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EDITORIAL

As We See It

Clearer symptoms of an incurable itch to get back to World War II dictatorial techniques are being exhibited in Washington day by day. Even so moderate a counsel of moderation as that of Mr. Valentine is thrown into the discard without hesitation. Mr. Vardaman, now a member of the Board of Governors of the Federal Reserve System but formerly a close associate of the President, chooses this time to utter an evangelical plea for Stalinesque controls of everybody and everything at once, while taking a slap at his associates in the Federal Reserve System which, as is well known, has of late months been seriously at odds with the President's Secretary of the Treasury. This latter official in turn has let it be known in no uncertain terms that the Administration expects to finance the rearmament program, and presumably any war that it may precipitate, on the old 2½% basis made famous or infamous when Hitler rather than Stalin was the target of the democracies and when Russia was a "freedom loving" nation.

The President, meanwhile, has turned up with a budget carrying a $16.5 billion deficit for fiscal 1952, which the Chief Executive says he is going to ask Congress to balance through new taxes "on everybody." Details of the President's ideas of the new taxes to be imposed are not yet officially announced. It is, too, for the future to determine whether Congress is prepared to impose upon the people of this country a weight of taxation they have never known even when we were involved in "total war." And whether even such a drastic tax program as this would

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Investment Policies And Business Outlook

By HAROLD B. DORSEY*
President, Argus Research Corporation

Assuming a defense outlay of $50 billion annually, research executive predicts high activity in business, despite prospect consumer's durable goods and construction industries will be at low level. Holds money supply will decline temporarily during early part of year, and Federal Reserve will get more power over money and credit controls. Looks for continuation of high demand for common stocks, and contends prices of stocks are not inordinately high in relation to earnings and yields, yet he expects some intermediate reaction in stock prices.

It is fortunate for me that I have been assigned a subject as broad as "The Business and Financial Outlook." That gives me the right to ramble at will over an extremely wide field, and, with a practical conclusion in mind, that is what I intend to do. Rather than subject you to a detailed discourse on some single aspect of the financial and business outlook, I would like to discuss several of the more important forces that are operating today, even though it may seem to render my talk somewhat disjointed.

Harold B. Dorsey

I am impelled to adopt this procedure because we find that our clients have a keen interest in these various topics at the present time. Furthermore, I would like to combat a tendency on the part of many investors to put too much emphasis on some single factor to the exclusion of all of the many other forces that influence the business and financial outlook.

Business Prospects

My first topic concerns the outlook for business activity. Under ordinary circumstances, we would have to

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*An address delivered by Mr. Dorsey at the Dinner Meeting of the Boston Investment Club, Boston, Mass., Jan. 22, 1951.

Financial Mobilization And the Interest Rate

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

Treasury head declares President, Reserve officials and Treasury have jointly decided on Defense financing within pattern of continued 2½% long-term rate. Terms "delusion" principle that fractional changes in interest rates can be effective in fighting inflation. Announces new "extension" privileges to be offered holders of maturing "E" bonds. Approves margin and other restrictions at press conference.

We are facing critical times. It is especially vital that under the circumstances, we take every opportunity to exchange views on urgent national and international problems. Many of you members of the New York Board of Trade have at various times come down to Washington to give the Treasury Department the benefit of your judgment on measures under consideration in the area of Federal finance. Others of you have participated in such discussions through committee memberships. This exchange of views which we have had with individuals and groups of individuals—not only in Washington, but on various occasions in almost every part of the country—has been most valuable to the Treasury in making policy decisions.

John W. Snyder

More than three-quarters of a century ago, the founders of the New York Board of Trade set down certain important goals of cooperative effort. These were — among others — to provide useful information, to encourage needed legislation, to promote civic improvements, and to adjust differences and misunderstandings on an equitable basis.

The guides to action which were set down by your founders are in keeping with the doctrines of

*An address by Secretary Snyder before the New York Board of Trade, New York City, Jan. 18, 1951.

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SECURITIES NOW IN REGISTRATION—Underwriters, dealers and investors in corporate securities are afforded a complete picture of issues now registered with the SEC and potential undertakings in our "Securities in Registration" Section, starting on page 39.

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

Minneapolis Moline Company — Wm. G. H. Brehmer, Bloomfield, N. J. (Page 2)

The World's Premier Investment —Colonel William Freiday, J. Robinson-Duff Co., New York City (Page 2)

American Airlines, Inc. (Common and Convertible Pfd.)—James B. Jones, Jr., Manager, Statistical Department, Steiner, Rouse & Co., New York City. (Page 31)

WM. G. H. BREHMER
Bloomfield, N. J.

Minneapolis Moline Co.

I have read with great interest the series of articles under the heading, "The Security I Like Best." But I have yet to see more than slight, casual reference to what strikes me as one of the outstanding bargains—after an original study on my part of the "life stories" of several hundred stocks. By way of explanation, I might say briefly that I am a free-lance research engineer and have been growingly concerned with what a person of limited means, faced perhaps with involuntary retirement in a few years, could do to preserve his own savings and purchasing power in the face of our steadily-declining dollar.

Some time ago, as part of a program of diversified investments on an "experimental" basis, I bought a few shares of the Minneapolis Moline Co. mainly on the strength of earnings and favorable trade position in the event of a national Defense Program—with attendant drive for high production of foodstuffs, drift of farm labor to industrial centers, high government-sustained income for farmers, and so on. Well, the broader my studies of stocks, and the deeper the studies of the ones which appealed to me—the more amazed I became that, after an 18-month rise in the prices of most stocks—here was one which could still be bought for $20, or only 2½ times current earnings—or three times the average earnings which would be used to establish exemptions from excess profits tax under the new law—with net working capital almost as much as the market price—so that interest in a valuable producing plant could be had for free.

It is hard to account for such an unnoticed gem in the midst of all the study and fuss that is made of the widely known "big name" stocks selling at from 8 to 12 or more times their **realizable** earnings after the tax collector has swung his deadly axe. But some one of these days—when the big investors, the investment companies and pension funds start to liquidate their over-priced securities and hunt around for the hidden bargains—it may provide a lot of fun and solid satisfaction to the self-winding investor who does not blindly follow the crowd but has done his own hunting on his own steam.

It occurred to me some of your readers might like to know of bargains like this.

COLONEL WILLIAM FREIDAY
J. Robinson-Duff & Co.,
Members New York Stock Exchange

The World's Premier Investment

After 40 years in Wall Street and its environs, I am more than ever of the opinion that all security purchases are semi-speculative except one prime investment—United States Government bonds. What now rates as the World's Premier Investment, is secured by everything American—the nation's physical resources, production, management, labor, skills, and its moral and intellectual resources. Having these qualities, our government bonds would be a sound purchase at little or no interest return.

Col. William Freiday

John W. Snyder, Secretary of the Treasury, faced a many-sided problem concerning U. S. Government "E" bonds or Savings Bonds of which the public became large buyers during World War II. Approximately over $23 billion "E" bonds mature in the next six years and $11 billion more in the following four years, ending 1960. Inasmuch as over $1,100,000,000 of "E" bonds reach a 10-year maturity in May, 1951, it became imperative for Secretary Snyder to arrange either for refunding them or extending their maturity, also keeping in mind the possibility of selling additional bonds that may later be needed to help finance the vast American rearmament program.

Last week, Secretary Snyder announced that "as a thrift-promoting and anti-inflationary measure" the Treasury plans to offer holders of series "E" Savings Bonds a plan whereby they may keep their bonds for 10 years beyond maturity at the same 2.9% interest. The owners of these wartime savings securities will be given three alternatives when the bonds begin maturing on May 1, this year, viz.:

(1) Holders may cash their bonds as they mature, or (2) continue to hold them for another 10 years with a cumulative interest-bearing extension, amounting to 2.9% compounded at the end of 10 years, or (3) holders can exchange them for current income savings bonds of series "G" which bear semi-annual interest for 12 years.

Holders who take advantage of the extension alternative will not, of course, be permitted to collect interest on their present bonds at maturity. The interest for the extension period would be paid both on the original cost and accrued interest up to the date of the present maturity. In explanation, Secretary Snyder said that an $18.75 bond purchased in May, 1941, would mature for $25 on May 1, this year, if cashed. But if the holders prefer to continue to hold the bonds for another 10 years, they will be paid 2.9% on the $25 maturity value of their bonds which would be worth $33.33 each at the end of the second 10-year period. The holders of a bond maturing May 1 will not be allowed to collect their $6.25 interest on the original bond at present maturity if they want to hold it for the second 10-year period. Only 2.5% interest will be paid on the $25 value of the bond, if cashed within the first seven years of the second 10-year period.

Secretary Snyder said the Treasury Department adopted the new plan outlined above for "E" bonds because "it is our belief that the majority will desire to continue their investment in United States Savings Bonds." Over 85,000,000 people have held the "E" type bonds during the war. Secretary Snyder said further that the existing option of paying taxes on interest on the series "E" bonds either currently or at maturity would be retained. Congress will be asked to pass enabling legislation "immediately" to put the 10-year extension plan in force, which will also apply to all new series "E" bonds that may be issued.

Secretary Snyder said the Treasury's role in the current crisis was to help to control inflation and that his savings bond program, including promotional efforts for their continued absorption by the public, was a "powerful weapon in combating inflation."

Here are four reasons why I believe every American should be glad to hold "E" bonds bearing a 2% interest coupon and should be eager to buy more:

(1) The quality of "E" bonds, not their rental, is the ingredient that makes them attractive. Whether your capital stake is $100 or $1,000,000, its foundation should be government bonds comprising the safest and most liquid investment of all investments. People don't buy them primarily for income return; that consideration ranks far below the attraction of security.

(2) Your dollars put into "E" bonds will, with the savings of other Americans, help to draw excess purchasing power off the market at a time when the amount of consumer goods for sale is decreasing. Should inflationary pressures on prices get out of control, living costs could soar beyond anything ever experienced in American history.

(3) Buying government bonds is a patriotic duty, and that duty is made pleasant because it can be performed at a profit to yourself. It would still remain a duty were bonds offered at little or no interest yield.

(4) Ownership gives you a first mortgage on the United States of America which is a supremely successful going concern that has made possible the highest living standards yet achieved by any nation in history. An opportunity to buy "E" bonds has taught millions of people the value of systematic savings and will in the future help millions more. In "E" bonds they get a first lien on America.

On patriotic grounds as well as personal considerations, I think Secretary Snyder will find that Americans are not going to haggle over the coupon rate, whether it's 2%, 2¼% or 2.9%. We Americans all benefit as taxpayers and even more as citizens, owning a prime investment in a strong national economy.

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LETTERS TO THE EDITOR:

"Are We Falling Into History's Greatest Trap?"

Another group of letters given in this issue relative to Melchior Palyi's article in which he warned of the dangerous consequences to the nation of the Administration's current foreign policy and the concomitant mobilization program.

We present below some more of the letters received in connection with Melchior Palyi's article, "Are We Falling Into History's Greatest Trap?" which appeared on the cover page of the "Chronicle" of Jan. 11. The initial comments were given on page 3 of our issue of Jan. 18.

After describing Soviet aggression patterns in his article, Dr. Palyi contended that the United States and other free nations have committed a cardinal error in failing to make clear the objectives for which they are prepared to fight. He presented two alternatives: (1) either we restrict our defense zone to the Western Hemisphere or (2) make a formal declaration of a new Monroe Doctrine in which our global commitments would be clearly set forth. Moreover, he cautioned against adoption now of a policy of full and permanent mobilization on the ground that such a program was unnecessary and could only lead to national bankruptcy.

The letters that can be accommodated in today's issue follow; others will appear in subsequent issues.

WILLIAM A. ROBERTSON
New York City, N. Y.

(1) Professor Palyi's article expresses my views, in general, better than I can do so myself. In view of it, I think we should withdraw from our "emergency" and its talk and excitement as quietly as we can, making as much of a "face-saving" explanation as possible.

Quit the constant talk about the invincible might of Russia. In so far as she is today strong, it is because we have foolishly made her so. Ten years ago she was very weak. In World Word No. 1, how easily the Germans overthrew her armies and forced the Bolsheviks to sign that Treaty of Brest-Littovsk. She has many troubles of her own, not the least being inability to raise enough food for her people. She is hard to invade, but weak on active aggression. Napoleon found that out. Stalin knows he sits upon an uneasy throne, for Russia is a paradise for plotters and nihilists and all who are discontented. This has been so for a century and a half, at least. Stalin is 71 years of age, at least, and none too well. He is not fool enough to wish to start another war.

(2) Adopt, in general, the views of Herbert Hoover as shown in that fine speech of his, a month or more ago. Withdraw from aiding Asia with men and confine such help as we give to arms and money, as for example, to aiding Chiang K. S., whom we have treated badly. Do not send any more men to Europe or Asia. Whatever is done, let it be by money or arms only. Have a strong navy and a considerable air force, but do not try to keep an army with us all the time, armed against any possible foe. We shall exhaust ourselves in that manner, just as Stalin would wish us to do.

(3) Commence a program of rigid economy in expenses and a return to the GOLD STANDARD. Leave business alone and quit some of the anti-trust actions pending. Terminate the UN as a false conception and a failure in execution.

(4) Follow the teaching implied in H. W. Baldwin's statement quoted by Professor Palyi: "readiness potential, rather than mobilization potential." Drop Gen. Marshall and his plans, military and financial and otherwise.

(5) Korea is not worth the life of a single American soldier in any further effort. Withdraw from what never should have been undertaken.

After withdrawing from the United Nations, our country should refrain from making any further connections of a permanent sort, with either a World Federation, or with a federation of either Europe or Asia. We should pursue an independent line of action, throwing our influence occasionally in whatever direction may be most effective for peace and good sense. This is in line with the closing thought of my article, pointing to England's course of action after the Napoleonic Wars and the Congress of Vienna. Such a course is far more useful to the world than our trying to act the part of a general adviser and busybody.

* * *

E. L. HUGHES
Lima, O.

No nation in the whole world (America not excepted) is rich enough in resources to attempt to police the whole world; to establish and preserve peace on the earth or to conquer the world. God alone possesses the only power to establish peace in the world. And until He does, we in America must build an inhuman machine consisting of a superior air force; a sea force of plane carriers protected by a formidable navy and a perfected, improved atom bomb in good supply. This should be our answer to the bad boys we have to live with in this twisted and strained old world.

* * *

H. D. MUNDAY
Schenectady, N. Y.

Dr. Palyi's views are close to those of Senator Taft. Our withdrawal from Korea, leaving it without military equipment, advisers or leadership; proclamations of officials that South Korea could not be defended and was

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The Aircraft Industry In a Defense Economy

By SELIG ALTSCHUL*
Independent Aviation Consultant

Mr. Altschul, pointing to increase in size and complexity of mechanism of aircraft since World War II, asserts projected 5-fold increase in plane production, as outlined by President Truman, is fantastic. Says 3-fold expansion within year is possibility as aircraft industry is not yet operating at capacity production. Looks for $3 billion in aircraft orders in 1951, which may indicate net earnings of $90 million. Warns, because of changes in procurement schedules and variations in managerial skill, net earnings of individual companies will be affected differently.

In appraising the aircraft industry in a defense economy it can be misleading to be swept away by the maze of figures that accompanies the group's position. To view the industry in proper perspective, it is essential to focus on current trends and the philosophies governing its operations.

Selig Altschul

For instance, in evaluating aircraft companies today, it is a common fallacy to refer to their separate production levels of the war years as an example of what can be accomplished currently. Present military aircraft is much heavier, about twice the size, and for more complex than its counterparts produced during World War II. As a result, it now takes approximately four times as many man hours to build a current model as compared to the planes of some 6 to 10 years ago. This is to say nothing of the distinctions existing in relative dollar costs.

This is the key in ascertaining how realistic is President Truman's goal of 50,000 aircraft a year. This objective will require a far more rapid expansion in output than was attained during World War II.

The President declared that, "Within one year we will be turning out planes at 5 times the present rate of production." Our present rate of military aircraft production is slightly under 4 million pounds of airframe weight a month. In units, the current total is probably somewhat around 250 per month.

During World War II, the industry was not able to expand much more than three times within a 12-month period as compared to the 5-fold increase called for by President Truman. Production in May, 1940, at the time President Roosevelt announced his 50,000 plane goal was at the monthly rate of 1,900,000 pounds. A year later, in May, 1941, the production rate had risen to 6,229,000 pounds. By May, 1942, production had risen to 23,202,000 a month; and by May, 1943, the rate was 60,500,000 pounds monthly.

The figures for production in units show a similar trend. In May, 1940, production was 450 planes. A year later, the monthly output was 1,380; and in May, 1942, the rate was 3,983. The peak was in March, 1944, with an output of 9,113 planes.

Despite the expansion brought about by earlier foreign orders and the stimulus of the 50,000 plane production program, an annual production rate of 50,000 was not reached until August, 1942—27 months later—when deliveries totaled 4,274 aircraft.

In the meantime the goals of America's aircraft production program had again been tremendously increased. In his message to Congress on Jan. 6, 1942, President Roosevelt called for the production of 125,000 planes during 1943, of which 100,000 were scheduled to be combat types. Actual production during 1943 reached 85,898 military planes of all types. The production expansion reached its peak in early 1944 when the monthly production rate exceeded 9,000 planes, equivalent to an annual rate of almost 110,000 units.

A 5-fold Increase in Production Fantastic

It is obvious that even by past standards, President Truman's projected 5-fold increase in aircraft production is a fantastic undertaking. The best the industry thinks it can accomplish is a 3-fold expansion during the next twelve months and then only under favorable conditions.

For example, despite the pressing need for its Packet aircraft, Fairchild's Hagerstown, Maryland, plant has been shut down since a week ago Monday due to a strike. This is not conducive to accelerating production goals. There are bound to be recurrent delays throughout the industry due to bottlenecks caused by failure of essential components to arrive on time. New aircraft types take longer to engineer and tool up for production. And there are a number of models now on the secret list moving into the active production stage very soon.

Nevertheless, it is obvious that aircraft procurement levels are bound to be sustained at high levels for some time to come. Intermittent peace "scares" are not likely to reverse the flow of aircraft production set in motion.

Appropriations, including supplemental measures approved for the current 1951 fiscal year, provide more than $10.3 billion for aircraft procurement. In the 1952 budget advanced a few days ago, even a greater amount for aircraft procurement is indicated for next fiscal year.

Aircraft Industry Not at Capacity Level

All this would appear to swamp the aircraft industry and fill the group to capacity levels. But it has not. As of now, most aircraft companies are operating on one shift and not even extended on that basis.

This ironical situation stems from a combination of circumstances. It was not until early this year that the Air Force procurement log-jam was broken and extensive commitments made. Of greater chagrin to the aircraft industry is the company it has suddenly acquired, much against its wishes.

Government defense mobilizers are insisting that the automotive industry actively share production of key aircraft types and powerplants. The reason behind this move is motivated by a number of factors.

In the first place, the military have a strong desire to provide at least two sources of supply for each vital aircraft type, dispersing production sites in geographically separated areas. Further, in this process, it takes out a certain amount of civilian production with its attendant saving in material and manpower. This further avoids undue concentration and shortages in scarce labor areas where aircraft is now being produced. In some instances, to handle increased aircraft output, existing manufacturers in the industry would be forced to build additional plant facilities. Thus far, the government has been most reluctant to authorize such new construction.

While mobilizing the automotive industry and smaller industrial groups for aircraft production slows the immediate build-up in output, it does serve to provide a much broader base from which volume levels may be attained.

The fact remains that with a second source of supply under another company's jurisdiction, the prime aircraft builder will have less of a volume to produce, thus limiting its profit possibilities.

On the other hand a number of aircraft companies have followed extensive subcontracting practices and should do much better profitwise. The subcontracting process serves as a safety valve in avoiding sharp fluctuations in plant expansion and employment with subsequent deflationary adjustments. Nevertheless, the utilization of extensive subcontracting is no guarantee that a prime aircraft builder can prevent his product from being assigned for complete manufacture by another company.

Despite the entry of the automotive industry in the picture, there will be plenty of business available for aircraft producers.

Now, how is all this business going to be evaluated? A common failing is to take a company's total backlog and arbitrarily assume it will be produced in one or two years with computations merrily rolling along on such projected sales. All this does is to compound a series of errors.

A Contracting Business

It must never be forgotten that essentially the aircraft industry is a contracting business. As such it does not lend itself to many of the standard financial ratios peculiar to ordinary lines of manufacturing enterprise. A given contract may take two or three years before its completion and does not fall into precise accounting determinations in any one given year.

Moreover, what is a company's backlog? Some aircraft companies count only firm orders in their backlogs; others include letters of intent. Some builders include their total prime contracts without regard to the dilution that takes place due to extensive subcontracting. A number of units reduce their backlog figures by the amount of advance payments received; others do not. There are other differences not always clearly identified.

Profits and Renegotiation

Even when sales and earnings are finally reported they have a tentative note. All military aircraft contracts are subject to a series of price redeterminations and ultimate renegotation. The renegotiation processes may take two or more years before completion.

The Renegotiation Act of 1948 applies to all military aircraft deliveries now being made. Renegotiation for all aircraft companies is by no means uniform. Each company is evaluated on its separate merits. The degree of original engineering and designing, the extent of plant facilities owned, the measure of subcontracting used, relative productivity of labor, management efficiencies, and a host of other elements enter into the renegotiation processes. There are many costs which are included in annual reports but which are disallowed in renegotiation.

The present excess profit tax measure, which imposes a top ceiling of 62% on combined normal and excess profits taxes, is no iron curtain to earnings but simply another hurdle to surmount. Net profit margins **averaging** from 3 to 4%, after all tax imposts, are quite possible for a number of aircraft companies.

Under such circumstances, the industry can expect new post-war highs in both sales and earnings for 1951. In 1950, dollar sales of the 15 large aircraft units are estimated at about $2 billion. This compares with some $1.5 billion for the comparable 1949 period. Using recent average profit margin experiences after taxes, 1950 net profits should range from $60 to $70 million. This would compare with a total of more than $49 million shown for 1949. These figures are, of course, subject to subsequent qualification until all accounts are settled.

Our own conservative projections indicate that the basic aircraft industry, excluding its newly acquired associates in the automotive group, may easily attain deliveries of some $3 billion in dollar volume during 1951. With an average profit margin of only 3% after taxes, net earnings of around $90 million should not be difficult.

Within the industry itself, however, great selectivity is likely to prevail. Backlogs, the trend of deliveries and average profit margin experiences, and hence earnings, will vary widely, depending on types of production, efficiency factors and other related elements.

The aircraft industry is rarely static, dynamic events are forever on the move. Military requirements change constantly. This dictates changes in procurement schedules. For example, before Korea, our air planners envisioned a type of war which made the B-36 the backbone of the Air Force. But the Korean war called for a different type of aircraft. All this accentuates the fact that technological advances in all forms of military aircraft, including guided missiles, are bound to exert a tremendous influence on the individual fortunes of the separate aircraft companies. Management, as always, will remain a key element in accomplishing successful results.

*An address by Mr. Altschul delivered before the Third Midwest Forum of the National Federation of Financial Analysts Societies, Chicago, Ill., Jan. 7, 1951.

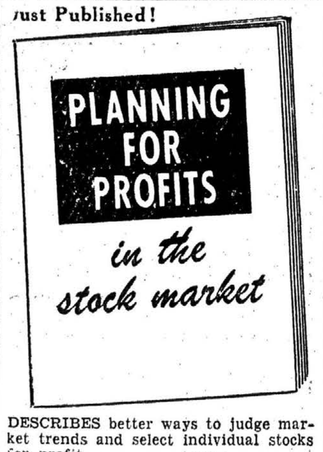
Joseph Rubin to Be Partner in Bache Co.

SAN ANTONIO, Tex.—Joseph Rubin, manager of Bach & Co.'s office in the Gunter Hotel, will be admitted to partnership in the New York Stock Exchange member firm on Feb. 1.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Vernon S. DuPree is with Waddell & Reed, Inc., 408 Olive Street.



The State of Trade and Industry

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

As the implementation of the defense program began to pick up momentum total industrial output for the nation last week showed a further rise in the already high level of activity. Overall production was markedly above the level for the corresponding period of 1950.

For the final quarter of 1950 the report of the President's Council of Economic Advisers to Congress discloses the fact that total output of goods and services in the United States advanced to an annual rate of $297,000,000,000, or a gain of $13,000,000,000 over the rate in the preceding quarter and a $27,000,000,000 jump since the Korean war started. This rise was in part occasioned by an increased investment in production facilities by private industry together with the faster pace of defense outlays.

Aided to a degree by the conversion of business and industry to defense work employment casualties of this nature helped to increase in some degree aggregate claims for unemployment insurance.

This week the steel industry is scheduled to pour more than 2,000,000 tons of steel, for the first time in history, the American Iron and Steel Institute announced on Monday last.

The present high production, if continued without interruption for one year, the Institute adds, would result in an annual output of 105,166,000 tons of steel. Last year the steel industry made about 96,700,000 tons of steel, or nearly one-half of the entire world's production.

The first week of 1,000,000 tons' output was achieved in May, 1917 and the first week of production exceeding 1,500,000 tons was the week of Nov. 11, 1940, the Institute notes.

Defense steel requirements are increasing rapidly this week, according to "Steel," the weekly magazine of metalworking. Mill quotas for military orders are being stepped up by Washington, and by early February volume will show a marked rise. This week the Steel Task Committee meets to consider second-quarter distribution of steel against not only existing allocation programs, including railroad freight cars, but against still other programs still in the formative stage. Mandatory mill tonnage set-asides of the various products for DO accounts are being upped sharply percentage-wise.

The supply squeeze on civilian goods producers is definitely tightening. Automobile producers are cutting production this quarter 20 to 25%, the trade magazine states. Not only are defense steel requirements rising, but end-use limitations are being imposed, with more in prospect.

Stainless steel and nickel will be added soon to the list of products barred for further use in civilian goods manufacture.

Steadiness characterizes all sections of the steel market price-wise and expectations are that a freeze order will come out of Washington soon, perhaps in a matter of days. One guess is that Feb. 1 will be set as the effective date. Some rollback of scrap prices is expected in certain quarters but the whole situation is still very much up in the air.

With the steelmakers pushing production to the limit of available facilities talk is heard in the trade of further expansion in the making. In the East, this trade paper asserts, word is circulating to the effect that at least two producers, in addition to U. S. Steel and National Steel, plan mills in the Delaware river area.

On Tuesday of last week the nation's railroads petitioned the Interstate Commerce Commission for a freight rate increase of 6% with maximum and specific increases on certain commodities. The carriers announced that they would file a motion on Friday last for such an increase on an interim basis, upon condition that the railroads will honor claims for refund as to any increases not finally approved by the Commission.

In doing so, the railroad operators urged the Commission to allow them to raise their freight rates 6% immediately.

The roads pointed out that if they have to wait very long for the ICC to investigate the matter, they will lose millions of dollars

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Oppose N. Y. City Tax On Security Trades

Securities Traders Association of New York, Inc., and Investors League, Inc., executives have sent telegrams to Mayor Impellitterri warning such tax would drive investment business to other states.

The presidents of two organizations related to the securities business in telegrams sent to Mayor Vincent R. Impellitteri express opposition to the proposal of the Board of Estimate of New York City that a city tax be levied on the sale of securities.

In a telegram to Mayor Vincent R. Impellitteri, the Securities Traders Association of New York, Inc., President, Leslie Barbier, suggested reconsideration of the proposed taxes which are comprised in the recommendations of the Board of Estimate for a wide variety of imposts to meet a $30,000,000 increase in the city's cost of operations. The proposals include a city tax on the sale of securities and a two-cent impost on each bank check drawn.

Mr. Barbier, President of the Securities Traders group, which has a membership of 650, said in his telegram to the mayor that levying of such taxes would lead to New York's financial activities being transferred to another state, adding: "Such a move would be made with reluctance and result in a net financial loss to the City of New York, whereas recent increased activity here should compensate to a great degree for your increased operating expenses." Mr. Barbier requested that his organization be permitted to testify on the proposal at a hearing of the Board of Estimate.

A similar telegram was sent Mayor Impellitteri by William Jackman, President of the Investors League, Inc. of 175 Fifth Avenue, on June 24. Mr. Jackman's message to the Mayor stated:

"In behalf of the investors of the nation, and particularly those living in New York State, we unqualifyingly oppose the proposal of the Board of Estimate that a city tax be imposed on the sale of securities. Such a tax might seriously affect security values and drive business to other states. Its harmful results would far exceed any tax receipts which might be obtained."

Smith, Neukom Are McKinsey Partners

E. Everett Smith, Jr., and John G. Neukom have been elected partners in McKinsey & Co., management consultants.

Mr. Smith has been active in management consultant work both in this country and abroad since joining McKinsey & Co. in the New York office in 1944, and earlier he had been associated with The First National Bank of New York, Smith, Barney & Co. and Estabrook & Co., investment firms, and the Remington Arms Division of E. I. duPont de Nemours & Co.

Mr. Neukom joined the McKinsey firm in Chicago in 1934 and has been active in the firm's work in marketing, both in the Chicago area and on the Pacific Coast.

L. J. Schenin Co.

L. J. Schenin Co., 82 Beaver Street, New York City, is engaging in a securities business.

Irving Gold Opens

Irving Gold is engaging in a securities business from offices at 109 East 153rd Street, Bronx, N. Y.

Observations . . .

By A. WILFRED MAY

The Chameleon-Like Market Influences

The current explanations of the stock market's behavior in terms of external events highlights the proclivity both to draw successively conclusions from the same outside factor, as well as to select for emphasis from among those economic factors those which fit as the appropriate causes of the market's behavior—*ex post facto*. The shaping of "economic" interpretation to conform to the ticker, and the actual divergence between market movements and "the news" have been cited by us as one of the chief obstacles to the anticipation of market movements.


A. Wilfred May

Contradictory Attitudes Toward a Margin Boost

Last week's boost in margin requirements supplied a typical instance of these foibles of inconsistent reaction and selective emphasis. Midst the current emotional atmosphere, in which the polls classify 70% of the commentators as still bullish, on day following the Reserve Board's new curb as the market reached a 20-year peak, it was affirmatively interpreted bullishly as "constructive," "psychologically inflationary," and a depleter of the government's anti-inflation ammunition; or negatively ignored vis-a-vis the bullish attention fastened on "inflation" as the market's determinant.

In the eyes of one journal's morning-after comment, the increased credit curb was bullishly described as "tending to make many margin account owners keep their positions rather than liquidate them. Once they sell present margin holdings they must put up 75% cash to establish new positions. The higher margin requirement tends to make holders of stocks on margin place more value on the technical position of the account than its value."

At previous occasions of margin-raising when the market's following action was not so auspicious, as during the declining market session following the hike of July 5, 1945, its economic impact was by no means interpreted with such blithe optimism.

War-Peace Bearishness

Similarly oscillating have been the market public's reaction to war and peace portents. This can be (and in previous columns has been) shown in detail to have occurred in innumerable instances ever since the Hitlerian aggression of the 1930s. On a microcosmic scale was this portrayed in yesterday's market (Wednesday, Jan. 24), when the market's overall decline was ascribed to alleged peace feelers—in contrast to previous bull-atmosphere constructive conclusions from peace prospects and to war-induced declines.

Taxation constitutes another chameleon changing its color in conformity with bull and bear environments. During *bear* periods the public's consciousness is concentrated on the destructive features of rises in the tax impost, on corporations as well as individuals. At such times even the truism that capital values are essentially tied to net-after-tax income yield is realized and emphasized. On the other hand, in rationalizing *rising* market action, the alleged bullish features of tax rises are highlighted. Nor is this construction confined to the passing-on of the corporate tax in the form of selling-price rises, but is applied to all taxes. Thus, one able commentator currently affirms: "In the final analysis *all* taxes are inevitably inflationary. This is true because in the long run they can be paid only out of the sales dollar, which is the consumers' dollar. Inevitably, almost any kind of a tax tends to be 'shifted' or pyramided somewhere along the line."

The "Bullishness" of Excess Profits Taxation

The process of selective emphasis was strikingly demonstrated last week when a leading brokerage firm issued a study entirely devoted to showing the bullish implications of the excess profits tax, such as its aid to advertising-media companies entailed in the anticipated increase in "extravagance-spending" of 38-cent dollars.

The Selective Emphasis Approach

We see selective emphasis also used in picking out of the

Continued on page 38

Personal Thoughts on Our Financial Situation

By ALLAN SPROUL*

President, Federal Reserve Bank of New York

Asserting direct controls can only suppress inflation for a time, and are weakened by a soft attitude toward farm prices and toward wages, Reserve Bank executive calls for rise in taxes to cover proposed estimated Federal budget deficit. Warns Treasury's debt management policy would lead to too much financing by banks while direct credit controls are not complete shield against inflation. Holds, however, fiscal problem seems entirely manageable "in terms of pay-as-you-go."

There have been two clear public statements, in the past few days, from those in high authority; the first about the need for direct controls in our economy, and the second about fiscal policy and debt management.

Allan Sproul

We have been told that we must have direct legal control of broad segments of our economy to promote production for defense, to insure a fair distribution of goods and services, and to prevent inflation. We have been told that these measures must include allocation of materials, and control of prices, rents and wages. With the general outlines of this program we must all agree, even though reluctantly, after the experience of the past six months. But it is not intended, I am sure, that we should accept it as a complete guard and shield against inflation.

Direct controls couldn't do that job in the war and postwar period, and they can do it less well in a period of rearmament and mobilization, when the final compulsions of war are lacking and the period of required restraint is indefinite, but likely to be prolonged. Direct controls may suppress inflation for a time, but they do not prevent it. They are likely to be weakened, in application, by a soft attitude toward farm prices and toward wages, and in the long run they will fail, in any case, unless backed by a strong fiscal and credit measures. There will inevitably be shortages of some goods and some commodities for civilian consumption during the next year or two, and there will be a growing national income piled on top of a high level of liquid resources in the hands of the public. If these pressures are not reduced by heavy taxation, or if they are increased by permitting an unnecessary expansion of private credit, the control dam will not hold. I would emphasize, therefore, that we must not let reliance on direct controls, and our great confidence in those charged with administering those controls, diminish in any way our stern resolves to tax heavily and to use credit sparingly.

In the second public statement to which I referred, there were some of the outlines of a fiscal policy and a debt management program for rearmament. The fiscal policy was one of pay-as-you-go. I think that is imperative. The debt management policy was one that, in my opinion, would make pay-as-you-go even more necessary than before—if that be possible. I am afraid that the announced debt management policy would lead us directly or indirectly into too much financing by the banks, *if we had to do any substantial amount of deficit financing.* And even in terms of possible refunding of bank-held debt, by sale of long-term obligations to nonbank investors who temporarily find other outlets for funds lacking, it would have shortcomings. It runs the risk of falling short of attracting willing nonbank investors in the first instance, and of creating reluctant holders of government securities for the longer run. We must have learned from our experience during and following the last war, with respect to market bonds, and more recently since the Korean fighting started, with respect to savings bonds, that these are real risks. If these risks were realized, they would mean that too much of our financing would sooner or later be done with bank credit based on the ready availability of Federal Reserve credit. And when that credit began to express itself in inflationary price advances, we would again find our powers to control the inflationary brew greatly impeded by the needs of a government security market requiring extended periods of extraordinary support.

Stern Tax Action Demanded

Fortunately, we are not faced with the necessity of deficit financing, nor should we be for as far ahead as one can see, if stern tax talk is followed by stern tax action. Despite the inspired comment of some of our market letters, deficit financing in the period we are now entering does not need to be immense; pay-as-you-go is not a pious proposal which ducks the facts; the magnitude of our borrowing needs does not require a market floating buoyantly on the promise of unlimited access to central bank credit. That sort of talk draws its only real sustenance from ambitious plans which, to be sure, will be realized over time but which are now only estimates, will later become appropriations, and only some time later will become actual cash expenditures.

What are the facts? At present we have a fiscal problem which seems entirely manageable in terms of pay-as-you-go. The projected budget, on an accounting basis, for the fiscal year 1951-1952 shows expenditures of $71.6 billion, receipts of $55.1 billion at present tax rates, and an accounting deficit of $16.5 billion. On a cash basis, however, which is the important basis in terms of current economic effects and Treasury public borrowing, the figures improve somewhat. The cash outgo for fiscal 1951-1952 may be estimated at $74.1 billion, the cash income at $61.3 billion and the cash deficit at $12.8 billion. This figure might be reduced further by making allowance for the usual tendency to over-estimate expenditures and under-estimate receipts. We might even expect some further reductions in nondefense expenditures. The ordinary citizen when faced with a substantial tax hike has to adjust his budget regardless. He can't say to the Bureau of Internal Revenue, show me where you would make the cuts and I'll pay up. Maybe that aggregate of taxpayers known as the government could be asked to respond to our present situation as does the individual. But even without such adjustments, the figures we are dealing with are manageable. We can and should increase taxes to cover or more than cover the cash deficit, and we can do it without destroying those incentives which make ours a great productive economy. In fact, if we don't do it; if we let ourselves in for another round of inflation, for another serious decline in the purchasing power of the dollar, we may well find that our work and save incentives have been irreparably damaged.

Foresees "Healing Powers of Greater Productivity"

It is not necessary to look too closely beyond the end of the fiscal year 1951-1952—that is, beyond June 30, 1952—at this time. In the ordinary course, after a rapid buildup of our armed forces and of our armored might, there should be a leveling off of expenditures as we enter the plateau period of continued readiness. Meanwhile, the healing powers of increased productivity, increased production, and increased national income should have time to begin their work, so that our budgetary problem would become no worse, and eventually might become better, in terms of our ability to carry a pay-as-you-go program. And, at that time, the strait-jacket of direct controls could begin to be abandoned before such controls become a fixed part of our way of life.

If all-out war comes, we should face a different set of circumstances and a different order of magnitudes. We would then face a Federal deficit requiring Treasury market borrowing, probably in substantial amounts. But alternate outlets for savings of all kinds would tend to dry up, in these circumstances, and as much borrowing as possible outside the banking system would continue to be our goal. I should hope that, at that time, we might review our policies, so that we would be sure of tapping all available sources of nonbank funds in a way which would prevent the unnecessary expansion of bank credit, either during the war, or following the war when channels of investment other than in government securities are again opened. It used to be said that war departments are always busy fighting the next war interms of the last war. We don't want to make that mistake on the financial front.

I hope we will not. I firmly believe that on the financial front, no less than on the production front, the job is well within our powers, if we will think and act as Americans dedicated to the cause for which we sacrifice our sons.

*Remarks by Mr. Sproul at Luncheon given by the Federal Reserve Bank of New York at the Midwinter Meeting of the New York State Bankers Association, New York City, Jan. 22, 1951.

From Washington Ahead of the News

By CARLISLE BARGERON

A book written by this writer describing the confusion, the backbiting, the intrigue that was going on in Washington as we prepared for World War II came out on the eve of Pearl Harbor. With the exception of dates and names it would describe the present situation as we get ready for World War III.

Carlisle Bargeron

These crises or National Emergency conditions always bring an intensification of the scramble for power to Washington, between ideological groups and individuals. The economic face of the country invariably goes through an altering and it is over the control of this altering that the ideological groups clash. Insofar as personal ambitions are concerned Washington is the best market place for them when the nation's energies have pretty much, if not wholly, come under its direction.

As in World War II, there is the effort on the part of industry to get its men into the positions of power with a view of lessening, to the extent possible, the impact of war mobilization upon the country's economy and [illegible] socialistic schemes from being put over under the guise of the emergency. Similarly, the leftwingers resent and resist the intrusion of the industrialists upon what they have come to look upon as their exclusive grounds. They yelped in panic as they contemplated Roosevelt the Great, moving away in late '38 and '39 from the domestic scene to global adventure. They foresaw their replacement in the seats of power by "dollar a year" men and it took considerable missionary work to reassure them that while the "dollar a year" men would be moving in and seemingly running things the real power would continue to rest with them. When we recall the Leon Hendersons, Henry Wallaces and the blanketing of Donald Nelson with Sidney Hillman, we know just what was meant.

Now, in the current emergency, industry generally was heartened by the naming of General Electric's Charles E. Wilson as the overall production chief. As the top man in allocations of materials, plant reconversions, and industrial strategy, in the rules and regulations of the war economy, industry seemed secure. It is doubtful if this is the case. Mr. Wilson has already been blanketed, at least to an extent, with a former Department of Justice official who for several years has been crusading against business as an anti-trust buster. He left the department several months ago to enter private practice and conceivably he may have changed his stripes but it is doubtful that a man who went to such extremes as he did against American businesses, who harrassed them so much, can be considered a zealous guardian of private enterprise in the great economic shake-up that is to come. Mr. Wilson will find even more blanketing as he moves along.

Indeed, in one of his first public utterances after taking office, Mr. Wilson said that the private electrical power industry was in ample position to take care of the increased defense needs and that if needed materials for its scheduled expansion were not diverted, it would continue to be able to do the job. A few days later, the President recommended seven additional public power projects, including the St. Lawrence waterway-hydroelectric proposition. This means, as it did in World War II, and quite likely, Mr. Wilson with all his authority to the contrary, that the Public Power crowd will make hay with their schemes during the emergency and the private utilities will be denied adequate materials for their expansion.

Several hundred of the bright young minds who, from subordinate positions in the bureaucracy, gave gray hairs to the industrialist front men in World War II, have already come back to town and their nightly "seminars" at which they hatch their bright ideas and propaganda strategy for putting them into effect have been resumed. Not yet in the government but who will undoubtedly find his way in soon as the "brilliant young adviser" to an industrialist front man, is the boy wonder, Ed Pritchard, just out of jail in Kentucky by Presidential pardon for stuffing ballot boxes. A former protege of Chief Justice Vinson and Felix Frankfurter, he is not the slightest embarrassed by his experience and his Fair Deal friends, of course, see no reason why he should be. Expected to join up with the crowd soon is Bob Nathan, who in World War II, we were told almost daily by the columnist propagandists, was the mainstay in every agency he happened to be serving in. He happened to be serving in the Office of War Management when John W. Snyder took over, just after the war, and Snyder's dismissal of him was the cause for a Leftist smear barrage against the present Treasury Secretary that lasted for months.

The new OPA when it is set up will be a haven for these fellows just as it was last time. The housewives who have been clamoring for price ceilings, understandably so, don't realize what harm they have done.

An insight on the "seminars" of these bright young men is a current enterprise about which you will soon hear and wonder where it came from. Taking a leaf from Stalin's book, his practice in bringing in "students" from other countries for training in his school for revolution, they have decided it would be a good thing to bring into our government for training in how we operate, some 600 nationals of unfriendly countries, North Korea, Red China, Eastern Europe, etc. They figure they would have a hard time getting Congressional authorization for their project so their idea is that it should be done by Mr. Truman with the emergency free funds that are appropriated for him. Roosevelt had around $100 million of these free funds; Truman, so far, only has about $37 million. But that's a lot.

Credit Controls and Bank Earnings

By WILLIAM A. LYON*
New York State Superintendent of Banks

Viewing situation of banking under credit controls, N. Y. Banking Superintendent sees in them unnecessary weakening of banks' earning power. Because of pegged interest rates, says compensatory factors in credit control are largely eliminated, and finds position of bank earnings are deteriorating. Concludes effect is to force banks into consumer and other forms of credit and to cause absorption of small banks by large ones. Advocates higher loan rates for banks, and points out bank stockholders are now "on short rations."

A new emergency has arrived calling for a supreme national productive effort. Special steps are being taken to enlarge our capacity to turn out certain strategic products. Some goods are being drastically curtailed or even discontinued so that we may concentrate on the strategic materials and finished manufactures. But there is one essential product that is not naturally in short supply.

Wm. A. Lyon

That is bank credit. It can be produced boundlessly, in quantities great beyond measuring, until we and the world are overwhelmed by its immensity. Our banking system has not always had such a limitless credit potential, as those who have done any reading in our economic history well know. We are all so familiar with the reserves of power in our credit machinery that we have come to take its matchless strength for granted. Much of our productive capacity can only be brought forward by slow stages to the degree of preparedness required by the emergency. Banking can be fully mobilized at the drop of a hat.

Avoiding Pitfalls of Excessive Bank Credit

Indeed, the chief problem that we have with banking during the emergencies that have come along over the last generation is how to immobilize some of its facilities so that we can avoid the pitfalls of an excessive amount of credit. Controls over credit by the monetary authorities have had to be applied frequently both of a quantitative and qualitative kind.

Banking of course is in the middle of the control operation. It is like some farmers in Eastern France over whose lands the contending armies time after time have surged back and forth in combat. Sacrifices are involved for banking as the medium through which much of the resistance to inflation is exerted. Banking is so closely entwined with the public interest that any undermining of its strength is of direct concern not merely to the owners of the banks but to the public generally.

I should like to talk with you about the position banking finds itself in by virtue of these controls. In what I say I do not wish to convey the impression that I am against credit controls in principle or in practice. My desire is to call attention to the unwise and unnecessary weakening of the earning power of banks that has come about as a consequence of various kinds of monetary controls.

Classic central banking did not penalize bank earnings when restrictive measures were being applied. When the purpose was to influence banks to curtail credit, pressure was brought on their reserves. Members were forced to borrow large amounts and at higher rates. But there were offsets to the increase that this meant in operating costs. At once a stiffening developed in loan rates, and this improved the return on earning assets. In traditional central banking restrictive credit measures did not constitute, as they do so largely today, a levy on bank earnings.

Expansive credit policies aimed at stimulating business activity did in the 1920s and 1930s cause a decline in interest rates. But here again there were offsets: banks were put in reserves for the express purpose of encouraging them to build up the volume of earning assets. Thus it was possible to nullify the effects on bank earnings of the fall in interest rates.

Effects of Pegged Interest Rates

For some years now compensatory factors in credit control have been pretty largely eliminated. In years of credit restraint —and they have been in the majority for a decade—the controls have operated in such a way as to permit no escape by the banks from the repressive effect on their earnings. This is so because interest rates on the obligations of the largest borrower, the United States Treasury, have not been free, except to a limited degree (and that only in the last year), to reflect market conditions. The Treasury's demand that all other considerations in finance be subordinated to its own budgetary desire for low coupons has been a continuing depressant on the interest rates on all borrowings. The Chinese Wall around government securities has made it necessary for the Federal Reserve to place major reliance on the raising of reserve requirements as the means of opposing expansion in the money supply.

Ways have not been worked out for keeping the increases in reserve requirements from being in effect an anti-inflation tax applicable to commercial banks alone. This is not equitable. The banks are not doing so well that they can afford such a special tax. It is widely realized that the increases in reserve requirements operate to shift earning assets from the commercial banking system to the Federal Reserve Banks. The Federal Reserve Banks, in turn, pay over to the Treasury voluntarily the great bulk of their earnings derived from the securities acquired from member banks in what might be called condemnation proceedings. This diversion of earnings is not necessary to the success of the credit restrictions, and from other standpoints it is harmful.

Deteriorating Position of Bank Earnings

It is harmful because bank earnings have fallen behind the parade since the late 1920s, in spite of the three-fold growth in earning assets of the banks. The reasons for the deteriorating position of bank earnings are several. In the first place the declining importance of loans and the rising importance of investments in bank portfolios have meant a shift to a type of asset relatively less attractive in yield. In the second place, the bias toward easy money has brought loan and investment yields down to levels a half or less of what they had been.

Equity capital invested in any one of the important industrial enterprises or in public utilities brings in an appreciably better rate of earnings than does capital used in commercial banking. With the railroad industry, of course, banking does make a favorable showing, but there is small comfort in that. Compared to the business of making small loans banking comes off a poor second. There are not a few licensed lender offices in the State that earn larger net profits than do many banks several million dollars in size. And every one of the banks finds it necessary to use several times as much capital as the small loan offices do.

How good are bank profits when put next to the earnings of other competitors for investment capital? A large sample of industrial companies selected by The National City Bank averaged 14% on their investment in 1949. Another sample of utilities averaged about 10%. The member banks of the Second Reserve District, by contrast, showed an average on their net worth of only 5.5%. This poor showing of the banks is something that has developed during the depression decade and the war. In 1928, the industrials, utilities and banks in the samples ran a close race, earning around 11% on their invested capitals. Since then, industriales have improved by two points to 13% while utilities have declined slightly to a rate of about 10%. This contrasts sharply with the deterioration of the position of the member banks in the Second District. Since 1928 their rate of return on capital has been cut by one-half.

Effects of Low Earnings

Out of banking's comparatively meager return on capital various new trends are developing. The chief one is the interest that is being shown in the consumer credit type of banking. This kind of banking succeeds best with many offices. Yet there seems no way of authorizing each parent institution that might conceivably wish to get into the instalment loan field to open up a large network of new branches.

Therefore the tendency of large banks to acquire smaller ones is growing. A quantity of higher-yielding consumer loans improves the average loan rate of a portfolio whose main reliance is prime loans to large borrowers. Low earnings, moreover, lead to wide gaps between book value and market value of bank stocks, and this circumstance also accentuates the merger trend. Where earnings rates are satisfactory, on large loans as well as small, one of the principal supports for the merger movement is removed.

Banking's adjustment to the chronically easy money condition, on the one hand, and to the recurring periods of credit restraints, on the other, is as yet far from complete. It is well that this adjustment should be helped along consciously and without delay. Within the last week we have had new evidence that the Treasury, whose special status as a government body is forcing the need for banking's adjustment, does not propose to recede to any significant degree from its privileged position as a below-cost borrower.

If we are to go to the heart of the problem in bank earnings, it seems to me that there are two main lines of attack. The first is to build up the returns from some of banking's services. The second is to avoid as far as possible inroads into banking earnings growing out of credit control measures.

Decline in Loan Rates

The chief service that banking provides is the extension of credit. For this service banking has suffered a rather drastic cut in wages since the 1920s. It is doubtful if any other leading commodity has experienced so severe a price reduction as has bank credit. See what has taken place. The rate on commercial loans in leading cities has fallen from 5.38% in 1928 to 2.63%. The prime commercial paper rate is off from 4.85 to 1.59%. Stock Exchange call loans have fallen from 6.04 to 1.63%. Bankers' acceptances have receded in only moderately smaller degree.

These rates add up to one incontestable fact: American industry and business are not paying rates high enough for the credit they use. It is safe to say that the better the credit risk, the more inadequate are the rates paid. Industry's earnings easily permit it to pay reasonable rates for its short-term borrowings.

It is time for banks to charge commerce and industry rates for loans that will bear a more satisfactory relation to the cost of the service. The increase in commercial loan rates to prime borrowers placed into effect by several of the large New York City banks earlier this month, after the increase in reserve requirements was announced, is a hopeful sign. It is a step, if only a limited one, in the right direction. Brokers' loans could well be brought within its scope. Rather generally the larger banks, specializing in prime loans, make the least favorable comparison for return on capital.

The time is at hand to keep the enormous loan capacity of banks from standing in the way of charging more realistic rates for prime loans. Fear of losing customers to competitors has been for years the principal deterrent to loan rate adjustments. The rate for prime loans is all too often a kind of loss leader with larger banks, and strangely, in this instance, the loss leader is the article on which the heavy volume is centered.

Industry and commerce should be prepared to accept by negotiation suitable rates for those products of banking—chiefly credit—that they use. Customers that are not prepared to accept rates for banking's products in the same spirit with which they expect their own charges to be acquiesced in are by definition less desirable

Continued on page 33

*An address by Supt. Lyon at the 23rd Annual Mid-Winter Meeting of the New York State Bankers Association, New York City, Jan. 22, 1951.

Railroad Securities

Illinois Central

Another step forward in Illinois Central's long-term debt program is in prospect. It was announced early this week that directors had authorized the executive committee to formulate a plan for refunding the outstanding Joint Refunding 4s and 4½s, 1963. There are $18,812,000 of these two series in the hands of the public. It is expected that to provide funds for the operation the company will sell bonds of the new Consolidated Mortgage bonds in line with the company's avowed policy of eventually having only one blanket mortgage outstanding against the property. Apparently it has been decided not to refund the $43,293,405 of Joint Refunding 5s, 1963 at this time because of the high redemption premium. They are callable at 110 compared with 105 for the 4½s and 102 for the 4s.

Also in line with the over-all debt reduction and simplification program, the company announced some time ago that it intended paying off with treasury cash all of the bonds maturing this year. As of the end of 1949 these 1951 maturities were outstanding in the aggregate amount of $17,998,000 made up of eight different underlying mortgage issues. Furthermore, in the past year the company has continued its policy of purchasing in the open market and retiring bonds of the 1952-1955 maturities. Just how much of this was done is not known at this time, but it amounted to at least $3,300,000.

Allowing for the 1951 maturities to be paid in cash and only those 1950 purchases that were actually announced, Illinois Central's debt program since 1941 will have resulted in a reduction in non-equipment debt of more than $174 million. The total remaining will be down to no more than $157 million. Moreover, no more than $30 million of this will represent the balance of the near term (1952-1955) maturities. The balance, allowing for refunding of the two Joint Refunding series, will be made up largely of the roundly $43 million Joint 5s, 1963, $35 million Debenture 4¾s, 1966, and $48 million of the new, longer term, Consolidated Mortgage bonds.

In addition to the refunding of the Joint Refunding 4s and 4½s recently approved by the directors, many railroad analysts are of the opinion that some time this year Illinois Central may well give serious consideration to the sale of additional Consolidated Mortgage bonds to provide for retirement of the Debenture 4¾s, 1966. They also have a low call price—102½. Moreover, elimination of this issue would materially improve the status of the new Consolidated Mortgage in that its lien could then be extended to cover the highly important, and now unmortgaged, Edgewood Cut-Off.

While the recent Illinois Central step came as somewhat of a surprise to financial circles, the generally improved sentiment toward the industry as a whole has recently found reflection in increased activity among investment bankers looking toward other possible refunding operations. Such operations have become potentially more attractive to the railroads on the prospect of further increases in Federal income tax rates. Premiums paid on bonds called for redemption, or on bonds purchased and retired, are considered as deductible expenses before arriving at taxable income. Thus, the higher the tax rate the less net cost to the company in calling a bond that is redeemable only at a premium.

Prospective Refundings by Other Carriers

Indicative of this trend, and of the potentialities in this direction, groups were formed within the past week to bid on possible refunding issues of Denver & Rio Grande Western and St. Louis-San Francisco. It is anticipated that both should be able to save interest costs on their First Mortgage bonds. In neither case would there likely be any attempt to include in such operations the 4½% income bonds as was done in the case of Rock Island. Among other outstanding possibilities along these lines are Gulf, Mobile & Ohio, which might do a fairly comprehensive job, Kansas City Southern, and St. Paul.

Comments on Ernest T. Weir's Views on Foreign Situation

The "Chronicle" has been receiving during the last week letters from readers commenting on the article written by Ernest T. Weir, Chairman of the Board, National Steel Corp., entitled "European Attitude on Our Foreign Situation," which was published in our issue of Jan. 18 on the cover page. In this article Mr. Weir reported adverse attitude in Europe toward U. S. policy in the Far East and the feeling that Russia will not precipitate a war now or for some years to come.

Ernest T. Weir

On the basis of this data Mr. Weir expressed the view that the U. S. has lost ground with our natural allies and confidence in our leadership has been weakened.

We publish herewith two letters commenting on Mr. Weir's article. Others received will be published in future issues as space permits.

ALBERT C. LORD
New York City

You have done well, I think, in presenting Mr. Weir's remarks on the foreign situation in which our country finds itself today.

It is long past time when we should have some sound thinking applied to the long-range effects of our actions in the world at large, when the people should have the real facts placed before them without any window dressing of propaganda designed to cover up mistakes of the past. High time that the people put a stop to the making of half-baked commitments all over the world by administrators who would hide behind a so-called "bipartisan foreign policy" and who cry for "unity," when what they really mean is vote yes and don't ask embarrassing questions.

Mr. Weir's article should have the widest possible distribution. Won't you offer reprints and allow me to be among the first to help defray the cost?

* * *

HORACE J. FULLER
Asst. Professor of Economics, The University of Connecticut
New Haven, Conn.

Ernest T. Weir's article, "European Attitude on Our Foreign Situation," in the Jan. 18 issue of the "Commercial and Financial Chronicle" is the most outspoken, frank, accurate, and courageous article I have seen. He expressed the ideas of great leadership; ideas which, if they can be implemented soon enough, will recapture world leadership for America, embark us onto the greatest period of prosperity we have ever known, and save us and the world from the tragedy of futile world war.

I trust that you will make reprints of this article available quickly.

Zolton Salkay With Merrill Lynch Firm

Zoltan Salkay

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, Fla.—Zoltan Salkay has become associated with Merrill Lynch, Pierce Fenner & Beane, 116 West Forsyth Street. He was formerly Executive Vice-President of Capital Company, Inc., of Jacksonville. Prior thereto he was in the trading department of Gearhart, Kinnard & Otis, Inc., in New York City.

New Allison Branch

AUSTIN, Tex.—M. E. Allison & Co. has opened a branch in the Capital National Bank Building. W. E. Tinsley is associated with the new office.

With Chilson, Newbery

Chilson, Newbery and Company, Inc., of Kingston, N. Y., announce that Frank W. Hamilton of Richmond Hill, L. I., will represent them in Queens County.

Midwest Exch. Members

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange elected to membership: William G. Hobbs, Jr., Russ & Co., Inc., San Antonio, Texas, and Thomas B. Walton, Fahnestock & Co., Chicago, Ill.

With Montgomery, Scott

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Me.—Arthur Sewall, II, is with Montgomery, Scott & Co. of Philadelphia.

Dealer-Broker Investment Recommendations and Literature

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

Aircraft Manufacturing Industry—Analysis of outlook—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are analyses of **Seaboard Air Line** and **Sinclair Oil Corp.**

Annual Review and Forecast—Brochure—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Canadian Oil and Natural Gas in 1951—Brochure—The Western City Company, Limited, 544 Howe Street, Vancouver, B. C., Canada.

Common Stocks and Cash Dividends—Tables of common stocks on the New York Stock Exchange that have paid a cash dividend in every year for 20 to 103 years—New York Stock Exchange, New York 5, N. Y.

Deflated Utility Stocks—Memorandum on **San Diego Gas & Electric, Central Arizona Light & Power** and **California Electric Power**—Floyd A. Allen & Company, 650 South Grand Avenue, Los Angeles 17, Calif.

How Does Your Money Grow?—Table showing growth of money if time and interest compounded are allowed to operate—Remer, Mitchell & Reitzel, Inc.—208 South La Salle Street, Chicago 4, Ill.

How to Make a Killing in Wall Street and Keep It—David McKay Company (Department 5), 225 Park Avenue, New York 17, N. Y.—$1.00.

"In Peace or War"—Special Report on **United Wallpaper, Inc.**—Gilchrist, Bliss & Co., 488 Madison Avenue, New York 22, N. Y.

Insurance Stocks—Review and Outlook—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

Investment Position of the Coal Industry—Reprint of article by George F. Shaskan, Jr.—Shaskan & Company, 40 Exchange Place, New York 5, N. Y.

Leading Banks and Trust Companies of New York—75th consecutive quarterly comparison—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Leading Banks & Trust Companies of Northern New Jersey—Current semi-annual study—Parker and Weissenborn, Inc., 24 Commerce Street, Newark 2, N. J.

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.

New York City Bank Stocks—Comparative figures at Dec. 31, 1950—The First Boston Corporation, 100 Broadway, New York 5, New York.

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

Paper Companies—Data on **International Paper, Crown Zeller-**

Continued on page 38

Snags Ahead in Wage Contracts Tied to Price Index!

By EWAN CLAGUE*
Commissioner of Labor Statistics

After describing history and problems of formulating consumer price indexes, Commissioner Clague sets forth their shortcomings, together with program to revise them. Says, in view of changes to be made, difficulties will be experienced in adjusting labor contracts based upon changes in the Consumers' Price Index. Warns "there are some things a price index cannot do and should not be expected to do."

To understand the present situation of the Consumers' Price Index it is necessary to go back into history. The present is the product of the past.

Ewan Clague

The Consumers' Price Index, originally called the Cost of Living Index, was born in the latter days of World War I. Those who are old enough to recall those days will remember the public agitation about the high cost of living—"old h. c. l.," it was called. Rising prices became a public issue as early as 1916; they became a national problem after the United States entered the war in 1917.

Before 1918 the Bureau calculated and published indexes of retail food prices with the total number of cities varying from about 170 in 1903 to less than 40 in the 1907-1912 period. Weights for these food price indexes were derived from family expenditure data collected in the Bureau's 1901 survey of family spending.

The rapid changes in living costs, particularly in shipbuilding centers, made it necessary to devise a more comprehensive cost-of-living index which could be used in wage negotiations. So in 1918 the Bureau began to compile and publish indexes for various shipbuilding and industrial centers, and by September, 1919, indexes had been published for 50 individual places. In October, 1919, an estimated index for the United States was compiled by combining indexes for 32 cities, and this index series has been continued to the present time except that two additional cities were included in 1940.

Weights for the all-item city indexes for shipbuilding and industrial centers were based on the Bureau's 1918 survey of income and expenditures of wage-earner and low-salaried worker's families in 92 localities. The average size of families covered by this survey, in the 32 cities included in the United States index, was 4.8 persons, and the average family income was $1,485.

When the national overall index was calculated, it was carried back to 1913 in order to provide a prewar comparison. The accompanying chart, showing the Consumers' Price Index for the entire period of its existence (1913-1950) portrays the rise of prices in World War I and its immediate aftermath (1913-20). Note that the index approximately doubled over the 7-year period.

When prices fell in the depression of 1920-21, the index declined about 20% and then leveled out for the next seven years during the prosperity of the 1920s. (See Chart.)

With the advent of the depression of the 1930s, the index declined again, reaching a postwar (World War I) low point in 1932-1933. By this time it was recognized that the spending habits of consumers had been greatly changed from those in the inflationary period 1918-19, when the last expenditure survey had been made. A new survey was necessary in order to discover the more recent buying patterns and to determine a new system of weights based on them.

When funds were made available, the Bureau, in cooperation with the Work Projects Administration, conducted an extensive survey in 1934-36 of Money Disbursements of Wage-Earners and Clerical Workers, which covered about 15,000 families in 42 cities. The average family size was 3.6 and their average income was $1,524. These expenditures data were the basis for an extensive revision of the index weights and list of items included. That revision was completed in early 1940. In addition to revising the internal structure of the index at that time, the index base was shifted from 1923-25 to the present base period 1935-39.

The Index in World War II

The Bureau was very fortunate in thus obtaining a newly-revised and modernized index before World War II got under way. Yet even this did not prevent a controversy from developing. By the spring of 1943 changes in our economy, due to huge governmental expenditures and the abnormal changes in our manner of living under wartime strains and distortions, led to much questioning of the accuracy of the index. Because of this, the Secretary of Labor at the request of the Bureau asked the America Statistical Association to appoint a committee to review and appraise the index. This committee, with Professor Frederick C. Mills as Chairman, investigated all aspects of the index as a statistical measure, and reported that ". . . within the limitations established for it, the index provides a trustworthy measure of changes in prices paid by consumers for goods and services . . ." and "the index provides an acceptable approximation to recent changes in living costs." However, this committee also made some recommendations that would not only make the index more effective in wartime, but would also yield lasting benefits. Only a few of these recommendations would affect the index directly; the others were in the nature of correlated studies designed to implement the use of the Consumers' Price Index in evaluating the economic situation. Briefly these suggestions were:

(1) That the Bureau of Labor Statistics provide separate regional indexes. . . .

(2) That the Bureau of Labor Statistics expand the index coverage to include small cities. . . .

(3) That the Bureau of Labor Statistics cooperate with other interested agencies to prepare an index for nonfarm communities in the United States.

(4) That the Bureau of Labor Statistics publish indexes for communities of different size and for specialized industries.

(5) That the Bureau develop measures of geographic differences in cost of living.

(6) That frequent small-sample studies of family expenditures and income be conducted—to keep the index weights up to date.

(7) That the Bureau undertake studies of the shifting importance of items in family budgets—and correlation studies of price relationships.

(8) That the Bureau publish average prices of principal commodities.

(9) That the Bureau pay continuous attention to changes in specific goods and services. . . .

(10) That the Bureau conduct frequent surveys to determine necessity of changing its retail outlet samples.

(11) That the Bureau prepare and publish a summary of the index concepts and purposes.

But the controversy over the index continued, and in October, 1944, President Roosevelt asked the Chairman of the War Labor Board, Mr. William H. Davis, to form a committee representing labor, industry and government to look into the question. No agreement could be reached and the labor members issued a report alleging that the index greatly understated the rise in the cost of living. Finally Mr. Davis, Chairman of the President's Committee, formed a technical committee under Dr. Wesley C. Mitchell to investigate all the claims and counterclaims. All of these investigations substantiated the validity of the Consumers' Price Index as a reasonably accurate measure of price changes, but it was concluded that prices had probably risen 3 to 4 percentage points more than the Consumers' Price Index indicated. This understatement was due primarily to quality deterioration, disappearance of cheaper goods, decrease in special sales, and underreporting of prices actually charged. The final report to the President pointed out that these factors were not measurable directly and that the index properly should not attempt to measure them. After the end of the war, the Director of Economic Stabilization allowed an estimated total of five points for purposes of wage policy. The Bureau did not add these points to the index but carried a footnote to its regular monthly releases for some time explaining the five points.

Postwar Problems of the Index

From 1943 forward, the Bureau developed its program for maintenance and improvement of its cost-of-living studies, along the lines of the Mills Committee recommendations. A small national sample-survey of family spending was conducted in the spring of 1945, and individual city surveys at the rate of three a year were made in the following years through 1949. These studies were analyzed to check the prices and weights in the index, but weights were not revised on the basis of these survey results. The Bureau was awaiting an opportunity to revise the index on a comprehensive scale.

Meantime, the House Appropriations Committee (Sub-Committee on Labor and Federal Security) initiated and furnished funds for a survey to answer the question, "What does it actually cost in dollars for a workingman's family to live?" Under this mandate, the Bureau in 1946 and 1947 developed a City-Workers' Family Budget to measure the dollars required by a city workingman's family to live at a modest but adequate level, and to establish a sound measure of the differences in living costs among different cities. The data showed that in June, 1947, a four-person family would have required a minimum of $3,004 in New Orleans, Louisiana, and $3,458 in Washington, D. C., with other cities ranging between these two. The work on this budget has continued, and the Bureau now has estimated current costs and indexes based on the budget procedure.

Let us turn again to the Consumers' Price Index itself. When price controls were taken off in the summer of 1946, prices rose rapidly (see chart). This eased the pressure on the index by eliminating some of the difficulties. For example, when I became Commissioner in August, 1946, one of my first official acts (on the advice of the staff of the Bureau) was an announcement that the circumstances that occasioned the 5-point allowance would soon disappear, probably by the end of the year. Then, early in 1947, the Bureau decided that the time had come to sign off on these points, and an announcement was made to that effect. The adjustment was left to the users of the index, and the Bureau dropped the footnote.

Despite this action, the Bureau continued to be plagued by an item of understatement, which did not disappear like the others. This was the rent item in the index. In the first place, rent control was extended, so that rents could not rise to their free market level. Second, new building was not controlled, and rents on these new dwellings were set at levels far above the controlled rents on old dwellings of comparable size and quality. Third, the Bureau suffered a severe budget cut in the spring of 1947, so it was unable to draw a new sample of rental dwellings and take some steps toward the correction of the index. Frequent periodic improvements in an index are absolutely essential if it is to be kept in good shape.

At this point, it is necessary to explain briefly the 6-group indexes in the Consumers' Price Index. The accompanying chart shows the 6-group indexes separately, with the lines for World War I and World War II plotted over each other, with 1918 corresponding to 1945. Note that several of the groups behaved very differently in World War II (see the food, apparel and housefurnishing groups). Note also how much less the rent index has risen

Continued on page 35

*Summary of remarks by Mr. Clague before the Radio-Television Manufacturers' Association, N. Y. City, Jan. 17, 1951.

Securities Salesman's Corner

By JOHN DUTTON

The board rooms are filling up again. It seems that there are a few signs that speculative fever directed toward the stock market is once more reappearing. Could it be that another "seller's market" for those in the securities business is near at hand? During 1927 and 1928 such a condition existed in the investment business. Also, this was true during 1935 and 1936. Both periods left those in the securities business with grevious headaches; yet while they lasted you could sell almost anything that looked like a stock, and toward the end of both booms the average investor was prone to buy the most hazardous kind of speculations.

Quite a few advertisements are beginning to appear again which offer penny stocks. Dealers are being urged to look into low priced speculations which they might offer to their clients. If you will check the price range on many stocks that have sold under five dollars a share in the over-the-counter market for several years, you will see that they are beginning to move upward again. The talk of "war baby" is once more in the air. These things in themselves are only a natural result of the times and conditions. Quite frankly I don't see anything wrong in it, and it is my opinion that when the public wants to "gamble" in stocks there is very little that any one can do about it. I don't think the SEC or the Federal Reserve, or even the New York Stock Exchange and the various Associations of Traders, Dealers, Customer's men, etc., can hold the public back if it makes up its mind that it wants to go on a "gambling spree."

But from the standpoint of the retail dealer in securities, and the salesman who desires to continue in this business, I do think it is a time for restraint. It may be difficult at times to try and sell your customers on the idea that they should have conservative securities, and not go overboard along with the crowd when it comes to putting too much of their assets into "stocks for a profit." During these times a conscientious salesman often sees the other fellow, who is following the lines of least resistance, making more progress with less effort than he can make. Last week I was told by the manager of a certain branch office of a New York Stock Exchange firm that he turned down a small order for some common stocks because he found out that the money represented the entire cash reserve of the people who came in and wanted to "buy something," as he put it. Several days later he was told that they bought their stocks through another broker.

It seems to me that securities men who are retailing stocks today should seek a middle course. Where customers desire to try and make capital gains, if they can afford the risk, well selected values (where available) can be offered. But meanwhile there should be an attempt to keep accounts well balanced. Educational work along the lines of direct mail, and even conferences in the office with clients, can be helpful in keeping investors satisfied with sound programs along conservative lines. Some people are going to kick over the traces when they see and hear about large profits in other people's accounts, while they are still holding some good mutual funds and other stable securities. But if you advise them to invest in speculations that are in keeping with their ability to assume the risk involved, you may still be able to keep some of your customers happy, and also in a much stronger position, than if you went overboard at this time and offered them too many risky and dubious, low priced, common stocks.

Three With Robert Baird

(Special to The Financial Chronicle)

MILWAUKEE, Wis. — Orlan L. Prestegard, John F. Rennebohm and William R. Sache have become associated with Robert W. Baird & Co., 110 East Wisconsin Avenue.

With Dempsey-Tegeler Co.

(Special to The Financial Chronicle)

CHICAGO, Ill.—Francis A. Kenney is now associated with Dempsey-Tegeler & Co., 209 South La Salle Street. He was recently with Norman Mesirow.

With Link, Gorman

(Special to The Financial Chronicle)

MILWAUKEE, Wis. — Carlton Stritzel is now connected with Link, Gorman, Peck & Co., 611 North Broadway.

W. C. Gibson & Co. Adds

(Special to The Financial Chronicle)

CHICAGO, Ill.—Joseph A. Farrell has been added to the staff of W. C. Gibson & Co., 231 South La Salle Street.

Bache & Co. to Sponsor Radio Program

Tex McCrary and Jinx Falkenburg are shown conducting Henry Gellerman, (left) public relations director of Bache & Co., on a tour of station WNBC. Bache & Co. will sponsor the popular "Tex & Jinx" Sunday radio program for a 13-week period on WNBC beginning Jan. 21.

NEW YORK, N. Y.—Because "too few people understand the vital part investing plays in the life of the nation," Bache & Co., member of the New York Stock Exchange, has announced that it will sponsor a 13-week Sunday radio program to bring home to potential investors why they should "Buy a Share in America."

The firm has contracted to sponsor, for the 13-week period, the half-hour Sunday radio program "Tex & Jinx," appearing on WNBC at 12:00 o'clock, noon. The Bache series will begin next Sunday.

Alfred P. Sloan, Jr., Chairman of the Board of Directors of General Motors Corp., heads a list of prominent personages who will be interviewed on the program. He will be interviewed on the initial Bache broadcast, this Sunday.

Henry Gellerman, Public Relations Director of Bache & Co., said that the firm decided upon the educational radio program after surveys disclosed that only "slightly more than 10% of the population of the United States own securities," and that many potential investors are held back by "the mystery in investing."

The program, he said, "will show that investing, far from being a mysterious process, is a very simple procedure."

The program will underscore the fact that "only through invested capital can American industry get the money it needs to grow, to produce the things we must have to protect our way of life," Mr. Gellerman declared.

The program, he continued, is designed "primarily for the benefit of small people with small income and small sums of money to invest—not for the big people with a lot of money to invest, since they generally are acquainted with investment procedure.

Predicts 700,000 Housing Units in 1951

Robert P. Gerholz, former head of National Association of Real Estate Boards, foresees brisk home real estate market, higher prices and no new luxury housing. Attacks controls on housing credit.

Robert P. Gerholz, 1950 president of the National Association of Real Estate Boards, in addressing the Detroit Economic Club on Jan. 22, stated that new home production in 1951, including homes built under the defense housing program, is not likely to exceed 700,000 units, or about half of last year's output.

Robert P. Gerholz

"This year's accent," Mr. Gerholz said, "will be on producing the maximum number of housing units out of the available supply of materials and labor. Building of luxury housing will be out after the first quarter of the year.

"With buying power high and production cut back, there will be a brisk market for the limited number of homes that are produced and for existing houses. In home building costs we may expect a price realigment of some material items like lumber, but any overall cost movement will be upward. Indications are that mortgage money will be in ample supply, and the second quarter of the year may see some slight softening in interest rates."

Attacks Credit Controls

Criticizing credit control as a method of limiting home production in the defense emergency, Mr. Gerholz described it as a form of rationing without relation to need. "In cutting home production back to whatever may be the proper level in terms of national defense needs," he said, "it seems to me that a frank, direct type of control would be preferable to the devious method of credit control. In the first place, the credit control method is unfair to the average family with limited resources for down payments, while it does not seriously curb the family with ample cash resources.

"There was some vague talk about inflation and halting of price increases. Few people believed that controls over home-buying credit could halt inflation or higher prices. They have not, and will not, succeed in doing so in a general inflationary economy with rising costs and wages all along the line. . . .

"While such controls permit a quick freeze on production, removal or modification of credit controls does not insure a quick thaw. Sudden crackdown on home buying credit has served to reinforce the unfounded fear that the previous credit terms were leading to too much home building in time of peace. Relaxing of credit controls will not automatically remove a fear that has been so encouraged. The thaw occurs as confidence in the soundness of liberal home buying credit terms, and in the market, is rebuilt."

Pointing out that private industry has produced twice as many houses in the past four years as in the four years preceding Pearl Harbor, Mr. Gerholz said that government figures show we have in the United States more housing per 100 population than ever before. Condition of our housing supply is better than it was in 1940, he said, and home ownership is at a new peak with 55% of all American families in their own homes.

"These facts mean," he said, "that we will not face a sudden, frantic need for defense housing. Rather, as the defense production program rolls into action and picks up momentum, it will generate new defense needs for housing."

Says Mutual Funds Stimulate Investment

R. H. Johnson notes increasing interest by public in securities, and recommends good equities as inflation hedge.

The retail investment business today is undermanned because of the widespread interest being manifested in securities, R. H. Johnson, head of R. H. Johnson & Co., investment banking firm, told members of the company's sales force, on Jan. 20 at the Waldorf Astoria Hotel, New York City.

Rupert H. Johnson

Speaking on the 24th anniversary of the firm's founding, Mr. Johnson said that at the present time the company is receiving more inquiries and making more new customers than at any time in its history. He added that the firm will increase its sales force by at least 25% during the coming year.

Mr. Johnson attributed a great deal of the growth and development of the retail investment business in recent years to the increasingly important role being played by Mutual Funds.

Predicting that our present inflation will remain with us for a number of years, Mr. Johnson said that in times such as these, good equities become "one of the best and most satisfactory means of meeting the problems which result from conditions such as we are now facing, and of preserving estates built up through years of careful planning."

Business during 1951, Mr. Johnson predicted, will remain at a high volume and corporate profits and dividends will approximate those of 1950. He declared, however, that securities markets in 1951 may prove to be of great selectivity, some classes of stocks continuing their upward spiral while others, under the handicap of a wartime economy, will not do so well.

On the program with Mr. Johnson, who is also President of Franklin Custodian Funds, Inc., was W. Wendell Reuss, of McLaughlin, Reuss & Co.

With Harris, Upham

(Special to The Financial Chronicle)

CHICAGO, Ill. — Robert W. Thomas has become affiliated with Harris, Upham & Co., 135 South La Salle Street. He was formerly with Paine, Webber, Jackson & Curtis and Ames, Emerich & Co., Inc.

Outlook for Utilities

By C. A. O'NEIL*
Duff and Phelps, Chicago, Ill.

Stressing exemption of utilities from Federal excess profits taxation, Mr. O'Neil forecasts a continuation of electric and gas company expansion in current year. Estimates new electric capacity at 4,800,000 kw. and capital expenditures at $2.3 billion, of which $800 million will be provided from depreciation accruals. Sees further gas pipe line expansion, despite materials shortage.

It is my considered opinion that the most significant single development affecting public utility companies in the last year or so was the special treatment accorded them under the excess profits tax law recently enacted, and the events leading up to enactment of that law.

To establish the yardstick by which I have come to that measurement it is necessary to refer back to early 1942, when the nation and the Congress faced a situation somewhat similar to the present. Based on representations made principally by individual companies, Congress wrote into that war tax measure one minor concession to the special position of the regulated utility industry—surtax relief on preferred stock dividends. That concession was of some importance in principle, but was quite unimportant in dollars. The effect of the law that was enacted was to saddle the regulated industries with a tax burden so heavy that relief in the form of rate increases became impracticable.

Tax developments since last summer stand in sharp contrast. The gas and electric industries united in presenting a case and a program to Congress. Certainly more impressive and probably more effective was the position taken by the National Association of Railroad and Utilities Commissioners. The composition of this organization is such that in effect it speaks for every regulatory commission, state and Federal, in the entire nation. It is only a slight paraphrasing of the report adopted by that body as a whole in convention and submitted by its committee to Congress to say that, by reason of the regulation which the members themselves enforce, there were and could be no excess profits in the regulated utility industry and therefore that no excess profits tax should apply to it.

The presentation for utilities received a decidedly sympathetic hearing in both Houses of Congress. Both, in fact, appear to have set out to draft a bill which would effectively exclude practically all utilities from any appreciable excess profits tax payment.

The benefit to utility earnings in their tax treatment now as compared with nine years ago is substantial. But it does not overshadow the gain it evidences in their commission and public relations.

My thinking, in fact, goes one step further. Congress has gone far toward establishing as policy, recognition of the fact that regulation precludes excess earnings in the plblic utility industry. It is my feeling that once such a policy is established it is likely to be maintained except and until there is clear showing to the contrary. This phase commands attention in the light of the discussions of a new tax bill to be taken up before long.

Electric Utility Industry

So far as operations are concerned the electric utility industry gave a good account of itself in 1950. According to Federal Power Commission figures for class A and class B companies, kwh. sales increased each month over the corresponding month in 1949. More than that, the rate of gain accelerated as the year wore on: January and February each recorded an expansion of a little over 4% but by October (the last month for which official data are available) the corresponding figure was 21.6%.

The fact that there was a gain is only consistent with the performance for many years back. Variations of the trend during the year were attributable to specific developments. Early in the year widespread strikes curtailed sales to industry. During the summer abnormally cool weather tended to minimize refrigeration and air conditioning loads in practically all parts of the country. More recently the aftermaths of Korea have been a decidedly potent factor. Specifically in October the gains over the corresponding months in 1949 were 13.8% in the residential classification, 10.8% in commercial, and 33.1% in industrial. The residential and commercial gains are in line with the year long record, but the industrial increase compares with some 20% in midsummer. It would probably be over-optimistic to expect this class to continue indefinitely to expand at such a rate; on the other hand, our conversation with a large number of companies through the fall and early winter indicated that war production was not then an important factor in most localities.

An approximation of more recent kwh. sales may be obtained from Edison Electric Institute weekly figures which, while not fully comparable with FPC data, at least follow the same trends. The EEI figures show a consistent gain on the order of 18% over the corresponding weeks a year earlier.

Except to the minor degree in which they were influenced by changes in posted rates and by operation of fuel adjustment clauses, electric utility revenues have, of course, followed the trend of kwh. sales. The revenue increase, however, has been somewhat more moderate than the sales, for several reasons. Increased usage earns for consumers a lower step on the rate schedules; industrial rates are lower than the other major classes, so the accelerated sales to these consumers have reduced the average rate on all sales. Nonetheless, October established a new high for the year in increase in total revenue, at 13.7%. In detail, medial revenue increases were about 10% from residential customers and 8% from commercial throughout the first 10 months of 1950, with no single month varying greatly from these percentages. Industrial revenue, on the other hand, about held its own in January and February but increased consistently thereafter to a maximum of 23.3% in October.

I turn now to a discussion of expenses. In order to show the relative magnitude of the several items, the following tabulation based on Federal Power Commission figures for the 12 months ended October 1950, has been prepared.

	% Operating Revenue	% Increase Over Preceding 12 Months
Fuel	15.9	4.0
Salaries and wages	19.2	5.6
Other	16.5	2.9
Taxes, oth. than income	10.1	9.5
Total	61.7	5.2
Depreciation	9.1	11.7

With respect to fuel costs, the first point to be noted is an increase of only 4% in that item as compared with an increase of slightly over 10% in kwh. production. The divergence is compounded of several elements. Relatively unimportant were a slight increase in hydro generation and a greater use of natural gas. Most important was the increase in efficiency of fuel generation — only 1.17 pounds of coal were required for each kwh. in the latest period as compared with 1.24 pounds in the preceding 12 months. The difference between those two numbers does not appear to be great, but it is actually 5.6%. The real significance would be clearer if the condition were restated: in the latest period the industry was able to produce 5.6% more kwh. with the use of no more fuel than in the preceding period. The improvement results, of course, from installation of new generating equipment. There was one final element which contributed somewhat toward holding the increase in fuel costs to only 4%. Despite the increase in coal miners' wages which occurred early in 1950, a large number of companies stated that coal prices actually declined somewhat during the year. Before leaving the subject of fuel we wish to point out that fuel adjustment clauses covering upwards of 60% of total kwh. sales are designed to pass on to large power users variations in fuel costs; they have accomplished their purpose, although in most cases after some time lag.

The trend of wages did, and still does, continue upward. Only within the rather narrow limits of negotiation does management have control over them, and even this does not exist in certain states where arbitration boards have been created. From observations, annual increases around 5% to 6% continue to be the order. But at about 20% of operating revenues, the wage bill is not critical in the electric utility industry. At a typical operating ratio of about 60% before taxes on income, a 5% wage increase would affect net operating income before taxes only by about 2.5%. Taxes on income reduce this figure to practically negligible proportions in terms of the balance for interest and dividends.

Other expenses are made up of the large number of materials that go into the direct operating, commercial and other branches. Their very diversity tends to minimize fluctuations in the total. General taxes are related to the amount of property, to local tax rates, and to a variety of other factors; they have increased and undoubtedly will continue to do so. The increase in depreciation is about proportionate to the increase in property account, as might be expected. It will undoubtedly continue so.

The preceding tabulation shows that the industry operating ratio was 51.6% for the latest available period, exclusive of general taxes. The corresponding figure for the preceding 12 months was slightly over 53%. Thus comparison of the two full 12 months' periods would seem to indicate that the industry was about holding its own as to profit margin, exclusive of taxes on income. Closer scrutiny of recent results shows it is doing somewhat better than that. Comparing each month of 1950 with the same month in 1949 we find that net operating income before taxes increased 11.2% in August, 13.1% in September, and 17.5% in October. The recent acceleration is emphasized when it is related to the 10.9% increase for the full 12 months ended October. This is clear indication that the basic incremental profit characteristic of the electric utility industry, which has helped materially to pull it through earlier difficult periods and which has come to be one of the firm props under its favorable investment standing, is continuing to function.

I turn next to a consideration of taxes, and shall deal first with normal and surtax. For calendar 1949 Federal income taxes amounted to about 28% of net before such taxes. The spread between this figure and the 38% income tax rate then applicable stems of course from deduction of interest for income tax purposes and from the well known differences between published income statements and income tax returns. The 1950 income tax rate of 42% was 4 points or only slightly over 10% higher than the 1949 rate. Applying this 10% increase in tax rate to the 28% of net before taxes which is represented by income tax itself, we find that the 1950 rise in income tax rate is equivalent to about 2.8% of net before taxes. Just above it was pointed out that net before taxes actually had increased over 10% in the latest 12 months' period and as much as 17.5% in the latest single month. This computation satisfies us that the complete 1950 record will show that the electric utility balance of earnings available for interest and dividends has increased by a decidedly satisfactory amount over 1949, despite the higher income tax. Interim figures such as those for the 12 months ended October last are not themselves a satisfactory measure in this respect, because all utilities had not fully reflected in those statements the full impact of the 42% rate. I should point out here that the 47% rate presently applicable to 1951 returns is another increase of over 10% as compared with the 42% rate in 1950.

Working down the income account, we come next to payments on senior securities income deductions and preferred stock dividends. They are of course increasing as new money securities are sold for construction purposes. But it is well to keep in mind the credit to income deductions which most companies take for interest during construction. This credit tends to minimize the pro forma effect of the issuance of new senior securities in the period immediately following their issuance and for a continuing period running to the time the property thus financed actually goes into operation. The amount of the credit tends to be stable so long as the construction program remains fairly constant in magnitude, which condition should prevail for the next two or three years according to present plans.

I should like to be able to present a definitive relationship between the balance for common in 1949 and 1950, but am unable to do so because the necessary data are not fully available. I estimate that for the industry as a whole the increase was no less than 8% and may prove to be 9% or even a little more. It will be realized that I have in mind here total bal-

Continued on page 34

*Substance of a talk by Mr. O'Neil at the Utility Forum of the Third Midwest Forum of the National Federation of Financial Analysts Societies, Chicago, Ill., January 17, 1951.

What's Ahead for Stock Prices?

By A. MOYER KULP*

Vice-President and Executive Director, Wellington Fund

Stock market analyst discusses stock market outlook from viewpoint of prospective earnings, dividends and supply and demand relationships of common stocks. Finds situation different for various groups of stocks, and forecasts increased investment in common shares. Foresees generally higher stock values, but stresses importance of discrimination among industries and particular companies.

The outlook for the stock market will be discussed by me from the standpoint of prospective earnings, dividends and the supply and demand relationship of common stocks.

A. Moyer Kulp

The high level of business activity and commodity prices now existing leads to very high corporation earnings. The Dow, Jones 30 industrial stock average provides a convenient index to measure the level and the trend of corporation earnings. This average showed earnings of $25.41 in 1948, $24.99 in 1949 and $29.50 in 1950. The boom following war in Korea caused the annual rate of earnings to rise sharply from $25.64 in the first half to $32.00 in the last half, adjusted for the new tax law passed in December. Past experience should throw some light on how much war taxes may reduce earnings. In World War II taxes were levied which resulted in earnings moving sideways during 1942-1945. It seems reasonable to expect that taxes in prospect will again have the effect of cutting back earnings from the current $32.00 rate to the pre-Korea level. World War II experience, therefore, suggests an earnings range of about $23.00-$25.00 during the rearmament period. An estimate of $25.00 would seem reasonable for the year 1951 because some time will elapse before we are fully in the rearmament economy.

Dividend payments for this average in World War II likewise moved sideways. On this assumption, dividends on the Dow industrials during the rearmament period might be around $12.50, with $14.00 as the estimate for 1951. This compares with a dividend of $15.50 in 1950, $12.00 in 1949 and $10.42 in 1948.

Outlook for Various Groups

Bank stocks are not very exciting, but they have real merit as income investments and gradual long-term capital appreciation as earnings are plowed back and book values rise. Higher taxes and increased costs should be offset by increased loans, higher interest rates and rise in deposits. The experience in World War II, when earnings rose moderately, suggests that bank earnings and dividends should be in a stable-to-rising trend.

Insurance stocks earnings are expected to remain stable, similar to the experience of World War II. Dividends, likewise, are expected to hold at or slightly above the present level.

The net income of public utilities dropped about 10% in World War II, and that is about the worst that is likely to happen this time. However, if the industry can retain the equitable tax treatment received in the 1950 tax law, the present rate of earnings and dividends should continue with little change. Increased output should largely offset increased costs since industrial power contracts contain escalator clauses.

The railroad industry earnings outlook is more difficult to gauge. As measured by five large roads, 1951 earnings prospects are estimated around $8.25, compared with $8.92 in 1948, $6.32 in 1949 and $10.20 in 1950. The present dividend rate of $2.80 might rise to say $3.00.

The supply-demand relationship in equities points toward strength. The amount of new industrial and public utility common stock financing expected this year seems to be inadequate to satisfy the demand for new equity investments.

Increased Investment in Common Stocks

There still appears to be a trend toward increased investment in common stocks. This trend may well continue so long as dividend yields on many high-grade common stocks are about double the yield available on high-grade bonds and about 50% higher than the yield provided by high-grade preferred stocks.

Inflation trends have undoubtedly been an important factor in the rising stock market trend. The combination of 2½% to 3% bond yields and the gradual decline in the purchasing power of this reduced bond income has so drastically reduced the real income of investors that both individual and corporate investors have steadily increased their common stock holdings in order to improve income. During 1950, legal trusts in New York were authorized to invest up to 35% of resources in common stocks. We find New York savings banks are talking about the possible use of common stocks. New York life insurance companies have studied this subject and are reported to be considering the introduction of legislation which would permit the purchase of common stocks. The significance of all this lies in the trend of thinking in conservative investment quarters. It is this trend of thought which diminishes the floating supply of outstanding stocks by causing many investors to hold on to stocks even in high markets when they might otherwise become sellers, and by increasing the demand for stocks as investors add to present stock holdings.

In addition, the demand for stocks has expanded. Mutual investment funds have become larger investors. Current reports indicate their resources are now over $2.5 billion and that net sales of mutual funds' shares in 1950 were about $250,000,000. A large part of this money is invested in common stocks.

Then there is an entirely new, large and growing investor in the form of pension funds. There is no record as to the amount of common stocks bought by pension funds, but it must be large since competent observers have estimated that pension funds are currently investing at an annual rate of about $1.5 billion. Even if only a modest percentage of this flow of savings is invested in common stocks, the influence on the stock market will be pronounced because the demand will be concentrated in a relatively small number of high-grade common stocks. If recent mutual fund and pension fund trends continue, we may be on the threshold of a new phase in our financial history whereby the mass savings are becoming institutionalized in equities as well as dollars. Such a development would be a powerful influence in improving the price-earnings ratio and reducing the relatively high yield which stocks have been providing.

Since investing institutions have become a predominant influence in the stock market, dividend yields more than ever are a major factor in determining stock prices.

Predicted Rise in Stock Values

The dividend assumptions and new investment trends discussed in this analysis, together with present yield relationships between fixed-income securities and common stocks, suggest a sound investment value range about 5% to 10% higher than in 1950 when the Dow-Jones industrial range was 195-236. This premise sets up a target of 205-260. The conservative investment school generally seems to favor a range of 200-250. The floor of this latter range would provide a yield of 6% to 7% on a $12.00-$14.00 dividend assumption, while the ceiling of this range would provide a yield of 4.7% to 5.6%.

Leading bank stocks yielding about 4.4% on well-protected dividends appear definitely attractive in comparison with a yield of 3.75% afforded by high-grade preferred stocks. Leading bank stocks could easily rise 10%.

Leading insurance stocks yielding 3.3% on well-protected dividends appear attractive in relation to high-grade preferred stock yields if due consideration is given to the growth factor; their market price should hold up well.

High-grade public utility stocks currently yielding 5¾% to 6¼% appear to have outstanding merit for income investment. These yields would not be diminished much even if some of the present favorable tax position is lost. The market for utility stocks has been depressed by war and inflation fears and seems entitled to a 5%-10% rise.

The prospective yield of 6.5% indicated for five leading railroad stocks probably harbors more risk than the other groups discussed if the indeterminate long-run outlook for the industry is considered. For the near term the favorable earnings and excess profits tax position of most railroad stocks suggest a further market rise, but they are probably better suited for speculators than investors.

These are generous yields for apparently well-protected dividends in high-grade stocks. It is important to realize, though, that we are in period where discrimination among industries and particular companies will be most important because of the varying short-term and long-term outlook, as well as the market price factor. Past experience tells us that while markets must be expected to swing above and below sound investment value ranges, such projections are nevertheless helpful in setting up an investment program adapted to the needs of a particular individual or institution.

*An address by Mr. Kulp at the 4th Annual Forecasting Conference sponsored by the Research Council of the Chamber of Commerce, Philadelphia, Pa., Jan. 18, 1951.

Joins A. C. Allyn Co.

(Special to The Financial Chronicle)

BOSTON, Mass. — Richard C. Kelley has become affiliated with A. C. Allyn & Company, Inc., 30 Federal Street.

With Amott, Baker

(Special to The Financial Chronicle)

WHITE RIVER JUNCTION, Vt. —Ronald L. Cheney is with Amott, Baker & Co., Inc., of N. Y. City.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Earnings of New York City banks for the year 1950 as revealed in operating statements recently published compare favorably with the results of the previous period.

Of the 18 major banks in the New York area, 12 reported higher operating earnings for 1950 than for 1949. The other six institutions showed only minor variations from the previous year. Concerning security profits, no definite trend was in evidence. In some cases, returns from this source were substantially higher, notably First National and Empire Trust, while in others, profits were lower as in the case of J. P. Morgan. For the most part, however, profits from securities showed only minor changes.

These earning results are considered particularly satisfactory as they were achieved despite an increase in Federal income taxes.

A comparison of the earnings of the 18 major New York City banks for the past two years is presented in the following tabulation. Operating earnings and security profits as well as the total earnings for the two periods are shown on a per share basis.

All figures have, so far as possible, been computed so that they are comparable for the two years. In some instance, Bank of New York & Fifth Avenue, Corn Exchange and U. S. Trust, security profits are not reported separately but, according to managements, are earned directly to amortization accounts or reserves.

	Operating Earnings		Security Profits		Total Earnings	
	1950	1949	1950	1949	1950	1949
	$	$	$	$	$	$
Bank of Manhattan	2.41	2.10	.15	.03	2.56	2.13
Bank of N. Y. & Fifth	23.64	21.86	*	*	*	*
Bankers Trust	2.81	3.08	.09	.22	2.90	3.30
Chase National	2.50	2.36	.33	.27	2.83	2.63
Chemical Bank	2.88	2.79	.30	.36	3.18	3.15
Commercial National	3.07	3.20	.09	.12	3.16	3.32
Corn Exchange	4.83	4.96	*	*	*	*
Empire Trust	10.27	8.78	3.28	2.08	13.55	10.86
First National	64.18	75.55	15.31	3.51	79.49	79.06
Guaranty Trust	16.89	17.44	.14	.07	17.03	17.51
Hanover Bank	6.78	6.83	1.00	.99	7.78	7.82
Irving Trust	1.48	1.38	---	.05	1.48	1.43
Manufacturers Trust	4.63	4.32	.16	.14	4.79	4.46
Morgan, J. P.	16.61	13.71	.36	4.97	16.97	18.68
National City†	3.70	3.47	.27	.19	3.97	3.65
New York Trust	7.17	6.54	.03	.10	7.20	6.64
Public National	4.55	4.14	.60	.15	5.15	4.29
U. S. Trust	17.11	17.04	*	*	*	*

*Not reported separately. †Includes City Bank Farmers Trust Company.

In the above computations, the per share figures of Manufacturers Trust, Public National and U. S. Trust for the two years have been adjusted to the present capitalization. In each case a stock dividend was paid during the year. Although Hanover Bank and Empire Trust have both announced stock dividends of 14 2/7% to be paid this year, their figures are based on the shares outstanding at the end of 1950.

In general the banking operations for 1950 reflect the high level of business and industrial activity which prevailed during the period. Of primary importance and the factor which enabled banks to offset higher expenses and taxes was the sharp expansion in loan volume.

Loans to business reached record levels during the period and income from this source was more than sufficient to compensate for the lower return from a smaller holding of U. S. Government securities. An increase in income from other sources, particularly tax-exempt obligations, also aided in the overall showing.

The rise in living costs during the year as well as the larger volume of business handled resulted in an increase in wage costs. There was also an increase in other operating expenses. These totals, however, were for the most part moderate and income before taxes showed a considerable gain.

Increased corporate tax rates absorbed a large part of the improved operations, but most banks were nevertheless able to report higher earnings.

Merrill Lynch Adds

(Special to The Financial Chronicle)

OMAHA, Neb.—William R. Fox has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, Patterson Building.

Joins J. A. Warner Co.

(Special to The Financial Chronicle)

ROCKLAND, Me. — Leon R. White has been connected with J. Arthur Warner & Co., Inc., 431 Main Street.

Blyth Co. Adds

(Special to The Financial Chronicle)

PORTLAND, Ore.—Donald R. Parvin is with Blyth & Co., Inc., Pacific Building.

With Waddell & Reed

(Special to The Financial Chronicle)

OMAHA, Neb. — Arthur R. Thatcher is with Waddell & Reed, Inc., of Kansas City, Mo.

Rising Prices Indicate Reconsideration of LIFO

By DAVID M. FREUDENTHAL
Business Consultant
Formerly Vice-President and Treasurer, Bloomingdale's

Retailing authority clarifies LIFO's accounting and tax implications, showing that its basic principle has been effectively practiced for 30 years to present more meaningful statements of income to management, stockholders and the public. Concludes now is time for consideration of its universal adoption.

When first I approached some of my accounting friends many years ago on the subject of LIFO, their general attitude is best exemplified by a story told me in England this summer. It is the story of two Welshmen who were visiting London for the first time in their lives and were passing the famous Albert Memorial, that perfect horror of Victorian Architecture. One Welshman turned to the other and said, "What is it, whatever?" To which the other replied after gazing at the monstrosity for three full minutes, "Oh Goodness me, I hope not." And in the years that followed, through the long period of preparation for the famous Hutzler Brothers case, which, as you know was the guinea pig case tried before the Tax Court of the United States—and the long days of the court trial, and the weeks following, many continued to say "What is it whatever?" and "Oh Goodness me, I hope not." For certainly, originally the use of LIFO was not thought of as being an orthodox method of accounting. Indeed, the ingenious method of using index numbers to make it applicable to retailing was said by some, including the Treasury, to be impossible and that LIFO could never be applied to so heterogeneous an inventory as that of a Retail Department Store. But time and usage has changed the opinions of many. Originally, I thought this talk was to be an expose of when is the best time to go to LIFO. I was surprised to find when the program was published, this was to be in the nature of a debate and my role was to justify the use of LIFO.


David Freudenthal

A Question of Time

While it is true that to date relatively few retailers have adopted LIFO, so much has been written on the subject that I feel that for the medium and larger retailer the question no longer is, "should one," but "when should one." I am reminded of the similarity with the period when the Retail Inventory Method was being debated as an effective accounting method for retailers. It took time but with all its imperfections, eventually it was generally adopted. There remained a group who just couldn't see the advantages of the Retail Method either and if you look at the early minutes of this Controller's Congress, you will find that there were debates on that subject too.

In a recent article in the Harvard School of Business Review, Dr. J. Keith Butters, Professor of Finance at the Harvard School of Business, stated: "Management inertia and ignorance have constituted one of the major reasons that LIFO has not been more extensively employed."

Although to the retailer LIFO has become prominent and assumed importance only since prices began to rise sharply during the early years of the Second World War, LIFO is neither a new nor untried principle. Manufacturing and extractive companies, who constantly had to cope with wide fluctuations in raw material prices and at the same time maintain sizable inventories in order to remain in business, have utilized LIFO or some variation of the "normal stock" method for at least thirty years. Even when it couldn't be used for tax purposes, and it wasn't until 1939 that it was made generally available for tax use, many large concerns used it to present a more meaningful statement of income to the management, stockholders and the public.

To mention some names, National Lead adopted LIFO method of evaluating inventories in 1920, Endicott Johnson in 1936, and because of their employee profit sharing plan this was a step of tremendous importance; Caterpillar Tractor in the early 1930's. When did the retailers come into the picture? To the best of my knowledge none of them used it before they could do so for tax purposes. A number of industrial concerns, however, used FIFO for tax purposes before 1939 and LIFO for all other purposes, actually going through the expense and effort of maintaining two sets of records in order, managementwise, to have the benefits of LIFO. Nonetheless, in the retail field I remember discussions concerning its adoption and the benefits to be derived from it as far back as 1937 and 1938.

Before I get into the details of the benefits, practicality, and current pertinency of LIFO, let me take a few minutes to go into the broader aspects of LIFO for those of you who may not be too familiar with what and why it is.

The Broad Aspects

LIFO means simply last in-first out. In this it contrasts with the prevailing usual accounting method FIFO, which is first in-first out. Or to get to the basic theory: In LIFO inventory stocks are assumed to be exhausted in the inverse order of their acquisition. Why this? Simply so that the gross revenue is expressed in terms of the increased cost of merchandise. (We shall give examples shortly.)

Nor is there a clash here with actual practice as some opponents to the method would have us believe. Too often we are inclined to substitute habit for fact and proclaim our established custom the perfect method for no other reason than that we have done it that way. Actually, as many of you who have mingled with merchandising can well sustain, the newest garments, the latest shipments, are frequently the ones that sell the fastest. It is the slow moving merchandise, the goods with the older season letter that too frequently continue to make up a fair percentage of the total inventory. It is therefore just as sound to assume, where one deals with so heterogeneous an inventory as that carried by a department store, that the last goods in is the first sold, as to assume the reverse.

Why do we do this? What is the basic theory behind this endeavor of pricing your inventory as close to the actual cost as possible? Basically it is economic and accounting realism. Secondly, it may be attributed to one of the cardinal laws of accounting, namely conservatism. As retailers our interest is primarily in making a profit on our retailing operation, not on fluctuations of the value of our inventory. As storekeepers we must have a stock of goods to sell to our customers at all times and we can't afford to gamble with the value of it. We make our real profit when we sell goods, not, as happens under FIFO, when we simply buy more of the same at a higher price and mark our inventory up accordingly.

Let us be specific. A merchant has an opening inventory of 100 spring coats which cost him $19.75 apiece or a total of $1,975. He has retailed them for $32.50 apiece and has a dollar inventory of $3,250 at retail. Our merchant decides to reorder another 100 coats. Wool and labor prices have risen and the reorder cost him $21.75. As the demand looks strong, the entire stock is then remarked at the higher retail of $36.50. The merchant sold during the year 50 coats at $34.50 and 50 at $36.50. If there were an actual piece accounting at cost, his gross profit calculation would look as indicated in Table I.

We know that it is not practical to do piece accounting in a department store, so let us see what this gross profit computation would look like on the FIFO basis (Table II).

And then on the LIFO basis the result would be as shown in Table III.

Clearly what the FIFO method does is to take into profit the higher value of the remaining inventory, whereas the LIFO method does the opposite—it defers that profit until a later period. Now, when the reverse takes place, LIFO defers taking into profit the effect of the lower-priced goods remaining in inventory, so that what you have here is a method under which profits are more nearly leveled out as compared with the FIFO method where the fluctuations are much wider as between the good and the bad years. Both methods are approximate methods and the advantage of greater stability of earnings is highly desirable.

A Conservative Measure

LIFO, therefore, in periods of rising prices is a conservative measure. Its influence is to restrict profits to those actually derived from operations and eradicate those derived from price appreciation. During periods of declining prices, it works in reverse order, reducing losses by again giving a more realistic evaluation to the inventory.

While the broader, basic aspects of LIFO are of vital importance, as working retailers we have to be cognizant of the financial aspects of LIFO. Frankly, these aspects are the ones that largely attracted retailers to the value of LIFO during the period of rising prices and rising taxes beginning with the Second World War. These are the tax implications in the situation:

(1) The course of future price movements.

(2) Fluctuations in tax rates.

(3) Variations in the amount of physical inventories held at the end of the tax year.

(4) The existence in the tax law of such an averaging device as loss carry-backs and carry-overs.

The natural question then arises: This isn't a one-way street. Sooner or later there will be declines in prices. Won't these advantages all wash out? Won't we be more heavily penalized later, which will offset our savings now?

Let us examine this part of the picture. Actually, even when price fluctuations tend to balance out, total tax liabilities tend to be larger under FIFO than under LIFO to the extent that *any* of the following conditions prevail:

(1) If income is taxed at progressive rates.

(2) If selective taxes such as undistributed profits taxes or excess profits taxes are levied in addition to an income tax.

(3) If income taxes are higher in years of rising prices than in years of falling prices.

(4) If losses in bad years cannot be completely offset against profits earned in good years.

FIFO versus LIFO

The effect of conditions one and two on tax liabilities under FIFO as against LIFO is apparent. As FIFO acts to inflate your profit during good years, a progressive or a selective tax will tend to increase liability at a much more rapid rate than LIFO would tend to sustain it during deflationary periods. This becomes even more important when one realizes that such selective taxes as an excess profits tax are relatively meaningless during a deflationary period.

But these are special situations and not too frequently applicable, although obviously increasing in frequency. Of far greater and more basic importance has been

Continued on page 32

TABLE I

Opening inventory at cost (100 coats at $19.75)	$1,975
Purchases at cost (100 coats at $21.75)	2,175
Total	$4,150
Closing inventory (50 coats at $21.75 and 50 at $19.75)	2,075
Cost of goods sold	$2,075
Sales	3,450
Cost of sales	2,075
Gross profit	$1,375

TABLE II

Opening inventory at cost (100 at $19.75)	$1,975
Purchases at cost (100 at $21.75)	2,175
	$4,150
Less closing inventory (100 at $21.75)	2,175
Cost of sales	$1,975
Sales	3,450
Cost of sales	1,975
Gross profit	$1,475

TABLE III

Opening inventory at cost	$1,975
Purchases at cost	2,175
Total	$4,150
Less closing inventory (100 at $19.75)	1,975
Cost of sales	$2,175
Sales	3,450
Cost of sales	2,175
Gross profit	$1,275

Mutual Funds

By ROBERT R. RICH

Mutual Funds Set New Records

Assets More Than $2,500,000; Shareholders Total 939,000

New high records were set in 1950 in assets, number of shareholders, and sales of new shares of mutual funds, it was announced today by the National Association of Investment Companies. Total assets—now more than $2,500,000,000—and the aggregate number of shareholders have increased in every year since 1941, the Association said. Sales of new shares in 1950 exceeded those of 1949, the previous peak year.

Total net assets of 98 mutual funds on Dec. 31, 1950 were $2,531,000,000, an increase of $557,000,000 over Dec. 31, 1949. Number of shareholders increased to 939,000 from 842,000 a year earlier. Sales of new shares during 1950 amounted to $519,000,000 compared with $386,000,000 in 1949 while net sales, after redemptions, were $238,000,000 and $278,000,000 in the respective years. Dividend distributions to shareholders in 1950 exceeded $151,000,000 compared with $100,000,000 in 1949.

Institute President Forecasts Greater Public Acceptance

Paul Bartholet, President of the Mutual Fund Institute, said today that public acceptance of the mutual investment funds should be accelerated rather than retarded by the country's war mobilization program. He expressed the belief that 1950's record fund sales, estimated from figures for the first three quarters at more than $500,000,000, should be equalled or exceeded in 1951. The estimate brings industry assets to a record total of $2,500,000,000.

In a year-end appraisal of the outlook for the industry, Mr. Bartholet said that in his opinion two factors had much to do with last year's record business and should exert a greater influence on future sales. Increasing numbers of individuals realize that "security," in no matter what form promised, does not exist. Also that enforced savings plans or fixed-income investments, because of the low return offered, are no longer an adequate answer to high living costs and the dwindling purchasing power of the dollar. Many more people see a solution to their problem of providing for the future in the broad diversification and the continuous management of the investment provided by mutual fund shares, he said.

In expressing no concern over the effects of a war economy on sales prospects, the Institute's President said that people will be making more money and have less on which to spend it. This, coupled with their concern over today's uncertainties, should increase their interest in long-term investing.

He added, however, that the investment companies face a real challenge in future years in two directions. They must preserve the ideals of trusteeship on which their form of investment is based, and more vigorously educate the general public to the advantages of ownership investment. These cannot be ignored, he said, if the mutual funds are to secure wide public acceptance.

Bullock's "Perspective" Analyzes Inflation

The major problem facing the nation today is inflation—a problem not of preventing inflation since "we already have it," but of "holding it in check lest it reach disastrous proportions," according to the "Perspective" prepared by the investment management department of the firm of Calvin Bullock.

As a step toward controlling inflation, the study said, "imposition of some form of price controls, which must be coupled with controls of wages, is inevitable in the near future." However, the analysis stated, "it is probable that to a large extent price control will be ineffective unless accompanied by rationing."

Controls, nevertheless, "serve only as a temporary stop-gap in halting inflation," the study said. It observed that, "faced as we are with a heavy armament program which can endure for a long period of time, we cannot continue to shackle the economy indefinitely in the inefficient straitjacket of controls. Rather, it is necessary that the basic cause of inflation be met."

In this connection, the analysis continued, "the Federal budget is pointing up to a potential of $75 billion as contrasted with the 1950 budget of some $43 billion.

"It is clear that the $7.7 billion in tax increases that have been put into effect will fall far short of meeting the inflationary gap even allowed for increased tax receipts which will be forthcoming from a higher gross national product which will probably be in excess of $300 billion in 1951 as compared with $280 billion in 1950. A further substantial increase seems inevitable.

"It is, of course, impossible to make up all this deficit immediately with taxes. Fortunately, the peak rate of budget expenditures appears to be at least a year and a half away, and we are afforded some time to make the transition.

"If together with higher taxes, nonessential government expenditures are curtailed, production of goods increased, and it is frankly recognized that we are faced with a lower standard of living, it should be possible at least to reduce the deficit to manageable proportions."

Meanwhile the study said, "insofar as the level of industrial production is concerned, we are unquestionably facing a period of capacity output for the indefinite future," and any decline in production during the transition from a peacetime to an armament economy "should at the worst be of fairly short duration."

The "nature rather than the size of industrial output is the present more immediate concern of the investor," the Bullock firm said. For instance, recent orders restricting the use in civilian goods of such strategic raw materials as copper, aluminum and cobalt indicate we are "on the threshold of a significant decline in consumer durable goods."

On the other hand, foodstuffs and other consumer nondurable goods should be in ample supply with the exception of the textile industry where some tightness may be expected because of the shortage of wool and the small 1950 cotton crop, the study said.

Residential construction, it continued, may be expected to suffer a sizable curtailment due to credit restrictions and shortages of raw materials, it noted.

Coleman Is Host At Dealer Luncheon

S. Waldo Coleman, President of Commonwealth Investment Company, and Martin De Tamble, Mid-Western Representative, were hosts at a luncheon, held at the Las Salle Hotel, Chicago, Friday, Jan. 19.

Investment dealers, both local and from out-of-town, were present. Mr. Coleman in his talk emphasized the growth of Mutual Funds which now amounts to $2½ billion, with over one million stockholders.

Eaton & Howard Reports

Eaton & Howard Balanced Fund Annual Report to shareholders dated Dec. 31, 1950, shows assets at a new high of $62,923,792, an increase of $12,299,454 since the beginning of the year. Shares outstanding increased during the year from 1,865,204 to 2,149,102 and asset value per share increased from $27.14 to $29.28. Twenty per cent of the Fund is invested in government and Corporate Bonds, 17% in Preferred Stocks, and 62% is invested in Common Stocks; 1% is uninvested. Largest common stock holdings are in the Power and Light, Oil, Insurance, Natural Gas and Chemical industries.

Eaton & Howard Stock Fund 1950 annual report to shareholders shows assets more than doubled since the beginning of the year. Assets now total $6,826,865, compared with $3,189,671 at the beginning of the year. Shares outstanding increased during the year from 175,057 to 335,206 and asset value per share increased from $18.22 to $20.37. Eighty-five per cent of this Fund is invested in a diversified group of 72 common stocks representing 20 industries. Two per cent is invested in Corporate Bonds, 8% in U. S. Government Bonds and 5% is uninvested. Largest common stock holdings are in the oil, power and light, rayon and textile, insurance and chemical industries.

Incorporated Investors Tops $100 Million

William A. Parker, President, stated that the total net assets of Incorporated Investors reached a new high at the close of business Tuesday, topping $100 million. Incorporated Investors is one of the largest investment companies in the country. The company was started in Boston in 1925 by Mr. Parker and was one of the first organizations to bring professional investment management to the average investor.

Wm. Tudor Gardiner, former Governor of Maine, is Chairman of the Board, and Sumner H. Slichter, Lamont University Professor, Harvard University, is economic consultant.

Institutional Reports

During the 12-month period ended Dec. 31, 1950, the net asset value per share of **Stock & Bond Group Shares** increased by 26.82% or from $12.49 to $15.84, inclusive of distributions paid from security profits. Dividends paid from ordinary net income amounted to 75c per share, compared with 67c paid in 1949.

Aviation Up 55.7%

During the 12-month period ended Dec. 31, 1950, the net asset value per share of **Aviation Group Shares** increased by 55.7% or from $8.33 to $12.97, inclusive of distributions paid from security profits. Dividends paid from ordinary net income amounted to 46c per share, compared with 32c paid in 1949.

National Shares Reports

Net assets of National Shares Corporation in 1950 increased from $28.39 per share at the end of 1949 to $31.57 at the end of 1950, after disbursement of total dividends of $2.30 per share, including payment on Dec. 23, 1950, of a special dividend of $1.70 per share. At Dec. 31, 1950, net assets amounted to $11,365,074 compared with $10,221,039 on Dec. 31, 1949. There are 360,000 shares of capital stock outstanding.

Common stocks represented 78% of total assets on Dec. 31, last, while cash and U. S. and Canadian Government obligations and receivables accounted for 17.9% and preferred stocks 4.1%.

Commonwealth Assets Up

Net assets of the mutual fund, Commonwealth International Corporation Limited, increased by 48% during 1950, to a total of more than $10,000,000, according to the fund's recent report to shareholders which accompanied the 68th consecutive dividend payment.

This growth shows that Canadian investors generally are becoming increasingly aware of the advantages offered by this investment medium.

Elimination of many American securities and substantial increases in Canadian holdings featured changes in the fund's portfolio during the last quarter.

Commonwealth International holdings are now primarily Canadian securities. The recent portfolio changes are said to indicate that fund directors anticipate a greatly accelerated rate of expansion in Canadian industry due to present world conditions.

Mutual Increases Railroad Holdings

A marked increase in the proportion of net assets held by Investors Mutual, Inc., invested in railroad securities during the six months ended Nov. 30, last, is indicated in the current issue of "The Mutual Investor," sent to the fund's 93,000 shareholders Jan. 22. About 25% of the $240,000,000 held by one of the world's largest balanced funds was invested in carrier securities, predominantly bonds, at the end of the period contrasted with around 17% six months previously.

The Fund, which with the seven other companies in the "Investors Group," is managed by Investors Diversified Services, Inc., also showed significant increases in proportion of textiles, oil, natural gas, steel, and retail trade stocks. On the other hand, building stocks held were reduced.

Growth Companies Reports 89% Gain

Growth Companies, Inc., today reported an 89% increase in total net assets for the first five months of its operation. The increase boosted total resources of the open-end mutual fund to $485,142 in cash and securities on Dec. 31, 1950, from $256,500, all cash, on Aug. 1, 1950, when the Fund commenced business.

The audited report of the Fund for the period shows that at the year-end net asset value per share amounted to $10.33 for an increase of 14.7% over the initial offering price of $9 per share on Aug. 1, 1950. The net asset value per share was after payment of an initial dividend on Dec. 26 of 16 cents per share from income and of 4 cents per share from net realized securities profits.

Unrealized appreciation of investments at the year-end was listed at $49,848. The portfolio on Dec. 31, last, consisted of 39 common stocks and one preferred stock — all selected for their growth possibilities in line with the primary objective of the Fund —capital gain.

The organization of Growth Companies, Inc., last summer marked the initial association of four of the nation's outstanding industrialists and scientists with the mutual fund industry. The four are: Bayard D. Kunkle, a member of the board of directors of General Motors Corporation and recently retired Vice-President of that company; Dr. Zay Jeffries, recently retired Vice-President of General Electric Co. and past President of the American Society for Metals; Dr. Roger Adams, President of the American Association for the Advancement of Science and past President of the American Chemical Society; and Dr. Clyde E. Williams, the Director of Battelle Memorial Institute for Industrial Research and past President of the American Institute of Mining and Metallurgical Engineers. All four assisted in the organization of the new fund and serve on its board of directors of which Dr. Williams is Chairman.

Other members of the board of directors include Harry J. Haas, former President of both the American Bankers Association and the Pennsylvania Bankers Association, and John M. Templeton, President of Templeton, Dobbrow and Vance, investment

Continued on page 38

How Wage and Price Controls Feed Inflation

By MORRIS SAYRE*

President, Corn Products Refining Co.
Past President, National Association of Manufacturers

Prominent industrialist, asserting time has come for sound thinking in the national emergency, condemns bureaucratic system of price and wage controls, and contends such controls make slaves of free men, sap productive strength, and thus foster further inflation and defeat ourselves over a long period of cold war. Pleads for equitable taxation, tight budgeting, and adequate credit controls.

When the Pennsylvania Bakers gave me this invitation to appear before you I accepted forthwith, —for among you are many friends, and, of course, by no means to be treated lightly,—customers. God bless them! Also, I have been all steamed up about doing my modest bit toward preserving opportunity for our children in this beloved land of ours.

Morris Sayre

The time has come when we find ourselves in need of sound thinking in the National Emergency confronting us. Perhaps I may be useful to you by suggesting, for your consideration, a few ideas about it, in a very few minutes.

To begin with, we are all appalled at the kaleidoscopic turn of events. Once again in our lifetime we face great danger from our enemies. It has seemed sort of silly to wish one's friends a Merry Christmas and a Happy New Year. But this has happened to us before.

All of you can remember that New Year of 1943, when the Japs, having destroyed our Pacific Fleet the year before, had chased us, in bitter retreat, from the Philippines down to the Solomon Islands where our boys, in fox holes around Henderson Field, had barely a toe hold on Guadalcanal.

That was indeed a grim holiday season. And we had it again in December 1944 when the Germans broke through our lines in Belgium and the Battle of the Bulge was not turned until about this time in 1945.

But both those crises were successfully passed—passed you remember because of the courage of our splendid boys and because we were girded up, as never before, to keep them and our allies supplied with material to throw at our enemies and force their retreat.

Washington, on his knees, faced crushing discouragement at Valley Forge; Lincoln many times during the Civil War. I remind you, in this fashion, to point out that, while we now seem to be facing the darkest period in all our history, a situation that no one should underestimate, we too can have enough strength to avoid a war, or to win it if it comes, providing we show the courage, vigor and will that has won for us in the past.

This, therefore, is no time for fright about the prospect of another all-out war, the atom bomb, or wishful thinking that we can forget about it all as something unpleasant. It's time right now, high time, for sound thinking and concerted action by every citizen. For only as citizens think and decide in a democracy can we have unity of purpose and performance so vital for victory. You, who exert much influence and leadership among your employees and in your communities, have a real job here. And it is necessary that your own thinking be clear. That's part of the price of peace.

First of all, then, let's be individually clear about our **purpose** in this fight. For what are we willing to fight? Just what do we want?

It's clear enough that our very homes, our security, our American way of life, our freedom are menaced by a mighty military power. We know, too, that Russia fights an insidious and ruthless way of warfare, **inside** as well as outside our borders. Confusion here is her weapon, and you and I **must not** be confused. This is the time to draw a line, as Colonel Travis did at the Alamo, and get on one side or the other. For we fight an ideological war.

The Communist believes in the all powerful State and its discipline on the individual. We believe in the individual, powerful in his own God-given rights to do as he pleases, providing he respects the same rights in others. Let's be sure which side of this fight we are on.

The Communist meets the problem of human selfishness very bluntly. Do all the planning at the top by self-elected planners. Put enough fear into the masses to control and carry out the plan, by use of the early morning calls of the secret police and the Siberian Slave Labor Camp! God forbid that we ever have that method!

Democracy and Human Selfishness

Democracy meets the problem of human selfishness uniquely by encouraging every man to plan and create wealth for himself, in the belief that, if he respects the equal rights of others, his prosperity will inevitably contribute to the general good—that God made man basically responsible, good, and not bad. Henry Ford is an example. His enterprise gave us cheap transportation, hard roads and a great industry. He used for himself relatively little of the wealth he created. Most of it has been dedicated to public welfare.

Now we have laws, courts and jails to enforce **"that respect for the rights of others,"** but primarily we depend on our historic belief and training in individual responsibility and voluntary cooperation, taught in our homes, schools and churches, to make our system work. Otherwise our courts are overworked and democracy fails.

That's where you and I as citizens come in, and we have not been coming in. Instead, for the last 20 years we have looked to the planners, with Government control boards and even Government competition with individual business. We have made it impossible for our sons to have the success of Henry Ford. We have largely forgotten that our success has been due to **using and harnessing** human selfishness for the public good by incentive encouragement, freedom and a sense of individual responsibility.

We let the planners berate business and tax away the incentive to produce. This is a Communist game. You can read it in Marx and the "Daily Worker."

Let's be sure then, in this fight, which side we are really on—in every public question, in every word and act. Let our purpose be clear to support the side that encourages a boy to produce, that upholds human dignity and self respect, individual responsibility, individual rights, and reward for effort. This must be our ultimate purpose and use of peace.

Price and Wage Controls

Take, for example, the present debate as to price and wage controls, a question that cries out for clear, unselfish, objective thinking. There is plenty of confusion here, much to the delight of the enemy. The time has come when you and I as business leaders, and all Americans, must be honest and realistic about them.

We all fear inflation and would stop it. Economists tell us, as does common sense, that inflation is caused by more buying power than goods. To stop it we must reduce buying power or increase production, or both. It's as simple as that!

But taxation evenly spread to reduce buying power is thought to be politically inexpedient. So there will be much talk about heavy taxation, but one can expect heavy taxes on upper bracket incomes where there are less votes, and more on corporations that have no votes.

While Rome burns inflation goes on and, despite the Washington demand for production, the incentive to produce is diminished. And so there is a great hue and cry for controls. But let's analyze controls in the light of these principles of democracy for which we are going all out.

Most everyone agrees that indirect control over the money supply — credit control and tight budgeting—are a proper constitutional function of government. Despite the howl of the spenders, the Federal Reserve Board has done a good job. Tight budgeting, however, is still needed, but as yet it is politically distasteful. Instead, there is loud talk about price control — and a whisper about the wage control that must go with it, to be even temporarily effective. Everyone knows that, but it, too, is unpopular—if bitter truth—where votes count. Little talk, too, about political pressure from the farmers, the problem of retail lag and no talk about the impossibility of controlling import prices or the 100,000 people to administer controls.

You bakers would have short memories indeed if you were to think that price and wage controls had anything but a restraining effect. Certainly they restrict both production and distribution, and to that extent feed inflation. You saw O.P.A. prices steadily go up; you saw black markets and under-the-counter selling get so bad that it was about the only selling. Everywhere controls tended to reduce production, create shortages and lower morale. In our business it was impossible to buy enough corn at O.P.A. prices, and production was greatly reduced. In your business it was necessary to be not only bakers but corn traders with nylons and Ford cars! And I suppose we were only one of the suppliers you served to do a little baking!

Fear Buying

Yet sincere and experienced men argue that a price and wage freeze are now desirable. They argue that, in this mobilization for war, we have to give way to the planner, with all the shortcomings of price and wage controls, rationing and shortages. For war, unlike and contrary to peace, requires central planning and the submerging of the individual. They have started a wave of fear buying that makes price controls seem necessary.

But I submit to you *first*—that we are by no means in total war,

Continued on page 33

*An address by Mr. Sayre before the Pennsylvania Bakers Association, Pittsburgh, Pa., Jan. 22, 1951.

NSTA Notes

CINCINNATI STOCK AND BOND CLUB

Newly elected officers of the Cincinnati Stock and Bond Club are: seated left to right, Jack C. Siegman, Bohmer, Reinhart & Co., First Vice-President; Gilbert A. Davis, partner of Harrison & Co., President, and Cletus H. Ollier, Secretary and Treasurer of Edw. Brockhaus & Co., Inc., Second Vice-President. Standing: left to right, are: George F. Oswald, Clair S. Hall & Co., Secretary, and Peter E. Schwindt,Seasongood & Mayer, Treas.

BOSTON SECURITIES TRADERS ASSOCIATION

The Boston Securities Traders Association announces its 27th Annual Dinner, to be held at the Parker House, Friday, Feb. 9, 1951. Cocktails 6 to 7 p.m.; Dinner 7:15 p.m. Tickets are $12.50 (tax included). Early reservations are requested by the committee.

Members of the Dinner Committee are: Arthur C. Murphy, Chairman, A. C. Allyn and Company, Incorporated; Frank S. Breen, Schirmer, Atherton & Co.; John J. D'Arcy, F. L. Putnam & Co., Inc.; Alexander W. Moore, J. Arthur Warner & Co., Inc.; Burton F. Whitcomb, Harriman, Ripley & Co., Inc., President of Boston Securities Traders Association; Wilfred B. Perham, R. H. Johnson & Co.; Edward F. Powers, Hodgdon & Co.; T. Edmund Williams, Hooper-Kimball, Inc.; Henry E. Tabb, Townsend, Dabney & Tyson, Treasurer of the Association.

Ticket Reservations should be made with Edward F. Hines, Perrin, West & Winslow, Inc., and Room Reservations with Rodney M. Darling, Moors & Cabot.

For out-of-town reservations, contact John R. Hunt, Stroud & Co., Inc., Philadelphia; John S. French, A. C. Allyn & Co. Inc., New York or Robert B. Calvert, Tifft Bros., Hartford.

A members' luncheon for out-of-town guests will be held at the Hawthorne Room, Parker House, Feb. 9, at 12:30.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Fifteenth Annual Dinner of the Security Traders Association of New York will be held at the Waldorf-Astoria on Friday evening, April 13, 1951. Dinner tickets will be $14 per person, all taxes included, and dress informal. The Arrangements Committee has made ambitious plans for this affair and a large attendance is expec ed. Therefore the Committee suggests Dinner and Hotel reservations be made by members and their firms before general announcements are published.

Dinner reservations may be made with Thomas Greenberg, C. E. Unterberg & Co. (Tel.: BOwling Green 9-3565), and Hotel reservations with Bernard Weissman, Siegel & Co. (Tel.: DIgby 4-2370).

James Torpie, Torpie & Saltzman, and his hard driving STANY Committee report the deal practically gone on a "when issued" basis.

The Standing Committees appointed for 1951 follow:

Advertising Committee: D. Raymond Kenney, Chairman, D. Raymond Kenney & Co.; Bernard J. Conlon, P. F. Fox & Co.; Wellington Hunter, Hunter & Co.; Nathan A. Krumholz, Siegel & Co.; Charles O'Brien Murphy III, Merrill Lynch, Pierce, Fenner & Beane; Arnold J. Wechsler, Ogden, Wechsler & Co.

Arrangements Committee: Daniel Gordon Mullin, Chairman, Tucker, Anthony & Co.; James V. Torpie, Vice-Chairman, Torpie & Saltzman; John C. Blockley, Harris, Upham & Co.; Joseph C. Cabble, Abraham & Co.; David H. Callaway, Jr., First of Michigan Corp.; Thomas Greenberg, C. E. Unterberg & Co.; Joseph M. Kelly, J. Arthur Warner & Co.; Wilbur Krisam, Geyer & Co., Inc.; Salvatore J. Rappa, F. S. Moseley & Co.; Bernard Weissman, Siegel & Co.

Auditing Committee: Berger Egenes, Chairman, Merrill Lynch, Pierce, Fenner & Beane; Otto A. Berwald, Grady, Berwald & Co., Inc.; Charles H. Jann, Estabrook & Co.; Walter Murphy, Jr., Walter Murphy, Jr. & Co.

By-Laws Committee: Stanley L. Roggenburg, Chairman, Roggenburg & Co.; Michael J. Heaney, Michael J. Heaney & Co.; John J. O'Kane, Jr., John J. O'Kane, Jr. & Co.; William K. Porter, Hemphill Noyes, Graham Parsons & Co.; Benjamin H. Van Keegan, Frank C. Masterson & Co.

Employment Committee: Arnold J. Wechsler, Chairman, Ogden, Wechsler & Co.; D. Raymond Kenney, D. Raymond Kenney & Co.

Membership Committee: Charles O'Brien Murphy III, Chairman, Merrill Lynch, Pierce, Fenner & Beane; Bernard J. Conlon, P. F. Fox & Co.; Frank E. Mulligan, Joseph McManus & Co.; Harry F. Reed, Carl M. Loeb, Rhoades & Co.; Lewis H. Serlen, Josephthal & Co.; John R. Stein, Frank Ginberg & Co.; Wilbur R. Wittich, Grimm & Co.

Municipal Committee: Paris S. Russell, Jr., Chairman, Glore, Forgan & Co.; Kenneth C. Ebbitt, Shelby Cullom Davis & Co.; Paul O. Frederick, Paul Frederick & Co.; Davis Kales, Wood, Gundy & Co., Inc.; Harry J. Peiser, Ira Haupt & Co.

Nominating Committee: John M. Mayer, Chairman, Merrill Lynch, Pierce, Fenner & Beane; Louis A. Gibbs, Laird, Bissell & Meeds; Michael J. Heaney, Michael J. Heaney & Co.; Milton Van Riper, John C. Legg & Co.; Arnold J. Wechsler, Ogden, Wechsler & Co.

Publicity Committee: William D. O'Connor, Chairman, Fitzgerald & Co., Inc.; John P. Germain, J. Arthur Warner & Co., Inc.; Roald A. Morton, Blue List Publishing Co.; Herbert D. Seibert, Commercial & Financial Chronicle; Eliot H. Sharp, Investment Dealers Digest; Raymond Trigger, Investment Dealers Digest; Louis Walker, National Quotation Bureau, Inc.

Reception Committee: John M. Mayer, Chairman, Merrill Lynch, Pierce, Fenner & Beane; Richard F. Abbe, Wertheim & Co.; James F. FitzGerald. W. L. Canady & Co., Inc.; Michael J. Heaney, Michael J. Heaney & Co.; John E. Kassebaum, Van Alstyne, Noel & Co.; John J. O'Kane, Jr., John J. O'Kane, Jr. & Co.; B. Winthrop B. Pizzini, B. W. Pizzini & Co., Inc.; Stanley L. Roggenburg, Roggenburg & Co.; Walter F. Saunders, Dominion Securities Corp.; Harold B. Smith, Pershing & Co.; Willis M. Summers, Troster, Singer & Co.; Benjamin H. Van Keegan, Frank C. Masterson & Co.; Wilbur R. Wittich, Grimm & Co.

Sports Committee: Harry D. Casper, Chairman, John J. O'Kane, Jr. & Co.; Arthur J. Burian, Daniel F. Rice & Co.; James A. Donnelly, Jr., Reynolds & Co.; Sidney Jacobs, Sidney Jacobs Co.; Charles M. Kaiser, Grady, Berwald & Co.; Inc.; Herman D. Meyer, Gruntal & Co.; Theodore Plumridge, J. Arthur Warner & Co., Inc.

Tax and Legislation Committee: P. Fred Fox, Chairman, P. F. Fox & Co.; Ralph T. Dimpel, Seligman, Lubetkin & Co., Inc.; H. Walter Mewing, D'Assern & Co.; Melville S. Wien, M. S. Wien & Co.

Transportation Committee: Walter F. Saunders, Chairman, Dominion Securities Corp.; Samuel F. Colwell, W. E. Hutton & Co.; B. Winthrop Pizzini, B. W. Pizzini & Co., Inc.

Veterans Committee: Elmer E. Myers, Chairman, George B. Wallace & Co.; John E. Kassebaum, Van Alstyne, Noel & Co.; Edwin J. Markham, Wertheim & Co.; George A. Searight, Eisele & King, Libaire, Stout & Co.; Herbert L. Seijas, Blair, Rollins & Co., Inc.

Insurance and Forum Committees have not been appointed for 1951. Should warranting occasions arise, these groups will be activated promptly.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York (STANY) Bowling League standings as of Jan. 19 are as follows:

TEAM	Won	Lost
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	29	16
Burian (Capt.), Manson, King, Voccoli, G. Montanyne	28	17
Krisam (Capt.), Bradley, Montanyne, Weissman, Gannon	27	18
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	26	19
Serlen (Capt.), Gersten, Gold, Krumholz, Young	24	21
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	24	21
Donadio (Capt.), Demaye, O'Connor, Whiting, Werkmeister	22	23
H. Meyer (Capt.), Smith, Farrell, A. Krankel, La Pato	21	24
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	20	25
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	19	26
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	18	27
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	12	33

This Thursday ends the first half of the Bowling season. There is a possibility of a three way tie so all members are urged to come out and root.

COMING EVENTS
In Investment Field

Jan. 26, 1951 (Baltimore, Md.)
Baltimore Security Traders Association Annual Dinner at the Lord Baltimore 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.

Jan. 31, 1951 (Detroit, Mich.)
Bond Club of Detroit Annual Dinner at the Book Cadillac Hotel.

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. 9, 1951 (Boston, Mass.)
Boston Securities Traders Association Annual Dinner at the Parker House.

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.

April 13, 1951 (New York City)
Security Traders Association of New York Annual Dinner at the Waldorf-Astoria Hotel.

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.

Frank D. Mead Partner In Mead, Miller Co.

BALTIMORE, Md.—Mead, Miller & Co., 111 East Redwood Street, members of the New York and Philadelphia-Baltimore Stock Exchanges, announce that Frank D. Mead has been admitted to general partnership in the firm. Mr. Mead was graduated from the University of Virginia in 1928. He was associated with Mead, Irvine & Co. from 1935 to 1942, when he entered the U. S. Navy. After extended duty in the Pacific, he emerged from the service with the rank of Lieutenant-Commander and became associated with Mead, Miller & Co.

Hawkins & Co. Opens In Cleveland Feb. 1


Daniel M. Hawkins Harvey L. Hawkins

Lyman G. Smith

CLEVELAND, Ohio—On Feb. 1 Hawkins & Co. will be formed with offices in the Leader Building to act as underwriters and dealers and brokers in municipal and general market securities. Members of the firm, who have a combined experience in the investment field of 90 years, will be Daniel M. Hawkins, Harvey L. Hawkins and Lyman G. Smith. All began their investment careers with Otis & Co., remaining with that firm until December of 1950. The firm, it is understood, will acquire a membership on the Midwest Stock Exchange.

Paul Plotz Now With Hulburd, Warren Co.

(Special to The Financial Chronicle)

CHICAGO, Ill.—Paul Plotz has become associated with Hulburd, Warren & Chandler, 208 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was formerly manager of the trading department for Goven, Eddins & Co. In the past he was head of Anderson, Plotz & Co.

Lorne C. Smith With Paine, Webber Firm

(Special to The Financial Chronicle)

CHICAGO, Ill.—Lorne C. Smith has become associated with Paine, Webber, Jackson & Curtis, 209 South La Salle Street. Mr. Smith was formerly for many years with Merrill Lynch, Pierce, Fenner & Beane. Prior thereto he was manager of the investment department of the Chicago office of Shields & Co.

Saunders, King Ltd. Formed in Toronto

TORONTO, Ont., Canada—E. M. Saunders and Carman G. King have formed Saunders, King Limited with offices in the Montreal Trust Building to act as dealers in Canadian government municipal and corporation bonds. They were formerly Vice-Presidents of Fairclough & Company, Ltd., and prior thereto were in business as Saunders, King & Co.

Geo. R. Holland Assoc.

MIAMI, Fla.—George R. Holland has formed George R. Holland Associates with offices in the Pan American Bank Building to engage in the securities business.

Phelps Witter Chman. of L. A. Exchange

LOS ANGELES, Calif.—Phelps Witter, a partner of Dean Witter & Co., was elected Chairman of the Board of Governors by the membership of the Los Angeles Stock Exchange at its annual meeting held Wednesday, Jan. 17, 1951.

Phelps Witter

Three other Exchange members elected to the governing board to fill three-year terms were Frank F. Hargear (Sutro & Co.), H. Kenneth Powell (William R. Staats Co.), and Edward Calin (Crowell, Weedon & Co.).

Mr. Witter was elected Chairman under the Exchange's recently amended constitution which provides for the Chairman to be elected by the membership instead of the governing board, and creating an additional board membership. Under Exchange rules, regular board members are not eligible to succeed themselves. Witter was elected to a third year as Chairman, extending his three-year term on the board by one year.

The three new members elected were to fill vacancies left by the expiration of the terms of Phelps Witter; Warren H. Crowell, Crowell, Weedon & Co., and Stephen C. Turner, Turner-Poindexter & Co.

All three of the governors elected to the board have served previously on the Exchange's governing board. Frank F. Hargear, a partner of Sutro & Co., has been a member of the Exchange since 1929. He was on the governing board from 1931 to 1943, serving as Exchange treasurer in both 1935 and 1942. H. Kenneth Powell, odd lot dealer at post No. 2 on the Exchange, has been a member of the Exchange since 1928. He served a term on the governing board from 1945 to 1948. Edward Calin, odd lot dealer at post No. 3, joined the Exchange in 1934. He was a member of the board in 1942.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market is operating under the influence of the speech by Secretary of the Treasury Snyder, in which he stated that long-term rates would be frozen at 2½%, probably for the duration of the emergency. There was no question about the market's interpretation of this statement because prices moved ahead quite briskly after a rather timid start. The advance was list-wise with the best gains being posted by the most distant maturities. It has been a welcome change from the uncertainty that has surrounded the market since Federal was experimenting with slightly higher rates in an attempt to slow the inflationary monetary forces.

Although all of the gains were not maintained by certain issues because of selling by the Central Banks, there is a buoyant, confident tone in the market as a whole. This is expected to continue. The longest bank issue, the shortest and middle maturities of the taps were the spotlighted ones, in a volume expanding market.

Long 2½% Rate Impregnable

The outstanding development in the money markets was the surprise statement by Treasury Secretary Snyder that the long-term borrowing rate on government securities of 2½% would be kept intact. This was a strong pronouncement from the top brass in the monetary group and should leave little doubt about what is going to be the future course of long-term interest rates. The reported concurrence of the President of the United States and Chairman McCabe of the Federal Reserve Board with what Secretary of the Treasury Snyder had to say about the 2½% rate for the more distant government bonds seem to show an agreement among the important powers that be, about more distant interest rates as a factor in fighting the forces of inflation. Evidently other methods will be sought and used by the monetary authorities in the struggle against inflation, because the opinion seems to be that the raising of interest rates by ⅛'s and ¼'s does not appear to be effective in keeping in check loans and other monetary forces that add to the inflation potential.

The financing of the "garrison economy" by the Treasury will not be a reality until later in the year, but in the interim a pattern of rates will be evolving. It is the opinion of many money market followers that there will not be too much of a change in the pattern as it already exists, although this does not mean there will not be some alterations, especially in the shorter maturities. A 1½% rate for certificates and 1¾% for intermediates, with the 2½% rate for long-terms, looks like the working base. There might even be a 2% rate inserted into the pattern later on in the year, according to the opinion of some close observers of the government market. There will most likely, however, be greater flexibility within the pattern of rates that will be developing than was the case during the last war period. (This assuming there is no all-out war.) The monetary authorities are not going to make the creation of excess reserves any easier despite the statement by Treasury Secretary Snyder about the maximum cost of long-term borrowings.

Market Reaction Favorable

The response market-wise to the speech of Secretary Snyder was favorable with the whole list being buoyed, especially the middle and longer-term maturities. There was considerable professionalism in the initial uptrend, without too heavy volume, particularly in the eligible issues, because there were not many of these securities for sale. Those that were in the market for disposal were quickly pulled when the news broke. The taps moved ahead until Federal came in and cooled off the enthusiasm and this will most likely be the course that the authorities will continue to follow. There are no wild beliefs that the market will be allowed to get out of hand on the upside, because it is well known that Federal has the securities to keep it within desired limits and they will not hesitate to let out enough obligations to do just that. Nevertheless, the feeling in government circles is one of growing confidence, and this is bringing more buyers into these securities, even to the extent of building some positions (not too sizable yet) among certain dealers, which have been largely on the sidelines. It is the opinion in not a few spots in the financial district that a better year is in the offing for operators in Treasury obligations.

There will most likely be a greater demand for government issues as the year wears on, and the freeze in long-term rates should add to the confidence of buyers of these obligations. It seems as though the period of experimentation in money rates is over, because of the changed international and national conditions. This means a stable government market, fluctuating within limits of steadiness, but with enough leeway so as not to tie the hands of the regulators, or to make the whole procedure so simple as to be purely a cut and dried affair.

Pershing & Co. to Admit Partners

Pershing & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit Peter Y. Francisco to general partnership and Philip Wick, Jr., to limited partnership on Feb. 1. On the same date Archibald Douglas, Jr., member of the Exchange, and now a general partner in the firm, will become a limited partner.

Mr. Francisco is manager of the firm's order department.

Cassell Appoints New Officers

CHARLOTTESVILLE, Va. — C. F. Cassell & Co., Inc., 114 Third Street, N. E., members of the Midwest Stock Exchange, announce that Eugene H. Cassell has been elected Vice-President in Charge of the Municipal Bond Department and Joseph W. Dennin has been elected Secretary and Treasurer.

Fred B. Cooper has been transferred from the Radford office to Charlottesville.

Britain's Borrowed Gold

By PAUL EINZIG

Commenting on recent rise in British gold reserve, Dr. Einzig says it is apt to convey entirely false picture of relative positions of U. S. and Great Britain. Says large portion of British gold increase has been borrowed and he blames British Government for not divulging true situation, contending it will be used as basis for claim Britain is not doing its share in democratic defense.

LONDON, Eng.—During the last quarter of 1950 the British gold reserve showed a further increase of $544 million, rising to a total of $3,300 million. This was in striking contrast with the fall in the American gold reserve during the same period, and is apt to convey an entirely false picture of the relative position of the two countries. Changes in the amount of the gold reserves are only one of the many indices of prosperity and stability. Because they are much more in evidence and much easier to register than most other indices, and because gold is still regarded as the symbol of wealth, exaggerated importance is apt to be attached to the increase of the British gold reserve. Yet apart altogether from the fact that other indices point to the opposite direction, even if we were to regard the increase of the gold reserve in isolation it is not all that it appears to be. For a very large proportion of the British gold reserve consists of borrowed gold.

Dr. Paul Einzig

It is to be deplored that this fact has not been made sufficiently clear by the statement issued by the Treasury, or by the comments made by the Chancellor of the Exchequer. Although the usual observations were made about prospects of difficulties and about the temporary character of some of the factors responsible for the increase of the gold reserve, these reservations cannot be regarded as adequate. They have been repeated after each quarterly statement since January 1950, and the further increase of the gold reserve that followed on each occasion has materially weakened the effect of the present warnings. The result of the false impression conveyed by the apparently non-stop increase of the gold reserve is likely to be very harmful to Britain. Public opinion in the United States and other countries is liable to accuse Britain of being unwilling to contribute to the common cause of democratic defense in proportion to her increased wealth. The British workers and consumers are liable to pay scant attention to the exhortations for additional efforts and sacrifices.

All these disadvantages could be eliminated if the British Government were a little less keen on claiming credit for what it considers to be its own achievements or those of the country under its guidance, by displaying the largest possible increase of the gold stock. To that end, large amounts of borrowed gold are included in the quarterly figures, without indicating that a substantial proportion of the gold stock does not really belong to Britain. Each official statement on the gold reserve ought to point out emphatically that the amount includes $300 million obtained from the International Monetary Fund and $375 million obtained from the Canadian Government. These short-term liabilities must be regarded as representing a direct first charge on the gold reserve, and it is utterly misleading to omit any reference to them.

In its effort to conceal these liabilities, the government goes so far as to represent in the annual report on the Public Debt the $300 million owed to the International Monetary Fund as an internal debt. Technically this may be justified, for the Fund did not loan the British Government the $300 million but sold it against payment in sterling. Sooner or later the transaction will have to be reversed, however, in which case Britain will lose a corresponding amount of gold. It is true, conceivably part of the sterling held by the I. M. F. might be sold to countries short of sterling, in which case it is used up in payment for imports from the sterling area. Even under that solution the $300 million represents payment received in advance for future exports which, if and when they materialize, will not yield any foreign currencies. It is, therefore, necessary to regard that amount as an internal liability.

As far as the Canadian credit is concerned, part of it was used during the first two quarters of 1950, at a time when gold was pouring in well in excess of Marshall aid receipts. This means that the credit was used, not for meeting the dollar gap for which purpose it was granted, but for increasing further the gold reserve. If the gold reserve is increased deliberately at the cost of a corresponding addition to Britain's short-term dollar liabilities then the operation has distinctly the character of window-dressing.

It is believed that practically the whole of the increase of the gold reserve during the last quarter of 1950 consists of borrowed gold, inasmuch as it is the result of the flight to the pound in October in anticipation of a revaluation. There is no reason whatever to be pleased about this influx, and it is utterly misleading to allow the British public to be pleased about it. Even though the authorities have made vague references to the factor of hot money influx, the increase of the gold figure is apt to attract much more attention than any half-hearted efforts to explain its cause. The government would have been in a position to prevent altogether this misleading and useless increase, by using the proceeds of hot money influx for the repayment of the liabilities to the I. M. F. and the Canadian Government. Doubtless, it would have been possible to come to arrangements with both authorities that the amounts repaid should remain at Britain's disposal in case it should be necessary to use them again. To do so would have saved the government many a reproach from abroad for the apparent inadequacy of Britain's contribution to democratic defense, and also wages claims at home.

Unfortunately considerations of domestic politics prevailed. The propaganda value of being able to display a further spectacular increase of the gold reserve was too tempting to be resisted. So Britain has added further to the amount of her borrowed gold stock.

Canada's Prospects for A Free Economy

By JAMES MUIR*
President, The Royal Bank of Canada

Prominent Canadian bank executive recounts progress in 1950 toward free economy in Canada through abandonment of exchange and similar controls, and describes current threats from reimposition of new economic barriers. Pleads for free interest rates and sound Central Bank policy to avoid many direct controls incident to inflation, and advocates removal of restrictions on international capital movements. Wants Canada to be a working model of free economy in action.

Today, the object of this review of events and estimate of possibilities is to set forth the prospects for the free economy in 1951. I shall consider, first, the steps we have made towards the free economy in 1950; second, the immediate threat to the free economy from war-induced inflation and the policy indicated if we would preserve efficiency and freedom; and, third, the prospects of freedom with special reference to our own Canadian economy.

James Muir

I

Steps Towards the Free Economy in 1950

In September, and October, 1949, the first break was made in the log-jam of postwar exchange controls with the 30.5% devaluation of sterling, the mass devaluations of other soft currencies, and the 9.1% devaluation of the Canadian dollar. This step to meet the dollar shortage was taken with some reluctance; but the effect of devaluation, long obscure to many, has now become evident to all.

The sterling-area balance on current account with the dollar area changed from a deficit of $359 millions in the third quarter of 1949 to a deficit of only $31 millions in the fourth quarter; and there was continued improvement in 1950 as shown by a **surplus** of $407 millions during the first three quarters of 1950 as compared with a **deficit** of $1,321 millions for the same period of 1949.

Canada's trade balance with the United States also showed a marked improvement in the year following devaluation. In the first three quarters of 1950 she had a dollar deficit on U. S. trade of **only** $71.5 millions compared with a deficit of $432 millions for the same period of 1949.

Of course all this improvement cannot be traced to devaluation alone. Increased U. S. demand for sterling-area raw materials and foodstuffs followed the rise in American industrial activity in late 1949 and early 1950. This movement was intensified after June 1950 by the events following the outbreak of war in Korea. But, with due allowance for these accidental factors, devaluation proved to be a powerful engine for economic readjustment.

Devaluation allowed the price system to work, but only in a limited way. There was no guarantee that the new exchange rates were the right ones: they were still fixed rates maintained by exchange control. The prospect in January, 1950 was a continuation of periods of so-called stable rates with recurring, and drastic, revisions downward or upward under the pressure of speculative capital flows. It was with this problem in mind that I urged a return to a free exchange market in my annual address of January 1950, in the following words:

". . . we should let the market determine rates of exchange, as it did immediately after the first world war. This means free exchanges, except for government pegging against violent movements due to speculative capital flows. It means abandoning at least temporarily the rigid exchange parities established by the International Monetary Fund. We need not abandon the Fund Agreement: in fact, we may find it useful after the free exchange market has done its work."

By September 1950, the flow of U. S. capital to Canada had become a flood. U. S. dollars poured into our reserves, greatly weakened our defenses against inflation, and created instability and uncertainty, even in our foreign exchange position.

Under the International Monetary Fund Agreement these problems could be met only by raising the Canadian dollar to a higher value in terms of U. S. funds. But what the new rate **should** be was as deep a mystery in September 1950 as it had been in September 1949; and the penalties for making a mistake were for greater on the upward adjustment than they had been on the downward adjustment in September 1949. Too low a rate would not stem the inward flow of speculative capital; too high a rate would reverse the capital flow, weaken the trade balance, and force a humiliating return to a lower exchange rate.

Only the free market could determine the true rate.

Only the free market could bring to an end the unstable era in which rates were "stabilized" in a formal sense (at the fixed parities submitted to the International Monetary Fund), but were in fact at the mercy of speculative capital flight.

Only the free market could, as in olden time, enlist the speculator himself in the cause of economic stability.

These facts were apparently the main considerations that prompted the Canadian government to set the dollar free on Sept. 30, 1950.

During the summer and fall of 1950, the spectacular flight to the Canadian dollar was matched by a very similar flight to sterling, prompted again by improvement in the U. S. dollar trade balance and the prospect of a "sure thing" for speculators holding an undervalued currency for a rise.

There are, it is true, some special complications in Britain's case. For example, some part of the phenomenal gain in Britain's dollar reserves (from $1,425 million in September, 1949, to $2,756 million in September, 1950, to over $3 billion at the end of the year) must be earmarked for her obligations as banker to the sterling area; part must be earmarked for debts to non-sterling-area countries, and still another part must be earmarked as reserve against a potential drain of speculative capital should sterling be revalued.

Britain's sterling obligations alone, still amounting to about £3½ billion in 1950, dwarf her present dollar reserves; and hence, in Britain's case, I prefaced my last year's plea for a free exchange market with a recommendation that these sterling balances be settled in such a way as to remove this "greatest single threat to the stability of the pound."

But we must not assume that the return to a freely convertible pound, with its value determined in the free market, would have to mean an immediate rush by Britain's creditors to convert all her sterling debts into U. S. dollars. This would be the case only if there were a flight from the pound owing to the overvaluation of sterling. But overvaluation will not occur in a free market, and speculative capital in a free market will not be going all one way: only with controlled exchange rates do we find the phenomenon of a market in which there is no division of opinion and all traders become either bullish or bearish at one and the same time.

As a matter of fact, Britain now faces the same dilemma that Canada faced before the dollar was set free. And, as in Canada's case, there is no escape from Britain's dilemma so long as the pound is maintained at a fixed rate by the clumsy devices of exchange control.

II

An Anti-Inflation Policy for Efficiency and Freedom

The gradually brightening picture after the Second World War was cast in sudden shadow by the outbreak of war in Korea. The new inflationary problems, posed by that war and by the threat of war elsewhere, have caught our economy in a state of weakness and fatigue, owing to the effects of the long struggle with inflation since the end of the Second World War.

We no longer have that excess capacity in capital and manpower that made possible more guns **and** more butter in the early years of the last struggle. Full employment of men and resources is a symptom of economic strength in peacetime. It means however that any additional demands upon the economy can be met **only** by curtailing demand elsewhere. This means that the additional demand upon our economy arising out of rearmament **must** be met by cutting back our normal peacetime demand for capital and consumption goods.

This curtailment of peacetime demand is the cost of wartime rearmament. This cost cannot be postponed. It must be met at once. And the fundamental problem of war economics is to ensure that only the least essential part of peacetime demand is thus curtailed.

In this way we can reduce the dislocation of our economy caused by new armament expenditure. If we can reduce this dislocation we can increase the effectiveness of our war effort, and at the same time we can ensure that the freedom we aim to defend will in fact be preserved.

What part of peacetime demand can most economically be sacrificed to the needs of defense?

There are broadly three areas of demand in which cut-backs might conceivably be made. They are: (1) the demand by consumers, especially for durable goods; (2) the demand by business for materials needed in the expansion of plant and equipment; and (3) the demand by government for non-military goods and services.

Further inflation can be avoided if the money value of increased armament is offset by the reduced demand by consumers, business, and government for non-military goods and services.

The reduction of non-military demand can be brought about by increased saving, increased taxes, and decreased government expenditure. All three methods involve reduced non-military expenditure or, in the broadest sense of the word, increased saving to offset increased national expenditure for defense.

Increased saving in this sense may be voluntary, that is, it may result from patriotic restraint or from the hope of reward. Or increased saving may be involuntary, that is, it may be imposed on the community through decreased payments by government to the general public, increased payments (of taxes) by the general public to government, or increased physical controls by government over expenditure by the general public on goods and services.

I have listed these sources of increased saving in the order of preference which a free society would be best advised to accept. Voluntary saving through patriotic restraint is morally and economically preferable to saving induced by the hope of reward. But once the resources of patriotic restraint have been exhausted, reward is better than punishment. Saving induced by the hope of reward, through interest income or through the appreciation of capital values, may check demand in the present by postponing expenditure until a better day, when consumption goods and services are more abundant. This increase in the inducement to save is the proper function of short- and long-term interest rate policy, and must rely on certain devices of monetary credit, and public-debt policy and on reduced government expenditure.

Once the limits of voluntary saving have been reached we are forced to rely on increased taxes, and on physical controls. Physical controls may operate indirectly through credit curbs or directly through government allocation of scarce materials combined in various degrees with price control and rationing.

These physical controls are placed lowest on the scale because they are not, properly speaking, deflationary at all. From bitter experience after the last war, we know that physical controls conceal but do not directly reduce inflationary pressure. They attack the symptoms and leave the disease itself u n c h e c k e d. Their proper use is to divert demand from scarce to relatively less scarce goods and services; or, in some cases, to provide a stop-gap until fiscal and monetary policy can reduce inflationary pressure through direct action. Physical controls have their use, especially in total war, but they are no substitute for devices that **really** attack inflation.

So far government policy, intended directly or indirectly to reduce inflationary pressure, has been confined to the following: (1) the return to a free exchange market, and the removal of import restrictions; (2) the stepped-up campaign to sell Canada savings bonds; (3) the shift to a higher interest-rate structure; (4) the controls on instalment credit and on the use of steel; and (5) the increased excise taxes on non-essentials.

But, in this gathering storm, our main concern must be with **future** policy rather than with the comparatively mild devices so far adopted. In the struggle against inflation, the most effective weapons are to be found in the realm of monetary and fiscal policy, to which I now turn.

On Oct. 16th the Bank of Canada raised the bank rate from 1½ to 2%. In the absence of any present need for the chartered banks to borrow from the Central Bank, the importance of this action must be confined to its psychological effect. This psychological effect, though important in itself, was further buttressed by the Bank's announcement that it, and presumably the government as well, had changed their views regarding the low-interest-rate policy maintained throughout the war and during the post-war period.

We have already seen some hardening of short- and long-term rates. But much depends upon the vigor with which the new policy is pursued.

The problem of the right interest rate policy is a complex one; and we may expect a careful weighing of many considerations by government policy-makers. It has been argued, for example, that higher rates are ineffective defenses against inflation because any moderate increase in rates will serve neither to induce savers to save more, nor to force borrowers to borrow less.

But, in appraising the usefulness of higher interest rates in the fight against inflation, we must not ignore their very important position in the machinery of monetary and credit control by the Central Bank.

As taxes begin to decrease the money supply (that is, as they begin to achieve their purpose), a low-interest-rate policy forces more money back into the market, as holders of government securities unload on the Central Bank at the pegged price. In other words, if the Central Bank is required to maintain low interest rates by pegging the price of government bonds, the whole effort to fight inflation may be wasted.

The tendency towards higher rates may be only an encouraging symptom that monetary and fiscal operations against inflation are enjoying some measure of success. But the maintenance of low rates in the face of this tendency means that initial success may be turned into failure. Apart altogether, therefore, from the direct effect of higher rates in encouraging saving or discouraging borrowing, the effectiveness of fiscal and monetary policy may depend in no small measure on allowing interest rates to rise.

Aside from the order of Dec. 2, 1950, setting up priorities in steel, Canada is still far behind the United States in the imposition of physical controls. But physical controls, as I have said, should be used for purposes other than the direct attack upon inflation.

The most powerful weapon in the fight against inflation is generally supposed to be a stiff increase in the income tax. But the test of efficiency must be that any income tax increases shall penalize spending and reward saving.

Such a criterion would rule out drastic increases in corporate taxes, including an excess profits tax. Extremely high corporate taxes, especially excess profits taxes, tend to encourage waste in management; and, in addition, excess profits taxes are arbitrary in their impact and inflationary in their final effect.

The personal income tax is itself a blunt instrument that may hit spenders and savers alike; nevertheless it may prove to be the only weapon with sufficient power to check spending, even though in the process some saving is hit as well.

To minimize these faults, and to ensure fairness, I would suggest that any increase in income tax burdens should recognize: (1) that an effective attack upon inflationary spending can only be made by broadening the tax base through lower personal exemptions; (2) that equity demands the vigorous reduction of income tax evasion, now all too apparent outside the fixed wage and salary group; (3) that equity and efficiency alike demand the exemption from income tax, wherever possible, of the bona fide saving of the public. In its simplest form, this might include the limited exemption of insurance premiums and of net purchases of savings bonds over the year.

I am aware that to implement the third suggestion may be work for a genius in political and social

Continued on page 24

*An address delivered by Mr. Muir at the 82nd Annual Meeting of the Shareholders of the Royal Bank of Canada, Montreal, January 11, 1951.

Canadian Securities

By WILLIAM J. McKAY

The phenomenal growth of the Canadian economy in the past decade is likely to reach still greater heights in the period immediately ahead as a result of the Western World's long-term rearmament program. In view of its incomparable wealth of natural resources which are now only at an early stage of exploitation, the Dominion will be relatively unaffected by the serious raw materials problem that now confronts Europe and even the hitherto self-sufficient United States. On the contrary the growing world shortage of a mounting list of items essential to the defense effort can serve only to stimulate Canada's already booming economy.

Many ambitious projects that would normally have remained dormant for indefinite periods are now in course of energetic development. In the northern wilderness of British Columbia the Aluminum Co. of Canada has just set in motion the long contemplated $500 million scheme for the development of a 1,500,000 h.p. hydro-electric plant. This power will be utilized to process bauxite at a giant smelter to be constructed at Kitimat, which is conveniently situated at tidewater near the growing Pacific port of Prince Rupert, the western terminus of the Canadian National Railways. Canada is already in the leading ranks of the world's suppliers of aluminum, but with the completion of this vast project her exportable surplus should be almost doubled.

As a result of fears concerning the early exhaustion of the rich hematite deposits of the Minnesota iron ranges, attention has been increasingly directed to Canadian sources of iron. According to the U. S. Bureau of Mines the Quebec-Labrador fields, now in course of urgent development by U. S.-Canadian interests, the deposits in this area are even greater than those of the famed Mesabi range. Just recently also new discoveries adjacent to the Steep Rock Iron Mines in Ontario are reported to be almost equal in extent to the fabulous Labrador deposits. Several U. S. steel companies are now actively engaged in this area and also in the Michipoceten districts of Western Ontario. With respect to iron therefore it requires little imagination to foresee that Canada will not only become self-sufficient but eventually the world's foremost exporter.

As far as oil is concerned the Alberta story is already well known, but spectacular as results have hitherto proved, it must be borne in mind that it was only as recently as early 1947 that the first major field since Turner Valley was discovered at Leduc. When it is considered that potential oil lands cover the entire Canadian Western plains area from the U. S. border to the Arctic Ocean it is evident that the surface has so far just been scratched. Almost every major U. S. and Canadian oil company is now feverishly engaged in exploration and drilling operations so that there is little doubt that the Canadian oil boom is also in its early stages. With the completion of further pipe-lines now in course of projection further impetus will be given to production. As in the case of iron-ore the Dominion will eventually be in a position to supply all its own needs and will have in addition an exportable surplus of oil and natural gas.

At the same time Canada's possibly greatest economic asset, the fabulous two million square-mile area of the mineral-rich Laurentian Shield is being actively prospected. In addition to gold and base metals, recent new discoveries of uranium, titanium, chromite, molybdenum and vermiculite now assume greater importance in view of the defense effort. As in World War II renewed efforts will be made to uncover the riches of this immense unrivaled source of base and precious metals.

Canada is also now at the stage where her industries are keeping pace with her agricultural, forestry, and mining capacities. The Dominion now ranks seventh among the industrial countries of the world, and manufacturing accounts for 30% of the national income as compared with 20% for agriculture, mining and fishing. In recent years U. S., British, and European industry has recognized the advantage of the establishment of branch plants in the Dominion. Low cost factory sites, with ample scope for expansion, cheap electric power, plentiful supplies of fresh water, easy access to sources of raw materials and the vast markets of the Western Hemisphere, have contributed to make Canada a "manufacturer's paradise."

The Dominion's tremendous industrial development potential is a growing force that has recently supplemented Canada's vast economic strength derived from the unrivaled wealth of her farms, forests, and fisheries. Canada is now well on the way towards self-sufficiency in oil, coal, iron, and steel, which hitherto have constituted important import items. After that stage is reached exports will replace imports and the Dominion will then be in a similar position to that occupied by this country following World War I. With this prospect in view there appears to be every probability of the realization of the prediction recently made by responsible Canadian officials, that the Canadian will eventually be quoted at a premium against the U. S. dollar.

During the week there was a quiet demand for external bonds which continued in scant supply. There was also steady investor interest in short term Dominion internals. The corporate-arbitrage rate was virtually unchanged at 6¾%-5¾% and the Canadian dollar was again under selling pressure. This is a normal development at this season of the year when imports tend to outstrip exports: the seasonal weakness has been accentuated this year following the removal of import restrictions and the liquidation of weak bull positions. Stocks were steady to higher led by the base-metals and Western oils. Steep Rock Iron was an outstanding performer and before reacting slightly reached a new high of $10. Golds following their recent sustained advance showed a tendency to fade.

Walston, Hoffman Office in Brooklyn

Walston, Hoffman & Goodwin, members of the New York Stock Exchange and other leading exchanges throughout the country, have opened a new office at 884 Flatbush Avenue, corner of Church Avenue, in Brooklyn. With this, the firm has established its fourth office in the Greater New York area and the 35th in its national organization.

The firm's other offices in New York are located at The Waldorf-Astoria Hotel and 1370 Broadway.

The new branch, which has been opened for the convenience of Brooklyn investors, will be in charge of Eugene Rosenfield, as resident manager. Jane Stellman McCormick is manager of the brokerage department and Sidney A. Siegel is manager of the investment department. Registered representatives are Harold E. Koster and Joseph T. Murray.

The opening of the new Brooklyn office marks another step in the nationwide expansion of Walston, Hoffman & Goodwin, a firm well known since its inception on the West Coast in 1932. In late 1948 the firm entered the eastern territory with the establishment of an office in New York at 35 Wall Street. Since then, additional eastern offices have been opened in Philadelphia, Pittsburgh, Harrisburgh and Wilkes-Barre, Pa.; Hagerstown, Md.; East Orange, N. J., and Hartford, Conn. The firm's western offices are in San Francisco and Los Angeles.

Mr. Rosenfield was formerly with Francis I. duPont & Co. and has been active in Wall Street since 1928. Jane Stellman McCormick has been in charge of the ladies departments of Whitehouse & Co.; Gude, Winmill & Co., and Pearl & Co. Mr. Koster has been with Gude, Winmill & Co. since 1934 and previously with Whitehouse & Co. since 1929. Mr. Murray was a partner in the firm of H. E. Herman & Co. and has been a registered representative with Walston, Hoffman & Goodwin since 1949. Mr. Siegel formerly was co-manager of the uptown New York office of Newburger, Loeb & Co.

Travers & Bartsch Admit

Walter E. Travers, Jr., will acquire the New York Stock Exchange membership of Thomas A. Gaines and on Feb. 1 will be admitted to partnership in Travers & Bartsch, 120 Broadway, New York City.

Prospects for Great Industrial Expansion in Canada

Joseph E. McCully, Bank of Montreal Executive, expresses optimism regarding new discoveries of oil, natural gas, and iron ore in the Dominion.

Speaking recently at a dinner of the Eastern Group of the Treasury Division, Association of American Railroads, at the Hotel Statler, Joseph E. McCully, assistant agent, Bank of Montreal, New York, said that recent mineral discoveries in Canada may make the Dominion a land of even greater opportunity than the United States in the next decade.


Joseph E. McCully

Pointing out that there has been a large migration of Canadian young men and women to the United States, he said: "This great movement of Canadians to your country may stop now that Canada has 'struck it rich.' Your pastures may not look so green. Thanks to the discovery of vast new natural resources Canada is now on the way to becoming a great industrial nation.

"Our population has nearly doubled since World War I. For the last ten years our rate of growth on a percentage basis has been greater than that of the United States and it may well increase at an even faster rate."

Mr. McCully went on to enumerate some of the new things in Canada which are creating this great opportunity, such as the prospect of great expansion in aluminum production, particularly in British Columbia; the oil strikes in Alberta and iron ore discoveries in Ontario and Quebec.

Asserting that Alberta is "fabulously rich," Mr. McCully pointed out that its cities and towns are heated by cheap natural gas that may ultimately be piped to Toronto and Montreal. Natural gas lines may also be laid over the Rockies to heat Vancouver, possibly Seattle and other Pacific Coast cities. "There is enough coal under the surface soil of Alberta," he said, "to supply Canada's needs for 5,000 years — more coal reserves than those of Germany and Poland together."

In regard to new sources of iron ore supplies, he said that "140 miles north of Port Arthur we have Steep Rock Iron Mines. Here we have a town of 3,000 and no outside connection by highway—the Canadian National Railways is the only means of transportation. Eight years ago 130 billion gallons of water were pumped from Steep Rock Lake and production of iron ore has been under way for four years at the rate of 1,200 thousand tons a year. One has to see this operation to appreciate its magnitude."

Regarding the more recent discovery in Labrador in eastern Canada, Mr. McCully said it had been estimated that this discovery contains more iron — and of a higher grade—than all of that which has been dug out of Mesabi Range, thus placing Canada among the world's top-ranking iron ore producers. He added that construction of a railway from the Gulf of St. Lawrence to the ore fields 340 miles away at an anticipated cost of $100 million is under way and "large quantities of ore will start pouring out of this mine in about three years."

Wyckoff Head Dept. For Laird, Bissell

PHILADELPHIA, Pa.—The formation of a municipal bond department under the direction of George H. Wyckoff was announced by Laird, Bissell & Meeds, Lincoln Liberty Building, members of the New York Stock Exchange and other principal stock and commodity exchanges.

Mr. Wyckoff, who was formerly manager of the municipal department of J. W. Sparks & Co., is widely known in the municipal bond field. He is a member of the New Jersey Municipal Bond Club and the Municipal Bond Club of Philadelphia.

Monroe Poole Pres. Of Geo. Gibbons Co.

Monroe V. Poole has been elected President of Geo. B. Gibbons & Co. Inc., 20 Pine Street, New York City, specialists in municipal bonds. He has been associated with the organization for 30 years and Vice-President since 1934. Mr. Poole succeeds Mr. Benjamin Van Raden, who is remaining with the firm as an officer and director but is limiting his activities.

First Michigan Elects

DETROIT, Mich.—Allan Shelden, III, who is affiliated with the Shelden Land Co. of Detroit, has been elected to the board of directors of First of Michigan Corp., Buhl Building, members of the Detroit and Midwest Stock Exchanges.

Two Russian Fronts

By HUGH BAILLIE*
President, United Press Association

Prominent press official reports on views and interviews with leaders as well as on his personal observations while in Asia and Europe. Says Red China gave advance warning of intervention in Korea, but waited in hope they could annihilate U.N. forces at frontier. Holds Russian strategy is to have East Germans start war and create Korea No. 2, while Konrad D. Adenauer wants West Germans to have their own army, together with U. S. military force capable of confronting Russia. Concludes, as of today, Russia is calling the tune.

Having traveled from Korea to Europe and back to Washington, I am prepared to give you my reporter's observations of what I saw on those trips. I won't make any predictions or indulge in any editorial comment. What I am going to tell you is what was told me by other people. By the people who are running the show.

Hugh Baillie

First, let me sketch lightly over where I went and who and what I saw. In Korea, I saw General MacArthur. And I will say right at the outset that few military commanders in history ever did so much with so little as General MacArthur has accomplished in Korea. How little won't be known until it's all over.

General MacArthur risked his reputation in this Korean war at the command of the United Nations. He told me that he was very much surprised when he was called to the telecom at 4:00 o'clock in the morning and saw there a directive for him to get in and fight in Korea.

We all remember the enthusiasm and the cheers which greeted the United Nations' intervention in Korea. The enthusiasm of the United Nations evaporated under adversity. And now, some of our most powerful friends are looking for the exits. And now that MacArthur has suffered reverses, most of which are attributable to not having enough troops, the popular thing is to second-guess him.

Korea—Either Get in or Get Out!

The thing for us to do in Korea is to get in or get out. You can't fight a half-war. You can't pull your punches. Yet that is exactly what we are doing in Asia. We are pulling our punches. We are pulling our punches because the United Nations is getting shaky on the issues, and because those back here who are running the show feel that we can't risk a two-front war at this time. We now have about 3,500,000 men under arms. The last time we fought a two-front war we had 12,364,000 men under arms. And corresponding munitions, ships, and supplies of all sorts.

But as to the question of whether there is going to be a war, why, the war's on now. The question is how fast it will spread. The cost of liberty is going up and up, as we all can see. Like everything else, the price is rising. But we ain't seen nothing yet. This war is young.

Well, as I said, General MacArthur told me that he was surprised at being ordered into Korea. If there was anybody more surprised than General MacArthur, it was the Russians themselves. They did not expect the United States to show up. They had heard official pronouncements to the effect that we had written off Korea. When the Americans appeared on the field of battle, and in the air, and on the sea, I am sure the Russians felt they had been mouse-trapped. They had been hoaxed.

People have asked me why the Chinese didn't get into the war earlier, and come down into Korea and keep us from advancing so far. The answer to that is that the Chinese weren't ready to enter the war earlier. It had never been supposed by the Russians they would need the Chinese in this particular campaign. They thought the North Koreans could handle it alone. It took several months for the Chinese Army to move up into Manchuria and along the border and get ready to intervene.

By that time, under clearance from the United Nations, MacArthur had advanced so far that the Chinese obviously decided to lay back and let him come all the way up to the frontier. The Asiatic style of warfare, so I was told in Korea, is predicated on the annihilation of the enemy. The deeper we advanced the easier the Chinese thought it would be to annihilate us later. That's what they have been trying to do ever since last November.

General MacArthur achieved a military miracle in Korea by holding a line around the old Pusan perimeter. He was fabulously outnumbered at all times. When I was over there the artillery ammunition was rationed, 20 rounds to a gun per day. Then through the maneuver of the Inchon landing, and the constant air attacks which had weakened the Korean communists to such an extent that they were ready to collapse, the tide was turned and the enemy army was virtually destroyed. When I accompanied MacArthur to Seoul, at the time he turned the government over to Syngman Rhee, the President of South Korea, MacArthur thought the war was over, and said so. During the ceremony MacArthur led in the Lord's Prayer, and thanked God for the victory. I was there in the assembly hall of the Korean capitol building, and remember the broken glass that came tumbling down around our ears at intervals from the shattered dome, as MacArthur spoke and prayed. The Korean Red armies had ceased to exist as formidable antagonists, as was demonstrated by the rapidity with which we advanced into North Korea. But the Chinese were lying in wait.

Chinese Gave Advance Warning

They gave us plenty of advance warning. They issued statements, and made broadcasts, announcing that they would not tolerate the approach of the United Nations forces to their frontiers. Nobody believed them. Nobody believed the Chinese then, any more than we believe the Russians now, when they say they will not stand idly by and see us organize a Western European army, particularly with a backbone of German troops.

The Russians are making those threats at frequent intervals. They are discounted in this country. It is common knowledge that the Moscow correspondents are able to file through censorship only that news which the Russians want to get out. It is noticeable that during the last several days and weeks, our correspondent in Moscow, the United Press correspondent, has been able to file many stories, carrying the news that the Russians will not stand for the organization of the army which has been undertaken by General Eisenhower. This is coming out because the Russians want it to get out. It is the first move, or one of the first moves, in their campaign to frustrate the organization of Eisenhower's army. They may be expected to try many other things.

First, they will try to scare the Germans out of joining General Eisenhower's army. They will also start an agitation in this country against arming the Nazis. They may be expected to create an incident, like the Berlin blockade, which will take our minds off the business of building this North Atlantic Treaty army. Of course the Russians don't want war, so to speak, if they can get what they want without war. Or at least, without getting into the war themselves, personally. They prefer wars like the one in Korea. As one distinguished British statesman said to me, "The Russians are very generous with other people's lives."

Those who are on the ground and running the show in Germany believe that if the Russians get the idea that the Western European army is actually going to come into being, and emerge from the blueprint stage (and they aren't convinced yet that it will), they will do something drastic. Meanwhile they won't. They are not afraid of a blueprint army.

Russian Strategy

But I was told in Germany that if they decide to move, they will endeavor to create inside Germany, Korea No. 2. And this is the way they would go about it. The Russians have, in the Eastern Zone of Germany, an army which is called the "alert police." I have heard its figures given as high as 100,000 men. This is a fully equipped army, with tanks and airplanes, ready to roll. Now the East Germans are endeavoring to start negotiations with West German Chancellor Adenauer, looking toward a unification of Germany. It so happens that I was actually talking to Adenauer at his office located in a villa at Bonn on the Rhine last month when the original note from President Grotewohl of East Germany was handed to him. I remember that Adenauer turned to me and said, "We certainly live in interesting times."

Now, Konrad Adenauer has no intention of getting deeply involved in negotiations with the East Germans about unification of Germany. He knows very well that he personally would have no future in a unified Germany under Communist domination. But what he is very anxious to do is to make a deal with the Western powers, to furnish soldiers for the International Army, on terms and conditions by which Germany will escape its punishment for the last war. Therefore he will continue exchanging notes with the East German government, and at the same time he will continue negotiations with the High Commissioners, on the question of putting Germans into Eisenhower's army.

When the time comes that the Russians want to create this Korea No. 2, the formula is simple. The East Germans announce that Adenauer has been wasting their time. They would say that he, and he alone, was standing in the way of a unified Fatherland. If they follow the classic formula they will denounce him as a tool of Wall Street and the American cannibals, and they will call on all loyal Germans who want a unified Fatherland, and who do not want to be "sold" into Eisenhower's army, to rise and put Adenauer out. And to help it along, they will send their alert police army to take a hand in the proceedings. As soon as the German alert police army emerges from the Russian zone, it will be met by the American forces in Germany. Two divisions. And maybe by the British also. Two more divisions. The ordinary German civilians will have a terrible time making up their minds what they want to do. If they join the German insurrection they risk their necks, and if they don't they risk their necks, because the East Germans will say to them that they will take care of them later. Meanwhile the German army from the Russian zone will be fighting the American army and possibly the British and maybe some French, with the Russians standing on the sidelines just like the Chinese stood on the sidelines for a while in Asia. And there you would have your Korea No. 2, according to what I heard in Germany. Americans fighting Germans who tell the world that all they want to do is to unify their country.

Meanwhile, arrangements have been completed for evacuating the dependents of the American military personnel from Germany. All Occupation dependents have been provided with a circular advising them to have a bag with essential clothing and a small kit of concentrated food, a mess kit and so forth on hand. They have also been instructed on assembly points in the outlying areas in each city where those with cars are to gather and await the arrival of those on foot. Group convoy leaders have been appointed who are supposed to keep order and direct the movement of the refugees. The signal is to be one long blast and five short blasts on the siren, which will be repeated at frequent intervals.

The Frankfurt collection points are estimated to be seven minutes jet plane flight from the nearest Soviet airfield, so the average dependent is inclined to look upon the evacuation arrangements as mainly academic and view the situation fatalistically. And in the meantime more dependents continue to arrive.

Of course, any evacuation of Americans from Berlin would be out of the question. Berlin is entirely surrounded by the Russians. It's about 100 miles behind the Iron Curtain. I was told in Berlin that the two airfields, Templehof and Gatow, are right next door to Russian airfields and would be grabbed immediately. Our Berlin garrison is small but it has been commanded by one of the best generals in the Army, General Maxwell D. Taylor, whom you may remember as the Superintendent of West Point. General Taylor has just been transferred from Berlin to Washington for another important assignment. Many of the Russians have the highest respect for General Taylor's capabilities.

General Handy is the 4-star general who has command of the American troops throughout Germany. His headquarters are at Heidelberg, and I visited him there. General Handy's forces are ready to fight the East Germans if they invade the American zone. I would figure the impression is that the battle, if it came to that, would be about a stand-off on the ground. But we would have the air all to ourselves, that is, unless the Russians desire to commit their own air force which would be unlikely, at least in the early stages.

If the Russians need to be reminded of what American air power can do, all they need to do is take an occasional look at the ruins of Berlin. They appropriated the best part of the city for themselves, including Unter den Linden, with its embassies, hotels, palaces and cathedrals. And that's the worst-ruined part of all Berlin.

Konrad Adenauer

Now you are going to be hearing more and more about this chap Konrad Adenauer, the Chancellor of West Germany, from now on. He is 75 years old, lean, jaunty and seemingly tireless. He can take on the High Commissioners of the United States, Great Britain and France and negotiate with them for hours at a stretch. After keeping them in session for eight hours or so, they will emerge from the meeting looking all beaten up. Adenauer will come out looking fresh as a daisy. He thrives on negotiating and bargaining. If he were in this country, he would probably be a labor negotiator.

Adenauer is striving to drive a tough bargain with the victorious Allies. The individual German is quite reluctant to get into uniform again, and join anybody's army. He doesn't want to be on the losing side in another war, having already been licked twice. He is very much afraid of the Russians who are literally just across the street from him—just down the road a piece. He doesn't want to join Eisenhower's army and be caught drilling with a broomstick when the Russians show up with tanks. But Adenauer has a way, or thinks he has a way, to persuade these men that they ought to join the International Army, in the interests of Germany. In return for their services in this army, Germany will be emancipated. That's his plan. He wants the Occupation Statute converted into a treaty and he wants the High Commissioners to become Ambassadors. He has no intention of paying Hitler's debts. Nor has he any intention of continuing to pay the costs of the Occupation. He wants the German scientists to be let loose to conduct their research for the benefit of Germany, instead of for its conquerors. He wants Germany to have the right to build its own merchant marine and air fleet. (No doubt with American money, like everybody else.) And instead of furnishing combat teams to Eisenhower's army, to be commanded by Frenchmen, Americans or British, Adenauer wants the Germans to have their own army with their own general staff. All this would have seemed fantastic only a few short months ago. It isn't fantastic any more. If the present trend continues, and the Russians don't succeed in frustrating the plan, in about two years you will see Germany back in business.

And since we are about to negotiate a peace treaty with Japan, to be followed by the organization of a Japanese army to lend a hand in the Far East, the chances are that two of our principal allies in the future will be the two countries that we brought to total defeat in the last war, Germany and Japan. That is, if Russia sits still and lets all this happen.

The Japanese, by the way, or at least some of those with whom I came in contact out there, had a lot of patronizing attitude toward our troubles in Korea. They smile and say sympathetically, "Why, what has happened in Korea?" They have an attitude of "so sorry for you." Well, you can hardly blame them. And at the same time they will say, why not let us take care of the Koreans and the Chinese. And at the same time we'll also handle the Malayans and the Indo-Chinese for you.

What Japanese Will Do

When it comes to actually organizing an army, however, the Japanese are going to hang back and make terms just like the

*An address by Mr. Baillie before the Annual Conference of the Newspaper Advertising Executives Association, Inc., Chicago, Ill., Jan. 22, 1951.

Germans. The Prime Minister of Japan, Mr. Yoshida, who is a twinkling little man who speaks perfect English, says that we should not forget it is not constitutionally possible for Japan to raise an army. Of course it isn't, at the present time. But the Japanese are being handed a tremendous break by our present difficulties with the Russians. Their constitution can be changed, if we need their troops badly enough.

Adenauer makes no secret of his appreciation of the fact that he has been handed a tremendous break by the Russians. He intends to take full advantage of it. In his conversation with me, he laid stress on the fact that there is still an element in Germany which believes the smart thing to do would be to hook up with the Russians. This crowd believes that the Russians and Germans working together could lick the British and the Americans. They feel they wouldn't make the mistake again of getting into a war with each other. And the Germans still cling to the belief that if they entered into a partnership with Russia, they are so much smarter that they would soon be running the Russians.

Adenauer is sure that if we keep fighting in Korea, we will be playing the Russians' game. He told me the Russians desire to have us bled white in Korea, so they could occupy Europe without a fight. As he put it when I interviewed him for the United Press, the Russians would win the game without losing a man.

Adenauer told me there would be lasting peace only when the United States was able to confront Russia with a military force which the Soviets would consider dangerous. He said that to build such a force the United States needs Germany. And that America will get the wholehearted cooperation of Germans only when they no longer feel they are a second-class power under Occupation. That's the basis of his argument.

He then went on to say that the Russians have in the Eastern zone of Germany 30 divisions on a full war footing, consisting of motorized units, armored divisions, jet planes and bombers. They are fully equipped and able to strike on 24 hours' notice. In Western Germany, Adenauer said, there were two American and two British divisions. Then he looks at you and says, Well, what are you going to do about it?

Adenauer in his desire to have us discontinue the war in Asia, is in entire agreement with the other European statesmen with whom I talked last month. What they want of course is for us to liquidate the war in Korea and bring our army over to Europe. The French would like to have our Korean army over in Europe, and our Korean supplies over in Indo-China, where they have a war of their own. And I was told quite frankly in France that the issue in Indo-China depends on whether the Americans make good on their commitments to furnish material of war. Uncle Sam bears many responsibilities in this day and age.

Will The Russians Move?

You have heard the question asked, if the Russians actually are going to move, why don't they do it now? They'll never find Europe any flatter, or less able to resist, than right now this January. Well it could be of course they are waiting for the snow to thaw and the ground to harden so as to carry their armor.

Churchill believes it's the atom bomb. This, in his opinion, is the great deterrent to the Russians. They know we have more atom bombs than they have, and a better delivery system.

Other British authorities told me the Russians first would have to grab the Persian oil fields before they could enter into a full-scale war. The first move in such a war, therefore, would be Russian occupation of the rich Azerbaijan oil fields in Persia. However it must be remembered that Russia is less dependent on oil than the West. Their armies don't use so much armor as we do. They take the form of another Asiatic horde, like the Chinese. One of the amazing features of the Korean war has been how the Chinese managed to do it, without air power and without extensive transport. The fact that they use human beings instead of trucks, very largely, gives them a big advantage. You can shoot up the roads and destroy the convoys, but it's harder to interrupt the supplies when they're all brought down on the heads or backs of people. As a matter of fact, in Korea we have a highly modernized European-style army fighting in a primitive country. The enemy knows how to use his legs. He hasn't been riding in automobiles since infancy. He can walk up a mountain like a fly going up the side of a house, and can keep on doing it day and night. He doesn't need a big plant behind his lines. And when he's wounded nobody worries about carrying him back, they just throw him into the ditch. There are always more where he came from.

The American soldier is a precision instrument, trained, a technician, with background and education. He is not expendable. Put him against a Chinese coolie of whom there are unlimited quantities, and give each of them an automatic weapon, and it's a standoff. Much the same situation would prevail in a war with Russia.

Attlee's Attitude

Prime Minister Attlee of Great Britain is very anxious to have us out of Korea. He regards any war in Asia as a bottomless pit for the white race. And this attitude is heartily echoed by Bevin, the Foreign Secretary.

In France, I found the same thing. Premier Pleven believes that we can be bled to death in Asia. Foreign Minister Schuman thinks the same thing. But Schuman doesn't believe that Stalin is going to strike a military blow in the immediate future. He feels that Stalin has become old and prudent, and that he would be too wise to risk everything in an open war when he can continue to attain his objectives by subversion. In this respect Schuman agrees with Attlee who also foresees an intensification of Russia's underground methods in seeking its objectives, without war. And two of Russia's prime objectives, of course, are Italy and France where the communists are a large and powerful political party.

General DeGaulle struck me as one of the most astute individuals I met in Europe. He is out of office now, but he has a political party of his own which is expected to show considerable strength at the next election. DeGaulle is not pro-American or pro anything else except pro-French and pro his particular kind of French, you might say. He believes that the Americans will fight in Europe for their own self interest.

In going around Europe and talking to the people, not only the statesmen or politicians, call them what you will, but the publishers and the leaders in various communities, you run across a frequently expressed fear that the great rivalry in the world now is between the United States and Russia and that if both the United States and Russia would pull in their horns there wouldn't be any trouble. But that if the present trend continues, there is bound to be a major war with Europe as the battlefield. That's why they're all so eager to call off the war in Korea. But they are willing to argue if you call it appeasement. They say it's common sense. And since they all went through the wringer in the last war, and would be very close to the front in this one, it is not difficult to see how they get that way.

Also there is, particularly in Britain, an inclination to blame the United States for getting into a war which it can't handle, and therefore calling on the rest of the free world for assistance. When this was said to me I couldn't help replying, "Look who's talking."

General Eisenhower has probably been handed the toughest assignment of all at this particular time. But I think he expects to succeed, or he wouldn't have undertaken it. To Europeans, of course, the appointment of General Eisenhower meant just one thing. That is, the Yanks are coming. They don't think Washington would ever let Ike down. If he comes back and says we can discourage the Russians, and encourage Europe in really rearming and joining up, but that he needs a certain number of American divisions as a starter, he'll get them. That's what they believe.

The Position Today

The position today is that we have called Russia like Britain called Germany in 1939. You may recall the British told the Germans there would be war if they entered Poland. I remember being in London at that time and I asked the British what they could do to defend Poland from the Germans. The reply was they could do nothing; however Poland would be the chip that Germany would knock off Britain's shoulder and start the war.

Like the British, we have drawn a line. We drew a line against the Russians in Korea. We have drawn a line against the Russians in Europe. I have been on both fronts. On the Korean front where we are at grips with the communists, and on the European front where we are preparing to come to grips with them if they advance.

The war has already started. The question is whether it will spread, and how fast. Russia is still calling the tune.

Never was there such a time when there was so much dissension in high places, so many contrary opinions of what ought to be done, or how to go about doing it.

I have been on a long trip and seen a lot of people—people who presumably know the answers—people who are in command—people who bear the responsibility. Yet I think I can say, without joking, that this is a case where the more you see and hear, the less you know.

The less you know for sure, anyway.

Twice before in our generation the lights of freedom have burned low all over the world. Twice before they have been rekindled by the United States. The question before us now is, whether we will have to rekindle them this third time?

Goodbody Opens Two Branches in Florida

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, Fla.—Goodbody & Co., members of the New York Stock Exchange, have opened a branch office in the Quimby Building, St. Petersburg, and also in the Van Skike Building in Sarasota. M. Blair Corkran will be associated with the St. Petersburg office, and Oscar L. deLano with the Sarasota office. Both were formerly with A. M. Kidder & Co. and Cohu & Torrey.

An Unprecedented Steel Expansion Program

By TOM C. CAMPBELL*

Editor, "The Iron Age"

Editor of leading iron and steel trade journal, in pointing out completed and proposed expansion of steel producing capacity, forecasts in coming years both defense and domestic increases in use of steel products. Sees allocation and priority system unworkable until overall military program is known.

When the present steel expansion program is completed the grand total of steel ingot capacity additions since January, 1950 may amount to as much as 16 or 17 million tons on an annual basis. Current programs and those under discussion are expected to be completed by the middle of 1953. This will represent one of the fastest expansion phases in recent steel history.

Tom Campbell

Shortly after expansion has been completed iron ore will be moving up from Venezuela and down from Canada to the East Coast, to the Birmingham area and to the Pittsburgh-Youngstown-Cleveland area.

High grade open pit ore from Quebec-Labrador may be moving to Seven Islands, Quebec, by summer 1954 or before. About the same time ore will be moving up from Venezuela. Construction of the 360 mile railroad from Seven Islands, Quebec, to Knob Lake has already started, despite subzero temperatures. Construction of the 94 mile railroad in Venezuela to run from Cerro Bolivar to the Orinoco River may get under way by April this year. Engineering plans and equipment programs are well along towards completion.

The current expansion program in steel is going faster than even those in government and industry ever expected it would. Only 9 or 10 months ago it was believed that the expansion program would be no more than 6 million tons. Later this was revised to about 10 million tons but this last figure is now as dead as a dodo bird.

The sharp increase in population from 1940 to 1950 will be more than adequately cared for by steel expansion plans and construction. There is already evidence, because of the international situation and the defense program, that population growth between 1950 and 1960 will again outstrip the sober estimates of the experts. The Korean War affected the marriage mart in somewhat the same way as World War II did in the early 40's all of which adds up to more people.

Direct and indirect defense orders for steel will skyrocket in number and tonnage by April or May of this year. Soon after that time as much as 50% of steel production will be earmarked for direct defense orders, indirect defense orders and essential civilian needs being taken care of by governmental allocation. This is assuming no war breaks out between Russia and the United States.

Demand for flat rolled material such as sheets, strip, roofing, plates, tinplate and raw material for pipe, all of which will be used for direct and indirect defense needs, will be the tightest phase. By the middle of this year possibly as much as 60 to 65% of flat rolled material will be going for direct and indirect purposes—indirect defense needs assumed to include such things as railroad cars, locomotives, farm implements, strategic oil and gas lines, ships, barges and steel for steel expansion.

In recent weeks the two-headed priority-allocation program has not been working too well in steel. Voluntary allocation of steel for government sponsored projects such as railroad cars, ships and barges, etc. has been working out well because known requirements are being matched against known production. Military orders—direct and indirect—which are handled differently by being assigned "DO" priorities are cluttering up mill order schedules daily. Most of these orders are increasing in tonnage and number but are on a hit or miss basis.

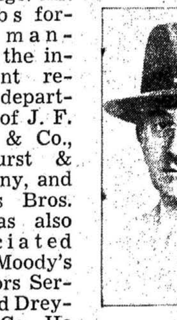
The Pentagon has not yet made known its overall program to industry. Until it does so the "DO" priority system will be pretty much of a steel scheduler's nightmare. The controlled materials plan cannot be put into effect for all steel needs until the military makes up its mind what it wants, when it wants it and why.

The most interesting part of the steel expansion program will affect the Eastern part of the United States; it poses problems of raw materials, manpower and distribution.

*Brief of a talk by Mr. Campbell before the Association of Customers Brokers, New York City, Jan. 16, 1951.

Justin Jacobs Now With Lober Brothers

Justin Jacobs has become associated with Lober Brothers & Co., 30 Broad Street, New York City, members of the New York Stock Exchange. Mr. Jacobs formerly managed the investment research departments of J. F. Reilly & Co., Luckhurst & Company, and Strauss Bros. He was also associated with Moody's Investors Service and Dreyfus & Co. He was also editor of "Highlights of Wall Street" and "The Wall Street Searchlight," both of which were syndicated over the names of various investment dealers from coast to coast.



Justin Jacobs

Wyllie and Thornhill Open Own Inv. Firm

CHARLOTTESVILLE, Va.—Thomas H. Wyllie and G. Ernest Thornhill have formed Wyllie and Thornhill with offices in the National Bank Building to engage in a general security business including corporate stocks and bonds and municipals. Both were formerly officers of C. F. Cassell & Company, Inc.

Bendix, Luitweiler Partner

Bendix, Luitweiler & Co., 52 Wall Street, New York City, members of the New York Stock Exchange, will admit Louis E. Geszty to partnership on Feb. 1.

Furnishing Goods Leaders Expect Active First Quarter; Uncertain Over Longer-Term

Anticipate production in early months to exceed 1950, with remainder of year depending on supply of materials and clarification of Defense requirements.

CHICAGO—A summary of current thinking on production, availability of materials, and prices as outlined in a series of press conferences conducted in conjunction with the International Home Furnishings Market, January 8 through 19 in The Merchandise Mart. These conferences and panel discussions were participated in by members of furniture and bedding, housewares, appliances, radio and television, floor covering industries as well as executives of retail stores.

RICHARD A. GRAVER
Vice-President in Charge of Sales, Admiral Corporation
Chicago, Illinois

The basic materials in radio—aluminum, copper, nickel and cobalt—are all in short supply. However, our company had an excellent last quarter and we expect to equal it in January, February and March. We expect first quarter production in 1951 to exceed that of the first quarter, 1950, but beyond that time period it is anybody's guess.


R. A. Graver

We have recently introduced a new line of radio and television sets and have endeavored in every way to keep prices down. The three models that we carried over into this year from last year were carried at the 1950 level with the idea of holding prices down.

I have been asked if, in the event materials become even more difficult to obtain, there will be a cutback in the production and manufacture of radio sets to maintain production of television. I believe so, particularly of the higher-priced units. However, during a war, dissemination of news is very important. One of the lines we introduced recently was a small radio and we hope to be able to keep a portion at least of the small radios on the market because we feel that they are essential in times of stress. However, if materials are cut back we will try to use the wood cabinets that come in, to prevent ending up with an unbalanced inventory.

* * *

T. J. NEWCOMB
Sales Manager, Electric Appliance Division, Westinghouse Corp., Mansfield, Ohio

I would estimate that production in the appliance industry will be cut back 15% below the last quarter of 1950, but it will be decidedly higher than the first quarter of that year. Since the beginning of the Korean crisis we have been on allocations and take no orders in advance of these allocations. We tell our distributors how to place orders month by month and have no such thing as a "back order." We allocate about 30 days ahead.


T. J. Newcomb

I have been asked if Westinghouse is contemplating any change in their models or excluding any. That will depend on criticalness of materials. If it necessitates cutting back further, I believe a patriotic approach would be to exclude some models from a firm's lines and make the most of what is available for the common good of the public. Obviously, one could exclude some models of refrigerators, ranges, and concentrate on other models and make more of them perhaps. In the last war, we concentrated on a few models in order to give more of the basic refrigerators and cooking appliances to the public.

None of us know what we can do beyond the first quarter and I hope that soon they will get industry boards set up at the various manufacturers' levels where we can work a little closer with them and know farther in advance just what can be used in the way of critical materials. When this happens, I know that industry can harness itself to produce defense items that are needed as well as maintain a sound civilian economy.

* * *

E. V. DUFFY
President, National Association of Bedding Manufacturers,
General Manager, E. B. Malone Co., Miami, Florida

It is doubtful that the bedding industry is going to surprise anybody with anything new at present. We are more concerned with how long we can continue to manufacture what we are making now and stay in the business of manufacturing bedding.


E. V. Duffy

One of our biggest troubles is the shortage in cotton. The cotton crop this year is perhaps as low as we remember and there won't be any lint until mid-August when they start cutting in Texas.

A highly important factor in our industry is that most of the raw products we use are easily converted to munitions. The same linters we use are used to make smokeless powder and we have no estimate as yet as to how much the government is going to require. Another drain on the available supply of our products is the amount of bedding required by the armed forces and relocation of war workers.

Cotton linters being used in mattresses have risen more than 200% since June and as much as 300% on some grades. I don't believe that retail prices have started to reflect the additional cost in raw materials. A carload of linters that cost $4,000 in May or June, costs $13,000 today.

There has been a short supply of foam rubber in the bedding industry, but the productive capacity of the rubber plants in turning out the product is constantly expanding.

HENRY J. STENTIFORD
Vice-President, Alden's Incorporated, Chicago, Ill.

The International Home Furnishings Market staged in January, 1951, is in my opinion a very sensible one, both from the standpoint of the manufacturer and the dealer. In talking with many manufacturers since my arrival, I have found little scare-buying. Dealers, at the present time, particularly the larger ones, have very substantial inventories and very substantial commitments. There is no panic on the part of the manufacturer. Buying has proceeded on a very normal basis and there is a reasonable amount of new merchandise.


Henry J. Stentiford

One of the major problems in manufacturing today, whether it is in home furnishings or any other line of merchandise, is of a component part nature in which the manufacturer is dependent on other manufacturers for materials. I am referring to those manufacturers who must depend on raw materials such as cotton, leather, steel, etc. Where there apparently is no evidence at the present time of controlling these prices, we should encourage controls fairly adjusted to each line of merchandise.

This matter of prices and controls, I think, is of vital concern to everyone. Ours is a mail order business and a retail business and we find ourselves very perplexed as to what might happen if soon we are subject to some form of controls.

There are many question marks as to the optimism in 1951. If we are to believe some of the stories we hear about taxes—30% greater than last year—the expendable income of the consumer will necessarily be reduced. Buying, which has been heavy during the first two weeks in January, does not mean a lot in my opinion. Much of it is in there with price increases over last year which is causing an inflation in dollar sales at the present time.

We must remember that we have had the greatest boom in home building that we have ever had, in the past two years. We are all familiar with the new restrictions in home building and if this building is to be cut back to a basis of 50% of last year, consumer demand also will be retarded. As a consequence, all retailers would be wise to exert every effort in bolstering customer relations.

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FRED H. DILG
Vice-President, Barker Brothers, Los Angeles, Cal.

I think that most of the larger retailers in the nation deliberately placed themselves in a maximum inventory position in the last six months. Towards the latter part of the year they have been in a quandary as to whether or not their inventory position was going to be justified in terms of retail demand. Since November and December throughout the country, there was quite a general softening of business in durable goods lines. In the area from which I came, the sale of appliances in October and November was running considerably below that of the year 1949, and this was somewhat of a paradox because it was generally concluded that there would be a restrictive production of appliances. This was attributable, no doubt, to the imposition of credit regulations which were far more specific.


Fred H. Dilg

The merchant and the consumer are both human and are affected in the same way. Military reverses occasioned, or re-occasioned, in the minds of people, the need to anticipate hard-to-get things.

The only difference that I see in our retail business, as of now, is that it has a much broader spread in demand. People are not only interested in appliances and so-called critical things such as television, but they likewise are more interested in carpeting, in wood furniture and in upholstered furniture than they were a few weeks prior to that time.

It seems that it is either the feeling on the part of the consumer that prices are not going down—rather that they will stay where they are or go up perhaps—and I think the consumer feels that he cannot outsmart the price situation any longer and if they have some legitimate needs they are going to take care of them. I think many of the things they are buying today are necessarily under the heading of critical things or items.

We must watch ourselves to assure that we are not getting into a frame of mind of auto-intoxication in developing a sort of half run-away conditions. This has been influenced by excellent sales figures obtained from sales sheets and that business looks better than we thought it would. From a retailer's standpoint, it must, in turn, be interpreted in more buying.

* * *

STEELE WINTERER
A. and M. Karagheusian
New York, N. Y.

I believe that the purchasing power of the country during the first six months of 1951 will be high. I would say that more popular floor-covering lines of brand names will be in very short supply because both carpet rayons and wool are becoming increasingly difficult to obtain. At the present time there is an overwhelming demand for man-made fibres in all types of business and while the chemical industry is beyond the pilot plant stage, its capacity to produce fibres is very limited. This shortage is worldwide. In Belgium and Holland, manufacturers are forbidden to export rayon because these countries need all they can produce.


Steele Winterer

The price phase of our picture is interesting. We were paying a 68c blend average in December of 1949. That blend average is up, I believe, this month to approximately $1.75.

The carpet industry uses a minimum of 200,000,000 pounds of fibres. So, every time the price of these fibres is raised one cent a pound, it has increased the cost of the carpet industry $2,000,000.

Another major factor affecting our industry today is manpower shortage. In December, 53 men left our mills to enter the armed forces. An equal number will probably leave in January. Although the loss of 53 men could not materially cut production, a continual monthly drain of manpower could.

We have great hopes, however, of maintaining civilian production at a high level. In 1949, the carpet industry produced 73,000,000 yards; in 1950, it is estimated that they produced 85,000,000. It is my estimate that 70,000,000 yards will be produced this year.

* * *

FRED WILSON
Capehart-Farnsworth Corporation, Fort Wayne, Ind.

We have an excellent and clear picture in our company of what we can do by way of production during the first quarter of this year. We have inventory on hand, work in progress which can't be changed, and orders on file with suppliers who in turn have begun manufacture of these supplies. Beyond that, the outlook is obscure. I am hopeful that the President has set more or less a policy of procedure with the operating division of the government with whom we have to deal to see that we get material and so on, and will have more definite plans which will enable us to conduct ourselves accordingly.


Fred Wilson

We will do everything we can to maintain civilian production and at the same time we plan to fill many government orders in our plants so that we can keep a level of employment about where it is during the transition from the peacetime to wartime economy.

I might add that I'm sure that the greatest worry of many of our officials in Washington who have to do with the control of these things is that the industry will become disrupted during the transition period. It is for that reason that I think every effort is being made to maintain production of civilian products right up to the time when the government or military agencies are willing to release their orders.

At the moment, I think retail inventories are very modest. Movement from retailer to consumer has picked up considerably in the last few weeks which is not normally expected after Christmas buying. From our company's point of view, our distributors' inventories are very nominal.

* * *

W. A. TOMLINSON
President, Tomlinson of High Point, High Point, N. C.

Relatively, furniture and bedding are better values today than they were in June, compared to the national income. There is a tremendous amount of employment, there is a tremendous amount of overtime and families now have two or three working members instead of one. Prices have not gone up with any percentage comparable to that of income.


W. A. Tomlinson

I would like to add that in the face of increases ranging from 20% to 75% in various and sundry raw materials used in our manufacture, it has been quite remarkable to hold our end product increases to a level of about 15%.

As to the matter of scarcities, we are patterning our assumptions on World War II, and we know that things seldom happen twice in the same way. In that war we had nearly 11,000,000 men in the armed services, and at the same time we started from a low rate of activity in our own economy. We were fighting on two fronts. Today, while we are engaged in a war which can certainly not be tossed off as immaterial, the situation is not comparable to that of 1943 and 1944.

If we stockpile materials and munitions and armaments of war and don't use them up, we will not have to replace them at the rate we were replacing them seven or eight years ago. In addition, we have a tremendous expansion of productivity and productive capacity in this country of everything and I am inclined to say that there is no occasion for scare or shortage fears.

I think most American businessmen, instinctively, make every effort to supply goods and to supply wanted goods. It is ingrained in us and we do everything we can to turn out merchandise in volume and in the style and price ranges that are wanted. And production is what we need, for it is the best price control there is.

Finishes, details and styles, will probably be influenced in the next six months by the labor situation. Styles requiring a good deal of hand work or slow work, such as carving or inlays, would not be emphasized in favor of patterns or designs which can be turned out in greater quantities with the same amount of labor or in the same amount of time.

We are in a fortunate position with certain supplies. There is plenty of foam rubber and, although nylon is not generally available, we are assured of supplies of nylon upholstered fabrics through the first quarter, which is about all a firm could expect to be assured of under normal situations.

* * *

W. L. DAVIS

President, Davis Cabinet Co. Nashville, Tenn.

It is believed that prices, which are up approximately 15% above those at the June Home Furnishings Market, will level at their present state because of the government request to maintain them there.

W. L. Davis

Today there is not an actual shortage of furniture and dealers' inventories are high. Manufacturers already are feeling the effect of shortages, however, particularly so in those items made of metal.

I think that most of us are too alarmed over the present situation. Perhaps it will become even more acute during the next ninety days or perhaps a little longer while the government stockpiles critical materials. At the end of that period, notwithstanding an all-out war, the shortage situation should be eased considerably.

Refsnes, Ely, Beck Co. To Be NYSE Members

PHOENIX, Ariz.—Paul D. Beck will acquire the New York Stock Exchange membership of Clifford V. Brokaw, Jr., and Refsnes, Ely Beck & Company, 112 West Adams Street, on Feb. 1 will become members of the Exchange. Partners in the firm are Joseph E. Refsnes, Sims Ely, Jr., and Mr. Beck.

"Pay-as-You-Go" Policy Disastrous

By ARTHUR W. MILLER

Economist maintains all taxes are inflationary, with that on excess profits most inflationary and a general retail sales levy least harmful. On premise of threat to freedom if taxation takes one-quarter of national income, warns one-third is now being so taken here. Concludes no government controls will avail unless government eliminates waste and puts its own economic house in order.

The following statement, representative of much of our present superficial thinking on economic questions, was recently made in the lead editorial of one of our most widely read newspapers:

"The strongest single weapon against inflation that we have in our arsenal is the weapon of taxation. No consideration of political expediency, and no economic sophistry, should be permitted to blunt our determination to employ it to the hilt."

The foregoing would seem to be a very unfortunate statement of an economic "half-truth."

Any kind of a war is itself inevitably "inflationary." This is the case because manpower and materials are used up for nonproductive and for destructive purposes. This leaves for the civilian economy a smaller amount of goods and services to supply civilian wants than would otherwise be the case. The upward pressure on prices, therefore, is inevitable.

Taxes, the Sales Dollar, and Inflation

Furthermore, taxes—and in the final analysis, I believe *all* taxes—are themselves inevitably inflationary. This is true because in the long run they can be paid only out of the sales dollar, which is the consumers' dollar. Inevitably, almost any kind of a tax tends to be "shifted" or pyramided somewhere along the line, so that ultimate prices are raised to a higher point than would otherwise be the case.

Further, if the tax burden becomes so heavy that expansion, risk taking, and maximum production are discouraged or curtailed, then the very taxes themselves lead to a smaller volume of output, and create shortages, which of themselves lead to higher prices for *necessitous* products for which the demand is relatively inelastic.

Excess Profits Tax the Most Inflationary

Some taxes, of course, are more inflationary than others. For example, there is probably no tax known to economics which creates more difficult problems, destroys initiative, penalizes efficiency, encourages waste, and boosts costs and selling prices, than the recently enacted *excess profits tax*. On the other hand, the general retail sales tax, much as we may all deplore such a burden on the average citizen, is probably the least inflationary tax which could *now* be devised in order to bring in further substantial amounts of revenue.

Such a tax also leaves a certain amount of freedom of choice to individuals in that they may buy more prudently, or may postpone altogether the purchase of those commodities which are not immediately necessary or essential to their well-being, even though they may be normally desirable. Further, such a tax would tend to conserve many necessitous basic materials needed by the Government in case of war. Thus, the prices which the Government would have to pay for materials and equipment might be held down, or even reduced, as compared with the costs and prices which might otherwise prevail.

Sales Levy Shiftable

However, even the sales tax may well tend to be "shifted" from the purchaser of certain types of goods to the buyer of goods and services produced by the first party. Undoubtedly, the average worker who might be called upon to pay a 10% or 15% sales tax for commodities which importantly influence his cost of living, would do his utmost to get further wage increases from his employer—just as now, under the payroll deduction personal income tax plan, he tries to get wages sufficiently high to compensate for the deduction of taxes from his pay check! Such wage increases, unaccompanied by a corresponding gain in efficiency, naturally lead to higher costs and *higher prices*.

Also, for many commodities, if sales taxes or any other taxes are high enough drastically to decrease the demand for, and sale of the product, then, along with curtailed volume, costs of production and distribution *rise*—and prices must rise accordingly, or wholesale failures will result. In other words, a vicious economic circle can easily and unwittingly be created as a result of even the theoretically least harmful levies, if the tax burden goes too far.

The power to tax has always been the power to destroy. Inflation, carried to extremes, is a very serious economic and political evil. However, the experience of all countries throughout history shows that there is a distinct limit beyond which a Government cannot safely tax its citizens without taking away their freedom of action, destroying their initiative, and "shrinking" the tax base to a point where economic conditions grow worse and worse. More and more, under such conditions, the average citizen becomes merely a slave to his Government. This is very nearly the situation in Great Britain at the present time, where it has been recently stated authoritatively that only 86 people are left whose retained earned income after national taxes, is now as high as $16,800!

The Threat to Freedom

The most careful students of the history and theory of taxation long ago found from observation, and from the records, that it is almost impossible to maintain a sound economic and free political system, when the governmental powers take as much as 25% of the national income "produced" in taxes. Some 20 years ago, the *average* taxes imposed by all countries of the world amounted to little more than 15% of their aggregate national income, while for the United States, the taxes levied by all governmental authorities were scarcely 11% of our estimated national income produced. Now, however, contrary to common misinformation, under prevailing business conditions and price levels, the total taxes being collected by Federal, State, municipal and local governments (including Social Security taxes which are a current cash burden) are even now at a rate around $70 billion per annum, or almost *one-third* of the estimated national income produced.

Despite all the theoretical arguments in favor of financing our present and prospective "defense" operations on a pay-as-you-go basis, it is a very serious question if we have not already exceeded the safe limit of tax burdens on our economy. An intelligent study of financial history shows that we cannot long endure present or increasing tax burdens, without losing for ourselves those very liberties and that freedom for which we are allegedly mobilizing our economy.

Deficit Financing the Root

We *now* have both a high degree of inflation *and* the heaviest taxes in our history. Too little attention is given to the fact that, as every objective and qualified student of the situation knows, the very basis of our high prices has been the continued deficit financing of our Federal Government in times of "peace"; the continued direct and indirect price supports and restrictions on basic agricultural production at a time when our economy has been operating at a record high level; and, most of all, the monstrous wastes in the operation of our great and sprawling Federal Government organization, whose cash budget has continued at a level fully five times as high as some ten years ago! Wastes, conservatively estimated from $6 billion-$10 billion per annum, have for years been called to the attention of Congress by all tax experts and tax organizations, and have been more recently "aired" by ex-President Hoover and by Senator Byrd.

Further, for many years the U. S. Treasury has pushed its loans out to the public at an artificially low interest rate, thus keeping *all* money rates relatively too low, and thereby encouraging the growth of "inflation." A more or less unwilling Federal Reserve System has been "forced" to "support" the government bond market through its purchase of Government securities in vast amounts. The U. S. Treasury has persistently refused to make its loans truly attractive to individual and institutional savers and investors by paying adequate interest rates and by arranging sufficiently long maturities. No long-time and economically balanced plan of financing has yet been adopted for handling the finances of our Government.

Certainly, the time has come when every thoughtful and patriotic citizen should call a spade a spade. The laws of gravity do not change, nor does the economic multiplication table change. Additional taxes will inevitably push our country further down the road to destruction, unless the *cancer* of colossal governmental waste, both of money and of manpower, our artificial agricultural price supports and restrictions on production, and our shortsighted insistence on artificially low interest rates for Government loans, are completely eliminated in these parlous times. There are even worse threats to our economic and political existence than some degree of "inflation." All the governmental controls and restrictions which can be devised by ingenious men will ultimately avail nothing, unless our central Government speedily puts its own economic house in order.

Probably, also, one more World War will completely destroy the so-called "American System," and perhaps all modern civilization, win, lose, or draw. Pray God that in this New Year those high placed in our Government, as well as all responsible citizens who are in positions of leadership, will stop name calling, will stop rushing around in all directions under the influence of meaningless or misleading slogans, and will devote their highest energies, and their noblest efforts, to the cause of "Peace on earth, goodwill toward men" before *our* nation, and perhaps *all* nations, shall have met death by suicide!

Hiffernan Mgr. for Merrill, Lynch, Omaha

OMAHA, Neb.—Ray P. Hiffernan has been named manager of the Omaha office of Merrill Lynch, Pierce, Fenner & Beane,

Willard A. Johnson   Ray P. Hiffernan

during the absence of Willard A. Johnson, present manager, who has been called for duty with the U. S. Air Force, Winthrop H. Smith, the nationwide investment firm's managing partner, announced today. Mr. Johnson, a Captain in the Air Force Reserve, has been ordered to active duty for a period of one year.

Mr. Hiffernan has been in the brokerage business since 1926. He started out as a board marker, became a customer's man in 1928, and manager of a local office of Cruttenden & Co. in 1947. He joined Merrill Lynch when the firm's Omaha office was opened last year. During World War II, Mr. Hiffernan served with the 20th Armored Division.

Mr. Johnson joined Merrill Lynch upon his release from the service in 1946. After graduating from the Merrill Lynch Training School he went to Houston, Texas, and then Amarillo, Texas, as an account executive. In 1948 he became an assistant to the sales division manager at the firm's headquarters in New York. When Merrill Lynch decided to open an office in Omaha in January, 1950, Mr. Johnson was named manager. He graduated from Wichita University in 1939, did graduate work in merchandising at Northwestern University the following year, and then transferred to the Harvard Business School, receiving the degree of Master of Business Administration in 1943. From 1943 to 1946 Mr. Johnson was in the Army Air Force.

Nevada Tungsten Stk. Offered by Tellier

Tellier & Co. on Jan. 24 publicly offered "as a speculation" 1,999,000 shares of common stock (par 1¢) of Nevada Tungsten Corp. at 15¢ per share.

The proceeds of the offering will be used by the company to pay for properties, in the amount of $42,500, and the balance will be used for working capital.

Nevada Tungsten Corp. was organized in Delaware on Oct. 20, 1950, to engage in the business of operating a tungsten, lead, silver, copper, zinc and gold custom mill and other mining activities. The mill is presently treating 3,000 tons of tungsten tailings averaging ½ of 1% or a value of $20 per ton based on a $40 per unit market. There is, in addition, available some 7,000 tons of tailings, which have not been sampled or tested.

Kenneth Dietz Partner In Seskis & Wohlstetter

Kenneth F. Dietz will be admitted to partnership in Seskis & Wohlstetter, 25 Broad Street, New York City, members of the New York Stock Exchange, on Feb. 1. Mr. Dietz was formerly with E. F. Hutton & Co. and J. H. Brooks & Company.

LETTER TO THE EDITOR:

Objects to SEC Commissioner McEntire's Attitude

Seward N. Lawson, of Detroit, sees in it a deprivation of individual's right of free speech.

Editor, The Commercial and Financial Chronicle:

I was astounded to read the letter from Mr. McEntire of the SEC as reported in your fine paper of Jan. 4 (page 22). Who is this fellow McEntire, and what kind of dictatorship does he think he is operating? Does a citizen have to obtain permission to report on his hearings before the SEC before he can make a public statement in support of his personal views?

"People who live in glass houses . . . etc.," or is it "the pot calling the kettle black." The SEC does plenty if dissemination of its own views as prosecutor, judge and jury.

Does this mean there is no defense?

SEWARD LAWSON.

3230 Pembroke Road,
Detroit 21, Mich.

EDITOR'S NOTE: The foregoing has reference to a letter addressed by SEC Commissioner Richard B. McEntire to Thomas Graham, President of the Bankers Bond Company, Louisville, Ky., in which Mr. McEntire rebuked Mr. Graham for publication of a statement of what transpired at a hearing before the Securities and Exchange Commission on Oct. 20.

Continued from page 18

Canada's Prospects for A Free Economy

invention; but, if so, we should be looking for him. Otherwise, as tax rates rise, the blunt instrument of the income tax may become a dangerous and perverse weapon that penalizes saving even more than it penalizes spending.

The failure to exempt saving when income taxes are very high will not only reduce their power to prevent inflation in the short run, but may in the long run prove a positive danger to democracy itself. The extremes of "left" and "right" in the world today are mediated in the great democracies by a strong middle class. It would be a tragedy indeed if democracy should perish because, in the supposed interest of its own defense, it liquidated this guardian of democratic institutions.

The suggestions made in this appraisal of ways to fight inflation would, I think, be broadly acceptable to a majority of citizens, whether inside or outside the government. I would summarize them as follows:

(1) Voluntary saving through the patriotic restraint of consumption should be encouraged, by the precept and example of government, business, and private citizens; i. e., through less non-military expenditure by government, less capital expansion by business, and less consumption (especially on credit) on the part of private citizens.

(2) Voluntary saving should be encouraged, borrowing discouraged, and fiscal policy made effective by allowing a continued movement towards higher interest rates.

(3) Taxes required to prevent inflation should penalize consumption, and reward saving, whether through direct taxes on consumption or through income taxes that exempt to some degree the bona fide saving of the public.

(4) Direct controls, especially in the form of price control and rationing, should be measures of the last resort, and should be treated as stop-gap devices, not as substitutes for a true anti-inflationary policy.

The importance of choosing the right kind of policy to combat inflation is hard to overestimate. But it is important also that we should not make our problem bigger than it need be, by a disproportionate expansion of military expenditures. The allocation of armament expenditures is a job for miliarty experts; but the over-all-size of the defense programme, like war itself, is as Clemenceau once said, too important a matter to be left to the generals.

Perhaps we should not ignore the possibility that, having failed to realize their hopes of capitalist collapse through postwar depression, the communists are now trying to engineer capitalist collapse through the inflationary pressure of a continuous armaments boom. But once the required amount of armaments expansion has been determined, the inflationary problem created by that expansion must somehow be met.

As a means to this end I should like once more to emphasize the moral and economic obligation of democratic governments to maintain ordinary expenditures at the lowest possible level. If democratic governments fail to meet this obligation, they will in effect be giving a measure of aid and comfort to the enemy. At this stage, the most important weapon in the whole arsenal of war controls is the control of ordinary government expenditure.

So important is the issue that, for support and guidance in meeting these responsibilities, democratic governments might think about setting up advisory committees consisting of governors of Central Banks, representatives of industry, finance, and labor, and senior civil servants to review expenditures and advise on possible economies. The functions of these committees should be confined to restrictive action with no power to suggest new expenditures or the increase of those already proposed.

Emphatically, the price of our safety is not only the expenditure of vast sums provided by savings and taxes, but eternal vigilance over the uses to which these funds are put. A major defense effort has such an impact upon our economic resources and our standard of living that a democratic government would be guilty of criminal negligence if it did not do all it could to preserve the free economy by confining its ordinary expenditures to the absolute minimum.

III

Prospects of the Free Economy in Canada

It is with some relief that I turn now from the menace of war, and the austere problems of defense, to a longer view of Canada's future as a free economy. In a peaceful world, or even in the mixed war and peace economy of the past few years, Canada has a remarkable opportunity to grow and prosper by adhering to the principles of the free economy.

There are certain prerequisites to a free economy: some nations have them and some do not.

First, the country must have rich and diversified natural resources. *Socialism and planned economy are the badge of national poverty not of national wealth.*

Second, the citizens of that country must have "great expectations," together with the energy and risk-taking spirit that will make their expectations come true.

Canada has these prerequisites: the first in abundant degree, the second in apparently increasing degree as the years pass.

It is true of course that Canada's reputation, at least among some Canadians, is that we produce stolid and unimaginative citizens. I think that even these critics must have noticed much evidence to the contrary in recent years. Nevertheless, the critics have a case.

For example, I am sure we have all heard it said at one time or another that American capital is taking over our economy. My reply is simply that, if this is true, then we have no one to blame but ourselves. If Canadian capital is not playing a large enough part in developing our resources and expanding our industry the reason must be not that Canadian capital is too meagre for the job, but that, in spite of the high stakes, Canadian capital refuses to take the risk. From here on let us see to it that our vision, our energy and our risk-taking spirit are not found wanting.

Actually a new spirit of enterprise is abroad in the land—personally I have great faith in it. I believe this is the spirit appropriate to the true Canadian character.

In the short run, this spirit of enterprise has been greatly encouraged by the government's lead in freeing the dollar, by the tentative movement towards free interest rates, and by the removal of import restrictions on Jan. 1 of this year.

But we cannot stop here. Barring the need to return to a total-war footing, government and private citizens should cooperate:

First, to free interest rates, at least to the extent required to make fiscal and monetary policy effective and to avoid the need for many direct controls otherwise incident to inflation.

Second, to rehabilitate monetary (or Central Bank) policy as opposed to the fiscal substitutes for sound monetary policy that are the inevitable results of cheap money.

Third, as soon as possible to remove controls over the international movement of capital, relying on the free exchange market to exert the necessary control.

Fourth, to accept any controls necessary for the short-run requirements of defense only after safeguards have been provided for the automatic return to the free market at the end of the emergency period.

These immediate steps in general economic policy, along with the specific anti-inflationary devices already mentioned, should see Canada through her present danger. These measures should ensure that she will be ready, when the time comes, to exploit to the full her tremendous potential for economic development. It may not be too much to hope that Canada may become, as it were, a working model of the free economy in action, and a constant reminder to the world at large that the road to economic freedom is also the shortest and safest road to social progress.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Hardwick Stires has been elected a trustee of **Excelsior Savings Bank of New York**, it was

Hardwick Stires

announced by Francis S. Bancroft, President of the bank. Mr. Stires, a son of Bishop Stires of the Diocese of Long Island, is a partner in the firm of Scudder, Stevens & Clark, investment counsellors, since 1932. He was graduated from Harvard in 1923.

* * *

The stockholders of the **Central Hanover Bank and Trust Co. of New York** at their annual meeting on Jan. 17 approved the plans to shorten the corporate title of the institution to **The Hanover Bank**, as to which reference was made in our issue of Nov. 23, page 2000. It was noted at that time that no change was involved in the bank's operations, or in its banking or trust services. At their meeting on Jan. 17 the stockholders also authorized an amendment to the institution's charter to provide for 150,000 new shares of stock, par $20 per share each, increasing the number of outstanding shares from 1,050,000 to 1,-200,000 and the bank's capital from $21,000,000 to $24,000,000. Incident to the enlarged capital a stock dividend of one share of capital stock for each seven shares held was declared by the Board of Trustees on Nov. 21 (in addition to the regular dividend of $1 per share payable Jan. 2 to shareholders of record Dec. 11). The stock dividend is payable Feb. 15 to stockholders of record Jan. 22.

* * *

Stockholders of **Clinton Trust Co. of New York** at their annual meeting on Jan. 17 approved the action of the directors in declaring a stock dividend, and voted to increase the authorized capital stock from 40,000 to 45,000 shares. The stock dividend, consisting of one additional share for each eight shares held on Jan. 5, is payable Feb. 1. The declaration by the directors of a stock dividend out of undivided profits was referred to in these columns Dec. 28, page 2542.

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James M. Nicely, Vice-President of the **First National Bank of New York City**, has been elected a member of the board of trustees of the University of Chicago, Laird Bell, Chairman of the Board, announced on Jan. 20. A graduate of the University of Chicago in 1920, Mr. Nicely is the fourteenth alumnus to become a member of the Chicago board of trustees.

* * *

Richard R. Schilling, since 1947 Assistant Vice-President in charge of the Columbus Circle office of the **Manufacturers Trust Co. in New York**, has been promoted to Vice-President and placed in charge of all upper Manhattan and Bronx offices, it is announced by Henry C. Von Elm, President. Mr. Schilling started his banking career in 1916 with the Yorkville Bank. In 1929, four years after the Yorkville Bank was absorbed by Manufacturers Trust Co., he was made an Assistant Secretary.

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William Ludlam De Bost, Chairman of the Board of the **Union Dime Savings Bank of New York**, died on Jan. 18. He was 80 years of age. He started his business career in 1886 with the firm of Van Wickle, Stout & Co. and on Feb. 11, 1893, he went with the real estate firm of E. A. Cruikshank & Co. The senior partner, Edwin A. Cruikshank, retired from the business on Nov. 1, 1903, and the firm was incorporated with the name of Cruikshank Company, all the stock being acquired by Warren Cruikshank and William L. DeBost. Mr. DeBost was Vice-President of the company until Feb. 20, 1924, when he was elected President of the Union Dime Savings Bank, at 6th Avenue and 40th Street, New York. In 1947 he was elected Chairman of the Board of Trustees of the bank.

Mr. DeBost was a director of the following companies: Metropolitan Life Insurance Co., New York Telephone Co., Home Insurance Co., Bankers Trust Co., Cobel Royalties, Inc.; formerly he was a director of many other companies including Cruikshank Co. Mr. DeBost was a member of the Chamber of Commerce of the State of New York and was President of that body from 1926 to 1928, inclusive; he was a member of the Real Estate Board of New York for over 40 years and served at one time as its Vice-President; member of the Commerce and Industry Association, etc.

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A special exhibit of Portuguese products and handcrafts is being displayed in the windows of the **Colonial Trust Co. of New York** in its 48th Street Rockefeller Center office. The exhibit, designed as a tribute to its correspondent banks in Portugal, has been set up by the Colonial Trust Co. to commemorate the 450th anniversary of the exploration of the North American coast by the Portuguese navigator brothers, Corte-Real. The exhibit will also be shown in the Trust Company's office at Madison and 28th Street.

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Thomas J. Shanahan, President of the **Federation Bank and Trust Company of New York** announced that at a meeting on Jan. 9, the directors appointed William Larsen, Assistant Vice-President, Joseph T. Sandleitner, Assistant Secretary and Vincent J. Badala, Assistant Treasurer of the bank. Mr. Larsen is also Trust Officer, and Mr. Badala was formerly Auditor.

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Election of Elwood G. Childers as Vice-President, continuing in charge of Personnel, was announced on Jan. 10 by Walter E. Kolb, President, of the **Industrial Bank of Commerce, of New York.** Mr. Childers, a Lieutenant Commander in the Naval Reserve, was formerly with the Union Trust Company of Washington. Albert W. Ashley was advanced from Assistant Secretary to Assistant Vice-President of the Industrial Bank.

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James G. Blaine, President of **The Marine Midland Trust Company of New York**, has announced the promotion of Henry F. Stubing to Assistant Vice-President. Other promotions included Stanley Strick and Frank F. Stetson to Assistant Treasurers, and Vincent B. Hubbell to Assistant Secretary.

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The Bronx Savings Bank of New York has announced that Martin H. Bluethner, Vice-President and Comptroller, and John M. Nosworthy, Assistant to the President, have been elected trustees of the bank.

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The newly enlarged Wakefield office of **North Side Savings Bank of New York**, at 233rd Street and White Plains Road, opened its doors on Jan. 6. The occasion marked the enlargement of an office that was initially opened just a little over four years ago.

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John J. Mackey, a member of the bank's legal staff for the past 18 years, was appointed solicitor and head of the legal department of **The Dime Savings Bank of Brooklyn, N. Y.**, at the regular monthly meeting of the bank's board of trustees on Jan. 19. Mr. Mackey succeeds Arthur C. Weymann who recently died. He had served as Mr. Weymann's Assistant since Dec. 20, 1940. Frank S. Scimeca, a member of "The Dime's" legal staff for 11 years, was named Assistant to Mr. Mackey. Before joining the bank's staff in 1932, Mr. Mackey had served as attorney for Realty Associates and as Vice-President and General Counsel for the E. A. White Organization, both real estate firms. Mr. Scimeca, before his connection with The Dime Savings Bank, was with Lawyers Title Co., for 10 years, served two years with the State Superintendent of Insurance as liquidator of the Lawyers Mortgage Co., and for three years with the State Mortgage Commission. He was admitted to the bar in 1923.

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The **Williston National Bank of Williston Park, New York** (capital $120,000), has been consolidated with the **Central National Bank of Mineola, N. Y.** (capital $250,000) under the charter and title of the latter. The consolidated bank will have an initial capital of $505,000, in 101,000 shares of common stock, par $5 each. The Jan. 8 Bulletin of the Office of the Comptroller of the Currency also reports that the initial surplus will be $300,000, with initial undivided profits of not less than $130,000. The office of the Williston National Bank will be operated as a branch of the Central National Bank. The consolidation became effective Dec. 29.

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Wallace N. Watson of Harrison, N. Y., has been elected a Vice-President of **The County Trust Co. of White Plains, N. Y.**, according to a statement by Andrew Wilson, Jr., Chairman of the Board. Mr. Watson will devote his time to estate planning and the development of investment advisory business and trust accounts. After receiving a degree in engineering from Purdue University, Mr. Watson started his career with the Santa Fe Railroad. He later entered the life insurance field. He is a life member of the Million Dollar Round Table. Mr. Watson left life insurance work to become President of the Estate Planning Corp. of New York City. Since early 1949, he has been operating independently in the business of estate planning under the name of The Watson Co. At the meeting of the directors of the County Trust Co. also, Vice-President Charles H. Robinson was given the additional title of Mortgage Officer.

Wallace N. Watson

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The Dec. 29 report of condition of the **Merchants National Bank & Trust Co. of Syracuse, N. Y.**, was issued at the 100th Anniversary Open House on Dec 30 by Crandall Melvin, President of the institution; the statement enclosed as an insert in a booklet gotten out by the bank under the title "One Hundred Years of Service" shows net earnings for 1950 of $339,231, with total assets increased to $45,832,537. The statement reflects the sale of the additional stock during the year which raised the capital from $750,000 to $1,000,000; in addition to the $250,000 added to surplus from this sale an additional $250,000 was transferred from undivided profits to raise the surplus to $1,250,000. A brief reference to the increase in the institutions capital appeared in these columns Jan. 4, page 94.

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At a meeting of the board of directors of the **State Street Trust Company of Boston**, held Jan. 15, all officers were re-elected and the following promotions were voted: Samuel H. Wolcott, Clifford L. Lyall, S. St. John Morgan to the new office of Senior Vice-President; Ernest W. Lay, Clement W. Deasy, Walter E. Dow, Jr., Francis G. Shepard, Philip J. Potter and Charles Devens to Vice-President; Edward A. Bullard to Treasurer; Raymond H. Choate and Ernest H. Osgood, Jr. to Assistant Vice-President; Vernon B. Hitchins to Assistant Vice-President and Trust Officer; Ralph E. Sellars and John T. G. Nichols, 3rd, to Trust Officer. The following new officers were elected; Grafton E. Wentworth, Assistant Treasurer; Ivon S. Cahill and Richard L. Casey, Assistant Secretaries; John L. Shannon, Assistant Real Estate Officer.

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On Jan. 3 the stockholders of the **Providence National Bank** and the **Union Trust Co., both of Providence, R. I.**, approved the consolidation of the two institutions under the charter of the Providence National Bank and under the title of the **Providence Union National Bank and Trust Co.** As noted in our issue of Dec. 21, page 2458, the consolidated bank will have a capital of $3,250,000 divided in 130,000 shares, par $25 each; it will also have an initial surplus of $4,750,000 and initial undivided profits of not less than $2,100,000. The Providence National Bank had a capital of $2,000,000, while the capital of the Union Trust was $1,000,000. The consolidation became effective Jan. 8.

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The **Putnam Trust Company of Greenwich, Conn.**, has announced the development of a new service for bank customers whereby it will completely handle Social Security tax returns for servants. It is pointed out by the company that under the present Social Security law, if an employer pays a household servant as much as $50 during a quarter of the year and the domestic works as many as 24 days during the quarter, the employer is expected to deduct 1½% from the servant's wages and to send this deduction, plus an equal payment from himself, with a report of the wages paid, the employee's name and his social security number, to the Collector of Internal Revenue. Vincent F. Ostrom, Vice-President of the company, explains that a new check form is now available which makes it easy for customers to conform with the law. This check clears through the housewife's ordinary checking account. From the information which appears on the check, the bank is able to determine whether or not a tax is due. At the end of each quarter, the bank automatically prepares the tax return, charges the housewife's account for the amount of the tax, and forwards this sum together with the return to the Collector of Internal Revenue.

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At the annual organization meeting of the directors of **The Plainfield Trust Co. of Plainfield, N. J.** on Jan. 16, Raymond B. Cray was elected Assistant Vice-President, and Miss Mary D. Cramer and Karl W. Johnson were elected Assistant Treasurers. Mr. Cray, formerly Assistant Treasurer, is Manager of the personal loan and time sales department of which department Miss Cramer and Mr. Johnson are Assistant Managers. All the other officers were re-elected.

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Andrew H. Miller, Manager, Mortgage Loan Department of **The Monclair Savings Bank of Montclair, N. J.**, was elected Vice-President of the annual meeting of the Board of Managers on Jan. 9. The appointment was announced by T. Philip Reitinger, President. Mr. Miller has been associated with The Montclair Savings Bank since 1941. After serving in World War II he returned to the bank in his former capacity as Assistant Treasurer. His appointment as Manager of the Mortgage Loan Department was announced in August, 1945, the responsibilities for which office he will continue to assume as Vice-President. He was formerly associated with the Real Estate Department of the Howard Savings Institution prior to which he was engaged in business with several New York brokerage concerns.

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Walter G. Bellairs, Assistant Secretary of the **Land Title Bank and Trust Co. of Philadelphia**, has been named Chairman; and E. L. McGarrigan, Assistant Cashier, Corn Exchange National Bank and Trust Co.; and Ralph C. Scotney, Assistant Vice-President, Central-Penn National Bank, members of the Committee on Consumer Credit for Group I, Pennsylvania Bankers Association, it is announced by C. A. Sienkiewicz, Chairman, Group I, P.B.A.

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William Fulton Kurtz was re-elected President and was also elected Chairman of the Board of Directors of **The Pennsylvania Company for Banking and Trusts of Philadelphia** following the annual meeting of stockholders of the bank held on Jan. 15. He succeeds the late C. Stevenson Newhall in the Chairmanship. Directors re-elected were Isaac W. Roberts, Charles G. Berwind, Charles R. Shipley, Clarence A. Warden, David H. Harshaw and Anthony G. Felix. New officers named were George F. Hansmann, Earle J. Hinkle and George R. Knoll, Assistant Treasurers; Victor W. Bean and William F. Delafield. Assistant Secretaries; James R. Vernon, Assistant Real Estate Officer, and Raymond Brunner and John W. Hulton, Assistant Trust Operations Officers. Gustav K. Loesch and John A. Onsa were promoted from Assistant Treasurers to Assistant Vice-Presidents.

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Geoffrey S. Smith, President of **Girard Trust Co. of Philadelphia** announces the election by the Board of Managers of L. Warren Elwell as Assistant Treasurer in the bank's Commercial Loan Division. The appointment is effective Feb. 15. Mr. Elwell for the past 17 years has been associated with Weil, Pearson & Co., commercial paper bankers of Philadelphia.

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Two officers of **The Bank of Virginia at Richmond, Va.**, were advanced to Vice-Presidents and four others were promoted at the annual meeting of the bank's directors and stockholders on Jan. 12. The new Vice-Presidents are Richard F. Bates, in charge of the bank's office at 1620 Hull Street in Richmond, and R. Norris Hatch, in charge of the bank's office at 21st and Granby Streets, Norfolk, Va. R. Herndon Dixon, Assistant Cashier in charge of the new Accounts Department at the 8th and Main Streets office in Richmond, was promoted to Assistant Vice-President. Three new Assistant Cashiers are Frank R. Marks, of the South Richmond office; Joseph F. Matthai, Jr., of the 2900 West Broad Street office in Richmond; and H. G. Jennings, of the bank's office in Petersburg, Va. Mr. Bates has been with the bank since 1929, with the exception of five years on active military duty during the last war. He was made an Assistant Cashier in January, 1946, and an Assistant Vice-President in September, 1949. Mr. Hatch joined the staff of The Bank of Virginia in June, 1940. From 1942-46 he served as an officer with the Navy in the Pacific Theater. He was elected an Assistant Cashier of the Bank in November, 1947, and in March, 1949, was named Assistant Branch Manager and Operating officer of the bank's office in Norfolk. In November of the same year he assumed duties as Officer in Charge.

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Nine promotions were announced at the directors' meeting on Jan. 17 which followed the annual stockholders' meeting of **The Cleveland Trust Co. of Cleveland, Ohio.** H. J. Lambacher, H. M. Sheeler and J. A. Sheetz, Assistant Trust Officers, were advanced to Trust Officers; Jack W. Woodburn and W. W. Wheeler were advanced to Assistant Treasurers. E. A. Eisele, Jr., and E. H. Hagerty were named Assistant Trust Officers; E. E. Eisenmann was elected a Securities Officer in the Corporate Trust Dept., and Richard Clark was made Manager of the Credit Department.

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Following the annual meeting of the directors of **The First National Bank of Chicago** on Jan. 9, promotions in the official staff and the election of new officers was announced by Edward E. Brown, Chairman. Leslie H. Dreyer, John E. Drick, Paul E. Farrier, Glenn M. Forgan, and Thomas G. Johnson, Assistant Vice-Presidents, were promoted to Vice-Presidents. The following, who were Assistant Cashiers, were promoted to Assistant Vice-Presidents: Guy A. Crum, John S. Gleason, Jr., J. Russell Hanson, Joseph J. Kaberna, Charles F. Newhall, R. Kenneth Newhall, Clarence J. Ruethling, and George F. Sisler. Kenneth G. Morton, Assistant Secretary, and Robert S. Swaim, Trust Officer, were promoted to Assistant Vice-Presidents. James P. Baxter, Charles E. Brandriff, Gordon T. Shearer, Assistant Trust Officers, and Harold H. Hawes, Assistant Secretary, were promoted to Trust Officers. Walter E. Grau, Assistant Cashier, was elected Assistant Auditor. New Officers elected were: Christopher W. Wilson, Jr., Attorney; Ernest J. Hutlgren, H. Stanley Pickford, Frank W. Goodhue, Kemmeth A. Willen, William J. Korsvik, A. Burnham Converse, and Russell V. Carlson, Assistant Cashiers; and August J. Hurt, Jr., Assistant Secretary.

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Thomas J. Downs and Laurance H. Armour, Jr., were elected directors of the **La Salle National Bank of Chicago** at the annual meeting of the shareholders, held Jan. 9. Mr. Downs is a member of the bar of the Illinois and United States Supreme Courts. He is head of the law firms of Downs, Scheib, Osborne & Johnson in Chicago, and Downs, Scheib & McArdle in Washington. He is also a partner in Dube Manufacturing Co. Mr. Armour enlisted in the Army in 1943 while a student at Princeton University, and was commissioned a Lieutenant in the military intelligence while serving in Germany. Upon release from active duty in December, 1946, he resumed his studies in the School of Commerce, Northwestern University. He is now associated with the bank's trust department. All other members of the board were re-elected except Leo J. Sheridan, President of the real estate and building management firm of L. J. Sheridan & Co. Mr. Sheridan asked, because of government regulations, that his name not be submitted for re-election, due to his election on Jan. 8 to the board of the **Chicago Title and Trust Co.** Joseph K. Clark and William G. Dahl, Trust Officers of the La Salle National, were appointed Assistant Vice-Presidents in the bank's trust department. Roger B. Brinkman and Lester S. Cain, formerly Assistant Trust Officers, were named Trust Officers. All other officers were re-appointed, and Ernest E. Fumasoli was named Assistant Cashier in the banking department.

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Leslie K. Curry was elected Vice-President and Comptroller of the **Mercantile-Commerce National Bank in St. Louis** at the annual meeting of the directors on Jan. 9. He had not previously been associated with the bank. Frank B. Merget, Vice-President, Cashier and Assistant Trust Officer, was promoted to Vice-President and Secretary. Walter L. Kaltwasser, Assistant Vice-President, was promoted to Cashier and Assistant Trust Officer. Mr. Curry is Vice-President of the **Mercantile-Commerce Bank and Trust Co. of St. Louis.** He was President of the Missouri Bankers Association last year; he began his banking career as a clerk with the National Bank of Kirksville in 1924 and served as Assistant Cashier from 1926 to 1933. From 1933 and 1935 he was with the Federal Land Bank of St. Louis as Chief Examiner and Assistant to the President. He joined the Mercantile-Commerce Bank and Trust Co. in 1935, was appointed Assistant Cashier in 1937, Assistant Vice-President in 1940, and elected Vice-President in 1941. Mr. Merget began work with the Mercantile-Commerce Bank and Trust Co. in 1934 in the Safe Deposit Department. He was transferred to the Safe Deposit Department of the Mercantile-Commerce National Bank in 1935, and became Manager in 1940. In 1942 he was promoted to Assistant Cashier, then Cashier in 1945, and Vice-President, Cashier, and Assistant Trust Officer in 1949. Mr. Kaltwasser began with the Mercantile-Commerce Bank and Trust Co. in 1929. In 1934 he was transferred to the Mercantile-Commerce National Bank as a teller. He subsequently became a teller supervisor, Assistant Cashier in 1946 and Assistant Vice-President in 1949.

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The resignation of F. Guy Hitt as First Vice-President was accepted by the board of directors of the **Federal Reserve Bank of St. Louis**, effective Jan. 3. Mr. Hitt became First Vice-President of the Reserve Bank on Dec. 16, 1937, and was re-elected for successive 5-year terms in 1941 and 1946. Before joining the bank as an active officer he served as a member of its board of directors from 1932 to 1937. The directors elected Olin M. Attebery to succeed Mr. Hitt as First Vice-President. Mr. Attebery has been an executive officer of the Federal Reserve Bank of St. Louis since its establishment in 1914.

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A. M. McGrigor, Chairman of James Finlay & Co. Ltd., has joined the board of directors of the **National Bank of India Limited**, it was announced on Jan. 9.

Continued from first page

As We See It

halt or very substantially reduce the growth of inflationary potentials, in existing circumstances, depends upon the nature of the taxes imposed and their incidence.

Certain Peculiarities

To the dispassionate observer all this presents certain peculiarities not often encountered. Whatever the ultimate wisdom of any or all of the program the Administration is now permitting the public to scan, it is without doubt one of the most drastic if not the most drastic in many ways the people of this country have ever known. Now the President is coming forward with these proposals precisely at a time when signs are numerous and multiplying that doubt about his policies in the field of international affairs and his programs at home is widespread and apparently spreading. One is sometimes led to suspect that the President and his advisers have arrived at the conclusion that the best way to gain adherents is through heroics. But however that may be, he is pursuing policies both at home and abroad which patently do not arouse much enthusiasm among our most important allies in Europe, among the Germans, or among those independent minds everywhere whose opinions count so heavily in the sort of course the President is laying out.

This is dangerous procedure. There is nothing to be gained by being mealy-mouthed about it. Indeed, silence on the part of those who do their own thinking would be a distinct disservice to the American people at this time. Our noisy belligerence naturally runs the risk of precipitating war long before we can be prepared to be immediately effective in any global conflict with the Kremlin and its cohorts. This fact is, of course, plain enough to the men of the world in those countries which normally would be the first victims of the Kremlin on a mad rampage. Our policies in general in and out of the halls of the United Nations, therefore, expose us to the double risk of precipitating total war before we are ready and of costing us rather than making friends at precisely the time when we need them most.

The President is an obstinate man, who still feels the self-satisfaction that came to him with his success in talking to the rank and file of the people in 1948. He does not seem at all impressed or deterred by evident signs that there is widespread lack of confidence in his judgment. His impetuosity and at times downright ill-temper, examples of which he has shown on a number of recent occasions, do not tend to stimulate faith in his calm judgment. But he is evidently determined to shape the policies of the country both at home and abroad, and expects those around him to "take orders." Illustrations of this state of affairs have discouragingly abounded in recent weeks. Heaven knows what can be done about it, but here is a state of affairs which each and every one of us must face.

Political Finance

The Secretary of the Treasury in laying down the law last week both to Federal Reserve authorities and men of experience everywhere in large financial matters was careful to say that the doctrines and the plans he was enunciating were being announced after consultation with the President — as if many of these matters were rightly to be regarded as within the purview of practical politicians, which, of course, the President primarily is! And the program set forth clearly revealed its origin—that is its creation by men who understand very, very little of problems involved in the financing of such an effort as we are planning. The Secretary suavely announces—as might Mr. Stalin—that yield rates on obligations of the Federal Government will not be greater than 2½%—not just for the present, not just for the next few months, but for the duration! At the same time he is said to plan to force a substantial portion of present bank holdings of governments into the hands of the non-banking community.

Now it seems to us that either this is sheer and inconsistent nonsense or else the National Government has now reached or soon will reach a point of dictatorial power in the broad and basic field of finance that is little if any short of that wielded by the Kremlin. What the Administration appears to be saying is that it intends to tax the rank and file as it has never been taxed before, and at the same time oblige the general public to exchange a very substantial part of the money it already has in its possession into IOU's of the Treasury—and all at a rate of interest which must not exceed 2½% except for savings bonds! Now if the Administration has found a way to take current income away from the rank and file down to the point where Tom, Dick and Harry have just enough left to maintain themselves on a reduced plane of living, and at the same time persuade these gentlemen to buy bonds and buy bonds—long after it hurts—then maybe it could accomplish all this. Otherwise . . . Well, otherwise the plans of the Treasury appear to be unrealistic, to say the least.

What this country must do if it is to avoid disaster is to find a way to persuade a stubborn, politically minded President and a confused and, on the whole, a too indulgent Congress either to provide or at the very least permit intelligent leadership.

Continued from first page

Investment Policies And Business Outlook

consider under this heading the outlook for business expenditures for new plant and equipment, the broad relationships between the normal supply and demand factors, the probable trend of commodity prices, the status of inventories, the trends of private debt expansion and contraction and similar forces. We still have to follow those items; but, I think that we will all agree that their significance is submerged at this juncture by the probability that sharply increasing government expenditures for defense and foreign aid will be the most dominant economic force for the next year or so at least.

It so happens that the indications point to an expansion of business expenditures for new plant and equipment. Personal debt in the form of instalment and real estate loans should decline. By ordinary measurements, inventories look high. But our interpretation of these forces that normally are so important has to be adjusted for that other major influence, namely, sharply rising government expenditures.

Under normal conditions, I would be looking for a sharp business setback at this point, because production has been exceeding demand and we would have to have a period of declining production while excessive inventories were liquidated. At the moment, however, a "burdensome" inventory takes on the aspect of a valuable asset.

Usually, a decline in activity would be accompanied by — or preceded by — weakness in raw material prices; but, we have the very opposite of that condition today. In a peacetime business cycles, the vision of sharp declines for the very dynamic durable goods and residential construction industries would have the most ominous implications for the broad economy. But today, we know that the loss of activity in those industries will be more than made up by military work a little later on. Instead of a picture of unemployment, our labor problem is going to be one of acute shortage.

I am impelled to drag you through these details because I sometimes see a tendency to interpret some of the economic indicators just as we would interpret them under normal conditions. For example, a maladjustment in the ratio of commercial loans to bank debits usually is a reliable indicator, but I think the interpretation of that same ratio needs considerable refinement at the moment, to make allowance for the unusual conditions. Without disparaging these indicators in any way, I am inclined to suggest that you should test your conclusions on a common sense basis, rather than follow blindly the reliable record that a given index may have had under normal conditions.

With a rather well-assured prospect that government expenditures for defense and foreign aid are going to run on up to something like \$50 billion a year, or perhaps more, it doesn't seem quite logical to anticipate a drooping, or a sluggish, economy, in spite of the fact that the dynamic consumers' durable goods and residential construction industries will be at a lower level.

We already know that there is not room enough in the economy to produce as many homes, automobiles, refrigerators, washing machines, etc., as the public would like to have. If military requirements were not going to absorb our entire productive capacity, then durable goods and housing activity could be raised above the indicated levels. As long as we have this assurance of huge government expenditures for military purposes, I think we can skip over the usually important economic forces and conclude that the business outlook calls for an economy operating at full capacity.

This prospect must necessarily carry with it the assurance of full employment with overtime, which simply means a high level of personal income. Probably everyone has his own projection of the effect of taxes on personal purchasing power. My own studies suggest that disposable income at the end of this year is likely to be about 12 or 13% higher than it was in the third quarter of 1950.

Under normal conditions, such an increase in purchasing power creation would be more or less offset by a commensurate increase in the supply of goods and services upon which this purchasing power could be expended. The military expenditures will cause an increase in purchasing power, but instead of increasing the supply of goods and services for civilian demand, we will have a decrease.

Undoubtedly, individuals will spend more money for those goods and services that are available but there is every indication that disposable income will still exceed consumer expenditures for goods and services. In World War II part of this surplus was mopped up by the repayment of private debt; and a very large part of the balance went into government bonds. This time, I think we will have the retirement of private debt, but I am not so sure that the balance will find its way into government bonds, because I find an amazing awareness on the part of the public that fixed income securities do not afford any protection whatsoever against inflationary price trends. I am not at all sure that the public is going to be as willing to buy government bonds as it was in World War II and the possibility that some of these surplus funds might find their way into other types of investment is a matter that we should look into when we are studying the demand side of the common stock supply and demand equation.

The prospect that we will have a very active economy, and that many companies will be receiving the benefits that come from operating in a tight sellers' market, has implications that should be of interest to every investment manager when he appraises the earnings outlook for individual companies. (Naturally, there are many other forces that have to be studied.) But for the broad purposes of this discussion, I think we may conclude that we are going to have a very active economy and that we probably do not have to worry as much as usual about cyclical fluctuations in activity, commodity prices, purchasing power, etc. Furthermore, I think we should keep in mind the prospective inflationary gap that is represented by the surplus of disposable personal income over personal consumption expenditures.

Money Supply

But, just as we are keeping our eye on that inflationary gap, we must remember that officials in Washington can see precisely the same thing. Judging from my recent visits to Washington, the majority of Congressmen, the Federal Reserve Board, and many officials within the Administration—with the possible exception of the Treasury Department — are extremely concerned about the inflation potentialities. Some of these people are trying to attack the problem by efforts to control the *effects* of the inflationary forces. Typical, of course, are the demands for wage and price controls.

Others recognize the importance of getting at the causes, that is, the inflation forces themselves. For example, we have the restrictions on instalment and mortgage loans. Of a more fundamental nature, the Federal Reserve Board has ordered an increase in the reserves that commercial banks must set up against their deposit liabilities. However, the Board has nearly exhausted its powers to increase reserves.

I would like to go into this aspect of the situation in a little more detail, because there is a distinct possibility that it may have a strong bearing on investment policies. Briefly, I don't think we will have any trouble in the stock market because of declining business activity or lower commodity prices, or contracting purchasing power, or even because of very sharply declining earnings and dividends. If we are going to have trouble, it is my opinion that it may stem from this matter of money supply.

It happens to be a fact that a declining trend in money supply almost invariably is followed by a declining trend in stock prices. On the basis of factors that we can now measure, I expect to see a declining trend in money supply for the first several months of this year, but there would seem to be reason for believing that the declining trend would only be temporary and should be reversed before the second quarter has been completed. However, it would be embarrassing if we interpreted the declining trend of money supply as only temporary and then a couple of months from now find that the trend was going to continue because of arbitrary action taken in Washington.

I think it is quite likely that the Federal Reserve Board will ask Congress for additional powers to control the supply of money. I don't know what these powers will be or how they will be exercised. But with a majority of Congress and the Board worried about inflation, I should think the powers would be granted and exercised.

The complications and unknowns in this situation are rendered no less confusing by the

Treasury Department's insistence that long-term interest rates must be pegged at 2½%. This policy, if it continues, is going to make it difficult to counteract the inflation forces. If the Federal Reserve Board increases reserve requirements, and then the Federal Reserve Banks have to buy up the bonds liquidated by the commercial banks so that government bond prices may be sustained, nothing of an anti-inflation nature will be accomplished. The adamant attitude of the Treasury Department on interest rates was forcefully stated by Secretary Snyder only last week.

I don't see how any of us can foretell how this situation is going to work out. I am bringing up the subject this evening because I believe that the outcome might have an important bearing on investment policies. We must remember constantly that the officials in Washington recognize that the prospects call for a condition of excess demand over supply—a surplus of income over and above the supply of goods and services upon which that income can be expended. That being so, we may logically anticipate all sorts of steps may be taken to counteract the inflationary forces.

It is too early to conclude at the moment, but I suspect that we may have to temper our ideas about the strength of the inflation potentials which I, for one, have been emphasizing in recent months.

Common Stock Demand

My next major topic concerns the supply and demand for common stocks. As a result of developments in recent years, I think we have present today some factors influencing the demand for common stocks that we never had before. Hence, we may find some justification for altering some of our measurements of security values and stock price behavior.

Peculiarly enough, labor has caused a development that may be bullish for common stocks. I refer, of course, to the pension funds. The net economic result of this maneuver is to channel a portion of corporate funds into the security markets. We never had that kind of demand for securities before—at least not to the presently indicated substantial extent. It is impractical to calculate the amount of money that may be involved in total. We happen to know that the total for three companies alone suggests a demand for securities at the rate of about $100 million a year. To a considerable extent, this demand comes into the market in a most cold-blooded and automatic fashion; it does not seem to wait for a reaction or the hope that a given stock might be purchased for a half point concession.

Then too, the inflationary trends, and the insistence of the Federal Administration on a 2½% interest rate, have caused an increase in the demand for common stocks. I believe that the New York insurance companies and savings banks expect the Legislature to permit them to invest up to 5% of their assets in common stocks. Several other states are giving consideration to the "prudent man" investment policy. Here again, we can envisage a demand for common stocks that hasn't been present before.

In addition, as I remarked before, there is an amazing realization on the part of the general public that fixed income securities do not provide any protection against price inflation. Consequently, there is a tendency to direct savings into common stocks instead of into bonds. From the government's viewpoint, this is a serious matter because many billions of savings bonds mature over the next several years. Secretary Snyder seems to think that the continuation of a 2.9% yield will encourage the public to hold these savings bonds. The individual investor that I have talked to does not look upon the bonds with favor because it is obvious to him that there has been a deterioration of purchasing power both in respect to the principal and income. Maybe I do not see a true cross-section, although we have clients located all over the United States, but it is my observation that there is a steady flow of personal investment funds from bonds into common stocks and I judge that the reason is to be found in the inflation forces. Throughout our financial history we have had periods wherein the public acquired an intense like, or dislike, for common stocks and we must recognize that the demand of this type is treacherous—it can change at a moment's notice.

Nevertheless, we do have to recognize that several relatively new forces are operating on the demand-side of the common stock equation, and, if other forces were unchanged, stocks should sell on a lower yield basis.

Price-Earnings Ratios

My next major topic concerns earnings and dividends and their relation to stock prices. Forecasting the earnings of a given company is always a treacherous job, but I have asked my staff specialists to give me their ideas of the 1951 earnings prospects for the companies that they keep under constant analysis. In this appraisal they have given consideration to the probability that we will have a very active economy, and most companies will be enjoying the benefits that result from operating in a sellers' market.

As I study over this list, I find that the earnings for a great many companies will be off only moderately in 1951. Some companies are likely to earn as much this year as they did last year, and a few are likely to show some improvement. On the average, it looks like the earnings would be off something like 15-20%. Obviously, it is very early in the year to make such projections, and these figures are distinctly of a preliminary nature. But, with the promise of an active economy, corporate earnings power is not heading into an abysmal pit; give the American businessman a good demand for his product, and he will manage to record good profits, in spite of the obstacles.

When we relate these earnings prospects to probable dividend payments, we find stock after stock that affords a good yield on current prices with the dividend promising to be covered by a rather comfortable margin.

We conclude that, in general, corporate earnings will be lower in 1951 than they were in 1950, but not so low that current prices would look unreasonably high. Furthermore, in view of the increasing investment interest in common stocks for income, we are impressed with the number of issues that afford a relatively attractive yield—certainly attractive in relation to bond yields.

Foreign Situation

Now, all of my foregoing comments are based on the presumption that we are going to continue with an armed-camp type of economy. The two other contingencies would be a full war with Russia or a return to a peace type of economy with low military expenditures. I find a fair number of individuals who favor one or the other of the alternatives of my basic presumption.

Obviously, the foreign situation is very critical. Looking at the situation from the Russian viewpoint, it would appear that her military strength in comparison with ours is at its most favorable point right now, and will tend to deteriorate as our armament program progresses. Stalin knows that, and it may be the factor that would make him decide to enter into an all-out aggression in the near future. If all-out war developed, undoubtedly, there would be an emotional shock to investor confidence that would disturb security markets. However, we would still have a picture of very high economic activity, and the prospects for inflation would be enhanced. A heavy investment in common stocks might be embarrassing temporarily, but sooner or later the strong inflationary forces should be the determining factor of stock prices.

At the other extreme, there are those who believe that Russia does not want war because she is afraid of the atom bomb and the might of our productive capacity. It is argued that Stalin is afraid that he would not be able to maintain his hold on the Russian people in a war because of the basic fallacies of the whole Communistic theory.

But, personally, I find it very difficult to anticipate that the international situation could suddenly swing over to the point where everybody agreed to peace and disarmament. If such a thing did happen in the near future, I think we would have a considerable deflation because the supply of goods and services would probably exceed demand and we would have to go through an adjustment. It would be difficult to see how some of the raw material prices could hold their present levels without the pressures of extreme demand that are now building up. If we have to consider a peacetime economy a couple of years from now, we will have to take into our calculations the extent to which deferred civilian demand has been built up. Depending upon the time factor, the extent of such backlog demand would have a strong influence on the outlook.

I look upon the two alternatives in the foreign situation as contingencies that we will have to follow carefully as we go along. The greatest probability, in my opinion, is a continuation of the armament program, with the Communists continuing their annoyances around the periphery of Russia. Sooner or later, we may hope to have sufficient strength to control the annoyance at its source. Admittedly, Russia can disrupt this time-table at almost any point.

Investment Policies

I warned you in the beginning that I was going to ramble over a very wide field. Now, I would like to try to pull some of these disjointed pieces into a pattern for investment policy, if possible.

In formulating investment policies we have to consider the following conditions:

(1) The probabilities suggest that we will have a very busy economy and that we do not have to worry very much about many of the deflationary forces that keep us on guard most of the time in a normal economy.

(2) In general, the outlook does not seem to call for a sharp deterioration in total corporate earnings and dividends, even though 1951 figures will probably be lower than 1950.

(3) An analysis of the figures does not suggest that the prices of stocks are inordinately high in relation to earnings and yields.

(4) There is a satisfactory spread between dividend income and bond yields.

(5) Perhaps, we have been placing too much emphasis on inflation potentials. I have pointed out the possibility that the authorities may engineer a contraction of money supply that would counteract some of the other inflation potentials, but I have earmarked this factor as an unknown quantity at the moment that has to be watched carefully.

(6) We can see unusual forces operating that are tending to increase the demand for common stocks.

(7) In the field of important uncertainties, we will continue to have with us the tense international situation which may influence the outlook one way or the other in an unpredictable fashion.

It is out of this broad and varied set of forces that we have to try to fashion our investment policies. I have purposely strung out the numerous influences that we have to consider because I would like to discourage the tendency to put too much weight on any single one of these forces.

Now, at this point, in a talk of this kind, the speaker is usually expected to "stick his chin out," and predict that, on the basis of a balancing of the foregoing major forces, the stock market will go into a nose dive on some specific date, or that the Dow Jones Averages are going to rush right up to 300 before April Fools' Day. I think that practically all of us in the investment business feel that we are called upon to make such forecasts, and it is this very policy that is worthy of our serious consideration.

For example, I happen to think that the chances are a little better than even that we are just about due for an "intermediate reaction" in stock prices. But, within the past week, I have looked over three sizable investment funds and I did not recommend the sale of a single stock. This may sound very illogical, but as a matter of fact, I think it brings up a question of investment perspective that may be important to all of us.

You will recall that I have mentioned the new types of demand for common stocks that have been entering the picture. The life insurance companies, savings banks and pension funds will be looking for the investment that will give them the highest yield with a good degree of assurance. If you were the manager of one of these funds, a 5½% well-assured return on a common stock would look rather attractive in relation to a 3% yield on a bond. If the price of the stock declined, you would have more funds coming in with which you could average down the cost of your stock commitment. I know of some pension funds that are conducting a cold-blooded dollar averaging operation in accumulating a back-log inventory of common stocks.

This perspective is sharply different than that of the speculator and board-room trader. The manager of a pension fund is hoping for a reaction in stock prices; the speculator either fears it, or tries to anticipate it. The speculator's emotions and decisions still have an influence on the market, but the investor's attitude is likely to become a more important market determinant than it has been in the past.

And, since this investment viewpoint is becoming of increasing importance, investment advisors may have to adjust their viewpoint. Let me illustrate my point. One of our specialists has recently been reviewing the affairs of a company which has embarked upon a new stage of expansion that promises to increase the size and earnings power of the company substantially in the next five years. This company is expected to report earnings around $6.50 per share for 1950. And even with a full year of excess profits taxes, the results in 1951 should be in the neighborhood of $6.00 per share. This is a good coverage for the present $3.00 dividend payment on which the current yield is around 6.6%.

Now let us look at this value as it may appear, entirely separate from the stock market in general. The investment manager sees an attractive current return with a rather well-assured dividend and prospects for growth that may provide a good hedge against long-term inflation. The yield is twice as much as he can get on a bond of something less than top quality. Why shouldn't he buy the stock for his pension fund, even though the speculator observes that the issue is currently selling at the highest price on record, and concludes that the price should react because it "has run up too fast."

The speculator may be right from his short term viewpoint, and the accuracy of his judgment may pay off for him in profits. However, the manager of the pension fund is not very impressed because he has to get an income on his investment and he wants to buy more stock anyway.

It may be disappointing to some of you that I am not going to make precise predictions about the Dow Jones averages. It has been my purpose here to encourage the study of all of the major forces that will influence business conditions, corporate earning power and investment policies. However, I think that the results of such studies should be applied more intensely to an analysis of the earning power and dividend prospects of individual companies, rather than to emphasize them as proof that the stock price averages are going up or down. I suggest this change of emphasis, because I think it will conform to certain changes that are taking place in the character of the business.

It is through this line of reasoning that I hope you will recognize the practical logic of one of my previous observations, namely, that I think that the chances are better-than-even that stock price averages may have an intermediate reaction in the reasonably near future, but I did not recommend the liquidation of a single issue in three investment funds that I recently reviewed. My thought, of course, is to encourage a recognition of the objectives of a given account and to suggest to you that an increasing number of accounts are becoming much more interested in individual values than they are in your opinion, or mine, as to whether or not the averages are going to have an intermediate reaction.

First Boston-Blyth Group Underwrites Utility Stock Offer

The First Boston Corp. and Blyth & Co., Inc., jointly head an investment group of 52 members which is underwriting an offering by Central Illinois Public Service Co. to its common stockholders of rights to subscribe at $15.87½ per share for 267,600 additional shares of common stock at the rate of one share for each 10 shares held of record Jan. 18, 1951. The subscription warrants expire on Jan. 31, 1951.

The proceeds of the sale of the new shares will be used to pay, or reimburse the company in part, for the cost of additions, extensions and improvements to its properties, principally the electric properties. The company estimates that expenditures for this purpose for the period Sept. 1, 1950, to Dec. 31, 1952, will aggregate approximately $35,000,000. Against these expenditures the company is applying, in addition to the proceeds of this sale, $5,940,000 received from the sale of debentures in December, 1950, and approximately $2,000,000 from other sources. The company also expects to obtain $14,000,000 from the sale, late in 1951 or in 1952, of additional securities.

The company supplies electric service to about 216,300 customers in 500 communities and adjacent rural areas in 61 counties in central and southern Illinois. The company also distributes natural gas in a part of its territory.

For the 12 months ended Oct. 31, 1950, the company reported total operating revenues of $29,796,201 and net income of $5,085,684.

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not worth defending—all this must have seemed to the hungry Bolsheviks like the invitation of the cook of a western camping outfit, "Come and get it!" And they came—another instalment we are paying on the cost of our New Deal amateurs.

Dr. Palyi's idea that we should go slow on masses of infantry for Europe and concentrate on super-bombs and the means of getting them to Russia seems sound. It fits in with what seems to be the reluctance of European countries to make much of an effort to defend themselves.

Whether it is advisable to tell Stalin where we will fight may be questioned. It would seem to be telling him that other points of aggression were all right for him to take action on. For the present, he is doing all right at points where we will not fight, as in China. Dr. Palyi thinks China's aggression in Korea is largely our fault. Our repeated assurance that we had no designs on China, would not attack China, etc., instead of making a good neighbor out of Mao, merely convinced him we were an easy mark, a set-up that could be taken on without risk. And so the China mess. Just what we should do now in China Dr. Palyi does not say: Probably like the rest of us he does not know.

His idea of an all-out preparation for a super-bomb blitz-kreig to deter Stalin from starting something or for quick retaliation in case he should be so reckless seems good.

It seems to me the blitz-krieg we should prepare for at once is a propaganda blitz-krieg, using for that purpose the truth and our material resources.

We might start out by convincing the Russian people that we are their friends, that the common enemy is the Politburo, that the death of Stalin or the start of war should be the signal for the people to overthrow their rulers and make a democracy out of Russia. We might recall the fact that Stalin in 1921 tried to starve 10,000,000 farmers in the Volga Valley because they would not give up their farms; that from September, 1921, to July, 1923, Hoover fed these 10,000,000 farmers and saved their lives. We should recall the fact that Kamenev, in behalf of the Soviet Government, in an official farewell to the American Relief Administration, said:

"Thanks to the tremendous, utterly unselfish efforts of the ARA, millions of people of all ages were saved from death, and whole villages and even cities were saved from the terrible catastrophe which threatened them."

And where is Kamenev now? Stalin has liquidated him.

We might call upon the Russian people to liquidate their rulers now, even before the death of Stalin or the start of war. We should tell the Russian people that we have the super-bombs to wipe out their Russian masters if it has to be done, but that they ought to do it themselves at a minimum loss of life.

Some thousands of years ago it ver would open the gates of any was said that a mule load of silver would open the gates of any besieged city. We might promise Russian fliers who are scheduled to come this way with bombs that if they drop them in the Atlantic and land on our shares they will be given citizenship later in our country.

H. P. B. JENKINS
Professor of Economics, University of Arkansas Fayetteville, Ark.

H. P. B. Jenkins

Your published invitation for comments on Dr. Palyi's article, "Are We Falling Into History's Greatest Trap?", which appeared in the Jan. 11, 1951, issue of your "Chronicle," stimulated me to analyze and appraise Dr. Palyi's proposals and to write this letter, a copy of which I am sending to Dr. Palyi.

Before dealing with the plan proposed by Dr. Palyi, may I say that, while I do not agreed with his recommendations, I do consider that his article constitutes a most valuable and stimulating contribution to the free discussion and clarification of America's strategic problems, and that your "Chronicle" performed a valuable public service in publishing it.

At considerable risk of error through misunderstanding of his meaning, I have summarized Dr. Palyi's thesis in the following paragraph:

Russia is in the habit of committing armed aggression upon every undefended country within her reach, except those which are under the announced protection of the United States. Russia intends to avoid the risk of a "real war," except those which she can expect to win by a blitzkreig. Therefore, the United States should declare a new Monroe Doctrine, laying down the line beyond which the aggressions of Russia and/or her satellites cannot go without the certainty of an "irrevocable counteraction" by the United States. Such a Monroe Doctrine is feasible, because Russia cannot expect to win a "real war" against the United States by either a blitz-attack or a long war, and the rulers of Russia will never run the risk of provoking an American counterattack upon Russia. Russia's most probable course of action, therefore, is that of undermining the American economy through cold wars. The proper armament policy for the United States in this situation is that of maintaining only that minimum amount of armed force which would be "adequate to the necessities of a lightning war," i.e., merely sufficient to defeat any Russian blitzkreig against America and a deliver an overwhelming counter-blitz against Russia, in immediate retaliation for any attack by the Reds' either upon Ameria or upon countries included in our new Monroe Doctrine. By following this strategic plan, America could protect her friends and allies without bankrupting herself through trying to maintain the huge armed forces that would be required to fight a general war of the normal kind.

The course of action which Dr. Palyi recommends for the United States can be challenged on several grounds. In this letter, I shall comment on only three of its weakest points:

(1) Dr. Palyi's strategic plan may fairly be called "defense by threat of American counter-attack." The analogous course of action for a field commander facing the threat of a surprise attack by a strong enemy would be for that commander to disband and send to their homes all of his forward bodies and advance guards, all of his "islands of resistance," all of his flank guards and most of his main body, keeping in the field only his rear guard and a small reserve for counterattack, meanwhile notifying his enemy of these preparations. Although the maintenance of mobile assault units for immediate counterattack is always an important part of the battle plan of a good field commander, I know of no case of a successful field commander relying entirely upon his rear guard and his counterattack units for success in defeating a surprise attack launched by a strong enemy, especially if that enemy had unrestricted access to the commander's tactical plans. And, while a plan which would almost certainly be disastrous in the field might possibly "work" in global strategy under certain conditions mentioned below, nevertheless the adoption of such a plan when those conditions are not known to exist in fact would be open to serious challenge on the grounds that it violates most of the accepted principles of war.

(2) In support of his proposition that modern aggressors will "aggress" *only* where and when they expect to win by a blitz-attack, Dr. Palyi cites the cases of the Kaiser's generals and Hitler. In both of these cases, says Palyi, the aggressors expected a quick and cheap victory, and would not have launched their wars in the absence of that definite expectation. Now it seems to me that those examples, together with the case of Japan's attack at Pearl Harbor, can be interpreted in an entirely different way from that suggested by Dr. Palyi. Suppose that we classify those cases as examples of the tendency of tyrants to reach a completely wrong "estimate of the situation," this tendency being a natural consequence of their difficulty in reaching and maintaining an awareness of the true realities in their situation. In other words, since tyrants are necessarily surrounded by "yes men," may not all tyrants be subject to the fatal tendency of misjudging the factors in any situation in which their own power and prestige is at stake? A good argument could be made in support of this alternative interpretation of the cases cited by Dr. Palyi. And if this interpretation be accepted as having at least as high a probability of being correct as that offered by Dr. Palyi, then we must conclude that the rulers of Russia are just as likely to launch a sudden blitzkreig in the erroneous expectation of a quick victory as they are to pursue the long-run (and perhaps equally erroneous) plan of trying to bankrupt the United States by cold wars. If a sudden, though ill-advised, blitz-attack by Russia (either on America itself or on countries taken under American protection in Dr. Palyi's suggested new Monroe Doctrine) is one of the possible events that we must take into account in our strategic planning, then the wisdom of our own strategic plan becomes a matter of the utmost importance. In the light of these considerations, let us take a closer look at the strategic plan offered by Dr. Palyi.

(3) Dr. Palyi's plan for defense of the free world by the threat of an immediate American counter-attack rests upon the implied assumption that the American counter-stroke would necessarily be so devastating to the Russian war power that the men in the Kremlin, being hard-headed realists, would never run the risk of putting Russia on the receiving end of such a mortal counter-blitz. On the strength of this assumption, Dr. Palyi would have us abandon our preparations for a general war, i.e., have us stop maintaining and reinforcing our "islands of resistance" in countries near the iron curtain, and have us stop trying to build up a powerful "main body" of armed forces at home—and he would recommend all this in the name of "economy." On the strength of that same assumption, Dr. Palyi would have us violate most of the accepted principles of war in our strategic planning and preparation. And we must agree that if that assumption were unquestionably true to the realities of our situation, then indeed we should adopt Dr. Palyi's plan as the most economical solution of a difficult problem. But how much weight can we actually give to Dr. Palyi's basic assumption before it is actually tested in war?

This is not the place to discuss in detail the probable effectiveness of any possible counter-blitz launched against Russia by American armed forces. Let me merely ask a few questions which must be correctly answered before we agree to Dr. Palyi's plan of defense by threat of American counter-attack. First, do the masters of Russia agree with Dr. Palyi's estimate of the overwhelming power of our counter-blitz? If they should either mistakenly underestimate its power, or if they should have full confidence in their own defensive measures, then the *threat* of an American counter-blitz would not protect the countries covered by the proposed new Monroe Doctrine from being overrun by the Red armies, with consequences similar to those now occurring in South Korea.

Secondly, it is fair to ask Dr. Palyi whether he is certain that his estimates of the effectiveness of an American counter-blitz is really accurate. What if we could cripple Russia's war power *only* by a long, general war and with the assistance of all free countries? Indeed, how can even the best military experts actually know the effectiveness of an American counter-blitz against Russia, before it is put to the test? Meanwhile, is it not wise to reflect that overconfidence in some novel weapon or method of counter-attack might give rise even in a free country to the same mistaken expectation of quick and decisive victory that caused the downfall of the Kaiser, Hitler and the Japanese war lords? Such miscalculations may not be entirely confined to tyrants. We can still remember when many people, even some with military experience, believed that we could defeat infantry attacks by air power! In short, could not a blind and untested faith in the overwhelming power of an American counter-blitz against Russia be viewed as a new and more dangerous form of the Maginot Line illusion?

May I add in conclusion that my comments and questions about Dr. Palyi's plan are not intended to imply that I agree with the present American strategy. On the contrary, I would be glad to see America adopt a better plan than has so far been officially revealed for disposing of the menace of Red imperialism. However, I cannot agree that Dr. Palyi has given us the strategic plan we need, in view of the many uncertainties that have to be taken into account. I fear that in adopting Dr. Palyi's plan, while we might possibly avoid the trap of economic exhaustion, we should soon find ourselves caught in Red slave labor camps. We need a strategic plan that will keep us out of either of those traps.

HON. CARL VINSON
Congressman from Georgia, Chairman, House Committee on Armed Services

As regards Dr. Palyi's article, certainly it is sound that the United States cannot make itself impregnable. This is a military impossibility. Nevertheless, I do believe that we are now soundly based in our defense program, a program which does not seek impregnability for our land, but which does seek a sound posture of defense capable of rapid expansion to meet aggressions which affect our vital interests in the world.

* * *

L. AULL
San Juan, Puerto Rico

Let me extend to the author, Mr. Melchior Palyi, and to you for publishing it, my congratulations on his splendid article in your issue of Jan. 11, "Are We Falling Into History's Greatest Trap?".

It is good to know that there are still some informed people who can think. I hope this will be widely read, and it should be read by every legislator at Washington.

* * *

W. J. FARRINGTON
Mt. Vernon, N. Y.

I am afraid Dr. Palyi is a voice crying in the wilderness. It's too bad some of our men of power in Washington haven't a little of his common sense and vision.

* * *

W. E. COLE
Orlando, Fla.

As a European, like Dr. Palyi, who experienced the first World War "over there," and subsequently lived in most Western European countries, I find myself in general agreement on most points of his thesis.

Surely it is fantastic to believe that Russia would or could attempt any invasion of America in the foreseeable future, when Hitler in 1941 could not conquer even the English Channel. The present hysterical fear of America is not of direct invasion soon, but that Russia—which already controls the Eurasian Heartland (of Sir Harold Mackinder)—may break the jeweler's window running across mid-Germany and seize the jewels in the industrial workshop of Western Europe, toward world conquest later. The deterrent is not the thickness of the plate glass, but the knowledge that a police car is not far away. Better double the police cars (B-36's, A-bombs, etc.) than thicken the glass.

However, while I agree with Dr. Palyi that "Russia's idea is not when and how to start World War III," I do think she intends to continue World War II, which has never ended! That may continue as a relatively cold, cool or hot war—the temperature rising to such degree that the Politburo thinks will not provoke the United States (or United Nations) to drop bombs on the Kremlin. No "Pearl Harbor" in the near future: that would *help* America rather than hurt, by uniting her might in a common cause. And Stalin is not likely to oblige that way.

Asia is a separate vision and may be the main Russian objective rather than Europe, because less dangerous to the Kremlin occupants, but the European picture which I see in Stalin's eyes is this:

RUSSIA

Poland
(and Czechslovakia) = China
East Germany = North Korea

Russia declares for disarmament of Germany and withdrawal of occupation troops. The United States stresses West German rearmament. That means civil war in Germany. The East German army (like the North Korean) marches to *unify* Germany and prevent West German rearmament. Would the United States (UN) then bomb East Germany like North Korea? If East Germany is defeated (like N. Korea) the Polish (and Czechoslovakian) army marches to protect its boundaries (like the Chinese). Russia still keeps herself aloof.

Then, would the United States be at war with Poland (like China)? And should we drop bombs on Poland?—or on Moscow? In any case, Russia would force the United States (UN) to drop the A-bomb, or other bombs, *first.* Thus the United States may be maneuvered into position to appear as *starting* World War (as distinct from local wars), so that the Russian people and satellites support the Kremlin. That automatically would quiet some of the unrest referred to. To quote again: "They (the Russians) do fight with everything they have when attacked (a fact which is worth remembering. . . ."

We are agreed that the Soviets do not *want* war soon, but that they will press to the limit they think they can get away with, short of involving the USA. But, like Hitler, they may miscalculate, and like Miss Margaret's music critic, receive a damaged nose! Remember Korea. I cannot be so naive as to believe that the Soviet military power was built for nothing (or for defense—from whom?) —or that they will fail to use it as a powerful threat to support and encourage their satellites in aggression. Dr. Palyi is absolutely right, therefore, in asserting that we must define exactly "what we will fight for," and "quit waiting for the next Russian move." But is Dr. Palyi premature in assuming that "the Soviet rulers are of the peace-loving kind"—partly because they have acted hitherto as they have done?

"Why did they not overrun Europe before June 25 . . .?" Well, perhaps because the Kremlin did not want to "wake up" America before Russia herself was ready (in 1952?). Korea seemed safe. To continue: "And what are they waiting for now? . . . There is no sign of Russian mobilization having increased. . . . If he had any means to crush us this would be the 12th hour. . . ." I don't agree, and I don't believe the danger has yet passed. Until the past few weeks, the United States has shown no sign of real activity for military preparedness, and there was no need for Russia to precipitate a crisis. Maybe Korea was a great misfortune for Russia and a real blessing in disguise for us. For now the hour of decision is at hand, as the Politburo sees gigantic forces about to be created, and they must strike in 1951 or gradually lose relative advantage. No, the crisis year was not 1950; it is 1951. If 1951 passes without USA and USSR clashing directly, the picture should be much clearer.

So to the question "Are we falling into history's greatest trap?", the answer must be deferred one year. One year will not bankrupt America, and it seems to me that "mobilization potential" this year, and "readiness potential," with defined and limited objectives in future years, might save us from such a trap. But our greatest danger would be to be lulled into complacency again in future years, after the present spurt, as has happened before. Then there might be another "Pearl Harbor."

Finally, the Swiss have "tried to make themselves impregnable" for several hundred years. Is Switzerland a "garrison state" or a "bankrupt state" or a "bankrupt garrison"? Is it not the oldest true democracy—in fact, the only true democracy today? Is it not the last bastion of Capitalism and cultured living in Europe? Yet they have "guns *and* butter" in spite of universal military training for generations. (I understand the Swiss army mobilization potential is 750,000 from a population of 4,000,000.) But then the Swiss Republic is united, "speaks softly and carries a big stick," and leaves the world alone; instead of bellowing loudly and waving an umbrella—as has been the custom in Washington, D. C. Upon that maybe we are agreed.

* * *

ALDEN A. POTTER
Bethesda, Md.

Dr. Palyi presents a far better foreign policy program than that now being pursued. He thinks, in effect, that we should sit tight lest we stumble into "History's Greatest Trap."

Alden A. Potter

However, unless we are about to abandon stalling tactics and plunge into atomic warfare to checkmate the strategy of attrition being used by the Soviet, which we cannot otherwise stop by military measures (and obviously no one thinks we are going to initiate such action but will reserve it for retaliation which may never be called for), the expenditure of billions on "civilian defense" for each and every city in the nation is nonsensical; for the Kremlin plainly does not intend to stage a blitzkreig while the cards are stacked against success for them. They are not building bomb-shelters (or a UNO skyscraper to serve as a Trojan Horse of diplomatic immunity). Is it not silly for us to do so?

Better than bomb - shelters would be a strong home-guard of veterans set to assure what the Constitution provides, namely, a republican system of law and order in every community. This means an iron-handed control over strike or other disorders at all times lest mob psychology be resorted to at critical moments in war. Failure to so provide could determine the effectiveness of an atomic attack for the enemy. Our own domestic discipline and morale are, as Dr. Palyi says, the surest way to keep the Kremlin from attempting a blitz-kreig in Europe with the hope of crushing an inadequate allied defense there and creating panic and confusion here by following through, as we did in Japan, with a bombing attack, taking a chance (which we did not incur) on retaliation which could not destroy Soviet discipline while her armies were intact and victorious and prepared to prevent any large success by our bombers.

Our real problem is how to stop the war of attrition by other than military containment on the long Russian periphery where it will cost us so much more than it does the Soviet that it is we, not they, would could not sustain a long war, but would be caught in domestic disorder. Only then could a bombing *coup de grace* become good Soviet tactics. It is in this context that we cannot afford to sit tight. How can we change the context so that the "Voice of America" will spread itself at no expense at all just because it is the patent truth and not a meaningless jumble of "facts" supposed to offset Soviet lies?

The danger of entrapment lies, indeed, in the element of truth, not in communism (or socialism), but in the hope to which the Kremlin can cling, of industrial disorder due to conditions of monetary instability, i.e., inflation. The Soviet system has by no means found a way to eliminate inflation, even in peace. It has, on the contrary, tried to meet its effects by much the same sort of measures here threatened, summed up by President Truman as the "police state." By such means it has eliminated one of the greatest dangers in modern war, namely, lawlessness in labor strife, by eliminating strikes as measures of collective "bargaining." With this advantage (for war) their problem is to so manage as to compel us to face that danger before their similar inflationary situation can be made to collapse into anarchy by our tactics. Both systems are highly susceptible; but it is not enough that the pot should call the kettle black in either case. The winner will be that side which remodels the system to take it out of the sooty category of inflationary methods of finance. Before that can be accomplished it becomes necessary to rule out socialistic remedies, i.e., the elimination of private property or "monopoly." This will have to be approached, not "experimentally" (history proves nothing; there is always the idea that the cure for socialistic failure is more socialism), but with the certainty of logic and reason.

The fact that revolution in economic theory is imperative has been so tersely stated in "Price Control" by F. R. J. Jervis that it deserves a quote: "It is painfully obvious that in economic matters the democracy is at present not merely uneducated, but miseducated; not merely, like the African bushman, unable to count above five, but dogmatically convinced that five is the sum of two and two." The fact is that neither *laissez faire* nor a socialist state has presented any evidence of being effective in dealing with *this* cultural lag in modern industrial society. By finding an actual solution for it, through submitting it to careful, open-minded study devoid of traditional predilections (the writer has attempted to promote such study in "When and How Do Figures Lie?" in the "Chronicle" for July 5, 1945), the justification for the Kremlin's cynical hopes and our own defeatism on this score would be swept aside and the whole morale of the intelligentsia who are primarily responsible for the utopian fallacies of socialism, could thus be shifted "overnight" to the side of capitalism—but not, indeed, to side with any such anarchistic *laissez faire* as is presented by the Marxian ideal of a fully "withered" state, or the similar Keynesian utopia of a decline in interest to zero when paradise arrives to facilitate savings *ad libitum* and so assure an adequate "capitalistic" (but in a profit- and interest-free "capitalism"!) investment solution for all problems in life by removing poverty and inflated prices all at one fell swoop of unlimited supply to satisfy all demand!

This naive, money-free theory of price level is what the Soviet has attempted to validate; but it has failed so often and so largely that one may well suspect that the Politburo looks with cynical glee upon the American delusion that the way to global law and order is by such Point Four plenty and "perfect" competition as robs price of any meaning and retires a monetary-profit system of competitive trading to the limbo of a primitive past when everyone was a "chiseler" and science, "the endless frontier," was being frustrated by the profit motive from fulfilling its self-appointed mission as a Sacred Cow that could never be milked dry (and so permit inflation)!

It is, indeed, their bitter-end resistance to any and all suggestions that utopia is impossible, even to their Sacred Cow, that has made our scientists, seeking abundant Manhattan Projects as a way to abundance (at least for them and their Science Foundation) into convinced socialists or even self - styled communists! This latest pressure-group lobby offers, indeed, an abundance of everything except common sense and moral stamina. This was well demonstrated by Lord Stamp's retort to their "optimistic" view that only "The Frustration of Science" (a book by well-known British "liberal" scientists) by "monopoly capitalism" prevents the paradise they have prepared! But his advice went in one ear and out the other, leaving free play for an insufferable conceit and an ego so inflated in the atomic technician that he ignores plain proof that population can outstrip anything that technology can produce. (It is doing so right now, and furnishing proof of it in Korea.) Gerald Wendt, editor of "Science Illustrated," has illustrated this utopian materialism (which with Bishop Oxnam puts the material cart before the moral horse by saying that law and order depend upon better living standards, or "belly before brain in brotherhood") by this fatuous assertion in a "Harper's" article: "In that mastery (of atomic energy) is lodged the one great hope for a decent standard of living everywhere."

Contrast this fools' paradise with the restraint expressed by the "Rockefeller Foundation Review" for 1948 (p. 26): "Inherent in our systematic efforts to promote the welfare of mankind there may be an assumption that by taking thought we may add a cubit to our stature. . . . Some such hope is implicit, if not explicit, in socialist doctrine, but it is implied also in the dominant attitudes of American society. 'Planning' and 'Control' are the common coin of American politics, American business, American education and American science, despite the concurrent emphasis upon liberty, individualism and democracy. The bombastic phrase, 'control of nature,' is a byword of the literature of the day. Do we mean that because we have learned to navigate the tides we shall also control them? . . . Where do we think we shall stop —with the control of the speed of rotation of the earth, of its revolution about the sun? Shall we also learn to control the chain reaction in the sun whence comes all our life and power? Pride goeth before a fall. All our efforts will promote only disaster if they are not done in the humility appropriate to our ignorance, never forgetting that we have not made the earth or the heavens above it."

The trouble is that organized science has developed no policy to see these differences through to a conclusion and then pursue that conclusion on into others even though these may tread on the toes of their Sacred Cow. It seems fair to charge that as a pressure group science abandoned its reverence for the truth and joined the damagogues when it produced the Bush Report and lately the Gordon Gray report, to the President, presenting itself as an "endless frontier" capable of utopian service to mankind, even into the globaloney of Point Four, all of which is implicit in the bureaucratic paternalism of the UNO with its might-makes-right implications. That this would be no step toward world peace was foreseen clearly by the "Chronicle" on June 7, 1945, when it said editorially: "Neither agreements reached at San Francisco nor mechanisms there devised will have much bearing on the course of world affairs or in the maintenance of world peace."

It has proved worse than that; what we have taken into our gates is a Trojan Horse in war! A scientific utopia and freedom from want was its outer framework—its false pretense. It was science that set the stage for all this—for the naively generous appeasements at Teheran, Yalta and Potsdam, and the disbandment of our armies and substitution of ECA. It is science that owes, not us alone, but humanity (including especially that segment in Korea), not merely its apologies, but a reversal of Modern Materialism (see "Philosophy for the Future," Macmillan, 1949; the American counterpart of Britain's "Frustration of Science") so as to point out the *truth* that the "cultural lag" is a moral, not a material, lag in general welfare.

It is not enough that the communistic personnel which organized UNESCO under Julian Huxley (specifically in the case of Dr. Joseph Needham, original head of the science section) is now out of control. The utopian materialism —communistic paternalism — implicit in the bureaucracy of the UNO, must be fully recanted. Then and then only need we no longer fear that the Kremlin can wage a successful cold war by boring from within and taking advantage of the naive scientism which sells *itself* down the river *before* it betrays democracy for no reason but its welfare-state "ideals" that are grounded in falsehood and hypocrisy. The world is finding socialism to be a flop. Only our own scientific utopians are preserving it as the nidus of subversive revolutions to be appeased and as something to fight about while glorifying the same utopians for their patriotic (and profitable) provision of the weapons of mass destruction.

The betrayal of truth penetrates beyond our own national welfare and prevents the moral and intellectual atmosphere necessary to worldwide understanding and peace through law and order, i.e., through what ultimately must be a world government and not a nationalistic federation like UNO to adjust imperialist disputes, each by negotiations having no law but only the compromises of power politics to govern the outcome. In the final analysis, of ideology rather than of power, it is not in any isolated nationalism that we can sit tight or stand pat. A *common* denominator that does not rest on power politics, but on truth, is essential in the conduct of the uncompromising diplomacy of peace.

* * *

HON. O. K. ARMSTRONG
Congressman from Missouri

I have read Dr. Palyi's article with great interest and I agree!

E. C. YOUNG
Oberlin, Ohio

I heartily agree with Melchior Palyi in his article entitled "Are We Falling Into History's Greatest Trap?"

The "Fair Dealers" have become hysterical. But what can we expect from men hopelessly mediocre, even below the average in ordinary common sense!

Coleman & Fagan Admits

Coleman & Fagan, 2 Broadway, New York City, members of the New York Stock Exchange, will admit Jack C. Louis, Exchange member, to partnership on Feb. 1. Mr. Louis has been active as an individual floor broker.

McCambridge Admits Partner

(Special to THE FINANCIAL CHRONICLE)

MANITOWOC, Wis. — Lewis J. McCambridge, formerly proprietor of First Securities Company of Manitowoc, 803 York Street, has admitted Edwin J. Scholten to partnership in the firm.

Continued from first page

Financial Mobilization And the Interest Rate

our American form of government and our American system of free enterprise. It is in the spirit embodied in these principles that I should like to discuss with you today some of the issues which are involved in our present national task of mobilization for defense. I am grateful to the Board of Trade for affording me this opportunity to speak openly and frankly about the financial and economic problems that now confront us.

I need not tell you that the destiny of a nation is not always decided on the battlefield—nor even in the sometimes equally hazardous and difficult paths of diplomacy. In any national emergency, much depends upon our work in the factories and in the fields—and the keystone of our production and economic effectiveness is the financial stability of our country.

Today our nation is in a state of emergency. For the second time within less than a decade, we are being called upon to marshal our great military strength to resist the forces of aggression which seek to destroy us. Very serious days are ahead of us. The varnish of Soviet pretense to peace has worn off. Soviet imperialism is threatening the structure of world security. We have no time for illusions. We must be alert—we must be fully aware of the peril—and we must know wherein the hazard lies.

The danger we face is all the more menacing because of the sinister nature of the campaign which the aggressors are waging. This campaign is typical in most respects of all the campaigns of imperialist dictators, but the Soviets have added some strategems of their own.

The Moscow plan is one of arousing hatreds — nationality against nationality, class against class, creed against creed — to bring about mutual destruction of those peoples on whom they cannot count to play the Moscow game. Here in America, the Communist aggressors, through their agents and propagandists, seek to stir up suspicion and strife among us—and so to create disunity.

It is their theory that if a democracy is subjected to enough of their propaganda of confusion, its people will be unable to act swiftly and confidently if attacked. A first step which we must take in defense against such strategy, obviously, is to see through the smokescreen of propaganda, to expose their lies, and to meet their threats with a solid front of strength which is at once spiritual, economic and military.

Determined efforts and concentrated energy are needed to gain this goal. Yet, at the same time, we must maintain the basic stability and productivity of our domestic economy.

Public policies today, in every area of domestic endeavor—fiscal and otherwise — must be so designed as to strengthen the sinews of our productive power. We must plan in such a way as to avoid any measures — however well adapted they may seem to a specific purpose — which would undermine the ability of the American economy to meet the tremendous demands which are being made upon it.

The Secretary of the Treasury has far-reaching responsibilities in the formulation of fiscal policy to meet the financing needs of our government. To fulfill these responsibilities adequately, it is necessary to have the counsel and aid of the most able financial and economic minds of our country. The successful merging of revenue measures and borrowing programs in such a way as to make the most effective contribution to the productive power of the nation is one of the most difficult and most important problems on the domestic front.

Inflation Can Be Disastrous

One of the most serious threats to the strength of our defense economy is undoubtedly inflation. And it is a threat which could develop into disaster.

The essence of inflation is the uncontrolled spiraling of prices and wages. There have been manifestations of this economic disease in every period of war or defense effort of this country and of all countries. Our defense program today presents the same hazard.

The effects of pronounced price instability are diffused in many directions. One of the most dangerous results is that mobilization itself is handicapped through both direct and indirect influences. Far-reaching inequities arise from the inflationary process in the uneven distribution of income and profits. The defense burden is inequitably distributed among groups and communities by inflation. We lose productive efficiency. Inflation feeds the very fires of controversy.

To keep inflation in check, then, is the first need in our defense undertaking. As we transfer a great portion of our productive power from civilian to military output, and so reduce the supply of civilian goods, we must put brakes on the purchasing power of consumers. This means that a substantial part of both business and personal incomes must be diverted from the consumer markets. The alternative of allowing prices to move higher and higher would vitally damage the defense effort.

Without question a most effective overall fiscal measure for avoiding the evils of deficit financing, and thereby combating an inflationary spiral in prices is a revenue system which enables the government to pay its current bills out of current income. No one welcomes heavy taxes. But in a time of unprecedented national danger like the present, I am certain that all groups of our population will soon realize that very much higher taxes — for themselves, as well as for others —are a necessary defense measure.

Revenues Alone Insufficient

While adequate revenues are an essential safeguard against the development of inflationary tendencies, they cannot do the job alone. Measures for allocating essential materials have been adopted in order to assure priority for our military needs without increasing the strain on the price structure. Selective credit controls such as those embodied in the Defense Production Act passed by the Congress last July are also of definite help. Other measures of demonstrated effectiveness in curbing inflationary tendencies, such as price and wage controls, are under consideration and will assuredly be adopted soon.

You will note that I have not included the use of fractional increases in interest rates on government securities as one of the measures of effectively controlling inflation. The Treasury is convinced that there is no tangible evidence that a policy of credit rationing by means of small increases in the interest rates on government borrowed funds has had a real or genuine effect in cutting down the volume of private borrowing and in retarding inflationary pressures. The delusion that fractional changes in interest rates can be effective in fighting inflation must be dispelled from our minds.

In the absence of new legislation, the Federal deficit will amount to $16.5 billion in the fiscal year 1952.

This deficit is a result largely of our defense requirements. In non-defense spending, as the President has noted, the only major new public works projects included in the Budget are those directly necessary to the defense effort. Construction of many public works projects now under way has been substantially curtailed. Many other activities have been abbreviated.

The revenue requirements which the defense situation demands need no comment. These requirements can be met without damage to the economy if our citizens have mutual willingness to make the necessary sacrifices.

Along with adequate revenues and specific controls required for curbing price and wage rises, there is a weapon of great importance available to us for keeping inflationary forces under control. That is a debt management program which is directed toward placing the largest possible proportion of Federal securities in the hands of nonbank investors—individuals, insurance companies, mutual savings banks, and other investors outside the banking system—and reducing the proportion of Federal securities held by commercial banks and Federal Reserve Banks.

This program is a powerful weapon in combating inflation. There seems to be a lack of sufficient public knowledge or understanding of what the Treasury has achieved in this area during the postwar period. It should be pointed out, therefore, that as a result of specific Treasury debt management policies, holdings of government securities by private nonbank investors have increased substantially since the end of the war, and have reached an all-time peak during the last half of the calendar year 1950. This activity has been accompanied by a decline in the holdings of the commercial banking system, which reached new postwar lows during the last half of 1950. Three years ago the public debt was the same as it is now. But the government security holdings of the commercial banking system have dropped nearly $10 billion; and approximately $4 billion of this reduction took place during 1950.

The importance of this anti-inflationary accomplishment cannot be overestimated. This reduction in the money supply of the country holds particular significance at the present time when it is vitally important to the wellbeing of the economy that the inflationary potential of commercial bank assets be kept at a minimum.

There are two other important matters relating to debt management policy which hold particular interest at the present time and which have been given extensive consideration in the financial community and elsewhere in recent months. The first is the place of savings bonds in the government financing picture, and the actions that will be taken to refund maturing "E" bonds. The second is the rate of interest that the Treasury is going to pay on long-term government bonds in refunding and new borrowing programs. I want to take up each of these two questions in turn.

A moment ago, I stated that an important anti-inflationary action could be accomplished by placing the largest possible proportion of Federal securities in the hands of nonbank investors. As part of the Treasury Department's endeavor toward this end, the Savings Bond Program has been of outstanding value. It has been both dramatic and effective. It has been dramatic because it is sustained on practically a volunteer service basis. It has been effective because, today, the total of outstanding Savings Bonds represents approximately 25% of the entire Federal debt.

It is really inspiring to know that there are about $10 billion more Savings Bonds outstanding today than there were at the end of World War II financing. The tremendous selling program involved in achieving this remarkable record is due in the main part to the volunteer efforts of individuals, business groups and all organizations who have contributed time, money and ingenuity to the promotion and sales of Savings Bonds.

There are only about 500 paid employees in the Savings Bond Division of the Treasury. These employees plan and coordinate the program. The real volume of the work, however, is done through the generous efforts of those volunteers who have sold Savings Bonds to over 85,000,000 purchasers.

Of the $58 billion total of outstanding Savings Bonds, nearly $35 billion is in "E" Bonds. This is a noteworthy accomplishment—for no one would have been rash enough to predict at the end of World War II hostilities that five years later there would be a $4 billion increase in the total of outstanding "E" Bonds. Most of us were sure in 1945 that there would be a heavy cashing of Savings Bonds as soon as war scarcities and restrictions were over. On the contrary, however, the "E" Bond total has gone up every year because of the organized promotion by volunteers in bringing the merits of the Savings Bond investment to the attention of the public. As a matter of fact, in the calendar year just ended, the volume of "E" Bonds outstanding rose by three-quarters of a billion dollars, notwithstanding the fact that there were increases in redemptions as a result of the scare-buying immediately following the outbreak of the Korean crisis. It is interesting to observe in this connection that the redemption of "E" Bonds—in relation to the amount outstanding — was less percentagewise than other comparable forms of savings. So it becomes readily apparent that the Savings Bond is, in fact, a very popular form of savings.

It was this last fact that led to the conclusion on our part, after consulting with many individuals and business groups, that the Treasury should continue the Savings Bond Program after World War II as a major effort to encourage the promotion of thrift. It is this same conclusion that leads us to announce that the Treasury will continue to offer the "E" Bond, in its present form, to the public as a Defense Bond during the mobilization period. The aim now is not only to promote thrift, but to act as an anti-inflationary force and to help further distribution of the ownership of the public debt.

As you know, beginning in May of this year, a portion of the Savings Bonds bought during the war years will mature. While some of the holders of these bonds may desire to cash them upon maturity, it is our belief that the majority will desire to continue their investment in United States Savings Bonds. Therefore, the Treasury is adopting the following plan for handling the maturing bonds. The holder may have his choice of: one, accepting cash if he so desires; two, continuing to hold the present bond with an automatic interest-bearing extension; and three, exchange his bond for a current income savings bond of Series G.

Under Option 2, the bond would be automatically extended, bearing interest at the rate of 2½% for the first seven and one-half years and interest at a rate sufficient thereafter so that the aggregate return for the 10-year extension period will be 2.9% compounded. The term of the extension would be limited to 10 years after maturity. The existing option of paying taxes on interest on Series E Bonds currently or at maturity would be retained. Necessary Congressional legislation to authorize this option will be requested immediately. Once the plan is placed in effect, it will apply to all outstanding "E" Bonds as they mature, and will apply by right of contract to all new Series "E" Savings Bonds that are issued.

These decisions with respect to the refunding of Savings Bonds and their future place in the Federal securities structure have been reached after long deliberation and extensive consultation. Among those who have given us the benefit of their thought and judgment are representatives of the Federal Reserve System, which has done such a magnificent job in facilitating the smooth functioning of the savings bond mechanism throughout the Program's entire history.

Almost a year ago, at the annual Fiscal Agency Conference held in San Francisco, various alternatives with respect to the refunding of Savings Bonds were fully discussed by representatives of the Federal Reserve System and the Treasury. Following that conference, other groups and individuals continued to meet with officials of the Treasury and to give time and thought to the refunding measures which would be in the best interests of both the government and the bondholders. The program which I have outlined to you today is the result of this cooperative effort. As soon as the necessary Congressional legislation is completed, full details of the extension Savings Bonds Program will be released to the public. I believe that we have adopted a good program.

Now let us go on to the subject of interest rates. It is my view that a 2½% rate of interest on long-term Treasury bonds is a fair and equitable rate—to our government which is borrowing the money, to the purchaser of government bonds who is lending the money, and to the taxpayer who has to pay the interest on the money borrowed.

The 2½% rate of interest on long-term government securities is an integral part of the financial structure of our country. During the past 10 years—a period in which we fought our most costly war and made a most extensive reconversion to peacetime activities—the 2½% rate has become a most important influencing factor in financial policy in the country. It dominates the bond markets—government, corporate and municipal. Moreover, it dominates the operations of financial institutions. Most of these have already adjusted themselves to the 2½% rate—and after so doing, have become more prosperous than ever before.

Most life insurance companies, for example, have changed the guaranteed interest provisions of their new policies during the past decade to conform with the 2½% rate, so that today about 85% of the new life insurance premiums received by insurance companies are on policies written at interest rates of 2½% or less. Mutual savings banks also have tied their current interest rate on funds of depositors to the government rate.

Rate Increase Would Upset Existing Markets

Any increase in the 2½% rate would, I am firmly convinced, seriously upset the existing security markets—government, corporate and municipal.

We cannot allow this to happen in a time of impending crisis, with the heavy mobilization program to finance. We cannot afford the questionable luxury of tinkering with a market as delicately balanced as the government security market. Now is no time for experimentation.

We have not hesitated to draft our youths for service on the battlefront, regardless of the personal sacrifice that might be entailed. Neither can we hesitate to marshal the financial resources of this country to the support of the mobilization program on a basis that might, in some instances, require a degree of profit sacrifices.

In the firm belief, after long consideration, that the 2½% long-term rate is fair and equitable to the investor, and that market stability is essential, the Treasury Department has concluded, after a joint conference with President Truman and Chairman McCabe of the Federal Reserve Board that the refunding and new money issues will be financed within the pattern of that rate.

When I came to the Treasury in June, 1946, the war had been over less than a year, and war financing had only recently been completed. I felt at that time that stability in the government bond market during the transition period was of vital importance. As the economy became more stabilized, the Treasury used more flexibility in its debt management program by allowing short-term rates to increase gradually.

Korea Accentuated Importance of Market Stability

Later, beginning with the crisis in Korea, however, the considerations calling for stability in the government bond market became tremendously important. The credit of the United States Government has become the keystone upon which rests the economic structure of the world. Stability in our government securities is essential.

I do not think that we can exaggerate when we emphasize these matters. I think they are basic to our national survival.

I have outlined for you the highlights of our financial mobilization program. I believe that with vigorous, cooperative effort we can make it a successful one.

The democratic processes and the free institutions of our country enable us to do just that. We are a nation of strong individuals, united in our belief in American principles and in our determination to defend them. We do not expect and we do not wait to be told what to think and what to do. We will not govern our actions according to decrees which represent thinking done for us by someone else. Every American citizen today is searching his mind and heart for answers to the challenge of aggression. We do this because we know that in a free nation such as ours, decisions on matters of national import must be made by the citizens themselves.

The formulation of a successful policy of financial mobilization is not easy. It must, of necessity, be one that will require sacrifices from every one of us. Let me make one thing clear. Even a short period of weakness in the financial stability of the United States could mean a generation of disaster to us and to the world.

The Communist regime knows this—and ever since the close of the Second World War, it has sought to undermine the structure of peace and stability we have tried so patiently, and with so marked a degree of success, to help build in the free world. Red Imperialism has taken the offensive against the free world in almost every area of human cooperation where civilization might again be made secure. It has coupled with a bellicose avowal of peace the most flagrant and most insidious forms of human sabotage.

Let there be no mistake about it. We want real peace in this world. To seek this, we set up a forum in which men might work out their differences and arrange for solutions of common problems. We tried very earnestly to win an honorable peace across the council table. But the Russians have tried to make a mockery of the vital work and procedure of the United Nations. While we have tried to restore economic and financial stability to nations suffering from the ravages of war, the Soviet Union has sought to dissipate the effects of our unprecedented and successful aid to free nations and are now trying to destroy the fruits of our aid with the blight of urgent and costly need for self-defense.

As the economic and financial stability of our friends and allies in Western Europe became more certain—Soviet imperialism became bolder and laid down a barrage of direct and indirect assaults on the free world.

It is but a natural reaction to hope, in an emergency, that we can preserve our freedom, and save ourselves from danger, without sacrifice. Any such hope runs counter to all of human experience. Readiness to sacrifice for freedom is the first requisite of life in a free land.

I have every confidence that whatever sacrifices are required of our people to repel the aggressors will be willingly earnestly and confidently made.

What we face is obvious. What we must do is plain.

We shall diligently continue our efforts with free nations to help establish peace and prosperity in the world. But in the meantime, we shall face realities—face them in the knowledge that our pride in America's past and present, and our confidence in her future, permit no passive acceptance of the dictates of a foreign aggressor.

We are going ahead with our military and our financial mobilization measures to whatever extent the unfolding disclosures of Communist intentions make necessary. In justice to ourselves and to all other believers in freedom, we can follow no other course.

Commends Truman, Congress and FRB

In a press conference preceding his delivery of the foregoing address, Mr. Snyder vigorously commended President Truman's new Budget for bringing about reductions in nonmilitary expenditure, the total of which cuts he estimated at $1,100,000,000 spread over 42 separate items.

Asked whether he believes further cuts in nondefense spending are possible and advisable, he insisted on keeping his reply "off-the-record."

The Secretary manifested a strong attitude of cooperation with other government agencies, as well as with the Congress. He asserted that in their past session the lawmakers have performed an unprecedently good job in tax legislation.

He expressed satisfaction over the Federal Reserve Board's anti-inflation curbs, with particular reference to the effectiveness of the restriction on instalment credit through Regulation W. Asked about the significance of last week's hike in stock market margin requirements, the Secretary said he goes along with the Reserve in interpreting the action as preventive rather than corrective.

The inclusion between now and next May of holders of unmatured Series D Savings Bonds in the extension proposals to be offered to the "E" Bondholders beginning at that period, was indicated as a matter for consideration by Treasury officials accompanying the Secretary.

A. W. M.

Continued from page 2

The Security I Like Best

JAMES B. JONES, JR.
Manager, Statistical Department, Steiner Rouse & Co.,
Members New York Stock Exchange

American Airlines, Inc. (Common & Convertible Preferred)

Selling at a relatively depressed price level—about 70% of 1946 high—American Airlines common shares impress me as having special attraction in the current market and an "opportune" long-range investment in the dynamic future growth prospects of air transportation. Benefits of extended peacetime reconversion and modern new passenger fleet placed in operation since World War II have just begun to be reflected in operations. Company now appears to be entering an intermediate growth phase of sharply expanding earnings, which development, when more fully recognized, should lend strong market support for its shares. Conversion of the domestic economy to a wartime basis, now rapidly taking form, obviously calls for maximum utilization of air transportation in expediting the flow of industrial production, assuring capacity operations for the foreseeable near future.

James B. Jones, Jr.

American Airlines is the largest and perhaps the most progressively managed major air transport system. It ranks as the "low-cost" operator of the industry. Traffic routes extend across the country from Boston and New York through the Middle West, South and Southwest to San Francisco and Los Angeles on the West Coast, service also being extended to Mexico City.

Company is the only airline having acquired a complete new passenger air fleet of postwar design, retirement of old equipment being virtually completed in 1949. Included are 49 4-engine Douglas "DC-6" long-range transports and 79 Consolidated Vultee twin-engine "Convair" planes used for short hauls. Capacity of this new passenger fleet on comparative hourly utilization basis is estimated over fivefold that of planes operated in 1945. Company has on order additional 14 new Douglas DC-6s of advanced design, scheduled for delivery beginning early this year, the receipt of which will importantly further expand passenger fleet capacity.

Basic operating improvements underlying sharply increased earnings have been accomplished despite rising wage and price levels throughout the period following World War II, reflecting not only greater efficiency of new modern planes now in use, but also materially strengthened overall cost controls. Highly significant is the reduction of "Breakeven" Passenger Load Factor (percent of passenger seat occupancy required to cover operating costs) from 82.5% in 1946 to 57.7% in 1949. Revenue Traffic per Employee also was increased from 11,475 ton-miles in 1946 to 17,742 ton-miles in 1949, an improvement of over 50%.

Once the "breakeven" point of air transport operations is reached, the bulk of increased revenues are carried through to net revenue, as indicated in highly favorable current results. For the nine months ended Sept. 30, 1950, net operating income amounted to $14,173,365, compared with $8,404,934 in corresponding period of 1949—a gain of 68.6%. Expenses increased only 2.4%, approximately 75% of increased revenues being carried through to net operating income. Pre-tax income for the full 1950 fiscal year appears likely to exceed $20 million against $8,311,237 in 1949—an increase of approximately 150%—and deficits in each of the three preceding years. Assuming pre-tax earnings of $20 million and usink 7% Invested Capital base for excess profits tax exemption provided under new Federal tax law, indicated net earnings for 1950 fiscal year work out to about $1.30 a share on 6,452,835 shares of common stock outstanding. Similarly adjusted, earnings approximate $25 a share on 400,000 shares 3½% Convertible Preferred stock outstanding, combined bond interest and preferred dividend requirements being covered 4½ times.

Operating results for current 1951 fiscal year should compare favorably with 1950, based on accelerated uptrend of air passenger traffic following outbreak of Korean hostilities last year and the added stimulus of sharply expanding defense activities over coming months. Under all-out war, full leverage benefits of wartime emergency operations would come into play, including maximum hourly utilization of planes, priority flight scheduling, full seat-capacity loading, and the elimination of low-rate promotional fares. Seat capacity of new postwar passenger transports can also be increased upwards of 40% as high density carriers, and higher block-to-block speeds increase potential plane miles available. During World War II pre-tax income of American Airlines was more than doubled, increasing from $3.8 million in 1941 to $8.5 million in 1944.

Dividends were resumed on the common stock through payment of 25 cents per share on Sept. 5, 1950, last previous distribution being in 1945. Whereas current dividend policy may likely be relatively conservative, due in part to bond indenture restrictions relative to Earned Surplus requirements, the company's already strong financial position was materially augmented last year through receipt of more than $10 million from sale of 62% stock interest in American Overseas Airlines. Dividend distributions in line with earnings appear a reasonable prospect. During World War II company paid out about 30% of available earnings.

With capacity operations now virtually assured through expanding defense activities, outlook appears distinctly favorable and common stock in a strongly situated market position is now selling at relatively deflated price level of around 14. Normally, stock has tended to sell upwards of 15 to 20 times earnings on potential growth factor, and air transport still continues as an infant industry measured against indicated future growth possibilities. Recent comprehensive field survey indicates the domestic mass air-travel market to be still largely unexploited, less than 15% of estimated potential air travelers using the airlines in 1949.

To the investor seeking a relatively conservative basis of participation in the future development of air transportation, American Airlines 3.50% Cumulative Convertible Preferred Stock ($100 par) should have special appeal. Stock is convertible into 4.76 shares of common stock for each share of preferred, affording at current price of about 80, an equivalent call on the common stock at approximately $17 a share, subject only to future redemption of preferred at prices above par. Current dividend yield of 4.40% appears well assured and conversion option provides in effect substantial part of indicated long-term appreciation possibilities carried by the common.

Business Man's Bookshelf

How to Make a Killing in Wall Street and Keep It!—David McKay Company, Department 5, 225 Park Avenue, New York 17, N. Y.—$1.00.

Farmers 1951 Income Tax on 1950 Income (including filled-in forms, check lists, examples)—Samuel M. Monatt—Commerce Clearing House, Inc., 214 North Michigan Avenue, Chicago 1, Ill. —Paper—$3.

Graphic Stocks—January issue containing large, clear reproductions of 964 charts complete with dividend records for the full year of 1950, showing monthly, highs, lows, earnings, capitalizations, volume on virtually every active stock on the New York Stock and Curb Exchanges—single copy $10; yearly (6 revised issues), $50 —special offer of three editions of Graphic Stocks 1924 through 1935; 1936 through 1947 and up-to-date current edition, all for $25 —F. W. Stephens, 15 William St., New York 5, N. Y.

Investigation of the Economic Conditions of Mexico (in Spanish) —National University of Mexico, School of Economics, Mexico, D. F., Mexico—paper.

Management of Bank Funds, The—Roland I. Robinson—McGraw-Hill Book Company, 330 West 42nd Street, New York 18, N. Y.—Cloth—$5.50.

Marketing in a Defense Economy—Arno H. Johnson—J. Walter Thompson Company, 420 Lexington Avenue, New York 17, N. Y. —Paper.

Monopoly and Free Enterprise —With a Policy Program by the Committee on Cartels and Monopoly—George W. Stocking & Myron W. Watkins—Twentieth Century Fund, 330 West 42nd Street, New York 18, N. Y.—Cloth— $4.

Stock Market, The—George L. Leffler—The Ronald Press Company, 15 East 26th Street, New York 10, N. Y.—Cloth—$6.

Wall Street Explains Its Operations—Edited by Philipp H. Lohman and Franc M. Ricciardi—New York Institute of Finance, 20 Broad Street, New York 5, N. Y. —Paper—$3 (lower prices on quantity orders).

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Rising Prices Indicate Reconsideration of LIFO

the trend in this country of having income taxes higher during years of rising prices than in years of falling prices. I have here a compilation of corporate income tax rates plus excess profits taxes, when imposed, from 1913 to date and have plotted alongside of these rates the level of wholesale prices for the corresponding aates (see Table IV). The results are striking. From 1913, when the corporate income tax rate was 1% and the level of wholesale prices 69.8 on the index (1926=100) changes in the tax rate, both upward and downward, have almost a perfect correlation with movements in wholesale prices.

While the history of the past 37 years is not conclusive evidence that this correlation will continue in the future, it is certainly a fair sign of probability. What does this mean when translated into the benefits, taxwise, of LIFO as against FIFO? Simply that under LIFO the tax savings derived during periods of rising prices will tend to be materially higher than the taxes to be paid during periods of falling prices due to the fact that we will be saving at high tax rates and paying back at lower ones.

Let us use a theoretical example to clarify this all-important point. A concern entered into LIFO in 1941 when the wholesale price index stood at 87.3 and the corporate tax rate was 26% with an E. P. T. ranging from 25% to 50%. All during the war with steadily rising wholesale prices, they were subject to a tax rate of 26% with E. P. T. ranging up to 90%. Their savings under LIFO were therefore, in the E. P. T. bracket, ranging in the 80% to 90% level. The first year of a downward price trend was 1949, when the wholesale price index averaged about 153, or 7½% below that of 1948. But in that year the tax rate was 38% and there was no E. P. T. You paid back, therefore, at a 38% rate what you had saved at an 80% to 90% rate. Even had prices retreated all the way back from where they had started, tax savings, owing to the differences in the rates, would have been substantial.

At this point I should like to inject an additional advantage in this type of tax savings based on the economic law of immediacy. This concept holds that the financial savings immediately incurred in good times are worth more than offset costs later on. We retailers are sharply aware of the same concept in our own field when we hold that capital invested in fast-moving items is a good deal more profitable than that invested in slow-turnover merchandise, all other factors remaining equal.

With the value of LIFO clearly apparent we now come to the questions: Can LIFO be adopted at any time? Should LIFO be adopted now?

Criteria for the Propitious Time

Legally, LIFO can be adopted at any time. It cannot be dropped once it has been adopted without special permission from the Bureau of Internal Revenue, and as it freezes the initial cost of your inventory there are certain periods of time when it is apparently far more favorable from a tax point of view to adopt it than at other times. The conditions that point to a propitious time for the adoption of LIFO are as follows:

(1) A rising price trend which will either continue for some time or will level out above the level at which LIFO is adopted.

(2) A rising level of inventories, either dollar or unit, but preferably both.

(3) A rising tax rate, particularly with the imposition of selective taxes such as the excess profits tax.

These are the criteria I would set for the opportune time to adopt LIFO.

With these criteria as a base should we advocate the adoption of LIFO now? First, let us examine the negative aspects. One might say, sure I would have liked to haxe adopted it in January, 1941, when the Bureau of Labor Statistics Price Index used by retailers to adjust their inventories for quantity, stood at 100. It was 174.8 in July. Am I not taking a big risk in getting in so late? To this I must answer that whereas it certainly would have been better if you were one of the pioneer spirits that considered it nine years ago (if you were willing to have the headaches that went along with it during those years) that is water over the dam. What is important now is the present trend of prices and tax rates and their longer-term potentialities.

Without the impact of war orders; particularly in our economy, we have during the past six months witnessed a material rise in wholesale prices. On Nov. 21, the wholesale price index reached its all-time peak of 171.2, which was a gain of 8.8% over the level when the Korean War started and 12.9% over that of a year ago. With the levels of war orders due to expand materially during the next six months and further intensification of stockpiling definitely in the cards, considerable further increases in prices are indicated. Should price controls be instituted to prevent this rise, we will then have to increase in the same fashion as we had during the Second World War, namely, through the deterioration of quality and the elimination of lower price-bracket goods. The effect as far as the retailer is concerned is the same.

Let us take the second part of this question, namely, the possibility of prices retreating over the longer term to the level when B. L. S. LIFO index was first composed, January, 1941. While all things are possible, when one considers the tremendous probable increase in the demand for war material over and above the increases in our productive capacity, I for one, am inclined to feel that we have frozen in our economic structure a greater portion of price increases that have gone before. Furthermore, with the prospects of considerable deficit-financing likely during the next number of years it is not too improbable that the tax rate itself will again parallel the movement of prices.

The second negative factor, and it is a meaningful one, is the construction of the tax law which holds that under LIFO one must always use LIFO costs, whereas, under FIFO, one can and does use the lower of cost or market. Inasmuch as one would have to cost their January, 1950, inventory if one is to adopt LIFO now, we would have to make sure that the price increase during the year of 1950 was sufficiently large to offset the increase in January, 1950's inventories when the percentage of markdown is eliminated. For the average store that amounted to approximately 6% during 1949 and as wholesale price increases are running over 13% it is clear that currently there is no danger from this course.

In analyzing the negative aspects we have well established condition one on an affirmative basis. The price trend is rising; it looks as if it will continue to rise, and there seems like a very small likelihood of any major collapse in prices.

Coming to factor two, a rising level of inventories, we are all well acquainted with the trend of inventories during a war or partial war economy. Certainly, we are on that now. Deliveries become slower, merchandise on hand becomes more valuable than goods on order and along with rising prices the dollar value increases. Department store stocks at the end of October were 21% above the previous year, and while we have corrected some of this condition the return to hand-to-mouth buying and rapid turnover does not seem in the immediate offing.

As to point three, we have already had a rise in the corporate tax rate from 38% to 43%. Excess profits tax is just around the corner and a further boost in the regular rate is probable this year.

Coming to the final point, a good level of business activity, we in retailing are always well aware that a high level of consumer disposable income concomitant with a high level of business activity spells a good level of retail sales. More than that we really do not have to say here.

Adding all these things up, I am sure it is clear that not only do I feel that LIFO is a valuable and important accounting and income tool to the retailer, but I strongly believe that the time is ripe to seriously consider adopting LIFO now.

CORPORATE TAX RATES AND WHOLESALE PRICES

	Wholesale Price Index (1926=100) All Commodities	Corporate Rate %	Excess Profits Tax %
1950	*171.2	43	?
1945	105.8	36	None
1942	98.8	26	up to 90
1941	87.3	26	25 to 50
1940	78.6	24	25 to 50
1936	80.8	15	None
1933	65.9	13¾	None
1932	64.9	12	None
1930	86.4	12	None
1929	95.3	11	None
1928	96.7	12	None
1926	100.0	13½	None
1924	98.1	12½	None
1922	96.7	12	None
1921	97.6	10	None
1919	138.6	12	†
1917	117.5	6	‡
1916	85.5	2	None
1913	69.8	1	None

*Nov. 21, 1950—all-time record. †Up to 80% based on normal profit. ‡From 20% to 60% based on invested capital.

Barclay Inv. Adds Three in Trad'g Dept.

CHICAGO, Ill.—Barclay Investment Co., 39 South La Salle Street, announce that Raymond F. Revell, John Dean Murphy and Clarence R. Scholz have become associated with their trading department. Mr. Revell was formerly with Comstock & Co., Mr. Murphy with Paine, Webber, Jackson & Curtis, and Mr. Scholz was cashier for Barclay Investment.

William J. Sloan Joins Fahnestock

Fahnestock & Co., 65 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges, announces that William J. Sloan is now associated with the firm. Mr. Sloan was formerly with Smith, Barney & Co. as controller and registered representative.

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The State of Trade and Industry

at a time when their earnings are already affected by increased wage and material costs.

December rounded out a year in the building industry never equalled before, according to Dun & Bradstreet, Inc. The previous peak of 1949 was left far behind as the 1950 volume of building permits issued in 215 cities rose 41.6% to $5,549,694,106, from $3,918,869,774 in the previous week.

Building plans filed in the five boroughs of New York City last year were valued at $656,015,407, up 24.1% over the 1949 sum of $528,528,184.

All of the geographical divisions reported substantial gains for the year, with the South Central region showing the largest advance—62.4%. The South Atlantic region had the smallest rise —31.6%.

Steel Output Scheduled This Week to Exceed 2,000,000 Tons

Price controls and a controlled materials plan are being readied in Washington this week, according to "The Iron Age," national metalworking weekly. A general price freeze covering nearly all products and commodities will become effective about Feb. 15. The CMP will be in effect by June, if not sooner. Both of these anti-inflation weapons will be hampered in their early stages by a dire shortage of administrative people.

Increasing labor and material costs are upsetting expansion and improvement plans of some manufacturing companies. They are finding money alloted to these projects in the planning stage is no longer sufficient to cover requirements when construction is ready to start. One company's estimate for custom made capital equipment was over 100% off when it came time for installation, this trade authority notes.

Snowballing government orders, regulations, directives, revisions, and amendments have caused some people in industry who dislike government controls to call for a controlled materials plan. This ever changing pattern of DO and government directed tonnage has upset their production schedules to the point where they are about ready to throw up their hands in disgust. The job is simply not possible under the present system.

While steel people feel that CMP is necessary to restore order to the confused market, they also fear it. Once the economy is controlled to this extent it will be hard to get the controls lifted. They fear that CMP will drag on like a millstone long after the emergency or war has passed, the "Iron Age" points out.

Defense orders for stainless steel, particularly sheets, are growing by leaps and bounds. One producer who shipped 41% of his stainless sheets on DO orders in December has projected his February delivery to 55% and March delivery to 68%.

Defense tooling is now putting plenty of pressure on the machine tool market. It is becoming almost impossible to buy a standard machine today without a priority. But military people are insisting on standard machines wherever possible. In many cases they have the authority to buy standard equipment on the spot without consulting Washington. Also some new plants are expected to be kept in standby conditions after the war. Standard machines are desirable from that standpoint too, this trade paper concludes.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 93% of the steelmaking capacity for the entire industry will be 100.9% of capacity for the week beginning Jan. 22, 1951, based on the industry's increased capacity of Jan. 1, compared to a revised rate of 99.6% a week ago, or an advance of 1.3 points.

This week's operating rate is equivalent to 2,017,000 tons of steel ingots and castings for the entire industry, compared to 1,991,000 tons a week ago. A month ago the rate was 100.1% and production yielded 1,930,600 tons; a year ago it stood at 93.9% and amounted to 1,790,600 tons.

Electric Output Tapers Off in Latest Week

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 20, 1951, was estimated at 6,908,818,000 kwh., according to the Edison Electric Institute.

It was 72,027,000 kwh. lower than the figure reported for the previous week, 867,660,000 kwh., or 14.4% above the total output for the week ended Jan. 21, 1950, and 1,139,884,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Extend Advance of Last Week

Loadings of revenue freight for the week ended Jan. 13, 1951, totaled 783,025 cars, according to the Association of American Railroads, representing an increase of 120,581 cars, or 18.2% above the preceding New Year's holiday week.

The week's total represented an increase of 153,482 cars, or 24.4% above the corresponding week in 1950 when loadings were reduced by a coal strike, and an increase of 49,160 cars, or 6.7% above the comparable period of 1949.

Auto Output Lifted to Higher Level in Latest Week

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 158,907 units, compared with the previous week's total of 139,679 (revised) units and 158,432 units a year ago.

Responsible for the rise was increased production of 1951 models by General Motors and Chrysler divisions, Ward's stated This more than offset strike losses at Nash and Packard, the latter due to a labor disturbance at a parts supplier plant.

Total output for the current week was made up of 120,675 cars and 29,290 trucks built in the United States and a total of 6,517 cars and 2,425 trucks built in Canada.

For the United States alone, total output was 149,965 units, against last week's revised total of 130,875 units, and in the like week of the last year 150,800. Canadian output in the week totaled

8,942 units compared with 8,804 units a week ago and 7,632 units a year ago.

Failures Record Moderate Drop From Last Week's High Level

Commercial and industrial failures declined to 167 in the week ended Jan. 18 from 193 in the preceding week, Dun & Bradstreet, Inc., reports. Although casualties were lower than the comparable week of last year when 231 occurred, they exceeded the 1949 total of 142. Continuing far below the prewar level, failures were down 54% from the 367 recorded in the similar week of 1939.

Casualties involving liabilities of $5,000 or more decreased to 127 from 150 and compared with 187 in this size group a year ago. Among small failures, those having liabilities under $5,000, there was a dip to 40 from 43 in the previous week and 44 last year.

Retailing and wholesaling accounted for the week's decline, while increases, on the other hand, took place in manufacturing and construction. Fewer businesses failed than a year ago in manufacturing and in trade, but construction casualties were almost twice as numerous as in 1950 and commercial service continued at the sale level as last year.

Most of the week's decline centered in the Middle Atlantic States. Slight increases prevailed in five regions, including the Pacific States. Casualties were not as numerous as last year in five of the nine major areas. The decline from 1950 was particularly sharp in the New England and South Atlantic States where only one-third as many concerns succumbed as a year ago. Very slight increases from 1950 occurred in the West North Central, South Central, and Mountain States.

Wholesale Food Price Index Continues Advance At a Modified Rate

Continuing the rising movement that began in October, the wholesale food price index, compiled by Dun & Bradstreet, Inc., advanced slightly last week to stand at $7.04 on Jan. 16. This compares with $7.02 a week earlier, and represents a gain of 22.4% over the comparable 1950 index of $5.75. The current level is still the highest since Aug. 17, 1948 when it stood at $7.07.

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 Level Shows Slight Recession in Week

The Dun & Bradstreet daily wholesale commodity price index moved in a fairly narrow range or at close to record levels during the past week. The index closed at 320.92 on Jan. 16, comparing with 321.52 a week earlier, and with 244.75 on the corresponding date of last year.

Following early strength which carried wheat, corn, and rye to new high ground for the season, there was a sharp reaction toward the close of the period and most grains finished below the levels of a week ago.

Trading was more cautious as the general undertone turned easier in closing sessions on the belief that current prices were too close to the ceilings that are likely to be put into effect in the near future.

Considerable liquidation resulted also from talk of peace in Korea and reports of snow and rain in the dry sections of the Southwestern winter wheat belt. Export demand for wheat and corn increased somewhat over recent weeks. Sales of grain futures on the Chicago Board of Trade for the week ended last Thursday totaled 242,840,000 bushels, or a daily average of 40,500,000 bushels, the latter comparing with 43,500,000 bushels the previous week.

Flour prices remained steady. Trading in hard wheat varieties was slow with most buyers apparently well supplied for some time. Some replacement buying in soft wheat flours was noted while bookings of family flour and semolina continued small. Spot cocoa prices advanced 2 cents a pound during the week. The market finished strong, aided by dealer and manufacturer buying and reports of heavy reselling of cocoa by United States interests to Europe.

Raw sugar prices trended lower in both the world and domestic markets, influenced by the large potential supplies of that commodity.

Trading in the spot coffee market was more active with prices firmer, reflecting an active demand on the part of roasters and importers for new supplies of green coffee from producing countries. All lard deliveries went to new seasonal highs, reflecting heavy buying for domestic and export account as well as substantial purchases by the Army. In livestock markets, lambs continued to sell at all-time high prices.

Activity in spot cotton markets increased last week as prices continued upward to new record highs. Sales in the ten spot markets were reported at 223,900 bales, as compared with 136,200 the previous week and 275,800 in the corresponding week a year ago. Mill demand for the staple continued good while demand for export account showed some increase. Consumption of cotton for the four-week December period, as estimated by the New York Cotton Exchange Service Bureau, totaled 735,000 bales, as against 1,009,000 in the preceding five-week period, and 734,000 in the calendar month of December a year ago. The daily rate for December averaged 40,800 bales, compared with 36,700 in December, 1949.

Trade Volume Moves Moderately Higher for Week But Reflects Sharp Rise Over Year Ago

Mild weather throughout much of the nation, combined with waves of anticipatory buying in scattered vicinities, helped to increase consumer spending in the period ended on Wednesday of last week. The total retail dollar volume was slightly above the high level of the previous week and sharply above that for the comparable week a year ago, Dun & Bradstreet, Inc., reports in its current summary of trade.

The dollar volume of apparel generally rose last week as the demand for coats, suits and dresses became increasingly large in some sections. The volume of suits and dresses sold was appreciably above the level for the similar 1950 week. In men's wear, shirts continued to be a large selling item. Footwear, work-clothes and sports attire were also popular.

The over-all amount of food bought by housewives was nearly unchanged in the week despite price rise for some items. Total dollar volume was moderately above last year's level. The interest in fresh produce and in meats decreased somewhat, while the call for canned and frozen foods continued to rise. The dollar volume of dairy products was virtually steady.

There was a noticeable rise in the buying of many house-furnishings articles last week with over-all dollar sales markedly above the level of a year ago.

Kitchen equipment was in particularly large demand by shoppers, reflecting a possible fear of future shortages. The interest in appliances was generally unchanged from that of the previous week. Some kinds of furniture were plentifully sold, while there was a slackening demand for other types. The consumer purchasing of piece goods rose moderately in many localities.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 7 to 11% above a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England +5 to +9; East, South, and Southwest +7 to +11; Midwest and Pacific Coast +8 to +12, and Northwest +6 to +10.

Wholesale purchasing for the nation rose slightly in the week with total dollar volume of orders noticeably above the level for the comparable week a year ago. There was a moderate decline in the number of buyers attending various wholesale markets with attendance slightly below that for the similar week in 1950.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Jan. 13, 1951, advanced 31% from the like period of last year. This compared with an increase of 39% for the previous week. For the four weeks ended Jan. 13, 1951, sales showed a rise of 25% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Retail trade in New York last week rose about 15% above that of the corresponding week of one year ago, but when compared with the week previous the gain was less pronounced due possibly to unseasonable weather.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 13, 1951, advanced 31% from the like period of last year. In the preceding week an increase of 30% (revised) was registered above the similar week of 1950. For the four weeks ended Jan. 13, 1951, an increase of 23% was recorded over that of a year ago, and for the year to date, volume advanced 2% from the like period of last year.

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Credit Controls and Bank Earnings

customers. If borrowers followed such unsound pricing policies for their own products they would hear about it from the bankers who hold their loans.

My second suggestion, like my first one, deals with other ways of extricating bank earnings from the workings of credit control. Another period has arrived when national income is high and the supplies of consumer goods are growing scarce. This gives rise once more to the dangers of steady and sharp inflationary price increases. The Federal Reserve Board has turned again to one of the very few quantitative controls left to it, that is, increases in reserve requirements. It would be surprising if the system did not ask Congress to extend further power to it to impose stiffer reserve requirements on banks.

Increase in Reserve Requirements

Whatever one may think about that rather unorthodox device, an increase in reserve requirements, as an instrument of credit control (and I do not like it very much), it will almost certainly be more extensively used. I believe it to be most important to see that increases in reserve requirements do not bear down on bank earnings. It is neither necessary to the effectiveness of such a move as a credit control measure, nor good for banking, to have rising reserve requirements make inroads into bank earnings. This result could, and should, be avoided.

One way of avoiding this result is the special reserve plan proposed by the Federal Reserve Board after the end of World War II. I do not know how the disadvantages of the special reserve plan can be overcome. It is complicated; it would apparently make for tightness in the supplies of eligible government issues, and it implants in many bankers the fear that it would be a long step toward governmental control over the detailed composition of their assets and the rates of return on them.

Another way of shielding bank earnings from the effects of the increases in reserve requirements would be to adopt some form of the British and Canadian Treasury deposit receipt arrangement of the last war. In our case, however, deposit receipts would not be used by the Treasury as a method of raising new money. Noninflationary sources, such as savings institutions, are available to meet any prospective demand for funds above tax yields. The deposit receipt principle, instead, might be found useful as a means of restoring to the banks a good part of the earnings that would be sacrificed in any increase in reserve requirements.

Some Means Must Be Had to Protect Bank Earnings

If neither of these methods should prove feasible, that does not mean that the search should be abandoned for some way of avoiding damage to bank earnings through the operation of credit controls. We cannot any longer take bank earnings for granted when the fight against inflation by monetary means is raised to a new pitch of intensity.

I do not undertake to say here what is a fair return on bank capital. The question is one that is directly related to the economic context of the times. The adequacy of a capital return is relative, and if any large field for employing capital shows up unfavorably in comparison with other leading industries it can expect to get what is left after all the other demands have been satisfied. In banking we have always counted on the readiness of shareholders to buy new stock as a reserve supply of capital. The substantial discounts at which bank stocks are selling make it much more difficult to find a way of pricing new stock that is at once attractive to shareholders and advantageous to the offering bank.

Private banks have become few in number in this State, but there are a great many institutions still left whose stock is closely held, especially by families. I believe it would be good for banking in New York State if more individual buyers of a bank's stock could be recruited in a community when a small group or a family finds it necessary to put its holdings on the market. It would also be good for banking if bank stocks were finding wider favor among both large and small investors generally where no thought of control is involved, but all too often these days any display of interest in a bank's shares grows out of an expectation that the institution is about to be merged. Often a larger bank makes an offer for a smaller bank not because it is particularly pleased with the latter's earnings but because it is displeased with its own.

Bank stocks have been eligible investments for savings banks throughout New England for many years. Yet it is of interest that when a group of savings bank investment experts in this State made a study of equity investments for their institutions they found that the most promising common stocks at this time were not those of commercial banks.

Bank stocks should not become speculative favorites, because of merger prospects, widely fluctuating earnings, or otherwise. At the same time, private banking must win its way competitively with stockholders if its future is to be secure. I have heard that banking stands at the very bottom of the list if priorities in England of the industries that are allowed to raise capital in the market. Our ideas about bank capital differ greatly from those in vogue over most of the rest of the world. Our banks are heavy users of capital; some countries, indeed, would call them wasteful users of capital. If we are to continue to maintain these heavy cushions of capital for the protection of depositors, we are obliged to face the fact that a reasonable and competitive rate of return should be permitted.

Bank Stockholders on Short Rations

At a glance banking in this country appears to have reached a high state of well being. There have been no failures for nearly seven years. But if we look behind the appearances we find bank stockholders have been on rather short rations. One out of every 10 banks in the State is unable for one reason or another to pay dividends. The public rates the earning power of banks so low that it is unwilling to buy bank stocks except at a good deal less than their liquidating value. When a bank is quoted in our markets at anything like its net worth it is a pretty good sign that some people think it is not going to be a bank much longer.

There are, as I have indicated, two ways of attacking this problem. The first is of the self-help kind. It does not appear that the Treasury will ever consent in the foreseeable future to pay appropriate rates for its borrowings, but the banks can devote more effort to confining these uneconomic rates to the Treasury's issues alone. The second approach is for the authorities and banking alike to explore ways of restraining credit without at the same time inflicting injury on bank earnings.

We should not allow the absence of bank failures in recent years to blind us to the fact that banking has been falling behind the parade as a rewarding employer of capital. We have a sturdy and efficient banking system, but we are not paying enough for it. In the interest of preserving our private banking system I believe this matter of earnings is one that deserves the most earnest and careful attention. Let us give it this attention while there is yet time.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

The decline on Monday of this week, followed by the sleazy market of the following day, started a flock of rumors which in turn brought out the fears that the "long overdue" decline was here. Whether or not these fears will be grounded in fact remains to be seen. The fact is that we are in a news market and any piece of news that may affect the market will have an immediate repercussion on the price structure.

* * *

The news that brought about the present setback was the note transmitted from Red China to the UN by the Indian delegate. It brought into focus one thing: the market is so attuned to a potential war that anything that may stop it is considered bearish. I might make some observation at this point about the cynical morality of the whole situation. But the market's not concerned with ethical problems. Its primary interest is the plus and minus signs.

* * *

Whether or not the market is on the verge of a new break is secondary to the future trend. With margins now up to 75%, a shakeout shouldn't be disastrous, though I'm wary of any reaction. Basically, the path we're traveling on spells higher markets even if minor interruptions interfere with the major trend.

* * *

At present the industrial averages are at 242 and a fraction and before the week is out may well be under 240. There is even some real possibility that they'll go lower — perhaps as low as 210. On the upside the barrier is a lot closer — somewhere around 260. If you're wondering how your stocks will behave just compare their action with the projected behavior of the averages.

* * *

In the past few days the picture stocks have taken a new lease on life. What the reasons are may be found in the amusement pages of your daily newspapers, all of which can be summed up in one word—Television.

* * *

Picture companies have been fighting TV ever since it became a threat to theater grosses. It is interesting to note that Paramount and Twentieth Century-Fox, instead of hurling names at the new medium, took steps to join it. It is also interesting to note that both Paramount and Fox are acting better marketwise than their competitors.

* * *

A few weeks ago I recommended lightening holdings. Should the "anticipated" reaction come about you'll have cash to buy stocks and among them should be one or both of the picture issues.

[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.]

Two Join Staff of Kidder, Peabody Co.

Kidder, Peabody & Co., 17 Wall Street, New York City, members of the New York Stock Exchange, announce the association with the firm of Frederick M. McClelland and David L. Terwilleger as registered representatives.

Mr. McClelland was previously associated with Shields & Company for 11 years. He is a member of the Bond Club of New York and the New York Society of Security Analysts.

Mr. Terwilleger has been in the securities business since 1929. He was a Vice-President and a director of Richard W. Clarke Corporation, securities dealers, for a number of years, later becoming a general partner when the firm became a member of the New York Stock Exchange.

LaMorte, Maloney Co.

On Feb. 1, La Morte, Maloney & Co., members of the New York Stock Exchange, will be formed with offices at 25 Broad Street, New York City. Partners will be Daniel La Morte, E. Coyne Maloney, and Bernard E. Smith, Jr., all Exchange members, general partners, and Elizabeth Coyne Maloney, James S. Smith and David W. Smith, limited partners. Mr. Maloney was formerly a partner in Block, Maloney Co., as was Elizabeth Maloney. Other partners were members of La Morte & Co., which is being dissolved Jan. 31.

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Outlook for Utilities

ance for Common and not per share results; the latter of course are affected by the issuance of additional shares.

The payout of Common stock dividends has continued to hover around 70%, so the total thus paid has expanded in proportion to earnings. This is partly in reflection of continuation of an established dividend rate on new shares which have been issued. But there have also been a surprisingly large number of utility extra dividends and increases in regular rates. Counting only the last two months of 1950 and to the middle of this month, I have tabulated a total of 18 such among electric and combination companies alone, of which 6 took the form of extra dividends and the remaining 12 I deem to be increases in regular rates. (Incidentally 4 gas companies either declared extras or raised regular rates.) The companies involved are varied enough as to location, nature of business and other characteristics so that the aggregate judgment expressed by their directors is an impressive vote of confidence in utilities' prospects under the present conditions.

On the basis of a continuing analysis, I have come to somewhat the same conclusion, subject principally to increases in taxes on income. The stimulation of general activity rising out of the present semi-war status must produce substantial increases in kwh. sales. Because that increase will be primarily in low rate industrial classes, the prospect is for somewhat smaller gains in electric revenue. The factors which created virtual stability in operating ratio, exclusive of taxes on income, in 1950 should continue in the same general direction in 1951. Under the present tax law some of that gain would go to the tax collector, but still there should be a larger amount available for interest and dividends.

The growth in kwh. sales has inevitably required continued expansion in facilities. It has been estimated that some 5,200,000 kw. of new generating capacity went on the lines in 1950, just short of a 10% increase over that in place at the beginning of the year. Total expenditures for this and for transmission, distribution and related facilities approximated $2,100,000,000. Of the total expended for new construction, the utilities themselves provided some $700,000,000 out of the depreciation and other non-cash expense and income deductions and by retention of earnings. Of the $1,400,000,000 new money raised from the public, roundly $800,000,000 was debt, $300,000,000 Preferred stock, and $300,000,000 Common. Besides these amounts which the utilities raised in the market for construction purposes, there was some $275,000,000 of Bond refunding, $75,000,000 Preferred stock refunding, and some $80,000,000 of Common stocks sold to the public by holding companies. As a reminder — these figures apply to electric utilities and to combination companies predominantly electric, and they exclude financing by gas companies.

Forecasted electric utility construction and financing in 1951 runs somewhat higher. It is expected that 5,800,000 kw. of new capacity will be placed in operation, making another approximate 10% increase in total capacity. Expenditures for this and other new facilities are expected to run to about $2,300,000,000. Principally by reason of higher depreciation accruals on enlarged property account, and subject to another increase in taxes as limiting retained earnings, it looks as if the industry itself would generate some $800,000,000 for this purpose. That would leave $1,500,000,000 to be raised by the sale of new money securities. Undoubtedly the industry would like to follow the same general financing pattern which has prevailed since the war, which would call for perhaps $850,000,000 debt and $650,000,000 combined Preferred and Common. It is clear that the latter, and particularly the Common stock portion, will depend upon the state of the market. Fortunately capital structures have been so improved in recent years that the industry has a considerable degree of flexibility as between debt and equity, while still maintaining over-all structures within safe limits.

Natural Gas Pipe Line Industry

The year 1950 saw a continuation of the rapid expansion of natural gas pipe line mileage and capacity, and their extension into important new markets. Projects already under construction, or approved and awaiting favorable construction weather, are sufficient to insure another increase this year. The nature of this business is such that expansion lacks the continuity and therefore the predictability of the electric utility industry, rendering detailed discussion not fruitful. However, it seems that projects now certificated or under construction are likely to get the pipe they need under defense restrictions now contemplated. But there may well be a slowing up on new projects, as defense needs of steel grow.

Year-end gas reserve estimates are not yet available but in all probability they will show, as they have consistently in the past, that reserves are greater now than they ever have been, despite the hugely increasing withdrawals. Viewed from this direction the limit of natural gas pipe line expansion does not yet appear to have been reached.

Attention in this review should be focused on certain of last year's regulatory developments. One of these appears to have been some stiffening of Federal Power Commission requirements with respect to applicants for certificates as to deliverable gas supplies and as to capital structure. Generally we think this development has been favorable to investors.

Certainly of more importance immediately and perhaps also over the longer term, have been decisions affecting pipe line costs and therefore profits. In December the U. S. Supreme Court upheld the right of the State Corporation Commission of Oklahoma to fix minimum well-head prices for gas in that state, as summarized in our bulletin dated Jan. 5, 1951 on Court Decisions Affecting Utilities. A somewhat similar order has been approved by the Kansas Supreme Court. Disclaiming legal knowledge sufficient to interpret this situation and also the second-sight to visualize all its implications, nevertheless certain possibilities stand out: such minimum wellhead prices may be established in other fields and other states; and in that event there would be a fairly sudden and quite sharp increase in cost of gas to pipe lines.

Such a rise would come on top of a steady increase in gas field prices which has been going on for the last several years. Closely related is the fact that recent pipe line construction has been at substantially higher unit cost than prevailed for the older lines. The result has been that the delivered cost of gas from new lines has been well above that of old lines delivering in the same general area — we have seen instances where the margin was 100% or more. The Federal Power Commission has required that where a company operating an old and relatively low cost line has constructed a new high cost line into the same markets, that the rates for the two should be "rolled in." That means that the combined operation has in effect a single rate schedule which is based on the average costs of the old and new lines. The rolled in rate must necessarily be higher than the original. Hence several pipe line companies have been forced to file applications with the FPC for rate increases, and what amounts to a continuing FPC scrutiny of earnings and return is instituted.

It is axiomatic that a request for a rate increase is a plain statement by management that at the existing rates the company's earnings are subnormal, at least in the management's judgment. In that I see a sharp reversal of pipe line status from that which prevailed a year or so ago. At that time I felt that the pipe line industry as a whole was probably earning more than strict application of FPC standards would permit, and that such excessive earnings had been made possible by the industry's rapid expansion, which in a sense had kept the Commission from catching up with it. The leading question at that time was as to the amount of such excessive earnings and how long they could endure. The present question as to some pipe lines is the amount of under-earnings (i.e. the amount of rate relief to which they are entitled) and how long correction will take. With respect to the latter, I am not optimistic, because Commission action tends to be long drawn out and court appeals may be necessary.

Reverting now to pervious comments on the Oklahoma and Kansas commission orders, I think that when and if they spread sufficiently, they may throw more and more pipe line companies in the category described immediately above. It should be understood clearly that I do not believe that all pipe lines, either old or new, will necessarily be subject to this condition.

Although I would rather not discuss common stock market matters in a study such as this, I feel under some obligation to do so in this instance. It seems likely that the pipe lines' ability to over-earn constituted the analytical basis for much of the glamour which was attached to their stocks through part of 1950. Further, I believe that probably the analytical basis was pyramided by market reaction to it. Removal of the analytical basis, then, would have a compounded effect in the opposite direction.

Natural Gas Distribution Industries

I see nothing in the foregoing which poses any real threat to distribution companies. Assuming higher costs, both as to field prices and transmission, resulting in increased gate rates, the amount is still not large per M.c.f. Even a few cents per M.c.f. is a tremendous percentage of the low field prices, but a minor percentage of the delivered price in the consuming market. Therefore if gate rates went up to a point which left the distributors with subnormal earnings, they could in all probability obtain the necessary rate increases themselves without damage to their competitive position and/or to consumers' demand for gas.

That demand has continued to outrun supplies, and many of the distribution companies have applications for space heating service beyond their near-term ability to connect. The only visible cloud on this horizon is possible curtailment in the manufacture of consumers' appliances; it is still too early to know whether this cloud will actually form. There can be no question of the ability of the industrial market to absorb all available gas, particularly under present conditions, but such sales carry smaller profit margin than does space heating service.

The 1950 trend of earnings was almost uniformly satisfactory throughout the natural gas distribution industry. Increases in earnings were limited to an appreciable degree by unseasonably warm weather in the early months and again by unseasonably cool weather during the summer. More recently the situation was reversed and many gas companies benefited from the early touches of fairly severe winter weather. Investors would do well to keep in mind the extent to which weather conditions now affect gas distributors' earnings. The reason, of course, is the relative magnitude of the typical space heating load.

That load has led to expanded emphasis on underground storage of gas, a development which began years ago but is now attaining new high levels as to both number of sites and quantities of gas involved. The objective, of course, is to maintain high pipe line load factor and thus low cost of delivered gas; and to expand the amount of space heating service relative to a given pipe line deliverability. No doubt more and more gas utilities will attempt to store greater amounts of gas underground. Storage involves a certain amount of so-called "cushion" gas which stays in place more or less indefinitely, as compared with "seasonal" gas which is put in storage during the summer and withdrawn in the winter. Cushion gas is usually stored at delivered cost, and so does not carry a true profit margin. Thus the storing company is getting the earnings' benefit of something less than the full available deliveries, which condition will be corrected only after the full quantity of cushion gas is in place.

If merely in reflection of their increased receipts from pipe lines, the outlook is for continuation of a satisfactory trend in natural gas distribution, subject of course to such unpredictables as weather conditions and increased taxes on income. If pipe line expansion is hindered by steel shortages, growth of distributors' customers and sales volume would of course be likewise limited.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of H. Terry Morrison to Samuel S. Grant will be considered by the Exchange on Feb. 1.

Transfer of the Exchange membership of the late Edwin G. Burns to Edward A. Viner will be considered on Feb. 1.

Transfer of the Exchange membership of the late John H. Quinlan to Arthur M. Betts will be considered on Feb. 1.

Transfer of the Exchange membership of Philip Wick, Jr., to Fred G. Gurke will be considered by the Exchange on Feb. 1.

Transfer of the Exchange membership of the late William H. Beaver to Alexander J. Burns will be considered on Feb. 1.

Transfer of the Exchange membership of Lewis S. Kerr, Jr., to Leon W. Strong will be considered by the Exchange on Feb. 1.

Clay H. Sorrick, general partner in Dean Witter & Co., will become a limited partner effective Feb. 1.

John J. Ryan, Jr., James C. Ryan, and Frank T. Ryan on Jan. 31 will retire from partnership in Bache & Co.

Samuel S. Grant will retire from partnership in Sutro Bros. & Co. on Jan. 31.

Public Utility Securities

By OWEN ELY

FORECASTING UTILITY EARNINGS

The electric utility companies, because of their generally stable earning power, lend themselves about as well as any stock group to the art of forecasting. Unlike industrials, they have virtually no sales problem, seldom any difficulties due to strikes, no credit losses in bad times, and no inventory profits or losses to confuse the analyst. Moreover, most companies since the war have found it necessary to budget at least a year or two ahead of their sales growth, construction programs, new financing, and share earnings—which are necessary to support equity financing. It is becoming customary to include statements in prospectuses as to the construction program for several years ahead, and in some cases references are made to future financing, but of course the prospectus never contains any estimates of future earnings—if given to the SEC these are usually buried in obscure exhibits or in the transcript of hearings.

While in some cases the budgeted earnings estimates remain obscure, in other cases they are divulged in "due diligence" meetings, in conferences with Wall Street bankers, or in talks before the New York Society of Security Analysts (or the other regional societies). Thus in these cases the alert statistician can avoid the trouble of attempting to forecast earnings, since official estimates based on complete data are much better than guesses based on the partial data which he has available.

Recently the forecasting business has been complicated by the rapidly rising Federal taxes, which are now the most important expense item in the utility income statement. However, the most difficult part of the tax problem was largely eliminated by Congress when they gave regulated industries a special dispensation on excess profits taxes. While a few utilities will incur EPT, the amount may not be more than a few cents a share even for the vulnerable utilities. Since the tax is retroactive for half of 1950, the annual reports which are now beginning to appear will give the statistician direct information on this point, and in the meantime informal estimates are being issued by many utilities.

The rise in the Federal income tax rate from 38% in 1949 to 42% in 1950 can also be studied in the annual reports, and it will be a simple matter to estimate the effect of the increase in the rate to 47% in 1951. This can be done merely by taking 12% of the 1950 income taxes and dividing the result by the number of shares, to show the amount by which share earnings will be diminished (all other factors being unchanged). Should the analyst wish to estimate what a 50% or 55% rate might do to earnings he could apply increases of 20% and 31% respectively to the 1950 income tax figure. It is to be hoped that all utilities will separate their income taxes from the excess profits taxes, instead of lumping them together—and that they will also clearly state any "charge-offs in lieu of taxes."

In the attached table we have listed some of the important factors which the forecaster should take into account in trying to estimate earnings a year so ahead. He must build on the latest published share earnings and take account of all pending important changes, pro and con, so far as data permits. Changes in pre-tax items, such as rate increases or wage advances, will affect net income only to the extent of 53%—the other 47% going into Federal taxes. Changes in tax rates, and all stock financing, will affect net income directly. Most important is the change in the number of common shares, due to new financing or conversion of senior securities. In this connection it is usually advisable to figure share earnings in two ways—based on both actual and average shares. Some companies like to "soften the blow" by using average shares, while others are willing to use the pro forma share figures.

IMPORTANT FORECASTING FACTORS

Changes in Pre-tax Items (Reduce by effective tax rate)

I. Variable factor—weather:
  (1) Hydro operations are affected by water supply (rainfall).
  (2) Gas house-heating sales are affected by winter temperature.

II. Favorable factors:
  (1) Rate of growth — territorial characteristics, new industries.
  (2) New plant or process—lower costs or increased net:
    (a) Electric generating plants.
    (b) Introduction of natural gas.
  (3) Rate increases.
  (4) Other items.

III. Unfavorable factors:
  (1) Wage increase.
  (2) Interest on new debt.
  (3) Storm damage.
  (4) Rate cuts.
  (5) Other items.

Changes in Federal Taxes

I. EPT, if any.
II. Income tax rate—increase to 47%.
III. Possible further change to 50% or 55%.

Changes Not Affected by Taxes

I. Dividend requirements on increased preferred shares.
II. Dividend requirements on increased common shares, due to:
  (1) New issue.
  (2) Conversion of senior issue.*

*This may involve a correction "above the line" also, for decreased interest, less tax.

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Snags Ahead in Wage Contracts Tied to Price Index!

this last time as compared to World War I and afterward. Rents were comparatively uncontrolled then, so they could rise as the market dictated. They did not reach a postwar peak until 1925, seven years after the Armistice, and by that time they were some 60% above their prewar level. At the present time, the rent index is about 25% above prewar. This relatively low level of the rent index is due to a combination of two factors: first, rent control has kept rents down, whereas in the 1920's they could rise; and second, the Bureau's index of rent doesn't quite measure the rise in rent which has really taken place this time. The under-measurement developed gradually over the years because: (a) the Bureau rent samples did not contain an adequate proportion of new building with uncontrolled rents, and (b) the Bureau had no measure of the difference in level between the first rents on new dwellings and the controlled rents on comparable old dwellings. Furthermore, the under-measurement in the rent index grew steadily larger as the postwar building boom progressed.

So in 1948-49 the Bureau published some articles in the "Monthly Labor Review" explaining this situation; and finally in early 1949, on the basis of such secondary data as were available, the Bureau ventured a guess as to the degree of understatement (a) in the rent index and (b) in the Consumers' Price Index as a whole. On the latter, we estimated the effect to be an understatement of about 0.6 to 0.9 points in the index as of the beginning of 1949. This was announced in a footnote to our monthly releases, beginning in mid-1949.

In the meantime, another landmark in the history of the index had taken place. In May, 1948, the General Motors Corporation signed with two unions of its employees an agreement involving the use of the Consumers' Price Index. I must emphasize that this agreement to use the index was reached without any prior consultation by either party with the Bureau; we first learned about it from the newspapers.

The idea of tying wages to the Consumers' Price Index in a collective bargaining contract was not at all new. Over many years, the Bureau of Labor Statistics has received for its files and has analyzed contracts containing clauses on the Consumers' Price Index. What was new and revolutionary in the General Motors contract was (1) the sharp and precise relationship of wages and prices (1c in wages for each 1.14 points in the index); (2) the frequency of adjustment (every three months), and (3) the annual improvement factor. This new type of contract put a strain on the index far greater than it had ever before endured—at least in peacetime.

In the summer of 1948, prices reached their peak and a decline set in. Raw material and primary market prices fell first; consumer's prices soon followed. The Consumers' Price Index peak of 174.5 was reached in August and September, 1948, after which there was a slow downward movement through 1949 and early 1950. (See chart.)

Present Revision Program

These three factors—the developing rent bias, the General Motors and similar agreements, and the stability in prices—convinced the Bureau staff that it was an opportune time to start a program for the revision of the index as recommended by the Mills Committee. The downward rent bias was steadily accumulating. The General Motors contract was highlighting the importance of the index every three months. Finally, the economic outlook as of that date seemed to presage a period of comparative price stability for several years so that the revision of the index would not work to the advantage or disadvantage of any of its users. (No! We did not foresee Korea!) It seemed a most opportune and a most fortunate time to undertake a major revision program. So a three-year program was drawn up by the Bureau, endorsed by the Secretary of Labor, accepted by the Bureau of the Budget and approved by the Congress in the summer of 1949. The steps in the program and the progress made on them are outlined below:

(1) **Dwelling unit surveys**—to revise rental unit samples, get information necessary for the correction of the bias in the rent index, and to provide a basis for selecting city samples for family expenditure surveys. This phase of the work has been completed.

(2) **Technical research and policy determination** — based on research and analysis of existing data, to aid in formulating basic policy and concepts and planning for the revision. In general, these will cover the questions of city coverage, population representation, nature of the index formula and calculation methods. We have made good progress in this work and plan to complete this phase of the project by June, 1951.

(3) **Consumer expenditure surveys**—to discover the spending patterns of consumers in a current period for calculation of index weights. This work is well under way. We have selected a sample of 91 urban places—well distributed by region, size, climate, community income level, density of population, industrialization, and other factors which we know have a direct effect on the way people live and spend their money—and in each of these cities we have selected a scientifically random and representative sample of the population. Altogether we will interview about 17,000 families, ranging from over 600 in New York to about 65 in small towns such as Anna, Illinois. This survey will provide us with the information we will need to carry out many of the Mills Committee recommendations.

This survey was planned carefully and the schedule and collection techniques were tested last year in Memphis, Tennessee. About 70 well trained survey supervisors are now working in most of the sample cities—I have lists of these cities to give you. They are hiring and training crews of locally recruited interviewers who will do the actual investigation. We plan to have this phase of the program completed by the end of April, 1951.

(4) **Price surveys**—to assist in developing a list of goods and services, store samples and city samples for the revised index. This part of our program has already been in operation for over a year and will continue through 1951. We are obtaining a mass of price information under rigid survey designs to determine price relationships between items, between types of stores in a city, and between cities. We are learning a lot about proper price collection techniques, the writing of specifi-

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Snags Ahead in Wage Contracts Tied to Price Index!

cations, and the most efficient methods of using our price data.

(5) Data processing: the construction of index weights, and the calculation of a revised index series. Plans for this phase of the revision are well under way. We have worked out a method of processing the expenditure data on IBM machines, which means that in the long run the detailed information we will have on family living can be made available in many ways for wide distribution to users of our data.

The progress made on this revision program has been achieved in the face of great difficulties and unexpected developments. In the first revision year (July, 1949-June, 1950) the special revision budget did not become available to us on July 1 as scheduled, but was delayed for over three months—until early October. Yet the Bureau had a deadline of April 1 for its field work, since the Budget Bureau had required all Federal agencies to stay out of the field while the Census was being taken in April and May; so we had to speed up our planning work in order to get into the field promptly. This was done successfully, the field work was completed, and by the end of the fiscal year we were practically on schedule.

Then came Korea! Immediately the staff of the Bureau was drawn into Congressional hearings, into emergency work and into new administrative problems. Yet, thanks to the devoted and wholehearted cooperation of the staff of the Price Division, every obstacle and every delay has been overcome. As of this day, we are still on schedule. And we still hope and expect that we shall be able to meet our timetable for the final revision in the autumn of 1952.

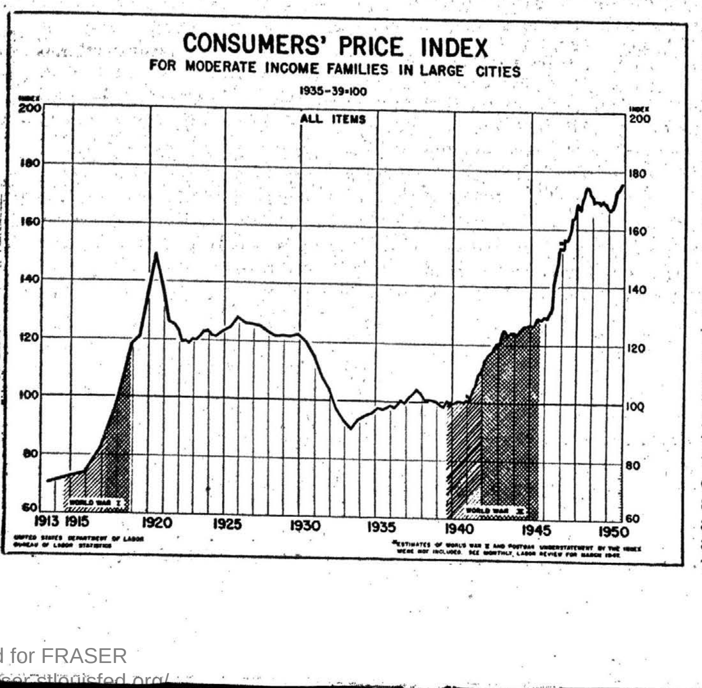
The Korean Crisis and Its Consequences

When the outbreak occurred in Korea in the latter days of June, 1950, we in the Bureau knew that we were up against a new situation of unknown dimensions. Business recovery had been underway since early in the year, prices had begun to firm up, and the Consumers' Price Index was slowly advancing from its low point of February, 1950. The Bureau was putting the final touches on its first year's work of revision. Yet some of the senior staff had to be drawn off for special tasks arising from the emergency.

Congress was then working on the Defense Production Act. Attention was immediately centered on the Consumers' Price Index, especially in the consideration of the amendment by Senator Fulbright which related price and wage controls to the height of the Consumers' Price Index. The Bureau staff gave technical service to Senate and House Committees during this discussion. When the Defense Production Act was finally passed, it contained no direct reference to the Consumers' Price Index, but it did specify that both prices and wages in the future were to be related to a base period prior to Korea (May 24-June 24, 1950).

The Bureau by this time had nearly completed its calculation of the correction for the rent index. When determined, this correction was to be introduced into the index at the earliest practicable date. It was obvious that this would complicate the comparison of post-Korean price levels with pre-Korean, as required by Congress. Yet it would be two full years (1952) before our basic revision would be completed. Furthermore, the international outlook was uncertain—we could not be sure that we could carry through to 1952. Meanwhile, we did have a good deal of information on postwar buying habits derived from our city surveys (1947-49).

So the staff took stock of the whole situation and we decided that the best thing to do was to undertake a limited interim adjustment of the index. This would combine in a single adjustment the introduction into the index of the rent correction and of several other factors such as new population weights based on the 1950 census, some additional widely-used commodities, and some revised weights of various items in the index. To improve and facilitate the post-Korea and pre-Korea comparisons, it would be necessary to project the revision backward from the revision date to some month prior to Korea. Having decided on this step, after having cleared it with our labor, management and statistical advisory committees, we issued an announcement of the forthcoming interim revision. Some readers of this announcement have told me that it was not at all well done—they were nice enough to say that "it was not up to your usual standard of brevity and clarity." It is for this reason that I have made the effort here to explain the need for the interim adjustment, the reasons we decided to undertake it, and the methods we plan to use in introducing it into the index. It is worth noting that an interim adjustment of this kind is not without precedent in the history of this index. While the 1940 revision was in progress, the Bureau made an interim adjustment in 1935 to conform with recommendations of a special committee of statisticians. This interim adjustment made certain improvements in the techniques and weights, and the base period was changed from 1913 to the average of the three years 1923-1925.



Alas! as the poet says, "the best-laid plans of mice and men gang aft a-gley." When we decided upon this interim adjustment we did not anticipate one development which has immensely complicated our program. The General Motors contract, for almost the entire first two years of its existence, was unique; there was no other like it. In April, 1950, the Allis-Chalmers Co. copied it. Then in May, 1950, the General Motors contract was renewed by the company and the union for a term of five years, with no reopening on wages. It was still almost unique. But then came Korea! And within a few weeks there was a dramatic change in the situation. Companies and unions, at first by dozens and later by hundreds, joined the procession by copying the General Motors contract or signing one almost like it. The rush became a flood, and by the close of the year 1950 the Bureau estimates that possibly 2 million workers in the United States were either covered by such contracts or about to sign them.

This development has created many problems. For one thing it has seriously complicated the Bureau's program for the interim adjustment of the index. It was no longer a case of a couple of large experienced companies and unions being affected to some extent by our revision program. A hundred or more firms (and unions) became involved. Furthermore, these newcomers in the field often had little understanding of the index. Some of them, for example, got themselves mixed up with the rent correction, although that has no logical connection with contracts signed in the autumn of 1950. Others seemed not to know that the Bureau has a revision program underway, so they failed to insert a clause in the contract specifying what should be done to adjust when the Bureau's revision is made. A group of West Coast employers and unions signed up for three years without any escape clause for revision. Yet both the interim and the final revision may be completed during the life of that contract.

To cope with some of these situations the Bureau had to change its plans. Instead of inaugurating the interim adjusted index and letting the unadjusted index die, the Bureau has decided to continue to publish the old unadjusted index at least through 1951. The adjusted index will be used by the government, by the general public, and hopefully by most of the parties to collective bargaining contracts. But those contracting parties who fail to find a way of converting to the adjusted index will have the old index published and made available for their use. So for a period of time there will be two indexes—the official adjusted one and the old unadjusted one. Thus there should be no need of any industrial dispute arising from escalation clauses in contracts.

Next Steps

In closing, I should like to summarize briefly the most recent developments and the immediate future prospects of the index. The dwelling unit surveys in late 1949 and early 1950 furnished us with the data to calculate the rent correction. Although the computations were delayed somewhat by the Korean crisis, the work was completed two months ago. These showed that the rent correction amounts to 1.3 points in the index as a whole. This is larger than the Bureau's original estimate of 0.6-0.9 points for two reasons: (a) the new calculation includes an additional year (1949), which was a year of extremely high building activity; and (b) the differential between rents on new and old housing turned out to be somewhat higher than the original estimate. The facts on this rent correction were released in a footnote to the Oct. 15 index, which was issued in late November. These points have **not** been added to the index, as some people mistakenly think.

Next, we are adjusting the index weights on the basis of the family expenditure surveys we made in seven cities in 1947, 1948 and 1949. We are using pertinent information from many other sources, Department of Agriculture and Commerce, Federal Reserve Board, etc., to fill out the spots where we need additional data. We are revising the index population weights to the 1950 census figures. We are adding important new items to our list of goods and services that make up the index, and adjusting the importance given to some items we now price. For example, we are planning to include among the items to be priced frozen foods, television sets and group health payments; also, to increase the importance of fuel oil and decrease the weight of ice.

These various adjustments, plus the rent correction, will all be introduced into the index in early 1951, hopefully in the January index issued in late February. This will make a new revised index figure for January, 1951. Then we shall carry these corrections backward into 1950, at least to June, 1950, and earlier for the rent factor. This will then constitute the Bureau's official adjusted index through 1951 and until the final revision is made in the latter half of 1952.

The interim adjustment will give us a better base on which we can build into the index further readjustments that will be required as the economy progresses to full mobilization. We are developing a panel of consumer families from whom we shall obtain periodic reports on their expenditures. In this way, we shall be able to discover the changes in family living that are caused by the stresses and distortions of a war economy. We are setting up statistical controls that will guide our actions systematically in keeping the index structure up to date. The Bureau will do everything possible to make this as useful an economic tool as it can be made.

The Consumers' Price Index was formerly called "the cost-of-living index," because it was used primarily to evaluate changes in the "cost of living." The Mills Committee recommended that the name be changed (which was done in 1945) to avoid the confusion as to whether or not it *actually* measured the change in living costs. The index was never intended to do this, and the revisions we are making will not make it more of a "cost-of-living index." However, in measuring as well as possible the changes in prices of goods and services that the consumer buys, it measures the influence of price change on the cost of living—and approximates what is happening to consumer living costs. The index can be used with great confidence in evaluating the purchasing power of the consumers' dollar; in estimating real wages; and in deflating or inflating family expenditures.

As the nation moves forward into a mobilization the index will come under increasing strain, just as it did in World War II. We in the Bureau do not expect to escape criticism and misunderstanding from time to time. But we do hope that we can avoid the extremes of controversy which arose last time. Here are some of the steps that we have taken:

We plan to issue in the near future a careful statement of uses and limitations of the index. We know that the index is good, and that, properly used, it can be an extremely valuable tool in collective bargaining and in public policy-making. But we shall try to make clear to all that there are some things the index can't do, and should not be expected to do. In this way, we hope to avoid misuse of the index.

Some years ago, the Bureau established a number of advisory committees. Early in 1947, there was set up a Labor Research Advisory Committee, consisting of research representatives of the American Federation of Labor, the Congress of Industrial Organizations, and the Railway Labor Executives Association. Later in 1947, there was also created a Business Research Advisory Committee, consisting of about two dozen representatives of business nominated by the National Association of Manufacturers and the U. S. Chamber of Commerce. These committees meet several times each year to consider matters presented to them by the Bureau or to present other matters on their own motion. These committees are strictly advisory; final responsibility for all decisions rests with the Bureau.

More recently, the Bureau requested the American Statistical Association to appoint a technical committee to advise and assist the Bureau on the revision of the Consumers' Price Index. This committee of eminent statisticians has been of great help to the Bureau during the past year.

Yet, with all this outside help, it is the staff of the Bureau which must bear the final responsibility for the success or failure of the index. And I can assure you that this staff is worthy of that responsibility. In four years of association with them, I have come to know them well, and I wish I could adequately convey to you my own confidence in their ability, integrity, and industry. This index is one of the best in the world, and it is kept that way by the competent work of the staff. I want to assure you all that the Bureau will issue the best Consumers' Price Index that we possibly can. We hope that it will serve a useful public purpose in the dark days that are ahead of us.

Exchange Cashiers Elect

At the annual meeting of the Cashier's Division, Association of Stock Exchange Firms, the following slate of officers was elected for the ensuing year: Richard M. Trickey of Henry Clews & Co., President; D. Lionel Howedel of Jas. H. Oliphant & Co., Vice-President; James J. Duddy of Carlisle & Jacquelin, Second Vice-President; T. Alvah Cowen of Peter P. McDermott & Co., Treasurer; George J. Miller of Hallgarten & Co., Secretary; and Myrvan P. Burns of Bear Stearns & Co., Recording Secretary.

Daniel Reeves & Co. to Admit Harold C. Strotz

BEVERLY HILLS, Calif.—Daniel Reeves & Co., 398 South Beverly Drive, members of the New York and Los Angeles Stock Exchanges, will admit Harold C. Strotz to partnership of Feb. 1. He has been with the firm for some time.

Shields Opens Branch

TUCSON, Ariz.—Shields & Company, members of the New York Stock Exchange, have opened a branch office at 1075 North Campbell Avenue. Roland J. Hicks is with the new office.

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. 28	100.9	99.6	100.1	93.9
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 28	2,017,000	1,991,000	1,930,600	1,790,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Jan. 13	5,761,510	5,787,810	5,723,320	4,924,800
Crude runs to stills — daily average (bbls.)	Jan. 13	¶6,370,000	6,347,000	5,925,000	5,487,000
Gasoline output (bbls.)	Jan. 13	20,815,000	21,050,000	20,254,000	18,422,000
Kerosene output (bbls.)	Jan. 13	2,652,000	2,657,000	2,267,000	2,679,000
Gas, oil, and distillate fuel oil output (bbls.)	Jan. 13	10,062,000	9,528,000	8,864,000	7,596,000
Residual fuel oil output (bbls.)	Jan. 13	9,786,000	9,452,000	8,567,000	8,059,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Jan. 13	121,209,000	119,308,000	110,943,000	118,844,000
Kerosene (bbls.) at	Jan. 13	18,027,000	19,510,000	23,152,000	19,217,000
Gas, oil, and distillate fuel oil (bbls.) at	Jan. 13	64,557,000	68,198,000	76,913,000	71,075,000
Residual fuel oil (bbls.) at	Jan. 13	41,675,000	41,914,000	41,598,000	60,003,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Jan. 13	783,025	662,444	772,902	629,543
Revenue freight received from connections (number of cars)	Jan. 13	692,543	617,322	680,044	543,941
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Jan. 18	$391,606,000	$415,811,000	$692,041,000	$182,177,000
Private construction	Jan. 18	242,146,000	141,639,000	112,439,000	78,275,000
Public construction	Jan. 18	149,460,000	274,172,000	579,602,000	103,902,000
State and municipal	Jan. 18	50,495,000	121,131,000	70,304,000	55,613,000
Federal	Jan. 18	98,965,000	153,041,000	509,298,000	22,662,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Jan. 13	11,860,000	*10,025,000	12,005,000	7,420,000
Pennsylvania anthracite (tons)	Jan. 13	952,000	785,000	853,000	660,000
Beehive coke (tons)	Jan. 13	158,400	*144,000	158,500	28,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Jan. 13	306	285	638	233
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 20	6,908,818	6,980,845	7,032,740	6,041,158
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Jan. 18	167	193	174	231
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 16	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Jan. 16	$52.69	$52.69	$52.69	$46.05
Scrap steel (per gross ton)	Jan. 16	$46.75	$45.09	$45.13	$26.42
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 17	24.200c	24.200c	24.200c	18.200c
Export refinery at	Jan. 17	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Jan. 17	176.000c	170.000c	146.000c	76.250c
Lead (New York) at	Jan. 17	17.000c	17.000c	17.000c	12.000c
Lead (St. Louis) at	Jan. 17	16.800c	16.800c	16.800c	11.800c
Zinc (East St. Louis) at	Jan. 17	17.500c	17.500c	17.500c	9.755c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Jan. 23	101.45	101.40	101.40	103.92
Average corporate	Jan. 23	115.82	115.82	115.63	116.41
Aaa	Jan. 23	119.82	119.82	119.82	121.67
Aa	Jan. 23	118.80	119.00	118.60	120.02
A	Jan. 23	115.43	115.24	114.85	116.02
Baa	Jan. 23	109.97	109.97	109.60	108.88
Railroad Group	Jan. 23	112.75	112.56	112.00	111.81
Public Utilities Group	Jan. 23	116.02	116.02	115.82	117.20
Industrials Group	Jan. 23	119.20	119.20	119.00	120.43
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Jan. 23	2.39	2.39	2.39	2.21
Average corporate	Jan. 23	2.86	2.86	2.87	2.83
Aaa	Jan. 23	2.66	2.66	2.66	2.57
Aa	Jan. 23	2.71	2.70	2.72	2.65
A	Jan. 23	2.88	2.89	2.91	2.85
Baa	Jan. 23	3.17	3.17	3.19	3.23
Railroad Group	Jan. 23	3.02	3.03	3.06	3.07
Public Utilities Group	Jan. 23	2.85	2.85	2.86	2.79
Industrials Group	Jan. 23	2.69	2.69	2.70	2.63
MOODY'S COMMODITY INDEX	Jan. 23	532.3	523.1	507.3	352.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Jan. 13	262,530	319,609	204,724	198,135
Production (tons)	Jan. 13	241,472	207,870	239,164	207,624
Percentage of activity	Jan. 13	106	91	105	94
Unfilled orders (tons) at	Jan. 13	746,287	727,579	681,676	388,173
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Jan. 19	151.5	150.7	146.5	122.3
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Jan. 6	41,954	39,149	34,021	27,570
Number of shares—Customers' total sales	Jan. 6	1,271,860	1,047,204	1,018,326	833,663
Dollar value	Jan. 6	$52,861,134	$42,913,662	$41,167,123	$31,554,124
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Jan. 6	36,895	34,771	31,742	28,152
Customers' short sales	Jan. 6	415	480	319	167
Customers' other sales	Jan. 6	36,480	34,291	31,423	27,985
Number of shares—Customers' total sales	Jan. 6	1,075,006	1,057,454	945,517	791,777
Customers' short sales	Jan. 6	15,981	17,875	11,716	5,892
Customers' other sales	Jan. 6	1,059,025	1,039,579	933,801	785,885
Dollar value	Jan. 6	$41,367,877	$37,917,733	$36,398,654	$27,165,478
Round-lot sales by dealers—					
Number of shares—Total sales	Jan. 6	298,860	339,690	291,120	238,150
Short sales	Jan. 6	------	------	------	------
Other sales	Jan. 6	298,860	339,690	291,120	238,150
Round-lot purchases by dealers—					
Number of shares	Jan. 6	469,420	326,840	396,690	291,480
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Jan. 16	178.7	*178.1	174.7	151.4
Farm products	Jan. 16	191.5	*191.9	188.5	153.7
Grains	Jan. 16	183.9	*187.8	184.7	159.8
Livestock	Jan. 16	249.5	243.3	231.3	190.7
Foods	Jan. 16	182.1	*183.0	180.8	154.8
Meats	Jan. 16	261.6	259.7	253.1	210.0
All commodities other than farm and foods	Jan. 16	168.9	167.8	165.2	145.9
Textile products	Jan. 16	179.7	*173.4	170.2	138.5
Fuel and lighting materials	Jan. 16	136.1	136.1	135.9	131.4
Metals and metal products	Jan. 16	188.3	187.9	184.3	168.5
Building Materials	Jan. 16	223.9	*223.4	221.8	191.5
Chemical and allied products	Jan. 16	144.9	*142.3	138.6	115.9

*Revised figure. ¶Includes 527,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of December	8,359,798	*8,011,851	7,728,224
Shipments of steel products, including alloy and stainless (net tons)—Month of Nov.	6,051,145	6,503,531	3,296,809
AMERICAN TRUCKING ASSOCIATION— Month of November:			
Number of motor carriers reporting	298	*298	*290
Volume of freight transported (tons)	4,039,433	*4,456,319	3,277,084
BANK DEBITS—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of December (in thousands)	$139,542,000	------	$118,207,000
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of Dec. 30:			
Imports	$244,939,000	$233,972,000	$183,801,000
Exports	87,019,000	88,356,000	48,909,000
Domestic shipments	10,101,000	10,225,000	8,967,000
Domestic warehouse credits	18,222,000	19,060,000	21,307,000
Dollar exchange	1,697,000	2,281,000	------
Based on goods stored and shipped between foreign countries	31,544,000	29,483,000	8,932,000
Total	$393,522,000	$383,377,000	$271,916,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of December (in millions):			
Total new construction	$2,235	*$2,554	$1,852
Private construction	1,686	*1,885	1,401
Residential building (nonfarm)	980	*1,126	806
New dwelling units	900	*1,035	730
Additions, and alterations	62	*73	61
Nonhousekeeping	18	18	15
Nonresidential building (nonfarm)	392	*401	261
Industrial	125	*119	[illegible]
Commercial	138	*147	86
Warehouses, office and loft buildings	47	*46	28
Stores, restaurants, and garages	91	101	58
Other nonresidential building	129	135	119
Religious	39	40	34
Educational	30	30	24
Social and recreational	20	22	21
Hospital and institutional	29	30	24
Miscellaneous	11	13	12
Farm construction	66	74	75
Public utilities	243	277	246
Railroad	24	28	23
Telephone and telegraph	34	40	37
Other public utilities	185	209	186
All other private	5	7	[illegible]
Public construction	549	*669	451
Residential building	28	*31	34
Nonresidential building	209	*221	153
Industrial	29	30	49
Educational	110	112	89
Hospital and institutional	37	*40	40
Other nonresidential building	33	39	20
Military and naval facilities	25	*26	12
Highways	155	*240	117
Sewer and water	55	59	49
Miscellaneous public-service enterprises	11	*17	13
Conservation and development	60	*67	60
All other public	6	8	42
*Revised figure.			
BUSINESS INVENTORIES, DEPT. OF COMMERCE NEW SERIES—Month of November (millions of dollars):			
Manufacturing	$32,900	*$31,600	$28,700
Wholesale	10,500	*10,200	9,100
Retail	17,800	*17,300	14,300
Total	$61,200	*$59,100	$52,100
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS — U. S. DEPARTMENT OF COMMERCE — Month of November (000's omitted)	$232,000	------	$189,600
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of Dec. 30 (000's omitted)	$333,000	$325,000	$257,000
COPPER INSTITUTE—For month of December:			
Copper production in U. S. A.—			
Crude (tons of 2,000 pounds)	90,643	*90,148	80,390
Refined (tons of 2,000 pounds)	109,464	101,410	94,947
Deliveries to customers—			
In U. S. A. (tons of 2,000 pounds)	121,954	113,715	107,662
Refined copper stocks at end of period (tons of 2,000 pounds)	49,040	51,805	116,027
HOUSEHOLD VACUUM CLEANERS — STANDARD SIZE (VACUUM CLEANER MANUFACTURERS ASSN.)—Month of December:			
Factory sales (number of units)	288,756	265,310	265,513
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of December (1935-39 average=100)	127.1	125.5	114.5
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Dec.:	£13,524,000	£14,969,000	£8,446,000
NEW YORK STOCK EXCHANGE—As of Dec. 30 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,357,124	$1,360,366	$881,290
Credit extended to customers	120,670	127,265	60,620
Cash on hand and in banks in U. S.	399,013	370,333	307,208
Total of customers' free credit balances	890,853	795,755	636,494
Market value of listed shares	93,807,269	89,505,642	76,291,953
Market value of listed bonds	115,951,939	118,507,393	128,463,516
Member borrowings on U. S. Govt. issues	210,921	220,168	132,069
Member borrowings on other collateral	698,226	703,301	542,209
PORTLAND CEMENT (BUREAU OF MINES)— Month of November:			
Production (barrels)	20,226,000	22,488,000	18,040,000
Shipment from mills (barrels)	19,791,000	24,172,000	17,269,000
Stocks (at end of month—barrels)	6,380,000	*5,945,000	9,352,000
Capacity used	95%	102%	86%
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of December:			
Net sales	------	------	$131,450
Net purchases	$6,956,400	$5,848,750	------
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS — Month of Nov.: (000's omitted):			
Exports	$978,000	$903,000	$841,000
Imports	851,600	922,000	592,000

*Revised.

Continued from page 15

How Wage and Price Controls Feed Inflation

which, God forbid! That the President's $40 billion war budget is only 18% of the national production and not too hard to supply on top of a normal civilian demand. That proper credit controls, tight government spending, and evenly distributed taxation can stop inflation.

Second—That much of the pressure for controls comes from small, power-loving bureaucrats who would like to be big bureaucrats, and they take advantage of a very popular wish to see everybody controlled but one's self! Many say, "Oh, well, they are inevitable!" It is encouraging, however, that men high in government, like General Marshall, and skilled leaders in both farm and factory production, have recognized these dangers and put up the "go slow" sign.

But, *third*, and this is my point, that we reach for the *totalitarian system, not that of democracy*, when we make slaves of free men with government fixed wages and prices, and that price and wage controls sap our productive strength. We could thus defeat ourselves over a long period of cold war.

Therefore, the time has come to be crystal clear in our thinking—to recognize that price and wage controls are not part of our purpose in this great effort.

If we get them because of political expediency, let's recognize that fact, try to see that they are fair to all groups, and that we continue our fight for a peaceful world of individual freedom and opportunity. So much for Unity of Purpose!

Time for Unity of Performance

This is the time, too, for Unity of Performance. Our work, directly and indirectly, in war production awaits decisions and orders from the Armed Forces. But these are beginning to come. We have been critical of Washington—that Washington has fiddled and plays politics while Rome burns—but our performance as citizens should make us humble.

Politicians play politics for votes, and we voters have little justification to kick. We wanted the boys all home in 1945; we wanted to get back to peace in a hurry, scrap the war plants, get rid of controls and cut taxes. Politicians are still playing politics, necessarily responsive to our wishes, and now you and I must be as urgent about remobilization. A well written letter to your Senators and Congressmen is always helpful. It's your second vote and you don't have to wait for election.

Civilian Defense leaders are starting to tell us how to act under an atomic bomb attack. This we must face, but it is more important that our thinking about this whole crisis be cool, calm and clear. There is no use being frightened.

Daniel Boone was under stress as he worked his way through unknown Kentucky wilds, the first white man in that country. An Indian arrow in his back was just as deadly as an atomic bomb. But he used every faculty for self protection and kept going. It is highly important in our democracy that we each try to understand the military situation, act intelligently as citizens and give our leaders the best we've got, but keep going.

These are jobs of leadership which you and I must exercise in addition to the contribution we make in the conduct of our business. I am sure you will be doing your best in the great baking industry, and I pledge you that we in the corn products industry will do our best to supply you fairly and fully.

Keep Up Spiritual Strength

There is one thing more that we can all do. Americans are not particularly religious, and I run some risk of being misunderstood; but, by and large, we are a God-fearing people. We believe that God exists, that there are such things as truth, justice and right—all of which the Communists deny. It is another fundamental difference that distinguishes us from our godless enemy. Let us be clear about this, as our purpose should be clear in understanding the difference between communism and democracy.

Outside of communism few will deny that there is such a thing as spiritual strength. Mr. Hoover talked about it in his recent broadcast. The "New Yorker" magazine points out the weakness of the Russians in their aim—by guile and might—to conquer the world, whereas our strength lies in our struggles, past and present, to keep men free. Of course we must spare no effort to keep our powder dry and do the best with what we have.

But this is a time of moral as well as material testing, for us as individuals as well as for the nation. Americans have gradually become less and less religious and consequently less and less moral,—certainly a weakness for democracy in this crisis which you and I, as individuals, should strive to repair, in our conduct of business and in our individual effort to win peace or, if necessary, to win the war.

Let us strive for the spiritual strength of the men who made Pennsylvania. You have a glorious tradition to uphold. Here William Penn established a colony of free men. Here was signed the Declaration of Independence. Here, too, the Constitution was worked out and adopted. Here at Fort Pitt our forefathers defended and made secure a new way of life. Here at Valley Forge and at Gettysburg men lived as heroes and died for freedom, as our sons in Korea are living and dying this morning.

Will you, in this hour of crisis, keep that Faith? Our purpose must be clear and our performance clean, as God would have us, to be invincible. That's the price of peace. Surely **you** each will keep the faith and take your honorable part in this mighty struggle for freedom. You have been bequeathed the Torch of Liberty. Hold it high!

Joins Bradley Higbie

(Special to The Financial Chronicle)

DETROIT, Mich.—Raymond H. Layer is with Bradley Higbie & Co., Guardian Building, members of the Detroit Stock Exchange.

Stifel, Nicolaus Adds

(Special to The Financial Chronicle)

ST. LOUIS, Mo.—Ralph R. Smith is with Stifel, Nicolaus & Co., Inc., 314 North Broadway, members of the Midwest Stock Exchange. He was previously with Fusz-Schmelzle & Co.

Central Republic Adds

(Special to The Financial Chronicle)

OMAHA, Neb.—William E. Dannefer is now associated with Central Republic Co., Farnam Building.

Continued from page 5

Observations . . .

many attending economic elements the few that explain the bull market trend of the time, and completely neglecting the bearish influences. Thus it is that during the market's 50% rise over the past year and a half, the public has become increasingly *in*-flation conscious—and confident of the uninterrupted continuation of its past trend. This situation is the converse of past *de*-flation periods—as in 1932 and 1938—when the public assumed that the uptrend in the value of the dollar and the decline in equities would continue uninterrupted. During the post-OPA decontrolling period of 1946-1948 while stock prices fell by 10% net, the 40% rise in commodity prices was ignored as a market influence.

The Supply-and-Demand Chameleon

The "enormous" institutional funds, including those of pension funds and trusts, constitute another element on which the investing public is centering its bull market attention. As with the inflation threat, the public's impression of the relation of the demand for stocks and their supply follows the respective states of the market. At the height of the 1929 speculation it was argued that there would never be enough "good" stocks to go around, and that their "scarcity value" justified the 200-1 price-earnings ratios of the time. On the other hand, during the drastic stock market declines occurring between 1937 and 1938 and subsequently until 1942, and between 1946 and 1949, both monetary expansion (swelling the demand factor), along with long-term dollar depreciation were apparently forgotten by the market community.

The Rails—The New Prodigal Son

The process of selective emphasis is also applied to industries, with a confusion of the short-term with the long-term status. During the long past period of the railroad shares' doldrum market action, irrespective of the attractiveness of their price-earnings ratios, the industry's negative long-term economic influences remained exclusively implanted in the investor's mind. Now, on the other hand, their favorable excess profits tax position and armament activity outlook have completely supplanted the erst-while arguments and are supporting the carriers' outrunning of other market groups. (The Dow-Jones railroad average is 48% over its pre-Korean high of last year, while the industrial average is only 8% higher and the utility average is about 4% lower.)

The Utilities—From Riches to Rags

The utility stocks, conversely, whose market prices have been acting so badly, in the public mind have apparently lost all their formerly attractive elements. No longer is weight given to their "growth stock" position, their low pay-out of dividends, their "necessity" value, and their status of an anti-deflation hedge.

* * *

There may be some doubt whether the above-exemplified contradictory reactions to the same external event, and selected emphasis of attention on particular elements, constitute the *motivations* of the market's behavior; or whether they demonstrate the illogical *interpretation* of previous market action through fallaciously rationalizing it in terms of external events. Perhaps they do both.

In any event, it should be clear that these foibles are bound up with the public's habitual preoccupation with short-term market movements and their timing; in lieu of using the realistic investment approach based on quantitative value-analysis.

Continued from page 8

Dealer-Broker Investment Recommendations

bach and St. Regis Paper—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Products and Processes—Booklet describing uses of Union Carbide's alloys, chemicals, carbons, gases and plastics—Booklet A, Union Carbide and Carbon Corporation, 30 East 42nd Street, New York 17, N. Y.

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

Railroad Outlook for 1951—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Sugar Production — Indated rates of raw sugar production for Cuba and Puerto Rico—Lamborn & Company, Inc., 99 Wall Street, New York 5, N. Y.

Taxability of Dividends on Various Investment Funds for 1950—Tabulation — Taussig, Day & Company, Inc., 316 North Eighth Street, St. Louis 1, Mo.

Wall Street Explains Its Operations—Edited by Phillip H. Lohman and Franc M. Ricciardi—New York Institute of Finance, 20 Broad Street, New York 5, N. Y.—Paper—$3.00 (lower prices on quantity orders).

American Airlines Inc.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Black, Sivalls & Bryson, Inc.—A reexamination—H. M. Byllesby & Company, Inc., 1500 Chestnut Street, Philadelphia 2, Pa.

Consolidated Grocers—Memorandum—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

Douglas & Lomason Co.—Memorandum—White, Noble & Co., Michigan Trust Bldg., Grand Rapids 2, Mich.

Electric Bond & Share—Analysis—Abraham & Co., 120 Broadway, New York 5, N. Y.

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

Lehigh Valley Railroad—Bulletin—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

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

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

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

Also available is an analysis of **American Research and Development Corp.**

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

Also available is a memorandum on **Gear Grinding Machine Co.**

Southern Sugars, Inc.—Memorandum—Scharff & Jones, 219 Carondelet Street, New Orleans 12, La.

Universal Match Corporation—Study—C. E. Unterberg & Company, 61 Broadway, New York 6, New York.

Wisconsin Bankshares Corp.—Analysis in current issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Also available in the same issue is a commentary on **Shellmar Products Corporation.**

Continued from page 15

Mutual Funds

counsellors. Mr. Templeton is also President of Growth Companies.

Wall Street Investing Assets Increase 56%

Wall Street Investing Corporation reports that net assets on Dec. 31, 1950 amounted to $2,345,167 compared with $1,499,830 a year earlier, an increase of 56%. Net asset value per share on Dec. 31, last, was $12.25 on the 191,506 shares outstanding on that date, compared with $10.43 a share on 143,772 shares outstanding on Dec. 31, 1949.

The fund on Dec. 31, 1950 had 80.1% of net assets invested in stocks and 19.9% in cash and U. S. Government securities.

Pell, de Vegh Reports

Net asset value of the Pell, de Vegh Mutual Fund, Inc. on Dec. 30, 1950 was $31.01 per share, as compared to $28.71 on Sept. 30, 1950 and an original subscription price of $25 per share on April 5, 1950. Total net assets on Dec. 30 amounted to $467,661.67, which compared with $370,337.84 on Sept. 30, and $120,000.00 on April 5.

On Jan. 15, 1951, per share net asset value reached $32.26 and total net assets were $564,219.94.

No single stockholder owns more than 8.6% of the total stock outstanding.

Dividends paid during the nine months ended Dec. 30 amounted to $1 per share.

Diversified Fund Reports Net Asset Gain

Diversified Investment Fund, a Series of New York Stocks, revealed a net asset value per share of $12.34 at Nov. 3, 1950, the fiscal year-end, compared with $10.60 12 months earlier. This represented an increase of 16.4% in the value of shares. Total net assets of the Fund reached $19 million as the year-end, a $2½ million rise during the year.

The report showed one-third of assets of Diversified Investment Fund invested in bonds and preferred stocks, one-third in common stocks of "raw material industries" like metal, oil and steel, and the remaining third in common stocks of other industries such as retail trade public utility and motion picture.

Managed Funds Files

Managed Funds, Inc., St. Louis investment company, filed a registration statement on Jan. 22 with the SEC seeking registration of 2,000,000 shares of 1-cent par value capital stock. Underwriter: Slayton & Co., Inc., St. Louis.

Group Securities Files

Group Securities, Inc., Jersey City 2, N. J., Jan. 19 offered 500,000 shares of 1-cent par value capital stock. Underwriter: Distributors Group, Inc., New York.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alhambra Gold Mines Corp., Hollywood, Calif.
Nov. 1 filed 80,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For further development of mine and for working capital.

• **American Telephone & Telegraph Co. (2/13)**
Jan. 18 filed not exceeding $420,000,000 12-year 3⅜% convertible debentures due March 19, 1963 (amount expected to be in excess of $410,000,000) to be offered to stockholders of record Jan. 29, 1951 on basis of $100 of debentures for each seven shares of stock held; rights to expire on March 19, 1951. The debentures will be convertible into capital stock beginning June 1, 1951, at $138 per share, payable by surrender of $100 of debentures and payment of $38 in cash. **Price**—At 100% of principal amount. **Underwriter**—None. **Proceeds**—For advances to subsidiary and associated companies and for general corporate purposes.

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 employees may be salesmen. **Proceeds**—To develop and expand agricultural, industrial and commercial enterprises in Israel. Statement effective Jan. 9.

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.

• **Audio Devices, Inc., New York**
Jan. 17 (letter of notification) 50,000 shares of common stock (par 10 cents). **Price**—$2 per share. **Underwriter**—Peter Morgan & Co., New York. **Proceeds**—To three selling stockholders.

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.

• **Avildsen Tools & Machines, Inc.**
Jan. 15 (letter of notification) 50,000 shares of prior preferred stock (par $5) to be offered employees in payment of bonuses under profit sharing plan.

B. & H. Incorporated, New Orleans, La.
Jan. 8 (letter of notification) 19,397 shares of 6% cumulative preferred stock (par $10) and 58,940 shares of common stock (par 50 cents) to be sold in units of one preferred and one common share. **Price**—$10.50 per unit and 50 cents per share for common stock. **Underwriter**—Woolfolk & Shober, Inc., New Orleans, La. **Proceeds**—For working capital. **Office**—513 Carondelet Bldg., New Orleans 12, La.

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. (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.

Capitol Hill Associates, Inc., Washington, D. C.
Jan. 10 filed 25,000 shares of non-voting common stock, to be offered to members of the Republican party and others. Price—At par ($50 per share). **Underwriter**—None. **Proceeds**—To erect new building for Republican headquarters and club house. Statement effective Jan. 19.

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) offered initially to common stockholders of record Jan. 18 at rate of one share for each 10 shares held; rights to expire Jan. 31. **Price**—$15.87½ per share. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—For construction program.

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.

• **Consolidated Edison Co. of New York, Inc.**
Jan. 24 filed $60,000,000 of first and refunding mortgage bonds, series F, 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. **Bids**—Expected to be opened week of Feb. 19.

• **Consolidated Engineering Corp., Pasadena, California**
Jan. 15 (letter of notification) 230 shares of common stock (par $1) to be issued upon exercise of option by Alfred J. Proffitt. **Price**—At 100/115ths of $5 per share (total $1,000). **Proceeds**—For working capital.

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.

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.

Dayton Pop-up Sprinkler Corp., Dallas, Tex.
Jan. 9 (letter of notification) 19,000 shares of common stock (par $10). **Price**—$12.50 per share. **Underwriter** Southwestern Securities Co., Houston, Texas. **Proceeds**—For expansion and working capital. **Office**—Commercial Bldg., Dallas 2, Texas.

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.

Emerson Electric Manufacturing Co. (1/31)
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 of record Jan. 31 at rate of one share of preferred for each eight common shares held; rights expected to expire about Feb. 14. **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.

• **F. & R. Drilling Co., Brownwood, Tex.**
Jan. 15 (letter of notification) 100,000 shares of common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—To complete a test well in Mills County, Tex. **Address**—P. O. Box 786, Brownwood, Tex.

Facsimile & Electronics Corp. (2/14)
Dec. 29 filed 400,000 shares of class A convertible stock (par $1) and 1,000,000 shares of common stock (par 25 cents) to be reserved for conversion. **Price**—$2.50 per share for class A stock, 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 fascimile transmission equipment and for materials.

Farmers Syndicate, Inc., Cortland, N. Y. (2/1)
Jan. 10 (letter of notification) $250,000 of 30-year 5% registered debentures due Jan. 1, 1981. **Price**—At par in units of $50, $100, $500 and $1,000. **Underwriter**—None. **Proceeds**—To improve and modernize plant and real estate, to retire loans and for working capital. **Office**—41 Elm Street, Cortland, N. Y.

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 withdrawn Jan. 17.

• **Fleetwood-Airflow, Inc., Wilkes-Barre, Pa.**
Jan. 22 (letter of notification) 28,000 shares of common stock (par 50 cents). **Price**—At market (estimated at $1.25 per share). **Underwriter**—De Pasquale Co., New York, and J. Howard O'Connor, Pelham, N. Y. **Proceeds**—To selling stockholders.

• **4-H Mines, Inc., Denver, Colo.**
Jan. 15 (letter of notification) 30,000 shares of capital stock (par $1). **Price**—$5 per share. **Underwriter**—None. **Proceeds**—For machinery and working capital. **Address**—P. O. Box 2427, Denver, Colo.

General Instrument Corp. (1/29)
Jan. 2 filed 221,715 shares of common stock (par $1) of which 121,715 shares are to be offered to common stockholders of record Jan. 29 at the rate of one share for each four shares held. 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. **Registration**—Expected to become effective on Jan. 29, with offering to run from 15 to 20 days thereafter.

• **Gillette Safety Razor Co.**
Jan. 16 (letter of notification) not over 10,000 shares of common stock (par $1) to be sold to employees of company and its subsidiaries under stock purchase plan. **Price**—At market (approximately $25 per share), payable over a period of six years.

Glenmore Distilleries Co.
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. **Offering**—Deferred indefinitely.

• **Group Securities Corp., Jersey City, N. J.**
Jan. 19 filed 500,000 shares of capital stock (par one cent). **Underwriter**—Distributors Group, Inc., New York. **Proceeds**—For investment.

Gulf Insurance Co., Dallas, Tex.
Jan. 10 (letter of notification) 10,000 shares of common stock (par $10), to be offered to present stockholders on the basis of one new share for each 15 shares held; unsubscribed shares to be offered to public. **Price**—$30 per share. **Underwriter**—None. **Proceeds**—For working capital. **Address**—P. O. Box 1771, Dallas, Tex.

• **Gyrodyne Co. of America, Inc.**
Jan. 16 (letter of notification) 42,800 shares of class A common stock (par $1). **Price**—$3 per share. **Underwriter**—Jackson & Co., Boston, Mass. **Proceeds**—For partial financing of anticipated military contracts and to acquire manufacturing facilities. **Office**—80 Wall Street, New York 5, N. Y.

Hamilton Fire Insurance Co., Philadelphia
Oct. 2 (letter of notification) 64,000 shares of capital stock (par $5). **Price**—$4.50 per share. **Underwriter**—Jenks, Kirkland & Co., Philadelphia, Pa. **Proceeds**—To increase capital and surplus in order to offer additional lines of insurance, including automobile casualty and liability coverage. Financing indefinitely delayed.

• **Helio Aircraft Corp., Norwood, Mass.**
Jan. 16 (letter of notification) 3,000 shares of non-cumulative preferred stock (par $20) and 3,000 shares of common stock (par $1) to be offered in units of one preferred and one common share. **Price**—$25 per unit. **Underwriter**—None. **Proceeds**—To develop four-passenger "Helioplane" and to pursue military business. **Office**—Boston Metropolitan Airport, Norwood, Mass.

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.

Indianapolis Power & Light Co. (2/7)
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.

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, with an oversubscription privilege; 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.

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.

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.

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. (1/25)
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 of record about Jan. 25 at rate of one share for each five shares held; unsubscribed shares to be offered to employees. Rights will expire on or about Feb. 10. **Price**—$105 per share for preferred, plus accrued dividends; and $15 per share for common. **Underwriters**—The First Trust Co. of Lincoln, Neb., and Cruttenden & Co., Chicago, Ill., and associates. **Proceeds**—For new construction.

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. Offering has been deferred.

● **La Pointe-Plascomold Corp., Windsor Locks, Connecticut**
Jan. 16 (letter of notification) 16,093 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—None. **Proceeds**—For corporate purposes. **Office**—Canal Bank and Bridge, Windsor Locks, Conn.

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 offered in exchange up to 4 p.m. (EST) Jan. 31 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 were publicly offered on Jan. 11. **Price**—$25 per share. **Underwriter**—Johnston, Lemon & Co., Washington, D. C. and associates. **Proceeds**—For working capital and to redeem unexchanged old preferred stock. Statement effective Jan. 10.

● **Managed Funds, Inc., St. Louis, Mo.**
Jan. 22 filed 2,000,000 shares of capital stock (par one cent). **Price**—At market. **Underwriter**—Slayton & Co., Inc., St. Louis, Mo. **Proceeds**—For investment.

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.

● **Metals Milling Co., Tacoma, Wash.**
Jan 12 (letter of notification) 40 shares of common stock and 500 shares of preferred stock. **Price**—$100 per share. **Underwriter**—None. **Proceeds**—For working capital and equipment. **Address**—Box 942 A, Route 9, Tacoma, Wash.

NEW ISSUE CALENDAR

January 25, 1951
Kansas-Nebraska Nat Gas Co., Inc.____Pfd. & Com.
Southern Union Gas Co.____Common

January 29, 1951
General Instrument Corp.____Common

January 30, 1951
Southern Natural Gas Co.____Common

January 31, 1951
Emerson Electric Mfg. Co.____Preferred

February 1, 1951
Farmers Syndicate, Inc.____Debentures
Indianapolis Power & Light Co.____Common
Southwestern Public Service Co.____Common

February 6, 1951
Carolina Power & Light Co. noon (EST)____Bonds

February 7, 1951
Indianapolis Power & Light Co.____Bonds

February 8, 1951
United New Jersey RR. & Canal Co. noon (EST)____Bonds

February 13, 1951
American Telephone & Telegraph Co.____Debs.

February 14, 1951
Brilhart Plastics Corp.____Common
Facsimile & Electronics Corp.____Class A

February 27, 1951
Armco Steel Corp.____Common

March 7, 1951
West Penn Electric Co.____Common

April 4, 1951
Georgia Power Co.____Bonds

Middlecreek Valley Telephone Co.
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.

● **Midland National Life Insurance Co., Watertown, S. D.**
Jan. 15 filed voting trust certificates for 12,982 shares of common stock (par $10).

Midway Airlines, Inc., Chicago, Ill.
Jan. 5 (letter of notification) 25,000 shares of common stock (no par). **Price**—$1 per share. **Underwriter**—None. **Proceeds**—To retire a negotiable promissory note and to purchase prepaid insurance policies on equipment. **Office**—Suite 1605, 135 So. LaSalle St., Chicago 3, Ill.

● **Minnesota Fund, Inc., Minneapolis, Minn.**
Jan. 16 filed 150,000 shares of common stock (par one cent). **Price**—At market. **Underwriter** — Minneapolis Associates, Inc., Minneapolis, Minn. **Proceeds**—For investment.

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.

● **Montclair Housing Corp., Washington, D. C.**
Jan. 17 (letter of notification) 246 shares of capital stock (no par). **Price**—$500 per share. **Underwriter**—None. **Proceeds**—For purchase of an equity in apartment house buildings and organizing apartments on a cooperative basis. **Office**—941 New York Avenue, N. W. Washington 1, D. C.

● **Morrison-Knudsen Co., Inc., Boise, Ida.**
Jan. 11 (letter of notification) 30,000 shares of common stock (par $10) to be offered company's employees. **Price**—$2 per share less than the market price of this stock on the San Francisco Stock Exchange on Jan. 22, 1951. **Underwriter** — None. **Proceeds**—None to company, as stock will be purchased on the open market.

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.

● **Nash Finch Co., Minneapolis, Minn.**
Jan. 11 (letter of notification) 12,137 shares of common stock (par $10). **Price**—At not exceeding $20 per share. **Underwriter**—None. **Proceeds** — For working capital. **Office**—1750 Hennepin Ave., Minneapolis, Minn.

North American Manufacturing Co. (Ohio)
Jan. 5 (letter of notification) 2,500 shares of class B common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—4455 East 71st St., Cuyahoga Heights, Ohio.

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.

Pacific Rivet & Machine Co., Alhambra, Calif.
Jan. 8 (letter of notification) $44,500 of series A convertible 4½% notes, of which $40,000 of notes will be offered to common stockholders at par in denominations of $38.65 each and $4,500 of notes will be offered to two creditors in satisfaction of issuer's indebtedness. **Underwriter**—None. **Proceeds**—For machinery and equipment. **Office**—709 South Palm Ave., Alhambra, Calif.

Pact Gas Co., Cushing, Okla.
Jan. 8 (letter of notification) $50,000 of first mortgage serial 6% bonds due 1961-1971. **Price**—At 100%. **Underwriter**—R. J. Edwards, Inc., Oklahoma City, Okla. **Proceeds**—To retire certain capital stock and for construction. **Office**—212 East Broadway, Cushing, Okla.

● **Park & Tilford Distillers Corp.**
Jan. 18 (letter of notification) 1,775 shares of common stock (par $1). **Price**—At market (estimated at about $56 per share). **Underwriter**—Ira Haupt & Co., New York. **Proceeds**—To Estate of David A. Schulte.

Railway & Light Securities Co., Boston, Mass.
Dec. 22 filed 252,552 shares of common stock (par $10) being 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**—$12.50 per share. **Underwriter**—Company has entered into dealer agreements under which subscriptions will be solicited and transactions may be stabilized. Dealer-Managers are: Stone & Webster Securities Corp.; Estabrook & Co.; 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. Statement effective Jan. 11.

Sanitary Products Corp., Taneytown, Md.
Dec. 18 filed 110,000 shares of common stock (par $1), of which 50,000 shares are to be initially offered to stockholders on basis of three shares for each 10 shares held. **Price**—At $6 per share. **Underwriters**—Ward and Co.; Investing Securities, Inc., and James C. Kennedy, Jr., of New York who have agreed to buy 20,000 shares each of the remaining 60,000 shares (preemptive rights to which have been waived by the stockholders) and 50% of the 50,000 shares not subscribed for by stockholders. Augus D. McIntosh of New York will undertake to dispose of any remaining unsubscribed shares on a "best efforts" basis. **Proceeds** for construction and working capital. **Business** — Manufacture of hygienic products.

● **Scranton Electric Co.**
Jan. 18 (letter of notification) 3,741 shares of common stock (par $5). **Price**—At market (about $13.87½ per share). **Underwriter** — None. **Proceeds** — To Republic Service Corp., Wilmington, Del., the selling stockholders.

● **Shopping Bag Food Stores, Los Angeles, Calif.**
Jan. 11 (letter of notification) 10,000 shares of preferred stock (par $25) and 10,000 shares of common stock (par $1) to be offered in units of one preferred and one common share. **Price** — $30 per unit. **Underwriter**—None. **Proceeds**—For working capital. **Office**—2716 San Fernando Road, Los Angeles 64, Calif.

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.

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. (1/30)
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**—$33 per share. **Underwriter**—None. **Proceeds**—To repay bank loans and for expansion program. Statement effective Jan. 16.

Southern Union Gas Co. (1/25)
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, with an oversubscription privilege; rights to expire Feb. 26. **Price**—$16 per share. **Underwriter**—None. **Proceeds**—For construction.

Southwestern Public Service Co. (2/1)
Jan. 12 filed 233,576 shares of common stock (par $1) to be offered for subscription by common stockholders on a 1-for-13 basis about Feb. 1, with an oversubscription

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privilege; rights to expire about Feb. 13. **Price**—To be supplied by amendment. **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—From sale of common stock, together with funds received from sale privately of $12,000,000 3% first mortgage bonds and 10,000 shares of preferred stock to be used to repay bank loans and for construction program.

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. Statement effective Jan. 19.

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.

● **Television Guide New England, Inc.**
Jan. 18 (letter of notification) 30 shares of common and $27,000 of 5% debenture bonds to be offered in units of $900 of debentures and one share of stock (no par). **Price**—$1,000 per unit. **Underwriter**—None. **Proceeds**—To promote business of publishing a weekly television program guide and magazine in Boston, Mass., and its vicinity. **Office**—251 West 42nd Street, New York, N. Y.

● **Toklan Royalty Corp., Tulsa, Okla.**
Jan. 12 (letter of notification) 37,536 shares of common stock (par 70 cents). **Price**—$2.59 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—Kennedy Bldg., Tulsa 3, Okla.

● **Tri-State Contractors, Inc., Walla Walla, Wash.**
Jan. 11 (letter of notification) 200,000 shares of preferred stock and 99,999 shares of common stock. **Price**—Both at par ($1 per share). **Underwriter**—None. **Proceeds**—For purchase of tractors, electrovators and other equipment. **Office** — 309 East Birch St., Walla Walla, Wash.

Utah Home Fire Insurance Co.
Jan. 9 (letter of notification) 10,000 shares of capital stock (par $10), to be first offered to stockholders for subscription on or before Feb. 28, 1951; then to public. **Price**—To stockholders, $20 per share, and to public, at market (about $27 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—47 West South Temple, Salt Lake City 1, Utah.

Vitro Manufacturing Co.
Jan. 11 (letter of notification) 2,673 shares of common stock. **Price**—At market (not less than $15 per share). **Underwriter**—None. Stock to be sold through brokers. **Proceeds**—To Wenman A. Hicks, the selling stockholder, who is owner of 37,673 shares. **Office**—Corliss Station, Pittsburgh 4, Pa.

West Florida Gas & Fuel Co., Panama City, Fla.
Jan. 5 (letter of notification) 20,000 shares of class B common stock (par $1) and $125,000 of 15-year 5% debentures (latter in denominations of $100, $500 and $1,000 each). **Price**—Of stock, $2 per share; of debentures, at 100%. **Underwriter**—None. **Proceeds**—To expand business. **Address**—P. O. Box 729, Panama City, Fla.

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.

Whittemore Co., Roslindale, Mass.
Jan. 5 (letter of notification) 1,343 shares of common stock (par $100). **Price**—$160 per share. **Proceeds**—To repay bank loan and for working capital. **Underwriter**—None. **Office**—35 Harrison Street, Roslindale, Mass.

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.

● **Armco Steel Corp. (2/27)**
Jan. 22 it was reported company plans to offer about 850,000 shares of its common stock (par $10) for subscription by its common stockholders of record Feb. 20, 1951 on basis of one new share for each five shares held; rights to expire about March 14. **Underwriters** — Smith, Barney & Co. and W. E. Hutton & Co. and associates. **Proceeds**—For expansion program, which, it is estimated, will involve expenditures of $105,000,000. **Registration**—Expected with SEC on Jan. 30.

● **Atlantic City Electric Co.**
Jan. 15 it was stated tentative plans call for the raising of about $2,250,000 through an offer of additional common stock on a 1-for-10 basis held around May or June. Probable underwriter: Union Securities Corp. Proceeds will be used to pay, in part, construction expenditures, which, it is estimated, will total about $5,400,000 in 1951.

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).

● **Central Illinois Electric & Gas Co.**
Jan. 25 stockholders will vote on a plan to issue and sell publicly 25,000 shares of preferred stock. It is also proposed to sell 80,000 shares of common stock to common stockholders on a one-for-seven basis. Early registration expected with sale tentatively expected in March. Probable underwriters for preferred: Paine, Webber, Jackson and Curtis and Stone & Webster Securities Corp.

Central Illinois Light Co.
Jan. 12 company announced plans to issue and sell 100,000 shares of common stock (no par) to its common stockholders about Feb. 15 on basis of one new share for each eight shares held, with an oversubscription privilege; rights to expire March 3. Unsubscribed shares to be first offered to employees. **Underwriter**—The Union Securities Corp., New York. **Registration**—Expected Jan. 25.

● **Central Illinois Public Service Co.**
Jan. 19 the company expects to obtain $14,000,000 from the sale, late in 1951 or in 1952, of additional securities. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kuhn, Loeb & Co. and A. C. Allyn & Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly); Salomon Bros. & Hutzler; First Boston Corp. and Central Republic Co. (jointly); Glore, Forgan & Co. Proceeds will be used for construction program.

● **Central Louisiana Electric Co.**
Jan. 22 it was reported that an offering of about $1,000,000 common stock will be made following merger with Gulf Public Service Co. Probable underwriters—Woodcock, Hess & Co.; Rauscher, Pierce & Co.; A. C. Allyn & Co. Registration is expected on Feb. 12.

Clinton Foods, Inc.
Jan. 15 stockholders voted to increase the authorized common stock (par $1) from 1,500,000 to 2,000,000 shares, the additional shares 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." No immediate financing imminent. 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.

Commonwealth Edison Co.
Jan. 10 it was announced the company contemplates $181,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Morgan Stanley & Co. Proceeds are to be used for construction program.

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.; Blyth & Co., Inc.; 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.

● **Denver & Rio Grande Western RR.**
Jan. 18 it was reported company may later this year refund its outstanding first mortgage 3%-4% bonds, series A, due Jan. 1, 1993 ($35,062,000 at Dec. 31, 1949) and Denver & Salt Lake income mortgage 3%-4% bonds, due Jan. 1, 1993 ($8,666,900 at Dec. 31, 1949). **Underwriters**—To be determined by competitive bidding. **Probable bidders**—Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.

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. (4/3)
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.; The First Boston Corp.; Kuhn, Loeb & Co.; Union Securities Corp. and Equitable Securities Corp. (jointly). **Proceeds**—For construction program. **Bids**—Expected to be opened on April 3. **Registration**—Tentatively scheduled for Mar. 2.

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.

● **Illinois Central RR.**
Jan. 22 the directors authorized the executive committee to plan for the refunding of Illinois Central RR. and Chicago, St. Louis & New Orleans RR. joint $18,812,000 of first refunding mortgage bonds due 1963 (including $14,611,000 of 4½% series "C" and $4,201,000 of 4% series "D" bonds). It is expected that $20,000,000 of new consolidated mortgage bonds will be issued. Probable underwriter—Kuhn, Loeb & Co., New York.

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. Probable bidders: Halsey, Stuart & Co. (for bonds); W. C. Langley & Co., Union Securities Corp. and Glore, Forgan & Co. (jointly), for bonds or stock.

Jersey Central Power & Light Co.
Jan. 12 it was reported that company may soon be in the market with an offering of 40,000 shares of new preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders include Glore, Forgan & Co.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); The First Boston Corp.; Salomon Bros. Hutzler. **Proceeds**—For new construction. Early registration expected. **Bids**—Tentatively scheduled for March.

● **Jersey Central Power & Light Co.**
Jan. 22 it was stated that early registration is expected of $1,500,000 first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders—Halsey, Stuart & Co. Inc.; White, Weld & Co. and Shields & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Otis & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; Kidder, Peabody & Co.; Glore, Forgan & Co. **Proceeds**—For expansion program. **Bids**—Tentatively scheduled to be received in March.

● **Lilly (Eli) & Co., Indianapolis, Ind.**
Jan. 18, J. K. Lilly, President, announced company may in the near future publicly offer about $10,000,000 of non-voting common stock. **Underwriter** — Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To construct additional manufacturing facilities.

Lone Star Steel Co.
Jan. 16, E. B. Germany, President, announced that company will raise $5,000,000 through a common stock offering within the next 120 days to be first made to common stockholders. **Underwriters**—Probably Straus & Blosser; Estabrook & Co., and Dallas Rupe & Son. **Proceeds**—For expansion program.

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.

● **Middle South Utilities, Inc.**
Jan. 23 it was reported that this company is expected to sell up to 600,000 shares of additional common stock (no par) in the near future. **Underwriters**—To be determined by competitive bidding. Probable bidders—Union Securities Corp. and Equitable Securities Corp. (jointly); Blyth & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); The First Boston Corp. **Proceeds** — To finance part of 1951 construction program.

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.

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.**
Jan. 18 FPC approved application of company 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 England Power Co.**
Jan. 16 company asked SEC authority to issue $12,000,000 of first mortgage bonds, series D, due 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To repay bank loans and for new construction. **Offering**—Expected in mid-February

New York, Chicago & St. Louis RR.
Jan. 12 company offered 33,770 shares of common stock at the rate of one new share for each ten common shares held on Jan. 11 (with an oversubscription privilege), subject to approval of ICC. Rights expire on Jan. 30. **Price**—$150 per share. **Underwriter**—None. **Proceeds**—To reimburse company for outlays already made.

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. Probable bidders for new bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp.; Kidder, Peabody & Co. (jointly); Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co., Inc.; Hemphill Noyes, Graham, Parsons & Co. and Drexel & Co. (jointly). **Proceeds**—To repay advances from parent and for new construction.

A hearing on temporary financing through issuance of $35,000,000 of notes will be held by the New York P. S. Commission today (Jan. 25).

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 Telephone & Telegraph Co.**
Jan. 23 company deferred its proposed offering of 569,946 additional shares of common stock (par $100) to common stockholders on a 1-for-10 basis. Proceeds were to repay bank loans and to pay for extensions, additions, and improvements to plant. A majority of the outstanding preferred and common stock is owned by the American Telephone & Telegraph Co.

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.

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).

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.

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.

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.

Southern California Edison Co.
Jan. 9, W. C. Mullendore, President, announced company will spend $60,585,000 on new construction in 1951. It is understood that only $30,000,000 of new bonds will be issued and sold in the near future. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Shields & Co.

● **Southern Union Gas Co.**
Jan. 18 it was announced company plans to issue and sell approximately 27,000 shares of preferred stock (par $100) and approximately $4,000,000 of first mortgage bonds (in addition to the 150,469 additional shares of common stock filed with SEC on Jan. 8.—see preceding columns).

Tennessee Gas Transmission Co.
Jan. 8 company sought FPC permission to construct 253 miles of pipeline to cost an estimated $36,241,000. This would be financed in part by the sale of securities and through bank loans. An issue of bonds (probably $35,000,000) is expected some time late in February. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly).

Texas Electric Service Co.
Jan. 5 it was reported that this company contemplates sale early this spring of additional first mortgage bonds to the public and of additional common stock to parent, Texas Utilities Co. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp., Glore, Forgan & Co. and White, Weld & Co. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co., Inc.; Hemphill Noyes, Graham, Parsons & Co. and Drexel & Co. (jointly). **Proceeds**—To repay advances from parent and for new construction.

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.

● **Transcontinental Gas Pipe Line Co.**
Jan. 20 it was reported that there may be a possibility of refunding the $26,500,000 notes due May 1, 1951 which were offered publicly by White, Weld & Co. and Stone & Webster Securities Corp.

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 New Jersey RR. & Canal Co. (2/8)**
Bids will be received at or before noon (EST) on Feb. 8 for the purchase of $5,669,000 general mortgage bonds to be dated March 1, 1951 at the office of Geo. H. Pabst, Jr., Vice-President of The Pennsylvania RR., Room 1811, Broad Street Station Bldg., Philadelphia 4, Pa. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co.; Harris, Hall & Co. Inc. **Proceeds**—To redeem at maturity (March 1, 1951) a like amount of 3½% general mortgage bonds.

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. (3/7)**
Jan. 24 company applied to regulatory commissions for authority to issue 320,000 additional shares of common stock (no par) to be offered to its stockholders for subscription on the basis of one additional share for each ten shares held on or about March 9, with rights to expire about March 26. Unsubscribed shares to be offered to employees of companies in the West Penn Electric System. **Underwriters**—To be determined by 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**—To purchase additional equity securities of two of its subsidiaries—Monongahela Power Co. and The Potomac Edison Co. **Bids**—Expected to be opened on March 7.

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.

● **Worcester County Electric Co.**
Jan. 22 it was stated early registration is expected of $12,000,000 first mortgage bonds. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; The First Boston Corp.; Harriman Ripley & Co. Inc. **Proceeds**—To retire bank loans.

Our Reporter's Report

Conditions in the new issue market improved a bit this week, but not enough to bring any resounding cheers from underwriters who still find things too slow and uncertain from a standpoint of distribtuion.

While one utility issue, short in maturity, 20 years, and additionally endowed with a sinking fund that will reduce the average life of the issue to around 13 years, moved out rapidly, another with a 35-year maturity joined the ranks of earlier offerings which have been decidedly slow to say the least.

The plaint of new issue distributors at the amount is that this is "a very difficult market to attempt to work in." They find that the insurance companies, major outlet for new securities, are still interested chiefly in private deals and in placing money in mortgages.

Meanwhile the banks, it is argued, are finding their scope shortened by consideration of impending higher taxes and the effects of the current hike in reserve requirements.

On top of all this the Treasury market is not showing any real ability to sustain much less extend the upturn which developed in the wake of Secretary Snyder's recent pronouncement that the 2½% rate would continue as the basic figure on new long-term government borrowing.

Cheers And Groans

Brisk demand for Southern Natural Gas Co.'s $17,500,000 of 20-year first mortgage pipe line bonds gave sentiment a momentary fillip earlier in the week.

Successful bidders bought the issue with a 2⅞% coupon, for a price of 100.1899 or only about 10 cents per $1,000 above the next competitor.

Reoffered at 100.683 to yield 2.83%, this issue with its heavy sinking fund, encountered good inquiry from smaller type investors chiefly pension funds.

Meanwhile Consolidated Gas, Electric Light & Power Co. of Balt.'s $25,000,000 of new first refunding 35-year mortgage bonds proved slow. The winning group took this issue at 100.139991 as 2¾s, equivalent to a 2.74% basis with others bidding about a 2.76% plus basis for 2⅞% bonds.

Reoffered at 100.67 to yield 2.72% the issue was reported as decidedly slow in attracting buyers.

Illinois Central Plans

A new piece of railroad refinancing came into sight with the announcement by Illinois Central Railroad that it has authorized a study of plans for refunding its two series of first and refunding bonds, totaling $18,812,000, due in 1963.

The company is believed to contemplate a new issue of $20,000,000 of consolidated mortgage bonds to replace the outstanding $14,611,000 of Series C 4½s and $4,201,000 of Series D 4s, callable at 105 and 102 respectively.

The road has just informed the N. Y. Stock Exchange that its bonded debt was reduced by $2,117,200 since the time of its last report.

Big Stock Issue Looms

Underwriters are reported to be organizing groups for the purpose of bidding for an expected offering of additional common stock of the Middle South Utilities, Inc., holding unit with operating properties in Arkansas, Louisiana and Mississippi.

It is expected that the company may place additional common, possibly as much as 600,000 shares on the market some time soon to raise funds for financing, in part, its current construction budget.

Meanwhile groups also are being formed to bid for an expected Tennessee Gas Transmission Co. offering which may involve $35,000,000 of debt securities, reaching market some time late in February.

Paul J. Bax Joins First Boston Corp.

Paul J. Bax

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Paul J. Bax has become associated with the First Boston Corp., 231 South La Salle Street. He was formerly real estate trader for Barclay Investment Co. and prior thereto was with Kidder, Peabody & Co.

Luckhurst & Co. Offers American Dry Ginger Ale Co. Securities

Luckhurst & Co. are offering $299,500 convertible sinking fund debentures due April 15, 1961, with 3% interest fixed and 3% contingent, and 14,975 shares of common stock of $1 par value, of the American Dry Ginger Ale Co., Inc., also doing business as The Moxie Bottling Co. The issuer is one of New England's largest distributors of carbonated beverages, with 10,000 retail dealers selling its products to the public. Investors are offered units consisting of one $100 debenture and five shares of common stock at $100 per unit.

Incorporated in 1925, the company produces and distributes its own brands, "American Dry" and "Sea Breeze." For the past several years it has been exclusive franchisee for the bottling and distributing of Moxie in the metropolitan Boston area and has had the exclusive right for the entire country on the Pureoxia products of the Moxie company. Moxie has been sold for 75 years and Pureoxia for 57. The company's plant in Boston is thought to be the largest bottling plant east of Chicago, with a capacity of about 2,000,000 cases per year on the basis of an eight-hour day. Sales efforts have heretofore been concentrated in Massachusetts and New England. However, plans have been made for wider distribution either directly or through franchises.

Halsey, Stuart Group Offers Consol. G., E. L. & Pr. Co. of Balt. Bds.

Halsey, Stuart & Co. Inc. and associates are offering today (Jan. 25) $25,000,000 first refunding mortgage sinking fund bonds, series X, 2¾%, due Jan. 15, 1983, of Consolidated Gas Electric Light & Power Co. of Baltimore at 100.67% and accrued interest.

Net proceeds from the sale of the bonds will be available to the company in reimbursement of its treasury for capital expenditures for improvements, betterments and additional property made within the past three years. A part of the net proceeds will be applied to the repayment of $4,200,000 borrowed from banking institutions to retire $3,566,000 principal amount of 2¾% first refunding mortgage sinking fund bonds called for redemption on Jan. 3, 1951. Balance of the net proceeds will be added to the company's general funds and will be available for general corporate purposes, including proposed construction expenditures.

Regular redemptions may be made at prices from 103.67% to 100%. Sinking fund redemption prices range from 100.68% to 100%.

The utility company is primarily engaged in the purchasing, producing and selling of electricity and gas within the State of Maryland where all of its properties are located Other business of the company includes the sale of gas and electrical appliances and allied merchandise and the sale of steam. The area served with electricity contains approximately 2,285 square miles having an estimated population of 1,450,000, and the area served with gas contains approximately 260 square miles with an estimated population of 1,200,000.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — However imposing the "wage stabilization" order may sound, when it is issued in the near future, there will be a marked distinction between the handling of "wage stabilization" and price controls in actual operation, it is the opinion of informed labor experts.

They say that the President himself established a sharp distinction between what he thought of price control and what he thought of wage control, in his Economic Report to Congress.

"In the case of prices," the President said in that message, "the general policy must be to hold the price line with utmost vigor, as the instances are rare indeed where further price increases are needed, either to stimulate production or to provide adequate profit incentives. In these rare cases, some price adjustments subsequent to stabilization may become necessary to stimulate vital production.

"It is my confident belief that price adjustments, after stabilization, will not be only in an upward direction."

With respect to "wage stabilization," however, the President did not call for "utmost vigor," and he did not hint a roll-back in the big wave of wage increases. As a matter of fact, he did not close the door at all to further wage increases under "wage stabilization."

After saying (as the Defense Production Act has required) that prices and wages are connected, that decisions on both must be reconciled, the President declared:

"But it does not follow that prices and wages are precisely similar, or can be treated identically. Prices are only one factor in the incomes of business, which may rise or fall independently of prices. But wages are the very livelihood of millions of families. This makes wage stabilization the more difficult part of the task. But it must be undertaken if prices are to be stabilized," the President said.

* * *

That the President distinguishes between the degree of controls which shall apply to wages and those which shall apply to prices recalls a little of the story of "wage stabilization" during World War II.

While prices were controlled in 1941 an alleged wage control was not attempted until well over a year later. The "Little Steel" formula was promulgated in the summer of 1942, to be followed in October, 1942 by an Executive Order which many at the time deemed inadequate to inflation control, because it allowed so many loopholes.

There followed in April, 1943 the "Hold the Line" order which theoretically barred wage increases unless justified by most exceptional circumstances. This "Hold the Line" order, however, was effectively modified by decisions of the War Labor Board which allowed almost every kind of a "fringe" benefit increasing manufacturers' labor costs so long as no direct wage increase as such was involved. Almost anything which wasn't a direct wage increase was approved.

* * *

There are many underlying differences between the labor situation now and in 1942, when a puny attempt at wage control was begun.

In 1942 price controls came first. Under DPA some show of wage control must come simultaneously.

In 1942 the primary problem was settlement of labor disputes; now labor, with long-term contracts, is relatively peaceful.

Wage controls developed piecemeal in World War II, via the case method of decisions on each dispute. They brought about "wage stabilization" policy only casually and incidentally. Now a "wage stabilization" policy is theoretically demanded of the Truman Administration at the outset.

There was no Taft-Hartley Act in 1942. There was in existence at the beginning of the war no restraints over big labor disputes. With the Taft-Hartley Act, big labor disputes do not have to be resolved with big wage or fringe rewards for labor peace—unless the President chooses not to avail himself of the act.

Escalator clauses were unknown in labor contracts at the outset of World War II. Now they are numerous.

Alleged "substandard conditions" were used during World War II to justify numerous wage awards. There are now few "substandard wages" in existence.

Fringe benefits were almost unknown until World War II. First used at that time to circumvent wage control, they are now universal.

So, in the net, the labor experts conclude, the situation is ripe fundamentally for wage control and the country can have it with a great deal less difficulty—provided, of course, the Administration really wants to stabilize wages.

* * *

While there was some hollering for publication about the fact that President Truman in his Budget message called for the complete "Fair Deal" repertoire of proposals, the mill run of practical politicians were privately little excited about this.

They were little excited about it, because it was foreordained that somewhere during the course of his plethora of messages, the President should register himself for the record as favoring the 100% pure "Fair Deal."

Strangely enough, the Budget message is the poorest place the President could have included these proposals, if he were really hoping and expecting to get anywhere with Congress. The Annual Message was the proper place to beat the propaganda drums for the Brannan plan, aid to education, the FEPC, etc. In his Annual Message the President tacitly acknowledged that the war came first, his "reforms," second.

Mr. Truman and his opponents both know that very little of the "Fair Deal" will get enacted because of the war and the conservative character of the Congress. Both Mr. Truman and his opponents also knew and understood that the President was bound somewhere along the line to re-state his political faith in these programs.

So nothing has been changed.

On the other hand, the disposition of Republicans, always casting a longing eye at the "Fair Deal" ownership of the minorities vote, to paly up the FEPC, might cause the President as he has indicated to give the thing a try by one means or another.

* * *

Whatever results the Federal Reserve Board's actions in raising reserve requirements and margin requirements may have in preventing inflation, they have one very important result desired by the Federal Reserve Board.

That result is to clear some political obstacles away from a legislative project very much desired by the Board — legislation raising above present statutory limits the required legal reserves of member banks.

Whenever the Board in the past few years has pressed its project to raise reserve requirements beyond present statutory limits, the Board has always been answered with the criticism that it didn't use fully its existing requirements. Now, except for two points of requirments at New York and Chicago, all legal reserves possible have been called into being.

The Reserve Board did not want to face Congress again and have to answer this criticism. It can also point to its action in forcing a boost in the 1-year government rate and in raising the rediscount rate, even though any effect in curtailing lending has been hard to find.

The present high stock market has not been sparked by bank credit, and raising margin requirements was not expected to have any big effect on the market. However, a "fringe" of demagogues in Congress has always objected "why don't you raise margin requirements" whenever the Board has asked for higher reserve requirements.

In view of the fact that the Board will have to go it alone if indeed it does follow through with a request for higher margin requirements, it was desirable to placate as much Congressional opposition as possible.

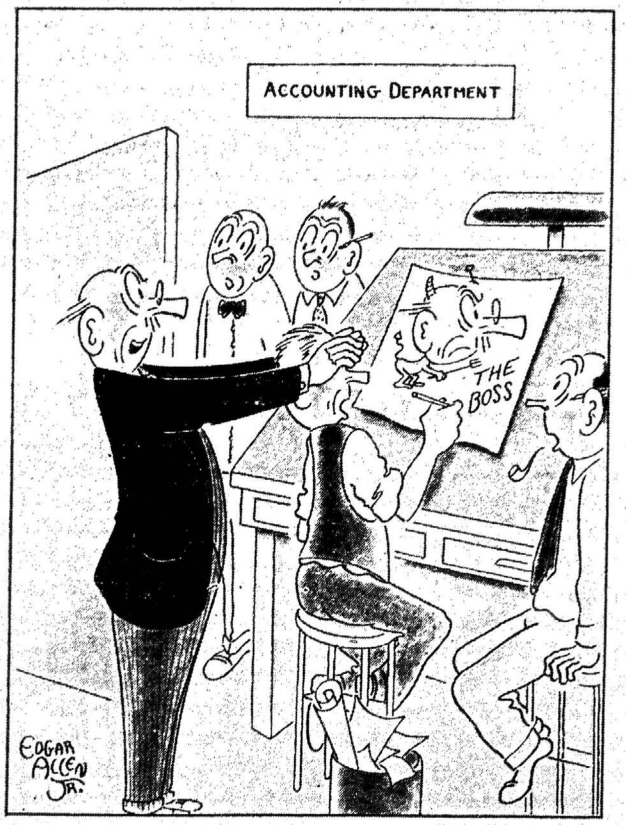
A possible ally for higher reserve requirements vanished when the Council of Economic Advisers, after a sympathetic comment on the proposal, turned it down. Noting the large rise in bank credit, the CEA observed:

"Because of the needs of debt management, however, general credit policy cannot be expected to be a major anti-inflationary instrument during the coming period of intensive mobilization." CEA added that reliance should be placed upon a greater application of selective credit controls.

* * *

(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



"Guess Who?"

Joins Goodbody Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Preston C. Beard has joined the staff of Goodbody & Co., 105 West Adams Street.

Joins C. H. Wagner

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, La.—Louis E. Hankey is now affiliated with the C. H. Wagner Investment Co. of Tulsa, Okla.

FIC Banks Place Debs.

A successful offering of an issue of debentures of Federal Intermediate Credit Banks was made Jan. 17 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $85,455,000 of 1.85% consolidated debentures dated Feb. 1, 1951, and due Nov. 1, 1951. The issue was placed at par.

Of the proceeds, $44,735,000 will be used to retire a like amount of debentures maturing Feb. 1, 1951, and $40,720,000 is "new money."

As of the close of business Feb. 1, 1951, the total amount of debentures outstanding will amount to $556,800,000.

Two With Doremus

Doremus & Co. announces that Dirk Van Slyke, formerly of Buchanan & Co. Inc. and prior to that with radio station WMGM (formerliy WHN) is now associated with that agency in the New York office, 120 Broadway.

Robert S. Coleman, formerly with the news and advertising staffs of the Bridgeport, Connecticut "Post" and previous to that with the Chicago office of Dancer Fitzgerald Sample Inc., has also joined the New York office of Doremus & Company.

Sidney F. Ward

Sidney Freeman Ward, partner in W. E. Burnet & Co., New York City, died suddenly at the age of 77.

George F. Vietor

George F. Vietor died of a heart ailment at the age of 68. Prior to his retirement he was a partner in Charles W. Hill & Co., New York City.