the shaky Labor Government. The Australian Government likewise in resisting the pressure for the upward revaluation of the pound has permitted the problem of inflation to become a political issue as a result of failure effectively to combat the rising cost of living. India is also in an embarrassing economic and political position as a consequence of her obdurate stand on the rupee. Pakistan now appears to have taken the right course in refusing to follow the general devaluation of the British Commonwealth currencies, but India would suffer loss of face in acknowledging this fact by revaluing her currency independently.

Many of the common problems that now beset the United Kingdom and her Dominions could be solved however by concerted action along the lines of the Canadian currency experiment. Freedom of exchange in accordance with the method employed by Canada does not imply any loss of control on the part of the monetary authorities concerned. On the contrary a greater measure of flexibility is introduced which permits the exchange level more truly to reflect changing conditions. At the same time the control authorities are not committed to protect an artificially fixed level of exchange which in the course of time becomes inevitably the target of speculative operations. Then whenever a rigid rate of exchange is patently unrealistic it is difficult, without the test of supply and demand in a flexible market, to arrive arbitrarily at an appropriate new fixed rate. Whatever decisions are reached on Commonwealth currency matters will be decided behind closed doors and in the event of agreement on a general revaluation, there would be a minimum of delay between the time of decision and its announcement. The present circumstances are particularly propitious for action along these lines as in recent months a heavy volume of speculative positions taken in anticipation of sterling revaluation has been finally liquidated. Such action would also do much to improve the Canadian position in sterling area trade, and would also permit the Canadian dollar to attain its logical level of parity with the U. S. dollar.

During the week activity in the bond market was again confined to the Dominion internals which were firm on steady U. S. investment demand. The corporate-arbitrage rate continued to strengthen and reached a new high at 6%-5%. Funds were steady and quiet in the neighborhood of 4⅝% following the anticipated sharp improvement from the end-year low point of 5¾%. Stocks were not quite as buoyant as in New York but prices were generally higher. The base-metals were notably strong led by International Nickel, Steep Rock, Falconbridge, and Sherrit Gordon. Industrial and gold issues also made good progress but the Western oils were irregular and mostly lower.

Halsey, Stuart Group Offers Commonwealth Edison Co. 2⅞% Bds.

Halsey, Stuart & Co. Inc. heads a group which yesterday offered $49,000,000 Commonwealth Edison Co. 2⅞% sinking fund debentures, due April 1, 2001, at 101.335% and accrued interest. The offering follows award of the issue to the group on its bid of 100.59%.

The indenture will provide for a sinking fund of $1,000,000 for each of the years ending April 1, 1953-2000, inclusive, leaving $1,000,000 for retirement at maturity.

Proceeds from the sale of the debentures will be added to working capital for ultimate application toward the cost of gross additions to utility properties of the company in a four-year construction program scheduled for 1951-1954 and estimated to cost $370,000,000. The company estimates that approximately $140,000,000 of the total cost will be provided out of cash resources at the end of 1950 and depreciation accruals and undistributed earnings over the four-year period. The present issue is a part of the balance of $230,000,000 which the company anticipates providing through the sale of securities. Neither the nature nor the time of the additional $181,000,000 financing has been determined.

The debentures are redeemable at prices ranging from 104.34% to 100%. If redeemed through the sinking fund, prices range from 101.33%, beginning Dec. 1, 1952, to 100%.

Commonwealth Edison Co. is a public utility operating company engaged in providing electricity. It does substantially all of the electric public utility business in Chicago and controls, through direct stock ownership, Public Service Co. of Northern Illinois, Western United Gas & Electric Co., Illinois Northern Utilities Co., Chicago District Electric Generating Corp., Chicago & Illinois Midland Ry. Co. and four other subsidiaries. Through subsidiaries it provides both electricity and gas in the metropolitan area around Chicago and in surrounding territory in Northern Illinois.

Bankers Offer Wilcox-Gay Stk. at $1⅝ a Sh.

Offering of 500,000 shares of $1 par value common stock of The Wilcox-Gay Corp. was made on Jan. 9 by Gearhart, Kinnard & Otis, Inc., and White & Co., at $1.625 per share.

The company intends to use the proceeds from the sale for additional working capital, including the purchase of materials, payment for labor, and other general company operations.

Principal business of The Wilcox-Gay Corp. and its subsidiaries is the manufacture of the "Majestic" line of television receivers; radio-phonograph sets; radio and television cabinets; and home-recording units.

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Direct Placement of Securities

railroad, industrial—were competitive bidding, a much more convincing argument could be made that the savings realizable in this case would be partially or fully passed on to the borrower.

Why, in the face of a lack of advantage in interest cost and a possible definite disadvantage, does the bulk of large industrial and miscellaneous issues go directly? One answer is that considerations other than interest rate cost may be more important, and another is that corporate managements may have been under a misconception as to the relative economy of direct placements and have been stressing flotation cost savings without giving sufficient weight to net interest cost. Probably both these conditions are present.

At this point, it should be noted that in the majority of large direct placements an investment banking firm represents the borrower and recommends the direct placement method. Thus, the investment banking fraternity bears some, and perhaps considerable responsibility for the trend toward direct placements. This may seem strange in view of public pronouncements against direct placements by the underwriting industry. It really is not strange, however, when viewed from the standpoint of the individual underwriter handling the direct placement rather than from the standpoint of the underwriting field as a whole. In the case of an investment banking firm which places an issue directly it will receive a commission on the entire offering whereas in the case of an underwritten issue, the firm will only receive the underwriting commission only on the portion of the issue which it underwrites and, this portion is usually small. If, for example, in a public utility direct placement of $8,000,000, the investment banker receives a fee of ¼ of 1%, he will receive $20,000 and his expenses in connection with the deal will be quite small usually. On the other hand, if this issue were to be underwritten by a syndicate and offered publicly, this same investment banking firm might underwrite say $2,000,000 and receive a commission of say 0.40% or $8,000, against which it will have substantial expenses. This is a theoretical example only; it would appear that often a particular underwriting firm will have more to gain from a direct placement which it controls than from a public offering of the same issue which it underwrites in part.

Direct Placement and the Lending Institutions

In my opinion, direct placements are attractive investments for insurance companies for the following four reasons, not all of which may be present in each instance. In the first place, the yield on direct placements is somewhat higher than on comparable public offerings. Secondly, the lender has a direct part in the negotiation of indenture terms, and in the usual case a better or more protective indenture from the lender's viewpoint is obtained. Thirdly, it affords a better opportunity to the lender to make a closer analysis of the investment, particularly as to management. Further, it affords the lender the opportunity to put out large amounts of money at one time in a single issue; this is an advantage which is particularly important in the case of the large companies.

The Large Insurance Company vs. The Small Insurance Company

One problem of direct placements which is frequently discussed, particularly within the life insurance industry, and by legislative bodies, is the problem of the small insurance company. It has been felt that the small insurance company does not have access to the direct placement market and consequently, it is deprived of an opportunity to invest its funds profitably and in a diversified manner. What are the facts of the case? The only information on the subject that I know of has been compiled by the investment Research Staff of the Life Insurance Association of America. The Association selected 28 U. S. life insurance companies; it was originally decided to include the 18 largest U. S. companies and 10 others especially selected as being active in the direct placement field. This selection actually resulted in the inclusion of the 22 largest companies plus six others.

These companies were then distributed by size groups and information tabulated as to holdings and acquisitions of direct placements. The two Tables (Nos. XV and XVI) give certain of this information.

It can be seen from tables XV and XVI that the larger companies have a much higher percentage of their assets and security portfolios in direct placements than the smaller companies, and that the acquisitions of direct placements in 1948 and 1949 by the large companies comprised a substantially larger percentage of total acquisitions than in the case of the small companies. It is probable, furthermore, that these tables understate the difference, for all of the small companies were selected as being active in the direct placement field, and presumably therefore had a higher percentage of direct placements in their portfolios than other companies in their size groups.

Thus, the facts indicate that the small companies have much fewer direct placement investments relatively than the large companies. This could be due to several factors. It could mean that such companies were cut off from certain fields of investment opportunities by virtue of the direct placements going to the large companies, or it could mean that small companies as a matter of policy do not choose to enter the field either because they feel unequipped to do so or find other outlets more attractive. Probably both of these are true to a certain extent. In this connection, however, I believe that it is very important to make a sharp distinction in size category as to just what constitutes a small company. For example, in the listing of companies by size, the smallest has assets somewhat less than $200,000,000. This in reality could be termed a medium sized company, and companies with assets of say $75,000,000 or less could be termed a small company, relatively.

Let us first take the case of the medium sized company with assets of $200,000,000-$350,000,000, such as would be characterized a small company in the tables. Such a company, depending upon company policy and the quality of the issue, might be willing to put anywhere from $500,000 to a maximum of, say, $2,500,000 in one issue. Consequently, a broad field of industrial direct placements would be available to it. In the case of the smaller issues, it might be able to take the whole issue, and in the case of a medium size issue, it might split it with one or more other companies. On the other hand, if a large life insurance company in a very sizable loan wanted to parcel it out to include smaller companies, a participation of $500,000 to $2,500,000 would represent sufficient size to make it feasible. A number of large issues have included participations for smaller companies in amounts of $500,000 or even less in some instances.

On the other hand, the medium sized company is at a distinct disadvantage if the distribution of a large issue is restricted to only a few companies, for its buying power would be insufficient to make it a participant. Likewise, a large loan will in all probability only in rare instances be brought first to a small company so that its participation in such loan will rest upon the policy of the borrower, the intermediary, if any, and the large insurance company to whom the loan is brought initially.

These conclusions are supported by the data gathered by the Life Insurance Association. Reference to Tables XV and XVI will show that whereas in 1949 the four largest companies held approximately 66% of their total corporate bond portfolio in direct placements and the two smallest size groupings held only 24.5% and 32.7% in direct placements, the discrepancy between these groups becomes much less when viewed as to 1949 acquisitions—79.2% for the four largest as against approximately 50% for the two smallest groups. Thus, the discrepancy in holdings is tending to narrow somewhat. Furthermore, a glance at charts, also prepared by the Life Insurance Association, will reveal that there is substantial difference among the companies within the various groupings, presumably reflecting managerial policy toward direct placements. Thus, where 1949 acquisitions are considered, it is shown that a number of companies in the smaller size categories are acquiring almost as large a percentage of their 1949 acquisitions through direct placements, and in the smallest size group, one company has the highest percent of direct placement acquisitions of any of the 28 companies, and likewise, has the highest percent of its corporate bond holdings in direct placements.

Summarizing, in my opinion, the medium sized company, while it would generally welcome any opportunity to participate more in the large direct placements, is not faced with a very serious problem in this regard. As a matter of fact, to some companies participations in certain of the large direct placements would be unattractive because of the belief of the company that it can invest its funds at a higher net interest yield elsewhere. It has available to it a fairly wide field for direct placements, if it chooses to seek such issues. The investment problem of this size company is less pressing than that of the largest companies, and the company has greater flexibility in dealing with its investment problems.

As far as the small company is concerned, the company with assets of say $75,000,000 or less, the problem is more serious. Unfortunately, no data has been compiled concerning these companies, and there are hundreds of them. The buying power of such companies for a single issue is relatively small and consequently, it is not very practical for them to share much in large direct placements; to distribute a large issue among such companies, aside from practicality, would involve questions of legality—i.e., whether the issue would involve too many purchasers to qualify for exemption from registration as a direct placement. Consequently, investment in large direct placements is not available to them, and thus, one avenue of investments is practically closed to them; this is particularly true in the case of industrial issues, the bulk of which go direct. In the utility issues, the bulk of the large issues go competitively and thus, the small company has ample opportunity to purchase such issues. This virtual exclusion from large direct

Continued on page 26

TABLE I

A 17-year Summary of Corporate Bonds* Publicly Offered and Privately Placed in Each Year—1934 Through 1950—by Calendar Year.

(Millions of dollars)

Year	Total Offerings	Publicly Offered	Placed Privately	Percent of Total Placed Privately
1934	372	280	92	24.7
1935	2,225	1,840	385	17.3
1936	4,029	3,660	369	9.2
1937	1,618	1,291	327	20.2
1938	2,044	1,353	691	33.8
1939	1,979	1,276	703	35.5
1940	2,386	1,628	758	31.8
1941	2,389	1,578	811	33.9
1942	917	506	411	44.8
1943	990	621	369	37.3
1944	2,670	1,892	778	29.1
1945	4,855	3,851	1,004	20.7
1946	4,882	3,019	1,863	38.2
1947	5,036	2,889	2,147	42.6
1948	5,973	2,965	3,008	50.4
1949	4,890	2,437	2,453	50.2
1950†	5,206	2,966	2,240	43.0

*Bonds, notes and debentures.

†Preliminary figures estimated on basis of figures through July 1950.

TABLE II

All Private Placements Classified by Major Industry

(Estimated 1934-1950 Gross Proceeds in Millions of Dollars)

Year—	Total	Utility	Industrial and Misc.	Railroad	Financial and Real Estate
1934	92	48	42	1	0
1935	387	152	194	4	37
1936	373	218	105	16	34
1937	330	61	244	20	5
1938	692	299	384	8	1
1939	706	457	144	20	85
1940	765	391	289	9	112
1941	813	438	271	20	64
1942	420	190	223	6	2
1943	372	101	230	39	2
1944	787	297	392	91	6
1945	1,022	290	682	21	29
1946	1,917	325	1,408	35	149
1947	2,235	529	1,541	1	164
1948	3,087	636	1,972	5	473
*1949	2,502	976	1,099	2	425
*1st 6 mos. 1950	1,122	454	390	10	267

*Not strictly comparable with figures for 1948 and prior years due to some reclassification.

Source: Financial Analysis Section, SEC.

TABLE III

All Private Placements Classified by Type of Security

(Estimated 1934-1950 Gross Proceeds—Millions of Dollars)

Year	Total	Debt Issues	Preferred Stock	Common Stock
1934	92	92	0	0
1935	387	385	2	0
1936	373	369	1	3
1937	330	327	3	0
1938	692	691	1	0
1939	706	703	3	*
1940	765	758	2	5
1941	813	811	1	1
1942	420	411	9	0
1943	372	369	0	3
1944	787	778	7	2
1945	1,022	1,004	11	7
1946	1,917	1,863	42	12
1947	2,235	2,147	79	9
1948	3,087	3,008	60	19
1949	2,502	2,453	49	
1st 6 mos. 1950	1,122	1,107	14	

*Less than $500,000.

Source: Financial Analysis Section, SEC.

TABLE IV

Corporate Bonds Placed Privately

Percent of Total Amount Purchased by Various Investors

Type of Investor	1940	1941	1942	1943	1947	1949
Life insurance companies	88.1	93.4	94.8	91.9	93.0	90.5
Other insurance companies	.1	.2	---	.5	.1	.4
Banks	11.2	5.9	4.8	6.2	2.7	4.9
Other institutions	.5	.5	.4	.8	2.5	.5
Individuals and corporations	.1	.1	---	.7	.4	3.6†
Unknown	*	*	*	*	1.3	.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Figures for the years 1940-43 were taken from work sheets prepared some years ago and the distribution apparently did not cover a small number of issues where identity of purchasers was unknown. This probably does not seriously impair the use of the figures, however.

†The increase in 1949 largely reflects purchases by private pension funds which are included in this category.

Source: Financial Analysis Section, SEC.

TABLE V

Corporate Bonds

Combined Portfolios, 28 Life Insurance Companies

December 31, 1949

(Millions of Dollars)

	Direct Amount	Direct Percent	Non-Direct Amount	Non-Direct Percent	Total Amount	Total Percent
Railroad	$260.5	9.5	$2,477.7	90.5	$2,738.1	100.0
Utility	3,451.1	40.6	5,050.8	59.4	8,502.0	100.0
Ind. & Misc.	7,210.9	86.5	1,124.7	13.5	8,335.6	100.0
Total	$10,922.4	55.8	$8,653.2	44.2	$19,575.6	100.0

December 31, 1948

	Direct Amount	Direct Percent	Non-Direct Amount	Non-Direct Percent	Total Amount	Total Percent
Railroad	$258.3	9.4	$2,496.1	90.6	$2,754.5	100.0
Utility	3,011.0	39.5	4,621.3	60.5	7,632.3	100.0
Ind. & Misc.	5,978.4	86.7	915.1	13.3	6,893.4	100.0
Total	$9,247.7	53.5	$8,032.5	46.5	$17,280.2	100.0

NOTE—Valuation basis is cost, not book value. Components may not add totals due to rounding. Percentages were computed from unrounded figures.

Source: Life Insurance Association of America.

TABLE VI

Detail of Cost of Flotation of Bonds as a Percent of Gross Proceeds

(Three Years—1945-1947)

Detail of Costs—	Percent of Gross Proceeds
Total cost of flotation	1.43
Commission and discount	0.88
Other expenses	0.55
Detail of other expenses:	
Not affected by registration	0.27
Exchange listing	0.01
Federal revenue stamp taxes	0.09
State fees and taxes	0.03
Trustees, transfer agents, etc.	0.14
Partly affected by registration	0.27
Printing and engraving	0.13
Legal fees and expenses	0.08
Accounting fees and expenses	0.02
Miscellaneous	0.03
Entirely attributable to SEC registration—SEC registration fee	0.01
Number of flotations	135

Source: Survey of American Listed Corporations Cost of Flotation—1945-47; Seecurities and Exchange Commission, Washington, D. C., February 1949.

TABLE VII

Summary of Cost of Flotation as a Percent of Gross Proceeds By Type of Security and Size of Flotation Three Years—1945-1947

Size of Flotation Millions of Dollars*	Bonds No. of Flot.	Bonds Cost of Flot.	Bonds Comm. & Discount	Bonds Other Exp.	Common Stocks No. of Flot.	Common Stocks Cost of Flot.	Common Stocks Comm. & Discount	Common Stocks Other Exp.
Under 0.5					13	27.90	22.72	5.17
0.5—1.0	6	8.68	5.56	3.12	51	18.65	15.48	3.17
1.0—2.0	11	5.88	3.74	2.14	61	14.39	12,15	2.23
2.0—5.0	39	2.92	1.65	1.28	49	10.13	8.73	1.40
5.0—10.0	27	2.16	1.12	1.04	21	7.64	6.77	0.87
10.0—20.0	32	2.02	1.31	0.70	8	7.95	7.36	0.59
20.0—50.0	41	1.58	1.07	0.51	2	8.21	7.88	0.33
50.0 and over	39	1.04	0.64	0.39	0	---	---	---
All sizes	197	1.33	0.84	0.49	205	10.03	8.83	1.20

*Only two bond issues under $500,000 were included in this study over the three years and are omitted because they are not considered a sufficiently large sample to be typical of the class.

Source: U. S. Securities & Exchange Commission, Cost of Flotation, 1945-47.

TABLE VIII

Cost of Flotation of New Issues as a Percent of Gross Proceeds by Asset Size of Company 1945-1947

All Types of Securities

Asset Size of Company (millions of $)	No. of Flot.	Cost of Flot. %	Commission & Disc. %	Other Exp. %
Under 1	71	16.94	14.95	1.99
1— 5	160	12.44	10.31	2.13
5— 10	108	7.77	6.46	1.31
10— 20	105	5.09	4.02	1.08
20— 50	98	3.09	2.33	0.76
50—100	65	2.17	1.56	0.61
100—200	46	1.89	1.39	0.50
200—500	30	1.46	1.04	0.41
500 and over	21	1.01	0.63	0.39
All sizes	715	2.48	1.88	0.60

Source: U. S. Securities and Exchange Commission, Cost of Flotation, 1945-47.

TABLE IX

Public Offering of Public Utility Long-Term Debt Securities

By Type of Offering and by Size of Issue

1949

(Excludes offerings by Subscription and Pipe Line Issues)

Size of Issue—($)	Competitive Bidding No.	Competitive Bidding %	Direct Placement No.	Direct Placement %	Negotiated Public Offering No.	Negotiated Public Offering %	Total No.	Total %
1,000,000 and less	0	0	29	100	0	--	29	100
1,000,001- 2,000,000	2	7	25	93	0	--	27	100
2,000,001- 5,000,000	21	47	22	49	2	4	45	100
5,000,001-10,000,000	28	78	8	20	4	10	40	100
10,000,001 and over	24	75	7	22	1	3	32	100
Total	75		91		7		173	

Size of Issue—($)	Competitive Bidding Amount (000)	%	Direct Placement Amount (000)	%	Negotiated Public Offering Amount (000)	%	Total Amount (000)	%
1,000,000 and less	0	--	19,700	100	0	--	19,700	100
1,000,001- 2,000,000	4,000	10	38,600	90	0	--	42,600	100
2,000,001- 5,000,000	75,900	49	71,600	46	6,829	5	154,300	100
5,000,001-10,000,000	244,500	72	64,700	19	31,723	9	340,900	100
10,000,000 and over	688,027	77	150,900	17	56,660	6	895,600	100
Total	1,012,400		345,500		95,212		1,453,000	

Source: Tabulation from data in Analysis of Public Utility Bond Financing, 1949—Ebasco Services, Inc.

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Direct Placement of Securities

industrial issues does not mean that such companies do not engage in direct placement. A good example of this fact is one relatively small insurance company with total admitted assets of approximately $60,000,000 which made 19 industrial direct placements in 1949 totaling approximately $5,000,000. The smallest of the direct placements was $60,000, the largest was over $1,000,000, and the average loan $200,000-$300,000.

Participation in direct placements involves a number of problems for such companies. It is relatively much more expensive for the small company to enter the direct placement field than the larger size company. Two principal factors account for this. In the first place, the increased investment staff which is indispensable for the proper initial investigation and follow up of industrial direct placements, when related to the investment portfolio is a higher percentage for the smaller company than the larger company. A small company will have to diversify its investment holdings as much as a large company. Thus, although its portfolio may be $20,000,000 as against $500,000,000 or more, it will still have to make almost as many individual investments as the large company. Secondly, the relatively small buying power of the small company usually confines its industrial direct placements to the smaller lesser known industrial companies. Analysis of these companies presents more difficulties and consumes more time than analysis of large well-known companies where financial records are publicly available. Many small companies feel that they cannot afford the requisite investment staff and hence, do not enter the direct placement field.

A second problem arises in that the confining of industrial direct placements to the smaller industrial companies means greater risk because investment experience tells us that the smaller industrial companies are exposed to more economic risk. Whether or not the increased interest rates obtainable compensate for the higher risk is a question which will probably not be answered until we again pass through a period of industrial depression.

Lastly, the problem is raised that in general in order to obtain sufficient buying power to be able to enter the direct placement field, even in the smaller industrial companies, the small insurance company usually has to lend in a single issue a higher percentage of its assets than in the case of the medium and larger size companies. Thus, in the case of a $300,000,000 company, an investment of $750,000 which is an adequate size to participate in direct placement, would represent only 0.25% of assets. In the case of a $25,000,000 company, 0.25% would amount to $62,500 which would in most cases be too small an amount to enable it to participate in the direct placement field. If it chooses to do so it may have to lend 0.50% or 1.00% of its assets in one issue. While these are not dangerous percentages by any means, and are at times exceeded by medium and relatively large size companies, nevertheless, it does mean a greater concentration of risk for the smaller company.

The direct placement question then does raise serious problems for the small insurance company. Once again, however, the question should not be distorted out of its true perspective. The profitable investment of its assets has certainly not been any more of a problem to the smaller company than to the larger company. Probably the reverse is nearer the case. I have yet to hear an investment official of a small company complain that he cannot keep his funds profitably invested. Therefore, while it is true that participation in direct placements involving the larger well-established industrial concerns is largely denied the small company, the investment problems raised thereby do not appear to present any real threat to the ability of the small company to invest its assets safely and profitably.

Relationship Between Borrower And Lender

The direct and close relationship between the borrower and the lender has caused concern lest the large insurance companies exercise a controlling influence over the borrower. This concern was voiced both in the Celler Committee hearings and in the New York State Legislative Committee hearings. The question is touched upon only briefly in this paper. Certain salient points, however can be brought out.

It is important to note that this is really not a problem peculiar to direct placement. There is no way to distinguish a direct placement in form from a public issue; two utility bond issues for example, would look almost exactly alike whether they had been placed publicly or privately. Moreover, the fact that the large insurance companies hold very large amounts of a borrower's debt issue would be true regardless of whether such debt had been underwritten or whether it had been placed directly with the insurance companies. The fact is that the demand for investment grade corporate bonds is largely an institutional demand, and such issues will find their way regardless of the method of distribution into institutional portfolios, and the largest institutions will hold the largest amounts.

A second general point to note is that if corporations feared any such control as a result of direct placement of their securities they would not sell their bonds in this manner. There is no compulsion whatsoever for them to place their securities directly; it is completely a matter of their own choice.

In addition, it must be realized that the relationship between the two parties is strictly a debtor-creditor relationship, and is closely defined by the terms of the indenture covering the bond issue. Thus, the lender can exercise no control over the management whatsoever as long as the latter is meeting all the terms of the indenture. In this respect there is one possibility that since indentures in direct placements are usually more tight than in the case of public offerings, there will arise more cases of default; this is probably true.

Once a default arises it is true that the insurance company is in a position to exercise some control; that is the very purpose of drawing an indenture with default provisions, and it is necessary for the adequate protection of the investment. In the event of a minor default, it is probable that with proper assurance as to the safety of its investment, the default can be cured by appropriate action on the part of the borrower, or by a change in the indenture agreed upon by the lender. In the case of a major default resulting in bankruptcy, the relationship between the borrower and the lender becomes subject to bankruptcy law.

It is important to realize that the insurance company investor is not in the slightest degree interested in securing control of the borrower for its own advantage and profit; nothing could be further from the truth. The ideal investment as far as the insurance company is concerned is one in which there never is any question of default. Moreover, once a security goes into default, the primary aim of the insurance company is to see the company in a better position so that it can cure the default and pay its obligations. Thus, in almost all instances the best interests of the business will coincide with the best interest of the insurance company, so long as the latter adopts a long-term point of view. The insurance company is in a much better position to adopt a long-term view of the situation than other investors such as commercial banks, for example, where liquidity needs may force a hasty liquidation. Consequently, from the standpoint of the borrower, it would seem to me that the insurance company would represent the ideal long-term creditor.

Lastly, an examination of the record of the insurance companies in the case of the wholesale bankruptcies that arose during the 1930s reveals no grounds for concern as to any domination or control that insurance companies may exercise in the case of direct placements. There should be little difference in the future experience with direct placements.

In this connection, it should be noted that the permissible equity investment of life insurance companies is very limited at the present time; therefore, any equity securities that they receive in receivership in exchange for debt obligations must be disposed of within a relatively short period.

Thus, in my opinion, there is little foundation for fear that large-scale institutional investment in corporate debt will result in any widespread control over corporate borrowers.

Regulation of Direct Placements

Lastly, let us take a brief look at the regulation to which direct placements are subject.

An effective system has been set up by state regulatory authorities to supervise direct placements. This regulatory system was set up largely as a result of two factors, both of which have to do with the problem of valuation of direct placements. The valuation of securities held by life insurance companies for their annual statements is under the jurisdiction of the Committee on Valuation of Securities, of the National Association of Insurance Commissioners. This Committee has published annually, for the last 43 years a volume which lists every security held by domestic insurance companies and a valuation as at the close of the calendar years for each security listed. Valuations established by the Committee are used by state insurance departments in the examination of insurance company

TABLE X

Direct Placement of Industrial Securities by Size of Issue

—SIZE—	Number of Loans	Percent of Total	Aggregate Amount	Percent of Total
$1,000 to $99,999	16	4.62	$900	.06
100,000 to 299,999	44	12.72	8,573	.61
300,000 to 499,999	35	10.12	12,951	.92
Under $500,000	95	27.46	22,424	1.59
$500,000 to $999,999	61	17.63	40,184	2.86
Under $1,000,000	156	45.09	62,608	4.45
$1,000,000 to $1,999,999	60	17.34	75,346	5.36
2,000,000 to 2,999,999	45	13.00	104,392	7.43
3,000,000 to 4,999,999	20	5.78	79,350	5.65
Under $5,000,000	281	81.21	321,696	22.89
$5,000,000 to $9,999,999	28	8.09	175,493	12.49
10,000,000 to 24,999,999	23	6.65	328,403	23.37
25,000,000 to 49,999,999	9	2.60	269,561	19.18
50,000,000 and over	5	1.45	310,000	22.07
Grand total	346	100.00	$1,405,153	100.00

Source: Industrial Private Placement Loans, 1949—E. V. Hale & Co.

TABLE XI

Direct Placement and Public Offerings of Industrial and Miscellaneous Bonds — 1948 Combined Acquisitions of 17 Major Life Insurance Companies

*Asset Size of Obligor (In thousands)	—Direct Placements— Number	†Percent of Total	—Public Offerings— Number	†Percent of Total
Under $500	3	.59	--	--
$500 to $1,000	5	.99	--	--
1,000 to 2,000	28	5.54	--	--
2,000 to 5,000	78	15.45	--	--
5,000 to 10,000	73	14.46	1	1.09
10,000 to 20,000	93	18.42	6	6.52
20,000 to 50,000	99	19.60	20	21.74
50,000 to 100,000	41	8.12	10	10.87
100,000 to 200,000	28	5.54	8	8.70
200,000 to 500,000	18	3.56	22	23.91
500,000 to 1,000,000	30	5.94	20	21.74
1,000,000 and over	1	.20	5	5.44
Information lacking	8	1.58	--	--
Total	505	100.00	92	100.00

*After financing. †Do not add to total because of rounding.

TABLE XII

Estimated Items of Expense in Connection with Public Offering of $8,000,000 P. A. of Bonds as Compared With Private Offering of Such Issues

	Public Offering	Private Offering
Underwriting fee	$40,000	------
SEC filing fee (at $101)	808	------
Federal stamp tax	8,800	$8,800
Fees of trustee, including counsel and authentication fees	8,250	8,250
Fees of counsel	15,000	10,000
Auditing fees	2,500	------
Printing of Indenture, Purchase Contract, etc.	5,000	5,000
Printing of registration statement, prospectus, etc.	12,500	------
Engraving and printing of securities	6,900	250
Finder's fee (¼ of 1%)	------	20,000
Miscellaneous	5,242	2,000
Estimated totals	$105,000	$54,300

TABLE XIII

Spread	Number of Issues	Amount
Under 0.25	7	$51,500
0.25-0.50	58	683,379
0.50-0.75	69	1,480,701
0.75-1.00	21	208,411
1.00-1.25	16	421,380
1.25-over	8	90,400
	179	$2,935,771

TABLE XIV

Commissions and Discounts to Investment Bankers

Year Ended June 30	Bonds
1940	1.9
1941	1.8
1942	1.5
1943	1.7
1944	1.5
1945	1.3
1946	0.9
1947	0.9
1948	0.6
1949	0.8

TABLE XV

1949 and 1948 Portfolios—Direct Placements as Percent of Corporate Bond Portfolio and of Total Assets

28 U. S. Life Insurance Companies—grouped by size

Bank by Asset Size	% Corporate Bond Portfolio 1949	1948	% Admitted Assets
1— 4 (largest)	65.9	64.2	26.0
5— 8	53.2	50.8	22.4
9—13	40.2	38.3	18.3
14—17	25.7	23.6	9.2
18—24	24.5	20.0	5.8
25—28 (smallest)	32.7	30.8	7.4
Total 28 Cos.	55.3	53.5	

TABLE XVI

1949 and 1948 Acquisition of Corporate Securities and Direct Placements

28 U. S. Life Insurance Companies—grouped by size

Rank of Assets Size	% 1949	% 1948
1— 4	79.2	80.4
5— 8	69.6	52.6
9—13	59.8	57.6
14—17	55.0	51.0
18—24	49.4	33.7
25—28	50.6	46.2
Total 28 Cos.	72.2	68.5

Source: Life Insurance Association.

reports. They are also used by the insurance companies in the preparation of their annual statements.

If a corporate bond is not in default, and is rated in one of the first four grades, i.e., not lower than Baa, by two recognized rating agencies, or the yield to maturity on which based on Dec. 31, 1949 and Dec. 31, 1950 association values does not exceed 1.70% and 1.50% respectively, plus the yield for comparable maturities of fully taxable unrestricted U. S. Governments on the respective dates, the bond can be carried at its amortized value; if the bond is in default, or rated Ba or lower, then it must be carried at market value. However, in the case of direct placements, neither of these yardsticks is available; the rating agencies do not rate direct placements, and there is no market quotation for them. In addition, the close relationship between the borrower and the lender in a direct placement has caused concern in some quarters that an insurance company when faced with a default in a direct placement would cure this default merely by rewriting the indenture, and be able to thereby escape reporting the security as in default, and thus, not eligible for amortization.

These problems, and others, led the National Association of Insurance Commissioners to considerably augment the staff of its Committee on Valuation of Securities. In this connection every life insurance company is now required to file with the Committee the following information concerning its direct placements:

(1) Statement describing history and operations of issuer of securities.

(2) Balance sheet, income and surplus statements for the three calendar or fiscal years next preceding the date of acquisition.

(3) Interim financial statements, and future annual audits.

(4) Changes in Indenture terms.

(5) Any other information which might be helpful to the Committee.

This constant flow of information to the Committee provides a method by which continuous supervision can be exercised by the Committee over direct placements. By virtue of its analysis of this data, the Committee determines whether or not a given direct placement qualifies for amortization; if it so qualifies, then it may be carried by the insurance company at its amortized value. If in the opinion of the Committee, after careful examination of the data, the loan is one in which the speculative qualities are predominant, the holder of the security is not entitled to carry it at amortized value, but must carry it at a value fixed by the Committee. The record of direct placements has been excellent to date; however, in a few instances, write-downs have been required.

In my opinion, the regulatory valuation process should be primarily concerned with the basic question of whether or not a direct placement qualifies for amortization and should not attempt to determine theoretical market value for those issues which qualify for amortization. Such a task could not only be a prodigious one, even if possible of achievement; it would also raise serious problems of a fundamental nature without accomplishing any really conclusive benefits. As already pointed out, this is the line along which regulatory valuation has proceeded and it is to be commended for it.

Conclusion

Direct placements have assumed a position of great significance in corporate bond financing. They have not yet met the acid test of time especially under adverse general economic developments but there is no present reason to assume that they will not meet such a test successfully. They are not a temporary phenomenon and appear to be here to stay. Their greatest contribution in my opinion has been in opening a new, and in many cases, the only avenue of long term financing to the small but well-established business. As to future growth, it would appear that direct placements have approached their peak relative to total corporate bond financing. It would be surprising to see the percentage of direct placements to total bond financing rise much beyond the 50% level reached in 1948 and 1949; certainly a figure of 60% would be a top figure assuming a more or less normal distribution of offerings among industries.

Continued from first page

As We See It

bitterly condemned throughout the rather long legislative battle which finally brought it into being. Here, too, was a device which to the individualistic American seemed to reek with paternalism.

The story might be prolonged, but hardly to a good purpose. Enough has been said to recall the atmosphere, the intellectual and political climate existing in those far-off days. Now, contrast all this with what we see around us today on all sides. The farmer has long, long ago come to regard favors in the form of interest rates as his due. However, he now finds them relatively unimportant compared with all the other largesse which now too in his thinking has come to be part and parcel of what the remainder of the community owes him. Price supports, so-called, which really are a direct subsidy to the agricultural producer, now seem to him to be but a perfectly normal, natural tribute to him. They seem to him to be his due, so much so that he no longer attempts to find any good justification for them—any more than he feels the need to justify his right to eat bread made of wheat. So, too, with the multitudinous other instruments of which he is the beneficiary.

What is infinitely worse, of course, is the fact that the remainder of the community, too, have come to regard all this as natural and normal. There is no longer much disposition to ask the reasons why. We, quite generally, have ceased to "endure"; we now "embrace"—or are very near that point.

And Labor, Too

The case is possibly even more striking with labor, the more striking at least since it has developed more recently and more rapidly. Time was when "the labor vote" was largely mythical. Possibly it is less real today than is sometimes believed. The returns in the elections last autumn seem to carry some such suggestion. But for most politicians, it is a very real force—which means that for practical purposes it actually exists. At any rate a sort of alliance between most politicians and the labor unions has developed. It came sharply into focus in the early days of Roosevelt leadership. To the dismay of all thoughtful citizens of that day, the unions soon became the recipients of various favors from Congress and from a thoroughly biased Administration. What was about as bad, the unions soon developed the habit of disregarding the law of the land in a degree that was almost incredible —and enforcement agencies simply ignored the transgressions. Some of the more spectacular aspects of all this have disappeared in recent years, but the situation has not changed at all in its basic aspects. And the unions and their membership have come to regard all this as their right.

Another vice has become so familiar to so many that it, too, has reached the "embracing" stage. We have grown used to so much abuse by organized labor that we no longer particularly resent it, and certainly do virtually nothing to rid ourselves of it. Such a state of affairs is more than dangerous.

Many More of Them

And so we might continue to list literally dozens of other economic and political vices which, in the course of time, have been accepted, indeed hardly noticed. Most of these have become so ingrained into our daily lives and our daily thinking that it is no longer necessary to attach an "emergency" label. The nosiness of the SEC. The governmental interference with private affairs it represents. The various other relatively new governmental agencies abounding in Washington even before the latest "emergency" in Korea supplied excuses for more governmental interferences are further cases in point. We have "saved" free enterprise by robbing it of much of its virility. And the worst of it is, that all this has reached a stage where it appears natural and normal to the rank and file, natural and normal merely because they have grown "familiar with its face" through the years.

Now we face a new "emergency," which is already being made the excuse for innumerable breaches of American traditions. Government after government is trying to outdo the other in asking for dictatorial powers. The action of the Governor of the State of New York in demanding that he be virtually placed alongside of Mr. Stalin as dictator of the Empire State is a case in point. The Lord knows how many other States and local governments are seeking to follow suit. All this seems to result from a combination of hysterical reactions to possible atom warfare and of a rather general belief that this sort of "bold leadership" will pay good political dividends.

No Longer Greatly Care

Now, what troubles us as much as all this activity —indeed much more—is the fact that the rank and file of the people have come to greet it with a shrug of the shoulders. They appear to regard the installation of a virtual dictatorship here in this country, or a great number of little dictatorships throughout the land, as "inevitable," to be accepted with a sort of oriental fatalism. We find it cropping up, too, in the international field. Foreign relations appear to be regarded as almost wholly a matter for the Chief Executive who need come to Congress only if in need of funds. We have become much too "familiar with the face" of too many evils, and the disposition to embrace them is disheartening to say the least.

Continued from page 3

Investment During Inflation

ground not subject to depreciation. We are quite partial to the oils for many reasons, both for the companies ranking primarily as crude oil producers, such as Amerada, Humble, etc., as well as for the integrated companies like Standard of New Jersey, Standard of California, etc. Many farsighted investors may like to have a stake in the great oil developments in Canada (Imperial, British American) or holding some shares of Creole or International Petroleum, enjoying tax advantages and operating in the Caribbean.

The Non-Ferrous Metals will have a sustained demand for quite some time. They are not seriously affected by the excess profits tax. We expect them to continue to pay good dividends, partially tax exempt. The large list of metal companies from Kennecott and Phelps Dodge to Consolidated Mining & Smelting and International Nickel in Canada, are good investment stocks under practically all circumstances, although in normal times subject to great cyclical price changes.

Companies operating in other fields of mining which deserve mention are *Sulphur* stocks, Freeport Sulphur, Texas Gulf Sulphur, etc.; *Coal* stocks, Pittsburgh Consolidation Coal, Clinchfield, Island Creek Coal, etc.; *Potash* stocks, American Potash & Chemical, International Minerals & Chemical, etc.; *Phosphate* stocks, American Agricultural Chemical, Tennessee Corp., etc.

Iron and Steel—For some time we have felt that the stocks of this industry are not properly appraised by the stock market. They do not enjoy great public favor, a fact which we attribute to the difficult labor situation which the industry has had to contend with and the somewhat ungracious treatment on the part of the government. The industry holds enormous properties in mines and plants. Its importance in the defense effort is second to none. Earnings will remain high. We like the steel stocks as ordinary investments at this time, as well as inflation media. At present, we give preference to Bethlehem Steel, Jones & Laughlin, Republic Steel and U. S. Steel.

Paper and Lumber—In addition to their large plants, most paper companies hold extensive tracts of land with large stands of lumber. The industry has been prosperous and will be so (International Paper, Crown Zellerbach, etc.). Other companies holding large tracts of lumber in connection with their regular activities are Rayonier, U. S. Plywood, Weyerhaeuser, etc.

Sugar companies like Cuban American, South Porto Rico, Great Western, operating in the West Indies or in this country, may be attractive to some investors owing to their wide holdings of land. In this connection we like to give special mention to United Fruit.

Chemical and Manufacturing Stocks—In these large and numerous groups, stocks should be selected which have outstanding growth possibilities, such as E. I. du Pont de Nemours, Monsanto Chem., Union Carbide & Carbon, American Cyanamid, Dow Chemical; also American Viscose, Celanese and many others. Under the Excess Profits Tax Act many companies in the chemical and manufacturing industries have a poor tax shelter. It seems to us that this is very noticeable in the chemical industry; for instance, American Cyanamid and Dow Chemical only in the past year began reaping the benefit on products developed over a period of many years. The return on these stocks will be small. Nevertheless, they will find many buyers among long range inflation-minded managers of trust funds, pension funds, the large college funds and many private investors.

We recommend to the investor the careful study of the balance sheets of the leading companies in these numerous groups. Beginning with autos and accessories down to textiles and tires, he will find that tangible property in the form of plant and equipment often represent as high as 70% of net worth or more. These assets cannot be replaced at present inflated prices except through expenditures of sums many times the amounts appearing in the balance sheets. Will this be reflected in stock values in due course of time? We believe it will. Where would the money come from to pay for new machinery? Ours is a highly dynamic economy, not only demanding replacement of worn out machinery but also construction of additional plants with new equipment, particularly when the nation may be called upon to a supreme effort in defense of her institutions and her safety. The only way to maintain the highest possible productivity of the industries and to assure the flow of money for expansions is an adequate return on capital invested or to be invested.

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News About Banks and Bankers

ly Assistant Secretaries. Mr. Brower was Auditor and Mr. Tietjen, principal Executive Assistant.

* * *

Harvey L. Schwamm, President of **The American Trust Company, New York City,** announced on Jan. 2 that the company has acquired title to the property at 301-3 East Fordham Road in Bronx Borough. The property, a 2-story building, is just west of Fordham University. As soon as alterations are completed, a modern branch office with complete banking facilities will be opened, Mr. Schwamm announced. The American Trust Co. has its main office at 70 Wall Street.

* * *

J. HENRY SCHRODER BANKING CORPORATION, NEW YORK

	Dec. 31, '50	Sept. 30, '50
Total resources	$106,109,029	$103,580,005
Deposits	80,938,176	75,243,056
Cash & due from banks	12,606,509	10,245,248
U. S. Govt. security holdings	56,483,914	55,399,713
Loans & bills discounted	14,118,519	12,177,646
Surplus & undivided profits	4,000,856	3,518,213

SCHRODER TRUST COMPANY, NEW YORK

	Dec. 31, '50	Sept. 30, '50
Total resources	$42,292,455	$39,714,463
Deposits	36,426,659	34,203,809
Cash & due from banks	11,329,001	8,554,050
U. S. Govt. security holdings	21,942,462	22,220,945
Loans & bills discounted	7,819,803	7,862,946
Surplus & undivided profits	3,000,881	2,768,754

* * *

Two additions to the executive staff of the **Industrial Bank of Commerce of New York** were announced on Jan. 2 by Walter E. Kolb, President. Joseph R. Barrett, former Vice-President of The County Trust Co., White Plains, N. Y., will serve at the bank's main office, 56 East 42nd Street. Previously he was with General Motors Acceptance Corp. and Weil, Pearson & Co. Assigned to the bank's Seventh Avenue Office at 35th Street, Ralph D. Yeager comes to the bank from several New York City banks and factoring organizations.

* * *

Edmund P. Looney has been elected Executive Vice-President of **Lafayette National Bank of Brooklyn, N. Y.,** according to an announcement by Walter Jeffreys Carlin, President. Mr. Looney has been a Vice-President of the bank.

* * *

Approval to a certificate of increase of the capital stock of the **Schenectady Trust Company of Schenectady, N. Y.,** from $1,400,000 to $1,500,000 was given by the New York State Banking Department on Dec. 5. The stock is in shares of $100 each.

* * *

Lincoln National Bank & Trust Company of Syracuse, N. Y., has opened an office in the suburb of Dewitt, N. Y. The bank now has four offices, two in Syracuse, one in Pulaski, N. Y., and the DeWitt office. The new office, located in the heart of DeWitt's shopping center, is a modern concrete block structure. Warren B. Unbehend is President of Lincoln Bank. Harold F. Jones, who has been appointed Manager of the new office, is Assistant Cashier of the bank with which he has been associated since January, 1936.

* * *

CORN EXCHANGE NATIONAL BANK & TRUST COMPANY, PHILADELPHIA, PA.

	Dec. 31, '50	Sept. 30, '50
Total resources	$302,878,477	$300,164,636
Deposits	278,577,085	274,012,991
Cash & due from banks	82,460,604	72,739,928
U. S. Govt. security holdings	101,175,369	102,360,069
Loans & bills discounted	89,502,268	95,182,923
Undivided profits	3,206,422	3,401,990

FIDELITY-PHILADELPHIA TRUST COMPANY, PHILADELPHIA, PA.

	Dec. 31, '50	Sept. 30, '50
Total resources	$229,754,533	$221,829,737
Deposits	200,652,058	193,217,287
Cash & due from banks	51,588,401	43,664,504
U. S. Govt. security holdings	53,322,189	58,505,971
Loans	83,793,706	75,726,238
Undivided profits	5,734,232	5,673,552

* * *

An increase was recently reported in the capital of the **Hershey National Bank, of Hershey, Pa.** (as of Nov. 29) from $200,000 to $400,000, the increase having been brought about by a stock dividend of $200,000.

* * *

John C. Virden, Chairman of the Board of the John C. Virden Co. of Cleveland, has been appointed a member of the board of directors of the **Federal Reserve Bank of Cleveland** by the Board of Governors of the Federal Reserve System at Washington, and has been designated Deputy Chairman for 1951. Chairman George C. Brainard of the board of directors of the bank announced that Mr. Virden's appointment as a class C director is for a three-year term ending Dec. 31, 1953. Mr. Virden, who was born in Montgomery, Ala., was graduated from University School in 1915 and four years later founded the company which bears his name and which he headed until 1927. He was Vice-President of the Gill-Virden Co., Philadelphia, in 1927-28; President of the John C. Virden Co. from 1929 to 1936, and Chairman of the Board of that company since 1936. He was President of the John C. Virden Co., Ltd., of Toronto, Ont., from 1932 to 1948, and Chairman of the board since 1948. Mr. Virden is a director of the Eaton Manufacturing Co. and the Interlake Iron Corp. From 1942 to 1945, he served as Regional Director of the War Production Board. He was Central Field Commissioner for Europe in the Office of Foreign Liquidation Commissioner, 1945-46; served as a director of the Office of Industry Cooperation, Department of Commerce, 1948; has been a member of the Business Advisory Council since 1947, and is a member of the International Chamber of Commerce.

* * *

THE FIFTH THIRD UNION TRUST CO., CINCINNATI, OHIO

	Dec. 30, '50	June 30, '50
Total resources	$286,719,071	$247,232,275
Deposits	264,409,956	225,329,477
Cash & due from banks	89,479,742	64,115,159
U. S. Govt. security holdings	97,200,449	98,830,065
Loans & discounts	77,970,799	66,359,005
Undivided profits	2,117,509	1,765,070

* * *

Under the title and charter of the **Indiana National Bank of Indianapolis, Ind.** a consolidation of the **Union Trust Co. of Indianapolis** with the Indiana National Bank became effective at the close of business Dec. 30. The bank had a capital of $4,000,000, while the trust company had a capital of $1,133,300. According to the Jan. 2 Bulletin of the Office of the Comptroller of the Currency, the capital stock of the consolidated bank is $6,500,000, in shares of 65,000 of common stock, par $100 each. The surplus is $15,000,000 and in a statement of condition Dec. 30 undivided profits of $4,149,768 were reported, with total resources of $391,259,227.

* * *

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO

	Dec. 31, '50 $	Oct. 4, 50 $
Total resources	2,591,140,455	2,398,850,448
Deposits	2,378,443,252	2,189,526,038
Cash & due from banks	721,308,084	617,090,413
U. S. Govt. security hold'gs	1,191,263,345	1,247,450,070
Loans & disc'ts	511,417,394	377,722,895
Undivided profs.	23,128,009	18,367,628

Alfred Epstein, President and General Manager of the Pfeiffer Brewing Company of Detroit, Mich., and Murray D. Van Wagoner, formerly Governor of Michigan and former Commissioner of Bavaria for the United States in Germany, were on Jan. 9 elected directors of **The City Bank of Detroit** at the annual stockholders meeting, it was announced by Joseph F. Verhelle, President of the bank.

* * *

THE DETROIT BANK, DETROIT, MICH.

	Dec. 31,'50 $	June 30,'50 $
Total resources	628,639,960	611,390,210
Deposits	321,934,938	300,989,249
Cash and due from banks	123,648,585	112,992,876
U. S. Govt. security holdings	304,833,164	322,712,314
Loans and disct.	79,745,985	69,504,176
Undivided profits	4,389,381	4,169,560

* * *

Roger B. Shepard of St. Paul, Minn., has been reappointed a class C director of the **Federal Reserve Bank of Minneapolis** for a three-year term beginning Jan. 1, 1951, and redesignated Chairman of the Board and Federal Reserve Agent for 1951, J. N. Peyton, President of the Reserve Bank, announced on Dec. 29. The Board of Governors of the Federal Reserve System also reappointed W. D. Cochran, Iron Mountain, Mich., Deputy Chairman for 1951. John E. Corette, Jr., Butte, Mont., was appointed director of the Helena Branch of the Federal Reserve Bank of Minneapolis for a two-year term beginning Jan. 1, 1951. Previously he had been appointed to fill out the unexpired term of Dr. James McCain. Chairman Shepard has been on the board of the Federal Reserve Bank since December, 1939, and has been Chairman since Jan. 1, 1946.

* * *

FIRST NATIONAL BANK IN ST. LOUIS

	Dec. 31, '50	Oct. 4, '50
Total resources	$522,233,687	$488,504,652
Deposits	485,206,011	460,642,308
Cash & due from banks	145,579,953	119,694,783
U. S. Govt. security holdings	128,645,744	136,338,546
Loans & discounts	179,591,751	212,141,992
Undivided profits	6,011,726	6,977,881

* * *

A stock dividend of $500,000 has brought about an increase in the capital of the **American National Bank & Trust Co. of Chattanooga, Tenn.,** from $1,500,000 to $2,000,000, effective Dec. 4.

* * *

The stockholders of the **Republic National Bank of Dallas, Tex.,** at a special meeting on Dec. 23 unanimously approved the plans to increase the capital and surplus, to which reference was made in these columns Dec. 21, page 2458. Warrants representing rights were issued to stockholders to purchase 125,000 shares of additional stock. Stockholders were entitled to purchase one share of new stock at $40 per share for each 5.4 shares previously held. The rights by stockholders to purchase the new stock were required to be exercised by Jan. 6. The proceeds of the new capital increase, amounting to $5,000,000, will be equally divided between capital and surplus, increasing capital from $13,500,000 to $16,000,000 and surplus from $14,000,000 to $16,500,000. The new stock was underwritten by a syndicate headed by Walker, Austin and Waggener, First Southwest Co., and Dallas Rupe & Son.

* * *

UTAH FIRST NATIONAL BANK OF SALT LAKE CITY, UTAH

	Dec. 30, '50	Oct. 4, '50
Total resources	$83,322,437	$77,762,398
Deposits	80,112,141	74,740,570
Cash & due from banks	21,684,794	18,569,893
U. S. Govt. security holdings	48,987,887	48,415,561
Loans & discounts	10,684,277	8,123,675
Undivided profits & reserves	1,460,297	1,030,218

* * *

In addition to the three officials of the **Anglo California National Bank of San Francisco,** who we reported in our issue of Dec. 28, page 2562, were retiring from active service at the end of the year under the bank's retirement plan, we also learn that Frank J. Hoagland, Assistant Cashier, likewise retired at the same time in accordance with the retirement plan. The four bankers were guests of honor at a dinner given on Dec. 27 at the Family Club by directors and officers of the bank. The three other retiring bankers in addition to Mr. Hoagland, are John S. Curran, Victor Klinker and Louis Sutter, all Vice-Presidents, and sketches of their careers were given in the item appeatring in our columns Dec. 28. President Allard A. Calkins of the bank announces that Mr. Hoagland, who has held the distinction of being the only active officer of the bank formerly connected with the original Anglo-Californian Bank, Ltd., had been associated with Anglo since 1903. Born and educated in San Francisco, he has had many departmental managerial positions during his long career in the institution. For the past several years his duties were in the commercial department. He is a member of the American Institute of Banking.

Continued from page 5

The State of Trade and Industry

regular corporation tax rate hiked from 47% to 55%. It also favors lifting to at least 65% the ceiling on regular corporate taxes and excess profits levies combined. The present limit is 62%.

November witnessed the smallest rate of new business incorporations since September, 1945, immediately following the close of World War II. Corporate formations during November totaled 6,256, according to Dun & Bradstreet, Inc. This was 7.8% less than the October figure of 6,782, and a drop of 7.4% from the 6,755 recorded in November, 1949.

During the first 11 months of 1950 stock corporations chartered reached a total of 86,145. This represented a gain of 11.0% over the last year's figure of 77,634 for the same period, but it was a drop of 2.9% from the 88,680 in the first 11 months of 1948, and 29.9% less than the record number of 122,922 established in the comparable 1946 period.

Steel Output Scheduled to Approach Peak Level Capacity

The real snag in the defense program is the slowness of the military to decide what it needs. Money which has been appropriated for defense is being spent at a snail's pace, according to "The Iron Age," national metalworking weekly. It is now clear that much of it will not be converted into defense material during the present fiscal year—or soon after.

The present system of DO orders will not assure an orderly flow of materials when military procurement reaches its peak. Before that happens—probably during the second quarter—a controlled materials plan will be in effect, this trade magazine asserts.

Most steel producers will welcome a full CMP program for steel. For some it can't come soon enough. People administering the present DO system agree with them. Manpower to operate this and other programs is still Washington's big problem, but things are beginning to move on that score. In some instances defense officials are no longer directly contacting the men they want in Washington. Instead, they are going to presidents of companies and saying in effect, "We need these men, you see that we get them."

Meanwhile the steel market is becoming more confused. Some holders of DO orders are overstating the urgency of their needs, asking delivery of steel earlier than it is actually needed. Others are trying to protect their regular quotas by tapping new suppliers for their DO orders, this trade authority points out.

But some consumers with urgent needs covered by DO orders are not able to get steel when they need it. There are many such frustrated consumers running around the country wildly waving DO orders. These orders could be filled if the consumers knew where to go for steel, or for help in finding it.

Bookings of defense orders are becoming more extended each day. DO orders for cold-rolled sheets are filled to April or May; hot-rolled sheets, June; plates, March; pipe, March or April. This is the average extent of DO bookings; it is not uniform among all producers.

Some steel firms have done a good job of cleaning up order backlogs, and are now issuing quotas to regular customers for March on products such as bars, shapes and plates. Ordinarily these quotas would have been issued in January or February. The new quotas are slashed 40 to 50% from October allotments.

Those who thought that auto cutbacks would make steel easier are now beginning to find out how wrong they were, "The Iron Age" declares. The same old fakers are still trying to peddle steel at 14 to 16 cents a pound (about three times regular mill price)—and they are finding takers when they can deliver the goods. Nor is there any rush to cancel expensive conversion deals, even by auto producers who are planning to cut back production.

Expensive multiple-pass conversion arrangements are continuing. For example, one deal calls for slabs from a Pennsylvania mill to be reduced in the East and Midwest and passed along finally to another mill in another city for finishing. Final cost of this steel is about $300 a ton, when freight charges, rolling fees, insurance, etc., are added.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steelmaking capacity for the entire industry will be 102.7% of capacity for the week beginning Jan. 8, 1951, compared to an average of 101.8% a week ago, or an advance of 0.9 point.

This is the sixth successive week of above capacity operations.

This week's operating rate is equivalent to 1,980,800 tons of steel ingots and castings for the entire industry, compared to 1,963,400 tons a week ago. A month ago the rate was 101.3% and production yielded 1,953,800 tons; a year ago it stood at 94% and amounted to 1,791,900 tons.

Electric Output Advances in Latest Week

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 6, 1951, was estimated at 6,602,122,000 kwh., according to the Edison Electric Institute.

It was 122,820,000 kwh. higher than the figure reported for the previous week, 906,750,000 kwh., or 15.9% above the total output for the week ended Jan. 7, 1950, and 860,459,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Fall 19.4% Below Preceding Week

Loadings of revenue freight for the week ended Dec. 30, 1950, which included the Christmas holiday, totaled 602,376 cars, according to the Association of American Railroads, representing a decrease of 144,828 cars, or 19.4% below the preceding week.

The week's total represented an increase of 106,736 cars, or 21.5% above the corresponding week in 1949, and an increase of 17,766 cars, or 3% above the comparable period of 1948.

Auto Output Shows Sharp Decline in Latest Week

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 101,062 units, compared with the previous week's total of 136,064 (revised) units.

Responsible for the decline were suspensions for model changeovers by two General Motors divisions and the continued low production of Chrysler for the same reason, Ward's said.

Total output for the current week was made up of 70,363 cars and 23,485 trucks built in the United States and a total of 5,232 cars and 1,982 trucks built in Canada.

For the United States alone, total output was 93,848 units, against last week's revised total of 127,868 units, and in the like week of last year 110,326. Canadian output in the week totaled 7,214 units compared with 8,196 units a week ago.

Failures Rebound in Second Holiday Week

Commercial and industrial failures increased to 144 in the holiday week ended Jan. 4 from 125 in the preceding week, Dun & Bradstreet, Inc., reports. Although casualties were not as high as a year ago when 161 occurred, they exceeded the 128 of the similar 1949 week. Well below the prewar level, failures were 54% below the 1939 week's total of 312.

Casualties involving liabilities of $5,000 or more numbered 106, one more than in the preceding week but less than yast year's 130. Small failures with liabilities under $5,000 rose to 38 from 20 and exceeded their 1950 total of 31.

Retail trade failures rose to 79 from 59 and commercial service failures to 13 from 7. Manufacturing casualties numbered 25, one more than in the preceding week; construction failures were 16, one less than last week. Wholesaling casualties declined to 11 from 18. Failures were one-half as numerous as a year ago in manufacturing and wholesaling; commercial service also showed a decrease from 1950. Retail casualties were considerably above last year's level, while construction rose moderately.

Middle Atlantic States failures rose to 49 from 37 in the previous week, East North Central to 19 from 14, West North Central to 9 from none, and East South Central to 11 from none. Pacific failures fell to 32 from 37 and New England to 10 from 17. Casualties were less numerous than in 1950 except for increases in the West North Central and East South Central States and the same number in the Mountain States.

Wholesale Food Price Index Rises Moderately to New High

Food price movements were somewhat mixed last week with a moderate overall rise lifting the Dun & Bradstreet wholesale food price index for Jan. 2 to $6.93, a new high since Sept. 14, 1948, when it stood at $6.95. The current level of the index compares with $6.90 a week earlier, and represents an increase of 20.9% over the $5.73 recorded on the like 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 Breaks Through Previous All-Time High Point

Wholesale prices continued to climb during the final week of 1950 and the year ended with the index at an all-time high. A moderate dip on Jan. 2 brought the index to 318.03; slightly above the 317.62 of a week ago and well above the 245.49 of a year ago, Dun & Bradstreet, Inc., reports.

Grain prices generally remained steady during the holiday week although some slight declines brought the levels fractionally below the seasonal highs that had been set earlier. Expectations of a high domestic and export demand helped to boost corn prices. The buying of wheat was spurred by late reports of adverse moisture and crop conditions in the Southwest. Interest in soybean futures was stimulated by strength in the spot market and the government purchase of about 1,000,000 bushels. The rice market was active with both spot and future demand high. There were numerous requests for immediate delivery with many of the rice contracts.

There was the customary year-end dip in the demand of many flour buyers. Bookings were limited following the large orders placed by jobbers and bakers during previous weeks. Many bakers were reported to have sufficient unfilled orders to carry them through the first quarter. Orders during the week continued to be largely for fill-in purposes.

Trading in coffee futures for the year was at the highest level since 1931 following considerable activity during the final week of 1950. Prices generally remained firm.

The cocoa market ended the year on a quiet note reflecting the usual holiday dullness. Trading in both spot and futures was limited, prices were steady, and offerings of cocoa were scarce. There was a slight dip in sugar prices at the end of the week with trading rather active.

Sugar futures for the year were at the highest level since 1941.

Grinding of the very large Cuban crop is expected to start within the week.

Hog receipts during the final trading days of the year were unusually large; sales were high and prices generally were maintained. There was some belief that much of the selling was in anticipation of higher income taxes in 1951. Most livestock prices ended fractionally above those of the preceding week, although some slight declines occurred. Lard prices dipped somewhat along with a decline in the futures demand. Some recovery occurred at the end of the week following a report that heavy purchases by the Army were expected for first quarter delivery.

The government request for voluntary price stabilization continued to affect cotton futures prices erratically.

While prices closed above the previous week's level, they were moderately below the high of the week.

Wool trading was at a virtual standstill during the final week of the year. There were some sales of foreign wools, but offerings of domestic wools were very limited. Price fluctuations were small and for most grades remained unchanged.

Trade Volume Sustained at Record Holiday Level

Consumer sales were generally sustained at the record Christmas-week level in the period ended on Wednesday of last week. Total dollar volume was moderately above the level for the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its current summary of trade. A favorable response to many clearance sales was deemed responsible for much of the high volume.

Post-Yuletide clearances were particularly instrumental in maintaining dollar volume in apparel buying. Shoppers in many communities increased their purchasing of formal dresses made of velveteen and faille, and also of some types of house-dresses. Sports clothing was in increased demand, as skirts and blouses were sold in large quantity. While the unit volume of men's suits declined somewhat, price increases helped bring dollar volume to a point exceeding last year's level in scattered vicinities.

There was a moderate rise in retail food purchasing in the week with over-all dollar sales considerably above the level of a year ago.

While shoppers generally bought less fresh vegetables than during the previous week, a reflection of diminished supplies, frozen and canned produce was increasingly popular.

The buying of house-furnishings by consumers was nearly unchanged from last week's level with total dollar volume appreciably above the level of a year ago. The interest in furniture was especially noticeable in many sections; both case goods and upholstered lines were sold in large numbers. While there was some anticipatory buying of television sets and large appliances, the volume of these items continued to be below that of the October period.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 2 to 6% above a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England and Northwest +3 to +7; East and Midwest +2 to +6; South 0 to +4; Southwest +1 to +5 and Pacific Coast +4 to +8.

There was a slight increase in wholesale ordering in the week as the holiday lull came to an end.

Total dollar volume of orders was appreciably above the level for the corresponding period a year ago. Upward price adjustments in some commodities and increasing military procurements were factors in the rise in order volume from last year. The number of buyers increased noticeably from the low level of the previous week, but was below that of the similar period a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 30, 1950, advanced 21% from the like period of last year. This compared with an increase of 18% (revised) for the previous week. For the four weeks ended Dec. 30, 1950, sales showed a rise of 11% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Retail trade in New York the past week showed an increase in department stores sales over the 1950 week of 12% to 14%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 30, 1950, advanced 18% from the like period of last year. In the preceding week an increase of 18% (revised) was registered above the similar week of 1949. For the four weeks ended Dec. 30, 1950, an increase of 10% was recorded over that of a year ago, and for the year to date, volume advanced 2% from the like period of last year.

Murray Ward Member Of S. F. Stock Exchange

SAN FRANCISCO, Cal.—The election of Murray Ward, President of Hill, Richards & Co., to regular membership in the San Francisco Stock Exchange, was announced today by Ronald E. Kaehler, President of the Exchange.

Mr. Ward, who is also a member of the Los Angeles Stock Exchange, has been associated with Hill, Richards & Co., for the past 17 years. Other officers of the company are: Carey S. Hill, Chairman of the Board; Sherman Asche, Leo B. Babich and Wm. A. Teegarden, Vice-Presidents; John S. Thomson, Treasurer; Robert C. Smith, Assistant Treasurer, and Ruth Butler, Secretary.

With headquarters in Los Angeles, Hill, Richards & Co., has eight branch offices, three of which are in the Bay Area, San Francisco, Oakland and San Jose. Hill, Richards and predecessor companies have been in the securities business for approximately 20 years. This is the third corporation to become a member firm of the San Francisco Stock Exchange.

Jos. Williams Elected

Joseph E. Williams, Vice-President in the Trust Department of The Chase National Bank, has been elected Chairman of the Executive Committee of the New York Stock Transfer Association.

McLaughlin, Reuss Adds

McLaughlin, Reuss & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, announce that Thomas E. Feeley has become associated with the firm.

Mead, Miller to Admit

BALTIMORE, Md.—Mead, Miller & Co., 111 East Redwood Street, members of the New York and Baltimore-Philadelphia Stock Exchanges, will admit Frank D. Mead to partnership on Jan. 18.

Elmer Hammell Is Caswell Partner

CHICAGO, Ill.—Caswell & Co., 20 South La Salle Street, members of the Midwest Stock Exchange, announce that Elmer W. Hammell has been admitted as a general partner as of Jan. 2, 1951. Mr. Hammell has been with the firm's trading department for some years.

Elmer W. Hammell

NASD District No. 11 Elects Officers

WASHINGTON, D. C. — The members of District No. 11 of the National Association of Securities Dealers, Inc., recently elected: Charles P. Lukens, Jr., Robinson & Lukens, Washington, D. C., and George G. Shriver, George G. Shriver & Co., Inc., Baltimore, Md., to the District Committee, representing the securities industry in this area for a term of three years to fill the vacancies created by the expiration of the terms of: Richard P. Dunn, Auchincloss, Parker & Redpath, Washington, D. C., and C. T. Williams, Jr., C. T. Williams & Company, Inc., Baltimore, Md.

At the meeting of this Committee held yesterday, the following officers were elected:

Chairman: G. Fenton Cramer, Ferris & Co., Washington, D. C.

Vice-Chairman: Edward J. Armstrong, Stein Bros. & Boyce, Baltimore.

Mr. Cramer takes office at Chairman succeeding John C. Hagan, Jr. Donald H. Burns, 1625 K Street, N. W., Washington, D. C., was elected Secretary of the Committee.

District No. 11 comprises the District of Columbia and the States of Maryland, Virginia, West Virginia and North Carolina.

The members of this District are represented on the Board of Governors of this Association by Charles H. Pinkerton, Baker, Watts & Co., Baltimore, Md.

Alfred D. Smith With Webber-Simpson Co.

CHICAGO, Ill.—Webber-Simpson & Company, 208 South La Salle Street, members of the Midwest Stock Exchange, announce that Alfred D. Smith has become associated with them in charge of the Mutual Fund Department. He was Vice-President and General Manager of National Quotation Bureau in Chicago for 15 years and later became western manager of the Dow-Jones News Ticker Service. Recently Mr. Smith was sales representative of the National Securities and Research Corporation in the Chicago area.

Ball, Burge Opens New Dayton Office

DAYTON, Ohio—Ball, Burge & Kraus, members of the New York Stock Exchange, have opened a Dayton office under the management of Robert Patterson.

Mr. Patterson, a former partner of Green & Brock, now Green & Ladd, has associated with him Henry Otto and Ralph McCurdy.

Both these men have been in the investment business for 15 to 20 years and were likewise formerly connected with Green & Ladd.

Continued from first page

Are We Falling Into History's Greatest Trap?

only the beginning. The question of German and Japanese armaments is up in the air. If military expenditures are to rise next year by another $12 billion, with more to come, as is announced already; if we have to combat Bolshevism by raising the living standards of 500 or more million "backward" Asiatics, and by providing for 300 million "cultured" Europeans — national bankruptcy in one form or another and the loss of our cherished liberties is to be the inevitable price we must pay for a shaky peace and a dubious "security."

The Pattern of Aggression

He would be a poor player who does not consider the cards in his opponent's hand. An unemotional look at the way the Soviets play the game shows at once that there are two ways by which they expand their territory. One is actual annexation of neighboring countries. Note that they resort to this primitive technique of imperialism—grabbing smaller countries outright — very cautiously. Bits of Finland, the Baltic states, Eastern Poland, etc., are the chief victims. In all such instances, and this is very significant, Russia was permitted to proceed unchallenged by the other powers. (Teheran, Yalta and Potsdam will be remembered for a long time.) In none of those cases did armed conflict with a major power even remotely threaten. Contrary to Hitler, the Soviet rulers are of the "peace-loving" kind; they never challenge openly any power which they expect to fight back. (Finland disappointed them in 1939-40. Even in that case, the Soviets were playing safe: they had a free hand because Germany and the West were at war.)

The second method of Russian expansion is more subtle and more insidious. It consists in engineering a *coup d'etat* here and a civil war there. Conspicuous examples were in Czechoslovakia and China. The one was conquered without firing a single shot; Benes, laboring under his second heart attack, signed on the dotted line. Chiang Kai-shek is of a different timber; he had to be subdued in civil war. But bear in mind that in neither case was a single Russian soldier directly involved. And in neither case did a third power intervene in favor of the victim. We let the Czech bastion of westernism go by default and actually helped China tumble into the Bolshevist ditch. Indo-China is another illustration: what was originally a domestic underground movement against Japan has slipped out of the Allied hands and now is being developed by local Communists into a full-scale civil war—without open participation by Russia.

The pattern of aggression should be clear: the Soviets go as far as they can if the United States consents or at least does not resist. They provide aid and comfort to the revolutionaries, help them with expert direction, materials, and propaganda-wise, possibly even with "volunteers." But they most carefully avoid becoming aggressors in the plain sense of the word—in the sense of originating a World War. That pattern is fully documented by the records of their unsuccessful aggressions. Take the Berlin blockade: The Soviets did not dare shoot down a single Allied transport, and took the humiliating defeat on the chin. They lost prestige by abandoning support to the Greek guerrillas, by quitting Iran under our pressure, and by not following up their sharp requests for a "joint" control of the Dardanelles. Little Finland, virtually under Soviet domination, threw all Communists out of the Cabinet—and nothing happened.

Or consider Tito. Surely, he is a thorn in the Kremlin's flesh if there ever was one; his revolt is the greatest slap in the Bolshevist face since Hitler stood before Moscow, and a threat of ideological schism to the Russian domination of the faithful. Also, Yugoslavia's disaffection looms large in the Danubian strategic picture. Every method of intimidation was used to keep Tito in line. He could not miss the fact that if it took Hitler 10 divisions and three weeks to overrun Yugoslavia, Stalin's some 30 divisions at or near the border could do it faster. Yet, Tito shows no nervousness, and rightly so; no finger has been moved on a Russian trigger. A Yugoslav diplomat gave this writer a very simple explanation: Moscow assumes, as Belgrade does, that Washington might fight. That stops Moscow.

The pattern of Russian aggression should be clear—and the pattern of Russian non-aggression, too. It all depends on a word or gesture on our part. If we indicate tolerance — shall we call it appeasement?—the command "Vataku" will go out in Russian or in some other language. That is exactly what happened in Korea. Evidently, they thought they could present us with the accomplished fact of South Korea's conquest. And they had every reason to expect that. We had given more than one indication that we would not fight for South Korea. We not only withdrew from that peninsula, we also left it without military equipment, advisers and leadership. We went so far as to announce publicly that South Korea could not be defended and was not worth defending. An array of generals and other experts told Congress just that in the spring of 1948 in explanation of our withdrawal. A diplomatic and military vacuum was created which is what attracts the would-be conqueror. All he had to do, it appeared, was to walk in, with no risk involved.

But then, one may ask, what about the Chinese aggression in Korea? Apparently this is a new "pattern": when expansion by way of domestic revolution is stopped, a Satellite steps in from the outside. (And Peiping is Moscow's Satellite, let's have no doubt about that. For one thing, Mao has committed himself so deeply that no appeasement could drag him out any more, if indeed there ever was a chance for that.) Does that not imply that the Soviets are merely holding back, letting the others do the "dirty work" and waiting to step in at the crucial moment? In reality, the Chinese invasion of Korea proves nothing of the sort.

Certainly, it is part and parcel of Russia's overall policy. But we brought it on ourselves by assuring in advance the Chinese aggressor's immunity. From the outset, Peiping received such assurances from London and New Delhi. To avoid a mistake, it first sent "volunteers." Washington answered with repeated assurances, in words and deeds, that come what may we shall not retaliate by declaring war and bombing China. The U.N. suggested a neutral zone, guarantees (to protect the aggressor!), etc. In short, there was little doubt left that we will take it on the chin. That is exactly what we are doing. And Russia wins a new Satellite, in addition to the tremendous prestige gain—who in Asia will believe again in our liberating oratory?—and the diplomatic victory by splitting wide open the "freedom-loving" front of the U.N. All of which could not have occurred if we had made it plain that we meant "business," and acted accordingly.

The lesson should be obvious. Russia is anxious to avoid the risk of a real war. If she were in possession of ample super-weapons to quickly knock out our major cities, no humanitarian or moral reason would inhibit the gentlemen of the Politburo. It should be equally evident that their military supremacy in terms of ground forces, tanks, etc., over the rest of us does not satisfy them as a guarantee of victory.

The lesson may be formulated this way. To avoid Russian aggression, we have to make it plain what it is we will fight for. The number one condition of a sound American approach is, therefore, to quit waiting for the next Russian move and playing foreign policy by ear on a day-to-day basis as we have up until now. Let us stop improvising and "containing" Russia, which is what we still do in effect. Instead, let's call the shots in advance ourselves, backed by U. N. endorsement. It should be made absolutely clear, without leaving the slightest doubt, what the points and lines are which we are to protect if threatened by Bolshevist revolt from within—by whatever name it goes—or by way of aggression from without.

The choice between two alternatives cannot be sidestepped any longer: either we restrict the scope of our foreign policy to this hemisphere, or we expand beyond. In the latter case, we must formulate and enforce a new Monroe Doctrine to cover global commitments. It should specify the area which cannot and must not become Bolshevist, abandoning the naive idea that we have no right to consider "civil wars" in other countries as anything but their private affairs. It must state definitely the circumstances to be considered as constituting the case for irrevocable counter-action.

Such is the fundamental rule of international conduct which we did not follow until now. Had we done so, "Korea" could not have occurred, nor "Prague" or "China," for that matter.

The Cards Are Not Stacked in Favor of Russia

It might be well to remember the hysteria of last July and August. The Chinese Reds, you could read in the papers, might invade Formosa (by swimming 100 miles, presumably). The coming Russian attack on Iran or Turkey was plainly evident. Any minute, the Danubian satellites would overrun Tito's land. And that the German Federation was just another South Korea to the 175 Russian divisions "lined up" east of the Elbe, was beyond doubt. (In reality, two Russian divisions are about equal to one American, and the 175 of them are spread out between Berlin and Vladivostok, 7,000 miles apart.) Such was the atmosphere in which this nation was making its plans and planning its commitments. Nothing of the sort having materialized, a few afterthoughts may be timely.

Let us try to think as an aggressor does, bent on conquest. Every criminologist will tell you that he never would catch a professional thief if he did not put himself—mentally—in the rascal's place and figure out his tricks. Now then, what is the first thing an international highwayman has to consider? Obviously, it is the same thing his small-time counterpart has to bear in mind: how to "get away with it." It does not do to win battles, to overrun and to rob neighbors if one loses out in the end. The end is what matters. How does one make sure not only to get the booty, but also to hold it for good?

Take a page from history, Remember the Kaiser's generals, how they figured when they declared war in 1914? Germany and the Austrian monarchy, between them, represented at the time the greatest military power, the best-equipped and most mobile army in a superb strategic position. The Germans were sure that they would whip the French within two months—they chose the road by way of an undefended Belgium in order to move fast—while the Austrians were supposed to hold the slowly mobilizing Russians in check. The British would never declare war; anyway, their help would be too little and too late. Peace would be dictated in Paris and the whole weight of the Central European armies would descend upon Russia.

Those were the essentials of the Schlieffen Plan, as it was known. It was all figured out with clock-like precision by the highly vaunted general staff of that age. It almost worked. It would have worked in spite of Britain's determination to stand by France if the huge forces of Grand Duke Nicolaj Nicolaevich had not rolled over the Austro-Hungarians. Some ten divisions of the Reich had to be dispatched from the western to the eastern front, and the German army was stymied on the Marne. The best general staff had made a mistake in reckoning. (Maybe Clemenceau was right when he said that war is too serious a matter to be left to the generals.)

In 1914, no general dreamed of an American army coming to the rescue of western Europe. As a matter of fact, German diplomacy expected the Americans to stay friendly, or at least definitely neutral. The Kaiser never would have embarked on that fateful venture if he had an inkling that it would last four years. As one who lived there at the time, followed the press and had contact with the higher-ups in Germany's ruling bureaucracy, I can speak with direct knowledge, supported by the testimony of relevant memoirs and historical studies. No one expected that war to last more than a few months.

Nor did Hitler in his turn anticipate a long war. His whole strategy was built on the famous **blitzkrieg** and its psychological effects. He timed the attack when he was much better prepared than his opponents. He had assured himself of the virtual alliance of Russia, Italy and Japan. He reckoned to finish Poland in three weeks (which he did) and to bully an isolated France and Britain into a fresh appeasment. His first disappointment was France's and Britain's refusal to comply. Even then, when his Armageddon turned against the West, he had ample reason for the certainty of winning in the short run, before America would or could enter the field.

The point is that no modern aggressor dares to "aggress" unless he is certain of a quick victory. No government in its right mind attacks a great power knowing or assuming that the war will last years and that then its final outcome will be dubious. The Politburo bosses may be "crazy," but they are not fools, especially when the ultimate issue of their very existence is at stake. As a matter of fact, they have proved themselves extremely shrewd operators. Their record speaks a clear language, a record which seems to be overlooked on this side of the Iron Curtain. Every bit of it shows that the Bolshevist leadership, whatever else it may be, is not an outfit of irrational gamblers. In international relations they commit blunders—don't we too?—but they do not embark on military adventures without well-considered sifting of the prospects. They do fight with everything they have when attacked (a fact which is worth remembering), but are not likely to start something unless the chances appear to be overwhelmingly in their favor — at least as much as they had appeared to the Kaiser and to Hitler.

Weighing the Chances

We will do well to consider it axiomatic that the Soviet leaders are well informed on our actual and potential strength (probably much better than we are on theirs); and that they decide in a rational fashion about the economic, political and military chances of a conflict (just as we should). That means in practice that before undertaking any aggression they have to make up their minds on the following questions:

Will it mean war with the U. S., the only power they fear?

If yes, can they annihilate this nation, or break its will to resist, within a short time?

If it should turn out to be a long war, what are the prospects of victory in view of relative manpower, resources, help from allies, morale of the populations, etc.?

What would happen in a long war? Perhaps, the Russians might overrun most of Europe and Asia, though it should not be a joy-ride, particularly not through the Channel, the Pyrenees, the rugged mountains and deserts which protect Turkey and the Middle East, to say nothing of the Himalaya. But then, what? The U. S. Army was not, at the Kaiser's and Hitler's start, either in Europe or Asia. In the next war, it might be everywhere, with its power based on a home hemisphere that could not be successfully invaded. Nor could it be starved by blockade. Under any circumstances, how could Russia subdue America in a long war in view of our obvious and well-known technological and industrial supremacy? By undermining this nation's morale and creating domestic civil war? The Soviet armies, with millions of subjugated peoples at their back, would have to fear just that.

We are back where we started: a short war, a blitzkrieg, is the only kind that pays dividends worth an aggressor's serious consideration. But that presupposes much more than Russian advantage in atomic and related weapons, even if such an advantage exists, which is doubtful, to say the least. It presupposes a superiority in destructive power that is decisive, that does not permit retaliation on an effective scale and eliminates the defender's ability to recuperate. As long as America does not have to fear anything of that sort, even a gigantic Pearl Harbor would result in the ultimate doom of Bolshevism. The masters of the Kremlin, who have the Kaiser's and Hitler's fate before their eyes, could not fail to realize that.

Is Bankrupting America the Answer?

The foregoing analysis should make it clear what we are confronted with—and what we are not.

The uninhibited Russians are out to do what we expect from them: to trouble the international waters and to fish in the troubled waters. Why did they not overrun Europe before June 25 while they probably had more armed men and more arms on hand than all the rest of the world put together? By this time, they could have swallowed the arsenals of the Ruhr and now could be enjoying the beauties of Paris and Rome. And what are they waiting for now? Since our new rearmament is in process, their military lead is diminishing by the hour. There is no sign of Russian mobilization or war preparation having increased since June 25. As a layman in military matters, one wonders why we are driving to bankrupt ourselves (and incidentally, also our allies) while Mr. Stalin is waiting for us to get ready to attack him? If he had any means to crush us, this would be the "12th hour" to do so before we are prepared to crush him.

Russia's idea is not, when and how to start World War III. That would be a desperate move. Consider, too, Marxist ideology which notoriously has relevance to Russian policy. It counts on the breakdown of capitalism, on a great American crisis with mass-unemployment to come as sure as the sun sets every day. When our tree disintegrates from within, and our living standards take a nose-dive, that will be the time to pick the fruit. Indeed, the safest way for Russia to liquidate America is by bankrupting it. Since they cannot win a lightning war and cannot in their right senses risk a long one, there is nothing left for them but to undermine our system and to dilute our financial blood by cold wars. **That is our problem:** not war with Russia, but economic and political deterioration due to "peaceful" preparations, with disintegration of national morale in its wake.

Are we falling into history's greatest trap? It seems so, judging by the recent Washington report of the "Wall Street Journal" which quoted one of the President's aids: "We're making plans," he says "for a new Truman policy to police the world and keep the peace and hold the Russians." This global policy of arming to the teeth and spending to the bottom of the purse may last "All Our Lives." The report is well sustained from "inside" quarters. We must "Prevent a 'Korea' in Western Europe," pontificates a former Undersecretary of the Army (as if a "Korea" would be in the offing there), and the Assistant Secretary of the Air Force solemnly demands we must "marshal all our resources." What that means, the Secretary of Commerce doomly forecasts, is preparation against an invasion of the United States! He does not delve into details, whether the Russkis will land miraculously by boat in New York, drive half-frozen through Alaska and the Arctics, or jump by parachutes straight on Kansas City.

The subconscious idea or ideal in back of these well-meaning minds is remarkably similar to that of old Sparta—and of 17th Century Prussia — nay, of Soviet Russia itself. In reality, we need neither to build ourselves into a permanent garrison on a world-wide scale, nor to indulge permanently in a global raising of living standards—as if our resources were unlimited, as if all that could be done without total regimentation and impoverishment of this country (and, incidentally, of our Allies as well). We can have both "guns **and** butter," high living standards **and** ample armaments, if we keep the latter in the bounds of a minimum adequate to the necessities of a lightning war. We can keep down armaments if we do not arm in the atomic age for a pre-atomic warfare. What we need is the right kind of foreign policy backed by the right kind and measure of arms. What we have to emphasize is, in the words of a military expert like Hanson W. Baldwin, "readiness potential, rather than mobilization potential." More precisely, all that is necessary should be marshalled and mobilized against the enemy's potential blitz-attack and for retaliation by a counter-blitz; beyond that, the idea of an all-round Maginot Line of total security is simply preposterous. "Those nations that have tried to make themselves impregnable have become either garrison states or bankrupt states." A nation that tries to make half-the-globe impregnable must become a bankrupt garrison.

[Editor's Note: The "Chronicle" invites comments on the views expressed by Dr. Palyi or on any related phase of the subject. Letters should be addressed to Editor, Commercial and Financial Chronicle, 25 Park Place, New York 7, N.Y.]

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President Pleads for War Potential Build-Up

own country, has done enough yet. But real progress is being made.

Together, we have worked out defense plans. The military leaders of our own country took part in working out these plans, and are agreed that they are sound and within our capabilities.

To put these plans into action, we sent to Europe last week one of our greatest military commanders, General Dwight D. Eisenhower.

General Eisenhower went to Europe to assume command of the united forces of the North Atlantic Treaty countries, including our own forces in Germany.

The people of Europe have confidence in General Eisenhower. They know his ability to put together a fighting force of allies. His mission is vital to our security. We should all stand behind him, and give him every bit of help we can.

Part of our job will be to reinforce the military strength of our European partners by sending them weapons and equipment as our military production expands.

Assistance to Near and Far East

Our program of military assistance extends to nations in the Near East and the Far East which are trying to defend their freedom. Soviet communism is trying to make these nations into colonies, and to use their people as cannon fodder in new wars of conquest. We want their people to be free men and to enjoy peace.

Our country has always stood for freedom for the peoples of Asia. Our history shows this. We have demonstrated it in the Philippines. We have demonstrated it in our relations with Indonesia, India, and China. We hope to join in restoring the people of Japan to membership in the community of free nations.

It is in the Far East that we have taken up arms, under the United Nations, to preserve the principle of independence for free nations. We are fighting to keep the forces of communist aggression from making a slave state out of Korea.

Korea has tremendous significance for the world. It means that free nations, acting through the United Nations, are fighting together against aggression.

We understand the importance of this best if we look back into history. If the democracies had stood up against the invasion of Manchuria in 1931, or the attack on Ethiopia in 1935, or the seizure of Austria in 1938, if they had stood together against aggression on those occasions as the United Nations has done, the whole history of our time would have been different.

The principles for which we are fighting in Korea are right and just. They are the foundations of collective security and of the future of free nations. Korea is not only a country undergoing the torment of aggression; it is also a symbol. It stands for right and justice in the world against oppression and slavery. The free world must always stand for these principles—and we will stand with the free world.

As the third part of our program, we will continue to work for peaceful settlements of international disputes. We will support the United Nations and remain loyal to the great principles of international cooperation laid down by its Charter.

We are willing, as we have always been, to negotiate honorable settlements with the Soviet Union. But we will not engage in appeasement.

The Soviet rulers have made it clear that we must have strength as well as right on our side. If we build our strength—and we are building it—the Soviet rulers may face the facts and lay aside their plans to take over the world.

That is what we hope will happen, and that is what we are trying to bring about.

That is the only realistic road to peace.

These are the main elements of the course our nation must follow as a member of the community of free nations. These are the things we must do to preserve our security and help create a peaceful world. But they will be successful only if we increase the strength of our own country.

Big Home Job To Do

Here at home we have some very big jobs to do. We are building much stronger military forces —and we are building them fast. We are preparing for full wartime mobilization, if that should be necessary. And we are continuing to build a strong and growing economy, able to maintain whatever effort may be required for as long as necessary.

We are building our own Army, Navy, and Air Force to an active strength of nearly three and a half million men and women. We are stepping up the training of the reserve forces, and establishing more training facilities, so that we can repidly increase our active forces far more on short notice.

We are going to produce all the weapons and equipment that such an armed force will need. Furthermore, we will make weapons for our allies, and weapons for our own reserve supplies. On top of this, we will build the capacity to turn out on short notice arms and supplies that may be needed for a full scale war.

Fortunately, we have a good start on this because of our enormous plant capacity and the equipment on hand from the last war. For example, many combat ships are being returned to active duty from the "mothball fleet" and many others can be put into service on very short notice. We have large reserves of arms and ammunition and thousands of workers skilled in arms production.

In many cases, however, our stocks of weapons are low. In other cases, those on hand are not the most modern. We have made remarkable technical advances. We have developed new types of jet planes and powerful new tanks. We are concentrating on producing the newest types of weapons and producing them as fast as we possibly can.

This production drive is more selective than the one we had during World War II, but it is just as urgent and intense. It is a big program and a costly one.

Let me give you two concrete examples. Our present program calls for expanding the aircraft industry so that it will have the capacity to produce 50,000 modern military planes a year. We are preparing the capacity to produce 35,000 tanks a year. We are not now ordering that many planes or tanks, and we hope that we never have to, but we mean to be able to turn them out if we need them.

The planes we are producing now are a lot bigger—and a lot better—than the planes we had during the last war.

We used to think that the B-17 was a huge plane, and the block-buster it carried was a huge load. But the B-36 can carry five of those block-busters in its belly, and it can carry them five times as far. Of course, the B-36 is much more complicated to build than the B-17, and far more expensive. One B-17 costs about $275,000, while now one B-36 costs about $3½ million.

I ask you to remember that what we are doing is to provide the best and most modern military equipment in the world for our fighting forces.

This kind of defense production program has two parts.

The first part is to get our defense production going as fast as possible. We have to convert plants and channel materials to defense production.

This means heavy cuts in the civilian use of copper, aluminum, rubber and other essential materials. It means shortages in various consumer goods.

The second part is to increase our capacity to produce and to keep our economy strong for the long pull. We do not know how long communist aggression will threaten the world.

Only by increasing our output can we carry the burden of preparedness for an indefinite period in the future. This means that we will have to build more power plants, and more steel mills, grow more cotton, mine more copper, and expand our capacity in many other ways.

A Ten-Point Program

The Congress will need to consider legislation, at this session, affecting all the aspects of our mobilization job. The main subjects on which legislation will be needed are:

First, appropriations for our military build-up.

Second, extension and revision of the Selective Service Act.

Third, military and economic aid to help build up the strength of the free world.

Fourth, revision and extension of the authority to expand production and to stabilize prices, wages, and rents.

Fifth, improvement of our agricultural laws, to help obtain the kinds of farm products we need for the defense effort.

Sixth, improvement of our labor laws to help provide stable labor-management relations and to make sure that we have steady production in this emergency.

Seventh, housing and training of defense workers, and the full use of all our manpower resources.

Eighth, means for increasing the supply of doctors, nurses, and other trained medical personnel critically needed for the defense effort.

Ninth, aid to the States to meet the most urgent needs of our elementary and secondary schools. Some of our plans will have to be deferred for the time being. But we should do all we can to make sure our children are being trained as good and useful citizens in these critical times ahead.

Tenth, a major increase in taxes to meet the cost of the defense effort.

The Economic Report and the Budget Message will discuss these subjects further. In addition, I shall send to the Congress special messages containing detailed recommendations on legislation needed at this session.

In the months ahead, the government must give priority to activities that are urgent—like military procurement and atomic energy and power development. It must practice rigid economy in its non-defense activities. Many of the things we would normally do must be curtailed or postponed.

But in a long-term defense effort like this one, we cannot neglect the measures needed to maintain a strong economy and a healthy democratic society.

The Congress, therefore, should give continued attention to the measures which our country will need for the long pull. And it should act upon such legislation as promptly as circumstances permit.

Must Round Out Social Insurance System

To take just one example—we need to continue and complete the work of rounding out our system of social insurance. We still need to improve our protection against unemployment and old age. We still need to provide insurance against loss of earnings through sickness, and against the high costs of modern medical care.

Above all, we must remember that the fundamentals of our strength rest upon the freedoms of our people. We must continue our efforts to achieve the full realization of our democratic ideals. We must uphold freedom of speech and freedom of conscience in our land. We must assure equal rights and equal opportunities to all our citizens.

As we go forward this year in the defense of freedom, let us keep clearly before us the nature of our present effort.

We are building up our strength, in concert with other free nations, to meet the danger of aggression that has been turned loose on the world. The strength of the free nations is the world's best hope of peace.

A Plea for Unity

I ask the Congress for unity in these crucial days.

Make no mistake about my meaning. I do not ask, or expect, unanimity. I do not ask for an end to debate. Only by debate can we arrive at decisions which are wise, and which reflect the desires of the American people. We do not have dictatorship in this country, and we will never have it.

When I request unity, what I am really asking for is a sense of responsibility on the part of every member of this Congress. Let us debate the issues, but let every man among us weigh his words and deeds. There is a sharp difference between harmful criticism and constructive criticism. If we are truly responsible as individuals, I am sure that we will be unified as a government.

Let us keep our eyes on the issues and work for the things we all believe in.

Let each of us put our country ahead of our party, and ahead of our own personal interests.

I had the honor to be a member of the Senate during World War II, and I know from experience that unity of purpose and of effort is possible in the Congress without any lessening of the vitality of our two-party system.

Let us all stand together as Americans. And let us stand together with all men everywhere who believe in human liberty.

Peace is precious to us. It is the way of life we strive for with all the strength and wisdom we possess. But more precious than peace are freedom and justice. We will fight, if fight we must, to keep our freedom and to prevent justice from being destroyed.

These are the things that give meaning to our lives, and which we acknowledge to be greater than ourselves.

This is our cause—peace, freedom, justice.

We will pursue this cause with determination and humility, asking Divine Guidance that in all we do we may follow God's will.

Continued from first page

Business and the Federal Government

and musing at how this was accomplished, and what lies ahead of us.

The more I read of opinions on the subject, I find that an extraordinarily high percentage of the commentators constantly make flat assertions as fact, without qualifying them as being mere opinions, stated, however, as fact. There is an old English saying coming down from the days of the Crown Prosecutor—"He who asserts must prove."

Obviously in the realm of opinions, complete and absolute proof is, in many cases, impossible. Over the Engineer's Club in Dayton, there is the following:

"I often say . . . that when you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind; it may be the beginning of knowledge, but you have scarcely, in your thoughts, advanced to the stage of science, whatever the matter may be."—Lord Kelvin.

I feel that we must except spiritual convictions from this quotation, as I am sure that the author of it is referring to business, and I think we all agree that scientists, physicists, and all dealing with exact science reach true and complete knowledge, while the rest of us are groping with cause and effect, with very very meagre knowledge of how the human animal will react as some new experiments of an ideological nature are tried.

In the past decade, many, many listed companies have almost trebled their volume of business, and maintained approximately the same percentage of profits, after taxes, on sales. This is so despite the fact that taxes have mounted unbelievably, and wages have spiraled.

In this period, bank deposits have more than doubled—I might have said "naturally" have doubled, but the use of the word "naturally" in this connection is opinion. However, how can business do three times the dollar volume without necessarily having to keep at least twice the bank balances?

Incidentally, individuals under present income tax rates find themselves with much larger bank balances at the year-end than they have ever seen before in their lives, due to the fact that they have heavy income tax payments to make on Jan. 15 and March 15—some of you may be aware of this fact! Therefore, how can it help but be substantially true that at this present moment, bank deposits are up because of dollar volume of business and tax accumulations?

Increase in Bank Deposits Not Disproportionate

When discussing "Business and the Federal Government," the prime subject seems to be inflation. I would like to quote from Webster's International Dictionary, and give you the definition of "inflation" therein:

"Disproportionate and relatively sharp and sudden increase in the quantity of money or credit, or both, relative to the amount of exchange business. Such increase may come as a result of unexpected additions to the supply of precious metals, as in the period following the Spanish conquests in Central and South America or the period following the opening up of large new gold deposits; or it may come in times of business activity by expansion of credit through the banks; or, it may come in times of financial difficulty by governmental issues of paper money without adequate metallic reserve and without provisions for conversion into standard metallic money on demand. In accordance with the law of the quantity theory of money, inflation always produces a rise in the price level."

You will note that the word "disproportionate" is used, when defining the quantity of money. I submit that the increase in bank deposits and the money in circulation at this time is not disproportionate to the volume of business, the cost of living, and the taxes which companies and individuals have to pay.

It strikes me that as more and more men are withdrawn from production and put in uniform, or withdrawn for civilian work in connection with military requirements, unless a similar number of people are released from present government jobs, fewer people will have to produce not only as much as before, or approximately so, but also produce war materials and supplies, and we will shortly be entering into a period of tremendous overtime pay unless something is done about it.

Payroll money, in the main, is the available spending power of all of us. The phrase is used "The volume of money and credit available for spending." It strikes me that the payroll is the number one factor. In my opinion, actual money in circulation and total bank deposits go up as a consequence of higher prices, but the two really inflationary factors are payrolls and taxes, as they go up and up. The short work week will inevitably mean tremendous overtime money which, in my opinion, nothing can keep from being very largely spent, and I do not believe that the American people are ready to be told that part of their pay can, under no circumstances whatsoever, be spent.

Now as to credit. Higher inventories in dollars cause corporation borrowing. As the young people marry, housing requirements cause mortgage lending in the natural course of events. Plant expansion is imperatively necessary to lower costs and requires borrowing. Statistically, payrolls and salaries make up the spending money. For this reason I feel that rather than making efforts to control the economy, we should abandon the short work week, stop subsidies of any nature, and stop stockpiling in an effort to control prices of agricultural products, and only stockpile for military and defense requirements.

Higher Taxes Put Up Prices

I have a strong feeling that higher taxes put up prices, as you know perfectly well that in your company your goal is percentage to sales, after taxes, and you price your goods accordingly. Corporation costs govern prices, and wages and taxes are costs in the eyes of top corporation management. If I am right in saying that *all* taxes are a part of the cost to the manufacturer or merchant, it would seem to follow, that the higher taxes go, the higher will prices go! If then there be a danger point in taxes, we well may have passed it *now*.

As people are unable to buy television and automobiles because of credit restrictions, in my opinion many promptly buy something else, thereby increasing the demand for other articles, and as the manufacturers find their sales going downward, they have to raise prices to keep up a decent margin of profit, due to the fact that general overhead, general administration, etc., goes on at the same rate as before, and has to be allocated to fewer units of production.

I think we should all deny vigorously that bank credit policies have been out of line, and are a fundamental inflation cause. If one spells out the double-entry bookkeeping involved in the operations of the Federal Reserve Banks and all of the member banks, it seems to me abundantly clear that loans and deposits of member banks go up as the dollar volume of business goes up, being therefore the result — not the cause— of higher prices.

The Federal Reserve Act was passed with the following preamble:

"An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

The panic of 1907 had taught us that our paper money supply was not elastic, all of the then available government bonds had been pledged to secure National Bank notes, and a sudden demand for currency went beyond the amount legally available.

Ensuing study and arguments resulted in the recognition of the above mentioned fact that as business grows and expands, there is need for elasticity in pocket money and bank deposit money, to avoid either currency or credit squeezes.

When one looks at the Federal Reserve balance sheet, one cannot help but realize that the large holding of government bonds by the Federal and by the member banks has resulted in the plain fact that government bonds themselves have become the means by which member banks, as a whole, can increase their balances with the Federal Reserve and similarly, government bonds become the only medium by which member banks, as a whole, can withdraw funds from the Federal.

Effect of Reserve Requirements

It is hard to express this in a few words, but by and large, now that the Federal Reserve has announced an increase in Reserve requirements, the net result will be that the Federal will own more government bonds, and the member banks less, thereby depriving the banks of the present income on those bonds. How this action can have any material effect on our lending policies, I fail to see, as the member banks all have such strong holdings of government bonds that the reduction in the total bonds held will be minor.

Secondly, we know that every time we lend money to a customer, that money will be used by the customer either to acquire other assets or to pay bills incurred; therefore, we know full well that taking all of the banks, as a whole, as loans go up, deposits go up, and each separate bank can be quite sure that if its lending is merely at the average increase for the country, they will also get the average increase in deposits.

The above fact seems to me to also apply to government bonds owned by member banks. As our deposits go up more than we lend, we buy government bonds, and as deposits go down more than we lend, we sell government bonds—the fact being that for the banks, as a whole, there ordinarily are about as many purchasers for government bonds as there are sellers. Federal Reserve's portfolio of government bonds has fluctuated unimportantly during this whole calendar year, the change being only in maturities.

The above adds up to the question as to why so many writers seem to concur in the statement that increasing bank deposits are inflationary, and that bank lending should be curbed. Is it not true that deposit money is merely a tool of production?

In conclusion, I would like to say that I keep wondering whether man has acclimated himself to one of the many remarkable inventions made by man, namely, double-entry bookkeeping.

Many people speak about money and credit as though it came out of a barrel and consumed as taken out.

As previously stated, a loan made by a bank can start off a chain of reaction of liquidation of other debts, or can in turn increase both sides of the ledger.

The French inflation, in my opinion, was clearly the result of a breakdown in the credit of the government, using the printing press because they had no other means of raising money. That is why business must tell our government over and over again that the King *can* do wrong, that our government must observe the business rule which applies to companies and individuals, namely, when planning expenditures, we must ask "Can we afford it?"

Looks for Decline in Rate of Savings

George L. Bliss, President of Century Federal Savings Association of New York City, points out savings rate has been declining since 1944, and reversal of this trend cannot be expected unless serious shortage of consumer goods develops, and government sponsors program of patriotic savings.

Executives of thrift institutions who are making "rosy predictions" of a substantial increase in the savings rate during 1951 are engaging in "wishful thinking," is the opinion of George L. Bliss, President of the Century Federal Savings Association, New York City.

George L. Bliss

Mr. Bliss, in a review of the savings trend, cited the steady decline in the annual net additions to their long-term savings by the American people since 1944, and declared that "there is nothing on the horizon now" to warrant a prediction of any reversal of the downward trend in the savings rate in the immediate future. His opinion is that a further decline in savings volume is probable—as long as there is a plentiful supply of consumer goods and as long as scare buying and hoarding continue.

A reversal of the downward trend in the savings rate may eventually occur, he said, if a substantial shortage of things to buy develops as a result of the defense program and impending controls, and if the government sponsors an extensive program appealing to the American people to save as a patriotic means of forestalling inflation and aiding the defense effort.

"Because the dollar volume of long-term savings has been running at two to three times the volume prior to World War II," he continued "casual observers have failed to note the significance of the steady decline in the rate of saving. To portray the true picture, a comparison must be made with total personal income, which is running at three to four times the prewar average."

Mr. Bliss pointed out that the ratio of long-term savings to personal income reached its peak in 1944, when the American people saved 13.4% of each dollar earned. Total personal income that year, he said, amounted to $165,892,000,000 and the net additions to long-term savings totaled $22,222,000,000.

While final official figures for 1950 will not be available for some time, Mr. Bliss estimated, based upon trends during the year, that total personal income for 1950 will approximate $220,000,000,000 and that net additions to long-term savings will not exceed $5,000,000,000. That would be a ratio of only 2.3%, he said, the lowest since 1933, when, in the depression days, the people of the United States drew out of their savings balances $1,474,000,000 more than they added.

Mr. Bliss cited figures showing a sharp decline in the savings rate each year since 1944. In 1945, he pointed out, personal income amounted to $171,927,000,000, while net additions to long-term savings totaled $19,722,000,000, or a ratio of 12.1%; in 1946, the ratio dropped to 6.1%, when total personal income was $177,724,000,000 and net additions to long-term savings amounted to $10,752,000,000; in 1947, the ratio was 4.5% with personal income amounting to $191,000,000,000 and net additions to long-term savings totaling $8,534,000,000; in 1948, the ratio declined still further to 3.4%, when personal income totaled $209,531,000,000 and net additions to long-term savings amounted to $7,166,000,000; and, in 1949, the ratio dropped to 3.1% when personal income amounted to $206,118,000,000 and net additions to long-term savings totaled $6,330,000,000.

Mr. Bliss, in his figures on long-term savings, listed savings accounts in savings associations, savings and commercial banks, government savings bonds, postal savings and the cash value of life insurance policies.

In analyzing the savings trend, Mr. Bliss said the peak reached in 1944 "is attributable to the patriotic fervor behind the savings program on account of wartime conditions." The prediction then freely made that the American people would maintain the thrifty habits then inculcated has not been borne out, he declared. The reason for the decline in the postwar years, from 1945 through 1949, he went on, was the need to replenish wardrobes and household equipment, to purchase new automobiles and other things and to provide for house repairs which had been deferred. In 1950, he said, we must attribute the decline to the heavy volume of scare buying occurring after the Red invasion of South Korea.

Sigourney Wilson Joins H. A. Riecke

PHILADELPHIA, Pa. — H. A. Riecke & Co., Inc., 1528 Walnut Street, members of the Philadelphia-Baltimore Stock Exchange, announce the association with them of Sigourney R. Wilson as manager of their statistical and sales departments.

Mr. Wilson has been connected with the investment business in Philadelphia for 30 years, and was last associated with the firm of Taylor and Wilson.

Lowell F. Martin

Lowell F. Martin, of Cruttenden & Co., Chicago, died at the age of 44.

Public Utility Securities

By OWEN ELY

The Outlook for Electric Utilities

Following is the yearly trend of the Dow-Jones averages, taking the averages of Jan. 7, 1937 as 100% in each case and converting each later year to a percentage of the 1937 figure:

	Annual Percentage		
	Industrials	Rails	Utilities
January 7, 1937	100%	100%	100%
January 6, 1938	71	56	58
January 6, 1939	84	60	67
January 5, 1940	84	58	72
January 3, 1941	73	51	56
January 2, 1942	62	49	39
January 7, 1943	66	51	42
January 6, 1944	76	62	61
January 4, 1945	85	89	72
January 3, 1946	105	113	106
January 2, 1947	97	93	102
January 8, 1948	100	97	94
January 6, 1949	99	98	94
January 5, 1950	110	98	117
January 4, 1951	132	144	117

It is interesting to trace the varying fortunes of the three averages. The industrial average is somewhat slow-moving since it is largely made up of "blue chip issues" with relatively low capital leverage. Rails have somewhat more leverage than industrials, and hence the swings of the rail average are apt to be larger. Utilities on the other hand should normally have smaller fluctuations because of more stable earning power. Following the 1932-36 bull market, however, both rails and utilities declined more sharply than industrials, reaching lows of 49% and 39%, respectively, in January, 1942 compared with 62% for industrials. During this period the utilities were under considerable pressure because of two factors—the impact of heavy EPT and income taxes, and the threatened forced breakup of the holding companies by the SEC (the so-called "death sentences").

During the bull market of 1942-46 both groups made a fast recovery, however, outdistancing the industrial average; utilities were aided not only by the end of EPT in 1945 but also by the more conciliatory attitude of the SEC in its dealings with the holding companies. Thus by early 1946 the utilities regained all the ground they had lost relative to the industrial group. (In the spring of 1946, it will be recalled, a price-earnings ratio for utilities of 18 or 19 was considered normal by some analysts.)

In the market doldrums during 1946-48 utilities made a slightly worse showing than industrials, but they came into their own again in 1949, advancing about 25% compared with 10% for industrials and 1% for rails. This utility gain reflected market popularity here and abroad due to rising earnings and dividends—largely reflecting the benefits of new and efficient generating capacity which reduced operating costs. This popularity waned in 1950, particularly in the latter half of the year when the tax issue again loomed as a bearish factor. While utilities about held their own at the level of Jan. 5, 1950, the rail average advanced spectacularly by 47%, and industrials gained 20%.

What about the market outlook for 1951 for the utilities? There was considerable relief in December as Congress harkened to their plea—presented by an able Committee headed by Justin Whiting—and gave the industry a special dispensation on EPT. Utility stocks enjoyed one or two days of moderate rally, but only a few stocks have "come back" from their lows in convincing fashion. While industrials and rails are making new highs daily, utilities still lag well below their pre-Korean highs; in Jan. 8 trading, the utility average was off while both industrials and rails made progress on the upside.

The difficulty is that while Congress geared EPT to a 6% return on capitalization, and made other concessions which will permit most utilities to avoid payment of any EPT in 1950 or 1951, nevertheless the increase in the regular income tax rate from 38% in 1949 to 42% in 1950 and 47% in 1951 is a moderate blow at utility earning power. And with President Truman's plea for a "pay-as-you-go" tax policy there are fears of even higher income tax rates—perhaps 50 or even 55%—which might be enacted on a retroactive basis during 1951, unless the war fever and defense program subside.

Fortunately, the average dividend payout percentage in 1949 was relatively low as compared with some past periods. During 1950, however, a number of dividend rates were raised, and in the 12 months ended Sept. 30, common dividend payments by the electric utilities increased 14.4% over the previous period. The percentage payout in that period was 71.5% compared with 68.5% in the earlier 12 months. What would the percentage have been if income tax payments had been pro-forma'ed to a 47% rate? This would have meant about a 15% tax increase (over the average 41% accrual rate for the 12 months ended Sept. 30), reducing the balance for common stock earnings some $61 million and raising the dividend payout to 78.5%. If the tax rate had been raised to 50%, the payout would have advanced to 82%; and with a 55% rate (an unlikely possibility) it would have been automatically pushed to 89%.

It seems rather likely that the next tax step by Congress will be a generous increase in excise or sales levies, which may prove less painful to the voters or less upsetting to the economy than further increases in corporate and individual income taxes. Thus it appears unlikely that, short of all-out war, we will have to fear a 55% tax rate in 1951 or even 1952. An increase to 50% might however be considered as "in the cards" (the highest rate in World War II was 40%). The resulting 82% payout (other factors being unchanged from those of the Sept. 30 period) would probably not be too heavy for the average utility to maintain. Since many of them will have to do stock financing in 1951 (or if not, certainly in 1952) the tendency will probably be to maintain current dividend rates.

It is possible that there may be some offsetting factors to the rise in taxes. A few utilities are already applying for higher rates and if a price and wage freeze should finally become definite, this would help to stabilize operating costs, particularly fuel. The increase in kwh. sales should continue as the war effort gets under way and factories begin to operate on double or triple shifts. The additional new generating capacity ordered for 1950-51 (only part of which may be delayed by shortages) will permit further economies. Thus the utilities may be able to offset part of their rising tax costs by savings in other fields.

At present stocks of the largest utilities can be bought to yield some 6-7%, and those of some smaller companies offer yields as high as 8½%. These figures compare with bond yields averaging around 2.75%, and preferred stock yields averaging about 4%. The spread between bond and common stock yields seems abnormally high, and utility stocks therefore still appear attractive for those investors seeking good yields who can disregard interim fluctuations, and diversify their holdings.

Continued from page 2

The Security I Like Best

tural gas to expand retail service and for use as boiler fuel. Latest twelve months earnings to Oct. 31, 1950, were $1.25 a share and were based on gross income of 5.2% of capitalization and surplus. Earnings could expand to $1.60 a share in 1951 without exceeding a 6% return. The record of recent years adjusted to present capitalization:

	Revenues (000s)	Net Income (000s)	Earned on New Common (3,149,696 shs.)
12 Mos. 9/30/50	$45,061	$3,895	$1.24
Year 1949	40,790	3,532	1.12
1948	37,613	2,708	0.86
1947	31,148	1,869	0.59
1946	27,356	2,502	0.79
1945	25,609	2,436	0.77

The Future — The economies and expansion made possible by use of natural gas have not been reflected at all in earnings. In addition, the large electric generating unit placed in service has contributed to reported earnings for only one month. These will definitely improve operating results during the next year and the large expansion program planned for subsequent years should continue the favorable earnings trend. Since the company's return on investment is below 6%, a significant increase in earnings would be possible before incurring any excess profits tax liability and the new composition of the New York State Public Service Commission appears to follow a more liberal regulatory policy which should increase the assurance of more profitable operations. The issue is one that combines relative safety, gradual growth and appreciation prospects and the probability of an attractive yield.

EDMOND P. ROCHAT

President, Grady, Berwald & Co.
New York City

American-La France-Foamite Corp.

This is the time of year when everyone wonders what the rest of the year holds in store for us. Are we on the verge of a world war? What are taxes to be? What type of controlled economy are we facing? How much more inflation can we expect and what can the average investor do about it? If one could answer all those questions it would be much easier to predict the course of the market and act accordingly.

Edmond P. Rochat

I am one of those who believe that the market has not as yet fully discounted many basic factors, such as: (1) Low money rates. (2) High yields on common stocks. (3) Depreciated dollars. (4) Plowing back of earnings by most corporations in the last few years. It is always reasonable, of course, to expect corrections from time to time, and the further the market goes the sharper they will become.

In view of present conditions, I prefer common stocks of companies which should benefit from the defense program and that are selling at only a fraction of their book value and net quick assets per share. Investing in such equities is one of the best ways to protect one's self against further lessened purchasing power of money.

Our firm for the past 15 years has specialized in over-the-counter securities, and it is only natural that I would favor and write about an unlisted common stock. One of our favorites at this moment is the common stock of *American-La France-Foamite Corporation* now selling at about $11.50 per share. That company was established in 1875. It is the in reorganization to a company of the same name. Original business was establishe din 1875. It is the leading manufacturer in the United States of motorized fire apparatus, chemical engines, aerial trucks, hand fire extinguishers, fire protection systems and parking meters. Plants are located at Elmira, N. Y., and Toronto, Ont., Canada, and branch offices are maintained in the principal cities of the U. S. and Canada. As of Dec. 31, 1949, the company acquired 51% control of International Meters, Inc.

As of Sept. 30, 1950, company's capitalization consisted of long-term loan of $204,000 and 274,061 shares of capital stock (of which 71,418 shares were owned by McAndrews & Forbes). Net total assets amounted to over $7,200,000, indicating an equity of over $26 per share. Net current assets alone amounted to $5,048,000, equivalent to $18.50 per share. As average earnings for the period 1947-49 were equivalent to $2.46 per share annually, the company may be considered to be in an excellent position as regards the excess profits tax. Dividends paid in 1950 amounted to $1 per share.

It is my belief that this company should do well in either a peace or a war economy.

In the pamphlet report to stockholders on Sept. 30, 1950, the President of the company, Mr. Edward E. O'Neill, wrote as follows:

'There was a sharp increase in the volume of civilian business received in the third quarter. Fire apparatus is considerably ahead of last year, and orders for fire extinguishers are now running ahead of last year. Orders for automatic twin parking meters are well ahead of last year, including a large repeat order from the City of Detroit. Our total sales backlog of civilian business is about 50% more than it was a year ago. In addition, we have a substantial amount of Government business."

The safest and most intelligent way to speculate is to buy into special situations which, for one reason or another, have not been brought to the attention of the general public. I believe American-La France-Foamite Corp. is one of those situations.

John J. Mann Named By NY Curb Exch.

John J. Mann, stock specialist on the trading floor of the New York Curb Exchange, has been nominated to the chairmanship of that market's board of governors for the ensuing year, Francis Adams Truslow, President of the Exchange, announced. It will be Mr. Mann's first term as chairman of the nation's second largest securities market. He succeeds Mortimer Landsberg, who served as chairman during the preceding year.

John J. Mann

The slate presented to Exchange members for offices to be filled at the annual election of the Exchange on Feb. 13 names for one-year terms as class A members of the governing board O. F. Browning, Jr. and Sterling Nordhouse. Vanderpoel Adriance, Jr., Adriance & Finn; Andrew Baird, Josephthal & Co.; James A. Herman; C. V. Quayle and Joseph F. Reilly were named for three-year terms as class A governors. Mann, Baird and Quayle are current board members. The other nominees have not served in the past. Matthew Dean Hall, L. A. Mathey & Co.; John F. McLaughlin, McLaughlin, Reuss & Co.; Alexander R. Piper, Jr., Paine, Webber, Jackson & Curtis, and Robert C. VanTuyl, Shearson, Hammill & Co., have been nominated for election to three-year terms as class B governors of the Exchange.

Thomas Morris and E. J. Muller appear on the slate for election as trustees of the Curb Exchange gratuity fund to serve for three years.

Jerome F. Sheridan is chairman of the nominating committee which also includes George C. Donelon; Joseph Goin of Leahy Bros.; Frank T. McCormick of Dean Witter & Co.; Joseph H. Brown, Vice-Chairman, of Reynolds & Co.; Edward A. Harvey of L. A. Mathey & Co., and William P. Marseilles, Jr., of G. C. Haas & Co.

A member of the Curb Exchange since 1933, Mr. Mann began his Wall Street career in 1925 as a page on the New York Curb Exchange trading floor. After completing his education he was employed as a clerk in the office of Emil Mosbacher, then a Curb specialist. In September, 1928, he was appointed one of the first specialist's clerks on the Curb trading floor.

He has been a member of the governing board since 1948 and served as Vice-Chairman of the Board during the preceding year.

With Hanrahan Co.

(Special to The Financial Chronicle)

WORCESTER, Mass.—Ralph F. Mallozzi is now associated with Hanrahan & Co., 332 Main Street, members of the Boston Stock Exchange. He was formerly with Amott, Baker & Co.

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Economists View 1951 Business Trends

tainty into the textile market for the fall of 1951. It could serve to bring about, some time after the spring, the kind of temporary drop in prices and demand we usually get in years of sharply increased cotton crops. But a small carryover and civilian-plus-military demand are offsetting factors. . . .

. . . A noticeable increase in total buying power . . . would result from the Federal Reserve Board Index going over 225, and the cost-of-living index averaging around 180 or better by next summer and going higher later on, as compared with 175 at present. That combination of general volume and general price might result in GNP well over $320 billion.

The farm income situation will also improve. Last year cash income was about $27.5 billion. This emergency situation may lift it to, say, $32 billion. Net income, which was about $14 billion in 1949 and $13 billion in 1950, might well be $16 billion or more in 1951. . . .

Business Volume to Be "Remarkably Steady" Says Edie

My proposition is that regardless of events on the war front, the volume of business in 1951 will be remarkably steady. And by remarkably steady I mean that the production index (FRB), as presently constructed, which last month was somewhere around 212, will probably average not very far from that level in calendar 1951. . . .

Lionel D. Edie

. . . I might add there that the disposable income which is now around $203 billion or $204 billion will not in any month be less than that by as much as 2%. For the year as a whole I think it will average above 1950 at least 5%; more than that if the war expenditures expand greatly.

I think total retail sales will correlate pretty closely with that disposable income future. . . .

. . . I look for a cooling off of this inflation picture in the early months of 1951 and a warming up again in the latter part of 1951, due mainly to the widening deficit, to the manpower shortage and to a sixth round of wage increases.

The No. 1 problem in 1951 that disturbs me is the manpower shortage. It is going to be far worse than people realize, and I throw up my hands over its solution. I don't know how we can get around it. The acuteness of the manpower shortage looks to me to be something without any precedent. . . .

. . . In the battle of inflation, I think the next few months are going to see some very sharp price declines in some of the sensitive raw materials which have gone up in the past. Price controls are probable. But in the second half of next year, the all-commodity index will be higher, mainly because of manpower shortage, and the wage-price spiral. But I don't expect that to get out of hand too much, because of the figures I have indicated above on the money supply. I don't think the velocity of money turnover is an important factor in the circumstances prevailing. Velocity is where it belongs in line with its trend for the last 35 years. I don't see any indication that the velocity is going on a wild swing that will give us an extreme continental type of inflation, apart from the supply of money.

My picture in brief is volume steady, prices unsteady in the first part of the year, but resuming firmness in the latter part of the year; money supply going up some, but roughly a third as fast as it did in the similar stages of World War I and World War II. . . .

Smith Calls Recession "Touch-and-Go Proposition"

. . . The facts thus far suggest that one of our principal and very great concerns should be whether or not we are reaching one of those self-generating stages of inflation which have characterized the historic inflations of the world. That alarms me.

Bradford B. Smith

As for a recession or easing off in the months immediately ahead, it is, I think, pretty much a touch-and-go proposition. There is the matter of meshing which has been discussed. Certainly, the backlogs from the last war have been pretty much filled up, and we are floating now on the great pump-priming that naturally happened, of course, in this election year, plus this galvanized getting rid of cash that has come with the fright, the fear generated by the Korean situation.

However, the leaps in the inventories are very dramatic; just one more month at this rate and we will be at record-breaking levels. The only precedent we have for those figures is the situation in 1948. After we had reached the present levels in 1948 there was certainly a readjustment. It did not develop into a spiraling situation, fortunately, and I don't think we have any spiraling situation in prospect . . .

Wolman: "Some Early 1951 Business Decline Probable"

Looking at the general business situation, we have to contemplate some probability — though I wouldn't weigh that probability very heavily —of some decline in business during the first period of 1951. That certainly is a possibility. I say I wouldn't put very heavy weight upon it, because it should be taken up in a short time. If I have to make a guess as to what the whole year 1951 would look like, it should be a pretty good business year. . . .

Prof. Leo Wolman

. . . I think the hours will go up. I agree with Edie that we cannot look forward to improvement in efficiency in a period of the kind we face. . . .

. . . Let's take a look at hourly rates in manufacturing. We start at about $1.45 an hour. Let's cut out the overtime, because that will push up the average hourly earnings a great deal more. I think we will be beyond $1.55 in net hourly earnings some time in the second part of 1951. . . .

Slade Foresees 1951 as Year "Full of Profits, Dividends and Satisfactions"

Later in the year full employment and high wages with concomitant spending will put more funds into circulation. Near the end of the year smoother running of the armament program, plus a backlog of consumer demand (created by controls and restrictions during the first half of the year) fortified by surplus funds from high wages, will permit buying durable goods and automobiles. Motor companies ought then to be in a favorable position. Full employment, tremendous spending, no matter what the aftermath, must bring at least a year of good business.

Helen Slade

I think the last four months of the year will probably be the best we have had in a long time, and as a whole 1951 will be full of profits, dividends and satisfactions. . . .

"Very Sharp Inflation" Anticipated by Saxon

I anticipate nothing short of a very sharp inflation. Whether it will be effective for 1951 is uncertain. That depends on the speed with which money supply is increased and government orders are pumped into industry. But at the rate which is contemplated, they will become effective in reaching production lines next year in 1952. . . .

Dr. O. Glenn Saxon

Backman Predicts "Moderately Lower" Living Standards in 1951

Regardless of how we cut this cake, we are going to have moderately lower living standards in 1951 than we had at the start of this program and certainly than we have today. I see inflation as representing the squeeze between higher incomes and smaller volume of goods.

Jules Backman

In the first few months of 1951, it looks as though the Federal cash budget will not be so much out of balance as to make inflation a serious problem. In the second half of the year, inflationary pressures are likely to become a more serious problem.

I don't go along with the fears that we face a runaway inflation. The type of increase in velocity of money which we had last summer will not take place unless we have another war scare. To me, the most important single fact concerning the present period as compared with last summer is the shift in people's thinking from fear of an all-out war to the implications of a 10% or 15% war. The type of individual and business stockpiles that are built up tend to be substantially different if we think there are going to be 4 or 5 million cars available next year than if we think there are going to be no cars produced next year.

In short, I see 1951 as a good year, with perhaps a very minor, almost unnoticeable drop in the early months as the expanding defense economy fails to mesh with the contracting civilian economy and some temporary unemployment is created in some scattered sections of the country. There will be temporary problems but I think they will last no more than a few months at most. . . .

George Thinks Fourth Quarter 1951 GNP (Annual Rate) Will Reach $303 Billion

. . . My basic calculation indicates a fourth quarter 1951 GNP (annual rate) of $303 billion.

The amount of average price increase that would be necessary to yield such a figure, allowing for the estimated rise in real supply, would be in the neighborhood of 6% to 7% from the third quarter 1950 level.

Edwin B. George

I have a final consideration. We know a large proportion of the "real" governmental program is going to remain firm regardless of the movement of prices—it has to do so—and will not yield to the customary function of prices as regulators of demand. This of course means higher government outlays as prices rise. Allowance for the direct and indirect effects of that fact places fourth quarter 1951 GNP around $310 billion and the price increase around 9%. . . .

Fabricant Views Labor Supply as "Main Factor" Determining Volume of Output

The factors that will determine the volume of output are going to be on the supply side. The main factor, of course, is labor supply. Since we are already in a state of full employment, we can look forward only to the normal increment in the labor force, eked out perhaps by a few additional women and younger and older folks. From that, of course, we must subtract any increase that takes place in the Armed Forces.

Dr. S. Fabricant

Nor do I think we can expect very much in the way of an increase in hours. Therefore, in terms of the man hours that will be available in 1951—which is the crucial measure—I can see no real prospect for an increase in the factors of production or the capacity of the country. . . .

. . . We keep talking about what will happen. I think we ought always to remember that in some degree what will happen lies in our own hands. Thus, our relations with Russia are basic to our view of 1951. But what will happen as far as Russia is concerned depends at best in part on what we do in the State Department and elsewhere.

That is also true of the price picture. What will happen there depends in part on what we do about taxes.

We are all trying to make guesses as to what will materialize in 1951. But the future is not ordained. When we address ourselves to the public we should emphasize the fact that after all what will happen depends on what the public and its representatives decide to do. . . .

Kaplan Sees Government "Moving In" on Private Domestic Investment

We can expect that if there is a decline in private domestic investment it will be more than made up by the government moving in. Also to be expected is a continued willingness on the part of government to guarantee markets and make tax concessions for stepped-up capacity on strategic materials. . . .

. . . The business indicators move into 1951 with every prospect of a substantially higher figure so far as GNP is concerned. So far as the industrial production index is concerned, don't expect that to go down either, despite the inevitable lag in productivity with maximized employment. I would be less surprised if it goes up than if it goes down. . . .

Gainsbrugh Summarizes Forum's Views

The first area of agreement came in the price field. I noted virtual unanimity on the trend of prices, whether consumer or wholesale prices, for the second half of 1951. There wasn't a single member of our group who departed from a basic conclusion that the trend of prices would be upward. . . .

Martin R. Gainsbrugh

. . . There were few if any exceptions to the thesis that the level of industrial production in the first half would be no greater, if not less, than current levels of operation. . . .

. . . The multiple of price times industrial production gives us a third forum conclusion. Without exception—so it seems to me—this group expects 1951 to be a year of high activity with the second half apparently at or close to record levels of income and output. . . .

Business Man's Bookshelf

Business Consultants: Their Uses and Limitations—Albert H. Dunn, III — Controllership Foundation, Inc., 1 East 42nd Street, New York 17, N. Y.—paper—$1.50 to members, $3.00 to non-members.

Cautious Revolution, The—Ernest Watkins—Farrar & Strauss, New York City—$5.00.

Health Progress in the United States: A Survey of Recent Trends in Longevity—Mortimer Spiegelman—American Enterprise Association, Inc., 4 East 41st Street, New York 17, N. Y.—paper—50¢.

Inflation and the Investor: E. W. Axe & Co., Inc., 730 Fifth Avenue, New York, N. Y.—paper—50¢.

Outlook for Freedom—Leonard E. Read—Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y.—paper—50¢.

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION

The National Security Traders Association announces that the 1951 Convention will be held at the del Coronado Hotel, Coronado Beach, Calif., beginning Sept. 30.

BOND TRADERS CLUB OF CHICAGO

The 25th Anniversary Mid-Winter Dinner Party of the Bond Traders Club of Chicago will be held on Jan. 29, 1951, at the Furniture Club of America. At this time the following new officers for 1951 will be installed:

Lester J. Thorsen

Arthur W. Fenton

Herman Mell

President—Lester J. Thorsen of Glore, Forgan & Co.
Vice-President—Arthur W. Fenton of Ames, Emerich & Co.
Secretary—Fred T. Rahn of Illinois Company.
Treasurer—Herman Mell of Merrill Lynch, Pierce, Fenner & Beane.

CINCINNATI STOCK & BOND CLUB

The Cincinnati Stock and Bond Club held its annual election and Christmas Party on Dec. 14, 1950, and the following trustees were elected: Gilbert Davis, Harrison & Co.; Clifford H. Grischy, Field Richards & Co.; Jack Heimerdinger, Walter, Woody & Heimerdinger; Cletus H. Ollier, Edw. Brockhaus & Co.; George Oswald, Clair S. Hall & Co.; Neil Ransick, Chas. A. Hinsch & Co.; Peter Schwindt, Seasongood & Mayer; Jack Siegman, Bohmer-Reinhart & Co.; Charles H. Snyder, J. E. Bennett & Co.; Harry C. Vonderhaar, Westheimer & Co.

The officers for the year 1951 are as follows: Gilbert Davis, President; Jack Siegman, First Vice-President; Cletus H. Ollier, Second Vice-President; Peter Schwindt, Treasurer; George Oswald, Secretary.

At the speakers' table, reading left to right, are: Charles Snyder, J. E. Bennett & Co.; Lloyd Shepler, Merrill Lynch, Pierce, Fenner & Beane; Mal Rank, Examiner Division of Securities, State of Ohio; Jack Neumark, Middendorf & Co.; Fred Becker, Field Richards & Co.; Charles J. Odenweller, Regional Administrator, Securities and Exchange Commission; Joseph H. Vasey, Geo. Eustis & Co.; Ernest Cornell, Chief of Division of Securities, State of Ohio; Joseph J. Van Heyde, Secretary, District 10, NASD; Harry Hudepohl, Westheimer & Co.; Paul Hood, Seasongood and Mayer; Edward H. Welch, Sincere & Co.; George J. Elder, George A. McDowell & Co.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York (STANY) Bowling League standings as of Jan. 5 are as follows:

	Won	Lost
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	25	14
Krisam (Capt.), Bradley, Montanyne, Weissman, Gannon	24	15
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	23	16
Burian (Capt.), Manson, King, Voccoli, G. Montanyne	23	16
Serlen (Capt.), Gersten, Gold, Krumholz, Young	20	19
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	20	19
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	20	19
Donadio (Capt.), Demaye, O'Connor, Whiting, Workmeister	19	20
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	17	22
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	16	23
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	15	24
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	12	27

Vin Lytle (Shields & Co.) had high series of 584, but the high game was bowled by Arthur Burian (Daniel F. Rice & Co.) with a score of 233.

Joe Donadio (J. F. Reilly & Co.) finally broke out and won three games.

SECURITY TRADERS CLUB OF ST. LOUIS

The Security Traders Club of St. Louis will hold its annual winter dinner Feb. 1 in connection with the Tri-City parties of the National Security Traders Association.

TWIN CITY SECURITY TRADERS ASSOCIATION

The Twin City Security Traders Association will hold its annual dinner Jan. 30 in connection with the NSTA Tri-City parties.

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Experimenting in Investment Studies

growth in funds including both capital gains and dividends. A method of record keeping was devised which was audited after each class session and each student started out with a theoretical cash fund of $20,000 which was required to be invested in a group of six stocks. These stocks were designated simply as A, B, C, D, E, and F. The dividend rate and the regular dividend dates of each stock were indicated and the stocks were assigned quality ratings.

The opening prices of the six stocks were placed on the blackboard and students given an opportunity to arrange the initial investment. Students then carried stock and cash balances to the second transaction sheet and immediately turned in transaction sheets covering the initial transactions. As soon as these were collected, prices for the second month were placed on the blackboard and the process repeated over a theoretical period of 36 months.

The pattern of price changes as well as price levels were arranged in such a way as to permit test of pre-determined hypotheses of behavior. In general the stocks were arranged in pairs. Two stocks were alike in quality ratings, dividend yields, price earnings ratios and direction of movement. The only difference was that one was a high priced stock and one was a low priced stock. Incidentally, the high priced stock was split in the 29th month, permitting measurement of response to reduction in unit price. One stock was made to go erratically downward and one upward. Two of the stocks were similar in all essential particulars except that one had a much higher dividend rate than the other.

In order to permit test of results of speculation in a fluctuating but trendless market the pattern of prices was so arranged that the weighted average was the same at the beginning, at midpoint, and at the close.

Results

The results of the test were not particularly surprising. For the most part the behavior traits revealed were those known to any good customers' broker. There was indicated a strong tendency to buy dividends. Where other factors remained constant, a preference was shown for higher dividend yields; a very distinct tendency to sell on a small increase from cost but to hang on like grim death and even to add to holdings as the price moved below clost. Negatively the experiment indicated no inherent tendency toward speculative losses in a fluctuating but trendless market. Neither was there any evidence of preference for low priced or high priced stocks as such.

The results of the experiment generally tend to confirm other studies of market behavior which have been based on analysis of the market itself. The tendency to buy dividends serves to explain why stocks drop the full amount of the dividend on the ex-dividend date even though income tax considerations would seem to indicate a typical decline of something less than the dividend. The distinct tendency to identify value with cost, implicit in taking short profits and long losses, affords a behavioristic explanation of the well known theory of resistance points or resistance areas. Perhaps the best statement of this idea is to be found in John Burr Williams *Theory of Investment Value.*[2] In the formulation or statement of this theory Mr. Williams clearly implied that men behave in the way that this experiment seems to demonstrate that they do behave.

No Automatic Preference on Price Basis

The experimental group displayed no preference for high priced stocks or low priced stocks as such. This would seem to be related to the question as to whether or not stock splits result in a higher aggregate valuation. Here the evidence is conflicting. I have found that based on the major stock splits of 1947[3] there is no basis for the belief that reduction of unit value serves relatively to increase stock prices. On the other hand, Myers and Bakay[4] report evidence, based on the stock splits of 1945-1946, that split-ups exert an upward pull on the price of the stock affected.

This small bit of experimental evidence indicating no preference for high priced or low priced stocks as such also bears on the question of relative volatility of high priced and low priced stocks. It has been shown[5] that in general low priced stocks are more volatile than high priced stocks. I have shown,[6] however, that when a group of high priced and low priced stocks are paired for quality there is no marked difference in volatility. The experimental evidence here tends to support the validity of this latter conclusion.

The experimental group was a relatively unsophisticated one and this raises the question as to whether the same results would have been obtained with a more experienced group. In this connection it can be reported that Mr. James W. Wooster, Jr., of the Commonwealth Fund, conducted the same experiment this summer with a group of students in investment at the Rutgers Graduate School of Banking. While the analysis is not yet complete and has not been published, Mr. Wooster advises me that the results generally parallel those described here. Moreover, Mr. Wooster reports that those members of his group whose work is largely in securities management appear to have done no better than those not so engaged.

An Experimental Study in Price Mechanics

As a further illustration of the experimental approach in investment studies it is possible to report briefly the results of another experiment in what might be called for lack of a better term, the Mechanics of Price Change.

When the price of a security moves from one price level to another, we may presume it is in response to some change in the basic factors of valuation. These factors may be concerned either with the general economic situation or with the fortunes of the particular industry or company.

But when a security price or security prices in general move from one level to another, it is never, or almost never, a simple straight line transition. It is rather a see-saw movement with a series of minor interruptions to the central trend.

It is interesting to speculate as to why this is so. We may postulate two possible reasons for this zig zag movement. In the first place when a security price moves from one level to another in response to some basic valuation change men are not in instant agreement in their appraisal of the changed circumstances. Moreover, appraisals may change from day to day based on the same facts or based on minor additions to the fund of information. In short, the zig zag pattern may merely reflect the shifting appraisals of men who are in the process of making up their mind as to the significance of the new facts. In the second place, the typical zig zag formation may be inherent in the market process itself. It may result from inequality of bargaining power and purely speculative judgments entirely unrelated to valuation. If this is true we would get a zig zag formation even in an artificial or simulated market situation where there could be no possibility of valuation.

A Popular Market Theory

One of the cherished ideas of students of market structure is that the volume-price change relationship offers a clue to the direction of market movement. According to this credo when, over a period of time, a stock declines on large volume but rises on small volume the direction of movement is likely to be downward. When over a period of time price increases are accompanied by large volume and price declines by small volume, an upward movement is indicated. It must be emphasized that we are not here underwriting this idea. We are only reporting it.

Probably any market observer would testify that quite frequently this theory seems to work but that sometimes it does not work. No opinion is here expressed as to whether or not it works oftener than it fails. It is interesting to attempt to construct a rational hypothesis for this tendency if such tendency exists. It might be urged that it is all based on the greater wisdom of large operators as compared with small operators. But anyone who has even casually observed the S.E.C. reports of insider transactions in relation to subsequent market movements can hardly accept this hypothesis.

For the purpose of this study the following hypothesis is proposed. The Volume-Price change indicator mentioned above is a factor which is inherent in the nature of markets. From the very nature of markets men seek to sell at the highest possible price and to buy at the lowest possible price. At any given moment and for a given price the supply-demand situation may be either weak or strong. If a security sells at 20 and if there are 100,000 shares for sale between 20 and 22 but there is a demand for only 10,000 shares in the range from 20 down to 18 it is evident that the price is more likely to be under 20 than above 20. If buyers and sellers price targets were immutable, trading would simply cease. But price targets are not immutable and as the price fails to advance an erosion of sellers' expectations occurs. As the price fails to decline to buyers' targets an upward adjustment of these bids occurs. Not all buyers and sellers participate in this adjustment process but, except in inactive securities, enough do to produce what may be called an equilibrium price which reflects the demand supply relationship. In the case mentioned this equilibrium price would be closer to 18 than to 20. We are here postulating that at any given

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2 John Burr Williams, *The Theory of Investment Value*, (Cambridge, Mass. 1938), pp. 29 ff.

3 O. K. Burrell, *Price Effects of Stock Dividends and Split-ups*, Commercial and Financial Chronicle, Dec. 2, 1948.

4 John M. Myers and Archie Bakay, *Influence of Stock Split-ups on Market Price*, Harvard Business, March 1948.

5 See especially Zenon Szatrowski, *The Relationship Between Price Change and Price Level for Common Stocks*, Journal of American Statistical Association, Dec. 1946.

6 O. K. Burrell, *Price Fluctuations of High Priced and Low Priced Stocks*, Commercial and Financial Chronicle, April 21, 1949.

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moment there is an equilibrium price which reflects the current demand-supply relationship. But this equilibrium price is not necessarily the market price. Differences in bargaining skill as well as luck may result in a market price temporarily above or below this equilibrium A market order to buy, for example, may serve to push the price at least temporarily above the equilibrium. When the price is above the equilibrium level the volume will be heaviest on declines and lightest on increases. When the price is below the equilibrium level the heavy volume will generally accompany increases and light volume decreases.

We can measure the validity of this hypothesis under experimental conditions where the conditions leading to a given equilibrium price can be controlled. It is more difficult to validate by observation of real markets because of the changing world. Equilibrium prices do not remain constant simply because the world changes. The volume indicator, for example, may show that a security price is above equilibrium but a rise rather than a decline may occur if a brilliant earnings report intervenes generally to raise the level of expectations.

Another question for which we seek an answer has to do with the momentum of price change. When a price moves from one equilibrium level to another, does the movement, of itself, have a self generating quality and therefore tend to move too far. For example, if a security sells around its equilibrium level of 40 and new circumstances produce a new equilibrium level of 30, is there anything inherent in the bargaining process that would result in a movement from 40 to 25 with a subsequent recovery to 30?

In order to provide at least partial answers to some of these questions an experiment was devised which involved setting up a trading situation with known demand-supply schedules but providing for a shift in supply schedules halfway through the experiment. The experiment proceeded as follows:

(1) An investments class of about 40 persons made up the experimental group. Each person was given an instruction card which covered buying and/or selling directions. The group was instructed to buy or sell at the most advantageous price not inconsistent with individual instruction cards. They were also instructed, of course, not to show instruction cards to others.

(2) Participants were instructed to space their trading over the entire hour.

(3) The experiment began at 8:00 a.m. and required one hour for completion. Approximately one-third of the instruction cards included a direction not to enter the market until 8:30 a.m. Selling instructions on such cards called for definitely lower prices.

(4) The demand-supply schedules were established in such a way as to yield a theoretical equilibrium price of 40 from 8:00 a.m. to 8:30 a.m. and an equilibrium price of 32 thereafter.

(5) Very simple trading rules were established and prices and volume were recorded on a blackboard as trading progressed.

Conclusions

The demand and supply curves are shown in Chart I and the price curve in Chart 2.

We are not here especially interested in how closely the actual prices approximate theoretical equilibrium levels. We are interested, however, in the movement of prices in relation to theoretical equilibrium levels. In this connection perhaps the most significant observation is the apparent influence of established price. The initial price was below equilibrium and perhaps for that reason attained equilibrium only at the end of the half period.[7] If trading had been permitted to continue without a change in the supply curve it is possible that the price would have moved above equilibrium in the second half hour.

When the supply curve shifted the price was exactly at equilibrium of 40. The new equilibrium was approximately 32. The influence of established price seems evident in the movement toward the new level. Approximately half the trading was in the range 37-40. While the fundamental forces of additional supply ultimately brought prices to and below equilibrium, nevertheless the memory of previous prices seemed to exert something of a gravitational pull on subsequent prices.

There is certainly no evidence of a momentum effect. The downward movement was persistent and entirely lacking anything resembling a secondary recovery. Upticks never continued beyond a single transaction but there was no plunge downward on panic selling.

In real markets we do have secondary recoveries. Within the limits of the sample and the experimental design we may postulate that such movements are not inherent in the nature of markets. In the real world supply and demand schedules are not constant. If secondary recoveries are not inherent in the marketing process they can only be explained on the basis of shifting demand supply schedules, i.e., part of the valuation process. This is to say that the secondary recovery represents a picture of men in the process of making up their minds about valuation.

Within the limits of the sample and the experimental design our hypothesis concerning the volume price change indicators would appear to be validated. This volume indicator is shown on Chart 2. The data are on a cumulative basis and the plus or minus increments consist of the product of the price change and volume of trading. It will be noted that this index was rather modestly above the zero line during the first half period while the price curve was slightly below equilibrium. When the supply curve shifted and the price decline started the volume indicator dropped sharply. Moreover, this drop in the volume indicator occurred while the price was materially above the new equilibrium. As the new equilibrium was approached, the volume indicator leveled out.

It is, of course, outrageous to assert that this brief experiment proves anything. So far as the data can be depended upon, however, it does appear that the volume indicator is more or less inherent in the nature of markets. When prices are moving to new equilibrium levels the volume indicator seems to be of some assistance in pointing the trend. It must be emphasized, however, that nothing in this experiment proves that the volume indicator is an instrument for predicting changes in the fundamental valuation factors. It is possible that the transactions of persons best informed on industry and company prospects may result in a volume indicator which would be useful in anticipating changes in the basic valuation factors themselves. This brief experiment, however, throws no light on this possibility.

It would not be difficult, however, to devise an experiment to test the usefulness of the volume indicator in predicting a change in equilibrium levels. In our experiment all participants had an equal knowledge of the market. It would be quite simple to provide a few participants with advance knowledge of a change in equilibrium levels. Under these circumstances it is possible that the volume indicator might point the direction of the impending change in price, even before the change in the supply-demand relationship became effective. Whether such an experimental situation would approximate the conditions of real markets is, of course, quite another matter.

If time permitted it would be interesting to discuss the pattern and design of other possible experimental studies. But this would be a topic in itself. After all, the planning and execution of experimental studies in economic behavior as in the natural sciences is advanced by a variety of points of view and repeated experimentation.

In conclusion, then, our thesis is that the experimental method may be of some value in advancing our understanding of the valuation process. Value is not a result of formula or mathematics. Men make markets and therefore to better understand how men behave in the market is to better understand the nature of the valuation process.

We must not be deluded into thinking that experimental studies in economic or market behavior will lead to profit making formulas. We must view such studies rather as a means of increasing our knowledge of the tangible and intangible forces that make investment values and thereby improve the probability of making wise judgments on the basis of this broader understanding.

7 The effect or bias of the initial price is also suggested in an experiment reported by Edward H. Chamberlin (An Experimental Imperfect Market) in the Journal of Political Economy for April 1948.

CHART I

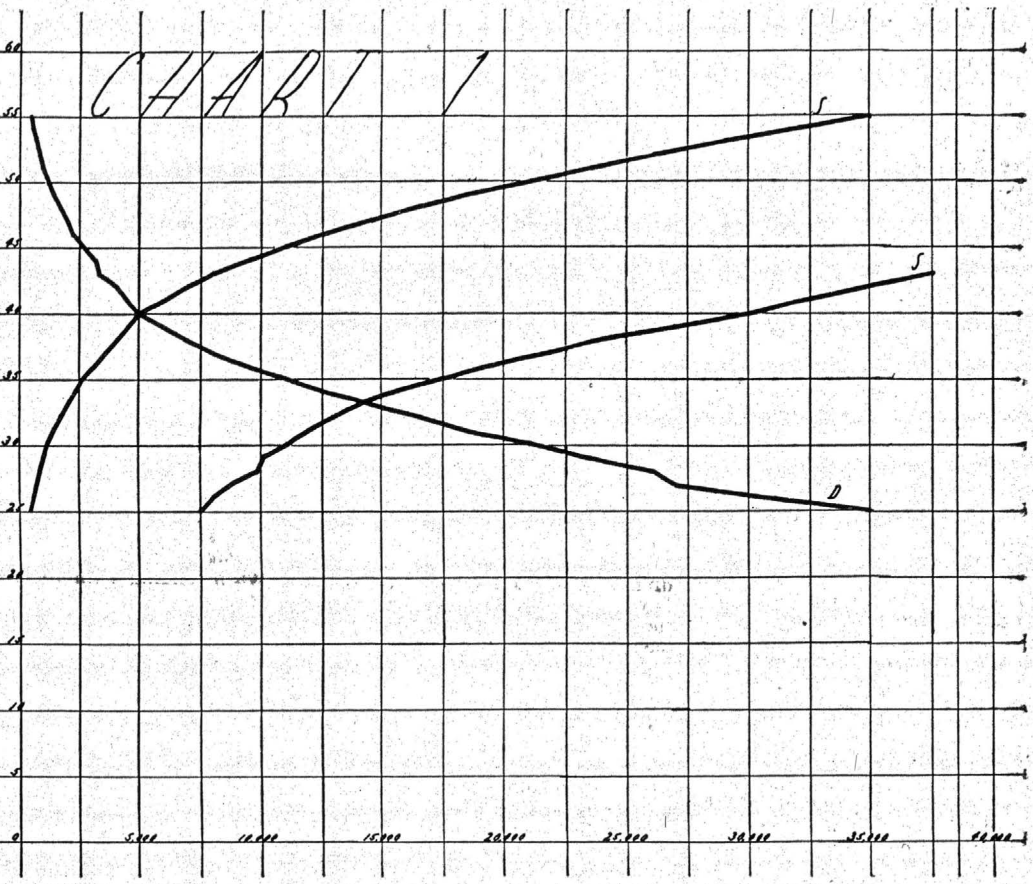
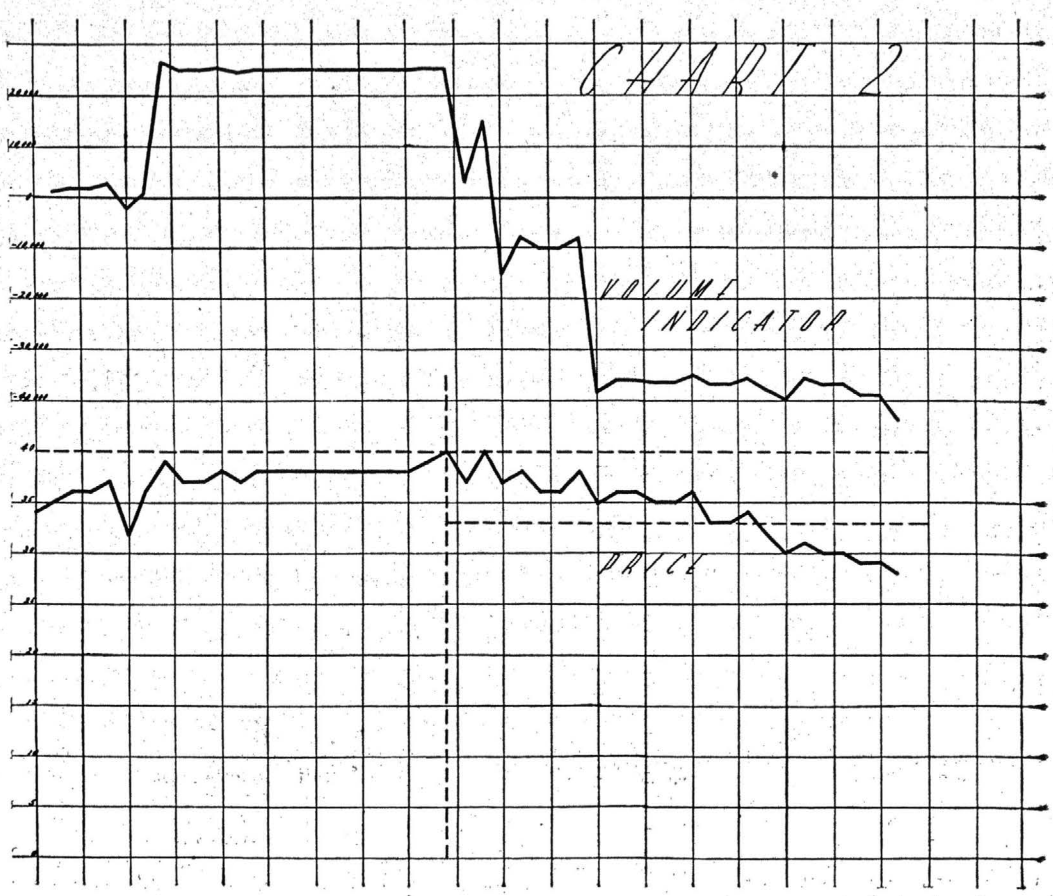


CHART II



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Competition From Tax Exempt Business

cooperatives, it creates a strong inducement for business corporations that serve the farmer to adopt the cooperative form of organization or to sell out to farm cooperatives. By conversion to an exempt cooperative, a tax saving can be gained for paying either patronage or stockholders' dividends. So-called "reserves" may also be set up by farmer cooperatives that would be taxable income for a business corporation, and the cooperative can use such "reserves" for expansion or to maintain dividends in depression times.

Patronage Dividends or Refunds

When we turn to patronage dividends, we find that both consumers' cooperatives and farmers' purchasing cooperatives are permitted to treat such dividends as refunds on their sales to customers or members. Consequently, some cooperative spokesmen argue, such amounts are not a part of the net income or net profit of the cooperative. The debate as to whether this payment is "refund" or dividend brings us to the question of whether the cooperatives are not really making profits and distributing them as patronage rather than as stock dividends.

What are the profits of the ordinary business corporation? What is their nature? They are the amounts left over as earnings after the payment of all expenses and the cost of goods sold. The Secretary of the Treasury publishes statistics which show that many business corporations make no profit whatsoever.

The corporations that do earn money derive their profits from two chief sources. The first is ordinary return for the use of money invested in the business; the second is, in some cases, in the nature of an extra return which results from extra managerial skill in the operation of that unit. How does this situation differ from that which creates net income from which cooperatives pay patronage dividends?

Their management states that these cooperatives charge their customers competitive prices much as do ordinary business units. Therefore, if they are able to earn net income so as to pay "refunds" or patronage dividends, what is the source? It is true that some cooperatives are unable to earn income or to pay any patronage dividends but those which do, derive their net income from the same two sources.

Some cooperatives pay very low dividends on their stocks and this, of course, may be called a "savings," which may be used to swell the patronage dividends. Where, as in the case of the consumers' cooperative, the earnings for the stockholders are subject to the corporation income tax, and any dividends paid to the stockholders are taxed as personal income while patronage dividends are taxed neither to the corporation nor the receiver, there is a strong incentive to pay as little as possible as dividends on the cooperative stock and as much as possible in the form of patronage dividends.

From the point of view of economics or business analysis, the source of patronage dividends is the same as that of the dividend which is paid to the stockholder of the cooperative, and both are distributions of the net profits of the business corporation. They stem from the fact that capital tends to earn a return when used in a business, and that there are differences in managerial ability. In addition, there is the differentiating factor that net income available for patronage dividends for the cooperative may stem in considerable part from tax exemption. We have seen above that under recent conditions in the field of retailing, such exemption from the Federal income tax would have permitted an exempt corporation to save as much as 1.2% on sales. In the farm implement manufacturing field this saving from exemption would have have been over 8% of sales. In the field of oil refining and distribution the savings would have been over 3%, and in the electric utility field, about 6% of the sales figure.

If then we are to have tax equality, both the patronage dividends of consumers' cooperatives and farmers' purchasing cooperatives, which are like other dividends, in their economic origin and also the income available for such dividends should both be subject to the same taxes as those levied upon the net income, or net profit, of the business corporation with which they compete.

We have a precedent for this scrutiny of the economic nature of socalled "savings," or patronage dividends, in the practice of the Internal Revenue Bureau which scrutinizes the salaries paid by business corporations to their officers when these officers are also important stockholders. If the Bureau finds the salaries excessive for the services performed, it treats such excess salaries as corporation profits and they are taxed as such. Since patronage dividends for consumer and farm buying cooperatives grow out of the same source as the profits of business corporations, namely, superior managerial skill and capital return, they should be subject to the same corporation income taxes. If the cooperatives should choose to pay these amounts to their members as patronage dividends or "refunds" instead of as dividends on stock, that is a matter for their own management to decide. But taxation should be based upon the economic character of the item in question rather than upon a formalistic or legal clasification.[1]

An even clearer illustration of this principle is found in the case of Eastern Carbon Black Company vs. Brast.[2] In that case the corporation had sold its products to its stockholders for less than cost and less than market. In upholding the Commissioner's action in increasing the taxpayer's sale price and taxing the corporations net income on the basis of the increased price, the court said:

> "in the case of ordinary sales, there is no point in distinguishing between market value and sale price; but, where there is a sale to stockholders below market value, this is in effect a distribution among stockholders and the price obtained is not determinative in computing income, a part of which is thus distributed. The carbon black delivered to the stockholders here was worth more than six cents a pound in the hands of the corporation. *When it charged the stockholders less than that amount for it, it was not in reality reducing its income but giving a part of that income to the stockholders. The real income of the corporation can no more be affected by such a transaction, we think, than by the payment of exorbitant salaries; and the existence of a formal contract constitutes no more justification for ignoring the real income in the one case than in the other.*" (Italics supplied.)

1 For the opposite, or "legalistic" view, see Bradley, W. L., "Taxation of Cooperatives, *Harvard Business Review*, xxx:576 (Autumn 1947): " . . . The right to exclude patronage refunds from gross income in the determination of the taxable net income of the taxable entity is not a matter of statutory right but rather solely one of contractual right, recognized by the courts whether an organization be set up to function as a agricultural cooperative or to serve the needs of strictly proprietory commercial organizations."

2 104 Fed. (2d) 460 (Circuit Court App-2, 1939).

Tax Equality Should Not Handicap Co-ops.

Such equality of taxation between these cooperatives and business corporations with which they compete would merely restore equality of position and certainly should not destroy the cooperatives affected. That this should be the case is attested by some of the cooperative leaders who admit that they have equally good management and the ability to carry on successfully in competition with business corporations. Furthermore, some of these leaders have stated that if their patronage dividends were subject to taxes they would lower their prices to their customers by the amount of the patronage dividends and so avoid the question of the taxability of such amounts.

The adoption of such a practice of price reduction wherever the return is higher than needed for stockholders' return would be in line with the practice of the business corporation which reduces its price under the same conditions. The direct lowering of the cooperative selling price rather than the payment of patronage dividends would, as a matter of fact, make for fairer and more straightforward competition and a clearer demonstration of the relative efficiency of the cooperative and other competing business units. Consumers could make direct comparisons of the prices paid when dealing with the two types of organization. Under the present system, the cooperative member never knows the exact price he is paying at the time of purchase because the patronage dividend is in the future and, of course, it may actually never materialize. This element of doubt comes very close to an unfair trade practice in that it holds out uncertain future patronage dividends as a lure for business. Direct price reductions by cooperatives will make for clearcut competition.

Such price reductions will also make for fair treatment of large and small members and of nonmembers trading with the cooperative. Some small members and non-members neglect to collect patronage dividends which results in swelling the profits distributable to those who do collect. For example, a non-member drives up to a cooperative filling station, he purchases gas and oil or a tire but may receive no evidence of his purchase. He is sometimes ignorant of the fact that he is dealing with a cooperative, and, in any case, he does not know whether he is dealing with an exempt or a non-exempt cooperative, or, indeed, whether the cooperative is one which pays patronage dividends. The result is that the profit on this business makes possible so much more in patronage dividends for those members who do collect them. This possibility exists as between two cooperative members both receiving patronage refunds if one gets a wholesale price, as on the purchase of a carload of fertilizer, while the other pays a higher price on smaller lots.

Federal taxation should neither favor nor discriminate against the cooperative on the one hand or the business corporation on the other but give equal treatment to each so that in their competition for the public favor the more efficient units of either class may survive as a result of their giving the ultimate consumer the benefit of the best service at the lowest prices.

Since the patronage dividends of the consumers' cooperatives and the farm buying cooperatives, when they exist, are derived from the same source as the business profits of the ordinary corporation, they should be taxed as income to the recipient in the same manner whether the membership chooses to take them as patronage dividends or as dividends upon their stock.

Farm Marketing Co-ops

There remains the question of the treatment of the third class of cooperatives, namely, the farm marketing cooperatives. The dividends which are paid on the stock of these organizations are as clearly a return for the use of capital as the return paid by any of the other forms of cooperatives and should be consequently taxed as such. The income which makes such dividends possible should be taxed as such at the same rates as paid by the business corporation. Under the present law, however, this form of cooperative pays no income tax on the income earned for either stockholders' or patronage dividends if it qualifies for exemption under the law.[3]

Most marketing cooperatives pay their members the going market price for their crops at the time they are delivered to them.[4] Then, at a later date, an additional distribution, usually called a patronage dividend or refund, is paid. This extra distribution arises from business operations, such as marketing, processing, or manufacturing. Profits from such business operations are not a return for the farm crop but an ordinary business profit, which should be subject to the same corporate income taxes as that paid by noncooperative competitors.

A further point to note is that some marketing cooperatives do not distribute full proceeds to their members but retain a portion for a number of months or even years after the crop season is over. Such retention is clearly an attempt to obtain the use of additional capital without paying any stock dividends or interest for the use of capital.

Farm marketing cooperatives are able with the aid of government agencies to borrow an unusually large proportion of the capital which they need to conduct their operations at a very low interest cost. Consequently, their need for capital from their farmer members is relatively small in relation to the volume of marketing operations which they carry on. Yet in order to obtain such ownership capital as they do need, frequently for supplementary operations, elaborate schemes such as the revolving fund are frequently resorted to to obtain the needed stockholders' investment. Discussion of such a revolving fund arrangement may be found in government bulletins, such as the Bulletin of the Farm Credit Administration on "Legal Phases of Cooperative Associations." (No. 50, May 1942, page 276, etc.) The author of this bulletin believes that this retention of funds to operate the business is equitable because it solves the problem of how "to capitalize a cooperative so that the capital furnished by a particular member will bear a direct relation to his patronage." Clearly the raising of capital from members by this method reduces the need for selling shares upon which stock dividends will be paid, and so members can receive all of their capital return in their patronage dividends. Unless patronage dividend income is taxed like corporate income so much capital return is given an exemption.

3 For the qualifications required for exemption, see *ibid*.

4 Where the cooperative makes only a partial payment for the crop upon receipt, the amount paid at a later time may include an element of "capital return." The cooperative has had the use of the funds while the crop was being sold and sometimes it pays a subnormal dividend on its stock. However, it is doubtful if any practical analysis can be made to determine the amount of the "profit" or "capital return" element when it is merely a part of the ordinary crop proceeds.

As the writer of this bulletin says: "It cannot be overemphasized that it takes money to go into business. Farmers, when they form and operate a cooperative, are in business and should supply the required capital." (Page 276.) When farmers go into a business which is not farming, it is difficult to understand why they should expect to be free from the taxes paid by other operators in that field. Furthermore, it would be unfair to permit them to create a form of ownership investment that will make it unnecessary to show much of their profits for dividends on stock and enable them to avoid the corporate income tax by distributing such profits as patronage dividends. One of the reasons that these cooperatives have to resort to these schemes for retaining proceeds to provide ownership capital is their failure to pay dividends on their stock adequate enough to attract investment by members. The deficient capital return is then paid out as patronage dividends. This device for avoiding the payment of dividends shows how ineffectual a change in the tax law would be that only taxed the income available for dividends on stock and why many farm cooperatives even now do not claim the exemption from this tax. They pay little or no dividends at all on stock and make most or all of their profit distributions as patronage refunds. The possibility that all of the owners' investment may consist of retained earnings was illustrated earlier. Such balance sheets as have been examined show a predominance of capital from that source.

Where the marketing cooperative pays its members the going market price upon delivery of the crop, it would appear equitable, then, to require the cooperative to report all further net income over and above that price as business profits earned for its members and to make them subject to the same corporate income taxes as are paid by other business concerns. Where the farmer member is only paid as the crop is sold by the cooperative, it may not be possible to apply this method of determining the business profits, if any. The basic principle should be to segregate the amount representing the crop return from the revenues produced by the of-the-farm activities. The cooperative should be obliged to distribute the crop return within a reasonably short period after sale. Any amounts not distributed promptly should be treated as corporate earnings and taxed as such. Such taxation would put pressure upon the cooperatives in the future to obtain their capital needs, other than that which is borrowed, by selling stock and paying a reasonable dividend upon the same in order to induce such investment on a voluntary basis. When, and if, cooperatives paid an income tax as other business corporations do, their retention of earnings would arouse no more objection than the similar practice of other corporations.

Before concluding, it should be emphasized that such equal tax treatment is in no sense a hostile measure directed against this form of business organization. They have played a useful part in the American economy, especially in the field of agriculture. They have made a valuable economic contribution. However, many of them are no longer small struggling institutions but vigorous mature business units. On the basis of Farm Credit Administration reports of farm cooperative business at the local level of $8,635,000,000 for the marketing year 1947-1948, one estimate, after allowing for non-reporting organizations, wholesaling and manu-

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

It seems a futile task to talk, or write, about a market that is full of inflationary fears and is trying its best to go through a series of roofs. It's like trying to figure out where a runaway horse, with the bit in its teeth, will stop. The horse may run out of wind and gradually slow down to a dead stop; it may run into some obstacle that may bring it up short, or it may break its leg.

* * *

The market is like that horse. The thing most wished for is a gradual stopping of the mad dash, though there's no assurance that that will be the outcome.

* * *

Last week I said here that the confirmation of the industrial average of the previous action of the rails signaled a new bull market under the Dow theory. Actually it wasn't the signal for a "new" bull market; it was a reaffirmation of the old bull market.

* * *

I've thought and thought what to do about such a market. I've tried to put myself into the position of a newcomer; one without a share of stock but anxious to get in; desirous of exchanging declining dollars for advancing equities. The only solution I've come up with is to buy the stocks of companies which control all their processes from the raw material to the finished products.

* * *

Such companies must have either completed their expansion in the recent past, or are well on their way to having accomplished it without additional financing.

* * *

The companies that fit this yardstick are the major steel outfits like U. S. Steel and Bethlehem; well integrated oils and some of the metal mining companies like Kennecott and Anaconda; companies that control their raw materials and retain control from the raw to the finished product that finally finds its way into the hands of the ultimate consumer.

* * *

So far this yardstick applies only to inflationary hedges. There is the war to be considered.

* * *

During World War II there were many small companies that made tremendous strides due to war orders. It is a safe supposition that there'll be similar companies in the same position in the present emergency.

* * *

But despite the inflammatory newspaper stories and political gassing, war isn't inevitable as we are led to believe. Should the present war fears be dissipated, the war babies would suffer. On the other hand, the companies mentioned above would still be in a solid position, even though they, too, would have sympathetic market declines.

[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.]

Halsey, Stuart Group Offers Erie RR. Ctfs.

A group headed by Halsey, Stuart & Co. Inc. is offering today (Jan. 11) $5,400,000 Erie RR. 2⅝% serial equipment trust certificates maturing semi-annually July 15, 1951 to Jan. 15, 1961, inclusive at prices to yield from 1.70% to 2.55%, according to maturity.

The certificates are issued under the Philadelphia Plan and are being offered subject to approval of the Interstate Commerce Commission. They are secured by new standard-gauge railroad equipment estimated to cost $6,863,000.

Associated in the offering group are R. W. Pressprich & Co.; A. G. Becker & Co. Inc.; Hornblower & Weeks; The Illinois Company; L. F. Rothschild & Co.; First of Michigan Corp.; Freeman & Co.; Wm. E. Pollock & Co., and McMaster Hutchinson & Co.

Joins Townsend, Dabney

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Howard R. Guild, Jr., has joined the staff of Townsend, Dabney & Tyson, 30 State Street, members of the New York and Boston Stock Exchanges.

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Competition From Tax Exempt Business

facturing and commission operations, arrives at a total in excess of $15 billion.[5] The economic contribution which private profit-seeking enterprises have also made to the American standard of living should not be overlooked. They, too, have brought improved productive technology and mass marketing methods to the service of the consumer.

Summary on Cooperatives

A summary of the various foregoing proposals for changing the income tax law to place the different types of cooperatives on a basis of tax equality would be as follows:

(1) For **consumer co-ops**, the amounts distributed in cash or allocated as patronage dividends should be included in the taxable net income of the cooperative and made subject to the same corporate income tax as the return earned for its members on their stock investment. Similarly, patronage dividends should be regarded as a part of the recipient's personal income and taxed as such.

If these amounts are not genuinely capital returns, the remedy for the consumers' cooperative is simple. The cooperative may reduce its prices in the same way as would a business competitor.

(2) For **farm buying cooperatives**, similar treatment of patronage dividends and stockholders' earnings would be the fair course. They, too, should pay the corporation income tax on such amounts of net income as are available for the payment of either patronage or stockholders' dividends. Members are now liable for a personal income tax on both types of dividends.

(3) For **farm marketing cooperatives**, the corporation income tax should be levied upon any balance earned to pay dividends to stockholders and, when the cooperative pays the farmer the market price of his crop at the time of delivery, any further payment, even though called a patronage dividend, should be taxed like stockholder income available for dividends. In instances where the cooperative advances initially only a portion of the value of the farmers' commodities rather than the market price, it would be reasonable that no income tax liability should attach to funds disbursed within a reasonable period of time after their sale by the cooperative in order to bring the total up to that market figure. However, any additional amounts which represent net earnings from the operations of the cooperative, whether from marketing, processing or manufacture, should be treated as taxable net income regardless of whether or not they are distributed.

Government-Owned Electric Utilities

As might be inferred from material already presented, the tax factor is also of first-rate importance in the field of government-owned utility operations. While direct competition of government-owned and privately-owned utilities is the exception, comparisons, an indirect competition for public favor, are common between the two groups in such a field as electric power where both types of ownership are found. The fairness of such comparisons is an important question. With the publication by the Federal Power Commission of the first volume of its "Statistics of Publicly Owned Electric Utilities," data became readily accessible for our study. The figures for 1948 show a gross electric plant investment amounting to $1,297 million plus $338 million of other utility plant, exclusive of Federal power projects. Gross electric revenues were $283 million. The importance of taxes to the showing of these municipal electric utilities can be seen from the ratio of that item to revenues. Their total taxes amounted to 2.0% of gross revenues; similar private companies (Classes A and B) reported Federal income taxes amounting to 7.3% and other taxes amounting to 9.6%, or total taxes of 16.9% of electric utility operations in 1948.[6]

If a municipality that does not compete with any private company chooses to give its own project favored tax treatment, that is its privilege, although it destroys the comparability of its rates with those of neighboring privately owned companies to that extent and increases the amount of revenue which that community will have to raise from other sources. The effect is to shift so much of the local tax burden from one form of levy to another. Escape from the Federal corporation income tax, however, relieves the community served by a municipal utility of its share of the Federal tax burden as compared with those served by private companies. Since power rates are tailored by regulation to produce a stipulated rate of return on investment, it is apparent that the situation in 1948 was as though consumers using private power from a company subject to the corporation income tax were paying an excise tax averaging 7% which municipal power consumers escaped.

If all of the "savings" from lower taxes were passed along to consumers, tax equality would pose a difficult problem. Actually, the publicly owned electric utilities report a substantial net income after their operating expenses and interest charges. Had they paid a 38% tax on their combined net income in 1948, it would have totaled $31,464,000, or 11.1% of electric revenues. This per cent is high because it is related to electric revenues only. The net income from other utility operations is only reported on a net basis. Were total utility revenues assumed to be proportionate to gross plant investment in electric and other utility property, these income taxes would have been but 8.8% of revenues or a figure more nearly comparable to that paid by private companies.

Three other tax factors should also be mentioned: (1) many of these municipal utilities purchase power from Federal hydroelectric projects, which enjoy a special tax position; (2) municipal utilities are financed by the sale of tax exempt bonds; and, (3) between June 13, 1933, and June 1, 1939, the Public Works Administration gave some communities 45% of the cost of setting up their own electric supply systems and lent them the balance at a very low rate of interest. In this period, PWA lent over $96 million and gave over $95.6 million to 477 non-Federal bodies.

Federal power plants represent about ½ of the government-owned electric capacity of the country and produce a substantially higher fraction of the public power sold. The four hydro giants—The Tennessee Valley Authority, Grand Coulee, Hoover (Boulder) Dam, and Bonneville—represent almost a billion dollar investment in electric plant. They pay no Federal income taxes and make only a small contribution, if any, to local taxes. As for return upon their capital investment, they are under no obligation to earn any stipulated rate or even anything at all. No interest charges may appear in their operating statement. Even when such a property does reach the point where it returns to the Treasury an amount sufficient to equal what the Federal Government pays for its borrowed funds, currently under 2½%, it has the same general advantages that the municipal utility has over the private utility of very low capital cost and nominal taxes.

Capital costs and income taxes may constitute three-fourths of the total costs of power generated by a similar private hydroelectric development. Here is a very high "saving" for the utility able to buy Federal power. The amount is unknown and hidden from the casual reader of operating data of the municipal utilities affected. To put the cost of Federal power on a parity with private power—especially if any "yardstick" usage is intended—the government should not only charge rates sufficient to cover not only a reasonable return on the capital invested in utility property but also an amount equal to the corporate income taxes lost by supplanting private investment and operation.

Because a municipal utility uses no stocks in financing its needs, its cost of outside funds is represented by the rate paid in its bond issues. For 1948, the interest charges represented an average rate of 3% on total debt. This rate is a composite of rates on past financing. Currently lower rates are available for such tax exempt bonds. For example, the Public Utility District No. 1 of Clark County, Washington, recently sold a serial electric revenue bond issue with yields from 1.20 to 2.35% on maturities from 1951 to 1977 and an average cost of approximately 2.25%. The Consumers Public Power District of Nebraska sold Western System serial revenue bonds with yields from 1.10 to 2.00 for maturities of 1953-1980. In contrast, the private utility not only pays a higher yield to borrow with non-exempt bonds but also is obliged to raise a substantial part of its funds by the sale of stock. The overall average rate of return currently regarded as necessary for a private electric utility to maintain its credit and raise new funds usually runs at the present time from 5½ to 6%. What this means is that the ability to use tax exempt bonds instead of taxable stocks and bonds makes it necessary for the private utility to pay from two to three times the rate needed by a municipal utility. Even this statement ignores the net ownership equity of the municipal utilities accumulated from past surplus earnings or a PWA grant upon which it may feel no obligation to earn any return. At the end of 1948, municipal electric utilities had total funded debt of $624 million and ownership equity of $754 million, $98 million representing investment of the municipality

5 National Tax Equality Association, *Facts and Figures*, p. 147. A statement to the Committee on Ways and Means of the House of Representatives, 81st Congress (Chicago: The Association, 1950). In this source, a net income of approximately 2% is estimated and the income taxes escaped at $318 million, p. 35.

6 Federal Power Commission, *Statistics of Electric Utilities in the United States*, 1948, p. 10, and *Statistics of Publicly Owned Electric Utilities*, p. 8. On the other hand, some allowance should be made for those municipalities which are supplied with power from their own plants without any bill being presented which might be regarded as the equivalent of a tax for some analytical purposes. For similar private utilities, such power use would provide additional gross revenues.

Abrams, Ernest R., "Municipal Ownership of Utilities Declines," *Barron's*, Sept. 4, 1950, p. 39.

and $656 million representing surplus.[7]

Differences in capital cost become more significant when we recall the point made earlier that the capital return cost for utilities is a substantial item in the total cost of the service. This total capital return (interest plus return earned for stockholders) constituted 18.7% of revenues for private electric utilities in 1948; 30.6% in 1940. If it is assumed that the average municipal utility has a capital cost of one-half that of the private company, it could under comparable operating conditions reduce that cost from 18.7 to 9.3% of gross revenues and pay only 2.0 instead of 16.9% for taxes. In effect, these two "savings" would permit rate schedules 24.2% lower for the municipal utility operated at the same level of efficiency.[8] Or, stated in the reverse fashion, such costs if added to the other necessary costs of a municipal plant would raise its rate structure by 32% (24.2 ÷ 75.8). In practice, the municipal company does not pass along all of these "savings" in lower consumer rates but uses them to build a net worth or surplus of property investment over debt. Consequently, were municipal companies obliged to pay an income tax, it would not necessarily have to increase existing rates. It might merely reduce the amount available for the expansion of ownership investment. It might even lead to rate reductions by municipalities anxious to avoid the income tax. They would then be obliged to finance more of their expansion by bonds and less by retained earnings.

Clearly, here is a field of business where tax exemption is even more important than in the case of the cooperatives studied above, when comparisons are being made between exempt and taxed business units. Tax equality would at the least require:

(1) That municipal utilities be obliged to pay an amount equal to the Federal corporate income tax rate upon any net income whenever it serves a field in which privately owned companies operate, and

(2) That the interest from all future issues of bonds sold by such municipal utility properties should be fully subject to income taxes for the recipient of such interest.

Something approaching tax equality is necessary if discrimination between taxpayers who buy from municipal and private utilities is to be our objective. Furthermore, any comparisons between rates of municipal and private utilities are meaningless in the absence of more equal tax treatment.

A corporate income tax could be avoided by a municipal utility willing to pass all "savings" along to consumers through reduced rates. This possibility poses the question as to whether a more equitable arrangement would not be to exempt all regulated utilities from the income tax, whether public or private, and levy a common excise tax upon the revenues of both that would yield the desired total revenues from this sector of the consuming public.

Conclusion

Cooperatives and government-owned utilities have been selected for discussion because they were deemed the most important to the problem of tax exemption as a competitive business factor. The problem in the case of certain financial institutions, notably insurance companies, involves more complex and technical matters. Whatever tax burden is laid upon such institutions, the same general principle developed here would seem applicable. The objective should be to produce an equality of tax burden within a given competitive field so as to avoid favoring one corporate form of organization over another. To achieve that end, economic analysis is essential to avoid inequity growing out of legalistic differences. Fundamental economic similarities should be emphasized. Thus, if mutual savings banks were to be regarded as competitive with commercial banks, it would appear equitable to permit them to deduct payments to depositors that are the equivalent of interest in arriving at their net taxable income even though such a payment is legally called a "dividend" under their mutual form of organization.

Because the weight of taxation has become so heavy, the greatest care is essential that it be not used to handicap some business organizations at the expense of others. Failure to exercise such care might so blight the competitive process that it will cease to bring about the survival of those units which serve the community with the greatest economy of resources. As between its own and private enterprise, the government can readily discredit private operation, especially in the utility field, if it chooses to tip the scales in its own favor with discriminatory taxation as it does at the present time.

7 Federal Power Commission, *Statistics of Publicly Owned Electric Utilities*, 1948.

8 This comparison omits the greater advantage previously referred to from both lower capital cost and tax exemption where hydroelectric power is employed. This advantage arises from the large part these two elements play in hydro as compared with steam power. While municipal utilities are given preference in the sale of federal power, some private utilities are able to purchase it where municipal plants are unable to absorb the total available.

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Inflation—The Job Ahead

efforts to gain or maintain special protection against danger and sacrifice we all must share, can long be tolerated? Otherwise, there is little that any Agency of Government can do to prevent the upward march of inflation. Price and wage control means self control and unselfishness by every individual, but it also means National control of those who insist upon putting their selfish interest before the common good as crisis deepens.

In this people's war against inflation, you who are in the business of selling consumer goods occupy a strategic front. How you act, individually and collectively, can do much to win or lose our economic war, for you are close to the buying public, and that makes you able to act as special two-way interpreters.

You must interpret to the public the necessity for stabilization, and the necessity for control of wages as well as prices. You must interpret to your customers the inevitability of the moves we have to make. You must help each one of them get on the side of the greatest good for the greatest number in this struggle, and the best way to get them on that side is to be there ahead of them!

Inflation Fight—A Crucial Job for Retailers

We also need your help in bringing to us the reactions of your consumers — who are the American people — to our measures and our program. With that information, we can make adjustments, correct inequities, and make the system work with the minimum of pain and resentment. Yours is a crucial field so far as public extension of price control is concerned. We would do a fine job in controlling the costs of basic raw materials going into war production, but only if the housewife sees us holding down prices of the things she buys daily in the grocery store or weekly in the department store will she think her Government is trying to help her. We need your advice; we need your support, and the American people need them too. I say again that there is no group of people who can contribute more notably to the success or failure of our effort to stabilize our economy. We can close, as always when talking of America, on a note of optimism. The American people have always done what they had to, when they have understood that was necessary, and why. Sometimes they have delayed almost too long, and have paid a higher price for that delay. If we can bring National understanding of the need for stabilization, of the methods necessary to stabilize, and of the inevitability that everyone sacrifice a little, the American people will again come through. But events move quickly these days, and so little time is left. Understanding and the spirit of sacrifice must come very quickly.

In your own field there is one matter of the greatest importance. It is a difficult one, as many of you will remember from earlier days. In the field of consumer goods, it is not enough to stabilize prices if, as a result, there vanish from the market the low-end products — that is, the essential goods at the lower price levels. These are often the only goods of the kind that low-income families can afford to purchase. If they vanish from the market, it is just the same to such buyers as if all items of that kind had vanished. It is absolutely essential that retailers play the game by keeping low-end goods on the market, no matter how difficult that may be.

We who are concerned with these economic complications beg your patience and the patience of all citizens while we struggle toward a solution of the many delicate technical problems involved. We shall make mistakes, but we shall correct them as rapidly as possible. We shall not be able to correct all existing inequities, but we shall try not to add to them and to see that necessary sacrifices are equally borne. In this vast enterprise we must win and we must deserve the wholehearted support of all thinking Americans. That is the pre-condition of our success, and only with economic success can there be security and peace.

District Exchange Annual Dinner

DETROIT, Mich. — George A. McDowell, George A. McDowell & Co., President of the Detroit Stock Exchange, has announced that the Annual Dinner of the Exchange will be held at the Hotel Statler on Tuesday, Feb. 20, 1951.

Edward T. Bennett, Jr., Manley, Bennett & Co., will be General Chairman, assisted by J. Gordon Hill, Reginald MacArthur, Kenower, MacArthur & Co.; Harry A. McDonald, Jr., McDonald-Moore & Co.; Charles A. Parcells, Jr., Charles Parcells & Co.; John K. Roney, Wm. C. Roney & Co.; and Thomas F. Willmore, Jr., Merrill Lynch, Pierce, Fenner & Beane.

Clark Clifford of Washington, D. C., will be the speaker of the evening.

In addition to Exchange members and others from the brokerage and investment industry, bankers and corporate executives will attend.

Estimates of 1951 Business Expansion

SEC and Commerce Department place planned expansion at $21.9 billion, or 21% higher than in 1950.

Business is planning to expand at a record rate of $21.9 billion in 1951, according to a special survey of business plans made public jointly on Dec. 30 by the Securities and Exchange Commission and the Department of Commerce. This is 21% higher than the estimated outlays for 1950 and about 14% higher than the peak outlays in 1948.

Allowing for the rise in capital goods costs during 1950, the physical volume of outlays in 1951 is currently anticipated at about 17% above actual expenditures in 1950. In view of the tight materials and manpower situation which will result from increasing defense expenditures, there is some question whether this expansion will be fully realized in 1951.

About two-thirds of the planned increase in capital outlays for 1951 over 1950 is attributable to manufacturing companies. These companies expect to add $10.6 billion to their plant and equipment during 1951, an increase of $2.6 billion or 33% over 1950. Iron and steel companies plan to approximately double their outlays in 1951. The chemical industry also is planning substantial additions.

Railroads and mining companies plan to spend about 19% more in 1951 than in 1950, while transportation companies other than railroad plan to spend 44% more. Electric and gas utilities plan to spend about 7% more in 1951, while it is estimated that plans of commercial and other companies are for an 8% increase in spending in 1951.

The 1951 planned expenditures for major industry groups are given below, together with estimated outlays for the past several years.

	——Millions of Dollars——				% Chge.
	1948	1949	*1950	†1951	1950-51
Manufacturing	8,340	7,250	7,950	10,570	+33
Mining	800	740	690	820	+19
Railroads	1,320	1,350	1,140	1,360	+19
Other transportation	700	520	430	620	+44
Electric and gas utilities	2,680	3,140	3,220	3,440	+ 7
Commercial and miscellaneous	5,390	5,120	4,700	5,070	+ 8
Total	19,230	18,120	18,130	21,880	+21

*Estimates based on actual expenditures for the first nine months and anticipated expenditures for the last three months of the year.

‡Estimates based on anticipated capital expenditures of business.

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Difficulties Foreseen for Retailers

ing on the part of retailers that deliveries in 1951 may be slower. Gains in orders for men's and boys' wear, ready-to-wear and appliances were also foreseen.

The survey disclosed that retailers will devote their greatest 1951 promotional efforts to promotion of charge accounts and branded merchandise. That stores are making a concentrated effort for suburban trade was also evident through the fact that 30% of retailers queried mentioned an expanded suburban promotion among their early 1951 plans.

Increased mobilization and the drain of manpower to defense production are responsible for the fact that 57% of the stores included in the survey foresaw a tightening labor market during 1951. To combat this expected loss of personnel, most of the stores reporting indicated that they would make greater use of part-time employees.

In light of today's critical situation and the probability of expanded government regulations, it is noteworthy that 75% of the merchants reporting in the survey indicate that ways and means to avoid price increases and so brake a disastrous inflation are of prime importance. Retailing's interest and concern over the possibility of rising prices is directly tied to the subject of rising costs, with 64% of the stores expecting increases in advertising costs, 70% foreseeing higher selling costs and 67% predicting increases in payrolls. A consideration of these factors is sufficient reason for the fact that 38% of the reporting stores expect a drop in net profits for the first quarter of 1951. An identical percentage anticipates no change in profits while only 24% expect slight profit gains.

The survey's final question requested the opinion of store owners on the major problems facing retailers at this time. Two subjects were most frequently mentioned in the answers—personnel and prices, while problems concerned with merchandising, buying and getting deliveries were also emphasized by a large number of participants. It goes without saying that the report revealed grave concern on the part of retailing over government regulations. Other frequently named problems often mentioned as vital were operating costs, narrowing markups, taxes and the slim prospect for profits.

Underlying most of the comments, however, was the retailer's keen awareness of his customers' problems—the scarcity of wanted well-timed merchandise and a feeling of uncertainty about the future.

Disclosure of results of the survey coincided with the opening of the 40th Annual NRDGA Convention in the Hotel Statler on Jan. 8. More than 5,000 retail top management executives are expected to be in attendance during the four-day meeting which includes twenty-nine sessions devoted to operating techniques in every phase of store operation. Because of current conditions and doubt about what the future holds in store, this year's convention is expected to draw the attention and interest of store principals and business executives to a greater extent than ever before.

Fordon Now Member Of Detroit Exchange

DETROIT, Mich.—The Detroit Stock Exchange announces the admission of Ralph Fordon as a member of the Exchange and the registration of the firm of Fordon, Aldinger & Co. with offices in the Penobscot Building.

Mr. Fordon's partners are Cyrus B. Aldinger and Albert H. Aldinger.

Barr Bros. & Company Admits J. V. Hollan

Barr Brothers & Co., 40 Wall Street, New York City, announce that John V. Hollan has been admitted to the firm as a general partner.

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. 14	102.7	101.8	101.3	94
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 14	1,980,800	1,963,400	1,953,800	1,791,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Dec. 30	5,767,910	5,763,310	5,825,220	4,995,500
Crude runs to stills — daily average (bbls.)	Dec. 30	‡6,388,000	6,159,000	6,034,000	5,626,000
Gasoline output (bbls.)	Dec. 30	20,622,000	20,075,000	19,917,000	19,051,000
Kerosene output (bbls.)	Dec. 30	2,693,000	2,600,000	2,581,000	2,476,000
Gas, oil, and distillate fuel oil output (bbls.)	Dec. 30	10,024,000	9,436,000	8,613,000	7,591,000
Residual fuel oil output (bbls.)	Dec. 30	9,925,000	8,715,000	8,521,000	8,444,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 30	116,695,000	112,631,000	109,509,000	113,497,000
Kerosene (bbls.) at	Dec. 30	20,335,000	21,819,000	26,491,000	20,838,000
Gas, oil, and distillate fuel oil (bbls.) at	Dec. 30	71,318,000	73,273,000	84,891,000	77,801,000
Residual fuel oil (bbls.) at	Dec. 30	41,533,000	39,914,000	45,221,000	61,675,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 30	602,376	747,204	739,922	495,640
Revenue freight received from connections (number of cars)	Dec. 30	583,166	689,776	595,261	478,018
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Jan. 4	$154,206,000	$111,193,000	$484,875,000	$323,398,000
Private construction	Jan. 4	63,439,000	48,457,000	110,105,000	54,479,000
Public construction	Jan. 4	90,767,000	62,736,000	374,770,000	268,919,000
State and municipal	Jan. 4	80,698,000	59,772,000	109,488,000	52,837,000
Federal	Jan. 4	10,069,000	2,964,000	265,282,000	216,082,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 30	9,100,000	*11,025,000	9,325,000	6,638,000
Pennsylvania anthracite (tons)	Dec. 30	647,000	910,000	847,000	408,000
Beehive coke (tons)	Dec. 30	155,700	*139,500	79,400	23,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 30	237	*639	444	197
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 6	6,602,122	6,479,302	6,908,631	5,695,372
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Jan. 4	144	125	170	161
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 2	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Jan. 2	$52.69	$52.69	$51.94	$45.88
Scrap steel (per gross ton)	Jan. 2	$45.09	$45.13	$40.75	$26.25
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 3	24.200c	24.200c	24.200c	18.200c
Export refinery at	Jan. 3	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Jan. 3	153.000c	150.000c	136.000c	77.500c
Lead (New York) at	Jan. 3	17.000c	17.000c	17.000c	12.000c
Lead (St. Louis) at	Jan. 3	16.800c	16.800c	16.800c	11.800c
Zinc (East St. Louis) at	Jan. 3	17.500c	17.500c	17.500c	9.785c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Jan. 9	101.46	101.29	101.35	104.56
Average corporate	Jan. 9	115.82	115.63	115.43	116.41
Aaa	Jan. 9	120.02	119.82	119.61	121.67
Aa	Jan. 9	118.80	118.80	118.40	120.22
A	Jan. 9	115.24	115.04	114.66	116.02
Baa	Jan. 9	109.60	109.60	109.24	108.70
Railroad Group	Jan. 9	112.37	112.19	111.62	112.00
Public Utilities Group	Jan. 9	116.02	116.02	115.63	117.20
Industrials Group	Jan. 9	119.20	119.20	119.00	120.63
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Jan. 9	2.39	2.40	2.40	2.17
Average corporate	Jan. 9	2.86	2.87	2.88	2.83
Aaa	Jan. 9	2.65	2.66	2.67	2.57
Aa	Jan. 9	2.71	2.71	2.73	2.64
A	Jan. 9	2.89	2.90	2.92	2.85
Baa	Jan. 9	3.19	3.19	3.21	3.24
Railroad Group	Jan. 9	3.04	3.05	3.08	3.06
Public Utilities Group	Jan. 9	2.85	2.85	2.87	2.79
Industrials Group	Jan. 9	2.69	2.69	2.70	2.62
MOODY'S COMMODITY INDEX	Jan. 9	524.0	508.9	487.9	350.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 30	158,208	171,484	295,064	147,044
Production (tons)	Dec. 30	139,385	241,058	232,728	111,463
Percentage of activity	Dec. 30	63	105	101	53
Unfilled orders (tons) at	Dec. 30	617,245	598,431	722,046	359,271
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Jan. 5	148.9	147.7	142.4	124.9
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. 23	39,378	36,232	27,555	20,764
Number of shares—Customers' total sales	Dec. 23	1,248,831	1,117,986	855,784	629,727
Dollar value	Dec. 23	$48,803,549	$45,655,819	$36,194,964	$25,535,429
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Dec. 23	41,401	38,339	29,994	26,269
Customers' short sales	Dec. 23	360	310	278	130
Customers' other sales	Dec. 23	41,041	38,029	29,716	26,139
Number of shares—Customers' total sales	Dec. 23	1,256,542	1,138,749	892,102	757,493
Customers' short sales	Dec. 23	13,677	12,217	10,965	4,702
Customers' other sales	Dec. 23	1,242,865	1,126,532	881,137	752,790
Dollar value	Dec. 23	$46,632,342	$42,405,513	$34,602,286	$27,090,706
Round-lot sales by dealers—					
Number of shares—Total sales	Dec. 23	405,690	392,430	295,630	301,540
Short sales	Dec. 23	------	------	------	------
Other sales	Dec. 23	405,690	392,430	295,630	301,540
Round-lot purchases by dealers—					
Number of shares	Dec. 23	419,360	389,040	276,170	174,590
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Jan. 2	176.7	176.0	172.7	151.1
Farm products	Jan. 2	189.7	*190.6	187.5	154.6
Grains	Jan. 2	185.6	184.6	175.0	160.4
Livestock	Jan. 2	241.2	244.1	225.5	187.4
Foods	Jan. 2	182.2	*181.4	180.0	154.3
Meats	Jan. 2	257.9	256.8	245.5	204.7
All commodities other than farm and foods	Jan. 2	167.0	*165.9	163.4	145.6
Textile products	Jan. 2	171.4	*171.3	166.7	138.6
Fuel and lighting materials	Jan. 2	136.1	136.0	134.8	131.5
Metals and metal products	Jan. 2	187.4	184.1	183.3	167.7
Building Materials	Jan. 2	222.4	222.0	220.8	191.2
Chemical and allied products	Jan. 2	141.2	*139.8	136.7	115.2

*Revised figure. ‡Includes 544,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN PETROLEUM INSTITUTE—Month of October:			
Total domestic production (bbls. of 42 gallons each)	199,285,000	192,102,000	168,873,000
Domestic crude oil output (bbls.)	182,896,000	176,636,000	154,908,000
Natural gasoline output (bbls.)	16,382,000	15,459,000	13,935,000
Benzol output (bbls.)	7,000	7,000	30,000
Crude oil imports (bbls.)	15,809,000	15,760,000	15,242,000
Refined products imports (bbls.)	11,965,000	10,005,000	9,080,000
Indicated consumption—domestic and export (bbls.)	214,422,000	201,547,000	185,350,000
Increase—all stocks (bbls.)	†12,637,000	16,320,000	7,845,000
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of November:			
New England	$16,134,550	$29,288,032	$16,043,935
Middle Atlantic	85,297,990	132,407,699	59,490,694
South Atlantic	37,936,300	37,164,086	34,043,573
East Central	63,116,144	128,681,438	63,325,364
South Central	75,501,462	73,222,010	51,829,002
West Central	33,852,348	30,322,274	19,714,248
Mountain	12,508,098	12,013,170	11,142,104
Pacific	84,331,498	77,156,951	54,168,235
Total United States	$408,678,390	$520,255,660	$309,757,155
New York City	37,350,881	70,902,243	37,418,647
Outside of New York City	371,327,509	449,353,417	272,338,508
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—Month of Oct. (000's omitted)	24,430,996	24,156,684	20,308,694
Revenue from ultimate customers—month of October	435,281,900	430,679,900	383,236,200
Number of ultimate customers at Oct. 31	44,703,490	44,497,408	42,561,789
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of October:			
All manufacturing (production workers)	13,133,000	*13,016,000	11,367,000
Durable goods	7,181,000	*7,016,000	5,655,000
Nondurable goods	5,952,000	*6,000,000	5,714,000
Employment indexes—			
All manufacturing	160.3	158.9	137.8
Payroll indexes—			
All manufacturing	415.8	*403.4	313.9
Estimated number of employees in manufacturing industries—			
All manufacturing	15,819,000	*15,682,000	13,892,000
Durable goods	8,612,000	*8,425,000	6,986,000
Nondurable goods	7,207,000	*7,257,000	6,906,000
FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL CONSTRUCTION)—Month of November:			
Contracts closed (tonnage)—estimated	230,020	*233,447	103,557
Shipments (tonnage)—estimated	154,640	*181,050	117,180
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of November:			
Earnings—			
All manufacturing	$62.06	*$61.99	$54.53
Durable goods	66.29	*66.39	57.00
Nondurable goods	56.80	*56.66	52.02
Hours—			
All manufacturing	41.1	*41.3	39.2
Durable goods	41.8	*42.1	39.2
Nondurable goods	40.2	40.3	39.2
Hourly earnings—			
All manufacturing	$1.510	*$1.501	$1.391
Durable goods	1.586	*1.577	1.454
Nondurable goods	1.413	*1.406	1.327
HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION)—Month of November:			
Factory sales of washers (units)	379,964	439,924	298,717
Factory sales of ironers (units)	41,900	47,500	35,000
Factory sales of dryers (units)	33,044	28,882	17,431
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE—Month of November (000's omitted):			
Ordinary	$1,372,000	$1,406,000	$1,208,000
Industrial	432,000	475,000	395,000
Group	865,000	689,000	298,000
Total	$2,669,000	$2,570,000	$1,901,000
PORTLAND CEMENT (BUREAU OF MINES)—Month of October:			
Production (barrels)	22,488,000	20,945,000	19,070,000
Shipment from mills (barrels)	24,172,000	22,910,000	21,278,000
Stocks (at end of month—barrels)	5,958,000	*7,642,000	8,569,000
Capacity used	102%	98%	88%
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—Month of October (000's omitted):			
Savings and loan associations	$442,871	$457,384	$346,008
Insurance companies	175,916	158,481	99,546
Banks and trust companies	324,892	319,436	227,799
Mutual savings banks	112,821	102,981	70,892
Individuals	216,012	203,593	180,910
Miscellaneous lending institutions	271,898	255,949	192,057
Total	$1,544,410	$1,497,824	$1,117,212
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of September:			
Net railway operating income	$122,622,396	$122,064,183	$63,473,328
Other income	22,842,089	17,891,555	15,184,756
Total income	145,464,485	139,955,738	78,658,084
Miscellaneous deductions from income	4,033,979	4,139,871	2,705,580
Income available for fixed charges	141,430,506	135,815,867	75,952,504
Income after fixed charges	102,549,067	99,117,341	41,346,662
Other deductions	3,583,906	3,287,844	3,300,195
Net income	98,965,161	95,829,497	38,046,467
Depreciation (way & structures & equip.)	36,892,710	36,188,341	34,052,295
Amortization of defense projects	1,368,408	1,375,853	1,376,323
Federal income taxes	81,612,421	74,018,424	28,322,722
Dividend appropriations:			
On common stock	14,788,788	21,812,179	10,900,016
On preferred stock	1,341,893	7,076,227	1,191,961
Ratio of income to fixed charges	3.64	3.70	2.49
WINTER RYE PRODUCTION — CROP REPORTING BOARD U. S. DEPT. OF AGRICULTURE—As of Dec. 1 (bushels)	18,739,000	22,509,000	22,977,000
WINTER WHEAT PRODUCTION — CROP REPORTING BOARD U. S. DEPT. OF AGRICULTURE—As of Dec. 1 (bushels)	899,096,000	740,537,000	750,666,000

*Revised. †Decrease—All stock (bbls.).

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The Tasks That Confront Us

$60 billion in 1952, and $84 billion in 1953. This estimated peak expenditure of $84 billion annually for defense compares with a peak of $83.7 billion spent for war purposes in 1944. But it must be remembered that the price level today is more than 60% higher than it was in 1944. Hence a figure of $84 billion for military expenditures as a peak in the existing emergency is by no means high.

In considering the strain on the economy of military expenditures of some such order of magnitude as $36 billion in the calendar year 1951, $60 billion in 1952 and $84 billion in 1953, we must recognize that, contrary to our experience at the beginning of both the First and Second World Wars, we are already operating in top gear on a practically full throttle. We are superimposing a military spending boom on top of the full employment brought about by an existing business boom. In contrast, before the last war we had an enormous amount of slack in our industrial system much unutilized plans capacity, as well as some 7 million more unemployed workers than today.

Where do we stand today? As of the close of 1950 our gross national product is running at the annual rate of about $284 billion; and we have a total labor force of almost 65 million people, including the armed services, and approximately 2 million unemployed. Now let's do a little arithmetic. On the basis of normal annual increases in the labor force and on the basis of World War II experience with respect to possibilities of augmenting the labor force from such sources as postponed retirement, i.e., more oldsters, persons normally in school, women and handicapped, and the ranks of the unemployed, it should be possible to have an estimated total labor force of 67.5 million in 1951, 68.9 million in 1952, and 70.4 million in 1953. These figures, of course, include the armed services. Hence, deducting the 4 million assumed to be under arms in 1951 and the 6 million thereafter, and also deducting the estimated number of the unemployed, probably getting that figure down to a minimum of one million, we can have actual net civilian employment of 62 million in 1951, 61.7 million in 1952 and 63.4 million in 1953.

Next, how much can these workers produce? In terms of the currently prevailing price level the individual output as of the end of 1950 is $4,600 per person per year. There are factors which will increase this output. The average work-week will and must increase (business generally today ought to be operating at a 44 or 48 hour week before overtime). Also, over an extended period the average annual increase in productivity has been about 2% a year. Some shifts in employment will enhance this productivity; others perhaps will decrease it, at least temporarily. Putting all these factors together, we might dare to guess an increase in output of 5% per year per employed worker (particularly if the work-week is stepped up as it should be). Then we should have an average product per individual of $4,830 in 1951, $5,075 in 1952, and $5,325 in 1953; and combining these figures with the estimated net civilian employment we arrive at a gross national product (at present prices) of $300 billion in 1951, $313 billion in 1952, and $337 billion in 1953. The tremendous capacity of the American economy is indicated by the fact that the 1952 potential just cited is 19% above the current rate in spite of an assumed 6 million men in the armed forces.

From these figures for potential gross national product we deduct: (1) indicated military expenditures of $36 billion in the calendar year 1951, $60 billion in 1952, and $84 billion in 1953; (2) state and local government purchases of goods and services at the level of 1948—$16 billion annually for the three years; and (3) Federal nonmilitary purchases of goods and services at the level of the first half of 1950—$11 billion for each of the three years. (The $11 billion figure, it should be noted refers to purchases of goods and services only. It goes without saying that all unnecessary Federal expenditures must be cut, to that extent reducing the inflationary problem which must be met; but most of the savings in Federal budget outlays will be in categories, such as veterans' benefits, which do not affect these computations concerning goods and services.)

On the basis the goods and services which would be available for civilian consumption and private investment would amount to $237 billion in 1951 and to $226 billion in 1952 and 1953. Next, suppose we assume that as much as $40 billion is allowed for private capital formation (actually 15% more than in 1949). Perhaps this figure may seem high, but it must again be emphasized that the major job is to increase output and then maintain ourselves in a position of sustained readiness. Hence we cannot afford to shrink private investment by anything like the extent that we did in World War II. Even with an estimate of $40 billion for private capital formation there would still remain for the years 1952 and 1953 as much as $186 billion for civilian consumption and for the year 1951 the even higher figure of $197 billion.

It must be borne in mind, however, that a definitely optimistic bias is given to all these estimates by reason of the assumptions that serious bottlenecks in materials, transportation, or power will not impede production; that management will be effective in avoiding labor wastes; and that the full cooperation of labor will be obtained. The very statement of these assumptions highlights some of our major current problems. Many raw materials are, for all practical purposes, already in short supply, and the existing NPA regulations are inadequate to organize their flow. Presumably, as refinements in military and stockpile requirements are worked out, definitive programs for further plant expansion will become clearer.

Now, in order to measure the inflationary pressures, we have to turn to the other side of our national income sheet and see what consumer spending power will be forthcoming to match against these figures of $197 billion and $186 billion representing the pile of civilian goods and services which will be available after military needs have been met. Beginning with the estimated gross national product figures of $300 billion for 1951, $313 billion for 1952, and $337 billion for 1953, we make the usual deductions for indirect taxes, corporate taxes, personal taxes (all taxes at the current rates, not including the recently passed excess profits tax), and various other items which enter into the national bookkeeping, thus arriving finally at disposable income figures (i.e., what people have available either to spend or to save) of $214 billion for 1951, $220 billion for 1952, and $235 billion for 1953. Of this disposable income how much will be saved? The present rate is no more than $10 billion annually. You will remember that in World War II we reached a savings peak of nearly $40 billion annually; but that was under the psychological stress of all-out war and under the circumstances of substantial scarcities of civilian supply; whereas now we are talking about a Garrison State economy rather than an all-out war economy. Suppose, therefore, that we set projected personal savings at $10 billion for 1951, $11 billion for 1952 and $12 billion for 1953. Deduction of these figures from disposable income leaves indicated consumption expenditures of $204 billion for 1951, $209 billion for 1952 and $223 billion for 1953. When these figures are matched up with the total goods and services available for personal consumption, we find excess purchasing power of $7 billion in 1951, $23 billion in 1952 and $37 billion in 1953. These figures are the measure of the so-called "inflationary gap" that provides the leeway within which the inflationary wage-price spiral operates. Whether the primary cause of the inflation lies in these monetary factors or in the price and wage behavior of businessmen and labor leaders is a hen-and-egg question. If the price advance is to be controlled, it is necessary both to drain off or sterilize the excess purchasing power represented by the inflationary gap and to restrain existing patterns of price and wage behavior.

Inflation Controls

The common approaches to the problem of absorbing the inflationary gap are through taxation, through curtailment of credit, and through encouragement of savings. Let us consider each of these briefly.

It is a mistake to suppose that taxation is always anti-inflationary in character. From this standpoint the excess profits tax is a piece of economic unwisdom, though perhaps in the give-and-take of politics in a democracy an argument of expediency can be made for it. An increase in personal taxes, and not all of it in the middle and upper income brackets, would be more to the point.

With respect to credit curbs I will say boldly to this audience that these were both necessary and wise; I believe they should be extended further.

The third conventional approach to the problem, the encouragement of savings, is of great importance, but so far little or nothing is being done about it. Because of the experience of investors who have seen the purchasing power of their government bonds decline by reason of the rise in the price level since the war years, the inducement today to refrain from spending in order to put money into savings bank accounts or government bonds is by no means urgent. It would perhaps be to strong language to characterize this situation as a "flight from the dollar," but that kind of psychology is on the increase. Hence it is vitally important that inducements to increase personal saving by means of a higher rate of return or some guarantee of purchasing power parity should promptly be offered.

All the controls so far mentioned are indirect in character. In the area of direct controls, the most important ones are those on the use of materials. From their present small beginnings these controls will have to be extended rapidly, and before we get very far with material controls it is likely that we shall find ourselves plunged into the manpower problem, with the necessity of invoking some controls on employment. While conceding the need from a production standpoint for direct controls of materials, many economists have hoped that other types of direct controls, such as those on wages and prices, could be avoided. But contrary to this hope it now seems inevitable that further direct controls, particularly of prices and wages, will have to be applied. The possible magnitude of the inflationary gap by 1953, which according to the estimates I have cited may run as high as $35 billion to $40 billion, is one reason; and the momentum which the wage-price spiral has gathered during recent weeks is another. Under these circumstances, notwithstanding the grave disadvantages of price controls from the standpoint of all-out production such controls will probably have to be invoked as the political price of obtaining some stabilization of wages.

General Retail Outlook

With the perspective afforded by this general economic background, we now turn to the appraisal of retail business in the Garrison State. Let me say at once what you will not like to hear, namely, that from the standpoint of the country as a whole it will be better if retail sales are not inordinately large during the years immediately ahead of us. At the close of the third quarter of 1950, personal consumption expenditures under the impetus of the scare buying in July and August were hitting the very high annual rate of $198 billion—$33 billion in durable goods, $105 billion in nondurable goods, and $60 billion in services. The estimates which I offered you a few minutes ago, with the warning that they were on the optimistic side, indicated that almost this same amount of goods and services would be available for 1951, namely, $197 billion, and a somewhat smaller amount, $186 billion, for 1952 and 1953. Nevertheless it is my opinion that we should be able to do very nicely on a total consumption of goods and services somewhere between $170 billion and $180 billion at the current price level, bearing in mind the fact that the high annual figure of $198 billion for the third quarter of 1950 represented either scare buying or an unduly plush standard of living. The closer we can hold our consumption to a figure of $170 billion at present price levels, the easier will be our task of holding inflation in check while we are developing the necessary increase in production.

Up to this point I have tried to describe the economic outlook in terms of what ought to be done and what can be done if we will all recognize the danger that threatens us and revise our personal interests, inclinations, and desires to fit the necessities of the hour. I think that's what we have got to come to if the country is to survive; and I think that's what we are going to come to sooner or later; but I recognize that all of us aren't there yet. Consequently, in most of the remainder of these remarks I am going to say what I think probably will happen, not what ought to happen.

In the first place, retail sales volume will rise during 1951, most, if not all, of the increase probably taking place as the result of price advances. Personal income has been advancing rapidly, attaining an annual rate of $230 billion as of October. Higher wages, longer hours, and an expanded work force all point to a continuation of this rise. Agricultural income is moving up; large government spending, which really hasn't started yet, is in prospect; and in the meantime business spending is running at a high rate. High capital goods expenditures are being made for at least three reasons: (1) the necessary preparation for military orders, (2) the policy of the government to expand industrial capacity, and (3) the assurance which business feels of a continuing large civilian market. Under these circumstances it seems eminently probable that disposable income in dollars will rise even after personal income taxes have been increased. With the present attitude toward saving, a rise in disposable income means a higher volume of retail sales. As time goes on, however, there will be some notable shifts in the character of retail sales volume. Spending on automobiles and other consumer durables will decline; the falling off in private construction will decrease the demand for home furnishings; higher food prices will constitute an important first lien on many pocketbooks; soft goods volume will doubtless improve; and excess purchasing power will slop over, probably unpredictably, into various kinds of luxuries.

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Mutual Funds

vestors, Inc. in the year 1950. This leading common-stock mutual fund reports Dec. 31, 1950 net assets of $83,668,958 comparing with $55,420,988 at the end of 1949. During the 12 months, number of shareholders rose from 18,126 to 24,409 and shares outstanding from 3,712,195 to 4,738,788.

Net asset value per share of $17.66 at the 1950 year-end was 18.3% higher than the corresponding figure of $14.93 per share at the beginning of the year.

In the 1950 year, Fundamental paid 85 cents per share of dividends from investment income and 28 cents from securities profits, comparing with 67.8 cents and 9.2 cents, respectively, in 1949.

Johnston Fund Reports

The Johnston Mutual Fund Inc., as of Dec. 31, 1950, reports net assets of $879,235, equivalent to $28.16 a share on 31,218 shares outstanding on that date. This compares with net assets of $551,820 on Dec. 31, 1949, equivalent to $25.74 a share on 21,438 shares then outstanding.

The Fund's portfolio on Dec. 31, 1950 shows 65.7% invested in common stocks, compared with 60.9% at the end of last year.

During 1950 the Fund paid dividends totaling $1.90 per share, including $1.25 from net investment income and 65 cents from realized capital gains.

E. W. Axe Funds Show 78% Gain

Combined assets of the three Mutual Funds managed by E. W. Axe & Co., Inc. have increased from $19,018,000 to $33,877,000 or 78.1% during the 12 months of 1950.

Axe-Houghton Fund B, Inc., with assets of $7,169,000 at the beginning of 1950 and $16,887,000 at the end of the year, showed the largest gain, $9,718,000, or 135.6%. The net asset value per share, including capital gains distributions made, increased by $2.63 or 17.6%.

Axe-Houghton Fund Inc. with assets of $9,775,000 at the beginning of 1950 and $13,849,000 at the close of the year, gained $4,094,000 or 42%. The net asset value per share, including capital gains distributions made, increased by $2.32, or 30.2%.

Republic Investors Fund, Inc., which came under E. W. Axe & Co., Inc. management early in 1950, showed an increase of $1,047,000, or 50.0%, from $2,094,000 on Jan. 1 to $3,141,000 on Dec. 31. Including capital gains distributed, the net asset value per share increased by $0.60 or 24.6%.

Howe Plan Fund Files 100,000 Shares

Howe Plan Fund, Inc., Rochester investment company, has filed a registration statement with the SEC seeking registration of 100,000 shares of its capital stock.

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Observations . . .

as a kind of "blue ribbon" super-group (for example, only one bank is so designated). All the companies are notified of their own ratings, and the elite group of 243 is identified with detailed reporting on what they do. The rating of any particular company is also available to the public gratis; anyone can write in to the Institute (50 Washington News, New York 3, N. Y.), or secure the information from any of these three Wall Street firms, who have contributed fellowships to the project: Clark Dodge & Co., Dominick & Dominick, and Wertheim & Co. In the field of director conduct, "thirty-six basic rules for boards and directors" are used.

Minority Stockholders Number One and Two

On an entirely different tack, Lewis and John Gilbert, the most consistent and voluble attendants at annual company meetings (111 in 1950 and an expected 119—from **A**-cro Chemical to **W**-orthington Pump in 1951) broadcast their opinions of the absolute and relative worth of managements according to the way they conduct their annual meetings. The tests these watchdogs rely on include the presiding officer's willingness to answer questions from the floor, stock ownership by the directors, attendance of the auditors at the meetings, institution of cumulative voting in electing directors, making the meeting accessible, issuance of a post-meeting report with identification of those individuals having asked questions, and compensation and bonus arrangements.

While the Gilberts act as private individuals free-lancing from their Park Avenue home and their doings are somewhat oblique relative to appraisal of overall management, the fact that they distribute a 6,000 79-page annual report pamphlet and take care of the proxies of over a thousand otherwise "un-franchised" stockholders lends importance to their "operations."

Tentative Benefits

While the current efforts at arriving at comparative appraisal of management quality admittedly have little scientific validity and many shortcomings, they are nevertheless worthwhile and constructive. They move in the right direction of emphasizing in the investor's mind the importance of applying scrutiny specifically to each company according to some logical standard, in lieu of over-glamorization and dramatization pursuant to public-relations' dictates; of encouraging the public to an investment-value approach in lieu of accentuating the superficial "Blue Chipitis" proclivity to picture managements of a relatively few popular companies as gods and the others as bums; of mitigating the popular temptation to overemphasize fortuitous earnings, the duration of dividend payments, and prominently published director names; and of awakening the public stockholder from his unceasing basic apathy toward the affairs of the company to whom he has entrusted his capital. And serious effort to develop standards for measuring corporate conduct may well over the long-term go far to heal the basic hill stemming from the separation of ownership and control as depicted by Messrs. Berle and Means.

But despite these and other tools to help him, the lay public stockholder still remains largely incapable of arriving at competent judgments about his management's continuing performance, and of rendering decisions on specific policies and matters, such as reorganization proposals.

Dividend policy and compensation are two facets of management activity coming to mind as typically confronting the stockholder with well-nigh insuperable obstacles to his attempts to make correct judgments in lieu of simply taking the management on faith.

Intangibles in Dividend Policy

In the setting of dividend policy, one of the basic determinants concerning which there can be no universal inflexible rule, is the balancing of the long-term interests of the corporation, including its capital strengthening, versus the immediate short-term benefits for the stockholders. Then there is the weighing of the interests between the present "insider" and the public stockholder, the divergence in whose self-interest lies not alone in the matter of tax bracket, but also possibly in the management's maintenance of power and use of dividend policy as an influence on the stock's market price.

The intangibility of the "correctness" of dividend policy, as of other business decisions, was recently brought home to this writer as the result of a lengthy personal discussion with the head of one of the nation's largest consumer distribution companies regarding its long-standing, niggardly dividend policy. Although the previous low pay-outs in a setting of an exceedingly strong balance sheet and ever-swelling cash position has seemed an abuse to much of the public, as well as to this writer, the net result of listening to our industrialist's presentation of his reasons (including an unusual amount of deferred maintenance to be taken care of), for his dividend stinginess was realization that in the absence of demonstration of bad faith, it is exceedingly difficult for outsiders to render confident and unchallengeable decisions as to the proper size of disbursements.

Nor is a satisfactory solution to dividend policy afforded by the courts. As is shown in a Note, "Minority Shareholder Suits to Compel Declaration of Dividends," in the December, 1950, issue of the *Harvard Law Review*, little reliance can be on legal redress in the absence of the clearest-cut abuse and where management has actual "quantitative" stock control; otherwise the burden of proof lies heavily on the stockholder.

The Nettlesome Compensation Question

The fair compensation which should be paid to corporate managers is another item most difficult for the stockholder to determine. The Securities Exchange Act and others of the Federal securities laws, merely insure *disclosure* as a basis for judgment and action by others. And the setting of a fair market price of an individual's services or judgment as to what amount is required genuinely to provide working incentive to the individual, harbor insuperable intangibles for all concerned. The very concept of executive functions embodies within it a tremendous variety of tasks and undertakings, requiring a tremendous diversity of skills and abilities—all impossible to standardize in terms of dollars-and-cents' worth.

Impartiality Lacking All-Around

The stockholder's obvious lack of objectivity and impartiality where his own interests and emotions are so vitally concerned as in dividend payments and in salaries and bonuses to his employees, the officers, adds to the difficulty of his arriving at correct conclusions. On the question of compensation, the shareholder may be as partial as the officer; on dividend distribution, he is almost always more so.

In evaluating management ability as well as its market price, probably the best quantitative approach lies in making comparisons with competitors within the industry. This will give meanings to sales and earnings records, which without comparison are not more than incidentally significant.

But more is needed than analytical tools, and than the outside aids described in the fore part of this article. The funds could and should play a constructive part as trustees for their shareholders, but they do not. To aid the public stockholder in all his relations with his managements, as well as to protect his status in the community, stockholder *organization* is needed. In his present state, this is indispensable for his competency of judgment as well as his effectiveness.

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How to Prepare for an Atomic Attack

tion only suspends contractual obligations, the Institute points out.)

(2) **Including a protective clause** in labor contracts where a company is normally called upon to provide minimum work for minimum wages.

(3) **Lining up alternate sources of supply** for materials, as well as alternative office and production facilities.

(4) **Planning alternate facilities for getting supplies** and delivering product.

(5) **Safeguarding records**—"This is the first and easiest concrete precaution to be taken," the report states. "It will pay off even if there is no attack by giving you better protection against ordinary peacetime hazards like fire."

Immediate Job and Skill Inventories

"Under bombing conditions operations will be only as effective as the people who run them. Only advance planning can give you the kind of 'substitutes' bench' that you will need to keep output rolling," the Institute says in urging business to take immediate inventories of jobs and skills. Job inventories should be designed to answer such questions as what jobs can be dispensed with if absolutely necessary; and where could work be doubled up—or farmed out. Skill inventories for each employee should include length of time on job with company; experience on same job at other companies; length of experience on other jobs in company or before hiring; apprenticeship or other formal job training in or out of company; accident record, and potential qualifications, like leadership.

Management Understudies

Even in peacetime, the Institute points out, loss of owner, president or other key executive has been known to deal a lethal blow to business. In crisis the quality of leadership under which a firm will have to pick up the pieces may determine survival or collapse. "Survey your management people now from front-line supervisor to President. Make sure that every executive has an understudy. The man on the job should (a) train someone who could take over his position; (b) learn the job above him. Such a continuing program of executive development is always sound management policy. It takes a high-priced hunt to locate those hard-to-find management men at any time. It's always cheaper and more efficient to fill management vacancies from within. In crisis it's the only way you will have."

Check Union Contract

In most cases the Institute believes management will be able to work out an arrangement with the union to cover bombings but to be on the safe side, any necessary clause should be inserted in the union contract at the first opportunity. It might even be wise, the Institute believes, to take the extra precaution of adding a "war clause" in addition to any listing of "circumstances beyond the company's control."

First Things First

Other points in the Research Institute's report, "Your Business and the A-Bomb" cover: what to do after a bombing ("Make sure that each worker has something to do and knows what to do in the days or weeks immediately following a blast"); the company's community role ("The problems are simply too big to 'go it alone'"), and developing a program on plant and equipment.

"In this last respect," the report says, "your guiding rule should be first things first. This seems obvious, but there are many instances in Japanese, British and German industry where needless effort was put into shielding equipment which could be easily replaced or machinery which was unessential or unlikely to be damaged. Your first step should be a careful survey of your facilities. On the basis of this survey, build a list of the most important things to be protected. Base your selection on the following five considerations listed in order of importance.

(1) Is the equipment essential to your damage control program?

(2) Is it essential to your operations? Would your whole business operation grind to a halt if damage occurred here?

(3) Will replacement be difficult? (It may not be necessary to take special precautions on even essential items if replacements can be quickly located.)

(4) Is the equipment expensive? This consideration may call for special protection even if the element of essentiality is not present.

(5) Is it highly destructible?

The Report was discussed at length last week at a press conference by Leo Cherne, executive secretary of the Institute, and Joseph Laitin, head of its Washington press bureau. Mr. Laitin was an observer at the Bikini test.

Joins Kirchofer & Arnold

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C. — Wade C. Lewis, Jr. is now affiliated with Kirchofer & Arnold Associates, Inc., Insurance Building.

DeMuth With Otis

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Robert D. DeMuth has become associated with Otis & Co., Mercantile Library Building. He was formerly with John Nuveen & Co. and Paine, Webber, Jackson & Curtis.

J. A. Kruse Joins Prescott & Co.

John A. Kruse

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — John A. Kruse has become associated with Prescott & Co., National City Bank Building, members of the New York and Midwest Stock Exchanges. He was formerly Vice-President of Otis & Co.

Joins J. Barth Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—Sydney S. Clark and Jay B. Cook have become associated with J. Barth & Co., 482 California Street, members of the New York and San Francisco Stock Exchanges. Mr. Clark was formerly with First Central Corporation and Davies & Mejia.

Blunt Ellis Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John P. Grimes has become associated with Blunt Ellis & Simmons, 208 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was formerly manager of the investment department for Bear, Stearns & Co.

With Prugh, Combest

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo.—Frank C. Westbrook, Jr. is now affiliated with Prugh, Combest & Land, Inc., 1016 Baltimore Avenue.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo. — James Burton, Jr. has joined Waddell & Reed, Inc., 1012 Baltimore Avenue. He was formerly with Harris, Upham & Co.

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. **Price**—At 100. **Underwriter**—Directors and employers may be salesmen. **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.

• Brilhart Plastics Corp., Mineola, L. I., New York (2/14)
Jan. 4 (letter of notification) 100,000 shares of common stock (par 5c), to be sold to highest bidder at public auction by Adrian H. Muller & Son, 39 Broadway, New York. **Price**—It is not anticipated that the aggregate sale price will exceed $100,000. **Proceeds**—To General Acceptance Corp., of Allentown, Pa.

Capital Plastics, Inc.
Dec. 26 (letter of notification) 131,025 shares of capital stock offered to common stockholders of Rochester Button Co. of record Dec. 18 on a share-for-share basis; rights to expire about Jan. 20. **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.

• Carolina Power & Light Co. (2/6)
Jan. 4 filed $15,000,000 first mortgage bonds due Feb. 1, 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. **Bids**—Expected to be received up to noon (EST) on Feb. 6.

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. (1/16)
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. Expected in very near future.

Consolidated Gas Electric Light & Power Co. of Baltimore (1/23)
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 received up to noon (EST) on Jan. 23.

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. **Price**—$57.50 per share. **Underwriter**—None. **Proceeds**—For working capital. **Statement**—Effective Dec. 15.

Duggan's Distillers Products Corp.
Oct. 27 (letter of notification) 340,000 shares of common stock (par 10c). **Price**—75 cents per share. **Underwriter**—Olds & Co., Jersey City, N. J. **Proceeds**—To pay balance of purchase price for building ($20,000) and for working capital.

El Paso Electric Co., El Paso, Tex. (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 at 11:30 a.m. (EST) on Jan. 16 at 90 Broad Street, New York 4, N. Y. Statement effective Jan. 8.

Emerson Electric Manufacturing Co. (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 common shares held on 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. (2/1)
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.

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.

• Financial Fund, Inc., Seattle, Wash.
Jan. 9 filed 30,000 shares of common stock (par 10 cents). **Price**—At market. **Underwriter**—Financial Management Corp., Seattle, Wash. **Proceeds**—For investment.

Food Fair Stores, Inc. (1/17)
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.

• Francis Consolidated Mining & Milling Corp.
Jan. 3 (letter of notification) 150,000 shares of common stock (par $1). **Price** — $2 per share. **Underwriter** — None. **Proceeds**—To purchase mill and equip properties. **Office**—317-325 South State St., Dover, Del.

General Instrument Corp., Elizabeth, N. J.
Jan. 2 filed 221,715 shares of common stock (par $1) of which 121,715 shares are 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. The remaining 100,000 shares are to be offered to certain executives and key employees of company and its subsidiaries. **Price**—To be supplied by amendment. **Underwriter**—Hirsch & Co., New York. **Proceeds**—To expand plant facilities.

Glenmore Distilleries Co. (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.

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Continued from page 43

● **Globe-Union, Inc., Milwaukee, Wis.**
Dec. 26 (letter of notification) an unestimated number of shares of capital stock (par $5) to be offered to employees under the company's profit-sharing and employees' savings plan. (The directors have authorized the sale of up to 30,000 shares to the trustees of said plan at $17.50 per share) **Proceeds**—To improve plants and for working capital.

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.

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.

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.

● **Howe Plan Fund, Inc., Rochester, N. Y.**
Jan. 3 filed 100,000 shares of capital stock (par $1). **Price**—At market (about $5.10 per share). **Underwriter**—George D. B. Bombright & Co., Rochester, N. Y. **Proceeds**—For investment.

● **Indianapolis Power & Light Co.**
Jan. 9 filed $6,000,000 of first mortgage bonds due Feb. 1, 1981. **Underwriters**—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). **Proceeds**—For construction program. **Offering**—Tentatively expected in early part of February.

● **Indianapolis Power & Light Co. (2/1)**
Jan. 9 filed 196,580 shares of common stock (no par) to be offered to common stockholders of record Feb. 1, 1951 on basis of one share for each six shares held; rights to expire Feb. 15, 1951. **Price**—To be supplied by amendment (not less than $25 per share). **Underwriters**—Lehman Brothers; Goldman, Sachs & Co.; and The First Boston Corp. **Proceeds**—For construction program.

● **Industrial Fermentation Co., Denver, Colo.**
Jan. 5 filed 2,832,200 shares of common stock (no par) to be offered in exchange for wheat at rate of one share per bushel. **Underwriter**—Robert D. Bowers & Co., Denver, Colo. **Proceeds**—From the sale of the wheat to be used to erect a plant and for working capital.

● **Interstate Motor Freight System**
Jan. 3 (letter of notification) 15,000 shares of common stock (par $1). **Price** — $10 per share. **Underwriter** — None. **Proceeds** — For working capital. **Office** — 134 Grandville Ave., S. W., Grand Rapids, Mich.

● **Israel Steel Corp.**
Jan. 2 (letter of notification) 15,000 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For corporate purposes and the purchase of merchandise (steel) for resale. **Office**—Care of Efrein & Metrick, 320 Broadway, New York, N. Y. Expected end of January.

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.

● **Kansas-Nebraska Natural Gas Co., Inc.**
Jan. 5 filed 10,950 shares of $5 cumulative preferred stock (no par) and 122,812 shares of common stock (par $5), the latter to be offered for subscription by common stockholders at rate of one share for each five shares held. **Price**—$105 per share for preferred and $15 per share for common. **Underwriters**—The First Trust Co. of Lincoln, Neb., and Cruttenden & Co., Chicago, Ill. **Proceeds**—For new construction.

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. Statement effective Jan. 5.

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.

NEW ISSUE CALENDAR

January 11, 1951
Texas & Pacific Ry. noon (EST)...Equip. Tr. Ctfs.

January 15, 1951
Middlecreek Valley Telephone Co.........Common

January 16, 1951
Chesapeake & Ohio Ry. noon (EST)...Eq. Tr. Ctfs.
City Stores Co...........Preferred
Clark Controller Co...........Preferred
El Paso Electric Co. 11:30 a.m. (EST).......Bonds

January 17, 1951
Food Fair Stores, Inc...........Preferred
Glenmore Distilleries Co...........Common
Macmillan Co...........Common
San Diego Gas & Electric Co...........Preferred

January 18, 1951
Emerson Electric Mfg. Co...........Preferred
Seaboard Air Line RR. noon (EST)...Eq. Tr. Ctfs.

January 20, 1951
Reading Co...........Equip. Tr. Ctfs.

January 23, 1951
Consolidated Gas Electric Light & Power Co. of Baltimore...........Bonds
Southern Natural Gas Co...........Bonds

January 30, 1951
Southern Natural Gas Co...........Common

February 1, 1951
Facsimile & Electronics Corp...........Class A
Indianapolis Power & Light Co...........Common
Nevada-Tungsten Corp...........Common

February 6, 1951
Carolina Power & Light Co. noon (EST).....Bonds

February 14, 1951
Brilhart Plastics Corp...........Common

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.

● **Lystad & Redick, Inc., Grand Forks, N. D.**
Jan. 2 (letter of notification) $100,000 of debentures. **Price** — At par (in denominations of $1,000 each). **Underwriter**—None. **Proceeds**—To retire stock of company held by an estate.

Macmillan Co., New York (1/17)
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.

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.

● **Middlecreek Valley Telephone Co. (1/15)**
Jan. 5 (letter of notification) 1,500 shares of common stock being offered to common stockholders of record Jan. 6, 1951, on basis of one new share for each share held, with an oversubscription privilege; rights to expire on Feb. 15, 1951. **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds**—For conversion to dial telephones and for expansion program. **Office**—21 S. Market Street, Selinsgrove, Pa.

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.

● **National Lead Co.**
Jan. 3 (letter of notification) 335 shares of common stock (par $10). **Price**—At the market on the New York Stock Exchange (approximately $71.25 per share). **Underwriter**—Gude, Winmill & Co., New York, N. Y. **Proceeds**—To holders of scrip certificates.

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.

● **Old Fashioned Meat Products, Inc., Reno, Nev.**
Jan. 2 (letter of notification) 140,000 shares of common stock. **Price** — At par ($1 per share). **Underwriter** — None. **Proceeds**—To purchase refrigeration and processing machinery and for other operating expenses. **Office**—139 North Virginia St., Reno, Vev.

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).

● **Piedmont Aviation, Inc., Winston-Salem, N. C.**
Dec. 26 (letter of notification) 15,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—Kirchofer & Arnold Associates, Inc., Raleigh, N. C.

Railway & Light Securities Co., Boston, Mass.
Dec. 22 filed 252,552 shares of common stock (par $10) to be offered to common stockholders of record Jan. 11 on a share-for-share basis, with an oversubscription privilege; rights will expire on Feb. 2. **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. (as representatives); The First Boston Corp.; Kidder, Peabody & Co.; Paine, Webber, Jackson & Curtis; Tucker, Anthony & Co.; and Whiting, Weeks & Stubbs. **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 under-

take 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.

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. (1/30)
Dec. 18 filed 155,546 shares of common stock (par $7.50) to be offered for subscription by common stockholders of record Jan. 30 on the basis of one share for each 10 shares held, with an oversubscription privilege; rights will expire on Feb. 16. **Price**—To be filed by amendment. **Underwriter**—None. **Proceeds**—To repay bank loans and for expansion program.

● **Southern Union Gas Co.**
Jan. 8 filed 150,469 shares of common stock (par $1) to be offered for subscription by common stockholders of record Jan. 25 on basis of one new share for each 10 shares held; rights to expire Feb. 26. **Price**—$16 per share. **Underwriter**—None. **Proceeds**—For construction.

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, without underwriting, between Jan. 15 and June 30, 1951. **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.

● **Vapor Heating Corp., Chicago, Ill.**
Jan. 3 (letter of notification) 4,575 shares of common stock (par $1) to be offered to certain officers and employees of company and its subsidiaries. **Price**—At market (which on Dec. 26 was $40 per share). **Proceeds**—For general corporate purposes. **Office**—80 East Jackson Boulevard, Chicago, Ill.

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.

● **Western Union Telegraph Co.**
Jan. 3 (letter of notification) six shares of class A stock. **Price**—At market on the New York Stock Exchange. **Underwriter**—J. R. Williston & Co., New York. **Proceeds**—To class A scrip certificate holders.

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.**
Jan. 4 company informed the SEC that it intends to issue and sell approximately $20,000,000 of securities in addition to the present $15,000,000 bond issue filed with the Commission on that date (see under "Securities Now in Registration" in this issue).

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. (1/16)**
Bids will be received up to noon (EST) on Jan. 16 for the purchase from it of $8,550,000 equipment trust certificates, 1951 series, to be dated Feb. 1, 1951 and to mature semi-annually Aug. 1, 1951 to Feb. 1, 1966, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Clinton Foods, Inc.
Dec. 12, it was announced stockholders on Jan. 15 will vote on increasing the authorized common stock (par $1) from 1,500,000 to 2,000,000 shares the increase to provide "substantial funds for capital additions and working capital," and "to provide for the conversion of 100,000 shares of unissued and unreserved 4½% cumulative convertible preferred stock." Probable Underwriters: Merrill Lynch, Pierce, Fenner & Beane.

Colorado Interstate Gas Co.
Dec. 15 it was reported company plans to obtain a loan of $12,000,000 to finance construction of a pipeline from Texas to Colorado.

Columbia Gas System, Inc.
Dec. 7 it was reported that corporation may issue and sell $35,000,000 of new securities in the Spring or early summer. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly). Probable bidders for common stock, in event of competitive bidding: Morgan Stanley & Co.; Goldman, Sachs & Co. and Union Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Shields & Co. and R. W. Pressprich & Co. (jointly). Proceeds will be used for expansion program.

● **Consolidated Edison Co. of New York, Inc.**
Jan. 10 company announced it would file with the New York P. S. Commission an application for authority to issue and sell $60,000,000 first and refunding mortgage bonds due Feb. 1, 1981. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The first Boston Corp. **Proceeds**—To repay bank loans.

● **Consolidated Natural Gas Co.**
Jan. 9 it was reported company contemplates issuance of between $50,000,000 and $60,000,000 of convertible debentures. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Paine, Webber, Jackson Curtis (jointly); Dillon, Read & Co. Inc.: The First Boston Corp.; Morgan Stanley & Co. **Proceeds** — To finance construction program. **Offering**—Expected late in April.

● **Delaware Power & Light Co.**
Jan. 2, Stuart Cooper, President, announced that company has authorized $15,000,000 for new construction during 1951 as part of the system's $60,000,000 postwar expansion program.

● **El Paso Natural Gas Co.**
Jan. 9 it was announced company plans to increase the capacity of its pipeline system by 400 million cubic feet of natural gas per day as part of its $83,000,000 construction program. It is planned to issue and sell $62,500,000 of 15-year 3¼% first mortgage bonds, $15,000,000 of 4.25% preferred stock and $5,000,000 of common stock. Traditional underwriters are White, Weld & Co., New York.

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.

Georgia Natural Gas Co., Albany, Ga.
Aug. 2 filed new application with FPC for authority to construct a 335-mile pipeline system in Georgia and Florida to cost about $5,100,000, which would be financed through issuance of first mortgage pipe-line bonds and the sale of common stock. Previous application was withdrawn.

● **Georgia Power Co.**
Jan. 8 it was reported company may issue and sell from $18,000,000 to $20,000,000 of new first mortgage bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Drexel & Co.; Lehman Brothers; Harriman Ripley & Co. Inc.; Shields & Co. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc.; and Union Securities Corp. and Equitable Securities Corp. (jointly). **Proceeds**—For construction program. **Offering**—Tentatively expected about the end of March.

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. and Salomon Bros & Hutzler (jointly); Harriman Ripley & Co. Inc.; Smith, Barney & Co. **Proceeds**—For construction program. **Offering**—Expected in January or 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.

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 supplied later. The estimated cost of the new facilities is $5,500,000. Previous bond financing was arranged for privately through Union Securities Corp., who also acted as underwriter for a common stock issue in April of this year.

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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.

● **New York, Chicago & St. Louis RR.**
Jan. 5 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 on Jan. 11 subject to the aproval of the ICC. Rights are to expire on Jan. 30. **Price**—$150 per share. **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 a reported issue of $15,000,000 new bonds are: 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.); Glore, Forgan & Co. and W. C. Langley & Co. (jointly).

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. (1/18)
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.

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. Tentative plans include the sale of around $30,000,000 bonds (which may be placed privately with insurance firms) and about $10,000,000 of preferred stock (depending upon market conditions). The balance of the funds needed will be obtained from treasury cash or temporary bank loans. Traditional underwriter is Dillon, Read & Co. Inc., New York.

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 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.

New Group Governors of IBA

The Investment Bankers Association of America announced the list of Governors elected to serve in the year 1950-1951 by the Groups of the Association at the close of its recent Annual Convention at Hollywood, Fla. In this connection, we learn that, owing to a misunderstanding, the list given on p. 33 in the "Chronicle" of Dec. 14 was that of the 1949-1950 Group Chairman, rather than the 1950-1951 Group Governors. The pictures given elsewhere in the same issue, however, properly reflected all of the newly elected Governors and Group Chairmen of the Association for 1950-1951.

Below we show the Governors elected by the Groups at the close of the Convention and follow with a list of 1950-1951 Group Chairmen although, as previously noted, the pictures of each of the latter were correctly shown in our issue of Dec. 14.

1950-51 Group Governors

John H. Barret—Barret, Fitch & Co., Inc., Kansas City.

Harry C. Clifford—Kidder, Peabody & Co., New York.

George K. Coggeshall—Schoellkopf, Hutton & Pomeroy, Inc., New York.

Benjamin F. Frick, Jr.—Stix & Co., St. Louis.

Clarence E. Goldsmith—White, Weld & Co., New York.

George B. Kneass—The Philadelphia National Bank, Philadelphia.

Stanley N. Minor—Pacific Northwest Company, Seattle.

Charles R. Perrigo—Hornblower & Weeks, Chicago.

Walter S. Robertson—Scott & Stringfellow, Richmond.

Charles W. Warterfield—Cumberland Securities Corporation, Nashville.

Hempstead Washburne—Harris, Hall & Company, Chicago.

Charles B. White—Chas. B. White & Co., Houston.

1950-51 Group Chairmen

California—Robert L. Harter, Sutro & Co., San Francisco.

Canadian—James A. Gairdner, Gairdner & Company Limited, Toronto.

Central States—Charles R. Perrigo, Hornblower & Weeks, Chicago.

Eastern Pennsylvania—Gordon Crouter, DeHaven & Townsend, Crouter & Bodine, Philadelphia.

Michigan—William M. Adams, Braun, Bosworth & Company, Detroit.

Minnesota—Donald E. McFarland, Kalman & Company, Inc., Minneapolis.

Mississippi Valley—Jerome F. Tegeler, Dempsey-Tegeler & Co., St. Louis.

New England—Horace W. Frost, Tucker, Anthony & Co., Boston.

New York—Amyas Ames, Kidder, Peabody & Co., New York.

Northern Ohio—John S. Clark, Fahey, Clark & Co., Cleveland.

Ohio Valley—Campbell S. Johnston, W. E. Hutton & Co., Cincinnati.

Pacific Northwest—Willis H. Blakely, Blankenship, Gould & Blakely, Inc., Portland.

Rocky Mountain—Walter J. Coughlin, Coughlin and Company, Denver.

Southeastern—W. Peyton May, Investment Corporation of Norfolk, Norfolk.

Southern—Ralph Owen, Equitable Securities Corporation, Nashville.

Southwestern—Philip J. Rhoads, First National Bank & Trust Company, Oklahoma City.

Texas—Lewis F. Rodgers, Central Investment Company of Texas, Dallas.

Western Pennsylvania—L. Wainwright Voigt, Hemphill, Noyes, Graham, Parsons & Co., Pittsburgh.

Joins Harris, Upham

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Robert S. Moore has joined the staff of Harris, Upham & Co., 30 State Street.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Donald S. Burns is with Merrill Lynch, Pierce, Fenner & Beane, 10 Post Office Square.

William Prescott Opens

WELLESLEY HILLS, Mass. — William S. Prescott is engaging in a securities business from offices at 25 Woodchester Road. He was formerly with H. C. Wainwright & Co. and Lyman W. Phillips & Co. and was an officer of Carver & Co., Inc.

Joins First Mutual

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Frederick T. Kopf is with First Mutual Company, 600 Woodward Avenue.

Jack L. Reiter Admitted To Partnership in Firm

CINCINNATI, Ohio — Jack L. Reiter has been admitted to partnership in C. H. Reiter & Co., Union Trust Building, members of the Cincinnati Stock Exchange. Mr. Reiter has been with the firm since returning from service in World War II.

Frank Chappelle & Co.

BIRMINGHAM, Ala. — Frank Chappelle has formed Frank Chappelle & Co. with offices in the Comer Building, to engage in the securities business. He was formerly Vice-President of King Merritt & Co. in charge of the Birmingham office.

With Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—George S. Wilson has been added to the staff of Paine, Webber, Jackson & Curtis, Pillsbury Building.

Joins J. W. Goldsbury Co.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Arthur D. White has become associated with J. W. Goldsbury Co., Twin City Federal Building. He was formerly with Dayton & Gernon.

With Thomson, McKinnon

(Special to THE FINANCIAL CHRONICLE)

LAGRANGE, Ga.—Joseph H. Atkinson and James R. Griggs, Jr., have become associated with Thomson & McKinnon. Both were formerly with Courts & Co., of which Mr. Griggs was LaGrange manager.

Our Reporter's Report

The year's first big corporate undertaking, $49,000,000 of 50-year debentures of the Commonwealth Edison Co., has evidently gotten away to a slow start, judging by reports in investment circles.

Presumably institutional investors, for whom such obligations are intended, are in no hurry about reopening their investment accounts to hear dealers tell it. At any rate, there was no evident rush to snap up this issue.

The issue brought out three bids and, for a time, before the tenders were opened, it was bruited about that a fourth syndicate might be found in the running. But this report failed to materialize into fact.

The successful group bid 100.59 for a 2⅞% coupon rate. Bidding for the same interest rate the runner-up offered to pay 100.411 while the third and low bid set a price to the company of 99.10999.

Reoffering was set at 101.335 to return an indicated yield of 2.825% to the buyer. But with the general situation confused by the unsettled world situation and the uncertain quantity of impending new taxes, buyers seemingly were reluctant to do more than look for the moment at least.

The picture here could change, however, should the seasoned bond market take a turn for the better in the near future.

On the Way

Several major corporate financing operations are in the works and it now appears that underwriters will be bidding on some sizable issues between now and the spring.

Aluminum Co. of America is asking its stockholders to increase authorized borrowing capacity from the present $200,000,000 to $500,000,000 and has plans for construction which may involve outlays of $150,000,000 to be financed through borrowing.

Consolidated Edison Co. of N. Y. Inc. meanwhile has filed with the N. Y. Public Service Commission to issue $60,000,000 of first and refunding bonds with a 30-year maturity.

And groups are reported forming for an expected offering by Consolidated Natural Gas Co. of some $60,000,000 of new bonds.

Other Prospective Issues

Consolidated Gas Electric Light & Power Co. of Balt. will open bids on Jan. 23 for its projected issue of $25,000,000 of first refunding bonds with a 35-year maturity. This will provide funds for new construction and three groups already have been formed to seek the business.

Meanwhile Carolina Power & Light Co. has registered with SEC for $15,000,000 of first mortgage 30-year bonds to be offered for bids to finance part of its contemplated $50,500,000 construction bugdet over the next three years.

Looking pretty well ahead banking groups are being formed to bid for $18,000,000 to $20,000,000 of new first mortgage bonds of the Georgia Power Co., expected to reach market toward the end of March.

Slow Next Week

Next week promises another virtual hiatus in the business of corporate underwritings although bankers will be asked to bid for a couple of railroad equipment trust issues.

El Paso Electric Co. plans to open bids on Tuesday for its offering of $4,500,000 of new first mortgage bonds. Utility officials and bankers are meeting today to consider final details.

Erie Railroad will have an issue of $5,400,000 of certificates up for bids, and considering the dearth of other material competition here should be keen.

The same holds true with regard to the small offering pending for Texas & Pacific Railway which will open bids for an issue of $4,000,000 of similar type.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—William C. Reed is with Merrill Lynch, Pierce, Fenner & Beane, Rand Tower.

With Johnson, Lane, Space

(Special to THE FINANCIAL CHRONICLE)

SAVANNAH, Ga.—David T. Johnson has been added to the staff of Johnson, Lane, Space & Co., Inc., Bay and Drayton Streets.

Raymond F. Revell With Barclay Investment Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Raymond F. Revell has become associated with Barclay Investment Co., 39 South La Salle Street. He was formerly with Comstock & Co. and Apgar, Daniels & Co.

With F. I. du Pont Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John G. Whiteside has become connected with Francis I. du Pont & Co., 208 South La Salle Street. He was formerly with Faroll & Co. and First Securities Company of Chicago.

Joins Merrill Lynch Staff

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — James S. McCourtney, Jr. has become associated with Merrill Lynch, Pierce, Fenner & Beane, 511 Locust St. He was formerly with McCourtney-Breckenridge & Co.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

BILTMORE, N. C.—Albert B. Gilbert is with Merrill Lynch, Pierce, Fenner & Beane.

DIVIDEND NOTICES

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—This Congress is likely to be slow both with getting under way and with showing its main directions of movement, always barring the fresh military crisis.

Three of the basic issues before Congress are foreign policy, the application of controls over the economy, and the budget. The latter involves the joint subject of economy and taxes.

As yet the economy-minded members have not gotten together to think out any of their ideas about what they will do to try to reduce non-war expenditures. The immediate problem centers on the effort of Rep. Clarence Cannon (D., Mo.) of the House Appropriations Committee to save the single appropriation bill.

Cannon is fighting determined opposition to save the single-package appropriation—for non-war expenditures, that is. The military phases of the budget will be late in going to the Hill. Senator Harry F. Byrd (D., Va.) is carrying on a corresponding fight in the Senate. Both believe that the chances for economy are better if all civilian expenses are appropriated in one measure. The single appropriation accomplished no miracles last year, but some economies were achieved.

With taxation it is going to be tough, and the Administration shows no disposition to rush into this thing, as evidenced by Mr. Truman's omission of any specific dollar target of 1951 taxation, in presenting his annual message.

Even though the budget is not scheduled to go to the Capitol until next Monday, a level of $75 billion of expenditures is anticipated. Present taxes will produce around $50 billion on a full-year basis. This leaves a nice little gap of $25 billion. If Congress actually succeeds this year in boosting taxes by an additional $7 billion, short of the country being involved almost fully in war, this will be viewed as something remarkable by observers.

Whatever lip service Mr. Truman gives to his special wards, all persons earning $6,000 a year or less, the Administration knows that, except for an additional $2.5 to $3 billion of revenue which might be nicked from corporations at most, most of the money must come from the great majority of voters. This is difficult. It means a plentitude of new or higher excises plus an especial bearing down on the lower brackets.

The Administration also knows that it is in the lower brackets that the nicking must be done, if inflation is to be hindered a little. It also knows that the $75 billions of expenditures to be reached in fiscal '52 is just the first step up the ladder to higher expenses.

So the Administration will go slow with hashing up its tax ideas and the Congress probably will be still slower about swallowing the medicine.

Senator Taft touched off the foreign policy debate last Friday with his major address, in which he challenged the legal basis for dispatching troops to Korea or Europe without Congressional approval, and in which he cast grave doubts about raising a large land army to try to show up Napoleon and Hitler in a continental try at besting the Russians.

This debate will be long and bitter, the more bitter because the President has the initiative and doesn't feel he need ask Congressional approval.

All of these major issues are interrelated. Hence a reduction, if it ever develops, in the scope of Truman globalism, will curtail by a little the budgetary and controls problems.

The present "let's-do-something now" clamor is a phase. There are a few who are jumping around like kitty with a drop of turpentine on a strategic place, demanding that prices be controlled before the controllers are ready to control, and who are demanding that the Armed Forces build up before there is housing, equipment, or training facilities for them.

These eager beavers will blunt a little of their enthusiasm as, for instance, when the CIO boys, all for food price controls, run up against the farm boys all for wage controls.

* * *

Press reports of the final action on the $20 billion supplemental defense bill did not convey the idea that practically the conservatives won a victory over the public power advocates, even though by the narrow margin of two votes the Senate backed down and accepted the provision which allegedly allowed the Southeastern Power Administration to build a $7 million highline to take power from Buggs Island to Langley Field, Va.

Senator A. Willis Robertson (D., Va.) originally knocked this provision out of the Senate bill. It was designed to let the SEPA build a line and thus horn into Virginia territory, despite the fact that Virginia Electric Power Co. was prepared to sell power to Langley Field, Va., now, not in 1953, when the public power would first become available.

Conservatives won a rider to the effect that Interior Secretary Chapman, although a public power advocate, would have to accept a bona fide offer from the private power company and make an honest effort to get that power, before he could build a transmission line. With the large Democratic majority of the 81st Congress gone, Mr. Chapman would have difficulty if he tried to pull a fast one.

* * *

Selection of Senator Ernest McFarland of Arizona to lead the Senate Democrats represents the first time since President Roosevelt took office that the official leader of the Democrats of either House has been anything but a White House stooge. After Senator "Joe" Robinson, compliant with the White House, died, there was a brief flurry when Senate Democrats attempted to elect the man of their choice, Senator Pat Harrison of Mississippi. This was spiked by Mr. Roosevelt with his backing of the now Vice-President Alben Barkley.

McFarland is not exactly a conservative, but won't go along with FEPC and some of the more radical Truman stuff. He was the overwhelmingly popular candidate of Senate Democrats, Joe O'Mahoney, however, would have been a Truman 100 percenter.

Observers are now wondering what will happen if Mr. Truman falls into the old White House habit of the last 18 years and tries to make his Senate leader a messenger boy to carry out White House ideas when, as, and if Mr. McFarland might happen to have different ideas.

* * *

There are some things which can be set down about the latest reorganization plan by which Charles E. Wilson has presumably set up the bureaucratic organization which will manage the controls.

One of the first of these things is that this is not the last of the reorganizations, by any means. Many expect Dr. Alan Valentine to retire to the ambassadorial or academic hills, for his job represents something which many think is not pleasing to Mr. Wilson—another layer between him and the operating agencies of "wage control" and price control.

Then, too, the plans for developing manpower and for coordinating military demands with civilian demands are only in their infancy. Long before complete, pervasive materials controls, the Administration will have to do something—about which it has hardly thought—to guarantee that essential users shall not be cut out of supplies.

Another feature of the new reorganization plan is that it has reached a stage only several months to a year behind the planning of two and one-half years ago—and is going inevitably in the direction of that earlier planning.

After the last war everybody was going to avoid all the old snafus of World War II, so the National Security Resources Board was set up to plan the agencies which would manage the control of the civilian economy.

Under Arthur Hill, former Chairman of NSRB, the agency, after sifting the confusions of World War II management, came up with a complete blueprint of four broad, independent agencies to manage the civilian economy. The Hill report recognized that operation of war controls could not be split finely among existing governmental departments so as to maintain their bureaucratic prestige, payrolls, and importance.

Before Mr. Hill could formally submit his report to the President, Mr. Truman accepted Mr. Hill's resignation. This "resignation" came after Commerce, Labor, and other existing departments threw their knives into the Hill report because it left them out in the cold in favor of a simple set of independent agencies with broad powers.

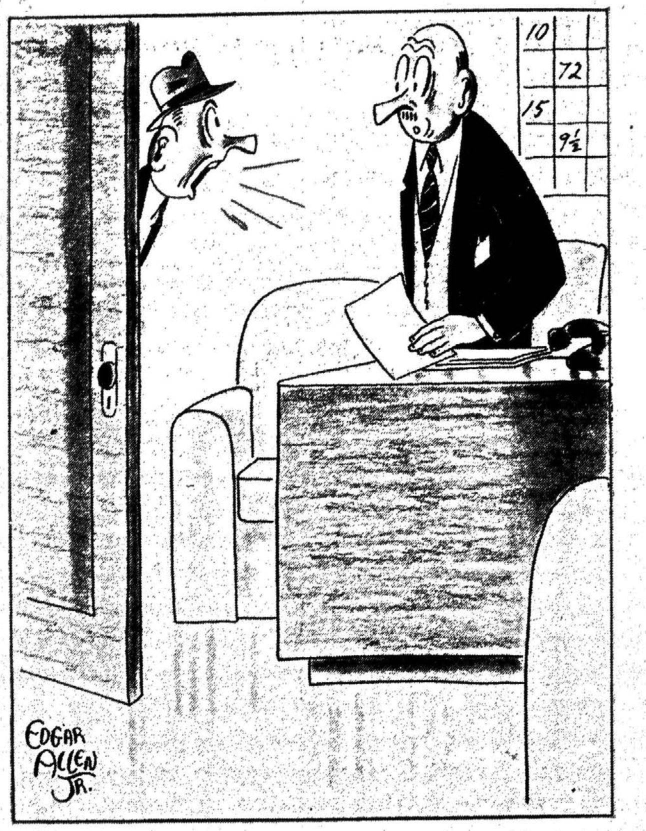
Now under Wilson they are gradually getting back to that. Wilson still has, as stated before, to set up the agencies which will prevent undue encroachment of the war economy upon the civilian economy, and which also will come to grips with the manpower problem.

Still another feature of the latest Wilson reorganization is that it leaves Mr. Wilson in about the same place, but a little stronger, than where Mr. Symington stood before he was replaced as the fair-haired boy by Mr. Wilson.

Government, however, could not simply replace Symington with Wilson. In other words, all these convolutions in organizational setups occur because government must fuss and curve around to protect personalities and jurisdictions of agencies. Bureaucratic jealousies and personal ambitions prevent utilization of judgment in management, based on the known mistakes of the past.

(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



"Pembrooke must have had cocktails at lunch again—he's showing Mickey Mouse Cartoons on the Board in the Exchange!"

NY Bond Club To Hear Morin

Relman Morin, special correspondent for the Associated Press, will address the Bond Club of New York at a luncheon meeting to be held at the Bankers Club on Thursday, Feb. 1, it was announced today by Clarence W. Bartow, Drexel & Co., President of the Bond Club. Mr. Morin will talk on "The Far Eastern Situation."

Phila. Securities Ass'n Annual Meeting

PHILADELPHIA, Pa.—The annual meeting and dinner of the Philadelphia Securities Association will be held at the Barclay Hotel, Friday, Jan. 12, Russell M. Ergood, Jr., chairman of arrangements announced.

In addition to electing officers for 1951, the members will also vote on increasing the membership from the present 225 to 250 in order to make room for a larger number of young men in the securities business.

With John A. Barbour

(Special to The Financial Chronicle)

PASADENA, Cal. — Marshall Brooks is now affiliated with John M. Barbour & Co., Citizens Bank Building.

Col. John P. Crehan With Waddell & Reed, Inc.

OKLAHOMA CITY, Okla.—Col. John Patrick Crehan, U. S. Army, ret., is with the firm of Waddell & Reed, Inc. as Division Manager of the Greater Oklahoma Division of that company, with offices in the Colcord Building.