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EDITORIAL

As We See It

The late Senator Glass almost from the first repeatedly complained that the politicians had converted the Federal Reserve System into a "door mat for the Treasury." It was, presumably, as a result of general disapproval of this relationship that the Secretary of the Treasury and the Comptroller of the Currency were removed from what used to be termed the Federal Reserve Board, but which now has the more glorifying title "Board of Governors of the Federal Reserve System." But in such matters there is always likely to be a vast difference between form and substance. With the departure of Treasury officials from the Board, the Treasury has not less but more than ever dominated the so-called central banking system of the country. Despite some show of independence last year, and notwithstanding rather obvious lack of stomach for the position into which it has been pushed during the past week or two, it is obvious that the Board of Governors of the Federal Reserve System is in serious danger—to state the case very mildly—of losing what little independence it has left.

To the matriculate, the situation which has of late burst into the limelight for the edification of the general public has long been a familiar one. It has existed behind the scenes lo these many years, and almost every time, if not indeed always, the Treasury with the support of the White House has had its way. What has taken place is, therefore, at bottom not very different from what has been occurring from time to time for a decade or two, but there are certain aspects of these events which are, so far as we can recall, without precedent. They are, moreover, of more than purely formal significance. It is a little like

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A Program of Sound Fiscal And Monetary Policy

By WALTER E. SPAHR*
Professor of Economics, New York University
Executive Vice-President, Economists' National Committee on Monetary Policy

Dr. Spahr stresses evils of our irredeemable currency system, along with government domination of central banking. Scores pegging interest rates and recommends Congress cut budget; make Federal Reserve independent; repeal authority of F. R. Banks to buy government securities direct from Treasury. Urges Commission to study extent to which F. R. Banks should hold governments.

I

Some Basic Considerations

It seems necessary to appraise the setting against which the topics assigned for discussion are apparently being viewed if we are to reach correct conclusions.

(1) First of all, there is no mention of the fact, in the topics for discussion, running from Jan. 24 to Feb. 2, inclusive, that the people of the United States are living with an irredeemable currency. There is no suggestion that such a currency is harmful; or that it has contributed anything to the depreciation of the dollar which, as of Jan. 23, 1951, had a purchasing power of only 42.8% against the index of average wholesale prices in 1939; or that our dollar is selling abroad at a discount in terms of gold.

Walter E. Spahr

The Economic Report of the President Transmitted to the Congress Jan. 12, 1951 (House Doc. No. 30, 82 Cong., 1st Sess.), likewise contains no mention of an irredeemable currency. There is no suggestion that it might be important that we ask ourselves what we are doing with an irredeemable currency, what it is doing

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*A statement by Dr. Spahr before the Joint Committee on the Economic Report, Washington, D. C., Feb. 2, 1951.

The Economic, Financial and Investment Implications of Inflation

By HOWARD F. VULTEE*
Vice-President, Marine Midland Trust Co. of N. Y.

Contending the real retardant or safety value of disastrous inflation in U. S., in contrast with other countries, is our great and growing productive capacity, Mr. Vultee points out economic, moral and political effects of inflation. Sees threat to investments, pensions, endowments and annuities, and destruction of middle classes as great catastrophies resulting from inflation. Gives illustration of inflation's impact on investment.

This country has suddenly become acutely aware of inflation quite in contrast to the indifference of a few years ago when the inflation was equally intense and the seeds for future inflation were being carelessly sown right and left. While inflations are an inevitable by-product of war, I believe a better understanding of the inflation in the United States is possible if it is viewed as part of the cumulative price we must pay for years of inflationary national policy, greatly accelerated and aggravated by the staggering costs and dislocations of World War II, and the cost incident to the present armament effort. This concept finds reflection in the words of a Chairman of the Federal Reserve Board a few years ago who said "war financing and enormous Federal deficits . . ." are ". . . the source of the present inflation . . .;" ". . . we are suffering from the consequences of an excessively swollen money supply" . . . and . . . "we are caught in a dangerous wage-price-profit-credit spiral. . . ."

Howard F. Vultee

Inflation means many different things to different

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*An address by Mr. Vultee at the 16th Annual Economic Conference, Rollins College, Winter Park, Fla., Feb. 1, 1951.

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 38.

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

New York, Chicago and St. Louis Common Stock—W. Everit Burnet, Senior Partner, W. E. Burnet & Co., New York City. (Page 2)

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W. EVERIT BURNET

Senior Partner, W. E. Burnet & Co., Members: N. Y. Stock Exchange

New York, Chicago & St. Louis Common Stock

W. Everit Burnet

Since I discussed New York, Chicago & St. Louis common stock in this column last March, the road has paid $34.50 on preferred arrears last year. Large cash resources, which had reached $31,000,000 by Sept. 30, and $5,065,500 proceeds from the recent sale of 33,770 shares of common stock to stockholders at $150 a share, have enabled the company to announce full payment of $45 preferred arrears on March 5.

With resumption of common dividends in sight, stockholders will vote at an early meeting (March 29) to split the small common stock issue 5-for-1 and to give both preferred and common stockholders voting rights.

Inclusion of operations of Wheeling and Lake Erie, in which "Nickel Plate" holds over 80% control, pushed earnings for 1950 to $55.88 per common share.

The rearmament program has quickened industrial activity and has led to reactivation of a number of war industries in the territory served. A substantial part of this traffic will move east and could be routed to tidewater over the Delaware, Lackawanna & Western, which holds 18% of the road's common stock.

On March 16, 1951, when I first recommended the purchase of the common stock of the New York, Chicago & St. Louis Railroad in this column, the stock closed on the New York Stock Exchange at 106¼. Since that time "Nickel Plate" common has more than doubled in price, closing at 230 Saturday, Feb. 3. It is also interesting to note that the low for 1949 was 56; the 1948 low, 39; the 1947 low, 18⅞; the 1946 low, 26, while the 1929-1945 low was only 1½.

While the current price of New York, Chicago & St. Louis common stock presents a notable advance over a year ago, the split-up into the more popular $20 par units and the expected resumption of common dividends makes the stock still attractive for those who are willing to assume a businessman's risk.

DONALD M. HALSTED

President, Donald M. Halsted & Co., Inc., New York City

Rockwood & Co. 5% Cumulative Pfd. A

Donald M. Halsted

No security can be the best for all situations, so one which helps solve a hard current problem for our organization probably merits designation as the one I like best today. That problem is to find a senior security of a strong, well-managed company, having some chance for appreciation, which can be used to replace called issues without decreasing the rates of return. If we concede a bit as to marketability, we can obtain good quality and high yield and solve our problem with Rockwood & Co. 5% cumulative preferred A, currently selling at about 76, to yield 6.58%.

History and Management—Founded in 1886 and incorporated in 1903, Rockwood & Co. is one of the three largest manufacturers of cocoa products in the country, probably grinding about one-fifth of all beans ground. Consumption of cocoa beans has almost doubled during the past 30 years and seems likely to continue to gain. Bulk sales of chocolate coatings, commercial cocoas and cocoa butter probably account for about 60% of Rockwood's volume, the balance being packaged goods, such as mint and rum wafers, "Bits," breakfast cocoa, etc.

Management is competent and experienced. The President, H. Russell Burbank, joined the company in 1926, became a Vice-President in 1933, and assumed his present post in 1943; others also show long terms of service. Sales coverage is from coast to coast, with main plant in Brooklyn, N. Y., branches in Boston, Chicago, San Francisco and Los Angeles, warehouses in those and five other cities; a creamery is owned in Michigan.

Earnings—For 30 years Rockwood has shown profits after taxes, except in 1935 and 1937. Inventory write-downs brought about the losses in those two years; consequently "Lifo" inventory accounting as to the main raw material, cocoa beans, was adopted in 1941, as soon as government tax regulations permitted. In that year, prices for cocoa beans averaged about one-fifth of current quotations. The size and book value of this "Lifo" inventory have never been stated publicly, but it is believed to be essentially intact, a bulwark against any future inventory losses such as occurred in 1937. Since issuance, earnings per share on the $5 cumulative preferred A have ranged between $20.51 in 1944 and $48.58 in 1947; 1949 showed $25.43.

Capitalization—At the end of 1949, Rockwood had no debt, while cash alone exceeded total current liabilities of $1.21 million. Working capital of $5.3 million stood at a new high. After deducting all reserves and the par value of the prior preference stock, net working capital per share of preferred A amounted to more than $188, and total net assets to $294.

The only capital item senior to this issue is $150,000 5% cumulative prior preference, all owned by one stockholder, having no voting power unless dividends are considerably in arrears.

The $5 cumulative preferred A, 25,063 shares, is next in line, followed by 55 shares $5 "old" preferred and 168,507 shares common. If the old preferred is ever found, it may be exchanged for 62 shares preferred A. Preferred A dividends have been paid regularly since it was issued in 1944; at that time, 1⅛ shares preferred A were exchanged for one share old $5 preferred and dividend arrearages thereon of $12.50 which had resulted from the 1935-1937 slump.

Preferred A and old preferred are callable ratably at 110, but only after all prior preference has been retired. The company cannot mortgage or pledge fixed assets, nor issue stock having parity with, or priority over, the preferred A without consent of two-thirds in amount of the A shares.

Common dividends were started in 1945 at an annual rate of 80 cents, which was raised to $1.20 in 1947 and $1.50 on March 1, 1951. Extras of 40 cents in 1947 and 30 cents in December, 1950, have been paid.

Conclusion—Chocolate and cocoa products are classed as foods; during war periods government requirements are large and manufacturers of these products are usually busy. Rockwood's competent management, strong financial position and Lifo inventory, assure the $5 cumulative preferred A of continued investment calibre. Unlisted, its marketability is adequate for those smaller accounts which need it the most, while a majority of large accounts can well afford to sacrifice some degree of liquidity to obtain the high return.

GERALD D. McKEEVER

Analyst, Reynolds & Co., Members, New York Stock Exchange

Southern Pacific Railway Co.

Gerald D. McKeever

At least five good reasons can be offered for deeming Southern Pacific stock to be outstandingly attractive. In the first place, its price advance has been greatly restrained despite the fact that—and this the second reason — the yield it produces is well above the average among major rail system equities, and especially for those of comparable quality. A third reason is that the price-earnings ratio is also under average, based on estimated earnings of $13 per share for 1950 and about $13 to $14 for 1951.

All of these seem to be in complete disregard of the fourth factor—an outstanding record of growth since 1940 in which it has been exceeded in its territory only by the Atchison. Finally, despite the fine showing made since early 1949, when the effect of progress in dieselization began to be clearly evident for the Southern Pacific, there is more room for further improvement in the transportation ratio than for most other major systems. The Southern Pacific, occupied with its remarkable debt reduction and consolidation accomplishment, was among the last of the major carriers to begin to dieselize. Diesel units acquired in 1949 increased the diesel fleet of the Southern

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LETTERS TO THE EDITOR:

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

More letters given in this issue in connection with Melchior Palyi's article in the "Chronicle" of January 11.

Provision is made in today's issue for publication of some more of the letters received relative to the article by Melchior Palyi, "Are We Falling Into History's Greatest Trap?", which appeared on the cover page of the "Chronicle" of Jan. 11. In his article, Dr. Palyi analyzed Soviet aggression techniques and asserted that the United States must either (1) restrict its defense zone to the Western Hemisphere or (2) promulgate a new Monroe Doctrine specifying the areas which we are prepared to defend against the march of communism. Continuance of our present foreign policy, and a policy of full and permanent mobilization, Dr. Palyi warned, can only lead to national bankruptcy.

In addition to the following letters, reference is made to the fact that others appeared in our issues of Jan. 18, Jan. 25 and Feb. 1, and still more will be accommodated in subsequent issues.

* * *

HARRISON L. AMBER

President, Berkshire Life Ins. Co., Pittsfield, Mass.

I have read with much interest the article, "Are We Falling into History's Greatest Trap?", by Dr. Melchior Palyi.

One could write pages about his article but I think what you want is a simple statement of whether we agree, or do not agree, with its contents.

I think generally I am in complete agreement with his ideas. The only thing that bothers me is that if we are wrong about "mobilization potential" we are awfully wrong. On the other hand, I realized that "readiness potential" may, if carried too far, bankrupt us. To be honest, I would feel a lot better about the whole situation if our powers in Washington were a little bit more able men. I am afraid that they go on a day-to-day basis and that is never safe for any length of time.

* * *

G. T. BAKER,

President, National Airlines, Inc., Miami, Fla.

I have read, with great interest, the views expressed by Dr. Melchior Palyi. He paints a clear picture of the situation existing today.

We have the finances and resources to fully protect North and South America and, in my opinion, that is as far as we should go. To do otherwise will, in all probability, bankrupt our government. If we ever get communism here it will be because our people have adopted the Marxist philosophies and not because of an invasion by Russia.

HARRY A. BULLIS

Chairman of the Board, General Mills, Inc., Minneapolis 1, Minn.

I agree with Dr. Palyi that if we devote too great a part of our national productivity to war, we may bankrupt ourselves.

It seems to me that the most immediate danger to this country is not that Russia may attack us but that we may be the victims of runaway inflation. I believe that direct controls imposed ostensibly to control inflation, may hamper production to the extent that in the end they will actually increase the inflation potential.

* * *

D. L. CHAMBERLAIN

President, The First National Bank and Trust Co. of New Haven, Conn.

Usually I can take a position and justify it with reasonable assurance, but this whole foreign picture has me stymied. After reading Dr. Palyi's excellent article I was greatly reassured, but there again it may be the natural relief to be given some very definite bright spots in contradistinction to the constant stream of gloomy and threatening information that seems to be pouring in from all sides. It is possible that a large percentage of that is propaganda to encourage the adoption of certain administrative policies, but if one can judge by the mad rush to plunge into an active war economy after many of our outstanding leaders have given the world a complete story of our so-called outstanding weaknesses, to say the least, the counter-effect of Dr. Palyi's argument and claims are most encouraging.

I am a great admirer of General Eisenhower, whose report and opinion of what should be done will soon be given, and I think ought to answer many doubts now in the minds of our people, but pending that I am inclined to agree for the most part with Dr. Palyi's very able analysis of our present problems. While there is probably no doubt but what we should prepare for the worst along the lines which will result in the least impairment of our economic strength, I do not believe that we should be panicked into the extremes to which we are now going.

* * *

C. P. CONRAD

President Iowa-Illinois Gas and Electric Company, Davenport, Iowa

I would suggest that you compare Dr. Palyi's article with Mr. Herbert Hoover's recent recommendation to this country as I believe that we can find no better guidance. Mr. Hoover has indicated after careful analysis what in his opinion this country

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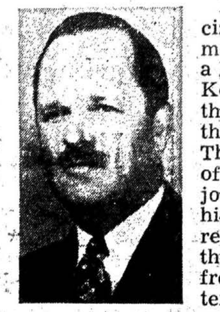
The Coming Stock Market Decline

By ANTHONY GAUBIS*
Investment Counselor

Market economist, maintaining "inflation" is being over-advertised, warns of present investment risks, and predicts fall of at least 25% in vast majority of stocks. Offers following reasons for selective decline: (1) substantial counter-deflations recurrently interrupt the long-term inflationary trend; (2) imminent 40-50% reduction in rate of corporate earnings; (3) rising personal income tax; (4) increased floating supply of stocks; and (5) a worsening international situation.

The dominant force in the stock market today is unquestionably "inflation psychology." The inflationary potentials in our economy are being as widely advertised, and seemingly as widely accepted, as were the merits (but not the risks) in "Common Stocks as Long-Term Investments" in 1929 and in the Spring of 1937. In contrast with the more cautious views prevailing a few years ago, corporate earnings are no longer considered "unreal" because of the influence of such nonrecurring factors as pent-up demands, original-cost depreciation, or rearmament orders, and the unfavorable aspects of the high level of taxes is also being ignored.



Anthony Gaubis

The Bullish Influences

Apart from this inflation psychology, (which has developed following every sharp rise in commodity prices since 1936), the principal bullish factors seem to be: (1) the high yields available in equities as compared with high-grade corporate bonds; and (2) the prospect that our rearmament program will absorb the slack in activity which was inevitable once we had completed satisfying the major pent-up demands built up during World War II.

*A talk by Mr. Gaubis before the New York Society of Security Analysts, at Schwartz's Restaurant, New York City, February 2, 1951.

Inflation Already Discounted

In spite of these widely publicized factors, I believe that the market as a whole, by rising to a level of about 9% above the pre-Korean highs, has now discounted the additional inflation caused by the outbreak of war in the East. The probabilities favor a decline of 25% or more in the vast majority of stocks, from either the highs witnessed last year or being recorded (in certain groups) in the current phase of the recovery from the post-Korean lows. In terms of the leading stock averages, I would look for a decline of the type witnessed in late 1946 or in the Spring of 1934, with the amplitude of the decline in the averages depending largely on decisions to be made in Washington during the next few months. Because of the extreme selectivity in the market, I think it is a safe assumption that many stocks will not exceed their 1950 highs at any time this year. By the same token, it is highly probable that some stocks will end the year at above current levels, even if we should have a 1946-type of decline during the three to six months immediately ahead. I mention this point principally because it is important that we keep in mind the fact that the probable trend of the market as a whole is only one of the factors which should be considered in deciding whether a given stock should be purchased or held, and in what proportion to a basic or "normal" position.

Reasons for the Coming Decline

My principal reasons for expecting a sharp decline in the market as a whole are:

(1) In the first place, although I believe that our economy has been operating under an inflationary background since 1933, we should continue to expect substantial, if temporary, counter-deflations in the stock market from time to time, similar to those witnessed in 1937, 1940, and 1946. (This conviction is in line with the views I expressed in an article which appeared in the *Commercial and Financial Chronicle* in October, 1947, when I refused to go along with the prevailing view that the Dow-Jones Industrial Average was likely to decline to well below the 160 level because the market was "historically high.") Intermediate or cyclical declines have gotten underway in recent years each time that public pressure has forced the government to do something about a particularly sharp rise in commodity prices over a brief period of time. The record shows that in each of the seven instances since 1932, when commodity prices rose sharply within a period of three to six months, the stock market shortly thereafter had a decline of 22% or more. These periods include 1937, 1940, and 1946. If you will check back you will find that in these years, just before a sharp decline in the stock market got underway, the inflationary possibilities in our economy were being stressed by most market commentators. In each instance, either the Federal Reserve Board or the government itself was finally prevailed upon to take action which temporarily, at least, checked the inflation spiral and particularly the inflation psychology in Wall Street. History seems to be repeating itself, and the Federal Reserve Board has finally started to carry out its threats of last Fall to increase reserve requirements, while the Administration has rather belatedly gotten around to placing some roadblocks in the path of rising commodity prices.

(2) In the second place, I believe that the trend of corporate earnings will be sharply downward during the last six to nine months of this year, with the rate of earnings of many companies likely to be 40% to 50% below recent levels before the end of 1951. Earnings for the year as a whole will depend in part, of course, on whether the forthcoming increases in corporate taxes are made retroactive to Jan. 1, or are not effective until July 1. The earnings outlook for individual companies will depend on whether tax increases emphasize changes in excess-profits taxes or the basic corporate tax.

My expectations of lower corporate earnings are based not only on the prospect that corporate taxes will be increased by somewhere between $4 billion and $5 billion a year, or roughly 20% of last year's estimated corporate income after taxes, but also on the outlook for lower profit margins as prices are stabilized and as war work replaces civilian production. It should be remembered that the current situation is materially different from that prevailing immediately preceding World War II. At that time our economy had been operating at well below capacity levels, and profit margins on peacetime work were quite low.

I am aware of the fact that many stocks are selling at very low ratios to the current rate of earnings. However, I can find no period in the past when the market as a whole has not suffered a very sharp decline during the year when the trend of both earnings and taxes was unfavorable.

(3) A third point, which is not unrelated to the one I have just discussed, is the fact that stocks are fundamentally worth less to the average investor during periods of rising taxes than they are when the trend of personal income taxes is downward. If we are realistic and take personal tax rates into account, the logic behind the so-called "value approach" to stock appraisals clearly indicates why there is an inverse correlation between price-earnings ratios and the level and outlook for personal taxes. The risks in the stock market naturally rise as prices advance. Many astute investors recognize this fact, and in view of their high personal brackets, are not interested in buying equities once they are selling so far above net quick assets and similar considerations that the possibilities for loss are greater than the possibilities for additional profits, after taxes. It is obvious that this

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The Stock Market Outlook

By HEINZ H. BIEL*
Emanuel, Deetjen & Co., Members N. Y. S. E.

Market analyst, pointing out imponderables in appraising present influences, recommends that (1) long-term investors should retain holdings, while maintaining 20% cash reserve; (2) new investors should commit only one-half of their funds; and (3) traders should protect their profits by fairly close stop-loss orders.

It is the exception, not the rule, that an analyst feels very sure of the market trend. But today, the feeling of uncertainty seems to me greater than usual. To be sure, the Dow Theory has only recently reaffirmed the bull market. The major trend is still "up." But up how much? And how much longer?

Heinz H. Biel

The industrial average has already risen about 55%, the rails more than 110% since 1949. Many individual stocks have done even better. Obviously, stocks are not as cheap as they were 20 months ago, although a good case can be made, statistically, to prove that many issues are still quite reasonable. In fact, if we allow for the 50% loss in the dollar's buying power in the past decade, we might even say that stocks in general are still "cheap."

Factors Supporting Upward Trend

There are good reasons to believe that the major trend of stock prices will continue upwards:

(1) Business activity will be at capacity levels on an over-all basis. It will not be a "profitless" prosperity, despite higher taxes, price freezes, controls, etc. Many dividends may have to be reduced, but if General Motors cuts its 1950 dividend in half—which seems an unduly pessimistic assumption—the dividend return of 6% is still more than twice the yield on good bonds.

(2) Fear, fear of inflation, has become an overpowering motive for buying stocks. It has affected the small saver as well as the managers of large funds—colleges, churches, hospitals, personal trust, pension funds, etc. All these people are converting dollars into stocks in order to attain at least some protection against the shrinkage of capital and income. These investors know that they are paying high prices for good stocks, but they do not seem to care. They realize that stock prices fluctuate, that a sharp decline is always possible, but they are thinking in terms of years. Perhaps this is not what we like to call "sophisticated" buying. But in my opinion, it is good investment buying. These stocks are bought for long-term holding; they go into the box and are unlikely to be dumped on the market at the first sign of a reaction.

*A talk by Mr. Biel before the New York Society of Security Analysts, Schwartz's Restaurant, New York City, February 2, 1951.

The Swing to Marginal Issues

The increase in trading volume and the greater activity in low-priced stocks are typical of a bull market approaching maturity. When quality stocks have reached a level where large capital gains cannot reasonably be expected, traders are automatically attracted by secondary issues which up until recently had been more or less neglected. Some of these are marginal stocks, but the type of economy we are likely to have in the foreseeable future is favorable for marginal businesses. I don't think that the end of this bull market is imminent. I think that it will not run its course until earnings and dividends of secondary companies are appraised more liberally than at present.

Fundamentally, I am still optimistic on the stock market outlook. I have no great enthusiasm for buying quality stocks at present levels, but in many instances their purchase for very long-range investment is still advocated. The medium-term investor who buys stocks for a capital gain which he intends to realize, must now turn to more speculative securities. The risks are greater, but so are appreciation possibilities.

We are living in times and under conditions where anything may happen and much will happen. The international situation is such that a major war could break out at any time. But it is also possible that our relations with Russia will improve and permit us to slow down the tempo of armament. It is conceivable that the Administration will take the fight against inflation seriously, and do something about it instead of merely talking and trying to cure symptoms. Any unexpected development which requires a change in the appraisal of the future, is a potentially upsetting market factor. Since last July stock prices have advanced sharply without much of a setback. The market's technical position has become vulnerable, and a sizable reaction is a definite possibility.

My present recommendations are:

(1) Long-term investors should not disturb holdings, but a cash reserve of about 20% is desirable.

(2) New investors should commit only ½ of their funds at this time.

(3) Traders should protect their long positions by fairly close stop-loss orders.

The State of Trade and Industry

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

Little change was noted the past week in total industrial production for the country as a whole. However, aggregate output continued to hold considerably above the level for the like period of 1950. Unemployment insurance claims advanced very slightly, but were somewhat below the total for that of a year ago.

In the steel industry raw steel poured from the nation's furnaces in unprecedented volume last week. Production of finished steel, according to "Steel," the weekly magazine of metalworking, however, is not keeping pace. A combination of labor trouble and severe winter weather is holding back finishing mill operations, and toward the end of last week some curtailment of blast furnace, open-hearth and coke oven operations was under way. Output at several important steel centers is curtailed due to industrial gas shutoffs occasioned by the cold weather, and by transport interruptions in and out of plants resulting from the wildcat "illness" strike of railroad switchmen. Metalworking operations are similarly hampered over a wide area of the nation.

The extension of existing allocation programs into May and inauguration of additional programs that month are expected to be made by the NPA Steel Task Committee about Feb. 13, the magazine states, it had been thought action would be taken by that date to get the new programs under way by April. However, the trend now appears to be to shape allocations so that a Controlled Materials Plan can be put into effect in July with least possible disruption of schedules. The second quarter will see a sharp upswing in steel rolling for defense and related needs, it adds.

Munitions contracts and defense steel requirements are snowballing. In addition to a diversity of orders for combat tanks, military vehicles, Signal Corps apparatus and airplane equipment already placed, still heavier orders of this character are in early prospect.

Freeze of prices by the government has resulted in no noticeable change in the situation as it applies to steel products, since current quotations were established before the deadline set by the ESA, the magazine points out.

The wildcat railroad strike that got under way last Thursday involving trainmen and switchmen in various parts of the country showed signs of breaking up throughout the East on Tuesday of this week following the appeal of Defense Mobilizer Charles E. Wilson and W. P. Kennedy, President of the Brotherhood of Railroad Trainmen on Monday evening, last. However, in other key rail centers in the Mid-West and West the situation grew worse.

Effects of the strike resulted in halting oil shipments by tank car in the Chicago and some other interior areas and worsened an already serious supply situation. The walkout hindered shipments to factories, office buildings and jeopardized the lives of American soldiers fighting in Korea by delaying the movement of vital war supplies destined for the Korean front.

On Monday of this week Secretary of the Treasury Snyder proposed immediate tax increases of $10,155,000,000 annually. Appearing before the House Ways and Means Committee as it opened hearings on legislation to provide additional revenue for defense, he recommended an increase of eight percentage points in the normal corporate tax to raise $3,080,000,000. Mr. Snyder estimated that a boost of four percentage points in individual income tax rates would yield $3,600,000,000 a year. He urged Congress to triple the excise tax on automobiles, double the federal gasoline tax and boost substantially the excise levies on whisky, cigarettes, television sets and other appliances.

Stock corporations chartered throughout the nation in December numbered 6,780, a rise of 8.4% over November's 6,256, which represented the lowest monthly total in over five years, Dun & Bradstreet, Inc., reports. Despite this upturn, the December figure was 13.7% below the 7,857 for December, 1949, and marked the fourth successive month to show a drop from the corresponding month of the previous year.

The year 1950 as a whole displayed the first gain since the immediate postwar year of 1946, when corporate activity reached

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Merrill Lynch Profits At Record High Level

Corporation urged to establish profit-sharing plans with part of funds to be invested in company's own stock.

Merrill Lynch, Pierce, Fenner & Beane made a net profit last year of $12,544,090 before taxes and charitable and educational

Charles E. Merrill Winthrop H. Smith

contributions, it was announced by Winthrop H. Smith, managing partner. This compares with $2,404,170 earned last year. After charitable and educational contributions of $833,740 and estimated taxes of $8,200,000, there was a balance of net income available to the partners of $3,510,350. This compares with a balance left in 1949 of $1,235,370.

Mr. Smith noted that 1950 was the best year in the history of the firm. For example, last year Merrill Lynch did 10.2% of the round lot business on the New York Stock Exchange, up from 9.3% in 1949. The gain in odd lot business was even greater, rising to 14.7% from 13.7% the year before.

Charles E. Merrill, directing partner of the investment banking and brokerage firm, said in a letter to customers that the gain in business last year ". . . was a consequence of a positive and compelling need for the services of the securities market. Individuals, pension fund manager, and trustees all realized their need for some place to put their money where it had a chance of retaining the purchasing power in the face of threatened inflation."

The report showed that in addition to regular salaries the firm paid employees bonuses totaling some $2,520,000, equivalent to eight weeks' salary for employees with the firm a year. Additional payments were made for longer service. Also partners contributed $1,414,739 to the employees' profit sharing plan, which brought to $3,651,603 total contributions

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Observations . . .

By A. WILFRED MAY

IN DEFENSE OF DEFENSE BONDS

Prevalent Misconceptions About the U. S. Savings Program

(In two parts)

Part I—IS THE BUYER BEING CHEATED?

One of the important manifestations of this *inflation* "New Era" is the confused public discussion over the government's Savings Bond program. University economist, columnist, cartoonist, taxi driver, and show girl alike are charging the Treasury with perpetrating some fancy cheating (with connotations of deceit, fraud, hoax, swindle, subterfuge, lure, dishonesty, intentional perversions of the truth, etc.). The two main grounds for such indictment and for the demands for future additional guarantees, are (1) the reduction in the purchasing power of the dollars put into the Bonds and the assumption of its continuation, and (2) the inferior investment performance of the Bonds versus equities over the past 10 years.

A. Wilfred May

Let us consider realistically:—(1) whether the investor in Savings Bonds has actually been "cheated" at all; (2) if so, whether the malfeasance is chargeable to the Treasury; (3) the prospective buyers' status; (4) justification of the demand for additional guarantees as the *escalator* technique, and (5) what relevant constructive economic policies should be adopted.

The Hard-Boiled Advantages

The great affirmative investment advantages—wholly outside the realm of patriotism—have always been insufficiently recognized. There is complete absence of risk afforded by the full faith and credit of the U. S. The safety of principal and interest

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Inflationary Psychology Versus Deflationary Background

By A. A. MOL
Mol & Company
Members, New York Stock Exchange

Economist maintains public's inflationary spirit and inclination to flee from the dollar, will soon run head-on into a powerful array of deflationary forces. Concludes outcome of this forthcoming struggle between inflation and deflation, determining our economic setting during long years of arming, will by early spring provide a crucial guide for investors.

In time, a disciplined armament economy will emerge from the débris of our free and easy business boom. The process of conversion may *either* occur smoothly, without a significant upset in business, *or* bring on a potent deflationary interlude.

A. A. Mol

The pattern will not evolve in detail until the second half of the year, but its predominant character should become visible by early spring. That will tell us whether to *buy* stocks, even at a high market level, for-long term inflation protection or to *sell* them in preparation for depression.

Let us look at the factors which will contribute towards deciding the issue.

Deflationary Factors

The stock market declines in 1947, 1948 and 1949 were the reflection of deflationary factors. Each time the boom was in danger of being killed. These will now recur, reenforced by other peculiar to the present time. Together they make a powerful array:

(1) The Federal Government will have a large budgetary surplus the first quarter of 1951, probably at an annual rate of between 15 and 25 billion;

(2) Bank credit is subject to seasonal shrinkage from January to June;

(3) Exclusive of gratis exports, which are paid for out of taxes, the nation now runs a substantial import surplus;

(4) Consumer credit expansion was stopped in its tracks through credit restrictions; it is expected that there will be an actual decline, both in the current quarter and year;

(5) The rate of expansion in outstanding mortgage credit will shrink under the influence of Regulation X;

(3) The Federal Reserve Board has applied monetary measures to restrict credit by raising, first, its rediscount rate, then the reserve requirements of member banks and, recently, margin requirements on security loans.

Factors one and two are more or less seasonal and were responsible for the events of 1947-1949, the third is the result of Marshall Plan operations and importation of raw materials for war preparation, while the remainder are are government-instigated.

Since June, 1950, the steepness of the expansion in outstanding consumer credit, and of the rise in commodity prices, have been of unprecedented proportions. These two phenomena are related. When credit expands, total payments made for the aggregate national product are larger than the buying power generated by the processes of its production and distribution. People compete for the privilege of buying the product, thereby push prices up and create the *illusion* of scarcity.

The present high level of commodity prices is vulnerable because it is tied, hand and foot, to a high rate of inflation. When that stops, prices must collapse. Simultaneously, scarcities change into unmanageable surpluses. It is for this reason that the deflationary factors enumerated above may have startling effect. There is apt to be more of a reverberation when you drop a rock from a mountain than from a molehill.

Depressive Factors

Besides the deflationary factors, which will be pinpointed together in the next few months, there is a group of other factors the overall effect of which will be depressive:

(1) The influence of unemployment, resulting from scarcity of raw materials and from restrictions in their use, is to curb the inflationary behavior of others, who remain employed;

(2) The rising cost of living reduces the volume of goods which can be bought;

(3) A squeeze on profit margins will occur in various sectors of the economy and a general price freeze would accentuate it;

(4) The existing accumulation of inventories will restrict forward purchases on the part of business;

(5) New tax laws will go into preparation.

This list is incomplete.

The Great Inflationary Factor

If the population, consisting of business people and consumers, were able to inflate *only* through expansion in its indebtedness, then the answer to our "either-or" question would be clear as daylight. We would *know* that the boom would be deader than a doornail in three months.

The population has more freedom of action than that. It may choose to use capital assets, savings or the proceeds from the sale of investments, to pay for current expenses. That is called dissaving and is just as inflationary as buying on credit. It is already prevalent.

The people have a great deal of capital which they can eat up if they be so disposed. They are in the mood to satisfy their desires with disregard of the consequences: everybody for himself and the devil take the nation. This is the big inflationary factor at this time. I am not pointing a finger at specific people or groups; we are all in it. Our government has failed to "sell" us the military issue and now is preparing to take away our luxuries. Hence our frivolous behavior.

The conservative part of the population, which pays in cash for its purchases, *can* increase consumption out of capital to such a degree that it practically neutralizes the forthcoming decline in credit expansion. If so, the overall rate of national inflation will not change materially and conversion will take place on a fairly even keel.

Future actions by our government will exert their influence on the outcome of the forthcoming struggle between deflationary and inflationary forces. In order to gauge their significance, we must endeavor to ascertain how serious the international situation really is, and how serious the people in our government may be about it, even if, so far, they have failed to

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From Washington Ahead of the News

By CARLISLE BARGERON

I have always said I'm for freedom of the press; in fact, if I were a Congressman and if the "news boys" as the late Senator Simeon Fess of Ohio used to call the Washington correspondents, much to their annoyance—anyway if they were to come to me and ask: "Congressman, are you in favor of freedom of the press?" I would reply unhesitatingly that I certainly was.

Carlisle Bargeron

Which is to say that insofar as our Eastern press, at least, is concerned, I don't see how any dictator could complain of its mass efficiency, its ability to do a propaganda job; that is, when the President wants a big job done. Oh, it may quarrel with him on things like the Taft-Hartley Act or the Brannan farm plan or domestic spending. But on such paramount questions as spending in Europe, warring in Europe or sending armed divisions to Europe, this Eastern press is really superb. It is invariably way out in front of the thousands of propagandists which the Administration pays to do the job. It has the ideas and it has the disseminating skill. A controlled press, ordered to go out and do this job, could not possibly attain the high degree of accomplishment which our free press does.

Take, for example, the "Great Debate" which we have been hearing about. First, consider that this was a cunning idea of the Eastern free press in the first place, then let your mind run back to the period just after the November elections. You would have thought from the results of these elections that the global leadership or international nonsense of our government, or a large part of it, was at an end. The mail of the Senators and Representatives was so vicious, so demanding that we get out of Korea and let Europe go to hell that even those of them who have been sneeringly dubbed "isolationists" were alarmed at the bitterness of feeling and fearful lest the swing be going too far.

Senator Saltonstall, an intensely honest man, came into a conference of Republican Senators one day with a more mournful expression than usual.

"Senators," he said most solemnly, "I am deeply worried about the attitude of the people as it is reflected in the communications I am getting. Here is a typical one: 'Dear Senator, get out of Korea, leave Europe alone, fire Acheson, impeach Truman and then you resign yourself.' Now, Senators, it grieves me to see the American people in that state of mind."

He didn't see the humor, either, when the other Senators burst into laughter.

Anyway, this seemed to be typical of the public's state of mind, a state of mind to which Senator Taft, long smeared as a "despised isolationist," came back to Washington—from an overwhelming victory in his native state. Having said many months previously that nobody but an idiot could be an "isolationist" these days, he proceeded to work out a "rational" or "realistic" foreign policy which we could successfully carry out without being wrecked at home. It was somewhat but not so essentially different from Hoover's, submitted a few days before. Basically it called for building our defense around the Navy and Air Force, not try to fight Russia's land armies in Europe. Thus the issue was drawn with the Administration and the fervid Internationalists who believe in massing millions of American troops in Europe. As I recall, Governor Dewey wants an army of 15 million men.

At first the smear artists turned angrily upon Taft and Hoover, but a more cunning voice counseled that this was not the way. After all, the American people should be acquainted with the situation, this voice said, and they should be permitted to make the decision. To this end there should be the "Great Debate," Taft and Hoover *et al* on the one side, the Administration *et all* on the other. Nothing could be fairer and the so-called "Great Debate," was on, whoop-lahed and built up by the Eastern press as the way this country does things. There is every indication that Senator Taft entered it with high hopes because he is a master in debate.

But here was the ace up the sleeve of the Internationalists. General Eisenhower should be sent over to determine the spirit and the will to fight of our European allies. His report would make a splendid contribution to the "Great Debate."

From then on, the free Eastern press began to beat a drum that the outcome of the "Great Debate" would turn upon the General's report. It is in such as this that no controlled press could excel our Eastern free press in propagandizing efficiency.

There was never any doubt, of course, as to what the substance of the General's report would be. Immediately, Taft and his followers saw they had been tricked, and the Senator in anticipation of the report, backed up from a point of sending no troops to Europe, to limiting the number to be sent. This is all he has any chance of salvaging from the "Great Debate," and I doubt he will salvage this.

The free Eastern press, the General having made his report, has concluded the "Great Debate" is now over. It was conducted fairly and squarely, this press avers, and it was a very healthy thing for the American people. The General has found that although there is a lot of war weariness among the Western Europeans, understandably because of what they've been through, he detected an unmistakable revival of spirit, a spirit that will soar with our help. We have a hunch that the General is not being as strong or as positive as was expected of him, but the free Eastern press says his report is good enough and the "Great Debate" is over and their side won. You've got to admit it was right thrilling while it lasted.

The Supply of Investments

By RAYMOND RODGERS*
Professor of Banking
Graduate School of Business Administration
New York University

Dr. Rodgers reviews conditions which will determine supply of investments in 1951, and concludes amount coming to markets will probably be somewhat less than previous year, but reduction will not exceed 10% to 15%. Sees factors existing which will increase volume of bonds and notes offered, but points out, because of a "boiling" stock market, there may also be considerable equity financing.

As wealth accumulates, as the "welfare state" burgeons, as the standard of living rises, as international commitments become more involved and uncertainties increase, the tendency to use capital for purposes other than production grows at an alarming rate. Any attempt to forecast probable developments in the world of capital and credit must give full weight to all the forces involved. Looking at the capital supply side for a moment, Colin Clark, the distinguished economist from down under, characterizes present conditions with the observation that in rich countries, such as the United States, the capacity to save exceeds the opportunity for remunerative employment of the savings, which leaves a surplus that must be utilized in international investment, or squandered in budget deficits and government waste, or negated by devastating unemployment or some such economic blood-letting. In my opinion, Dr. Clark does not give full weight to the dynamics of the American economy; nonetheless, we must recognize our great capacity to save. When to this capacity to save is added our even greater capacity to expand credit at all levels, and in all sectors of the economy, a new light is thrown on the economic importance of the role of even the non-productive borrowers!

Raymond Rodgers

Lord Keynes' prediction of the euthanasia of the "rentier" would be far nearer realization than it is if we had not had the great expansion in types and totals of borrowing which characterized the financial trends of the '30s and '40s.

What Will Determine the Supply of Investments in 1951?

The coming transition from civilian boom to a controlled civilian boom plus rearmament boom plus capital goods boom by industry makes it impossible to rank the various factors determining the supply of investments in the order of the relative, or absolute, importance. Nontheless, we should briefly delineate the more important determinants so that they can serve as background for the specific evaluations which will be given a little later.

The *price level* will have a basic influence on the amount of borrowing. Prices have already increased a greal deal and most observers expect a further increase in 1951, despite price controls. Moreover, it is now widely agreed that the present price level for capital goods is here to stay—at least for the foreseeable future. Belief that the present capital goods price level represents a new and more or less permanent plateau will favorable affect the decisions of many corporations on expansion.

The *willingness to borrow* is another important determinant. It, of course, can arise from necessity, such as military preparation or competitive cost reduction imperatives, or from choice, such as the desire to take advantage of a favorable outlook for profits or expansion to improve market position, etc. The necessity of military preparedness is patent, and acceleration of the shift from labor to capital to reduce costs is generally admitted. Higher taxes, lower profits on military orders and government price fixing will reduce profit considerably, but profits in 1951 will still be substantial enough to prove a strong incentive for expansion.

The *volume of business* in 1951 will be very high by any standards. Even with controlled inventories and shrinking accounts receivable, the high volume and the necessity of readjustment caused by the shifts from civilian production will create a need for financing; but, *it must not be overlooked that the greater part of this financing will come from internal sources.* Heavy reliance on retained earnings is traditional in American corporate finance. To this established practice must be added the effect of the recent defense legislation authorizing government loans for rearmament purposes, the tax legislation permitting accelerated depreciation and the sharply increased personal income taxes, all of which make it more attractive than ever before to short-circuit the securities markets.

Against this background of growing rearmament, booming business and increasing prices, let us now take each of the main categories of investments and try to estimate their 1951 volume.

Mortgages

As your primary interest is in the supply of mortgages, we will start with them. Fortunately, you are experts in this field, so the discussion can be short and to the point.

Regulation X has been the real estate financing "whipping boy" for several months. Some of the things which mortgage bankers have said about it have been extreme, to put it mildly! The justification for Regulation X from a military or rearmament standpoint is apparent to any unbiased reader of the daily newspapers. The justification from an economic standpoint, likewise, should be more than obvious to any of you gentlemen in the business of real estate financing or construction.

Measured by any objective standard, Regulation X was promulgated when the economy was riding the crest of the greatest housing boom the world has ever known. Moreover, because of certain loopholes in Regulation X —loopholes which some lenders exploited unconscionably — the total mortgage debt continued its upward trend and it will probably exceed $50 billion before the trend levels off. When this $50 billion *lean*—spelt l-e-a-n—on the old homestead is considered in conjunction with the great burden of Federal, state and local debt, and with the tax burden we face in the long semi-war effort ahead (from which there seems to be no escape), the contribution of Regulation X to financial safety becomes apparent. In fact, I do not hesitate to advance the opinion that the time will come when Regulation X will be looked back on as a lifesaver, even by the diehards.

The purpose of Regulation X and the other restrictions was to reduce the inflationary pressure of further expansion of real estate credit. These restrictions will eventually have some effect, although not nearly as much as the complaining would indicate. As a matter of fact, shortages of materials and direct government controls, such as the prohibition of all construction for amusement purposes and the temporary freeze on commercial construction, which is now being succeeded by licensing, will probably make all *demand* restrictions largely academic before many more weeks have pased.

In any event, whether from direct or indirect causes, it now seems reasonable to anticipate a decline of from 30 to 40% from the swollen new mortgage levels of 1950. Moreover, because of widespread "beating the gun" on Regulation X, most of the decline will come in the second half of the year. But, before you do anything drastic about this decline, pause and reflect that the reduced volume will still be high by any historical standards!

Corporate Bonds

Capital outlays now planned for 1951 are greater than in any year of our history. Total plant and equipment outlays for 1950 are estimated as about the same as the $18.1 billion spent for the same purposes in 1949, but in 1951, expansion of $21.9 billion is under way, according to a special survey of business plans made by the Securities and Exchange Commission and the Department of Commerce. This total is 21% higher than the estimated outlays for 1950 and about 14% higher than the peak outlays in 1948.

Allowing for the rise in capital goods costs during 1950, the physical volume of outlays in 1951 is currently anticipated at about 17% above actual expenditures in 1950. In view of the tight materials and manpower situation which will result from increasing defense expenditures, there is considerable question whether this expansion will be fully realized in 1951.

In addition to physical expansion, increased volume, expanding inventories and other working capital requirements will probably push total new capital requirements past $30 billion.

Should this not mean a greatly increased supply of corporate securities coming to the market? While no one can be certain, I doubt there will be much change, if any, in the total of corporate bonds and notes offered investors.

So that you may reach your own conclusions and also revise them from time to time as the

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*An address by Dr. Rodgers at the 5th Session, Conference on Mortgage Lending in a Military Economy, New York City, Feb. 1, 1951.

Don't Be Afraid of the Market!

By LUCIEN O. HOOPER*

Analyst, W. E. Hutton & Co., Members New York Stock Exchange

Mr. Hooper suggests that stock prices are not high, since they represent far greater earnings, dividends, and book values per share, than in the 1920s. Concludes added speculative courage now is merely curing long previous attitude of undervaluation.

To anyone who looks at values, and sees where the demand for stocks is coming from, there is little to suggest that stocks are high. The stocks we are trading in today are much better equities than we were handling in the 1920s or the 1930s. They represent more earnings, higher dividends and much higher book values. They represent all the earnings which have been retained (not paid out in dividends) for the past 20 years. Today stocks are being traded in dollars which have a purchasing power of about 55 cents as against a purchasing power of 108 cents in 1933, 83 cents in 1930 and 81 cents in 1929. When you buy stocks, you buy assets which are replaceable only with dollars—so the depreciation in the dollar is a legitimate thing to consider in a proper appraisal of equities.

L. O. Hooper

In 1930 (when the Dow Industrials sold at a high of 294) stocks were appraised at 29.4 times earnings of \$10.06 to yield 2½% on dividends of \$7.44. Today the Dow Industrials are selling around 250, while earnings last year are estimated at \$25.50 (after retroactive EPT) and dividends at \$15.70. This means that stocks today are selling at 9.7 times their 1950 earnings to return 6.1% on their 1950 dividends.

The statement frequently is made that stocks are higher than at any time since 1930. Actually, if stocks were as high as their 1930 tops on the basis of earnings and dividends, the Dow Industrials would stand at somewhere between 630 (on the basis of dividend return) and 750 (on the basis of earnings). Arithmetically, such computations mean absolutely nothing—but qualitatively they mean a lot.

During the past 10 years investors have become so accustomed to extreme undervaluation for equities, and to a reluctant market without a semblance of courage, that it is hard for them to be more realistic and to comprehend the fact that the attitude of investors is changing. I do not think the present is any time to be afraid of the price level. Both the investment demand for stocks and the speculative demand for them, which is something new recently added, are very strong.

*A summary of Mr. Hooper's remarks before the New York Society of Security Analysts, Schwartz's Restaurant, New York City, Feb. 2, 1951.

The Bull Market's Final Phase

By JOSEPH MINDELL*

Partner Marcus & Co., Members New York Stock Exchange
Author "The Stock Market."

Market analyst, while conceding bullish influence, maintains adverse factors, as excited public participation, over-advertising of inflation, reduced earnings prospects, higher taxes and excessive inventories, presage a major market decline.

It doesn't require a microscopic examination of the economic scene to isolate and discover the bullish forces that have sparked the 60-point stock market rally since last July. In the main, these forces have been: (a) good yields, with a favorable spread between stock yields and bond yields; (b) a broadening interest in common stocks on the part of the general public, the rapidly growing open-end trusts, and the new pension funds; (c) persistent deterioration of the dollar; (d) armament production that virtually guarantees a record level of business activity; (e) the general impact of inflation and the wide publicizing of it. As the National City Bank letter very aptly labels it "inflation by publicity"—the Government and press have helped generate a wave of scare buying in many fields where only a catastrophe could produce shortages.

Joseph Mindell

The market rise still has powerful momentum. It has risen a few points each day recently. On the surface everything looks propitious for the immediate future. This is the phase of the market rise when nimble traders can make fast profits on the most trivial, and often erroneous, evidence.

*A talk by Mr. Mindell before the N. Y. Society of Security Analysts, Schwartz's Restaurant, New York City Feb. 2, 1951.

What's Ahead?

What lies beyond this traders' paradise? What is the background likely to be when this market rise loses its momentum? There are many characteristics of the exciting final phase of a market rise in the very strength now. The general public is buying on the rise, as is shown in the odd-lot figures; the cats and dogs are active; there is an air of intense market excitement, and the stock market rise is front page news day after day; the traditional tail-enders are strong; the laggards are coming up; and a new surge is occurring in some of the recently sluggish blue chips.

Adverse Business Factors

What lies ahead for business? Total activity for 1951 should run around 1950 levels. But there will be some adverse profit factors:

(a) There will be an indeterminate time interval between the drop-off in civilian production, because of shortages and curbs, and the high level armament production which is due later in 1951. Thus the specific timing of defense orders will have an important bearing on first-half earnings. Any delay will show up as reduced earnings for many companies.

(b) There will be lower profit margins on Government business, and the stock market will capitalize these profits at a lower price-earnings ratio because of the risk of renegotiation in the future.

(c) Scarcity and interrupted schedules will cause dislocations in production—and such disruptions in the flow of materials and production lines show up adversely in the profit figures.

(d) The wage freeze is unlikely to be enforced as rigorously as the price ceilings on finished goods. Notice how John L. Lewis exerted pressure successfully for a wage increase for coal miners, and how his victory spurred the railroad unions into immediate action.

(e) There will be increased corporation taxes, which will cut into the dividend rates of the types of corporations who pay out most of their earnings, and a possible increase in the 62% overall ceiling.

Individuals' Money Squeeze

Also the money supply for individuals will be squeezed in coming months by higher taxes, the imposition of further excise taxes on many of the things which they buy, and a continued general rise in the cost-of-living part of the average family budget.

The public, as well as business at large, have been buying ahead to excess. This wave of buying in excess of current and nearby consumption is one of the dominating inflationary forces of the moment. In its present condition, the economy would be vulnerable to any shift in the international winds that might slow the pace of arming and stockpiling.

Business, knowing that raw material prices will rise via selected shortages, premiums, and gray markets, etc., wants to carry the largest possible inventory. There is an accumulation of goods far above current requirements. This is apparent in the statistics of commercial loans—and geographically is a nationwide phenomenon. It is particularly noticeable at this time which normally is a period of seasonal contraction in commercial loans. Because of this broad trend, the working capital needs of American business are rising swifty.

The Government has been applying fiscal and credit brakes to the economy in recent months, with no great effect. But this attempt is likely to continue as the inflation appears more menacing. Curiously, we do not today have the deficit financing which has sparked our recent inflation flurries. On the contrary, the Government is today taking more out of the cash stream than it is putting in.

Thus the stock market rise has reached its final phase against a background of business vulnerability and financial squeeze. The consequent stock price decline will take place under more dangerous conditions than those of the last few years. The long-term depreciation of the purchasing power of the dollar does not eliminate the possibility of severe temporary corrections, as we saw in 1946, 1948, 1950.

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Air Transport Industry—A study of the Strategic Position—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Amott Baker Realty Bond Price Averages—Bulletin—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Bank and Trust Companies' Stocks—1950 analysis of 30 leading stocks—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

"Close-Up"—Brochure revealing the behind-the-scenes story of an American investment service at work—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Government Bond Portfolios—Breakdown — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Also available is a breakdown of **Sources of Gross Income.**

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Market X-Ray Graph: 78 stocks whose appreciation possibilities offer an opportunity for profit on a limited risk plan — Available with a four-week trial subscription, which includes current Market X-Ray Graphs and explanatory manual, "A New Look Inside The Market." — \$5 — Dept. C-2, Market Action, Incorporated, P. O. Box 986, G. P. O., New York 1, N. Y.

Men, Mills and Timber — Brochure describing the company's 50 years of progress in the Forest industry — Weyerhaeuser Timber Co., Tacoma 1, Wash.

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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 Housing Authority Bonds — Charts showing the outstanding bonded indebtedness of each issue arranged according to coupon rate with project number, date of issue, maturities and the nearest call date and call price—Copies may be had by writing to Municipal Bond Trading Dept., Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available from Ira Haupt & Co. is a review of **Farm Equipments and Food Oils.**

1951-1956 Trend Outlook with two charts, detailed month by month for 1951, and general expectations ahead to 1956—\$35, or with one year weekly bulletins, both inclusive, \$125—James Mars Langham, Box 795, Santa Monica, Calif.

Oil Securities in a High Tax Economy—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

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

Recommended for Purchase — Brief data on 12 issues which appear interesting—Eastman, Dillon

Continued on page 43

NSTA Notes

TWIN CITY SECURITY TRADERS ASSOCIATION

The Twin City Security Traders Association announces that the Association's annual outing, "Operation Fishbite," will be held June 22nd, 23rd and 24th at Gull Lake.

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The Annual Mid-Winter Dinner of the Investment Traders Association will be held at the Benjamin Franklin Hotel Wednesday, Feb. 21, 1951.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York (STANY) Bowling League standings (2nd half) of Feb. 2 are as follows:

Team—	Won	Lost
Donadio (Capt.), Demaye, O'Connor, Whiting, Workmeister	3	0
Burian (Capt.), Manson, King, Voccoli, G. Montanyne	2	1
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	2	1
Krisam (Capt.), Bradley, Montanyne, Weissman, Gannon	2	1
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	2	1
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	2	1
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	1	2
Serlen (Capt.), Gersten, Gold, Krumholz, Young	1	2
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	1	2
Mewing (Capt.) Klein, Flanagan, Manney, Ghegan	1	2
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	1	2
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	0	3

Ricky Goodman (Shields & Co.) had high series of 627 with three games of 204, 214, and 209. Joe Krasowich (Bonner & Gregory) had high game of 233.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The Corn Exchange National Bank and Trust Company and Girard Trust Company, two of the major banks in the Philadelphia area, have announced their intention to consolidate the operations of the two institutions.

Final plans to effect the combination have not yet been made public or completed. When completed and accepted by the boards of the respective institutions, they are to be submitted to the stockholders and the banking supervisory authorities for final approval.

According to the plans announced so far, the combined bank will be named Girard Corn Exchange Bank and Trust Company. Present stockholders of both Corn Exchange and Girard would receive one share of stock in the combined institution for each share of stock of Corn Exchange and/or Girard Trust now owned. Personnel of both banks would be absorbed into the new institution.

In view of the fact that the shares of each bank are to be treated on an equal basis, a review of some of the per share figures for the past several years is in order. Girard Trust has a fiscal year ending Nov. 30 and the earnings are for the year ending at that time. All other comparisons are on an annual basis.

	Corn Exchange	Girard Trust
Operating Earnings:		
1950	$4.75	$4.75
1949	4.19	4.47
1948	4.01	4.60
Book Value, Dec. 31:		
1950	67.54	47.94
1949	63.82	46.77
1948	65.26	45.68
Dividend Payments:		
1950	2.20	2.50
1949	2.00	2.00
1948	2.00	2.00
Price Range:		
1950	52 -43½	52½-44
1949	46½-39	46½-40¼
1948	45½-37	43½-38½
Current Price	51	51

The above figures have been taken from published reports and appear to be in line with the exception of book value per share. It may be that an appraisal of real estate holdings and consideration of reserves would narrow the difference. Of interest is the fact that both institutions reported the same per share earnings last year.

Providing the combination is accomplished the new bank would have deposits of approximately $495 million, 684,375 shares of stock outstanding and capital funds equal to about $38.5 million. In point of size Girard Corn Exchange Bank and Trust Company would be the third largest banking institution in Philadelphia.

Philadelphia National Bank, with deposits of $766 million, is the largest bank, and Pennsylvania Company for Banking & Trusts, with deposits of $669 million, is now second. Corn Exchange is now third with deposits of $279 million and Girard fourth with $216 million in deposits.

Thus, the combination would not change their relative position with respect to size. A larger bank, however, should be able to offer a more comprehensive banking service to customers and effect certain operating economies.

One of the interesting features of the proposed combination is that it is different from some of the recent mergers which have taken place in New York City. The mergers in New York have been accomplished by a reduction in capital. In fact, this has been one of the primary purposes of the merger. This points up one of the problems of New York banking where earnings have been adversely affected by the low level of interest rates.

Banking capital is not being reduced in the combination of Corn Exchange and Girard Trust. The advantages in the combination, if any, arise from the services to be provided and operating efficiencies achieved through a larger institution.

Eric Morse Pres. of W. C. Pitfield Co.

W. C. Pitfield & Co., Inc., 30 Broad Street, New York City, announce the appointment of Eric S. Morse, Vice-President of W. C. Pitfield & Company, Limited, and now resident in New York, as President of their company.

Eric S. Morse

Mr. Morse is a Canadian and has been engaged in the financial business in Canada for over 25 years. In addition to being Vice-President of W. C. Pitfield & Company, Limited, he is also a director of a number of other leading Canadian companies.

SEC Commissioner McCormick to Speak

Hon. Edward T. McCormick, member of the Securities and Exchange Commission, will discuss the topic, "Are We Protecting the Nation's Investors?" before the Laymen's League of Unitarian Church of All Souls, 80th Street and Lexington Ave., New York City, Tuesday evening, Feb. 13, at 8:30 p.m. Peter I. B. Lavan, of Stroock and Stroock and Lavan attorneys, will preside.

E. T. McCormick

Bache Co. Admits Rubin as Partner

Bache & Co., 36 Wall Street, New York City, members of the New York Stock Exchange and other leading exchanges, announce that Joseph Rubin, for many years manager of their San Antonio, Texas, office, was admitted as a general partner in the firm Feb. 1.

The firm also announced the retirement of John J. Ryan, Jr., James C. Ryan and Frank T. Ryan as general partners at the close of business Jan. 31. On that date the limited partnership interest of the late Joseph M. Ryan terminated.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

William I. Spencer has been appointed an Assistant Vice-President of **The National City Bank of New York.** For a number of years Mr. Spencer has been an officer of the Chemical Bank & Trust Company where he was principally concerned with the handling of accounts in the commodity and shipping lines.

* * *

At a meeting of Directors of **City Bank Farmers Trust Co. of New York** on Feb. 6, Richard S. Perkins was elected Executive Vice-President and will assume his duties about March 1. At the same meeting Francis Pitt was appointed an Assistant Trust Officer. Mr. Perkins has been in the investment securities business since 1929. He was with Thompson Fenn & Company in Hartford and Wood Struthers & Company in New York prior to his association with Harris Upham & Co. where he became a partner in 1936. During World War II, he was with the staff of the Aircraft Production Board as a dollar a year man. Mr. Perkins has been a Director of City Bank Farmers Trust Company since 1948. He is the son of the late James H. Perkins who was the President of The Farmers Loan & Trust Company and of the successor company, City Bank Farmers Trust Company, and later was Chairman of the Board of the Trust Company and The National City Bank of New York.

* * *

The public opening on Feb. 1 of a second Havana, Cuba, branch by the **Chase National Bank of New York** initiates a phase of expansion by the bank in that area, David Rockefeller, Vice-President in Charge of Chase Latin American operations, said on Jan. 31 in Havana. Mr. Rockefeller, with Otto T. Kreuser, Vice-President, represented the bank's head office in New York at the opening ceremonies of the new branch in Vedada, the modern business and shopping section of the city. It was disclosed that "within a month" the Chase will open a third branch in Marianao where it will serve an important residential community. Mr. Rockefeller pointed out that since 1925, when the Chase first purchased its original Havana branch at Aguiar 310, it has devoted its efforts primarily to the financing of sugar, Cuba's most important crop and most important source of livelihood. He added that with new branches the bank is ready to serve Cuba's more diversified economy of recent years.

* * *

Arthur S. Kleeman, President of **Colonial Trust Company, of New York** announces the appointment of Roger Brady II as Assistant Controller. Mr. Brady is a graduate of McGill Institute; prior to joining Colonial Trust in 1946, he had been with the American National Bank and Trust Company of Mobile. He is a son of the late Roger Brady, who had been a Vice-President of the latter institution.

* * *

Harvey L. Schwamm, President of the **American Trust Company of New York,** announced on Jan. 31 the appointment of L. F. Fiammenghi as Vice-President and Jeannette Levine as Assistant Secretary of the company.

* * *

E. Chester Gersten, President of **The Public National Bank & Trust Company of New York,** has announced the appointment of S. Bernard Adnepos as Assistant Cashier. Mr. Adnepos will be identified with the Broadway and 24th Street Office of the Bank.

* * *

The Bank for Savings in the City of New York is completing extensive renovation of its main banking room, Fourth Avenue at 22d Street, built in 1894. Coupled with necessary periodic redecorating, DeCourcey Fales, President of the bank, pointed out there were two problems needing special attention: the removal of the original dome, 55 feet above the banking floor, and modernizing the lighting. The dome, framed with 12 tons of steel ribbing and entirely covered with heavy copper, was centered over the main banking floor. Immediately below it, 800 square feet of glass ceiling fanlight plate was also removed. After more than a half-century of exposure to the weather, the copper housing of the dome was gradually deteriorating. Because of the design of the building, however, it was possible to avoid a costly replacement by substituting a flat roof and ceiling vault.

* * *

Alfred G. Ruehle has been elected Vice-President of **Bankers Trust Company of New York** it was announced on Feb. 7 by S. Sloan Colt, President. Mr. Ruehle will be in charge of the Bankers Trust Company office at 203 Montague Street, Brooklyn. Mr. Ruehle comes to Bankers Trust from Manufacturers Trust Company where he became Vice-President following the merger of that bank with Brooklyn Trust, with which he had been associated for 21 years. He joined Brooklyn Trust Company in 1929. Prior to that he had been associated with Farmers Loan and Trust Company, and the Standard Insurance Company. At Brooklyn Trust Company, at the time of the merger with Manufacturers, he held the title of Vice-President and was senior loan officer. He was formerly a member of the Board of Governors of Robert Morris Associates.

Alfred G. Ruehle

* * *

Elias A. Sadallah has been appointed an Assistant Vice-President of **Manufacturers Trust Company of New York** and William D. Smith has been appointed an Assistant Secretary, Henry C. Von Elm, President, has announced. Mr. Sadallah was first employed by the company in July, 1931, as an Auditor, and, in May, 1940, was assigned to its Lexington Avenue office as Assistant Manager, where he continued until entering military service in May, 1942. After his return from military service he was assigned to the Personal Loan Department as an Assistant Manager, and in January, 1948, was appointed an Assistant Secretary. Mr. Smith was first employed by the Old Mechanics Bank of Brooklyn in July, 1923, and was assigned to the Credit Department when Brooklyn Trust Company absorbed the Mechanics Bank in 1929. He was in charge of operations of the Credit Department when Brooklyn Trust Company

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With Francis I du Pont

(Special to The Financial Chronicle)

CHARLOTTE, N. C. — Mrs. Thelma G. Cloaninger is with Francis I. du Pont & Co., Liberty Life Building. Mrs. Cloaninger was previously with Harris, Upham & Co. and Goodbody & Co.

With Cruttenden Co.

(Special to The Financial Chronicle)

CHICAGO, Ill. — George C. Swallow is now associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

Two With Joseph Jordan

(Special to The Financial Chronicle)

BOSTON, Mass. — Inez R. Kerker and Boleslaw J. Tobiasz have joined the staff of Joseph F. Jordan & Co., 79 Milk Street. Both were formerly associated with R. H. Johnson & Co.

U. S. Production— Target for Termites!

By BENJAMIN F. FAIRLESS*
President, United States Steel Corporation

Mr. Fairless, pointing out masterminds of Moscow recognize real source of America's strength is tremendous productive capacity, stresses communist scheme to set up a "Red Army of Trained Termites," for undermining our industries by destroying confidence in American business. Accuses communists of seeking to drive wedge between small and big business. Lists as basic dangers: (1) placing an unbearable burden on our economy; (2) political interference with channels of production, and (3) extended period of emergency controls.

In my lifetime, I have weathered three wars, a couple of panics and the late depression, yet it seems to me that there is more confusion and uncertainty among our people today than I have ever witnessed before. We do not seem to know our own strength, and we are gravely afflicted by doubts. We do know that we are trying to solve, overnight, dozens of complex economic problems which will profoundly affect every business and every family in America. We also know that when we start tinkering with wages, prices, profits, credit, taxes and our system of production and distribution, a single mistake could well be fatal. We are convinced that no foreign aggressor is able to destroy us; but we are a little afraid that we may destroy ourselves.

Benjamin F. Fairless

Now it seems to me that much of this confusion would disappear, and that our chances of making a fatal mistake would be greatly diminished, if only we could see ourselves as the Kremlin must see us—if we could stand for a few minutes in Joe Stalin's shoes, look at our problems through his eyes, and try—deliberately—to plot the downfall of America. How could we destroy this Capitalistic Samson? How could we manage to cut his hair?

Well, if we were the masterminds of Moscow, I think all of us would agree that the real source of America's strength is her tremendous productive capacity, and that we must somehow cripple it.

Certainly we would recall that, twice in this century, America's industrial machine has proved its ability to outproduce — single-handed—every combination of aggressors that has yet been put together.

Surely we would realize that the real secret of America's overwhelming productive power lies in the fact that all the individual parts of that machine — big and small—work together in perfect unison—each doing the exact job for which it is best fitted by reason of its size and experience.

So, inevitably, we as Russians would conclude that our first task is to disrupt that machine—break it apart—and destroy it if possible. Until that had been done, I do not think we would want to start a total war with the United States; and if it can be done, we won't need to fight a war at all.

The question is: How do we do it?

We might, perhaps, try one great, all-out, sneak attack — a gigantic Pearl Harbor; but I don't think we'd want to risk it. American industry isn't a fleet of ships, conveniently bottled up in one harbor. It is everywhere — scattered throughout the 48 states. To destroy it completely—or even to cripple it effectively — would probably require more planes and more bombs than exist in the entire world today. We could do some damage, to be sure, but would it help? You can do a lot of damage to a hornet's nest by poking a hole in it with your finger. That is—you can if you want to. Personally, I don't. And I don't think Joe Stalin does either.

*An address by Mr. Fairless before the Sales Executives Club of New York, New York City, Feb. 6, 1951.

Red Army of Trained Termites

No, when we study the situation carefully from the Kremlin's point of view, we are bound to agree, I think that there is only one weapon which we could hope to use effectively for the destruction of America's industrial machine.

That weapon is our Red Army of Trained Termites. It numbers from fifty to a hundred thousand troops; and it doesn't have to be landed on America's shores. It is already there. It has infiltrated into virtually every branch of the American economy. It is an invisible Army, because—outwardly—its members look exactly like anyone else. Not all of them wear long hair, and some of them even wash their necks.

Although they are trained in sabotage, their principal weapon is a lie, or—still more dangerous—a half truth. The battleground over which they fight is the human mind, and their conquest of a single red-blooded American brain cell may be more significant, in the last analysis, than a shift of 10 miles on the battlefront in Korea. In short, they do not crudely plan the murder of a foe; they merely plot to instigate his self-destruction.

And there, Gentlemen, you have our Army of Termites. What insructions would we give them if we were Stalin? What would be our Order of the Day?

Of course, certain techniques are elementary. The termites will naturally seek to fill the labor press with savage attacks upon management. That will create unrest and help them to foment a succession of strikes which will paralyze—briefly, perhaps, but repeatedly—America's communications, transportation and production. They will naturally seek, moreover, to convince the American people that each economic group is greedily striving to gain selfish advantage over some other economic group. They will try to turn housewives against the farmers; farmers against labor; business against the government; and government against business.

But that, of course, is just routine. The primary job of these tremites is the destruction of the American industrial machine. Now, how shall they attack it?

Here again I think the answer is obvious. There is just one thing that distinguishes American industry from that of other nations — one thing that America has, which no other nation possesses in equal degree. That is America's most powerful non-secret weapon — so-called Big Business. Here then is the focal point upon which the termites must center their attack. Here is their target for tonight—and every night!

They must not only destroy public confidence in Big Business; they must create positive public hatred of it. They must proclaim that Big Business is inefficient and monopolistic, and that it possesses some vast, but unexplained, power to work terrible, but undefined, harm upon the "little people." At one moment it is too big and is causing depression; and at the next it is too small and is endangering defense. But never can it be just right.

Most important of all, however, the termites must break up the unity and the teamwork of the industrial machine by driving a wedge between Small and Big Business. They must depict Big Business as a monster which swallows up Small Business. They must convince America that Big Business waxes fat on war contracts while Small Business starves for the lack of work and raw materials. No proof is necessary. They need only to repeat all of these charges over and over again until people begin to take them for granted as accepted facts.

But never, never, never must they let anyone discover the fact that Big Business and Small Business are two halves of the same living, breathing, vital body; and that if one-half is hacked to pieces, the other will surely die!

Kremlin Plan to Conquer America

And there, you have in a nutshell, a practical plan for the conquest of America. It is, I feel sure, the exact strategy which we would follow if we were sitting in the Kremlin, and certainly it is the exact strategy that Stalin is pursuing. To know that, you have only to look back at the stuff which the Communist Press and its satellite sheets have been printing these past five or six years. The party line has been very busy.

Since the Communists invaded Southern Korea last June, of course, the attack upon Bigness has subsided somewhat. Every thinking American now realizes fully that even the biggest company and the biggest industry in this country is not big enough to produce all of the things that we shall want and need for many years to come.

Yet I have seen and heard statements recently that would bring sheer delight to Joe Stalin. He couldn't have written them better himself — nor half so cleverly. They were not designed to enlighten anybody, nor to contribute to public understanding of the complex problems that we face today. They were clearly calculated to deceive and mislead; and they were composed very skilfully of distortions, half-truths and plain misstatements of fact. Gentlemen, whenever we see statements like that let us take careful note of the authors and ask ourselves what country they are serving. They may not be Communists themselves, but clearly the termites have reached them.

Now let me make one thing crystal clear; for I do not want to be misunderstood. I am not suggesting that anyone who disagrees with me or who attacks business, or industry or anything else is necessarily a Communist or a dupe of the Communists. If the day ever comes when Americans no longer feel free to stand up on their two hind feet and voice their honest criticism of anything and anybody, there won't be much left in this country that is worth fighting for. Full freedom of speech—a free press and a free radio—are our greatest defense—and our only effective defense—against the termites; for as long as these rights exist, our people will somehow manage to recognize and know the truth, just as they always have.

But I do most earnestly believe that every real American — especially in these times — has a deep and compelling obligation to present his facts truthfully and completely. Any man who seeks deliberately to twist the truth and knowingly to peddle confusion is playing the Kremlin's dirty game, and I say that that man is a mouthpiece for Moscow.

Against such men, however, we are not defenseless. We know what Soviet strategy is; we know what the termites are trying to do and how they are trying to do it. So, if we will keep that knowledge constantly in our minds, we should find it easy, not only to identify the termites and their mouthpieces, but also to frustrate their plans. If we keep asking ourselves what Stalin would want us to do, there will be much less chance of our doing it.

Basic Dangers to Guard Against

Now, as I see it, there are three basic dangers to guard against as we move back to a wartime footing:

First is the chance that we may over-extend ourselves, place an unbearable burden upon our economy and precipitate a collapse. If Russia can tempt us to borrow ourselves into bankruptcy, to spend ourselves into poverty, or to tax ourselves into stagnation, Communism will have won this conflict without firing a shot, dropping a bomb, or risking a ruble.

Fortunately, I believe that our government and our people are firmly determined that we shall not borrow ourselves into a disastrous inflation. Our capacity to spend, therefore, will depend upon our capacity to tax; and our capacity to tax always depends upon our capacity to produce. To spend more, we must produce more. It is just as simple as that.

That means we shall need more plants, more factories, and more tools and this, in turn, will require vast new capital outlays. At United States Steel's new plant at Morrisville, for example, it will take more than $90,000 to provide the tools that each production worker will use; and there will be 4,400 such workers.

It becomes perfectly clear, therefore, that our new tax laws and our new economic controls must not be so drawn as to prevent the formation and flow of the new capital upon which our expanded production depends. Otherwise, our ability to arm ourselves and our allies will be greatly diminished.

The second danger—as I see it —is the possibility of political interference in the normal channels of production.

Today a number of people — both in and out of Washington— are sincerely and properly concerned about the serious difficulties which some small businesses are encountering during this transition period in industry. But I was distressed, recently, to learn of a statement that was made at an important Congressional hearing. It was said there that—during the last war — Big Business had fed richly off of war contracts and that Small Business had only fed on the crumbs from the table. I was disturbed because that statement isn't true and because the people present should have known it. Yet it seemed to be

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Mutual Funds

By ROBERT R. RICH

Fidelity Investm't Associates Illustrates 'HIFO' Account'g

Fidelity Investment Associates has made the following report concerning its recently-installed "HIFO" accounting system, reported in a previous issue of The "Chronicle."

According to Fidelity, when a block consisting of more than one unit of a given security is acquired in a series of transactions at different prices and later sold in a series of transactions extending over a longer period than a given fiscal period, the resulting profit or loss in the given fiscal period can be calculated in any one of a number of ways. From its incorporation to Dec. 31, 1950, it was the policy of Fidelity Investment Associates, Inc., to calculate such profits or losses on a "first in, first out" basis. Effective Jan. 1, 1951, the HIFO or "highest cost in, first out" method has been adopted pursuant to action of the Board of Directors.

The difference may be illustrated by the following example: Fidelity owned on Dec. 31, last, 600 shares of Southland Royalty Co. This represented the result of a series of transactions, in chronological sequence as follows: Bought 200 shares at 7¾, 100 at 7½, 100 at 8, 100 at 7¾, 100 at 14, 200 at 14¼, 200 at 13⅝, 200 at 12⅞, all prior to Dec. 31, 1945, 100 at 41½ in 1950; sold 200 at 41½, 100 at 43, 100 at 42, 100 at 34¼, 100 at 33, 100 at 33¾. If, in future, 100 shares should be sold at, say, 48, the profit on the FIFO basis would have been calculated against the cost of 100 shares bought at 14¼; under the new method, profit would be calculated on the basis of the highest priced stock, that lot bought at 41½.

Use of the HIFO method will obviously tend to minimize realized profits, maximize realized losses. It will thus tend to keep unrealized appreciation in value of securities higher in good markets and unrealized depreciation lower in bad markets than those figures would be, if the FIFO or "first-in, first-out" method were continued. The Fund is firmly convinced that a sound speculative investment policy necessitates a readiness to take losses, a reluctance to take profits.

The following table gives actual profits realized for the three years and nine months ended Sept. 30, 1950, calculated on the "first-in, first-out" (FIFO) basis and the corresponding figures which would have been shown, if the HIFO basis had been in effect since Jan. 1, 1947.

	1947	1948	1949	1950 (9 mos.)
Actual (FIFO)				
Proceeds sales of securities	$180,095.97	$199,489.96	$134,255.54	$115,927.45
Cost of securities sold	168,467.69	180,273.72	117,519.96	93,815.87
Net profit on sales of securities	$11,628.28	$19,216.24	$16,735,58	$22,111.58
Federal income taxes applicable	486.32	2,800.00	2,400.00	1,660.00
Profits realized after provision for Federal income taxes	$11,141.96	$16,416.24	$14,335.58	$20,451.58
Adjusted (HIFO)				
Proceeds sales of securities	$180,095.97	$199,489.96	$134,255.54	$115,927.45
Cost of securities sold	170,984.34	183,195.97	118,884.58	96,136.56
Net profit on sales of securities	$9,111.63	$16,293.99	$15,370.96	$19,790.89
Federal income taxes applicable	None	2,070.00	2.060.00	1.480.00
Profits realized after provision for Federal income taxes	$9,111.63	$14,223.99	$13,310.96	$18,310.89

On the HIFO basis distributions to stockholders from capital gains in 1947 would have exceeded such gains by $1,481.47; in 1948, 1949 and the first nine months of 1950 would still have been fully covered by the gains realized.

If the HIFO basis had been adopted as of Jan. 1, 1947, cost of securities owned on Dec. 31, 1949, per books, would have been $464,084.07 instead of the $470,887.59 reported. Such cost on Sept. 30, 1950, would have been $596,962.29 instead of the $606,086.50 reported.

Canadian Fund Starts Monthly Dividend Plan

MONTREAL, P. Q.—The recent launching of Balanced Mutual Fund of Canada Limited by Investment Distributors Limited, provides investors with an unique opportunity to follow a mutual fund investment program which will bring them a cash dividend every month.

Operation of the new fund also makes Investment Distributors Limited the only firm in Canada making available to investors, through their dealers and stock brokers, all three basic types of mutual funds. Each designed as a specific part of a complete investment program, the dividend payment dates of the three funds are such that they follow each other consecutively. Thus the investor who participates in all three funds will receive a cash dividend every month.

Of the two older funds, Commonwealth International Corporation Limited, a diversified common stock fund, is regarded as the "conservative growth" investment and Leverage Fund of Canada Ltd. is of a more aggressive design, as under its charter it is permitted to employ a percentage of borrowed funds to augment holdings and increase both income and capital appreciation. The new fund is regarded as the most conservative type of the three because it employs the principle of maintaining "balance" between holdings of bonds, preferred stocks and common stocks.

Wellington Issues Unusual Report

PHILADELPHIA — One of the most effective uses of the graphic arts in stockholder reports is made in the current 1950 annual report of Wellington Fund.

The report combines simple, easily understood language and extensive pictorial treatment.

A four-color frontispiece dramatizes for the shareholders their participation in ownership in American industry through Wellington Fund. The artist does this through a reproduction of the Wellington emblem in a three-dimensional effect beneath which is a composite picture of a score of American industries.

The Fund uses 16 profusely illustrated pages to tell the story of its activities. More than a score of drawings—many in two color—visualize for the stockholders the Fund's diversification of investments, its investment record, its dividend record, the adjustment in investments made necessary as the result of the Korean war, the growth of the Fund, the cross section of American life represented by its shareholders and the importance of management.

Incorporated Investors Increases $23 Million

The net assets of Incorporated Investors increased from $73,165,336 to $96,781,398 during the year ended Dec. 31, 1950, according to the company's annual report released today. Net asset value per share increased from $22.44 to $28.98 after payment of a 90 cent distribution per share, or an increase of 33.1% during the year. Dividends from investment income totaled $1.43 per share. At the year end the total unrealized profits amounted to $31,101,635.

The President stated that the company has a fully invested position in common stocks, believing that further inflation is inevitable and that high yields and earnings make common stocks attractive. Fifty-one percent of the portfolio is at present invested in the common stocks of railroads, oils and papers. These industries are believed to have an excellent base for excess profits tax and will have a large share in the defense economy and, in the case of oils and paper, their vast resources are of great value.

Keystone Funds Show Gain

Combined net assets of the ten Keystone Custodian Funds on Dec. 31, 1950, reached a new high of $224,594,800, it is disclosed by the annual reports of Keystone Funds B1 and K2, made public today. This figure includes undistributed income. The year-end total represents an increase of $25,982,300 over the combined assets of $198,612,500 at the close of 1949.

Net assets of the Investment Bond Fund, B1 increased to $11,862,947 at the end of 1950, equal to $27.36 per share. This compares with $7,746,163 on Dec. 31, 1949. During the year, the number of shares outstanding increased from 281,454 to 433,634.

The Keystone Speculative Pre-

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Trust Investments During the Emergency

By MARCUS NADLER*

Professor of Finance, New York University

Though stating protection of principal and income against inflation can be achieved only through selected investment in equities, Dr. Nadler contends, despite great inflationary pressures, there is no reason to abandon entirely policy of investing in high grade bonds. Holds fear of drastic inflation is exaggerated and reveals problems of investing in equities for trust fund.

Rapidly changing economic and political conditions make the task of investing trust funds an exceedingly difficult one. To be sure, it is not difficult to preserve principal through investment exclusively in high-grade obligations. But such a policy in a period of inflation, when the purchasing power of the dollar is decreasing rather rapidly, is not to the interest of the beneficiary or the remainderman. In these trying times, the trust officer endeavors, to an increasing extent, to protect principal as well as income against the ravages of inflation and to maintain, at least to some degree, the purchasing power of his clients. How drastic the decline in the purchasing power of the dollar has been can be seen from this simple comparison: The index of consumers' prices (with 1935-39=100) averaged 100.2 in 1940; and on Nov. 15, 1950, it was 175.6. Every family knows, moreover, that the actual rise in the cost of living is higher than that indicated by the figures compiled by the Department of Labor.

Marcus Nadler

Economic Uncertainties

The protection of principal and income against inflation can be achieved only through investment in equities, and this in turn involves the application of the old principle of reasonable judgment. Reasonable judgment, simply interpreted, means that the trust officer makes his decisions on the basis of all foreseeable and known factors. But since unforeseen events do arise, these decisions may turn out wrong. Who, for example, in adopting an investment policy early in 1950 could have foreseen the Korean war and its economic and political aftermath? It is particularly difficult to make reasonable forecasts at the present time, when the political horizon is clouded by the threat of war and the United States is rapidly assuming the character of a garrison economy.

Today, a policy of basing one's decisions on known factors only is particularly hazardous. Internationally there is as great uncertainty as in the summer of 1939. Who can tell where and when the Soviet Union, either directly or acting through one or the other of its satellites, will strike, thus further aggravating the already troubled international political situation? Who is wise and brave enough to state with any degree of certainty whether or not 1951 will witness the outbreak of a third global war? That such a world-shaking catastrophe would be bound to have an effect on investment values goes without saying. Who can tell what the foreign policy of the United States will be? The adoption of a foreign policy such as that proposed by former President Hoover would have an entirely different economic effect than the present policy. Who can tell whether or not some sort of an agreement among the four major powers will be reached? Yet such an agreement, even though temporary in character, would remove the great urgency for rearmament and for mobilizing the economic and manpower resources of the country. Each of these developments would have different effects on the economy and on values of securities.

Who, under present conditions, can predict with any degree of accuracy the type of tax legislation that will be adopted by Congress, the type of credit policies of the Reserve authorities, or the type of debt management policy that will be adopted by the Treasury? The decisions of Congress, the Administration, and the monetary authorities to a large extent will depend upon conditions over which they themselves have no control. Yet all these decisions are bound to have far-reaching effects on prices of bonds and equities.

Since it is extremely difficult, if not impossible, to use the old tested tools of reasonable judgment, does it follow that the investment officer should sit idly by and do nothing except follow the rule that preservation of principal, irrespective of what happens to the purchasing power of principal and income, will not lead to any rescission suits or other complications? Such a policy is not warranted, because even the present highly uncertain conditions make possible a policy which will offer at least some degree of protection to the beneficiary and remainderman against the constant decline in the purchasing power of the dollar.

Exaggerated Fear of Inflation

In the first place despite the great inflationary pressures in the economy and the fact that certain groups refuse to carry a fair share of the increased burden of armaments and the ensuing decline in the standard of living, there is no reason to run away from the dollar and to abandon entirely the policy of investing in high-grade bonds. Unless a global war develops—in which case no one can even imagine what the consequences will be—commodity prices should not increase materially from the present level. This conclusion is based on the following reasoning:

(a) The productive capacity of the country is great and will be increased considerably during 1951 and the following years. Under present indications, it is not likely that more than 25% of the total national product will be devoted to the rearmament program. The supply of goods and services available for civilian consumption is therefore bound to be larger than during any previous period with the exception of 1948 to 1950.

(b) The tax burden is already heavy, and additional taxes will be imposed. This will siphon off a portion of the excess purchasing power generated by the rearmament program. The stiffer the taxes on the entire population, the less the danger of inflation.

(c) Many people whose income is more or less fixed and is not tied to changes in the cost of living or to parity supports by the Federal Government will witness a greater decline in their standard of living than that of the country as a whole. The decreased purchasing power of these groups will soon be felt in the markets.

(d) Restrictions on the use of bank credit have already been imposed, and others will undoubtedly come in the not-distant future. There seems to be a firm determination on the part of the monetary authorities to prevent a further material increase in the volume of bank credit. Without an expansion of the means of payment, the process of inflation cannot go very far. It is certain that the credit policies adopted during the present emergency will be different from those followed in the early stages of World War II. There no longer exists the fetish about pegging short-term interest rates that existed during the war.

(e) Controls over production, distribution, prices and wages have been imposed. It will not be easy to enforce these controls in a semi-war economy. Yet every thinking man fully realizes that unless spending is curbed the spiral of prices and wages can bring untold harm to the economy and to the people of the United States.

One may therefore conclude that while the rearmament program will generate new and pronounced inflationary forces, the decline in the purchasing power of the dollar in 1951 will not be as sharp as during 1950. Under these circumstances, the trust officer is still warranted in holding on to good bonds and acquiring new ones. Under present conditions, it might be advisable to increase the proportion of equities as compared with bonds; but a substantial percentage of bonds, whether it be 40% or 60%, should always be maintained.

Investing in Equities

In considering the problem of investing a larger portion of the corpus in equities than formerly, the following points must be borne in mind: While equities are a better hedge against inflation than bonds, they are far from a perfect hedge, especially over the short run. Thus, despite rising prices of commodities, equities declined in price during 1947 and 1948. The problem that confronts the trust officer at the present time is whether he should endeavor to protect principal or income against the increase in the cost of living.

It is easier and much safer to protect income than principal. Under existing conditions, and even taking into account the increase in taxes that has and will continue to take place, the return on sound equities will be substantially higher than on high-grade bonds. By shifting a portion of investments from bonds to sound equities, the income can therefore be increased, thereby compensating the beneficiary, at least in part, for the decline in the purchasing power of the currency.

To protect or increase income, however, the trust officer may invest in securities which are not usually regarded as hedges against inflation. Utilities, for example, are not considered a hedge against inflation, primarily because their rate of return is limited by regulatory boards. In spite of increased taxes, however, the income from good utility stocks may remain at the present level, thus offering the holder a fairly satisfactory return. Naturally, the trust officer will consider each utility equity on its individual merits. Similarly, railroad securities are not regarded as anti-inflation equities because their rates, too, are determined by a regulatory body. However, because of their large capitalization, they are not adversely affected by the excess profits tax, while the rearmament program will undoubtedly lead to an increase in carloadings, and hence earnings. The trust investment officer will therefore give careful consideration to such equities because of the favorable return that can be obtained on them, at least during the emergency. Still other instances could be mentioned where the present rate of return seems to be more or less assured.

Protection of Principal

An entirely different problem arises when the trust officer is endeavoring to hedge against loss of principal. This aim involves an expectation that the price of the equity will show an increase at least commensurate with the decline in the purchasing power of the dollar. Protection of principal is fraught with many dangers, particularly at a time when economic visibility is very low and psychological factors play perhaps a more important role in the securities markets than basic economic forces.

The trust institution endeavoring to protect principal against inflation must take into account both the favorable and the unfavorable forces currently operating in the equity market. Among the favorable factors are the following: the rather substantial differential in the return between bonds and stocks, which is likely to continue. In order to increase their income, many individuals are shifting from bonds to stocks. The same principle is being followed by many trust companies and by some pension funds, particularly those permitted to buy equities. It is evident that the fear of inflation and the desire to hedge against inflation are widespread, and that many people firmly believe that equities are a hedge against inflation. These factors, which have been operating in the equity market for some time, may continue for the indefinite future.

As against these considerations, the following factors must be taken into account by trust companies which operate under the rule of the prudent man:

(1) Taxes have been increased, and a further increase of corporation taxes will be imposed during the coming year.

(2) Costs of production are likely to rise. At the same time, commodity prices have been frozen, which will further narrow profit margins.

(3) The rearmament program

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*An address by Dr. Nadler at the 32nd Mid-Winter Trust Conference, sponsored by the Trust Division of the American Bankers Association, New York City, February 6, 1951.

President Outlines Tax Proposals

Chief Executive, though admitting there is question as to how far we can tax, upholds pay-as-you-go basis for increased defense outlays. Urges rise in rates of personal income and corporation taxes. Wants loopholes closed.

President Harry S. Truman on Feb. 2 delivered to Congress a special message in which he proposed an immediate increase in Federal taxation to provide $10 billions of additional revenue. Among his proposals were increased personal income and corporation levies, with stricter enforcement measures and closing of present loopholes.

President Truman

The text of the President's message follows:

In the January messages to the Congress, I stated my intention of making further recommendations on a number of important matters. One of the most urgent of these is the need for increased taxation.

The budget for the fiscal year ending June 30, 1952, which was transmitted to the Congress, included estimated expenditures of $71.6 billion, and estimated receipts under present tax laws of $55.1 billion.

It is my firm conviction that we should pay for these expenditures as we go. A balanced budget now is just as important a mobilization measure as larger armed forces, allocations of basic materials, and controls over prices and wages.

This is true for three main reasons.

First, we should pay as we go because that is the way to keep the Government's finances on a sound footing.

We are now strengthening our national security, in order to increase our ability to meet whatever situation may arise in the future. Our Government financial policies, like every other part of our national effort, must be designed to leave us stronger, not weaker, as the years go by. If in this period we pay for our necessary expenditures as we go along, rather than adding to the public debt, we will obviously be better prepared to meet our future needs whatever they may be.

Question of Tax Limit

There is a question as to how high we can push taxes without having serious effects upon the productive growth of our economy. But I am sure that we could increase Federal revenues by considerably more than enough to cover the expenditures now anticipated without reaching those limits. During recent years we have taxed ourselves at high levels —and during those years our economy has bounded forward: incomes have risen rapidly, new plants and industries have sprung up, and the standard of living of our people has increased steadily. The growth in the strength of our economy that has occurred under these tax rates gives us confidence that we can safely pay the estimated expenditures for the next fiscal year out of taxes.

Second, we should pay for defense as we go because that is the way to distribute the cost of defense fairly.

We cannot escape paying the real cost of defense now—the cost in materials and days of work that are devoted to defense purposes. Whatever we do about taxes, the amount of goods available to consumers to buy is only going to be what is left over after defense needs are met.

We could try to escape the financial cost of defense by borrowing, but that would only transfer the financial problem to our children, and would increase the danger of inflation with its grossly unfair distribution of the burden.

The sensible and honest thing to do now is to tax ourselves enough, as we go along, to pay the financial costs of defense out of our current income.

Our Federal tax system can spread the cost of defense fairly among our people. There are many ways in which the fairness of the present tax system can and should be improved, but on the whole we have a good system. It recognizes differences in incomes and in family obligations. It protects incentives for initiative and effort. It takes account of the special needs of new undertakings and the expansion of existing businesses.

People Will Be Better Off on Pay-As-You-Go Basis

I am convinced, after studying the matter thoroughly, that the people of our country—and I am thinking primarily of the average family of modest income—will all be better off if everybody pays his fair share of the financial costs of defense in taxes now. If we don't do that, we will only be putting off the evil day, and making matters worse for ourselves in the future.

Third, we should pay as we go to help prevent inflation.

If we do not tax ourselves enough to pay for defense expenditures, the Government will be spending more than it takes in, and the extra money it spends will add to total purchasing power and inflationary pressures.

Inflationary pressures will be strong, of course, even with the budget balanced. Military production results in wage payments, and buying of materials, long before the goods are produced and paid for by the Government. Businessmen who build new plants spend money well in advance of producing any goods for the Government or consumers to buy. Furthermore, consumers have accumulated large amounts of cash and other liquid assets which they are free to spend if they so choose.

Thus, inflationary pressures will be strong even after taxes are increased enough to balance the budget. We will still need direct controls over prices and wages. But it may not be possible to make those controls effective unless we tax ourselves enough. Certainly, those controls will be far more effective if we pay for expenditures through taxes as we go along.

During World War II, taxes were not high enough, and the Government was forced to borrow too much. As a result, when controls were taken off after the war, prices skyrocketed and we paid in inflation for our failure to tax enough. The value of people's savings was cut down by the higher prices they had to pay.

We must not let that happen now. We must have both an adequate tax program and proper controls on prices and wages if we are to prevent inflation and preserve the value of savings and fixed incomes.

For these reasons, the case for a pay-as-we-go tax program is conclusive at the present time, and I urge the Congress to continue to keep that goal before it.

A Preliminary Tax Boost This Year

I believe that the wisest and most practical approach to this goal is to enact the tax program we need this year in two parts rather than enacting the full tax program all at once.

Government expenditures will be increasing very rapidly during the next few months. We will have to act fast if our revenues are to keep pace with rising expenditures.

I recommend that as rapidly as possible the Congress enact revenue legislation to yield additional taxes of at least $10 billion annualy, and later in the year enact the remaining amounts needed to keep us on a pay-as-we-go basis.

If we follow this course, our revenues will keep pace with increasing expenditures, and we shall have some months in which to observe economic developments and to consider the several serious questions that will need to be resolved before all parts of this year's tax program are enacted.

For example, we will have better information on exactly how much we shall need to balance the budget. As I explained in the Budget Message, our estimates of military expenditures are still tentative. In particular, the amount we spend for military equipment will depend on how fast the production lines are geared up and the equipment is actually turned out. If our military production program can be got under way faster—as we hope it can—expenditures will, of course, be larger than the budget estimates.

Moreover, the Congress has not yet had an opportunity to act on the budget. I believe the Congress will find that the budget is sound, and provides only for the essential needs of our nation in this time of world crisis. Nevertheless, the appropriations actually enacted by the Congress will, of course, control the actual expenditures.

Furthermore, the economic developments of the months ahead—the impact of the defense effort and of tighter controls on prices and wages and profits—should be considered before the balance of our tax program for the coming fiscal year is completed.

These uncertainties, however, do not affect our obvious need for much larger taxes, and our need for the bulk of them very soon. I am therefore transmitting, for the consideration of the Congress at this time, my recommendations as to the best way to raise at least $10 billion now.

I know the Congress will want to consider these problems very carefully, and to review my recommendations in the light of their own independent analysis. The Secretary of the Treasury is prepared to discuss these matters in detail with the committees of Congress.

Increase of Existing Taxes Immediate Objective

I believe we should meet our immediate objective by increasing existing taxes. The present Federal tax structure, while marred

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Secretary Snyder Outlines Proposed Tax Increases

In statement to House Ways and Means Committee, he contends, despite a corporate tax rate of 55%, opportunities for business profits are great. Hits at family income splitting in personal income law, and recommends strengthening of tax rates on capital gains.

In presenting to the House Ways and Means Committee on Feb. 5, proposed increases and adjustments in Federal corporate and personal income taxes, Secretary of the Treasury John W. Snyder proposed an 8-percentage-point rise on corporate levies and a 4-percentage-point rate increase on current personal income tax rates, along with some increase in the capital gains tax.

John W. Snyder

Corporation Taxes

Concerning the proposed increase in the corporation tax rate, the Secretary said:

"The President's recommendation that $3 billion additional be raised from the income tax on corporations will require an increase of 8 percentage points in the corporate normal tax.

"This change would raise the rate on the first $25,000 of corporate income from 25% to 33% and the general rate applicable to income in excess of $25,000 from 47% to 55%. On income subject to the excess profits tax, the combined maximum rate would rise from 77% to 85%. The ceiling rate now imposed at 62% would have to be raised to 70% to obtain the full revenue effect of an 8-percentage-point corporation income tax increase. . . .

"The additional revenue to be obtained from the increase of 8 percentage points in the corporate tax would come mostly from the large corporations. The 281,000 corporations with profits of less than $25,000 would pay only 3% of the proposed total liability, while the 42,000 corporations with profits over $100,000 would pay 90% of the total.

"The level of corporation taxes proposed is dictated by the need for an equitable distribution of the burdens of defense consistent with the continued growth of industry. Corporation profits have continued to expand. On the basis of conservative estimates which allow for no appreciable amount of inventory profits, they are expected to reach at least $43 billion in 1951. The $43 billion estimate for 1951 compares with $40.2 billion in 1950 and the previous peak of $33.9 billion in 1948.

"Under the proposed rates, Federal income and excess profits tax liabilities would be increased to $24.5 billion, or about 57% of estimated profits. Even on the basis of conservative profit estimates and taking full account of State corporation tax requirements, this would leave corporations with $17 billion income available for dividends and expansion, or approximately the same as the average for 1945-49, a period of unusual and sustained prosperity.

"I am aware that a corporate rate of 55% would raise serious equity and incentive considerations in a normal and stable peacetime economy. However, corporation tax rates requested during the present emergency cannot be judged by normal standards.

"Opportunities for profit in the years ahead, even under price and wage ceilings, are great. The defense orders placed and yet to be placed—added to the large unsatisfied demand for industrial plant, housing, consumer durable goods and most articles of current consumption—assure producers of a sellers' market in nearly every field of business activity during the mobilization period. In spite of problems of securing the materials and labor for their production, business will have adequate incentives even under higher taxes to go forward with the job of production. An important part of our reassurance on this score is the wholehearted and realistic appraisal by business management of its full responsibility in the national effort.

"The appropriate level of any one tax is determined largely by the necessity of balancing the contributions from each tax source in a way which will best meet the total demands upon the tax system. In the present circumstances the increases in corporate rates proposed can be regarded as a necessary counterpart of increased taxes on individual incomes and consumers of taxed commodities."

Individual Income Tax

With regard to the increase in personal income taxes, the Secretary said:

"In order to meet the large revenue goal confronting us, it will be necessary to rely on the individual income tax—the backbone of our revenue system—for a very large share of the additional revenues. The $4 billion increase recommended by the President can be provided by raising all income tax bracket rates by 4 percentage points and by an upward adjustment of the taxes on capital gains.

"A 4-percentage-point rate increase would raise the starting rate, applicable to the first $2,000 of taxable net income for a single person and $4,000 for a married couple to 24%. . . . A married person with two dependents and with a net income of $3,000 now pays $488 or 16.3% of his income in tax. The proposed rates would increase his tax liability to $584 or 19.5% of his net income. At the $25,000 level, the tax would be increased from $9,796 or 39.2% to $10,772, or 43.1% of net income.

"In examining the possible methods of raising individual income tax yield, consideration was given to reducing exemptions. The President did not recommend this change because, at current levels of income his revenue objective can be met by confining the income tax increases mainly to those now taxable.

"The bulk of any major increase in individual income tax revenues will nevertheless come from the lower taxable brackets. . . . It is estimated that 83% of all taxpayers and 58% of their taxable income is accounted for by the income groups below $5,000. This concentration of income must be tapped if the tax is to raise enough revenue.

One important feature of the individual income tax structure is the method of taxing family income. You will recall that in 1948 Congress adopted universal income splitting in order to correct tax discrimination between residents of community and noncommunity-property States.

"Chart 8 (not shown) demonstrates some of the effects of income splitting on the relative tax liabilities of single persons and married couples. Single persons with income in excess of $3,100 will pay more tax under the proposed rate schedule than they paid during the war. On the other hand, married people in the middle brackets who benefit from the income splitting provisions will pay substantially less than they did during World War II.

"There are differences of opinion about the fairness of the present tax treatment of family income and about the methods that might be adopted to modify the results of income splitting. Several possible courses of action are being studied by the Treasury and Joint Committee staffs. The Committee will undoubtedly want to examine this problem in all its implications before completing this year's tax legislative program.

Capital Gains Taxes

"Increases in income tax rates raise another important structural problem—one that requires more immediate action. I refer to the preferential treatment of capital gains. Gains from sale of capital assets held more than 6 months are now included to the extent of 50% in taxable income and subjected to the regular rates. The taxpayer has the option to pay a flat 25% rate on long-term capital gains if this will result in a lower tax.

"The starting rate of the individual income tax has risen from 16.6% in 1948 to 20% in 1951. If another 4 percentage points are added to the initial rate, the tax on both ordinary income and on long-term capital gains realized by taxpayers in the lowest tax bracket will have been increased 45% over the 1948 level. Under the circumstances, it would be inequitable to leave the maximum effective rate of tax on capital gains unchanged at 25%, or only one percentage point higher than the recommended rate in the first bracket. This maximum rate affects only about 5% of the taxpayers having long-term capital gains but this small groups accounts for more than half the capital gains tax collected from individuals.

"The capital gains tax could appropriately be increased by raising the alternative tax rate from 50% to 75%. This rate, combined with the 50% inclusion, would result in a maximum effective rate of 37½%. This increase over the present 25% rate would be in line with the 45% increase in income tax rates adopted last year and proposed now. A corresponding increase to 37½% should be made in the rate of tax applicable to capital gains of corporations.

"Lengthening the 6-months holding period now separating long- from short-term capital gains would provide more effective taxation of speculative profits. As a minimum, the holding period should be increased to one year.

"By this strengthening of the tax rates on capital gains, the individual income tax will be made more equitable. This tax conforms most closely to concepts of fairness in taxation. It allows for variations in income, deductible expenses and family status. It is the fairest method of distributing the cost of the defense program. It is also less likely than other taxes to inflate the cost structure. As a result of the current payment system introduced during the war, this tax is especially well suited for quick adjustment to changed financial requirements. With proper adjustments in its structure, the individual income tax can and should contribute greatly to our revenue objective in the defense period."

A New Era for Hotels

By JAMES B. HERNDON, JR.

Vice-President and Treasurer, Hilton Hotels Corporation

Prominent industry executive asserts hotel operation now is most modern business science. Maintains investment markets have completely overlooked fundamental change which has occurred since Great Depression, wherein the industry—reducing its debt by half—has put itself in shape to benefit from rising tide of general business. Cites minimizing of competition resulting from inflated construction costs.

Hotel operation, one of the most ancient arts, now is one of the most modern of business sciences. All of us are acquainted with tales of the ancient inns of Persia, China, Greece and Rome. All of us are familiar with the legendary inn-keeper who played gracious host to his appreciative patrons.

J. B. Herndon, Sr.

Inn-keeping in Dickens' day was a simple operation. In fact, it continued to be a relatively facile operation up until about 20 years ago. It has been during the past 20 years or more that hotel keeping has assumed the basic characteristics of modern, efficient industry.

Prohibition a Potent Factor

Before prohibition was devised in this country and before labor unions became powerful, the task of operating a hotel did not embody great hazards. Whiskey was to be had at 50 cents a gallon, and food could be had almost as cheaply. Moreover, a hotel employee labored 12 hours a day, seven days a week. As a matter of fact, some employees were willing to pay for the privilege of working and receiving the gratuity of hotel guests who knew nothing of income taxes.

The first great change in hotel operation came with the advent of Prohibition which required the inn-keeper to become an efficient businessman, to acquaint himself with economics and to learn something about cost accounting. The necessity for this increased as labor unions grew in strength.

It was a severe test for the inn-keeper, a departure into unfamiliar channels. Many hotel keepers failed to bridge the gap successfully. The hazards confronting them were aggravated by the unbridled building of hotel facilities which continued from the middle 'twenties into the early 'thirties.

Rehabilitated Industry

All of us, and especially professional investment people, recall distinctly the sad plight of the hotel industry of the early 'thirties when an estimated four-fifths of all hotels in the United States were in bankruptcy, with defaulted bonds and unpaid interest and taxes. One of the basic causes of this situation was the frenzied financing of hotel construction of that era, with bond houses feeding 6% gold bonds to a hungry public. In some instances, two hotels were built where one would have sufficed, simply to provide the bonding company an occasion to merchandise hotel bonds.

Strangely enough, the complete metamorphosis of the hotel industry since then appears to have been overlooked in the investment markets. Many investment authorities, it seems, fail to recognize the radical reorganization of heavily mortgaged hotel properties, through the instrumentality of 77-B. Great capital losses were suffered by a large number of security holders, but when prosperity began to return in the middle 'thirties it was greeted by a financially rehabilitated hotel industry which had hacked off about one-half of its bonded and mortgage indebtedness. The industry had put itself in shape to benefit from a rising tide of general business fortunes.

The Hotel Industry Today

In the United States today there are approximately 15,000 hotels, exclusive of motor courts, with about 1,400,000 rooms and with an annual sales volume of roughly $5,000,000,000. Aside from Florida and certain other sections where added facilities have been sorely needed, there has been no building of hotels since the early 'thirties. Yet, the country's population has increased by 30,000,000 during that period. Patently although the traveling public's habits have changed, America has been growing up to its hotel plant.

Nor should sight be lost of the fact that our country's hotel plant today is soundly financed. Not only was a heavy yoke of debt realistically scaled off 15 years or more ago, but alert management has since been able to improve the capital structure further and to put properties in first class condition. Our national hotel plant now is mortgaged for less than one-half of its value.

The transformation of our hotel plant is nowhere more clearly evidenced than in operating results. In the middle 'thirties hotels were earning about twice their taxes, whereas today they are earning about six times the tax burden, according to a survey prepared by Harris, Kerr, Forster & Co. The hotel industry, according to a survey made by that organization, obtains an average return of 7.32% on its investment, before taxes, or about 4½% after income taxes.

What of Future Construction?

Not only has there been no substantial hotel construction during the past 20 years, but it seems very unlikely that there will be any construction on a substantial scale in the foreseeable future. This conclusion seems inescapable when the steep rise in costs of building hotels is considered. At current costs it appears virtually impossible to obtain sufficient room rent to cover carrying charges.

I gauging the outlook for hotel construction the time-honored rule of thumb holds good. According to that rule, for each $1,000 spent to add a hotel room it is necessary to receive $1 a day room revenue at an occupancy of 70%. A luxury hotel built in the middle 'twenties at a cost of $10,000 per room might well be able to obtain an average room rate of $10. But the same hotel built now for $20,000 per room scarcely could hope to obtain an average rate of $20 per day, especially it across the street there is a hotel which costs $5,000 per room to the company that bought it from the original bondholders.

The days of irresponsible financing of hotel construction are a thing of the past. No financing company today is eager to buy a hotel builder's bonds and advance up to 110% of the total cost of the project, with 10% for the finance company. The builder must face a hard-boiled finance company or an equally realistic insurance company which will advance a loan of not more than 60% of the real value of the entire project. He must put up at least 40% of the total cost of the project, and there are very few such optimistic builders in this day and age.

The subject of hotel construction costs leads to the question of the place of the motor court in the inn-keeping business. These motor courts have increased sharply in number during the past several years, and they are highly competitive with small hotels in small cities. However, the motor courts offer little if any competition to large hotels in such large cities as New York, Chicago, Washington and St. Louis. The City of Los Angeles cannot be included in this group because several factors such as climate and transportation facilities render the motor court a challenging competitive force in that Pacific Coast city.

Contributing Factors

A combination of factors has been responsible for the rehabilitation of the hotel industry during the past score of years. One of the most important of these factors has been the increase in national income and industrial production. In 1949, our country's hotel income factor was 242, using 1935 to 1939 as 100. National income then was 331 on the same basis. Hotel occupancy led business activity gains from 1944 to 1946, lagging slightly since then.

Generally speaking, the trend of hotel income normally coincides with the course of national income and business activity. Not only has business travel increased importantly during the past 20 years, but pleasure travel has gained sharply as America on wheels has taken the road. The late George Bernard Shaw once observed: "The great advantage of a hotel is that it is a refuge from home life."

As suggested earlier, Prohibition repeal also has furnished a big impetus to the rise of fortunes for hotel operators. To a large extent, hotel business is beverage business because the sale of beverages accounts for an important portion of a hotel's gross revenues. The financial statements of the hotel industry would make a rather sorry reading if it were not for the sale of beverages.

Modern Industrial Methods Developed

But no single factor has been more responsible for the vast change for the better in the hotel industry than the adoption by hotels of modern operating methods and controls. This development has been hastened by the rise of such hotel accountants and

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Securities Salesman's Corner

By JOHN DUTTON

Advertising in the Securities Business
(ARTICLE No. 1)

During the next few weeks, in this column, I am going to try and pass along some ideas and suggestions that may be helpful to those retail securities firms that have recently been considering an increase in their appropriations for advertising. During the past few years, members of the New York Stock Exchange, as well as many unlisted houses, have discovered that securities can be merchandised. Today we know that people will listen to our story if we will only tell it to them in language which they can understand. They will come and they will buy—but they will only do so when we sit down with them and tell them what they can accomplish by investing their money intelligently. They are interested in what securities can do for them. They do not wish to buy statistics. At last we are beginning to promote our services in a human way—we have quite a distance to go yet, but we are getting there.

In this connection I am almost tempted to devote this entire column to a little folder which was released last week by H. Hentz & Co., of 60 Beaver St., New York 4, N. Y. It is entitled "Investment Facts About Common Stocks—and Cash Dividends." If they have any extra copies and can send you one, I hope you will be able to ask for a copy and obtain it. When you compare this appealing, two-color folder, and its down-to-earth story of common stocks, with some of the single sheet mimeographed pages of statistics that used to find their way into investors' mail boxes, you can readily understand why this sort of advertising is paying dividends.

Now to get down to cases: I think you will agree that if you do anything haphazardly, as the spirit moves you, that sometimes you may hit a few bull's eyes, but in the long run you are going to lay your rifle down and either blame your ammunition or your own poor aim. This applies to advertising just the same as anything else. I think it is especially true in the securities business. Many firms only advertise when the urge to move a block of stock compels action. Or, they get the idea that the salesmen should have some more prospects, so a list is bought and some sort of direct mail advertising is sent out with the fond hopes of all concerned, that at least "we will get enough out of it to pay our expense." Or, a small advertisement is regularly placed in the newspaper or financial publication because someone believes that it does pay to "keep our name before the public." Naturally, very little progress comes from all of this. Some good is admittedly accomplished by any advertising. But frankly, it is not the way to set up an advertising campaign, nor is it a way to **make advertising really pay.**

In other lines of business, where real money is spent on advertising, and where it has to **pay off or else**, what is done? First a study is made of the firm itself. Its policies of doing business are determined, and they become the basic foundation of all the advertising which follows. There is a character and a design to every business. It is the province of a good advertising agency to detect that certain unique quality of a product, or a service, and to feature that particular phase of its client's activities, in **all** of its advertising.

In other words, know yourself. Find out what you are really trying to do. Know your market. Maybe you think you know it, but possibly if you sat down and looked at your own operations objectively, you would get a different view of things. Are you selling securities, or ideas? What kind of people live in your town? Are they investors who are primarily interested in dividend checks? Are they speculative minded? Is your office in Miami Beach, Los Angeles, or Rochester, N. Y.? How many customers do you have now that are traders? How many are long-term investors? How many shop around and go from broker to broker? How many accounts do you have on your books? How many salesmen do you employ? Can you use more business and still service your present accounts effectively? Can you add more salesmen? Can you improve your service to customers? Are your customers' accounts in good condition—do they hold well diversified lists of sound securities? Are you only interested in speculations? If so, you have a different problem. Are you all over the lot—do you know what you are striving to achieve—are you building solidly?

When you can answer these questions, I think you can begin to plan an advertising campaign. Sometimes, a searching analysis is not only good for the soul—but good business as well. This is where I would start. I would find out if the methods of operating my business were suited to the market in which it was located—if it needed changing I would make those changes. Then I would start to advertise.

McCandless Partner In Vance, Sanders

BOSTON, Mass. — Vance, Sanders & Co., 111 Devonshire Street, principal underwriters for shares of Massachusetts Investors Trust, Boston Fund and other mutual investment funds, announces that John A. McCandless has been admitted as a general partner of the firm.

Following graduation from Yale in 1927, Mr. McCandless entered the investment business in New York. Later he was with the National Association of Securities Dealers until 1943, when he became associated with Massachusetts Investors Trust, where he handled the trust's portfolio transactions. He resigned the latter position last year to join the staff of Vance, Sanders & Co.

Other partners are Henry T. Vance, William F. Shelley, Hatherly Foster, Jr., Edward E. Hale, Thomas A. Baxter, John A. Carter, Jr., Kimball Valentine, Herbert I. Shaw, Mark L. Baxter and Robert L. Osgood.

Noble and Perham With Coburn & Middlebrook

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Arthur D. Noble and Wilfred B. Perham have become associated with Coburn & Middlebrook, Inc., 75 Federal Street. Mr. Noble was formerly manager of the Boston office of R. H. Johnson & Co. and Mr. Perham was trading manager.

Wilfred B. Perham

Also joining the Coburn & Middlebrook staff are Dominic DiSandro, James J. Donlan, William K. Gray, Lawrence H. Martin, Ellen C. Painting, Charles G. Price, John J. Quinn, J. Herbert Remington, Charles E. Smith, Donald T. Steele, Charles Ulin, J. Murray Walker and Owen H. Woods. All were previously with R. H. Johnson & Co.

Staats Co. to Acquire Stock Ownership

LOS ANGELES, Calif. — John Earle Jardine, Chairman, and Donald Royce, President of William R. Staats Co., pioneer western investment banking firm, have announced that executives and employees of the firm had arranged for the acquisition of the common stock formerly owned by Fred R. Tuerk and associates. There will be no change in the principal officers or directors. The firm will hope to participate even more actively in financing the growth of western industries, utilities, municipalities and other corporations than it has in the past since its establishment in 1887.

Mr. Tuerk, an eastern financier, acquired his stock interest in William R. Staats Co. several years ago. He formerly made his home in Chicago and California, but has recently established his residence in Florida.

William R. Staats Co. is a member of the Los Angeles Stock Exchange, the Midwest Stock Exchange, and an associate member of the San Francisco Stock Exchange.

Railroad Securities

Atchison, Topeka & Santa Fe

For the past two years or so hardly a month has passed without rumors that directors of Atchison, Topeka & Santa Fe would come forward with a proposal to split the stock. Last month they finally acted. On April 26 stockholders are to vote on the plan to split both the preferred and common stocks two-for-one. It is a foregone conclusion that the split will be approved, and if so it will become effective as of Aug. 1, 1951. While the action of the directors was greeted with enthusiasm, and the common stock moved ahead sharply on the announcement, there was some disappointment that the split was not three, or even four, for one. Even after the split the stock will still be in the high price category.

Santa Fe common is now selling at the highest levels in about 20 years and more than 50 points above the peak reached in the bull market that culminated in 1946. Nevertheless, at current levels it is still selling less than six times 1950 earnings, and by any investment standards is still one of the most attractive of the railroad equities. Also, indicated probable income return is liberal for a stock of this quality. The current regular rate is $2.00 quarterly and in the past few years $2.00 year-end extras have been paid. As a minimum, a $5.00 regular annual rate on the split stock appears likely, affording a return of 5.72% at recent prices. A $6.00 rate on the new stock, which would still be conservative in relation to earnings, would afford a return of 6.87%.

Santa Fe has one of the most enviable long-term records in the industry. In all of its history, going back to before the turn of the present century, it has never reported a loss after providing for full fixed and contingent charges. Moreover, since 1901 there have been only three years (1933, 1938, and 1939) in which dividends have not been paid on the junior equity. As impressive as this record is, the future outlook is even more inspiring. In all respects Santa Fe is a far stronger property than it was when it was able to weather the depression of the 1930s without a net loss in any single year.

The debt, which at its peak was not overly burdensome, has been reduced sharply. All callable bonds have been retired and the company has made some purchases of the two remaining non-callable bonds — the General 4s, 1995 and Adjustment 4s, 1995. By the end of 1949 this non-equipment debt had been pared to $200,467,000, a reduction of more than a third since the beginning of 1941. Moreover, equipment obligations stood at only $14,410,736. About two-thirds of these will have matured and been paid off by the end of this year. Meanwhile, finances have been improved materially—in this respect Santa Fe is one of the strongest roads in the country. Cash items alone stood above $157 million a couple of months ago, equivalent to nearly 19 years' requirements for fixed and contingent charges.

Even more important than debt and financial progress from a long-term viewpoint has been the vast improvement in the physical condition of the property. The road was one of the early pioneers in the use of diesel power for road freight service. Large sums have been spent on building up this fleet. Additional sums have been spent on freight car equipment and on additions and betterments to roadway. In all, in the years 1941 through 1950 well over $400 million has been spent on gross additions and betterments to property and equipment. These outlays have alone been equivalent to more than twice the current debt, including equipments. With the property improvements a far greater degree of operating efficiency has been attained.

Last year earnings on the common stock amounted to $31.29 a share, compared with $18.06 a share earned a year earlier and a wartime peak of $27.79 realized in 1942. The 1950 results were, however, swollen by special credits, at least in part non-recurring. There was an accrual for the retroactive mail pay increase in the amount of $9,108,845 and a $6,000,000 dividend from subsidiaries. Presumably this latter was from Western Improvement which, despite fairly substantial earnings, has made no dividend distributions in a number of years. After taxes these two items added $10,112,661 to net, equivalent to $4.17 a share of Santa Fe common. It is notable that even without either of these two items, and they are by no means entirely of a non-recurring nature, earnings would still have been close to the World War II peak. It is doubtful that with current and prospective taxes earnings can repeat their 1950 performance this year. Nevertheless, they should remain well above $20.00 a share.

FHLB Notes on Market

A new issue of $84,000,000 Federal Home Loan Banks 1⅞% consolidated notes, Series F-1951, non-callable, was offered Feb. 6 by the Federal Home Loan Banks through Everett Smith, fiscal agent. The notes, dated Feb. 15, 1951, and due Nov. 15, 1951, are priced at par. A countrywide selling group of securities dealers will participate in the offering.

Proceeds from the financing will be used by the Federal Home Loan Banks to refund in part the Series A-1951, 1⅜% consolidated notes maturing Feb. 15, 1951, outstanding in the amount of $97,000,000. Balance required for retirement of the 1⅜s will be obtained from funds on hand.

Upon completion of the financing the Federal Home Loan Banks will have outstanding consolidated obligations in the amount of $548,000,000.

Grant Exchange Member

Samuel S. Grant has retired as a general partner of Sutro Bros. & Co., and has been admitted as a member of the New York Stock Exchange. He will make his office at Sutro Bros. & Co., 120 Broadway, New York City.

With Rockwell-Gould

ELMIRA, N. Y.—Jacob B. Harder, Jr., is now associated with Rockwell-Gould Co., Inc., 159-167 Lake Street, as sales representative.

Eisenhower Reports to Nation

In radio address, General expresses confidence in outcome of European rearmament. Says U. S. security requires participation in defense of Western Europe, but "we Americans cannot support the world militarily or economically," and therefore must insist on working partnership with Allies.

In a radio address to the nation on Friday evening, Feb. 2, following his talk to members of Congress, General Dwight D. Eisenhower reported generally on the defense situation in Europe and, expressing confidence in success of the establishment of a Western European defense army, concluded by appealing for a united America to "constitute the greatest temporal force that has ever existed on God's earth."

General Dwight D. Eisenhower

The text of General Eisenhower's address follows:

As a soldier, I have been given an Allied assignment that directly concerns the security of the free world, with special reference to the countries bordering upon the North Atlantic Ocean. I have approached the task, aiming at the good of the United States of America, conscious that a strong, solvent America is the indispensable foundation for a free world.

While I have reached definite conclusions, the subject of the free world's security is so vast and complex that no man could hope to master its elements to the last critical item or, in a quarter hour, to answer all questions in his fellow-citizens' minds. Consequently, though I speak to you out of deep conviction, I do so in all humility, trusting to your sympathetic consideration.

Our hope remains the achievement of peace based on understanding and forbearance, the only sure foundation for peace.

We must never lose faith that such a peace can be ultimately established. We seek only peace. No one can honestly interpret our modest preparations otherwise.

But we should examine the current si uation, fearlessly and clearly, neither shutting our eyes to obvious dangers nor permitting fear to warp our judgment. America's record and America's strength certainly should prevent hysterical apprehension of the future. Today we are faced by an aggressive imperialism that has more than once announced its implacable hostility to free government. Therefore, we strive to erect a wall of security for the free world behind which free institutions can live. That wall must be maintained until Communist imperialism dies of its own inherent evils.

One of the great questions before us is the will and capacity of Europe to cooperate effectively in this aim. Unless there exists in Europe a will to defend itself, no amount of outside help can possibly make it secure. A nation's defense must spring from its own soul; and the soul cannot be imported.

Western Europe

For years we have heard that Western Europe is plagued, confused, and divided far more seriously than we are; we have heard that in their homes, in factories, on the street millions of honest workmen are daily subjected to Communist bullying; that their days and nights are haunted by the specter of invading hordes whom they cannot hope to equal in numbers or physical strength.

Furthermore, the discouragement, destruction and confusion visited upon the peoples of Europe by two world wars sapped their productive capacity and, in some instances, reduced them to levels of near-starvation. More than this —their spirit was smothered in war-weariness.

Holds U. S. Can't Stand Alone

That is a story often told. If it were the whole story, then all I could honestly do would be to recommend that we abandon the NATO [North Atlantic Treaty Organization] treaty and—by ourselves—attempt, however futilely, to build a separate fortress against threatening aggression. Two striking facts make such a recommendation, for me, impossible.

The first fact is that the utter hopelessness of the alternative requires our participation in European defense. We can all understand that America must be strong in air and sea power. These elements are vitally essential to the defense of the free world and it is through them that we protect the approaches to our homeland and the routes of commerce necessary to our existence.

But this alone is not enough. Our ships will not long sail the seas, nor our planes fly the world airways, if we stand aside in fancied security while an aggressive imperialism sweeps over areas of the earth with which our own future is inseparably linked.

Western Europe is the cradle of our civilization; from her orginally we drew our strength, genius and culture. But our concern in Europe is far more than sentimental. Our own security is directly involved. Europe is a highly developed industrial complex with the largest and most varied pool of skilled labor on earth. This huge potential would be a rich prize for a totalitarian invasion. Its direct importance to us is the stark fact that its possession by communistic forces would give them opportunity to develop a preponderance of power. Even this disaster would not tell the whole story.

Importance of Free Western Europe

If Western Europe should be overrun by communism, many economically dependent areas in Africa and the Middle East would be affected by the debacle. Southeastern Asia would probably soon be lost. Thus, we would be cut off from the raw materials of all these regions—materials that we need for existence. World destiny would then be dictated by imperialistic powers whose avowed purpose if the destruction of freedom.

The second fact bearing upon our participation in European defense is that the people of Europe are not spiritually bankrupt, despite the validity of many pessimistic reports. Great sections of its population have for years labored on and fought the creeping paralysis of communism. Now, the North Atlantic Treaty has brought new fuel to the flames of hope in Europe. It has noticeably lifted morale, the fundamental element in this whole situation—the force which powers all human progress.

In every capital, there is growing a desire to cooperate in this mutual security effort. All the governments that I have recently visited agreed that their defense programs must be stepped up despite economic and other difficulties—in spite of preoccupations that constitute abnormal drains upon particular nations. For example, France now wages a relentless and costly war against communism in Indo-China. Britain, still existing on an austerity level, shoulders heavy burdens in Malay. However much those nations may differ from us in their diplomatic thinking with respect to Asiatic states, there is no question concerning their solidarity in opposing communistic aggression.

Within the past few days, Britain has stepped up drastically its rate of preparation. The new military service program in France bars all exemptions, of every kind whatsoever. The Norwegians impressed me with their unshakable determination that never again will they be victims of occupation. To them, a fighting resistance, even to their own destruction, is preferable. And in Italy, there are unmistakable signs of a stiffening courage and determination. The same is true of Belgium, Holland, Denmark, Portugal, Luxembourg and Iceland.

Europe's Spirit Regenerated

In every country I saw heartening evidence of a regeneration in Europe's spirit. Its morale, its will to fight, will grow with every accretion to physical strength. The arrival in Europe of new American land and air units, though modest in protective influence by themselves, will certainly produce added confidence and accelerate the production of military force throughout the member nations. The European nations must, of course, produce and maintain the great bulk of the land forces necessary to their defense.

For this purpose the most immediate need in Europe is munitions and equipment. Every one of the Continental nations I visited can rapidly and markedly increase its resistance power if it can be promptly furnished additional supplies of this kind. To fill this need, our loyal neighbor, Canada, with Britain and others, is shouldering part of the load.

In military potential, the free nations have everything they need — natural resources, industrial genius, productive capacity, and great reservoirs of leadership ability. Given the ingredient of morale—the determination to combine for mutual protection—the military strength will be produced at a speedy pace. With every increase in strength, there will be an upward trust in morale, resulting in an evermounting spiral of confidence and security.

With respect to time, and hour of attack, no man can know at what hour, if ever, our defensive organization may be put to the ultimate test. Because our purpose is entirely defensive, we must be ready at the earliest possible moment. Our current mobilization, properly adjusted to our peaceful security needs, should be as rapid as any required by the emergency of war.

To you, the people of America, I repeat—as I have to the Congress and to the President—that I believe that:

First, the preservation of a free America requires our participation in the defense of Western Europe.

Second, success is attainable. Given unity in spirit and action, the job can be done.

Third, while the transfer to Europe of American units is essential, our major and special contribution should be in the field of munitions and equipment.

By no means do I believe that we Americans can support the world militarily or economically. In our own interest, we must insist upon a working partnership with every nation making the common security its task of first priority. Everyone of the member nations must realize that the success of this combined effort to preserve the peace rests as directly upon America's productive, economic, and political strength as it does on any amount of force we can develop. Only cooperative effort by all of us can preserve for the free world a position of security, relative peace, and economic stability.

Attainment of this result is largely a matter of morale and human spirit. The free world must now prove itself worthy of its own past.

If Frenchmen can rise to the heights their fathers achieved at Verdun in 1916; if Italians can recapture the fervor of Vittorio Veneto; if the British can relive the days of 1940 when they stood alone against Hitler; if our other Allies can react to today's threat in the mode of their own revered patriots; if we here in America can match the courage and self-sacrifice of the ragged, freezing members of Washington's Army at Valley Forge; indeed, if each of us now proves himself worthy of his countrymen fighting and dying in Korea, then success is sure—a glorious success that will bring us security, confidence, tranquility.

Each of us must do his part. We cannot delay, individually or nationally, while we suspiciously scrutinize the sacrifices made by our neighbor, and through a weasling logic seek some way to avoid our own duties.

America Should Lead

If we Americans seize the lead, we will preserve and be worthy of our own past. Our children will dwell in peace. They will dwell in freedom. They will read the history of this decade with tingling pride and, from their kinship with this generation, they will inherit more than can be expressed in millions, in acres, or in world acclaim.

It is not my place as a soldier to dwell upon the politics, the diplomacy, the particular treaty arrangements that must accompany and go forward with such an effort. But I do conceive it my duty to report from time to time, both to this government and to all others in the coalition, as to progress achieved. Thus our own and all other peoples may constantly review their decisions and plans and, if necessary, revise them. This evening I come back to you only as one with some experience of war and peace, of some acquaintanceship with our friends of Western Europe, to bring you what is in my heart and mind. I shall go about my own task in this undertaking with the unshakable confidence that America will respond fully when the basic issues are understood.

We know that 150,000,000 united Americans constitute the greatest temporal force that has ever existed on God's earth. If we join in a common understanding of our country's role today and wholeheartedly devote ourselves to its discharge, the year 1951 may be recorded in our history in letters as bright as is written the year 1776.

Dietz Partner in Seskis Wohlstetter

Seskis & Wohlstetter, 25 Broad Street, New York City, members of the New York Stock Exchange, announce that Kenneth F. Dietz was admitted to General Partnership as of Feb. 1, 1951. Mr. Dietz formerly was connected with E. F. Hutton & Co., and Shearson, Hammill & Co. where he was a Special Research Consultant. He will act in the same capacity with his own firm who are specialists in several stocks listed on the New York Stock Exchange—including Jones & Laughlin Steel, Western Union and others.

Mr. Dietz admission to partnership was previously reported in the "Chronicle" of Jan. 25.

J. E. Hammers Opens

ABERDEEN, S. Dak.—James E. Hammers has opened offices at 1502 South First Street to engage in the securities business.

Growth of Pulp and Paper Industry

Justin R. Weddell, of St. Regis Paper Company, tells Rollins College Economic Conference pace of output has been continuously accelerated in past quarter of century by expansion of Southern mills, now producing one-half of nation's production.

Addressing the 16th Annual Economic Conference at Rollins College, Winter Park, Fla., on Feb. 2, Justin R. Weddell, director of Public Relations of the St. Regis Paper Company, noted the rapid growth and expansion of pulp and paper output in the United States in recent years, particularly in the Southern States.


Justin R. Weddell

"Within the past 50 years," Mr. Weddell stated, "our pulp and paper production has grown 10 fold: from approximately two million tons annually to over 26 million tons. Over the same period our population has doubled, and the per capita use of paper has increased from 50 pounds per year to 350 pounds. The pace of this growth has been accelerated during the past quarter century by the significant development of the industry in the South. From a standing start in the early 20's the southern forest and the southern mills are now contributing over 50% of the pulp produced in the nation, and about a third of the paper products."

Continuing, Mr. Weddell remarked: "May I quote in broad figures from some data collected by the late James H. Allen, a man of the South who is looked upon as an outstanding leader among those few men who created by their faith and energy and resourcefulness the pulp and paper industry of the South:

"As late as 1933 the investment in mills and plant in the South was a little over $100 million. Today's capital asset value approaches seven times that figure. The sales value has increased 10 times. Payrolls have increased 20 times. The growers and producers of pulpwood 18 years ago received about $9 million; today the annual value of pulpwood consumed is approximately $180 million. The industry that employed 18,000 men in the mills and the woods in 1933 now gives employment to over 130,000. Millions of acres of cut over land and second growth pine, much of which had lapsed into tax delinquency, have been converted into one of the most salable assets of the South.

"Through the establishment of a sure market for pulpwood — the smaller trees of the forest—a new and growing income has come to the farmer and woodland owner. All the uses of conservation and forestry have been given new life. The great southern forest, ravaged for generations by fire and pest and careless cutting, is restoring itself, and being helped in that process by fire control, reforestation plantings, good woods management, and the development of tree farms. The whole economy of these southern states has been lifted. Whereas 18 years ago we were importing some 3½ million tons of paper, we are today exporting some of our southern product. Whereas 18 years ago, through imports of pulp and paper we were. in effect supporting 70,000 full time jobs in foreign wood production, we have today brought those jobs home to our woods workers.

"What will be the impact of world affairs upon such an economy? It is not a fragile structure. It is not to be measured by the brick and mortar, the machines and tools, that make up the 50 odd mills of the southland. It is not to be measured by the investment in plants and woodlands that are its outward expression of worth, estimated at nearly a billion and a quarter dollars. There is another dimension, the dimension of depth. It is the flesh and blood of the industry; the men who work in it and direct it; the spirit of the men who created it.

"In Mr. Allen's address before the Southern Forestry Conference in Montgomery two years ago he said: 'It is axiomatic in life that where there exists a great need, the manpower to meet the necessity is forthcoming.' He went on to speak of men who were outstanding in action, men of creative genius and courage, 'whose whole thought was the job at hand, not public acclaim.' Of the men he named in that group of pioneers he spoke of the late Richard J. Cullen of the International Paper Company as the man who 'will in time be chronicled as the South's greatest business executive . . . a man possessed of a dynamic mind and personality . . . with the ability to build efficient mills; to inspire men in his organization; to find markets; to pay debts, and create capital surpluses.' He was describing a man of the American faith whose work is one of the underpinnings to the economy of the South.

Sees Little Revenue From Excess Profits Tax

Dr. J. Henry Landman tells Tax Forum of Cost Accountants there are too many loopholes to yield $3.3 billion expected from levy.

The new excess profits tax law has too many loopholes to yield as much revenue as the Treasury anticipates, tax attorney Dr. J. Henry Landman declared at the Tax Forum of the New York Chapter of the National Association of Cost Accountants on Jan. 31.


J. Henry Landman

Congress intended to raise approximately $3.3 billion through an excess profits tax that would fall on about 70,000 larger corporations, according to Dr. Landman. He expressed doubt that the yield will reach $3.3 billion even if national income rises above present levels.

One reason Dr. Landman gave for expecting a lower EPT yield will be a tendency for businesses to adopt the partnership form. Partnerships, which pay neither normal nor excess profits taxes, will again become popular as during World War II, he pointed out.

"Other corporations are establishing subsidiaries which deflect earnings that would otherwise be subject to excess profits taxes, and, in addition, each subsidiary enjoys a $25,000 minimum credit," he said.

"Still others are repeating a wartime practice of buying corporations currently operating at a loss. Where the acquired corporation had high 1946-1949 earnings, the purchaser can sometimes take advantage of this favorable experience to increase its own normal earnings credit. Corporations can find legitimate business purposes for a multiplication of their subsidiary enterprises."

Among other EPT effects, Dr. Landman pointed out that it encourages borrowing. Corporations can borrow at from 2% to 4% and thereby earn additional excess profits credits between 6% and 9%. Dividend policies are apt to become more conservative because accumulated earnings are treated as equity capital and receive a credit between 8% and 12%. There is little risk of running afoul of the penalty on unreasonable undistributed earnings during a period of high economic activity, he explained.

In conclusion, Dr. Landman conceded that the new EPT is more specific in regard to "hardship" relief than its World War II predecessor, but expressed his opinion that its effectiveness as a source of revenue would be weakened by the law's many loopholes.

Dillon, Read Group Underwrites Offering

The offering of 233,576 shares of additional common stock (par $1) to the common stockholders of record Jan. 31, 1951, of Southwestern Public Service Co. at $14.75 per share has been underwritten by a group of investment bankers headed by Dillon, Read & Co. Inc. The subscription warrants, which expire at 4 p.m. (EST) on Feb. 14, 1951, give holders the right to subscribe for one new share for each 13 shares held and the additional right to subscribe at the same price, subject to allotment, for shares not taken by stockholders upon exercise of their preemptive rights.

Dillon, Read & Co. Inc. will act as dealer-manager of a group of security dealers in soliciting the exercise of subscription warrants.

The utility company proposes to use the proceeds from the sale of the new common stock, together with the proceeds of $12,000,000 of first mortgage bonds and 10,000 shares of new preferred stock, for construction of additions and improvements to its properties or to repay bank loans obtained for that purpose. The company has entered into a contract for the sale privately of the $12,000,000 of bonds and expects shortly to enter into a similar contract with regard to the 10,000 shares of preferred stock.

The company is primarily engaged in the generation, distribution and sale of electricity, its service territory including the Texas and Oklahoma Panhandle, the South Plains region of Texas and the Pecos Valley region in New Mexico. The population of the territory served is approximately 618,000. For the 12 months ended Nov. 30, 1950, total operating revenues were $18,924,811 and net income $4,509,468.

A regular quarterly dividend of 28 cents per share on the common stock has been declared payable March 1, 1951 to stockholders of record Feb. 21, including holders of the common stock involved in this offering.

With Noble, Tulk

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—John J. Byrne, George B. Hull, Kenneth E. Mangum, John R. Marsh, G. Chester Noble, and Robert E. Tyler have been added to the staff of Noble, Tulk & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange.

Canadian Securities

By WILLIAM J. McKAY

The long neglected problem of immigration is now compelling greater attention not only on the part of the Dominion and Provincial governments but also of Canadian industry. Canadian economic expansion in the past decade has been of such dynamic nature that it has naturally imposed a severe manpower strain. Until recently the question has been dealt with in a half-hearted fashion by the Federal authorities. For many years only the Department of Colonization of the Canadian Pacific Railway Co., took any practical steps to augment the flow of immigration. Since then the government of Ontario has taken a strong initiative in bringing in British families by air. A total of about 30,000 was achieved in 1947 and 1948 and during 1951 efforts will be made to secure an additional 75,000.

Now the Federal Government is at last conscious of the necessity of adopting a more virile attitude in the matter. From the beginning of this month prospective immigrants will be advanced the greater part of their transportation expenses to the Dominion. Under the present Ontario scheme Canadian firms have also arranged to lend transportation funds to would-be immigrants. In a further endeavor to fill the growing manpower needs A. V. Roe (Canada) Ltd., is advertising intensively in British newspapers for skilled aircraft workers. The Federal Government has also dropped its 11-year ban on German nations with a view to tap the immense pool of some 900,000 displaced persons in Western Germany.

These efforts are being made in no way too soon as other countries are now faced with a similar problem. Australia in particular has achieved considerable success in securing new citizens and since the war has added about 500,000 immigrants to her population as against 360,000 for Canada. Canada however is in an unrivaled position to compete not only for sources of manpower in dissatisfied Europe but also to attract seekers of new fortunes South of the Border.

The Dominion is clearly at the threshold of a new era of dynamic expansion. Whereas only a few years ago the predictions of the late Stephen Leacock concerning Canadian economic and population potentials were considered as airy flights of imagination, they now strongly challenge contradiction. It is interesting to quote at this time the views expressed on this subject in 1943 by this eminent Canadian writer and economist:

"One has no sooner made the statement that Canada can easily carry a population of a hundred million than dissent, I say, arises from all sides—from the Village Idiot, on the back bench, from the College Idiot on the front seat, from Labor on the floor and from Capital on the platform.

"All these objections rest on misinterpretation, an historic error and a failure to appreciate the great changes now bringing about a shift of the population of the globe towards the northern regions.

"The whole scene is sheer illusion—Canada is as empty as ever —almost. Still abundant room, abundant opportunity — life and all that makes it sweet, waiting here for uncounted millions of people — serene sky and empty plain, and rivers murmuring in the forest—nature's temple, where we crowd and wrangle round the entrances."

Today this vivid commentary on Canada's tremendous opportunity for expansion rings more truly than ever. If a few years ago the question of Canadian ability to sustain a population of 100 millions was viewed with the utmost skepticism, it is now considered to be only a matter of time. Already the Dominion has the available space—236,000 square miles greater in area than the United States, unrivaled unutilized reserves of natural resources, ideal situation at the geographic hub of the Northern Hemisphere—but a population of a mere 14 millions.

During the week there was negligible activity in the external section of the bond market but there was a continued although small scale demand for Dominion internals. The Canadian dollar displayed a stronger tone which is likely to persist; it would appear that the end year and end January testing periods have been successful negotiated but no major move can be expected until the Canadian summer export and tourist season. Stocks, after a display of strength which carried many issues of all-time highs, subsequently yielded a part of their previous gains. Western oils paced the advance with Pacific Petroleum, Anglo-Canadian, Home Oil, and Federated Petroleums particularly prominent. Base-metal and paper issues also met with strong demand and among these Consolidated Smelters, Mackeno, and Anglo-Newfoundland were actively traded.

Don't Act in Haste Because Of Draft Status

By ROGER W. BABSON

Mr. Babson, pointing out it may be many years before war comes, advises young men not to give up jobs or education before it is necessary. Urges systematic study not only for forging ahead but as avoidance of being used as cannon fodder abroad.

During the last war many young men gave up their jobs, or closed out their businesses, before it was necessary. I said at the time they were making a big mistake. Filling stations, for which a good trade had been built up, were sold in the early 1940's for one-half their value or less. In fact, I then often said in this column that "closed filling stations are the best real estate investment which a person could make." Well, the fact is that these gas stations now are selling at three or four times what those panic-stricken GI men sold them for ten years ago. The same applied to other businesses which could well have been carried on by some relative or friend. So don't do something foolish now.

Roger W. Babson

But then there was a real war on; but no World War III exists today. It may be many years before such a war comes; and much could happen in the meantime. Congress has not even passed the Compulsory Military Training Bill. Because President Conant of Harvard has written a scary article on Military Training for all 18-20 years old in a national magazine is no reason why a young man should suddenly change his life plans by giving up college or a good job. Besides, even if he is inducted for two years, these years will go very quickly. If you doubt this, just look back two years.

Business Very Different Today

Conditions are very different now than in 1940. There are now 10,000,000 more people in the United States. This means not only 10,000,000 potential customers but your chance of being drafted is proportionately less. The national income is now almost double what it was at the beginning of World War II. People now have better health, better education and better wages. Don't look back to what happened before World War II. Forget those days and recognize you are living in an entirely different age.

Although manufacturing is passing into bigger units, this is not true of merchandising and service businesses. There are more successful independent merchants today than ever; while attempts to make chains of dry cleaning, beauty, and specialty shops have failed. Therefore, don't get panicky and sell out your business just because of war threats, labor troubles or competition. Remember that for every one who gets scared and sells out, there is so much more opportunity for those who stick. Only don't borrow money to do so. Keep out of debt.

Final Advice

Whatever you do or don't do, take up some systematic study to enable you to do better work for yourself or your employer. Write tonight to your State University for a list of its Extension Courses. Some of these courses are truly "gold mines." Pick out one or more and "dig in" at once. They will not only help you in forging ahead here at home but will go a long way to prevent you from being used as cannon fodder abroad.

With Boenning & Co.

MIAMI, Fla.—William J. Butler is associated with Boenning & Co. of Philadelphia.

LaMaster, Wymer V.-Ps. Of Moroney, Beissner

HOUSTON, Tex. — Lewis M. LaMaster and Otto U. Wymer have been promoted to Vice-Presidents of Moroney, Beissner & Co., 812 Rusk Avenue, according to Robert E. Moroney, President.

A native of Tecumseh, Nebraska, Mr. LaMaster has engaged in the investment business in Houston for the last 13 years, except for four years of service with the F.B.I. during World War II. He has been associated with Moroney, Beissner & Co. for the last five years. He is a graduate of the University of Nebraska and specializes in stocks of Southwestern industries.

Mr. Wymer has had 25 years of experience in the stock and bond business. Born in Mexico, Missouri, and a graduate of the University of Colorado, he has lived in Houston for 23 years and joined Moroney, Beissner & Co. four years ago. He served as an Army officer in both World Wars. He specializes in municipal and other tax exempt bonds.

Other officers of the firm, in addition to Mr. Moroney, are Henry M. Beissner, Claude T. Crockett and Francis I. Abshire. The firm has been prominent in the investment banking business for more than 30 years, underwriting and distributing the bonds and stocks issued by hundreds of business enterprises and municipalities in Texas and the Southwest.

Joins Holton, Farra

(Special to THE FINANCIAL CHRONICLE)

LEXINGTON, Ky. — Augustus V. McKenna has joined the staff of Holton, Farra Company, Bank of Commerce Building, members of the Midwest Stock Exchange.

Joins Harris, Hall

CHICAGO, Ill.—Philip Podulka has been added to the staff of Harris, Hall & Co., 111 West Monroe Street, members of the Midwest Stock Exchange.

With E. F. Hutton & Co.

CHICAGO, Ill.—Joseph A. Weiger, Jr. has become connected with E. F. Hutton & Co., Board of Trade Building. He was formerly with Glore, Forgan & Co.

Economic Consequences Should Peace Come

By PAUL EINZIG

Dr. Einzig, though pointing out difficulties and dangers of reconverting our war economy to peacetime conditions, says they appear negligible compared to the disaster of another war. Holds, however, it is duty of government to be concerned in advance with measures which should be taken if return to peace economy comes.

LONDON, Eng.—All the best brains on both sides of the Atlantic are fully occupied with the grave economic problems of rearmament. First things must necessarily come first, but even amidst their preoccupation with these problems the statesmen and experts in democratic countries must find time for considering a totally different set of economic problems that would arise if there should be a substantial relaxation of the international political tension. It goes without saying that we all hope and pray for some such relaxation, provided that it is genuine. Welcome as it would be, we must not ignore the fact that it would give rise to some very grave difficulties. Admittedly, at the present moment this warning may sound quite as unrealistic as a warning against icebergs in the Sahara. Nevertheless, it is of great importance that, if and when such a situation should arise, it should not find the governments unprepared.

Dr. Paul Einzig

If it should be possible to conclude an understanding with Russia and China that would appear to bring genuine reassurance to the world, this would entail important material and psychological reactions in the economic sphere. The rearmament race would necessarily come to a halt, or at any rate it would slow down materially. Even if the governments were to distrust the lasting nature of the peace, the public would be only too willing to assume that "this is peace in our time," just as it did after Munich. This means that, even if the Democratic Governments were desirous of using the breathing space for strengthening their defenses, they would encounter very strong resistance. The public would no longer be willing to make considerable sacrifices and to work harder for the sake of rearmament once the danger of war has ceased to appear to be imminent. There would be strong opposition to continued high arms expenditure and to every kind of austerity measure.

This would mean that the demand for materials for rearmament and stockpiling would decline suddenly. At the same time, the change would induce holders of stocks to realize on their materials. The spectacular rise in commodity prices witnessed in recent months would give way to an even more spectacular slump of prices. And even though at present most people—including many producers of raw materials—wish for a reversal of the rising trend, if and when it does come it will cause widespread dislocations and chaos, and is bound to inflict grave losses on producers and holders of stocks of raw materials and, to a less extent, on holders of manufactures. Even though consumers stand to benefit by the fall in the cost of living, many of them would be victimized by the ensuing unemployment and wages reductions. There would be widespread insolvencies. Industries, having converted their equipment for arms production, will have to reconvert for the production of civilian goods, which means capital losses and delays in production.

All these are inconveniences and disadvantages which, grave as they may be, appear negligible compared with the disaster of another war, or even with the losses arising from a prolonged large-scale rearmament race. Even so, it is the duty of the governments concerned to envisage in good time the development of such a situation and to decide in advance what measures to apply in order to reduce to a minimum the adverse economic consequences of a relaxation of the international tension. The situation might develop quite suddenly, and unless the governments devote some thought to the problems well in advance of their appearance, much irreparable damage might be inflicted on the economies of their countries during the weeks or months while the statesmen and experts are engaged in arguing out the measures to be adopted.

Nor would it be sufficient if each government were to plan for peace in isolation. International cooperation between them is essential in order to prevent the slump from getting out of control. For there is a real danger that a non-stop slump might result in a high degree of social unrest which would provide Communism with opportunities to achieve bloodless conquests. Indeed, if the men of Moscow and Peking are sufficiently Machiavellian to realize that the disorganization of the Democratic world by engineering such a slump might bring them bloodless victory, then they will go out of their way at the psychological moment to reverse their present aggressive policies and lull us into a feeling of security in order to bring about such a slump.

This does not of course mean that any apparently genuine peace offer coming from those countries should not be grasped with both hands. For the sake of avoiding the horrors of another world war it would be worth our while to risk a slump and its consequences. At the same time it would be the height of folly not to do our utmost to reduce that risk by carefully prepared plans to meet the situation that would arise.

By international action the commodities that would be thrown on the market at the first sign of a substantial relaxation of the tension should be taken up from the very outset through stockpiling purchases. To facilitate these operations the International Monetary Fund should pass a resolution under which stocks of non-perishable raw materials should be included in the monetary reserves of member countries. We have seen that the accumulation of gold by Britain in 1950 at the cost of a decline of her stocks of vital raw materials has brought no real benefit. This experience should teach the world a lesson that gold is not an end but merely a means for acquiring essential goods, and that such goods should rank therefore at par with gold among the national reserves.

It is true, such intervention by the governments would check the fall in the cost of living. It would also prevent a readjustment of the terms of trade which has moved very strongly against the industrial countries. There is much to be said, however, for preventing such a readjustment. In order to avoid over-industrialization, it is necessary to make it worth while for raw material producing countries to abstain from building up industries and to concentrate instead on the production of raw materials. Their standard of living could be raised and maintained at a high level much more effectively through permanently high raw material prices than through ambitious plans of large-scale capital investment.

These and similar proposals are highly controversial, and it is bound to take time to argue them out, and even more time to reach an understanding between the governments concerned. Now is the time to devote some attention to them, instead of deferring their consideration until the emergency has actually arisen.

The Future of the Dollar

By W. RANDOLPH BURGESS*

Chairman of Executive Committee
National City Bank of New York

Asserting the dollar is the strongest currency in the world, and we need not worry about its relationship to other currencies, prominent New York banker expresses concern regarding dollar's domestic purchasing power. Says we must cut down on butter to have more arms, and finance on a pay-as-you-go basis. Cites as means of combatting inflation: (1) less spending by public and by government for non-defense purposes; (2) a policy of credit restraints; and (3) a affirmative program to encourage savings. Concludes situation can be met without serious inflation.

Many people are worried about the dollar. Some of them for good reasons and some for bad reasons. We all know that the dollar is not what it used to be. Its gold value was slashed in 1933 for the first time in the history of the country. The present generation has also seen the buying power of the dollar very badly shrunken. It will buy today only 40% as much of the necessaries of life as it would in 1913, before the First World War. But what really worries people is the shrinkage of the dollar since Korea and a vision of dreadful things which might happen in the months ahead.

W. R. Burgess

There is so much danger to worry about that we ought to clear our minds of some of the unnecessary worries. Number one among these unnecessary worries is the position of the dollar in relation to the other currencies of the world. Some people have been worried because the United States has, since the devaluation of sterling in September, 1949, lost about $2 billion from its gold stock. England and some of the other European countries have been gaining gold and dollars. So also have Australia, and Canada, and Mexico, and Uruguay. Is this something we should worry about? And does it mean that the dollar will have to be revalued or will lose its position in relation to the currencies of some of our neighbors?

The answer to this question is perfectly clear. The dollar is the strongest currency in the world, and we do not need to worry about its relationship to other currencies. On the contrary, we should be gratified that part of this country's huge store of gold has been flowing out to other countries which need it badly. It is not a sign of instability in the world; it is a sign of returning equilibrium. There is nothing more important for world trade and for world economic well-being than the strength of the British pound. More of the world's trade is done in pounds than in any other currency. We should all rejoice in the statement just made by the British Chancellor of the Exchequer that British gold and dollar reserves have been restored to $2,300,000,000. This means that England is less dependent on the United States for aid. It reflects a remarkable economic recovery. It is good for England; it is good for all the nations that trade with her; and it is good for this country.

The outflow of gold from the United States is a healthy sign and not a sign of disease. It is simply restoring to some of the other countries of the world a small part of the reserves which they have lost and which they need.

Decline in Domestic Purchasing Powers

The honest and legitimate worry about the dollar is what is happening to it right at home in terms of its purchasing power. Prices and the cost of living are rising and thus reducing the value of the dollar. The reasons for this are well understood. They have been discussed by the President in his economic message. The causes are the same as gave us the inflations of the Revolution, the Civil War and World Wars I and II. At such times government spending creates purchasing power larger than the amount of goods available for the people to buy with their money. Thus far, the inflation has reflected not so much government spending itself as people's anticipation of that spending.

The program that needs to be followed is simple and can be written down in a few words. What the country must do in this situation is, first, to produce more. If we can produce guns in adequate quantity and have our butter at the same time, it is all to the good, and if we work harder and more efficiently we can go a long way in that direction.

But no matter how hard we work nor how many hours, it is very doubtful whether we can build up our armament fast enough without cutting down our butter. Therefore, the other thing we must do is to spend less on other things than armament. We must spend less on automobiles and houses and some of the other things that use up labor and materials. One way to reduce our spending is to pay bigger taxes, and it is very encouraging that so many people have accepted the principle of "pay-as-you-go" for financing the war. Already we have two sizable tax bills, and it is clear that if we are to maintain this principle there must be another tax bill and a bigger one. It should be the right kind of tax bill; it should tax spending and not tax production or savings. That is a strong argument for a sales tax of some kind.

A second way of reducing spending is for the government itself to stop extravagant spending for nondefense purposes. Government ought to set the example.

The third way of reducing the amount of spending that causes inflation is a wise credit policy which restrains the amount of credit available for unnecessary activities, that can be cut back without hurting the defense effort. The Federal Reserve Board has acted wisely in its regulation of consumer credit and credit for building. All good citizens should support and obey the rules of the board in these fields in spirit as well as in letter, for they are necessary in the public interest. The Reserve System has acted to make credit a little dearer and a little less readily available, the classic method of resisting inflation.

A fourth way to resist spending is an affirmative program to encourage savings. We should all support vigorously the sale of Treasury Savings Bonds through payroll savings and other plans.

Nobody likes regulations and restraints, but their necessity has become clear. We have some already, but there will be more in prices and wages and in certain critical materials.

But after the government has taken all its official steps, and after we have pushed production as far as we can, there will be much that only the individual citizen can do. In a democracy you can never do the whole job by laws and rules. The final result will depend on what each of us does in trying to behave in a decent and rational manner and saving his money instead of spending it, and not using the situation for his own selfish purposes.

On some things we shall have to wait for Washington to tell us what the military program is, what tax and credit policies they intend to pursue, and what they are going to do about price and wage control. But this is a democracy. We do not need to wait for Washington before something can be done. I suggest that as individuals, as businesses, and as organizations, we ought to be reviewing our own plans and programs to see how we ourselves can avoid contributing to inflation and how we can act together to stop its inroads.

The future value of the dollar is just what we make it. Never in the history of the world has there been a country with such tremendous resources — physical, mental and moral — with such widespread education, with such capacity for acting together, both through their government and in voluntary ways. We have the capacity for meeting this situation without serious inflation and so preserving for our children the value of the American dollar.

*Extract from an address by Mr. Burgess before the Fourth Annual Forecasting Conference of the Philadelphia Chamber of Commerce, Philadelphia, Pa. Jan. 18, 1951.

J. Arthur Warner Adds

(Special to The Financial Chronicle)

BOSTON, Mass. — Vincent D. Pagano is now connected with J. Arthur Warner & Co., Inc., 89 Devonshire Street.

With Baker, Simonds

(Special to The Financial Chronicle)

DETROIT, Mich. — Barbara J. Simonds is now associated with Baker, Simonds & Co., Buhl Building, members of the Detroit Stock Exchange.

With Merrill Lynch Co.

(Special to The Financial Chronicle)

DETROIT, Mich.—Guy L. Ireland, Jr. is with Merrill Lynch, Pierce, Fenner & Beane, 205 West Congress Street.

J. W. Goldsbury Adds

(Special to The Financial Chronicle)

MINNEAPOLIS, Minn.—Roland A. Connoy has been added to the staff of J. W. Goldsbury Co., 807 Marquette Avenue.

Joins Dayton & Gernon

(Special to The Financial Chronicle)

ST. PAUL, Minn.—Paul E. Villaume has joined the staff of Dayton & Gernon, Pioneer Building.

Thatcher With Prescott

(Special to The Financial Chronicle)

CLEVELAND, Ohio—Edward U. Thatcher is now associated with Prescott & Co., National City Bank Building, members of the New York and Midwest Stock Exchanges. He was formerly with Otis & Co. and in the past was with Merrill Lynch, Pierce, Fenner & Beane.

In New Connection

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Oscar Gabrilovich is now with Bisno & Bisno. He was formerly with Cantor, Fitzgerald & Co.

With Bache Co. Staff

(Special to The Financial Chronicle)

MIAMI BEACH, Fla.—Lee B. Peterson, Jr. has become affiliated with Bache & Co., 235 Lincoln Road. He was formerly with Gordon Graves & Co.

Shields Co. Adds

(Special to The Financial Chronicle)

CHICAGO, Ill. — Charles M. Thompson is with Shields & Co., 209 South La Salle Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market backs and fills depending upon who has the floor in the interest rate debate which still goes on despite the reports that the President of the United States has thrown his weight on the side of the Secretary of the Treasury. The "freeze" of the long-term rate at 2½% is not an immediately pressing problem, because there will be no borrowing by the Treasury for some months to come. Before the end of the current fiscal year there should be answers to many of the questions that are being posed over the 2½% rate issue. By that time there should be shaping up of the tax bill, which will hold the solution as to whether there will be deficit financing or not by the Treasury.

The last increase in reserve requirements passed without important effects upon the government market, except for not too sizable liquidation of shorts and some of the near-term bonds. Uncertainty continues to be a market factor and this along with some insurance company and savings bank liquidation of taps, has kept the ineligible market under wraps. Scattered out-of-town bank buying has had a stabilizing influence upon the intermediate and longer eligibles.

Differences on 2½% Rate

The interest rate squabble was important enough to have the President of the United States enter into the controversy and reports indicate he is backing Secretary of the Treasury Snyder in the freeze of long-term rates at 2½%. It is not clear whether the Federal Reserve Board is pledged to maintain the government securities market at existing levels "both as to refunding and new issue as long as the emergency lasts." The President seems to hold one view on this matter and the Board a different one. Disagreement among the various monetary authorities continues and it seems as though this is something that time alone will solve. The level of interest rates can be maintained at whatever pattern is desired, from the political standpoint, but this does not take into consideration the economic consequences, which have to be compensated for sooner or later. It seems as though the real answer to the interest rate problem will not come until later in the year, when more will be known about what has been done or not done by the Congress to protect the economy of the nation against the ravages of inflation.

There appears to be very little doubt that the long-term 2½% rate can be maintained by the monetary authorities, if they choose to do so, and it now seems that some of the head men want it this way. It isn't the holding of the rate that is so important in itself; it is the way in which it is done, which appears to be most important. If there is enough backbone among the lawmakers to bring out a tax bill that will result in a balanced budget at least from the cash basis, the economy will not suffer the damages of inflation and a 2½% long-term interest rate should be no problem at all. So long as the Treasury does not have to finance large deficits, there cannot be any ill effects upon the economy of the country. With the Treasury on a pay-as-you-go basis and not borrowing because of the "garrison economy," and with the various controls and regulations working as they should be later in the year, a 2½% long-term interest rate could be something that many large institutional investors would welcome with open arms.

Balanced Budget Key to Problem

Although there is no immediate answer as to whether the budget will be balanced or not, it should not be long before a solution will be shaping up, because the Congress has the recommendations of the President on taxes before it. If revenues are kept high through increased taxes and expenditures under control, there should be no important monetary problems for the Treasury during the emergency. A balanced budget would restore confidence in the dollar, which in turn would most likely break the inflation psychology. This could bring about a complete change in the course of events in the money markets as well as the government market.

The 2½% long-term rate could be maintained by the monetary authorities, even if the budget were not balanced and the Treasury has to finance sizable deficits. This would be the political maintenance of the 2½% freeze. However, the economic phase would still have to be satisfied eventually and this would have to be at the expense of the purchasing power of the dollar. Growing deficits could be financed at the low long-term rate, with more rigid controls and regulations, but there would be less confidence in the value of the dollar. It is quite evident that the people of the United States know that continued deficit financing means inflation and inflation eventually destroys the purchasing power of the monetary unit. A choice has to be made and it seems as though there can be only one way in which this will be done.

Market Stability Assured

Despite the top level meetings and the confused reports over what was or was not decided upon at these conferences, no important changes in policy are looked for in the immediate future, as far as the money markets are concerned. The short end of the list, it is believed, will continue to be under the influence of the Central Banks, and this should mean enough uncertainty and fluctuations to make the creation of excess reserves no easier than in the past. As for the rest of the list there will no doubt be selective protection from time to time as there has been in the past by the Federal Reserve Banks. All of which would fall well within the "stability in government securities" which has been given more than a passing amount of publicity recently. There is, however the possibility that the Treasury might be a more potent factor in the market in the future, if there be need for it, by using trust funds to purchase marketable obligations.

Banks, Inflation and Defense

By OLIVER S. POWELL*

Member, Board of Governors, Federal Reserve System

Holding chief problem today is to convert nation to full preparation for defense without wrecking our economy through inflation, Federal Reserve Governor contends next to taxation, larger public savings is best possible weapon against inflation. Also adds as remedy, restraint of bank credit, pointing out bank loans create "active dollars." Urges bankers screen their loans carefully and exercise restraint in granting credits, together with enforcement of an alert collection policy.

This country is just beginning to learn an ugly lesson—how to live as a garrison state. Throughout most of our existence as a nation, we have been able to put aside most of the trappings of war except when armed conflict was forced upon us, and at such times we had powerful allies to carry the burden of war until our armies were recruited and equipped. In peacetime we had the comfortable knowledge that we were protected by two great oceans, the British navy and powerful land forces in Europe, which were either mobilized or in a state of partial mobilization. Now we find ourselves forced to engage in military preparations similar to those with which the countries of Western Europe have lived for generations, but of course on a much vaster scale due to our size and the problems of modern warfare. How to convert to a state of satisfactory preparation for defense without wrecking our economy through the inflation process is the nut which we are trying to crack.

Oliver S. Powell

With this background, let me sketch briefly what has been happening in the economic situation of our country, with just enough figures to serve as a background for discussion. Industrial employment is at a record level of more than 45,000,000 employees, and unemployment is at a very low level. Industrial production has been bumping along at an apparent ceiling level of 215-217% of the prewar base period. Apparently it is going to be difficult to increase production beyond this level, except very slowly as plants expand, labor-saving processes are developed, workers put in longer hours and more people are brought into the employee group. In spite of this record production, consumer prices have risen 7% to 8% since last March. Paralleling this increase, weekly earnings of employees in manufacturing have risen about the same since June.

Inflation Pressures Accumulating

Inflation is nothing but an undesirable and excessive increase in the overall price level. Inflationary pressures have been accumulating for a number of months. The correctives for inflation lie in many fields. The most important corrective is more taxation. This will have the twin results of taking money from all of us on an equitable basis to be spent in the common effort and of eliminating the possibility of our spending the same money for peacetime goods which would certainly bid up their prices at a time of growing scarcity of these goods. The second corrective for inflation is to encourage people to postpone spending through the purchase of government bonds and the other forms of savings. I should like to elaborate on this matter of the sale of savings bonds. There is in many quarters a defeatist attitude, the gist of which is that people should not put their money into fixed income and fixed maturity value securities because prices are rising and part of the future buying power of the funds will thus be lost. Of course, the same argument would apply to putting money into savings accounts, insurance and pension funds. We, as bankers, should take exactly the opposite stand. Next to taxation, the accumulation of savings which will postpone the use of funds for consumer buying is the strongest possible weapon to use against inflation. We, as bankers, should assume that aggressive point of view toward the sale of savings bonds and accept the duty of explaining the necessity for the sale in our community. A third and very important restraint against inflation is to reduce the extent to which consumers borrow against future income to spend today and businesses borrow to build excessive inventories.

There are many other fields in which correctives for inflation lie. Just to name a few, they include restraints in requesting or offering higher wages, acceptance of moderate profit margins by industry, avoidance of commodity hoarding or speculation, postponement of nonessential construction and other spending, and economy in nondefense spending both by national and local governments. Then, as a second line of defense, there are the government controls, such as allocation of materials, rationing, priorities, and wage and price fixing.

Credit Restraints

However, this talk is to bankers about banking and I must trust this audience to recognize that I have not lost sight of the importance of the whole list of restraints which I have just mentioned when I proceed to elaborate on banking problems and the restraints, voluntary and otherwise, which have been used or might be used in the inflation battle.

In a large measure your success in explaining the inflationary problem to your borrowing customers and your judgment as to whether loans should or should not be made and in what amounts will have an influence which it is hard to overemphasize on the final relationship between bank credit and the price level. This is as it should be, for I do not believe that any government body in Washington can lay down rules to fit every relationship between banker and borrower or to tell banks exactly what loans should or should not be made.

There is one basic difference between commercial banks and the central bank in the approach to loans. You necessarily look at each loan application first in the light of the situation of the individual borrower, whereas the Board of Governors of the Federal Reserve System must look at bank credit from the overall national standpoint; namely, that dollars of bank credit are dollars

Continued on page 28

*An address by Mr. Powell before the Mid-Winter Meeting of the New York State Bankers Association, New York City, January 22, 1951.

Practical Aspects of Industrial Mobilization

By RICHARD A. LESTER*
Chairman, Department of Economics and Social Institutions, Princeton University

Princeton economist, after considering stopgaps to inflation, asserts only by keeping money spending power in line with available civilian goods, through taxation, can we avoid price inflation, black markets, bottlenecks, imbalanced inventories, and inequitable distribution of sacrifices. Says wage-price spiral cannot be stopped as long as farm parity is assured and civilian production does not materially expand. Looks for heavy construction work in 1951.

In the present stage of our remobilization nothing is more practical than an analysis of our problem, an understanding of what should be done, and an informed forecast of the course that we will pursue in preparing our economy for the possibility of a large-scale war.

Richard Allen Lester

President Truman has transmitted to Congress his messages on the State of the Nation and the National Budget for fiscal year 1951-52 and also his Economic Report. The new Congress is at work on legislative proposals to bring the country at least two-fifths of the way toward full mobilization by the end of this year and to prepare facilities and stockpiles for the eventuality of all-out war.

How will this marked shift in the use and availability of our economic resources, affect the planning of business executives, consulting engineers, government officials, and other key groups in our economy? What will happen to prices, wages, interest rates, profits, building construction, government projects, and other aspects of the American economy? What lessons can be drawn from our mobilization in the early 1940's and what allowances should be made for the different circumstances under which industrial mobilization is occurring this time? I repeat, nothing is more practical at this juncture than to take sights and soundings, to appreciate the nature of our problem, to understand the changing situation, and to appraise correctly the industrial prospects.

First I shall outline the problem. For some of my data I shall draw upon the excellent Annual Economic Review of the Council of Economic Advisers. The Council's recent statements with respect to the problem of excess of spending power and sharing of the burden of the defense program have been both forthright and sound.

I

The government's expenditures for military purposes will increase about 150% during this year—from an annual rate of $20 billion now to an annual rate of perhaps $50 billion by next December. An increased military expenditure of $30 billion is equivalent to 10% of our present gross national product or 15% of our total output for civilian consumption. With our economy already operating near full capacity so that critical manpower shortages will severely limit expansion of total output, a $30 billion increase in military expenditures in one year is bound to mean some reduction in the amount of goods being produced for sale to civilians. That is especially true because capital goods investment will not decline in 1951 with the planned expansions in plant capacity, transportation equipment, and construction of defense housing, bomb shelters, etc.

This year's armament spurt of $30 billion will mean that people are paid that much but civilian goods are not increased thereby. Thus a problem of excess spending power—an "inflationary gap"—is created that can only be eliminated by taxing the excess away or by increased savings. Savings are likely to decrease rather than increase with the prospect of price rises and the hesitancy of individuals to purchase government bonds as unattractive as those the Treasury is offering. Increased total output will not solve the problem of excess money income because it involves larger payrolls, especially with overtime pay.

Only by keeping money spending power in line with available civilian supply through taxation can we avoid price inflation, black markets, bottlenecks, imbalanced inventories, and inequitable distribution of the sacrifices, which consist of fewer civilian goods available for the larger working population employed longer hours. Especially the economically and politically powerful groups — the farm bloc, organized labor, and business management — are seeking to maintain their standard of living or real income by trying to ride on an escalator. What escalator arrangements do is to put the burden of the sacrifice upon those who are not privileged to ride a price escalator either by Congressional enactment or collective bargaining agreement.

The farmer's escalator is the government price support of farm products based on a calculated parity figure, which rises with every increase in the cost of things that the farmer buys or has to pay, including property taxes and interest on mortgages. Parity assures him of no decline in real income and the Defense Production Act forbids any price ceiling in agricultural products below the pre-Korean price or the moving parity price, whichever is higher. Although farm prices rose 20% during the last year, the only ones now above parity and pre-Korean levels (and therefore eligible for price control) are cattle, lambs, veal calves, cotton, and wool.

Labor's escalator consists of agreement clauses that raise money wages in proportion to increases in the cost of living, including sales and excise taxes. As farm products bulk large in living costs, the farm escalator moves the wage escalator.

Business management's escalator is involved in the markup of product prices above costs so as to assure that the peak corporate profits after taxes made in 1950, namely $22 billion, will continue while the real value of plant and equipment is maintained and even increased. The wage escalator moves the manufactured-goods price escalator and the vicious circle is complete, for the farm escalator moves with the prices of manufactured goods and farm wages.

This price-wage spiral cannot be stopped as long as farm parity is assured and civilian production does not expand, for wage-earners are not going to permit unions to follow a sacrificial real-income policy when other groups are not doing so. On the contrary, one of the principal objectives of unions is to increase real wages, even at the expense of other groups. Lower real wages for longer working hours will mean labor unrest and strikes unless workers are convinced that their sacrifices are no greater than those of the non-labor elements. That means that an over-all economic program of equitable price-wage control, of increased taxation, and of credit restriction is imperative.

Even if pay-as-you-go taxation prevented any inflationary gap caused by increased military spending that does not increase marketable goods and even if escalator arrangements were nullified, the situation would still be inflationary to a disturbing degree. Holdings of liquid assets are huge and the public is inflation conscious as a result of the price-level rise from 1945 to 1948. Consumers already hold more than $150 billion in cash, bank deposits, and government bonds which can be readily converted to cash and spent. Corporations have almost as large a volume of liquid assets as they had accumulated by the end of the war in 1945. Savings incentives have been weakened by recent inflationary experience so that last July and early this month there were mild flights from money into goods as protective and scare buying drove up commodity, security, and real estate prices.

As military expenditures including stockpiling make greater demands on certain materials than would the same dollar sum of civilian expenditures, shortages are occurring in certain commodities and facilities. By the end of the year the then $50 billion rate of military expenditure will be absorbing over one-tenth of our steel capacity and a third or more of our annual supply of copper, aluminum, nickel, rubber, and wool. Priorities under defense orders do not provide proper distribution of scarce materials for non-military purposes—the scramble for them bids up prices and also fails to prevent inventory hoarding.

So much for the problem, which is one of improper allocation of resources and sacrifices and the threat and fear of price inflation. What should be done about it?

II

I shall divide my discussion of solutions into two categories: (1) basic solutions and (2) temporary or transitional actions needed to meet current difficulties but which will be less needed as the basic solutions succeed and public fear of inflation subsides.

1. Fundamental is a tax program that will finance the military expenditures on a pay-as-you-go basis, thus avoiding an inflationary gap and restricting further accumulation of liquid assets in the hands of the public. That means higher personal income taxes, especially in the brackets below $15,000 a year, even higher corporate income taxes, larger excise taxes, and the plugging up of tax loopholes.

2. In addition to restriction of instalment, security, and real estate credit, the Federal Reserve authorities should so control bank credit as to prevent any expansion in the money supply unless justified by a corresponding increase in goods for sale in the market. Such control would necessitate some increase in the rate of interest, which is also desirable in order to induce people to hold government securities in an inflationary period.

3. For basic materials subject to serious shortages, such as the metals and rubber, the controlled materials plan of World War II should replace the priority system, with government-fixed prices for the materials under such control. Some subsidies may be necessary for such materials.

Because the military spurt involves a sudden shift of resources and price-wage inflation has gained great momentum during the past six months, the basic program must be supplemented by a program of direct controls during a transition period. Such a temporary control program should involve: (1) Withdrawing escalator protection for the time being, and (2) Imposing **selective** price controls and some sort of ceilings on wage increases. Crucial for the temporary program is the avoidance of a significant increase in the cost of living.

However, we should make every effort to avoid saddling the economy with a harness of detailed controls over the millions of prices and wages. That would threaten the country with a huge bureaucracy of meddlesome controllers and would, if maintained over a considerable period of time, impair the effective functioning of the economy.

If the basic program has functioned as it should to keep civilian income and liquid assets under control so as to avoid suppressed inflation, it should be possible to reduce and eliminate the temporary controls over prices and wages when the speed of military expansion slows down and the fear of price inflation has subsided.

III

Now some remarks on what probably will occur. I have no Washington pipeline and no occult powers of divination. My predictions are mere speculation and I hope very much that they are wrong.

First I forecast that we will have both price inflation and widespread direct controls over prices and wages, crudely conceived and hastily imposed — a situation sometimes referred to as a "soft freeze" or "slush." That mixed condition will be the result, I predict, of a failure to tax enough to avoid some budget deficit, of a lack of the political fortitude to withdraw escalator protection from the farmers and organized labor, and of insistence upon a cheap money policy by the Treasury so as to prevent adequate control of bank credit by the Federal Reserve authorities. As during the past six months, much of the burden of sacrifice will undoubtedly continue to fall on white-collar, thrifty, middle-class elements in the population who are not protected from price inflation.

We should not be surprised to find as a political compromise to appease the farm bloc the adoption of subsidies to food processors as in World War II, designed to permit higher farm prices and yet keep food prices down for the consumer—and that despite the fact that during the last fiscal year the Federal Government paid out almost $2 billion for the support of farm prices and benefit checks to increase farmers' income. Ever since 1933 American agriculture has been practically on a government dole.

The area in which one can expect the most success is materials control and military production. Industry is accepting military contracts much more readily than during the year before Pearl Harbor and is better prepared for the job. I have no doubt that a controlled materials plan of World War II type will replace priorities for a number of commodities by next fall. That will mean better balance of inventories and more proper use of scarce materials.

IV

What is the implication of all this for engineering projects?

Don't be deceived by small amounts of priorities and conversion unemployment during the next few months. Our economy promises in the last half of this year to be so extended that a serious problem will arise as a result of shortages of materials and manpower that prevent the completion of projects. We shall be plagued by too many partially finished jobs.

Last year construction costs, both materials and wages, rose about 10% after the Korean war broke out. In 1951 it seems likely that the cost of living and wage rates including benefits will rise by about the same figure, namely 10%, despite all the feverish activity and ulcers in Washington.

Materials and manpower shortages will mean that engineers have an extremely important function to perform in the way of conservation. The frills and variation for sales appeal will need to be replaced by greater standardization, simplified design, and more stress on service and fuel consumption. In the case of manpower, conservation involves job simplification, reduction in skill requirements, better utilization of workers, and improved methods that save labor. Unfortunately, construction projects cannot utilize very many female or handicapped workers.

Construction in 1951 may even exceed the $28 billion figure for last year, although thereafter it probably will decline somewhat. Although residential construction will drop this year, according to a special survey of business plans by the Securities and Exchange Commission and the Commerce Department, business is planning to spend $3 billion more in 1951 than it did in 1950 for new plant and equipment. That, along with military construction, defense housing, bomb shelters, and other public construction should offset the reduction in expenditures for private residential construction and amusement structures.

Apparently you will have a very busy, if rather frustrating, year. You will have to worry about higher costs, scarce materials, and manpower shortages. Yours will be the job of helping to design the more austere life that confronts us. And in the midst of all your toil and troubles I hope that you will have some time and energy left to lend support to the basic program of fiscal-monetary restraint that I have outlined and thus help to minimize price and wage controls. Ours is an enterprise economy and we must keep it that way.

Having attempted some horse-back predictions, having exposed my ignorance of your affairs, and having finally begun to preach, it is time for me to stop. In keeping with the spirit of the days to come, I shall end with a "directive." Don't let the "slush" get you down.

*An address by Prof. Lester before the American Institute of Consulting Engineers, New York City, Jan. 26, 1951.

Status of Our Defense Program in Europe

By HON. L. H. GAVIN*
U. S. Congressman from Pennsylvania
Member, House Committee on Armed Services

Continuing his report on his tour of investigation in Europe, Congressman Gavin finds Austrian economic situation unsatisfactory, though political situation remains stable. Says Britain is interested in rearmament provided it does not interfere with export trade and that substantial share of her rearmament cost is borne by U. S. Sees no need for further large ECA aid to France, and holds that nation should contribute more to its own defense. Reports little economic or political progress in Italy and suggests unused labor force and industrial capacity there be utilized for production of weapons and supplies. Concludes Western European defense must be accomplished by nations concerned.

[*EDITOR'S NOTE: This is balance of Congressman Gavin's report of defense and economic conditions in Western Europe. The first part appeared in the "Chronicle" of Feb. 1, on page 11.*]

III
AUSTRIA

In Austria, which I visited during the period Nov. 29-Dec. 2, 1950, the situation is generally similar to that prevailing in Germany. The country itself is divided into four occupation zones—of which the largest and most productive is the Russian — and Vienna, in which all four powers are represented, constitutes an island in the Russian Zone. There is, however, a unified Austrian government which exercises some powers and authority in all zones. While in Vienna, I had the pleasure of conferring with Federal Chancellor Leopold Figl, leader of the Austrian Government. Chancellor Figl expressed the hope that Austria could continue its recovery, and his interest in a United States of Europe, or other federation in which Austria could participate. Relations between the U. S. Ambassador, Mr. Donnally, and Chancelor Figl appear to be excellent, and I believe that our representatives in Austria, both diplomatic and military, are making the best of the situation in which they find themselves. A summary of current conditions, so far as I have observed, follows:

Leon H. Gavin

(a) **Economic**—While much of the war damage has been repaired, Austria is not yet solvent. Her trade with Central Europe, particularly via the Danube River, is cut off by Russian obstruction; and much of the country's resources are exploited by the Russian occupation forces for their own benefit. The Russians have claimed, as reparations, all "external assets" in Austria, meaning those owned or operated by Germans at any time between 1938 and 1945. These plants and industries are operated by the Russians on an extra-territorial basis, pay no taxes to the Austrian economy, and comply with only such Austrian laws and regulations as suits their convenience. This continued drain on Austrian resources, particularly oil, together with the cost of maintaining the Russian occupation force of over 40,000 troops, constitutes an impossible burden. In an effort to maintain the integrity and solvency of the Austrian government, the United States has adopted a "pay-as-you go" policy for occupation costs, and has made sizable grants to Austria, directly and indirectly, over the past five years. This economic aid has prevented the situation from deteriorating further, and has resulted in some reconstruction, particularly in the field of public utilities, railroads and public buildings, but it has not solved the basic problem. The ECA hoped to render Austria self-supporting by 1952, but I doubt whether, under the conditions outlined above, this can be attained. Only the termination of occupation costs, and some freedom of trade, will permit Austria to recover.

(b) **Military**—The strength of the U. S. forces in Austria the past three years has been approximately 10,000 officers and men. In addition to the administrative elements, and a considerable number of military police, this comprises a combat force of only one regimental combat team. Against the vastly stronger Russian forces already in Austria, and those which could be speedily deployed there, this garrison could not hold out very long. The degree to which it is feasible, under present conditions, to augment our forces in Austria is a difficult question.

(c) **Political**—The political situation in Austria remains relatively unchanged from 1949, or even 1948. The Treaty of Peace appears more distant now than it did two years ago; and without it there can be no genuine recovery. The U. S. Information Service and other propaganda media carry on a constant and vigorous campaign in that country in favor of Western ideas and U. S. policies. How effective this is, in comparison with counter efforts of the Soviets, I am not in a position to evaluate. However, in my opinion, if given a free choice, Austria would welcome the opportunity to join a federation of West European nations. Meanwhile we can only maintain our forces in as high state of readiness as possible, and strive to create situations in which a genuine settlement can be achieved. Fortunately or otherwise, the solution of the Germany problem, one way or the other, will probably carry with it Austria.

IV
GREAT BRITAIN

During the period Nov. 24-26, 1950, I visited London. Due to the brief time available, and the fact that it was on a week-end, my contacts there were limited to discussions with responsible American officials on the status of the North Atlantic Treaty Organization, and the progress being made under the Mutual Defense Assistance Program. I also had the opportunity, on my return journey from Europe, to stop briefly at Burtonwood Air Base, where our Air Force has a major establishment, and talked with Brigadier General Oliver, the Commanding Officer, of that station.

London serves as the European headquarters for the North Atlantic Treaty Organization and the regional headquarters for the Mutual Defense Assistance Program. These two groups, which are in addition to the Military Attache offices, have very sizable numbers of our officers engaged on staff planning incident to these activities. The staff organization and procedure impressed me as highly complicated—and much too complex for any effective military operations. While there are seemingly innumerable committees engaged on a great number of staff studies and conferences, there was at the time of my visit little or no clear-cut means for obtaining any decisions with respect to the issues involved, which simply progressed from one "level" to another. If this vast and complicated organization is to constitute or organize our defense in Western Europe, the Russians would be very close to the Channel before any orders are issued. It may be hoped that General Eisenhower, as Supreme Commander of the Allied Powers in Europe, will be able to bring some order and responsibility into this complex group; but it will require drastic action on his part. The principal achievement to date appears to have been familiarization of the officers of the Armed Forces of all nations with the attitudes and procedures of the allied services, and the explorations of the problems involved.

As far as the general attitude of the British is concerned, there was no such sense of urgency in London as one encounters in Washington. The British are interested in rearmament, provided it does not interfere with their export trade, and provided further that a substantial share of the cost is borne by the United States. The British people have, of course, as much right to socialistic government and economy as we have to maintain a democratic capitalistic form of society; and their preference for one instead of the other is in itself no concern of ours. There are, though, two aspects in which we are concerned. Beginning with the British loan in 1946 and continuing through other credits and ECA funds and now with Military Aid Program, we have pumped over $5 billion into the British economy. In addition, Britain constitutes our strongest and most valuable ally in Europe. At the present time, under their Socialist direction, that country is unable even to provide sufficient coal to meet its own needs, and there seems to be no incentive for increased effort or output on the part of either management or labor. I am regretfully forced to the conclusion that, under the present Socialist government, Britain is unable to feed and support itself, let alone prepare for a major defense effort.

As far as the United States forces now stationed in Britain are concerned, our Air Force occupies and uses a substantial number of bases, the largest of which is at Burtonwood. The aircraft and crews which we have furnished are of modern types, personnel are rotated after short periods, and the commanders with whom I talked impressed me as vigorous and realistic. Our forces are not, however, I am convinced, receiving from the British government that degree of assistance and support which should be furnished under a truly mutual defense effort. I am afraid that the British take the view that we are using their country, in the form of an "unsinkable carrier," as a base from which to carry on our contest with the Russians, rather than contributing our forces toward the defense of their country. Specifically, provision of radar defenses around Britain has been very slow, and is not yet fully satisfactory. Further, there has been no provision adequate for anti-aircraft forces to protect the bases against low or medium level attacks, and very few fighter or tactical aircraft to assist in such defense. These are elements of the defense program which should be provided much more readily, and at less cost, by the British than by ourselves. So far as our offensive mission is concerned, I feel that our Air Forces in Britain are in good shape. From a defensive viewpoint, I am much concerned. I believe that our Committee should seek information upon this point at an early date.

V
FRANCE

Due to adverse weather and flying conditions, I was able to spend only two days in France. During that time I conferred with our Ambassador, Mr. James Bruce, the Special ECA Ambassador for Europe, Milton Katz, and the chief advisor to the Ambassador for the Mutual Defense Assistance Program, Mr. Bohlen, and the latter's two principal assistants, Major General George J. Richards, who is supervising military aid, and Mr. Trueblood, who is in charge of the augmented military production, or industrial phase of the program. This organization illustrates what is, in my opinion, a major weakness in the MDAP, namely, that the advisor to the Ambassador on military problems is not a senior officer of our armed forces, experienced in the organization, equipment and training of military forces, but a State Department official, with little or no background in military matters. The result is, I feel, that in the Military Aid Program, which looks essentially toward strengthening our mutual defenses, our military personnel and advisors have too little effective voice; and decisions are too likely to be made on the basis of political or economic considerations. I do not mean to minimize these latter factors; but the Congress has approved the MDAP, and appropriated vast sums of money to assist the European countries in building up their defenses. I feel that our Ambassadors, in the administration of such a program, should be advised directly by experienced, senior military officers, if we are to obtain results commensurate with the expenditures.

So far as the MDAP program in France is concerned, it should be noted that that country has received, and is receiving very large amounts of aid, both in the form of military equipment and in funds for raw materials, etc., for additional production. As to the military equipment furnished directly, or what are called "end items," shipments seem to be proceeding at a very satisfactory rate, after some initial delay in getting the program under way. The French have increased their military budget to some extent, and have plans for further increases. However, so far as their expenditures are concerned, it appears that a major portion will go toward the costs of the campaign in Indo-China, plus routine operating expenses such as clothing, rations, etc.; and that the United States is expected to furnish the major portion of the new equipment required for the additional divisions; both in the form of "end items," referred to above, and in grants to France for the production of military equipment in that country. We seem to have undertaken a very large program in this connection, the justification for which is not entirely apparent. The French now appear to look to us to bear the major share of their equipment costs, for reasons with which I am not familiar. The combat value of these divisions is a matter which I am not in a position to determine—even if they are fully organized, equipped and trained; but it must be noted that they will be made up almost entirely of conscripts—with many men drawn from areas and families of Communist sympathies, and particularly in the urban and northern areas of France, and that the North African native populace has become increasingly restive under French rule.

Furthermore, with respect to the equipment, I am unable to see why the United States must continue to bear such a large portion of the cost. France is a rich and productive country—probably the richest in Europe—and the war damage has been largely restored with the aid of ECA loans and grants. That nation was able, for the past 150 years, to raise and equip armies; and I see no reason why it cannot do so at this time. Since 1943 the United States has been called upon, or has assumed the burden of equipping French forces, until now the French seem to demand such aid as the price of their participation in the Mutual Defense Program. It is true that the French face budgetary difficulties, and have heavy expenditures due to the war in Indo-China. However, our own budget is badly out of balance, and we face continuing heavy costs in Korea, as well as those due to our own mobilization.

My conclusions from all this are that in our defense planning we have placed an undue emphasis upon French rearmament, and have assumed a disproportionate share of the cost, as compared to the probable results which will be obtained. Another major weakness in these plans has been the assumption that we had several years in which to build up defenses against Russia. If that were true, we could perhaps afford to commit ourselves to the re-equipping of 15 additional French divisions, over a three or four-year period, and thereafter possibly institute a small-scale rearmament of the Germans. However, I am convinced that we have no such amount of time, and that our defenses must be in order long before 1954. To that end, I recommend that the Committee scrutinize carefully all estimates of French participation and obtain from the Administration a definite report as to the extent to which arms shipments to France are retarding our own rearmament.

VI
ITALY

I was in Rome from the 4th to 7th of December, 1950, during which period I conferred with our Ambassador to Italy, James Dunn, his principal advisor on MDAP matters, Mr. Jacobs, and the latter's chief assistants; also Leon Dayton, in charge of the ECA mission in Italy, and our senior military attache, Col. John Harmony. My principal impressions are set forth below.

(a) **Economic**—With the help of very generous American assistance since the latter part of World War II, Italy has substantially recovered economically. The railroads have been rebuilt, roads and bridges repaired, and the drainage system of the Pontine Marshes restored, as well as numerous other projects looking toward the rehabilitation of that country. As a result, I am convinced that Italy is in substantially as good condition, physically, as it was before the war. The chief economic problems of that country are, of course, those resulting from overpopulation and unemployment. I am advised that the ECA program in Italy during the current year was approximately $170 to $200 million.

The Director of the ECA activities, Mr. Dayton, stated that emphasis was now being placed upon the encouragement of export programs which would have a long-range or permanent market, and readjustment to meet MDAP

Continued on page 24

*This is the second and last portion of the Report of Congressman Gavin on his inspection tour in Europe. The first part was published in last week's issue of the "Chronicle."

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Status of Our Defense Program in Europe

needs, and supplement United States military production. It was his view that any cessation of United States aid would cause the collapse of the present Italian government within a period of a year to 18 months.

So far as basic internal reforms in Italy are concerned, there has been very little actual progress. The ECA and the Italian government have made a start on land reformation, but no large-scale results have been achieved to date. One of the chief obstacles to increased economic activity in Italy is the obsolete tax system, under which most of the burden falls upon production and consumption, and large numbers of wealthy people escape with little or no taxes. I was advised two years ago by Mr. Zellerbach, then ECA Administrator, that tax reform was high on the program of the Italian government. Last year, I was told by Mr. Dayton, that it was imminent. This year, I am advised that an income tax is expected to commence—if the Italian Parliament approves — some time early in 1951. My own belief is that the Italian Parliament, like some other bodies, finds the overhauling of the tax structure, and the imposition of adequate taxes for rearmament to be a burdensome and unpleasant task, which it will delay as long as the United States taxpayer will continue to furnish millions of dollars without return. I think the time has come to have a definite understanding on this matter, and the termination, not later than June 30 of 1952, of economic assistance to Italy.

(b) **Military**—Under the Treaty of Peace with Italy, which was concluded in 1947, the Italian government is limited to an army of 250,000 men, and a navy and air force of 25,000 each. These numbers are small for a country of the size and population of Italy; but they do not yet, in my opinion, constitute a severe limitation, because the Italian government has not thus far been in a position to raise and equip even that number of troops. As far as the army is concerned, the most effective units are the Alpine brigades, recruited in the extreme north of Italy and deployed in that area. There are also in the north of Italy two infantry divisions.

Most of the men in the Italian army, other than the Alpine brigades mentioned above, are conscripts called up for relatively brief service and paid only a few cents a day. These factors and the shortage of equipment seriously limit the value of Italian troops. There is serious unemployment in Italy, and if conditions of service were made attractive, there is no reason why voluntary personnel in sufficient numbers could not be recruited. However, under present conditions, it would appear that reliance upon Italian troops can be only for the defense of their own country; and I do not believe that they could make any effective contribution to a European army deployed in other areas of the continent. In addition to the regular army, there are in Italy two or three para-military organizations, the best known being the Carabinieri, which constitute a state police force in time of peace, and the military police for the Italian army in time of war. There are also several thousand finance guards, basically organized for the security of the frontiers against smugglers, etc., and a large number of security guards under the Ministry of the Interior, to handle local or internal disturbances. The Italian navy consists of a number of sound but obsolete vessels, none of which is equipped with modern devices such as radar, or sonar. Under the MDAP we are endeavoring to modernize their equipment, at least to the extent that it could be used for coastal defense and anti-submarine control in the Mediterranean.

The Italian air force, which was fairly numerous before World War II, was almost completely disrupted following the war. It is now being rebuilt with our aid in the form of aircraft and equipment and should be able to give a reasonably good account of itself. Whether it is feasible for the Italians, with their limited resources, to attempt the manufacture of modern combat aircraft is questionable. They can, however, materially aid in the air defense of Europe with equipment furnished by this country and possibly Britain.

Italy possesses a considerable reserve of unused industrial capacity and labor force which could be utilized for the production of weapons and military supplies not only for its own armed forces but for other Western European nations. This is particularly true in the field of small arms and motor vehicles, both of which the Italians produced in large number before World War II. One difficulty in this line has been that of standardization, and the inordinate delay in agreeing upon a design. For example, I was informed that the Italians desired to manufacture the M-1 (Garand) rifle, provided we would furnish the raw materials and certain machine tools. It was stated that such rifles could be produced in Italy at a cost of approximately $20 each instead of approximately $100 each for manufacture here. While this seems attractive, there are several practical difficulties. In the first place, it would require some weeks, if not months, to translate the working drawings from English to metric units, and considerably longer to set up production lines and inspection systems at the factories. There is also the matter of training troops of the quality mentioned above in the use of a weapon more complicated than they are accustomed to handle. In short, I doubt the feasibility of embarking upon such a long-range program at this time. I believe it would be better to utilize existing Italian designs, possibly modified to take American ammunition.

Other examples of proposals for augmenting the military production in Italy might be cited. Some of them may be more feasible than that noted above, especially the matter of light motor vehicles in which the Italians have considerable experience. My general conclusion, though, is that if such production is to be available in time to meet our needs, the emphasis, at least at the present stage, must be upon types and items of proved serviceability, which can be produced in quantity without the necessity of redesigning, retooling, and retraining personnel. If we are permitted enough time, we may subsequently seek to shift over part of the production to more advanced types; but we should not delay the rearmament program in order to do so.

VII
SPAIN

During the period Dec. 10 to 12, inclusive, I was able to visit Spain, where I had the opportunity of talking to several Spanish military leaders, as well as our Charge d'Affairs, Paul Culbertson, and our Military Attaches. This was perhaps the most interesting portion of my trip, and probably the most encouraging.

The Spanish are a proud and independent people, numbering some 28 million, and living, for the most part in a semi-arid land. Their country does not appear to be rich, and their standard of living is not high. Nonetheless, they have an army of approximately 400,000 officers and men, plus a small navy and air force. Much of their equipment is of pre-World War II types, left over from their civil war. I found more respect and friendliness for the United States in Spain than in most other countries of Europe; I believe this is because we have not put them on our relief rolls, or promised them large-scale aid.

So far as the economic condition of Spain is concerned, that country suffers from shortages of many essential raw materials, sparse rainfall, and during the past year a serious drought, which has not only reduced the food supply but curtailed hydro-electric power production.

From a military standpoint, however, Spain offers a much more favorable picture. They have several major air bases, well disposed around the country, which could be used as secure bases for the air defense of Europe. Their army of 400,000 is, I believe, well led, and is certainly the largest anti-Communist force in Europe. Their navy, while somewhat obsolete, could be equipped for coastal patrol and anti-submarine duty.

I had an interesting conversation with Lt. General Fernando Barron, Chief, Central General Staff, Major General Barroso, Deputy Chief of the Spanish Central General Staff, and certain other Spanish staff officers during the time I was there, particularly Lt. General Gonzales Camino, who was Military Attache in Washington from 1944 to 1947. These officers expressed to me a friendliness toward the United States and Spain's willingness to assist within its means, in strengthening the defenses of Western Europe, as follows: They made it quite clear, that under present conditions they are concerned with the security of their own country. Spanish air bases would be more secure against enemy attack than those which we are now using in Britain, and would, in my opinion, be of major value in case the British bases should be rendered untenable. We would need, of course, to install certain additional equipment and protective equipment, and to expand certain of these fields or bases. We would also need to assist in the modernization and strengthening of the Spanish army. This, however, can be done at relatively modest cost, and with little delay. At the present time they have the facilities for manufacturing additional small arms ammunition, but lack raw materials. In the event that armored elements were required, we should have to furnish them, along with any anti-tank defenses and some artillery. There is no question as to the anti-Communist position of the Spanish government, nor the political reliability of the troops.

Numerous factors, which have been debated in the Congress over the past five years, have until recently prevented normal diplomatic relations with Spain, and prevented us from including that country in the defensive plan for Western Europe. However, the last Congress enacted legislation for certain economic assistance to Spain, and the President has recently appointed an Ambassador to that country. I am thoroughly convinced that the defense of Western Europe requires the immediate participation of Spain, and the utilization of strategic air bases in that country. From a military standpoint we cannot afford longer to neglect so valuable a potential ally as Spain. I hope that the exchange of Ambassadors between the two countries will be followed, in the near future, by the inclusion of Spain within the defense organization of Western Europe; and I am convinced that by such action we can obtain a much greater return, in military terms, for our expenditures than we are receiving in certain of the countries which I have discussed above.

VIII
GENERAL CONCLUSIONS

As a result of my recent trip, I reached certain general conclusions set forth below:

(1) The economic rehabilitation of France, Italy and Germany and Britain has largely been accomplished; and, with a few exceptions, the ECA program should be terminated at an early date.

(2) There is less time remaining for rebuilding the defense of Western Europe against Russian imperialism than we believed a year or two years ago.

(3) The defense of Western European nations must be accomplished chiefly by those countries. We can only aid and assist.

(4) We must counteract the unfortunate impression created in certain European countries, when we superseded the defensive efforts of the Western Union with the larger North Atlantic Treaty Organization, etc., that it was primarily the defense of the United States which was involved, rather than the defense of Europe.

(5) We must build on strength, and not on weakness, and must find some means of utilizing, in the near future, the military potential of Western Germany and the military strength of Spain.

(6) The extent to which the United States should or can undertake to strengthen Western Europe, by means of American troops, must be carefully weighed in the light of our capacities, and our requirements elsewhere. There is nothing to prevent the Russians, if they desire, from creating another Korean situation in Germany, Italy, Austria, or several other places. We cannot achieve a strong military posture by deploying all our troops around a vast perimeter. Our principal concern must be the defense of the United States; and unless we remain strong, we can neither assist other nations nor protect our own freedom.

Continued from first page

The Economic, Financial and Investment Implications Of Inflation

people and it is understandable that views as to the likely extent of the current inflation vary greatly. Since no one knows what the future has in store, the degree of the inflation over the next few years must remain a matter of conjecture. However, I believe that an objective study of all factors involved will temper the extreme views, and conclusively eliminate any basis for expecting an inflation such as was seen in Germany or even in France; at least it seems out of the question in the United States for as long as I wish to worry about it. I would suggest as a more reasonable maximum expectation, that we think of a loss of purchasing power of the dollar more in line with that of the last decade or so.

It is perhaps appropriate to observe that while theoretically, inflation in a war or semi-war period could be prevented, from a practical point of view, the most we can apparently expect is for the inflation to be checked temporarily or slowed up. "While putting a lid on a kettle and a cork in the spout may silence the kettle for a while, the only way to stop a kettle from boiling is to turn off the heat." Unfortunately, the taxes, controls, and regulations necessary to even retard the inflation hold a threat to our way of life and our free enterprise system—a threat that is almost as great as the dangers in the inflation itself. The American people thus find themselves faced with an unpleasant dilemma.

What interests me and alarms me is the public indifference to one of these alternatives, namely, increasing trend towards governmental controls and the growing evidence that the country, as a whole, likes the second alternative — inflation. In my opinion, relatively few people realize how deeply inflation has gotten into the economic blood stream of this country, perhaps because the evidence is not readily recognized for what it really is and because of the subtle and pleasant nature of much of the inflation.

While time will not permit me to fully cover the many implications of inflation, I shall explore some of the more important aspects with you, always keeping in mind that the real retardant or safety valve in this country, in contrast to countries that have had relatively complete inflations, is our great and growing productive capacity.

The More Important Aspects of Inflation

To my mind, the most serious long term aspect of inflation is its effects on the moral fibre of a people. While this is an indefinite and intangible thing, I think that on reflection and after appropriate reference to history you will concur with this observation. In the long run, inflation has about the same effect on a people that continuous use of a narcotic has on an individual, except that history shows that nations never turn back once fully embarked on the inflation road.

Probably next in importance is the fact that inflation threatens the great middle class, the backbone of every democratic country, especially the United States. Inflations take their greatest toll on those of the middle class, wiping out their savings and leaving their earning power to take the brunt of the inflation.

Furthermore, inflation ultimately weakens and undermines the economy and a free enterprise system is ultimately destroyed as an inflation runs its course. The financial well-being and the stimuli to prices and volume cover up basic weaknesses, permit and encourage inefficiency, and therefore postpone adjustments which are essential for the correction of the madaljustments that multiply in an inflationary period.

Another major aspect of inflation is that sooner or later a flight from money and fixed income securities takes place. Perhaps an uncontrollable buying race begins or an intense speculation develops as everyone endeavors to protect himself as best he can. In recent months, we have seen evidence of just these phenomena, but in a very mild form.

As I have already implied, inflation also holds a serious threat because it brings with it an ever growing bureaucracy which feeds and thrives on the conditions generated by the inflation.

The Immediate Effects of Inflation

However, these are all long term aspects of inflation, and the more immediate inplications will be of much greater interest to you.

Inflation stimulates an economy in several ways: (1) directly, through increasing purchasing power; (2) indirectly, by creating a psychology favorable for maximum spending by every level including industry; and (3) by encouraging hoarding or inventory building. But as is the case with all stimulants, periods of reaction normally follow, and with increasing severity as the stimulant is increased. To prevent such periods of natural reaction, it is necessary to more or less continuously inflate whether through planned deficit spending and credit inflation, or through timely "emergencies." It is this aspect of inflation combined with the public's ever increasing liking for the stimulant inflation, that, in my oipnion, is the basis for real concern.

In recent years, we have seen ample evidence of the dislocations of costs, wages, prices and profits, and the vicious cost-wage-price-profit spiral that is inherent to inflation. Due in part to the complexity and delicacy of our economic system, controls and regulations only aggravate these dislocations and stresses, which basically are nothing more than the effort of each and every segment of the economy either to take advantage of, or to protect itself against, the inflation. To some this may suggest the soundness of government controls, but I might counter by observing that if I were interested in furthering the socialization of the U. S. I can think of no faster and surer way than through continued inflation which has as its camp followers, controls and regulations.

Probably one of the most serious effects of inflation is its effect on the value of savings. No country in the world has as much to fear and so much to lose from inflation as the United States, with individual liquid savings in the form of currency and bank deposits alone amounting to some $60 billion. In addition, individuals hold $68 billion of U. S. Government non-marketable bonds, about $13 billion savings and loan deposits, and have about $54 billion savings in the form of private insurance, to mention the more important groups of liquid savings.

Sooner or later, inflation also changes the savings habits of a people. Perhaps this seems to be of minor importance. However just visualize, if you will, the staggering effects of this, on our free society, on our economy, and on our free enterprise system. It has been the savings of the people that have financed the great development of our country, bringing it from a wilderness to the greatest industrial power in the world in less than 200 years. It is not an exaggeration to say that it is the savings of our people that makes our free enterprise system tick, because the people's savings form an integral part of our free enterprise system, and to destroy or even seriously alter saving habits is to court disaster.

We should also be mindful of the catastrophe that inflation brings to all those depending on fixed income investments, annuities, pensions or endowments. The position of private educational institutions is seriously threatened by rising costs and the declining value of endowments incident to the inflation. Continuation of these trends ultimately promises to bring the government into virtually complete control of higher education.

Perhaps the accompanying Table (No. 1) will show more vividly than words can describe the effect the inflation has had on salaries or fixed incomes. We find that a 1935-39 income of $10,000 adjusted for the change in value of the dollar is now worth only $5,620; stated differently, for the purchasing power of this $10,000 income to be maintained, it would have had to increase to $17,800.

A Vested Interest in Continued Inflation

Before reaching the subject of inflation and investments, I would like to show you the results, in a period of continued inflation, of a major vested interest in one industrial field. I refer to the residential building field which has turned in a spectacular record in the last five years. First, we must grant that housing is both needed and desirable. However, the facts show that the demand for housing has been continuously stimulated by an expanding national income, in no small part traceable to the inflation. Secondly, the demand for housing has been inflated by the loose use of credit.

So we have (1) the need, (2) the expanding income and (3) easy credit. However, the real key to the building boom is the willingness of the potential user to buy and to extend himself in the process.

You might well ask, what causes this and what permits the almost blind faith or willingness on the part of so many to buy on a "shoe-string"? First, we find that the buyer has little to lose since the nominal down payment and the carrying charges can both be considered as rent in the event of trouble. Second, and very important in the whole equation, is the effect of continued inflation on building costs and, in turn, therefore, on buying psychology.

As long as building costs continue to rise and as long as the inflation of prices continues, the whole picture becomes strangely sound. Sound in the sense that the 5% or 10% down payment equity becomes 15%, then 20%, then 30%, etc., partly from paying off the mortgage, but mostly from the rising price level. No one ever has to sell at a loss. Utopia at last? I suspect we might properly ask what would happen if the inflationary trends were interrupted or reversed. We could similarly analyze other segments of the economy and find similar implications.

The Country Has Tried Inflation And Likes It

I'm afraid that most of us have come to like the stimulation and the sense of well-being that comes with inflation. Inflation makes things so much easier; it postpones, it covers up so many things, and those whom it hurts are not particularly articulate. Nor is it easy to isolate the one or two things most responsible for the inflation, or at least so it seems. Furthermore, inflation is so comfortable politically.

American Industry Is Worth More Dead Than Alive

I have long been intrigued by another aspect of the present situation. At a similar economic conference two years ago, I had occasion to observe that the American economy must indeed be very sickly because at the then current market prices for the shares representing ownership, "American industry was worth more dead than alive," that is, the owners could realize more by liquidating or selling the plants piecemeal than by keeping them in operation.

Two years ago in a survey by McGraw-Hill, the cost of reproducing existing manufacturing facilities was estimated at $96 billion and the cost of replacing existing facilities with modern plant and equipment at over $136 billion. The Industrial Conference Board gave the net book value of manufacturing facilities as $37 billion at that time. Even allowing for a sizable degree of error among these figures, they reveal the workings of inflation and present a subject that in itself has implications that would justify a paper such as this.

Bonds, Mortgages and Common Stocks in an Inflation

I thought many of you might be interested to know what effect the decline in the purchasing power of the dollar over the last dozen years has had on various types of investments. As will be seen from Table II, inflations are not a happy period for bond or mortgage investors. In the period studied cash, bonds and mortgages became worth only 56% to 63% of their 1935-39 value when adjusted for the depreciation in the dollar.

Investors in common stocks and real estate had a much more satisfactory experience. Common stocks, as measured by quotations, gave the holders considerable, but not complete, protection. They are up about 66%, whereas an increase of about 78% would have been needed to equal the inflation. However, common stock book values are up slightly more than the amount of the inflation, and if replacement costs are used, then they are up considerably more than the inflation, giving one some basis for confidence in their protective qualities in the long run. Adequate data as to the increase in real estate values is not available, but it is apparent that most forms of real estate increased in market value enough to offset the inflation. As a rule of thumb, to have stayed abreast of the inflation one's capital would have had to increase about 78% since 1935-39 or $78,000 per $100,000.

Not only has the real purchasing power value of fixed income type investments been reduced to about 60% of their 1935-39 value, but the productivity (earning power) of these forms of investment was also undermined as Table III reveals.

The actual income from high grade corporate bonds is down some 15%, reflecting lower interest rates, but adjusted for the depreciation in the dollar, a total decline of about 55% is indicated. A similar pattern is shown for mortgages.

In contrast, the income from common stocks is up 157% or 44% more than enough to offset the inflation. Equally important, the earnings of corporations, the source of dividends and book value increases, are up 214% or 77% more than enough to offset the inflation.

Possibly a better way to visualize the effect of inflation is to take a concrete case, for example, a $500,000 fund conservatively invested in 1935-39 in a diversified manner with about 60% in bonds and preferred stocks, and 40% in common stocks (Table IV). Changing these ratios moderately or including tax exempt securities would not alter the end results significantly.

A study of Table IV shows that the principal value of the fund increased to $658,000 by Dec. 31, 1950, due almost entirely to the rise in the value of the common stock holdings. However, after adjusting for the changed purchasing power of the dollar, the fund is worth only $370,000 indicating a net shrinkage in value over this period of $130,000 or 26%.

An even more interesting study of the effects of inflation is presented in the income figures. By Dec. 31, 1950 actual income from the bond and preferred stock sections was down slightly, but the income from common stocks had more than doubled, giving the fund a cash income gain of about $12,000, that is, from $19,000 in 1936-39 to $31,000 on Dec. 31, 1950.

However, two factors took a heavy toll on this income: (1) Federal income taxes increased some $6,000 in the interim years, reducing the 1950 income to $23,500; and (2) adjusting for the changed value of the dollar, a sharp drop to $13,200 is indicated, or $5,000 less than the 1936-39 income of $17,100 (after the lower Federal income taxes then in force).

I suspect that most people do not connect rising taxes, particularly income taxes, with inflation. Rising taxes are a sister phenomenon of inflation and therefore must be included in any measurement of the effects of inflation on investments.

Conclusion

It can be seen from the evidence presented that inflations present a dilemma not only to investors, but also to those with savings, perhaps forcing the former to greatly alter normal investment practices in an effort to protect themselves. In addition, the savings habits of the American people may undergo a radical change with rather unpleasant implications to our traditional form of society and enterprise.

The problem of inflation is made very difficult because inflation brings apparent financial well-being and prosperity with it, making it hard to resist, and even harder to realize that if allowed to continue, it ultimately will take a terrible toll on the social, economic, financial, and political structure of a country — often shaking a nation from its foundations. It is not an accident that all students of history fear inflation as they fear a deadly plague. The history of inflation permits no other view.

I now suspect that you expect me to expound the need for a balanced budget and sound monetary and fiscal policy. Personally, the record of the last decade does not permit me to be impressed with the likelihood of either. I regret to say that I am much more impressed by the evidence that the American people apparently have grown to like the American brand of inflation and seem indifferent to the accelerating trend toward our own form of welfare state, which in my opinion, goes hand in hand with the inflation.

TABLE I

Purchasing Power of Salaries or Fixed Incomes*

Salary or Fixed Income in 1935-1939 $	Adjusted for Loss of Consumers' Purchasing Power at Year-ends			Income Necessary to Maintain Consumers' Purchasing Power at the 1935-1939 Level Year-Ends		
	1941	1946	1950	1941	1946	1950
$3,000	$2,720	$1,955	$1,686	$3,320	$4,600	$5,340
5,000	4,520	3,260	2,805	5,520	7,680	8,900
10,000	9,060	6,520	5,620	11,050	15,350	17,800
20,000	18,100	13,050	11,220	22,100	30,700	35,600
50,000	45,200	32,600	28,100	55,200	76,800	89,000

**Basis:* Bureau of Labor Statistics, Cost of Living Index.

TABLE II

Value of Capital Assets

	Base Period 1935-39	12-31-50	Actual % Change	12-31-50 Data Adj. for Deprec. in Dollar*	Adjusted % Change 1935-39 to 1950
Cash, mortgages, etc.	$100.00	$100.00	0	$56.00	—44.0%
†Price—high grade bonds	100.00	111.40	+11.4%	63.00	—37.0
§Price—municipal bonds	100.00	131.80	+31.8	73.80	—26.2
‡Common stocks—market price	100.00	166.50	+66.5	93.50	— 6.6
‡Common stocks—book value	100.00	189.00	+89.0	106.30	+ 6.3

*Bureau of Labor Statistics Cost of Living Index used.
†Based on Moody's Aaa Corporate Yields converted at 3%, 30 years.
‡Based on Dow-Jones Industrial Average.
§Based on "Bond Buyers" Index.

TABLE III

Productivity of Invested Capital

	Base Period 1935-39	12-31-50	Actual % Change	12-31-50 Data Adj. for Deprec. in the Dollar*	Adjusted % Change 1935-39 to 1950
†Yield—Savings accounts	2.84%	1.90%	— 33.0%	1.07%	—62.4%
‡Yield—high grade bonds	3.13%	2.67%	— 14.8%	1.42%	—54.6%
§Yield—mortgages	4.50%	3.75%	— 16.7%	2.11%	—53.1%
**Yield—municipals	3.06%	1.70%	— 44.5%	$0.96	—68.6%
¶Income—common stocks	$6.29	$16.13	+157.0%	$9.06	+44.1%
¶Earnings—common stocks	$8.60	††$27.00	+214.0%	$15.20	+76.8%

*Based on Bureau of Labor Statistics Cost of Living Index used.
†Average rate for major New York Savings Banks.
‡Moody's Aaa Corporate.
§Estimated after service charge.
¶Dow-Jones Industrial Average.
**"Bond Buyers" Index.
††Estimated.

TABLE IV

A $500,000 Fund Invested in 1935-39

	1935-29 Value	Income	% Yield	12-31-50 Value	Income	% Yield
†Government bonds	$100,000	$2,650	*2.65	$112,780	$2,400	*2.40
‡Corporate bonds	100,000	3,130	*3.13	110,300	2,950	*2,67
§Preferred stocks	100,000	4,380	4.38	112,500	4,377	3.89
¶Common stocks	200,000	8,660	4.33	323,000	21,420	6.63
	$500,000	$18,820	3.77	$658,580	$31.147	4.73
**Less Fed. income tax		1,694			7,612	
Balance		$17,126			$23,535	(+37.2%)
‡‡Adjusted for Cost of Living	$500,000	$17,126		$370,000	$13,200	(—23.0%)

*Yield to maturity.
†Moody's Government Bond Yield Index.
‡Moody's High Grade Corporate Bond Yield Index.
§Standard & Poor's Preferred Stock Index.
¶Dow-Jones Industrial Average.
**Assumes a family of four.
‡‡Based on Bureau of Labor Statistics Cost of Living Index.

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A Program of Sound Fiscal And Monetary Policy

to the people of the United States, why we are permitting our dollar to be hawked about at a discount abroad.

This state of affairs stands out as a revealing commentary on the manner in which our government, or at least this part of it, is now dealing with money, credit, and fiscal matters.

It seems to be a rather uniform experience of the various peoples and governments of the world that, once they become enmeshed in the far-reaching and destructive forces of an irredeemable currency, they tend to attribute their consequent troubles to everything but that. Andrew D. White, in his *"Fiat Money Inflation in France,"* provides us with an illustration of this common reaction of a people and their government when he describes that of the French Assembly some 160 years ago, at which time France was afflicted with an irredeemable currency. "As is usual in such cases," says White (Duke Endowment Edition, p. 49), "the trouble was ascribed to everything rather than the real cause. . . ."

We are providing remarkable parallelisms to the old lessons which White, so conveniently and lucidly, provides for us. But we insist, almost precisely as did the French Assembly 160 years ago, that we are exempt from the application of the old and thoroughly-verified lessons revealed by the use of an irredeemable currency. In speeches, newspapers, and pamphlets at that time, it was declared, says White, "that gold and silver form an unsatisfactory standard for measuring values . . ., that the laws of political economy, however applicable in other times, are not applicable to this particular period, and, however operative in other nations, are not now so in France; that the ordinary rules of political economy are perhaps suited to the minions of despotism but not to the free and enlightened inhabitants of France at the close of the eighteenth century. . . ." (Pp. 33-34.)

John Maynard Keynes, in his book, *"The Economic Consequences of the Peace"* (Harcourt, Brace & Howe, New York, 1920), reminded us (p. 236), I think accurately, that "There is no subtler, no surer, means of overturning the existing basis of society than to debauch the currency," and that "The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

We should be able to understand these things, and our government should not endanger this nation by refusing to heed these well-established lessons, which have cost the various peoples of the world, including ourselves, so much in tragedy and tears.

The simple fact of the matter is that an irredeemable currency is an evil device. It has commonly been ranked next to war among the evils that have afflicted mankind. To close our eyes to such a colossal fact and to proceed as though we do not recognize it and do not intend to rid ourselves of this unnecessary evil is to mark us as an unintelligent, irresponsible people.

(2) The prostitution of our banking system by the United States Treasury is being accepted and fostered. Next to the issuance of an irredeemable currency stands, as an evil device, the destruction of the independence of a nation's central banking system by the central government. Every experienced and careful student of central banking and of public finance is supposed to understand and to respect that fact.

The following observations, made by Sir Cecil H. Kisch and W. A. Elkin, in their book, *"Central Banks"* (Macmillan and Company, Ltd., London, 1932), 4th ed., with a Foreword by Montagu C. Norman, are illustrations of what are supposed to be some well-established and elemental truths on this point:

They say (p. 22): ". . . If the control of the operations of the Central Bank lies directly or indirectly with the government, it becomes fatally easy for the government to finance itself for a time by means of book entries and short loans from the Bank, a course which is the first step toward currency depreciation and inconvertibility."

They say further (p. 22): "There can be no question that the power of the government to force increased loans from the Bank of France intensified the depreciation of the franc and contributed to the financial crisis which culminated in 1926. Such extreme abuses of government power are, of course, only possible when a country has ceased to be on a gold basis. As long as convertibility is maintained the worst evils resulting from government intervention in banking and currency control are avoided."

They say still further (p. 37): ". . . It is of cardinal importance that it should be made as difficult as possible for the government to resort to the expedient of borrowing from the Bank, a practice which, if continued, can only lead to a repetition of past disasters."

Considering the course we have been pursuing in this respect, the following statement should cause us to pause and to change our procedure. They say (p. 28): "The complete independence of the bank is perhaps an ideal to which countries can only approximate in different degrees *according to their state of economic development and the sense of responsibility inherent in their public and particularly their commercial life.*" (Italics mine.)

The experience of Germany with the Reichsbank, when it was placed under government control, was so disastrous that the German Bank Act of 1924 opened with this sentence: "The Reichsbank is a bank independent of government control."

The Brussels Conference Resolution (III) of 1920 said: "Banks, and especially a bank of issue, should be freed from political pressure and should be conducted solely on the lines of prudent finance." The same statement was issued by the Genoa Conference in 1922.

When the Banking Bill of 1935 was under consideration, and the way was being prepared for much of what was happened to us in the form of Treasury domination of the Federal Reserve System, 69 monetary economists stated on March 7 of that year, that "The lessons of central banking teach us that the farther a central banking system is removed from political domination, the better it is for the country."

We have been operating in this country as though those lessons and warnings are of no value to us. Now that the picture is becoming disconcerting, some lip service is being given to the principles revealed by those lessons and warnings. But in the main, the major agitation seems to be for integrating monetary and fiscal policy; for making fiscal policy the dominating instrument of economic and monetary control; for fusing tax policy, expenditure policy, and banking policy into one policy under a central agency directly responsible to the President; for making the Treasury the central banking institution for the banks of this country, the Treasury to carry part or all of their reserves and to fix the interest rates it will pay the banks; for authority on the part of the Treasury to sell its securities directly to the Federal Reserve banks; and so on. All these and similar proposals take for granted that it is not desirable that the Federal Reserve System be free of Treasury domination.

It would seem to be largely a waste of time, in so far as helping to develop plans for sound monetary and fiscal procedures are concerned, to discuss credit controls and the other topics suggested in the Agenda if we are not willing to face the importance of freeing the Federal Reserve System and banks from Treasury domination. When a nation is so far gone that its central banking system must be dominated by the nation's Treasury, as might of necessity be the case if a country is being invaded and is rather thoroughly defeated, there is not much ground for hope regarding the future of the nation. It is largely a question of the degree of disaster that is to be experienced.

One of the first things that tyrannical governments do (particularly since early in the Eighteenth Century) is to sack the banks by putting their promissory notes in their portfolios in exchange for bank notes or deposits or both. Hitler and Mussolini did that, as did the Germans, and others, in World War I.

This manner of getting funds is not understood by the general public; and the banks can be counted upon to cooperate, partly for the reason, apparently, that they can be forced to do so and partly for the reason that their sense of responsibility toward the general welfare gives way in most cases to the desire to survive. An individual bank or banker can do little to fight off government domination of this type; most of them know that, and act accordingly. It requires a strong character to swim against this particular stream.

Good money and good banking are vitally important instruments in the welfare of a nation, especially in time of war. That fact is not being recognized in this country in any important manner. The proof is revealed in part by the fact that we have an irredeemable currency and a central banking system dominated by our Treasury, and in the further fact that we are making no important effort to rid ourselves of either practice. Instead, we are in the business of being what we like to call "progressive" and "modern" in these matters—just about as John Law was "modern" and "progressive" in essentially the same matters in the early Eighteenth Century.

If we are to serve the people of the United States well, we must rid ourselves of this modern John Lawism. We should stand by the lessons which we should be intelligent enough to understand. We should oppose all programs that place the Federal Reserve System and banks under the domination of the United States Treasury until the sad day arrives when our situation becomes so desperate or hopeless that there is nothing else left for us to do, and the price must be paid.

An Erroneous Fiscal Policy

(3) It seems clearly to be the official policy of the present United States Government that it should not go into the open money markets and compete for lenders' funds as do other borrowers, and that it should establish artificially low rates for itself and use every possible means to enforce them.

It is a well-established fact, that should have been understood by us, that such a policy is wrong and harmful in principle. At least the evidence on the unsoundness involved should be overwhelmingly clear to us by this time. The great decline in the purchasing power of the dollar, to which these low interest rates have contributed so much, has increased the costs to the government in rearming and otherwise and to the people in general far beyond any so-called savings which these low interest rates have provided. Artificially low interest rates, fixed by a government, represent a misuse of government power, and always prove costly to the people involved. There are no correct interest rates except those determined in free markets.

To the evil of artificially low interest rates should be added the danger, inherent in the greatly depreciated dollar, that people may decide to turn in their securities and to refuse to buy others even if given markedly higher interest rates by an oppressive borrower.

We should, therefore, try to find ways to extricate ourselves as quickly as possible and to the best of our ability from further pursuit of this unfortunate policy of artificially low interest rates.

(4) The procedure of issuing Federal Reserve notes against the government debt seems to be accepted in official circles as defensible. There is some discussion—for example, it is apparently a topic in the Agenda for this meeting—of plans to prevent member banks from using their government securities as a means of building up their reserves at the Federal Reserve banks; but nothing seems to be contemplated in respect to terminating the unsound procedure of issuing bank notes against the government debt.

The Glass-Steagall Amendment of 1932 was supposed to be an emergency measure. But, as we embraced one monetary and fiscal fallacy after another, that Amendment finally became embedded (by Act of June 12, 1945) in our monetary laws designed to aid in the monetization of the Federal debt.

The current acceptance of that procedure should be condemned and a recommendation should be made to Congress that it be terminated promptly.

(5) Acceptance by our government of lavish, wasteful, profligate, and reckless spending of the people's money as official government policy continues. Suggestions and allegations of concerned and responsible people, in and out of Congress, as to how economies can and should be effected, came to nothing. The Administration and majority of Congress, with the help of a multitude of other advocates of lavish spending, ignore such suggestions and continue on the course of dissipating our national patrimony.

A topic on the agenda for Jan. 31 is "Where and by how much can governmental expenditures be cut?" It is, of course, encouraging to see that subject listed for discussion and it is to be hoped that this Committee will render a real service to Congress and the public by urging as vigorously as it can that Congress terminate the reckless, prodigal, and inexcusable spending now accepted as a policy by our Federal Government.

II

A Positive Program Dealing With Fundamentals

If we are to attack in any effective way the serious problems that confront this nation in the fields of monetary and fiscal affairs, we need to be correct as to fundamentals. Thereafter the mechanics and details of procedure might be debated with some profit, and perhaps some worthwhile recommendations could be made to the appropriate authorities as to how such recommendations could be fitted into, and aid in the attainment of, the fundamental aims. To this end the following are recommended to this Committee:

(1) That Congress abolish our system of irredeemable currency. This recommendation, if carried out, should have more far-reaching beneficial effects than any other that may be made, although it alone could not, by any means, prove sufficient to put us on the proper course. This Committee might do well to call to the attention of Congress and the Treasury the fact that Secretary of the Treasury, John Sherman, could not keep abreast of the subscriptions to United States bonds after resumption of specie payments on Jan. 2, 1879. Said Sherman in his *Recollections of Forty Years in the House, Senate and Cabinet* (The Werner Co., New York and Chicago, 1895), Vol. II, p. 702: "The immediate effect of resumption of specie payments was to advance the public credit, which made it possible to rapidly fund all the bonds of the United States then redeemable into bonds bearing 4% interest."

From his Vol. II, p. 705: "My published correspondence shows that with all the efforts and strength of the department it was impossible to keep up with the subscriptions for bonds pouring in from all parts of the United States and from Europe."

With the purchasing power of the dollar, as of Jan. 23, 1951, down to 42.8% of the average for 1939, it would seem that concerned and responsible men would stop and ask whether the claims of the advocates of a so-called managed irredeemable currency have not been proved wrong and whether we should not now accept the advice of those who all along have insisted that such claims were indefensible and that the advocates of such a currency were leading this nation into a radically depreciated dollar.

If a depreciation of over 57% since 1939 is not enough to be convincing—and that is the greatest depreciation on record, up to that date, since we established the Federal Reserve System in 1914—just how great a depreciation must be experienced before Congress will look at the facts, understand them, and face them?

Are we, in this country, so lacking in understanding that we are going to provide another illustration of how a government and a people insist upon relearning a very old lesson the hard way? We, who seem to like to think we are modern in our current monetary and fiscal policies, are, in principle, doing what the French did at the end of the Eighteenth Century when they provided the devices for depreciating their currency and then instituted their Laws of the Maximum in a futile effort to counteract the natural effects of a depreciating currency.

The fact should be faced that the mass of people never understand clearly the causes or farflung implications of a depreciating currency. Their role is to suffer from it. They almost invariably advocate more and more of such a money. As a consequence, if they are to be saved from the injury it inflicts on them, statesmen must emerge who have the understanding, character, and ability to command sufficient support in Congress to provide the helpless people with an honest—that is, redeemable—currency. The urgent need of the people of the United States today is for another John Sherman.

It is recommended: (2) That Congress cut the Federal budget sharply; that every expenditure that can be avoided without endangering our national security be deleted.

(3) That Congress set about to establish the independence of the Federal Reserve System from government fiscal and debt management policies.

(4) That Congress repeal the authority of Federal Reserve banks to issue notes against government securities. As of Nov. 22, 1950, $10,900,000,000 of United States securities were held against Federal Reserve notes.

(5) That Congress repeal the authority of the Federal Reserve banks to purchase government securities directly from the United States Treasury, but that Congress except and specifically provide for the purchase by the Federal Reserve banks of so-called one-day overdrafts or special certificates from the Treasury issued in anticipation of receipts of taxes or from the sales of government securities, the maximum maturity of these overdrafts to be, say, ten days.

(6) That Congress appoint a commission, composed of authorities on central banking principles and sound principles of public finance, to determine what principles are available as guides in determining the extent to which our Federal Reserve banks can properly hold government securities. Similar principles should be established for commercial banks.

The following tentative suggestion is offered as a desirable principle applicable to commercial banks—that they be restricted in their purchases of government securities (Federal, state, and local) to an amount equal to their time deposits and capital accounts. On the basis of this principle, all commercial banks, as of Oct. 25, 1950, were overloaded with government securities to the extent of $14,580,000,000—a sum greater than their capital accounts of $11,580,000,000.

The Federal Reserve banks present a greater problem because of the need to study what they should be able to acquire through open market operations. It would seem that a study of proper principles might lead to some such conclusion as the following: (a) That they be authorized to invest their capital accounts in government securities; (b) that they be enabled to purchase Treasury ovedrafts, as a part of the performance of their services as fiscal agents of the Treasury, as outlined in item (5) above; (c) that they be enabled to make 15-day advances to member banks against their promissory notes with government securities used as collateral; and (d) that a study of their needs in the performance of their proper open-market functions determine the amount of government securities that may be acquired through this channel.

It is further recommended: (7) That a large portion of our Federal debt be funded into a long-time debt at a rate of interest sufficiently high to induce non-bank savers and investors to buy and to hold it. Perhaps a 3% rate would accomplish that purpose. Considering the size of the debt, consols without any date of maturity are recommended—that is, a so-called permanent debt—these consols to be purchasable for retirement by the government whenever it has a surplus at its disposal. Under such a system, the investors would be purchasing a perpetual annuity.

(8) That there be a curtailment of government lending at every point not required for our national protection and security. All government lending institutions that do not come within this limit should be liquidated. It is the people's money that is being loaned by our multitude of government lending institutions; and it is the people, rather than the government, that should decide whether or not they wish to invest in the enterprises to which they are being forced to lend without their knowledge or approval.

(9) That the practice of the government in giving away the people's wealth be ended. Where matters of charity arise, those who wish to give should be provided with opportunity to do so, but compulsion by government is not defensible. The so-called liberalism in government today means the act of being liberal with other people's money. The test of liberalism, where money is involved, is what one gives of his own. Taking from another by government compulsion and giving away his substance are not acts of liberalism; that is simply legalized robbery.

(10) That every possible effort should be made to take advantage of the productivity and virtues of private enterprise and free markets rather than to think in terms of government controls which tend to distort, disturb, and impair productive activity. So long as a rise in the price for a particular good or service induces a greater supply, that rise should be permitted to operate. When, in a war economy, such a rise no longer fulfills that function, it would seem that there would be more gain than loss by fixing the price at that point. But at the best, mistakes in price fixing are bound to be made since no government agency can possibly grasp the possible ramification of price fixing.

It seems very clear that we are rushing into government controls rather than concentrating on how to take advantage of the great productivity that private enterprise could and would provide if given the proper encouragement and freedom.

(11) Finally, it is recommended that we exercise care in taxing to finance our heavy expenditures. In the popular current demands for heavy taxation, we seem to be engaging in our common practice of pursuing a slogan without much understanding as to what may be involved. This particular slogan is "pay-as-you-go taxation." Among the many implications, inherent in such a policy, which should be considered, are the following:

We should not forget that we are using one form of destruction to counteract another—taxes to counteract currency depreciation. One of these evils may be as great as, or greater than, the other.

The problems involved in tracing the shifting incidence and effects of the various taxes that may be levied are exceedingly intricate and cannot be disposed of safely by means of a popular slogan dealing simply with taxation.

Closely related are the dangers involved in the use of aggregates, such as relating the total tax burden to total national income or national product. A tax that destroys enterprise at a strategic point may have a devastating effect nationally while showing little percentwise in some aggregate.

Even though all these precautions be taken, there are still other questions that require attention—for example, the wisdom of trying to finance all increased expenses out of current income considering the fact that past savings might be tapped if the government would rely upon market rates of interest and provide the people better protection against currency depreciation.

One of the very best steps the government could take in this direction is to cut every expenditure where possible. The various subsidy, crop control, price-parity, and a multitude of other unwise and unnecessary expenditures should be terminated. Unless that is done, the people of this country will probably find their desires to cooperate in making sacrifices cooled in a marked manner—and with good reason.

III
Specific Observations on the Panel Topics

(1) *What is the role of selected and general credit controls?* The lessons taught by the use of qualitative credit controls—presumably, that is what is meant by selected controls—and quantitative controls — presumably, that is what is meant by general controls—are briefly the following, assuming that the Federal Reserve System is operating free of Treasury domination:

(a) Each set of instruments has its proper functions; for example, quantitative controls, such as the changing of rediscount rates and operations in the open markets, should be employed when the purpose of the is to increase or decrease in a general way the ease with which Federal Reserve and member bank credit may be obtained. Such instruments are inappropriate for use when the purpose of the Federal Reserve banks is to direct credit into or out of certain fields of activity. The latter is the province of qualitative (or selective) controls.

(b) Regarding the effectiveness of both quantitative and qualitative controls, the following generalization seems accurate: Sometimes an instrument may be highly effective; sometimes highly ineffective; often its effectiveness is difficult to determine with any precision.

(c) These instruments do not operate in a vacuum. When any one, or more, of them is put into effect, it is operating on, and among, forces that tend to nullify or to aid its success.

(d) It seems reasonable to assume that, if the Federal Reserve authorities were freed from Treasury domination, those authorities have accumulated sufficient experience over the years to provide highly reliable guidance as to how and when to use the dozen or so instruments of control at their disposal.

(e) It also seems reasonable to suppose that if the Federal Reserve authorities are to be dominated by Treasury policy they cannot properly be expected to use their instruments of control wisely or effectively.

(2) *Debt management requirements.* As a general principle, the debt should be kept as small as possible. But there are always various considerations that affect this principle: For example, there is the degree of destructiveness involved in the taxation necessary to balance the budget or to yield a surplus; there is the urgency of the need for Federal spending.

The so-called theory of compensatory Federal spending, of which there has been so much discussion in recent years, has proved its futility since lavish Federal spending and deficits have shown in the main the one characteristic of persistence.

The advocates of the theory have overlooked another most fundamental fact—namely, that a dollar in the hands of the man who earned or owned it is a much more valuable dollar than is the dollar taken by a government that is free of the penalties exacted in private enterprise by the squeezes of costs on selling prices, and for inefficiency and mistakes in judgment.

Still further and above all, the compensatory theory, if made effective, would require a centralized planning agency with the power to act—and this would mean government dictatorship. Congress would be compelled to abdicate and to place its Constitutional duties and prerogatives in the hands of this central planning and enforcement agency with practically absolute power over the nation's fiscal and monetary affairs. In short, such a theory is completely out of place in this country. It is an evil shibboleth of the advocates of government totalitarianism despite their assertions to the contrary.

As outlined above, as much as possible of the Federal debt should be funded, and driven from the commercial banks.

(3) *Interest rates.* These should be determined in a free market. No borrower should be enabled to tell a lender what he shall be paid for his loan. To permit that is to permit dictatorship. The lender, by the same standard, must be free to ask his price for lending his funds, and, if his terms are not met, to withhold his funds until he gets what he is willing to take. Every departure from prices determined in a free market involves dictatorship, and that is in general an evil element where freedom is valued and is to be protected. Some exceptions to this generalization—exceptions that are more apparent than real—exist, for example, when a government fixes a monetary standard of value and various other measuring units, provides for patents and copyrights, regulates the rates of public utilities, and so on. But the basic generalization should be our guide if we are to minimize government dictatorship.

(4) *Can segments of public debt be sterilized so that government debt will not be used as reserves for private expansion?* Such action is by its nature an act of government dictatorship and of bad faith. If people or institutions invest in government securities, reason suggests that they be permitted to make the best possible use of that investment as they would have done with the funds so invested. It is improper for commercial banks to engage in the business of acquiring frozen assets. And calling frozen assets, in the form of frozen securities, "special reserves" does not alter the fact that they are still frozen assets and not reserves—that is, they are not reserves if the word "reserve" is to be used in any proper sense.

The solution suggested above is eminently more sensible and defensible that any of the so-called "security reserve" schemes that have been offered—namely, that principles be established as to the amount of government securities commercial banks may hold, after which such banks should be free to sell such securities in the open market as their interests suggest and to use them as collateral for their promissory notes as they seek advances from the Reserve banks. The Federal Reserve banks have ample authority under which to refuse to make such advances should such refusal seem desirable to the Federal Reserve authorities. This sort of arrangement should give the Federal Reserve authorities ample room to exercise properly their responsibilities as our central agency for credit control.

Certificates Placed By Kuhn, Loeb & Co.

General American Transportation Corp. announced on Feb. 2 that it has negotiated through Kuhn, Loeb & Co., the sale of $8,347,500 equipment trust certificates, series 47, to a small group of institutions. Of the total, $4,200,000 principal amount was delivered on Nov. 1, 1950, and the balance of $4,147,500 principal amount on Feb. 1, 1951.

The certificates will mature serially in quarterly instalments to and including Nov. 1, 1970. Maturities to and including Nov. 1, 1958, bear dividends at the rate of 2⅝%, the balance at a rate of 3⅛%.

The equipment covered by the trust consists of 1,190 new tank cars and 11 new hopper cars.

Hirsch & Co. Group Underwrites Offering

General Instrument Corp. is offering 121,715 shares of $1 par value common stock to common stockholders on the basis of one additional share for each four shares held, at $9.50 per share. Warrants evidencing the right to subscribe to these shares expire on Feb. 21, 1951. In addition to shares covered by the warrants, each holder is entitled to subscribe at the same price for any additional shares covered by warrants which are not exercised.

An underwriting group headed by Hirsch & Co. and including M. M. Freeman & Co. Inc., Emanuel, Deetjen & Co., and Butcher & Sherrerd will purchase any shares of the common stock not subscribed for by common stockholders.

Net proceeds from the sale of these shares will be added to the company's general funds and used primarily to reimburse the company for expenditures made and to be made in connection with the acquisition of additional plant facilities, and the acquisition of necessary equipment to be required in the operation of these facilities. It is presently estimated the $650,000 will be used for these purposes. Balance of the net proceeds will be used as additional working capital and for expansion of the company's volume of business.

General Instrument Corp. has, since its inception, been engaged in the manufacture and production of radio components. More recently the company also has been engaged in the manufacture and production of television components. The company has two wholly owned subsidiaries, General Instrument & Appliance Corp. and the F. W. Sickles Co.

Milwaukee Bond Club Annual Meeting

The Annual Meeting and election of officers of the Milwaukee Bond Club wil be held Wednesday evening, Feb. 21, 1951, at the Elks Club in the Mezzanine Room.

The following Nominating Committee has been appointed to name a ticket for the coming year:

Robert W. Haack, Chairman, Robert W. Baird & Co.; Charles W. Gerlach, Charles Gerlach & Co.; Frederick A. Newton, Loewi & Co.; Rolland A. Barnum, Merrill Lynch, Pierce, Fenner & Beane; August L. Engelke, A. C. Best & Co.

The following nominations have been made for officers:

President: Matthew H. Pahle, A. C. Allyn & Co.; Vice-President: Otto J. Koch, Jr., The Marshall Company.

Board of Governors: Charles W. Gerlach, Charles Gerlach & Co.; August L. Engelke, A. C. Best & Co.; William Riley, Riley & Co.; Harold A. Francke, The Milwaukee Company; Brenton H. Rupple, Robert W. Baird & Co.; H. Schuyler French, Marshall & Ilsley Bank.

Additional candidates may be submitted by petition of five or more members, such petition to be in the hands of the Secretary-Treasurer at least two weeks before the annual meeting.

Two important amendments to the constitution and by-laws also will be acted upon at the meeting. The present constitution limits membership to investment firm men residing in Milwaukee. It is proposed to broaden the territory so that investment men in the State of Wisconsin may become eligible for associate membership, and also to increase the membership limit which at present is 150.

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Banks, Inflation and Defense

added to the money supply which under certain conditions will permit increases in commodity prices. There are other important factors in your individual loan decisions. Your institutions are subject to competitive pressures. Also, you have longstanding commitments for lines of credit which are a fundamental part of the banking system. With these forces brought to bear on your lending operations, it requires a high degree of judgment and self-restraint to conduct your lending operations under today's conditions in the best interests of your borrowers, your banks and in the general welfare.

The money supply of the United States rose during 1950 by the huge peacetime total of over $6 billion. This meant that the public had that many more dollars to spend, and they did spend them. Since the volume of production could not increase rapidly enough the main result has been the price increases which I have mentioned. Now we have in prospect a complication due to the growing level of defense production, which will inevitably reduce the volume of goods for civilian purchase although the money supply in civilian hands will not be reduced and in fact probably will increase.

The entire increase in the money supply was due to an expansion in bank loans which amounted to an alltime record of $9.7 billion at all commercial banks in 1950. Business loans expanded $5 billion and real estate and consumer loans at banks expanded about $2½ billion each.

Now, it is important that we, as merchants of credit, understand how our product operates. Let us look at the relationship between price increases and the rise in the money supply. Prices rose from 7% to 8% in consumer goods at retail to 50% for basic commodities. The composite of all prices may have risen 10%; but the money supply rose only 4%. The remainder of the increase in prices was made possible by a more active use of existing bank deposits. In other words, the turnover of deposits rose sharply during the past few months.

Here again the explanation goes back to the lending operations of the banks. Dollars created by bank loans are very active dollars. This is easily explained, for the interest cost to the borrower causes him to use his bank balance as efficiently as possible, to borrow as little as possible, and to pay off his loan as soon as possible. Thus, not only his borrowed funds, but his entire deposit account is used actively during his period of indebtedness. Increases in bank loans in the past several months have acted in two ways on the price level: first, they increased the money supply and second, since the deposit dollars must have been urgently needed to cause the great loan expansion, they turned out to be very active dollars, thus contributing to further increases in prices.

Recognizing the effect that credit expansion was having on prices, the commercial banking system and the central banking authorities have been gravely concerned and have strenuously attempted to hold bank loan expansion and consumer credit in check. The problem has been forcefully brought to the attention of banks and the public through letters and statements from supervisory authorities, and from the American Bankers Association and most State bankers' associations. Under the leadership of the American Bankers Association, a National Credit Conference was held last month in Chicago, at which meeting the entire bank credit expansion problem was carefully explored.

Federal Reserve Actions

The Federal Reserve System has taken direct action in a number of ways. The discount rates at Federal Reserve Banks have been increased by ¼ of 1%, and this was followed by a moderate, but general, increase in lending rates at commercial banks. Short-term money rates in the government security market have been allowed to rise somewhat. A consumer credit regulation has been issued. (Partly as a result of this regulation, consumer credit expansion almost ceased in October and November, the latest months for which estimates are available.) With the concurrence of the Federal Housing and Home Finance Agency a real estate credit regulation has been imposed. Starting in January, member banks are called upon to carry somewhat higher reserves at the Federal Reserve Banks.

While many of you are associated with nonmember banks, I am sure you will be interested in some of the Reserve Board thinking in the matter of the recent increase in reserve requirements. It is a common statement that a move of that sort is futile, for member banks merely sell government securities in the market and the Federal Reserve Banks buy an equal amount of government securities to maintain an orderly government bond market. Thus, member banks lose a certain amount of their earning assets in order to build up reserve balances at the Federal Reserve Banks, but without any real effect in tightening credit.

This line of reasoning deserves closer examination. An increase in reserve requirements is a double-barreled weapon. First, it requires member banks to maintain larger balances with the Federal Reserve Banks. Second, the credit multiplier is reduced. In other words, the amount of bank deposits which can be built on the basis of a dollar of reserves is lessened as the reserve requirements rise. Thus, if bank credit expansion creates more bank deposits, a larger share of the new deposits is immobilized in the form of Federal Reserve balances.

So much for theory. There are also practical elements to be considered. If the hunters among you will excuse the pun, both barrels of this weapon are partly choked but not entirely closed. Even with $53 billion government securities in member banks which theoretically could be sold to the market to obtain reserves, it is probable that these government securities are not evenly distributed; some member banks might find it necessary to use other means of obtaining the additional reserves required. Other banks may not wish to disturb their investment portfolios and may prefer to let some of their loans run off instead. Still others may be faced with the sale of government securities at prices slightly lower than the price at which the banks purchased them. It is almost a certainty that the latter condition will be found in many banks in view of the moderate rise in short-term money rates which occurred last fall. That the increased reserve requirements have some effect was evidenced by the prompt increase of ¼ of 1% in the prime commercial loan interest rate at New York banks.

In a broader way, the announcement of an increase in reserve requirements tells the public that in the judgment of the Board of Governors of the Federal Reserve System, overall credit restraint is in the public interest.

Now, a word as to the timing of the increase in reserve requirements. Last fall it was recognized that if the tool was to be used a logical time would be in January. After Christmas there is a tremendous return flow of currency from stores into bank deposits and from banks into their reserve accounts at the Federal Reserve Banks. In the first two weeks of 1951, this return flow of currency totaled $500 million and the movement will probably continue for another five or six weeks. Secondly, deposits ordinarily shrink in the January-March period as loans are paid off due to the completion of autumn and winter business. In 1950, the deposit decrease at member banks was about $5 billion and in the preceding three years it was that much or more in every year. The decrease in deposits reduces the requirements for reserves. With reserve requirements being reduced and available reserves being increased by the return flow of currency, member banks would have a large amount of funds available for either investment or loan expansion. The increase in reserve requirements will immobilize these funds. There should be a minimum of sale of investments by member banks and security purchases by the Federal Reserve Banks.

I cannot leave the subject of reserve requirements without a word of appreciation to the New York State Banking Department for their splendid cooperation with the Federal Reserve System. For several years now your State Banking Department has cooperated to the fullest extent with the Board in its efforts to fit changes in reserve requirements to changes in the underlying economic situation.

Bank Loans at Peak

So much for the history of the recent past. We find ourselves today with bank loans at a peak. During the past week total loans had their first sizable decrease in many months. Perhaps this is the beginning of the seasonal decrease which is certainly about due. However, I do not believe that we, as partners in the banking system, can breathe a sigh of relief and say, "Well, it is over now and we can forget the episode." The total of loans is still very high, and we must look forward to the next phase of our problem; namely, to collect the loans on schedule and not let the borrowed funds be used for other purposes. In this connection, I am thinking of the case of a country banker who recently told me that a hardware merchant in his town failed to repay the money which he had borrowed to purchase refrigerators, but used the money instead to buy a carload of furniture. I wonder to what extent bankers may, without their sanction, be entering such a partnership with their borrowers?

A careful check of the loan expansion at a number of the largest banks in the country just before Thanksgiving indicated that the lion's share of the loan expansion was due to the financing of raw farm products, grain, tobacco, cotton, etc., either directly or through the purchase of those products by industry. Since these crops come on the market only once a year, it should follow that loan liquidation should accompany the disposal and consumption of these crops. In other words, we should be able to *eat, smoke* and *wear* our way out of that part of the loan bulge which occurred last fall.

In addition to an alert collection policy, bankers and other lenders should and will continue to screen their loans. In this connection I am sure that you have all heard of the program of voluntary agreements to restrain credit which was authorized by the Defense Production Act of 1950. A competent committee of commercial bankers and representatives of life insurance companies and investment banking houses has been meeting in New York City to try to work out a plan which will meet the requirements of the Attorney General and the Federal Trade Commission and will afford a means whereby lending institutions of all kinds can work jointly in the public interest. It is too early to say what form the voluntary agreements may take, but it is hoped that as a very minimum the committee may produce a statement as to the kinds of loans which are more desirable and those which are less desirable during the present period of the defense effort. A sort of ladder of priorities might be devised. As one banker put it, loans might be classified as black, white, or gray. Those in the black classification should not be made under present conditions even though creditwise they are sound. Those in the white category have to do with defense and should obviously be made. The gray area should be reduced to a minimum by careful definition. May I suggest that an important part of the program of making the voluntary credit restraint agreement work is to review your unused lines of credit in the light of the principles of the agreement. I know that these credit commitments come up for review periodically and at the time of these reviews it would seem a strategic time to discuss with your customers the changing policy forced by the growing defense effort.

Such a national pronouncement by representatives of the leading types of financing institutions must obviously be interpreted in the light of local conditions. You will be interested to know, if you do not already, that representatives of New York City banks have been working in close collaboration with the committee. You are fortunate to have near at hand correspondent bankers who can advise you not only as to the broad intent of this program of voluntary cooperation to restrain bank credit, but who will be glad to sit down and discuss specific standards in the light of individual bank and customer requirements.

I cannot close this address without referring again to the broader aspects of inflation control during the protracted period of defense preparation with which we are faced. Every citizen has a responsibility in this matter, both personally and through his influence on his associates. Bankers, as community leaders, have a particular privilege and responsibility. This is not alone in the field of loans and collections, but to work for sound anti-inflationary policies in other governmental and commercial fields. It is important to reduce inflationary pressures both to keep the cost of defense at the lowest possible level and to insure the future purchasing power of our savings, our insurance and our bonds. Finally, the preservation of the buying power of the dollar will permit it to stand before the world as a bulwark of stability and as an important heritage for those who come after us in our own country.

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A New Era for Hotels

consultant organizations as Harris, Kerr, Forster & Co. and Horwath & Horwth. No other factor is more reassuring as the outlook for the industry is viewed at the beginning of the second half of the Twentieth Century.

Strange as it may seem, the hotel industry lagged behind all other industries in up-to-date methods of operation. Hotel operators seemed to feel that, because of the service nature of the industry, modern industrial methods could not be applied to hotel operation. Not until recent years has the utter fallacy of this viewpoint been convincingly demonstrated. During these years the industry has applied in its operations time and method studies, job analysis, job standards, safety programs, budgetary control and pricing programs.

The benefits of these have been clearly mirrored in operating statements. All have resulted in better production factors. The introduction of safety programs, for instance, has brought about sharp reduction in insurance costs. Job analysis has resulted in important increase in employee productivity. Critical study of available public space in the hotel has produced far more profitable utilization. Benefits have been witnessed all along the line.

Pricing Policy Revamped

In the matter of pricing policy, also, the hotel industry has made big strides in recent years. A hotel room is a most perishable product. The vacant room of last night is an irretrievable loss. It may be rented tonight, but the dollar loss suffered last night can never be recouped. The hotel industry in recent years has recognized the necessity for basing room pricing policies upon average occupancy. It has come to understand that a normal vacancy of 10% should be included in the charges for the remaining 90%.

The industry now is operating on the time-tested truth that there is no such thing as a free lunch. It has raised its prices to meet increased labor costs. It has elevated beverage prices to absorb increased liquor costs. It has moved up food prices to meet increased wholesale food prices.

The Break-Even Point Bugaboo

No phase of hotel operation is more misunderstood by the investment fraternity than the matter of occupancy rates in relation to break-even points. However illogical in concept and however much refuted, the idea seems to persist that the hotel's room occupancy must be maintained at a high rate if red ink operating results are to be escaped. The view that a room occupancy rate of 80% is a rigid break-even point of a hotel was widely disseminated when World War II came to an end; and this cliche became common *patois* among those who discussed hotel operations.

Because of this erroneous belief, many professional investment people at that time took a dim view of the outlook for the hotel operating results. Their forecasts were very pessimistic. They maintained that the war was over, the peak had been reached, business recession and unemployment would spell reduced hotel patronage, and room occupancy would slump below supposedly inflexible break-even points. How wrong they were in their view of room occupancy rates relative to break-even points has been demonstrated convincingly in accomplishments of the hotel industry in the intervening years.

Obviously, it is impossible to ascribe to the hotel industry as a whole a given break-even point. A hotel's room occupancy rate is not the sole determinant of profits. If the business is operated intelligently, the break-even point declines. Every hotel is different. The break-even point of the Palmer House in Chicago, with its nearly $1,000,000 of ground floor store rentals, might conceivably operate profitably if all of the rooms were vacant. The Stevens, purchased at a low price, also enjoys a low break-even point, whereas the Plaza in New York City, with its high overhead, luxury-type operation, has a break-even point of about 70%.

At any rate, these are some of the misconceptions with which the investment fraternity views the hotal industry. They are manifest in the low prices and high yields prevailing today for hotel company securities. These prices and yields indicate the lack of recognition of the vast change for the better that has taken place in the hotel industry during the past 20 years. And they suggest a failure to appreciate the broad demand for hotel accommodations in prospect for the rearmament economy which lies ahead. These basic factors which are not generally comprehended by the investing public, have made the hotel industry a fundamentally sound field for investment.

New York Stock Exchange Weekly Firm Changes

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

Interest of the late Joseph M. Ryan, limited partner, in Bache & Co., ceased Jan. 31.

Interest of the late J. Hegeman Foster, limited partner, in Foster & Adams, ceased Jan. 11.

Interest of the late Samuel I. Karger in Rothschild & Co., ceased Jan. 31.

Charles H. Stephens and J. Fred Schoellkopf, IV, limited partner, retired from partnership in Schoellkopf & Co., Dec. 31.

Interest of the late George D. Cronin in Dean Witter & Co., ceased Jan. 31.

Transfer of the Exchange membership of Clinton S. Lutkins to J. Robinson-Duff, Jr., will be considered by the Exchange on Feb. 15.

Transfer of the Exchange membership of Arthur H. Merrill to Vernon H. Brown, Jr., will be considered by the Exchange Feb. 15.

Transfer of the Exchange membership of the late William B. Anderson to Morton M. Gerson will be considered by the Exchange on Feb. 15.

Strauss Bros. Resumes Activity in "Street"

Abraham Strauss has resumed his investment business from offices at 42 Broadway, New York City, under the name of Strauss Bros., Inc. Mr. Strauss began his career in Wall Street in 1922 with the old firm of Logan & Bryan, forming Strauss Brothers in 1933. He was recently associated with Joseph Faroll & Co. and Morris Cohon & Co.

Dammes, Koerner, McMann

Raymond A. McMann, member of the New York Stock Exchange, on Feb. 1 became a partner in Dammes & Koerner, 36 Wall Street, New York City, members of the Exchange, and the firm name was changed to Dammes, Koerner & McMann.

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The State of Trade and Industry

an all-time high. Last year's total of new business incorporations was 92,925, comparing with 85,491 in 1949, or an increase of 8.7%. The 1950 total of 92,925, however, was 3.3% less than the 96,101 for 1948; 17.5% less than the 112,638 for 1947; and 30.1% below the record number of 132,916 for 1946.

Construction expenditures during January fell 7% below December of last year levels but were running substantially ahead of the initial 1950 month.

Steel Output Declines This Week Due to Rail Tie-Up

Steel people will be struggling for many weeks to unsnarl the production and shipping mess caused by the rail tie-up, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. Production schedules have been shattered; movement of vital raw materials has been blocked; and finished steel urgently needed by manufacturers has been frozen in the shipping yards.

So far more than 100,000 net tons of steel have been lost because of the wildcat rail strike. It cannot be made up at a later date because the industry is straining its productive equipment almost to the breaking point to meet the double-barreled demand of military and civilian users.

Consumers hit quickest and hardest by the rail strike were those depending on current steel shipments to keep their operations going. Although every possible priority was given to shipments of defense (DO) orders, some of these were delayed too. Meanwhile steel people engaged every available truck in an effort to deliver the growing stack of finished steel backing up in their shipping departments, this trade paper states.

King Winter also blew freezing breath on steel output during the past week. In the Pittsburgh area the cold forced gas companies to curtail deliveries to numerous industrial plants. As a result at least three steel companies lost production.

Meanwhile, this trade authority adds, the amount of steel going into defense and essential civilian programs is snowballing. Percentage of total output going into these directed uses varies among products and companies. There is widespread feeling among steel producers that they have almost reached the saturation point on plates, carbon bars, structurals and sheets. Some steel companies report as much as 50 to 70% of these products are currently being booked for directed programs.

Steel conversion arrangements face no peril from government curtailment—at least for the present. Government officials obviously are influenced by the fact that total steel output is now getting a healthy boost through the activity of resourceful converters. In one instance a government agency actually urged a steel consumer now getting steel as an essential civilian user to augment its steel supply through a conversion arrangement. The consumer shied away from the arrangement because of the cost, "The Iron Age" 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 96.7% of capacity for the week beginning Feb. 5, 1951, based on the industry's increased capacity of Jan. 1, compared to a rate of 101.3% a week ago, or a decline of 4.6 points.

This week's operating rate is equivalent to 1,933,100 tons of steel ingots and castings for the entire industry, compared to 2,025,000 tons a week ago. A month ago the rate was 99.1% and production yielded 1,980,800 tons; a year ago it stood at 91.5% and amounted to 1,744,200 tons.

Electric Output Rises to New Historical High Level

The amount of electrical energy distributed by the electric light and power industry for the week ended Feb. 3, 1951, was estimated at 7,099,385,000 kwh., according to the Edison Electric Institute.

The previous all-time high record of 7,032,740,000 kwh. was established in the week ended Dec. 23, 1950.

The current total was 129,819,000 kwh. higher than that of the previous week, 1,037,290,000 kwh., or 17.1% above the total output for the week ended Feb. 4, 1950, and 1,320,909,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Show Mild Gains for Week

Loadings of revenue freight for the week ended Jan. 27, 1951, totaled 784,185 cars, according to the Association of American Railroads, representing an increase of 4,369 cars, or 0.6% above the preceding week.

The week's total represented an increase of 148,251 cars, or 23.3% above the corresponding week in 1950 when loadings were reduced by restricted coal mining operations, and an increase of 104,883 cars, or 15.4% above the comparable period of 1949.

Auto Output Adversely Affected by Rail Strike and Industry Labor Disputes

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 152,721 units, compared with the previous week's total of 167,869 (revised) units and 127,428 units a year ago.

Total output for the current week was made up of 114,266 cars and 28,677 trucks built in the United States and a total of 7,110 cars and 2,668 trucks built in Canada.

For the United States alone, total output was 142,943 units, against last week's revised total of 158,316 units, and in the like week of the last year 120,061. Canadian output in the week totaled 9,778 units compared with 9,553 units a week ago and 7,367 units a year ago.

Business Failures Show Substantial Decline

Commercial and industrial failures declined to 159 in the week ended Feb. 1 from 193 in the preceding week, Dun & Bradstreet, Inc., reports. While casualties were lower than a year ago when 199 occurred, they remained slightly above the 145 recorded in the comparable week of 1949. Failures were only one-half as numerous as the total of 318 for the similar week of prewar 1939.

Casualties involving liabilities of $5,000 or more declined to 123 from 143 last week and were down considerably from the 162 of this size in 1950. Among small failures, those with liabilities under $5,000, there was also a decrease, to 36 from 50, but they were about the same as a year ago when 37 occurred.

Except for an increase in manufacturing to 33 from 26, all industry and trade groups had a decrease in mortality. In manufacturing, failures equalled the 1950 total, but all other groups had fewer casualties than last year; a marked drop appeared in wholesale trade and a mild one in retailing.

Wholesale Food Price Index Touches New 30-Month High

Nineteen of the 31 commodities included in the Dun & Bradstreet wholesale food price index advanced last week with only two showing declines. The index for Jan. 30 rose 9 cents to stand at $7.17, a new high since Aug. 10, 1948, when it was $7.18, and a gain of 20.3% over the pre-Korean level of $5.96. It compared with $5.79 on the corresponding date a year ago, or an increase of 23.8%.

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

Wholesale Commodity Price Index Attains New Record High

Uncertainty over impending price controls and the announcement by the ECA of the general wage-price freeze order late on Friday resulted in nervous and irregular movements in leading commodity markets last week. Pending further details and clarification of the order, trading in most commodity futures markets was suspended on Saturday and Monday. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., rose to a new all-time high of 326.61 on Jan. 30, influenced largely by higher prices for grains and livestock which as yet are not affected by the freeze order. The latest index compares with 323.65 on Jan. 23, and with 246.95 on the corresponding date a year ago.

Grain markets were unsettled with trends irregular; prices turned sharply upward in closing sessions.

Wheat rose to new high ground since April, 1948, while other grains reached new high levels for the season.

Some buying of wheat resulted from reports of possible damage to winter wheat due to zero weather in parts of the Southwest. Considerable export business in wheat was reported during the week. Stocks of wheat in all positions as of Jan. 1 were reported at 998,000,000 bushels, the third largest on record. Trading in grain futures on the Chicago Board of Trade was less active last week, totaling only 216,759,000 bushels, or a daily average of 36,000,000 bushels. The latter compared with 42,000,000 bushels the previous week, and 25,000,000 a year ago.

Domestic flour bookings remained in small volume with trading restricted by prevailing uncertainties, rumors of peace proposals, and the fact that most users had substantial stocks on hand. Cocoa was active and strong. Daily price changes on the New York Cocoa Exchange were limited to 10 points at the close of the week, as compared with normal daily fluctuation limits of 100 points. After early weakness, lard prices developed considerable strength following the actual freeze order. The Army purchased 3,000,000 pounds of lard last week, and is expected to take 7,000,000 pounds of the cash article this week. In the Chicago livestock market, hog values advanced to a four-month peak on diminished receipts, while lambs went to new high levels for all time. Cattle showed some easiness on the announcement of a rollback of hide prices.

Following the issuance of the wage-price freeze order on Friday of the preceding week, trading in cotton was suspended on the exchanges at New York, New Orleans, and Chicago.

The markets remained closed on Monday and Tuesday of last week pending clarification of the order. Earlier in the week, prices advanced to new record highs but subsequently turned easier and finished slightly below a week ago.

Reported sales in the ten spot markets dropped to 178,900 bales, from 181,300 the week before and 260,500 in the same week last year. Business in cotton textiles came to a virtual standstill as traders took time out to study the freeze order.

Trade Volume Continues at High Level Due in Part to Anticipatory Buying

Despite the recent inauguration of price stabilization in some lines, consumer purchasing continued to rise somewhat during the period ended on Wednesday of last week. Total retail dollar volume was markedly above the level for the comparable week a year ago, according to Dun & Bradstreet, Inc., in its current review of trade. The general prevalence of anticipatory buying was deemed responsible for some of the increased buying.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 11 to 15% above the level of a year ago. Regional estimates varied from a year ago by the following percentages

New England, East and Southwest +11 to +15; South and Northwest +12 to +16; Midwest +13 to +17; and Pacific Coast +10 to +14.

Wholesale ordering continued to increase moderately in the week as many dealers throughout the country became concerned with anticipated inventory shortages. The over-all value of orders was appreciably above the level for the corresponding 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. 27, 1951, advanced 25% from the like period of last year. This compared with an increase of 31% in the previous week and 32% for the four weeks ended Jan. 27, 1951. For the year to date department store sales registered an advance of 5%.

Retail trade in New York last week advanced slightly above the level of the corresponding week a year ago, but indications point to a tapering off of recent large percentage gains.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 27, 1951, advanced 20% from the like period of last year. In the preceding week an increase of 25% (revised) was registered above the similar week of 1950. For the four weeks ended Jan. 27, 1951, an increase of 26% 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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As We See It

the man biting the dog when the Secretary of the Treasury, in peacetime, blandly announces the rate of interest he is prepared to pay on future obligations of the United States and broadly implies, if he does not explicitly state, that he expects the Federal Reserve authorities to rig the market in such a way that he will be able to do what he is planning.

A Remarkable Performance

It is even more remarkable that this official should undertake in public to berate Reserve officials and indeed to read them a lecture on the fine art of credit control and management. But this apparently did not end the matter, since, one must suppose, the officials of the Reserve System did not come to heel in a way to satisfy the Secretary. At this juncture, the President of the United States "summons" the Reserve authorities to the White House, at which time (according to an apparently hurried and certainly quite unusual White House statement to the press) these central bankers agreed to do whatever the Secretary of the Treasury desired. To make certain of the effectiveness of this obvious chicanery, the President then writes a letter thanking the Reserve authorities for their promise to do what he wishes them to do.

It is an old political trick of which the late President Roosevelt was fond. He made startling use of it in bringing business in line during the early days of World War II. Industrial leaders protested that no such promise as was attributed to them had been made, but the politically shrewd Mr. Roosevelt had beat them to the punch, and there was not a great deal that they could do but act as if they had made the promise attributed to them. Now we see this sort of thing all over again, this time at the expense of what is supposed to be an independent central banking system. Again there are protests that nothing of the sort alleged by the President actually occurred. This time, though, an ex-Chairman of the Board of Governors, who was ousted from his Chairmanship by this same President for disagreeing with Administration policies and tactics, has taken it upon himself to make the record public.

To those who know and understand the facts, all this leaves the President and his Secretary of the Treasury in anything but an enviable position. What the final outcome of it all will be is another matter. If the past is an acceptable guide, the Reserve authorities will feel themselves obliged largely if not fully to give way to the Treasury and the President—notwithstanding their reluctance to do so and the show of rebellion they have been making of late. It is of more than passing importance, therefore, to inquire into the nature of the question here in dispute. Without attempting to be accurate to the last fraction of a percentage point, the basic elements of this situation can be readily described, and that description will clearly reveal that the issues go far deeper than the Administration would have us believe—and, quite possibly, far deeper than it realizes or understands.

Conforming to a "Rigged" Market

During World War II the Treasury, looking over a market which had already been rigged so that long-term obligations of the Federal Government were yielding 2½% or less, and shorter term debt bringing progressively less, proceeded to tailor its offerings to suit this market. Thus to the uninformed, the Administration was merely getting its money at "going rates"—which were fortunately quite low thanks to some mysterious magic of the New Deal. Hundreds of billions (not millions) were drawn into the Treasury in this way, a very large part of the obligations on which these funds were raised going into the portfolios of the commercial banks, the insurance companies, the industrial corporations, and the Federal Reserve banks of the country.

And so the war was "successfully" financed! The fact of the matter is that the bills of that gigantic struggle were in distressingly large part paid with monetized Federal debt. The process was different, but the results were not basically distinct from the greenback fiasco of Civil War days. When war broke out in 1939, we had a "money supply" of around $61 billion; when it was over the figure had risen to $163 billion or more, the larger part of it owned by businesses and individuals all over the country. In addition there were many billions of demand obligations of the Treasury outstanding which it could safely issue only because it had a rigged market from which it could get funds more or less at will. The actual fighting had not long stopped before the effects of this situation made themselves readily evident. Reserve authorities presently concluded that the time had come for them to get the government securities market on a somewhat more natural footing. Attempts to reach this end have continued off and on ever since—and they, of course, were fully warranted, only they did not go far enough.

And Now?

Now we are in another "war economy," or something rather close to it. The Administration wants to repeat. Indeed, it insists that the Reserve authorities repeat. Its Secretary of the Treasury utters sarcastic references to "fractional" changes in interest rates, and contends that they are of no consequence as an anti-inflationary measure—and, of course, they get in his way! The public would be well advised to ignore all this talk about interest rates and the like—or certainly the most of it. The fact of the matter is that the operations of the Treasury in the years to come—whether war or defense, or what not—can be carried forward on the terms desired by the Administration only if we are prepared at the very least to continue this regime of modern greenbacks. If this is not inflation, then we can not think of any good name for it.

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Trust Investments During the Emergency

will cause considerable dislocations in a number of industries and tend to reduce their earnings. All in all, it is fairly certain that net profits after taxes of corporations in 1951 will be smaller than in 1950. The exceptions will merely prove the rule. In the long run, net profits and not book value are the determining factor in the movement of prices of equities. Institutions seeking to protect principal against inflation will therefore find the task exceedingly difficult.

Suggested Policies

It is unwise to invest exclusively in equities considered by the general public as inflation hedges. As a rule, equities regarded as hedges against inflation represent ownership of raw materials above or below the ground. In buying such equities, the investor believes he is actually buying commodities, usually at a substantial discount. Such equities, however, particularly under the present highly uncertain political and economic conditions, can be rather vulnerable. The international political situation may take a turn for the better. The fear of inflation may subside; and since prices of anti-inflation stocks have increased considerably, they could witness a sharp decline should the world political picture improve and the fear of war be removed.

On the other hand, should the situation become more serious, most of these companies will find themselves working primarily for the government. It is well known that profits on government contracts are small and also subject to renegotiation. It is not reasonable to assume that in the event of serious inflation, which would drastically reduce the value of the people's savings, Congress would sit idly by and let one group benefit at the expense of the others. In all likelihood, legislation would be passed which might deprive the owners of equities of a large part of their gains. But the fact that anti-inflation equities, which are based primarily on the production of basic raw materials, are politically vulnerable in periods of crisis, does not imply that trust companies should not buy them. Some are excellent investments, irrespective of their merits as anti-inflation stocks. Too much concentration in one individual group of equities is, however, not desirable.

Reasonable judgment dictates that under the present highly uncertain economic and political conditions, the trust company should invest in equities of sound corporations which have demonstrated good earning and dividend records, which produce commodities needed in peacetime and in a war as well as a semi-war economy, and which are ably managed. While some of these companies are not regarded as anti-inflation hedges, in the long run they may do as well as, if not better than, equities whose high price today is based primarily on their anti-inflation qualities. Diversification of risk, which means diversification of securities, is a sound policy to follow in highly abnormal as well as in normal times.

The question of timing is always important and is probably the most difficult factor in considering trust investments. Experience has proven that the equity market usually moves in a fairly uniform manner, the rise and decline of equity prices affecting almost all issues. Many large investors, including trust companies, have evolved formulas under which the buying and selling of bonds and stocks have been coordinated. Such formulas, particularly if backed up by judgment and knowledge and not followed mechanically, probably offer as good a tool as any in judging when to buy or when to sell.

A rule of driving says that when visibility is low the careful driver slows down. This also applies to investments. There are many potential developments which could have a pronounced effect on prices of equities. At the present time, to say the least, the economic visibility is certainly low.

Conclusion

The present highly abnormal economic and political conditions make the task of a trust company investment officer exceedingly difficult. But in spite of these difficulties, it is not advisable to do nothing and merely endeavor to protect principal through the acquisition of high-grade bonds. So far as possible, the effort must be made to protect both income and principal from the decline in the purchasing power of the dollar.

Protection of income is relatively easy. It involves the shifting of a portion of the bond portfolio into equities. These need not be anti-inflation stocks. In fact, to a considerable extent they will consist of equities generally not considered anti-inflation stocks and hence are avoided by those endeavoring to hedge against inflation. Dividends paid by their companies should be satisfactory unless, of course, corporate taxes are much higher than is envisaged at present.

Protection of principal is much more difficult. This involves not merely the selection of the security but also correct timing. In timing purchases, the trust officer must take into consideration the fact that net earnings of corporations after taxes in 1951 are bound to be smaller than in 1950; also, that it is not yet known how the various controls will affect individual companies. Selection of securities should be based not merely on the aim to acquire equities generally considered anti-inflation stocks. Equities of corporations which have demonstrated, over a period of years, sound management and dividend policies and a good earning record are still to be preferred to all others.

The trust officer will not be able to do the impossible. He cannot rely entirely on reasonable judgment, because conditions are so uncertain and so many unforeseen events may occur which may considerably alter the outlook. By following a conservative policy, however, and by diversifying between stocks and bonds, a fair degree of safety can be maintained, income can be increased, and at least some protection of principal against the decline in the purchasing power of the dollar can be achieved.

The best protection against inflation is to prevent it. Despite the great inflationary dangers confronting the country, the spiral of prices and wages can be brought to a halt if the people of the country want to do so. They will do so if they fully realize what inflation means. Inflation is the most inequitable tax imaginable. It hits particularly hard those who have saved and invested in fixed-income securities. It hits all persons with fixed incomes. It is especially harmful to the widow living on the proceeds of a life insurance policy and the pensioner.

Inflation weakens the economy of the country and undermines the very foundations on which free society rests. Trust companies and all other fiduciaries must take the lead in the fight against inflation. The imposition of a sound taxation system which will not only raise revenue, but also siphon off excess purchasing power; strict economies by the government; the elimination of waste by government, businesses and individuals; and exercise of restraint by all economic groups can bring the spiral of inflation to a halt.

Street Cashiers Elect

The Cashiers Association of Wall Street, Inc., elected the following slate of officers to serve the Association for the ensuing year: Raymond Brode of Blair, Rollins & Co. Inc., President; John J. Boyen of Joseph McManus & Co., First Vice-President; Walter F. Sullivan of Fitzgerald & Co., Inc., Second Vice-President; Howard W. Sumner of Halsey, Stuart & Co. Inc.; Secretary; Sam Minsky of Hardy & Co., Treasurer; Edward H. Devlin of Green, Ellis & Anderson, Asst. Secretary; and Harold L. Cereghino of Troster, Singer & Co., Asst. Treasurer.

With du Pont, Homsey

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Maine—Julian K. Croxford is connected with du Pont, Homsey & Co., of Boston, members of the New York and Boston Stock Exchanges. He was formerly with Draper, Sears & Co.

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President Outlines Tax Proposals

by imperfections, contains the most equitable types of taxes we have been able to devise. Under these taxes, our economy has demonstrated a surge in productive power to increasingly higher levels.

I recommend an immediate increase in personal income taxes to bring in $4 billion in additional revenue.

The personal income tax is the mainstay of our Federal tax system. It should be the major source of the additional revenue we need.

This is true because it is the personal income tax that allows us the greatest opportunity to be fair. It is the personal income tax above all else which takes account of differences in ability to pay, both differences in income and differences in family obligations. It allows an exemption of $600 per person, and deductions for charitable contributions, extraordinary medical expenses, and other expenses as provided by law. Under present law, a single person earning a net income of $3,000 a year pays a tax of about 16% of his income, or $488, while a married person with two dependents and earning the same net income pays a 4% tax, or $120. The average rate of tax reaches 50% at about the $45,000 income level for a single person and the $90,000 income level for a family of four.

In increasing the yield of the personal income tax, everyone should realize that the higher taxes cannot be limited to the upper income groups. To obtain revenue commensurate with our defense expenditures, all taxpayers must contribute, because the bulk of the income in this country is received by persons whose incomes are between $2,000 and $10,000 a year. We should tax the upper income groups — and tax them heavily—but it will also be necessary to tax people with moderate incomes.

I do not believe that the personal exemption of $600 should be lowered at the present time. Although the exemption was $500 during World War II, the present $600 exemption is less generous, in terms of present costs of living, than was $500 six or eight years ago.

Corporation Taxes Should Be Increased by $3 Billion

I recommend, second, an increase in corporation income taxes to yield an additional $3 billion.

The corporation income tax is the major supplement to the personal income tax in our present Federal tax system. Basic corporation tax rates now begin at 25% on corporation profits less than $25,000, and increase to 47% for larger corporations. Those corporations covered by the excess profits tax pay more—up to a maximum set by law of 62% of net profits.

In the light of high and rising corporate profits, the increase in corporation taxes I propose will leave corporations generally able to maintain the dividend and reinvestment policies of recent years.

The first tax returns under the new excess profits tax law will be received later this spring. We shall then be in a position to consider what changes in the excess profits tax law are desirable to obtain more revenue from that source. I believe, therefore, we should defer this matter until later this year.

I recommend, third, increases in selective excise taxes to yield $3 billion. Under present circumstances, these increases should be concentrated upon less essential consumer goods, and upon goods which use materials that will be in short supply.

Closing Loopholes

In addition to the tax increases recommended above, I recommend that the Congress carry further the program it started last year to close loopholes in the present tax laws.

The revenue to be gained by closing these loopholes is not large in comparison with our needs. But in terms of fairness, and willingness of people to pay their share of taxes, closing these loopholes is worth a very great deal.

Those required to bear higher taxes for defense are entitled to the assurance that others will not be permitted to avoid them. The last Congress closed several important loopholes. But a number remain.

I have previously called attention to the gross under-taxation of the oil and mining industries, to the broad loopholes in the estate and gift taxes, and to the undue preferential treatment granted to capital gains in comparison with ordinary income. I urge the Congress to examine these provisions of the law very carefully, together with those relating to life insurance companies and to holders of securities now exempt from income taxes, and to review the tax status of organizations now exempt under present law. I do not believe any of us, in good conscience, can take action to increase taxes on the man, with a wife and two children, who earns $60 a week—an increase I am now recommending — without at the same time taking action to reduce the glaring inequities in present law, some of which permit a man with 100 times as much income to avoid paying any taxes at all.

Stricter Enforcement

In addition to the changes in the law that are needed to close loopholes, we shall continue to improve our enforcement efforts to make sure that the taxes which are due under present laws are actually paid.

The tax program I am proposing will require higher rates in some cases than those paid during the last war. I believe our people understand that if we had paid higher taxes then we would be better off today. I believe our people are ready and willing to pay the taxes needed to cover essential Government expenditures in this time of danger.

I am convinced that the average citizen in our country will be best served by fair tax laws which will balance the budget. He will be better off now, because he will pay his share of the cost of defense now, once and for all. He will be better off in the future, because his savings and his future income will not be dissipated by inflation.

The American people understand that the cost of freedom is high at a time when aggression has been loosed on the world. I urge the Congress to act rapidly so that we can pay that cost as we go.

HARRY. S. TRUMAN.

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Inflationary Psychology Versus Deflationary Background

convey their seriousness to the population as a whole.

Our Trouble With Russia

In August, 1942, I published a pamphlet entitled "The Biological Causes of Contemporary History" and submitted the conclusion that the explosive increase in human numbers of the past century must lead to violent competition for dwelling space and raw materials, finding expression in a whole series of World Wars.

The Soviet Union has more undeveloped space and raw materials than any other great nation and, on the surface, therefore, has the least cause of all for aggression at this time. Yet, that is the country which in the postwar years has been the cause of international tension. What lies behind this behavior?

China and India are awakening. They are changing into great world powers from units which, through lack of the ability for concerted action, were internationally inert for centuries. Parallel development in Japan took half a century. In China and India, where the process is well under way, it may be completed in another 20 or 30 years. Thereby, the center of gravity of human civilization and of world power will shift to Asia.

Russians are so constituted that they look further ahead than Westerners. They are now 200 million strong, located in the northern and western part of the Asiatic continent with, on their borders, 475 million Chinese and 400 million Indians. As industrialization takes hold, Chinese and Indian population growth will accelerate. The open spaces of Siberia will constitute their natural field for expansion.

If the Russians wait until this problem becomes acute, it will be too late for them and they will be overrun. Their task is to turn themselves in self-defense into a unit, more numerous and more powerful than either China or India will be in a state of full development.

We must, therefore, conclude that it is the aim of Russia to acquire all of Western Europe. A human unit running from Land's End or from the English Channel to Vladivostock, once it is properly integrated, will be large and strong enough for survival.

If this should come about, the United States would find itself in a world containing three units on the order of a half a billion inhabitants each. We would become a back number and would truly be "the country that came too late." Sooner or later, we would be acquired and "organized." Under totalitarian methods, that means extermination of leadership and the use of the remaining population for work cattle.

History shows that populations, once they are rotted by excessive luxury, cease to care about what will happen to their descendants in the future. The end then is swift and merciless. We haven't arrived at that point. What we need, in order to render ourselves invulnerable, is a clear recognition of our problem.

We *cannot afford* to let the Russians take Europe, nor can we indefinitely stand guard over a territory which functions as a vacuum. There is only one solution and that is to acquire and organize Western Europe ourselves. We are *forced* to counter-aggression, whether that suits us or not. We must be decent and constructive about it, for the double reason that it is good for our souls and that it pays in terms of success, but to present the pursuit of our self-interest to the outside world as a holy moral issue makes us ridiculous in the eyes of our friends, and contemptible in those of our enemies.

The first World War was fought between European countries for world leadership. It never occurred to anybody that, even after such a bloodletting and irrespective of who won, Europe would not continue to rule the world into the far future. Now, less than 40 years later, Western Europe has become the bone of contention between human units functioning on a larger scale. That is a ghastly comedown in so short a period. It explains the present spiritual lethargy of its inhabitants which is so different from the European attitude of the past.

If immediately after the windup of the second World War, while American armies were still in full strength in Europe to protect the period of transition, Western Europe could have integrated spontaneously into a Federal Union, it would have become a new unit of adequate strength to stand on its own feet, at least for a while. That opportunity was missed, understandably, and it is now too late.

Western Europe still has the privilege to influence the choice of its future allegiance. On the one side, forced subjugation under Russian heels; on the other side—what? *Not* American promises and treaties which don't provide real protection. For them, too, the effective alternative is federation, on a basis of full equality, with the United States. A half-hearted approach to this problem is useless. Before action becomes feasible at all, the American population and that of Western European countries must be thoroughly convinced that federation represents an "active good" and not a choice among evils.

It need not be done in a day or a year, but certainly before the end of the 1950s. Any preparation for it, however, will constitute a motive for Russia to jump the gun and to prevent its completion through conquest. We must be militarily prepared to prevent this or, if necessary, to undo it through war.

Would our successful integration with Western Europe solve anything? For the new federation, yes—on a global basis, no.

We, if we lose the contest over Europe, can at least succeed to the Anglo-Saxon, non-European, parts of the British Commonwealth and we might endeavor integration with South America which now is totally upripe for it. It is questionable whether or not that would make us a viable unit. The Russians, if they lose, would be completely ringed by super-units; acquisition of territory and human numbers would be well-nigh impossible to them. Their position would be untenable.

The Chinese have a proverb which says you must never smash a man's rice-bowl (his means of existence). That is exactly what we *must* do to Russia. Given those conditions, the probability of the occurrence of a third World War is overwhelming. If there be periods of apparent pacification, they will be transitory and without true significance.

Analysis of the world situation and problems would require several volumes. Here I have submitted merely the barest outline of the major features relevant to our problem under discussion.

The outlook is not merry.

Our Government

We must assume that the people in our government fully understand the issue between Russia and ourselves: the need for her to absorb Western Europe and our need to prevent it and to integrate that territory with ourselves. They must also know that for Russia this is a life-and-death matter. If that be so, then those people must be deadly serious. That does not suddenly make them saints. Isms will still be pursued and politicians will still endeavor to keep themselves in power. We have the right, however, to expect responsible behavior from them.

The population doubts it and acts as if our government were using Korea as a pretext for the greatest boondoggle in history, with the objective of keeping everybody at work and itself in power. Abundant sneering remarks in the newspapers hint at it, but the evidence, up to now, points in the other direction.

The actions of the Administration indicate its assumption that the international situation has provided it with a mandate to break the back of the boom for the needs of national defense. That requires deflationary measures and they have been applied, although their visible effect has been delayed by the momentum of the national buying spree. For boondogglers, such measures would be the utmost in recklessness on account of the danger of bringing on depression, especially after ten years of boom.

I am much more optimistic regarding the insight and the seriousness of our Administration at this time than either public opinion or the newspapers.

If this interpretation be correct, then we may expect additional deflationary measures in future.

Conclusion

The minor crises of 1947, 1948 and 1949 each caused declines in the market averages of between 15% and 20%. We may be confident of the high probability that similar declines will take place this year, even if no deflationary interlude should lie ahead. Under these circumstances, the long-term investor can afford to withhold purchases for another three months.

In the meantime, inflation and deflation will have an opportunity to battle it out. The physical setting will be all deflationary, the mental setting is all inflationary.

The people have become convinced that the long-term outlook is for major inflation in this country, and I agree with them. In that spirit, they look beyond the valley of the conversion period as if it could contain nothing for them to bother about. That is a mass-mood and we must recognize that external events may jolt the people out of it and even reverse it. Whether or not that will happen can best be gauged by the course of the commodity price level.

If conversion goes smoothly, without a wide-open break in commodity prices by April-May, we must concede that the public has taken the bit in its teeth and is in full flight from the dollar. The investor will then have to accept this as his cue to buy stocks for the long pull.

That will be no sheer paradise. Between Sept. 12, 1939 and Feb. 13, 1945, our Federal Government had an inflationary budgetary deficit of over $170 billion, but the Dow-Jones Industrial Average stood at the same level on the two dates and below it during the entire interval, as much as 40% below. This great "inflation" was no automatic profit-maker through average investment in common stocks. Tremendous capital gains were made through appropriate selection, however.

If a crash in commodity prices shakes the people out of their inflationary mood, then 1951 will turn into a year of depression. Future major inflation will still be a practical certainty but, in the interim, business profits and stock prices will follow the commodity markets down.

Continued from page 2

The Security I Like Best

Pacific by about 50% and additional units ordered in the latter part of 1950 will provide the further increase of 20% to a total of 489 units.

The foregoing represents the statement of the thesis. The several points will be elaborated upon in some detail in paragraphs to follow. In the meantime it may be helpful to many to sketch briefly the background and general situation of the Southern Pacific make-up of the transportation system, and the relation to it of the Southern Pacific Company. The latter is best known to the market via Southern Pacific Company stock, the convertible 3s of 1960, the two 4½% debentures, the Oregon Lines 4½s and equipment trust certificate issues.

The 12,454-mile Southern Pacific Transportation System is the southernmost of the so-called "transcontinentals," all of which have their eastern terminal in Chicago or in the longitude of the Mississippi Valley. From the standpoint of mileage, the Southern Pacific transportation system ranks second in the United States, but third by the measure of gross revenues. The transportation system contains three main routes. The southernmost, or "Sunset Route," via the 100% company-owned but separately operated Texas & New Orleans from the coast to New Orleans, is all over system mileage. The "Golden State" route involves connection with the Rock Island at Tucumcari, N. M., and thence to Chicago, by which the Southern Pacific gets about 44% of the haul. The third route—the "Overland Route"—is via the 100%-owned Central Pacific connecting with the Union Pacific at Ogden, Utah, and thence to Chicago. The Southern Pacific receives about a third division on this route. The Southern Pacific enters the St. Louis Gateway via the 88%-controlled St. Louis Southwestern with which it connects at Corsicana, Texas.

By the standards of Eastern carriers, the Southern Pacific is a light-density carrier and, reflecting this, the 1949 report showed only 961 miles of extra main track. The system is thus about 92½% single track. However, compensation for light density is found in above-average freight rate and long average haul. Also, in common with Western carriers, the Southern Pacific enjoys operating expense ratios well under the class I average, although higher than those of certain other Western carriers due to the mountainous character of its line over the Sierras and elsewhere.

The Southern Pacific Company has a dual relationship to the transportation system. It is a holding company, owning, among other things, all of the common stocks of system members as well as of such non-member roads as the Northwestern Pacific and the Pacific Electric Railway as well as of the 1,250-mile Southern Pacific RR. of Mexico, which is not consolidated in any of the Southern Pacific accounts. In addition, the Southern Pacific Company is an operating company, operating under lease the Southern Pacific RR. Co., the Central Pacific and the El Paso & Southwestern as well as the physically owned Oregon Lines and some 10 miles included in the Central Pacific line. The 8,143 miles thus operated, of which 1,318 miles are physically owned, represent about 70% of transportation system mileage and 78% of its revenues. The balance—about 30% of system mileage and 22% of revenues —is represented by the 4,311-mile wholly owned but separately operated Texas & New Orleans.

The Southern Pacific Company also holds a wealth of other assets free and clear, including a large part of the collateral formerly securing portions of $444,423,540 gross amount of debt repaid or refunded in the 1940-46 period. Included in this "liberated" collateral were 120,000 shares or $12,000,000 par value of Pacific Fruit Express stock which on the basis of the 50% Southern Pacific share of the 1949 net of $5,386,942 would seem modestly valued at par.

Other rail holdings include 193,413 shares of St. Louis Southwestern 5% preferred and 132,403 shares or 88% of the common of this road, nicknamed the "Cotton Belt." This stock, like the Pacific Fruit Express stock, is a repositary of "hidden earnings," having paid only $5 per share for 1948-1950, for instance, while net income aggregated $150 per share for these three years since the resumption of the dividend in 1948. This holding, like the Pacific Fruit Express stock, is potentially valuable collateral, but because of its value to the system, can scarcely be regarded as being marketable. Holdings of the Southern Pacific Company that can be regarded as marketable included the following at the 1949 year-end:

$25,000,000 Southern Pacific RR. 1st 2¾s, series D.
$20,000,000 Texas & New Orleans 1st & ref. 3⅜s, series D.
$14,982,250 St. Louis Southwestern 2½% note.
$40,506,000 various U. S. Treasury obligations.
15,756 shares of Standard Oil of California.

For the present there does not seem to be much point in considering such "ultimate recourse" assets as the above. The current financial position of the Southern Pacific is strong with net current assets at $112,271,410 as of Nov. 30, 1950.

The extraordinary growth of the traffic and revenues of the Southern Pacific has been in line with the development of the territory which is said to be the fastest growing section of the country. Probably the most succinct as well as the most eloquent commentary on the growth factor of the Southern Pacific is provided by reference to the accompanying table of gross revenue indices of the several roads, based on 1939 as 100:

	1949	1948	1945	1942	1941
So. Pac.	247	270	272	217	137
Un. Pac.	243	266	300	215	133
Atchison	302	329	330	226	141
Gt. Nor.	231	236	218	180	136
St. Paul	223	239	214	168	131
No. Pac.	235	246	234	187	133
West. Div.	238	266	258	196	132
Class I	215	242	223	187	134

Further evidence of the growth factor is found in the net addition of new industries in system territory, which for the 1946-49 period was as follows:

1946	1,224
1947	948
1948	838
1949	638

This postwar period was selected as being more representative since it excludes the period of industrial migration that was one of the wartime expedients.

The result of the marked industrial development of the Southwest and of the West Coast that began with the decentralization of the war and later prewar industrialization, and which has continued, has been to improve the diversification of the traffic of the Southern Pacific system. While lumber, which represented 18.4% of system revenues in 1949, is still the largest single traffic item, and the system is still largely identified with perishables and other agricultural products, the proportion represented by manufactures and miscellaneous goods increased to 46.1% of system freight revenues in 1949 from 34.1% in 1940. In the same period the corresponding proportion of agricultural products declined from 26.9% to 23.0%. The Southern Pacific is principally a freight carrier. Passenger revenues normally represent less than 10% of the total.

The Southern Pacific was primarily engrossed with its debt reduction and refunding program in the 1940-46 years and achieved the gross retirement of $444.4 million of funded debt exclusive of equipment trust certificates, or $226.8 million after offsetting refundings and the exchange of $32.6 million Central Pacific 4s for the 1974 issue. This, it should be noted, represented a 33% reduction from the 1939 debt total (exclusive of equipment trust certificates) besides eliminating maturities that had been a problem.

With the accomplishment of the debt program, the 1947-49 years particularly were given over to modernization and renewal of property, including dieselization. Outlay for road and equipment in this three-year period totaled $189.8 million, of which about $97.4 million was borrowed and about $92.4 million was paid for out of the road's own cash. However, it is seen that in this period the Southern Pacific Company actually issued $114,315,590 of equipment obligations, some of the proceeds of which carried over into 1950.

A large part of the equipment financing was for dieselization which has had the salutary effect of reducing operating expense ratios as shown by the following:

	Transportation Ratio	Wage Ratio	Total Operat'g Ratio
1950	36.4%	(*)	73.2%
1949	39.5	49.7%	79.0
1948	41.0	48.0	77.8
1947	39.6	48.5	76.0
1946	44.2	56.8	89.0

*Not available.

At the close of 1949, the Southern Pacific was 42% dieselized in freight service, 28% in passenger, and 58% in yard service. It has since been reported that freight service was 47% dieselized as of last October and passenger and yard service were respectively 28.9% and 54% dieselized at the same time. The 82 additional diesel units ordered in September, 1950, should make a further impression on the steadily declining transportation ratio, and it would not seem out of the way to look for a decline of about two points this year, provided the wage-freight rate relationship can be held in balance.

At the same time a 3% gain in revenues can be reasonably estimated. The Shippers Advisory Boards project a 6.5% loadings gain for the coast region in the current quarter but little gain in Texas and the Gulf areas.

This would suggest a 4.6% revenue gain in the first quarter for the Southern Pacific, which might be expected to taper off later in the year as comparisons become less favorable.

However, a 3% gain in gross and a 2% drop in the transportation ratio would be equivalent to about $30 million net before taxes at the current level of revenues, and this would be about $15.3 million after the 49% normal and surtax to be paid (on a consolidated basis) by the Southern Pacific under the present law. Disregarding the $4.1 million after-tax mail pay award of 1950 as a non-recurring item, this would suggest 1951 potential net of $61 million or about $15 per share on the 4,052,117 shares outstanding at the 1950 year-end or almost $13.50 per share on the 4,527,315 shares to be outstanding upon complete conversion of the 3s of 1960. The Southern Pacific EPT credit, unofficially placed at about $18.50 under the present law, would leave plenty of room. However, in the prospects for higher tax rates all estimates may be 'way off.

As to the possibility of an increase in the dividend rate, it can only be observed that in the six regular business days following the declaration of the 50-cent extra last Nov. 17 and to and including the Nov. 27 record date, $6,995,800 of the convertible 3s of 1960 were surrendered for conversion. This was 55% of the total turned to that date and should suggest convincingly the influence of a higher dividend rate in disposing of the 52% balance of some $19½ million of the 3s of 1960.

All told, the Southern Pacific offers an attractive picture, and in view of this it is doubly inviting at an advance of only about 50% from the 1950 low of 49. The relatively restrained advance of Southern Pacific stock is attributed in no small part to the necessity of the market to absorb the additional shares created by conversion of the 3s of 1960. This won't last forever.

Continued from page 3

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

can do. Many people have failed to appreciate that Mr. Hoover was not attempting to outline what would be desirable to do if unlimited manpower and resources were available but only what could in reasonable judgment be done under these present most unfortunate circumstances. Insofar as Dr. Palyi agrees with Mr. Hoover, I agree with him.

* * *

R. S. DAMON
Pres. Trans World Airlines, Inc., New York City

I have read Dr. Palyi's article with great interest. The views which he expresses are certainly worthy of consideration, and the question proposed in his article is one to which I am sure every American is giving deep thought.

* * *

HON. RALPH W. GWINN
U. S. Congressman from New York

Dr. Palyi's article "Are We Falling Into History's Greatest Trap?" is excellent. I quite agree with his conclusion that "a nation that tries to make half the globe impregnable must become a bankrupt garrison." As he says, the cards are not stacked in favor of Russia, and we shall only fall into the very trap Russia prepared for us if we remain in a state of near-mobilization for years.

Dr. Palyi's investigation does not go far enough. He says, "As a layman in military matters, one wonders why we are driving to bankrupt ourselves (and incidentally our allies)." Americans think of their government as moved by their wishes, but today our government is something apart from the people. It has one policy, the citizens have another. What does the government gain by long-term mobilization? It gets $74 billion to spend, to buy machinery and uniforms, and railroad mileage and technicians. It gets war powers. It gets the power to decide virtually what every enterprise shall make, what it shall use for raw materials, whom it may employ and on what terms, and what profits it shall make. The same pattern applies to farmers. Workers are told at what they may work, and at what wage. The press is harassed about newsprint, everybody is harassed about living costs, young men are mobilized in the army, and no political resistance can develop. Everything the government does is bathed in a haze of patriotism.

The dangerous word in Mr. Palyi's article is "we." If "we" (the citizens) should see the light and insist that Palyi's ideas be carried out, what would "we" (the government) do about it? The answer is nothing. Why should they? They have an election coming up in little over a year. They know that are the minority party at best. Would you seriously expect them to give up all that money and power, announce that Russia could be kept in place by small expenditures, and go to the country with unemployment rising, bankruptcies widespread and only the warmed-over welfare state to stir the people?

I am not cynical or hopeless. I believe any government that has had over $200 billion to spend in four years is corrupted and has corrupted the people. But I also believe that whenever the voters are interested enough to rise up and demand a change, they can win.

* * *

W. A. JOHNSTON
President, Illinois Central Railroad

I think Dr. Palyi has done a fine job of summing up the situation in which we find ourselves.

* * *

WALTER LIPPMANN
Washington, D. C.

I agree with much of Dr. Palyi's article, but not all of it.

Where we might differ, if there were time to discuss the whole matter in detail, would be not in general conception but on certain questions of fact and the practical decision.

On the whole I feel that the armament program on which we are now engaged is within the means of this country. But we must watch the size of the ground forces carefully.

* * *

DONALD H. McLAUGHLIN
President, Homestake Mining Company, San Francisco 4, California

Well conceived and intelligently maintained armed forces are obviously a necessity in the face of the Russian threat. Recognition of our effective range and avoidance of commitments impossible to fulfill are essential considerations if our expenditures on armaments are to be kept from growing to proportions that will destroy our economy; and surely the wasteful and useless spending for ill-conceived and worthless "social objectives," for Point IV visions, and various schemes for security must be terminated if inflation and bankruptcy on a national scale are to be avoided.

What we need, as Dr. Palyi points out, is a well balanced program designed to provide the strength we must have and to enable us to utilize our resources with the highest efficiency. Realistic policies that can be consistently followed are essential for effective action. Through lack of such policies, we appear to have lost the initiative to an alarming degree. It is high time we regained a proper measure of it, with the control over conditions—diplomatic, military and economic —that we must have if we are to keep out of the trap of inflation that waste and dissipation of our resources is preparing for us.

* * *

W. B. McMILLAN
President, Hussmann Refrigerator Co., St. Louis 6, Missouri

I am much impressed with Dr. Palyi's reasoning and I suppose I think it's very good because it coincides exactly with my own conclusions in this matter, which, I am afraid, doesn't settle the matter for the world at large but is a view which I am sure would be shared by a great many others if they had opportunity to read Dr. Palyi's observations.

* * *

W. C. MULLENDORE

President, Southern California Edison Company, Los Angeles 53, California

I have read with deep interest the article by Dr. Melchior Palyi entitled "Are We Falling Into History's Greatest Trap?" I find the article very interesting and very helpful in clarifying the situation. I believe that the evidence is overwhelming that our greatest danger is from within and from our own ill-advised policies. A few months ago, I was quite convinced that Russia was preparing for war in Europe this year. I think now that it is quite unlikely, and that Dr. Palyi has marshalled convincing evidence to sustain this conclusion.

I congratulate Melchior Palyi on the article and you for publishing it.

* * *

A. B. PATERSON

President New Orleans Public Service Inc., New Orleans 9, Louisiana

Our fight, it seems to me, is on two fronts; one against a foe on foreign soil and the other at home. I fear more the ideological betrayal of those of our own people in whom we placed special trust than I do the foreign foe.

* * *

J. HOWARD PEW

Philadelphia, Pa.

I have read Dr. Palyi's article with great interest. We are certainly falling into a trap when we send our boys to Korea. Nor would I send them into Europe unless the Western European countries contributed their full share.

* * *

E. A. ROBERTS

President, The Fidelity Mutual Life Insurance Company, Philadelphia, Pa.

While I haven't seen Dr. Palyi lately, I have the most pleasant recollection of a conversation with him in Chicago a year or so ago, where his logic and his brilliance were always apparent.

For this reason, I stopped in the middle of what I was doing to read his statement, and find much of good sense in it. The changing mood of America from hysteria to apathy based largely on poor information is a frightening thing.

If Dr. Palyi's judgments prevail, this country will do a better job to the comfort and salvation of its people and its system.

* * *

C. I. WEAVER

Chairman, The Ohio Fuel Gas Co., Columbus, Ohio

. . . I like Dr. Palyi's article. I think the danger of war with Russia is real. I also think we should build up our war potential sensibly and gradually, and insist on government economy.

B. G. Phillips Co. Opens in New York

Ben G. Phillips and Arthur Root have formed B. G. Phillips & Co. with offices at 11 West 42nd Street, New York City, to engage in the securities business. Mr. Phillips was formerly with Graham & Co. and R. H. Johnson & Co.

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The Supply of Investments

year's developments unfold, the more important determinants will now be summarized.

Factors tending toward an increase in the volume of bonds and notes:

(1) Unprecented expansion.

(2) Higher prices.

(3) Higher taxes.

(4) Higher wages.

(5) Reduced profits flowing from higher taxes, higher wages, price fixing, and lower profit margin on government contracts could reduce the amount available from internal sources.

(6) More favorable treatment given borrowed capital in excess profits determination.

Factors tending toward a decrease in volume:

(1) Shrinkage of accounts receivable (if a runaway price level is avoided, and I am confident it can be) will free a large volume of funds.

(2) Government contracts present no problem of financing.

(3) Increased depreciation charges because of the higher corporate tax rates and the accelerated depreciation authorized by the Certificates of Necessity issued under the Defense Act of 1950.

(4) Reduced dividends because of the higher personal income taxes.

(5) Shortages of materials and manpower will limit expansion more than is now realized.

State, Municipal and Other Local Government Issues

New borrowings by state and smaller governmental bodies for highways, schools and other public facilities reached a record total of $3.5 billion in 1950. Adding this amount to the borrowings of $2.6 billion in 1948 and $2.8 billion in 1941, the total indebtedness of state and local units of government approaches $25 billion. Perspective is given on this borrowing when it is recalled that before 1949 the total never exceeded $20 billion.

In addition to size of the debt, higher prices, lack of raw materials, manpower difficulties, and increasing tax burden will tend to reduce these offerings.

On the other side of the ledger, the greatest internal migration of people in history—some 9,000,000 from rural to city areas, and some 5,000,000 from the rest of the country to the Southwest and Pacific Coast—started by World War II and now revived by the rearmament program, has not been fully digested by the areas involved and will necessitate further borrowing. Also, we must not overlook the increasingly favorable basis for such borrowing, because of the growing value of tax exemption.

On balance, giving due regard to the probability of deeper and wider public realization of the mortal danger which confronts this country, it seems that borrowing for public works should sharply decrease.

Governments

This brings us to the government obligations. I could spend hours analyzing the President's Budget Message, but it would be too depressing. I don't propose to inflict it upon you. Enough to say that Mr. Truman, judging from the message, still seems committed to "guns *and* butter"! He makes it clear that he expects us to pay taxes until it hurts. He makes it equally clear that he has no intention of instituting government economies in expenditures until it hurts! It is to be hoped that the Congress will do something about this; but note, I said "hoped," not "expected"!

Mr. Truman proposed that the budget be put on a pay-as-we-go basis, which means a tax increase of some $16 billion. So long as the Administration and the Congress continue to shy away from a national sales tax, it seems highly improbable that any such *additional* sum can be realized from income, corporate, excess profits and excise taxes. Therefore, *some* additional borrowing seems possible. It should be noted, however, that the extent of the borrowing in the market will largely depend on the ability of the Treasury to sell E bonds. Secretary Snyder's January proposal for extending the terms of the maturing E issues was less favorable than was generally expected. The success, legislative, and financial, of his proposal remains to be seen.

Equities

And now, finally, we come to stocks, in which you gentlemen have little professional but, possibly, considerable personal interest! *If the market continues to boil*, more equities will be offered than the $1 billion of common and preferred which came into the market in 1950. The certainty of reduced profits and increased taxes, however, make the level of stock prices more vulnerable than recent market behavior has indicated. Obviously, if the market does take a downward turn, less stock will be offered.

In any event, the volume of new stock offerings is so small in comparison with the total of other investments that it will not be a vital influence one way or the other, except, of course, psychologically.

In passing, it should be noted that continuation of the strong market for stocks will increase the volume of conversion from bonds to stocks, and thus make the investment problem of those buying bonds just that much more difficult.

Conclusions

In 1951, the overall supply of investments coming to market will probably be somewhat under 1950. Any decline, however, should not be more than 10 to 15%, as the present outlook is that government financing, including some refunding of E bonds, will replace at least a part of the reduction in private financing.

So, on balance, when consideration is given to the abnormally high level of 1950, it would seem that 1951 will still be, relatively speaking, a good year.

William S. Prescott Co. Formed in Boston

BOSTON, Mass. — William S. Prescott has formed William S. Prescott & Co. with offices at 201 Devonshire Street to engage in the securities business. Mr. Prescott was formerly associated with H. C. Wainwright & Co., Lyman W. Phillips & Co. and was an officer of Carver & Co.

C. McGee Rejoins R. W. Pressprich Co.

R. W. Pressprich & Co., 48 Wall Street, New York City, members of the New York Stock Exchange, announce that Cushman McGee is again associated with the firm.

Shethar Co. Admits

Shethar & Company, 120 Broadway, New York City, members of the New York Stock Exchange, will admit John Shethar to limited partnership on March 1.

Public Utility Securities

By OWEN ELY

American Gas & Electric Company

American Gas & Electric established a number of new records in 1950, such as the following:

System Peak Load	2,386,000 KW
System Energy Input	13,525,000,000 KWH
Revenues	$167,765,000
Customers Served	1,147,000
Residential Use per Annum	1,925 KWH
Residential Revenues per KWH	2.80¢

The System serves some 2,160 communities and a total population of 4,165,000. But it is peculiar in that it serves no very large cities—none with a population of over 150,000. This fact is of special interest in view of the trend toward decentralization of industry, and the tendency to place new industrial units in the smaller cities instead of in metropolises—due doubtless to labor problems and fears of bombing.

Despite the large area covered by the System, generating facilities are relatively concentrated, since large plants are more efficient. Locations have been carefully selected with regard to load centers and the availability of both condensing water and fuel. The company's plants are probably the most efficient in the country; three modern 150,000 KW units, for example, operate at a pressure of 2,000 lbs. and 1,050 degrees. Three similar units will go into operation in 1951 and another in 1952; a 200,000 KW unit will also go in that year, and three more in 1953. Operating on a single boiler, these units will have a record thermal efficiency of nearly 38%.

Great efforts have also been devoted to development of an economical supply of coal for these units, so that the combined result should be substantial savings in operation. Also, the company has been active in developing more efficient transmission lines, and after extended research it has designed an extra-high-voltage transmission network, the first link of which is under construction between the Sporn Plant and the new Kanawha River plant. The general increase in high-voltage transmission to around 315 to 345,000 volts should help, over the next decade, to provide the economies needed to offset, in capital costs of transmission facilities, the inflationary factors of the past five years.

As an illustration of the constant struggle against higher prices, Mr. Sporn, in a recent talk before the New York Society of Security Analysts, pointed out that in the past decade the price of bituminous coal at the mine has gone up over 160%. However, since freight charges did not go up as fast, and because lower grade fuels were substituted, the net cost of fuel advanced only 115%. Due to generating economies, energy cost at the switchboard increased only 68% during the decade. Eventually the increase may be held to about 40%, or one-quarter of the increase in coal prices.

Inflationary trends in coal prices have been partially restrained by competitive forces—i.e., potential substitution of oil and natural gas. Moreover, Mr. Sporn thinks "the prospect that we may be on the threshold of the successful application of nuclear fuel," might also exercise a restraining tendency on the prices of other fuels. Further mechanization of the coal mines should not be forgotten as a cost factor.

American Gas & Electric was rather "tight" with respect to capacity at the end of 1949, but in the 1950 peak they were able to "put all their capacity on the line." The new capacity to be installed in 1951 (450,000 KW) will be 50% larger than in 1950; and in the next two years some 950,000 more will be added. This program should build up some reserve margin. The increase in capacity is considered necessary to service the huge amount of defense production expected in this territory over the next two or three years. The company is confident that residential business will also continue to gain, though there may be some shortage of appliances; it is estimated that annual residential usage may reach 2,365 KWH by 1954.

Construction expenditures totaled $265 million in the four years 1947-50, or an annual average of $66 million; but this rate will be exceeded in the coming three years when an expenditure of $291 million is budgeted, or an average of over $97 million per annum. The company's future growth has been projected on the basis that the load will double about every seven years, at least during the period of defense activity. Thus by 1954 input may exceed 20 billion KWH compared with 13.5 billion in 1950. Revenues of $232 million are expected by 1954 vs. the $167 million of 1950.

Because of the dilution resulting from a stock issue late in 1949, share earnings for that year were reduced to $4.31. For 1950 the company will report $4.86, which is a little better than the per-share figures before the new issue in 1949. The company expects to bring out another common stock issue, probably in March, on a 1-for-15 basis (with an over-subscription privilege), or about 340,000 shares. President Sporn thinks that the dilution resulting from the new issue can be offset by earnings on the facilities now being constructed and by new economies, but if a rate increase should prove necessary to maintain earnings, he is confident that the company will be able to obtain it.

Crowell, Weedon Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Charles H. Watt has been added to the staff of Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange.

With Francis I. du Pont

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Frank T. Mittauer is with Francis I. du Pont & Co., 722 South Spring St.

Waddell & Reed Add

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Walter L. Meili and Donald F. Talmo have joined the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

With Halbert, Hargrove

(Special to THE FINANCIAL CHRONICLE)

LONG BEACH, CALIF.—Paul R. Foulke and John T. Wolf have been added to the staff of Halbert, Hargrove & Co., 115 Pine Avenue.

Continued from page 5

Observations . . .

is unparalleled. The yield on the A-E bonds—3.3% annually or 2.9% on the basis of compounding semi-annually over the 10-year period—materially exceeds the return from even inferior obligations. This has represented as it still does, double the yield obtainable from savings banks, and exceeds by almost 50% the investment yield from life insurance policies.

A considerable tax-saving benefit is another privilege conferred on the holders of these bonds—additionally entailing a kind of windfall from succeeding taxation rises. All of the Bonds purchased before March 1, 1941 have been completely tax-free up to $5,000 of holdings (with principal holdings above that amount subject only to surtax).

The Holder's Unique Option

But perhaps the greatest advantage to the Savings Bondholder exists in the continuing money-back *option* given under the full faith and credit of the United States Government—making of the bonds interest-bearing currency. Whereas the law permits even savings banks to delay deposit withdrawals for 60 days, the E-holder can get his money back any time (after 60 days following his purchase). The readers of this column particularly will appreciate the value of this privilege, unique in American finance. Instead of the usual heads-I-lose-tails-you-win arrangement of the corporate *borrower* having the option to terminate the contract through the call feature, here the *lender* holds the termination option, exercisable when his own or external conditions make it advisable. He is making a loan to the United States Government, with the option as to whether it is to be changed from long-term to short-term.

Incidentally, this blanket money-back option is unparalleled in world finance (certain counterparts in Britain and France being much more restricted).

None of our open-market government issues confer the call option to the holder. In the case of our Liberty Loans of World War One, the First Loan sold in 1917 was callable by *the government* (not the holder) any time from 1932 to 1947 and was actually called to take advantage of the cheapened money market in 1935; the Second Liberty Loan, issued Nov. 15, 1917, was callable by the government anytime between 1927 and 1942, and was actually called to the government's advantage in 1927; and the Fourth Loan, issued Oct. 24, 1918, was retired by successive government calls between 1933 and 1938.

"All This and Heaven Too"?

With the acknowledgment of these great advantages over the holders of savings bank deposits, insurance, and other fixed interest obligations, there remains the question whether the Savings Bondholder was or is entitled additionally to a guaranty against loss of purchasing power. First let us—with foresight rather than hindsight—examine the "plight" of the holders of the presently-maturing *D-Bonds* bought in 1941.

Of course their dollars have depreciated drastically, manifested in a 70% rise in the cost of living.[1] But there is nothing unprecedented about this, particularly during wartime.[2] In the decade 1910-1920, the cost of living more than doubled—rising from 68 to 143. The buyer of the Third Liberty Loan in May, 1918, received dollars worth 13% less at its maturity time of 1928.

Likewise over the longer-term have there habitually been wide swings in the value of the dollar, which were not surreptitiously kept hidden from the bond buyer of the early 1940s. During the first quarter of the century, 1900-1925, the purchasing power of the dollar fell by more than half, the cost-of-living rising from 56 to 125; during the second quarter-century the dollar's buying power has fallen less, namely by a quarter. In the earlier period bondholders lost 60% of the purchasing-power value of their dollars, but during the second period only 27%.

A Two-Way Street

It must also be borne in mind that during many intervals the holder of fixed dollar obligations has *benefited* from upward changes in its purchasing power. After World War I the 10-year buyer of 1920 would have gained 17% at his 1930 maturity date, the 1921 buyer 27%, and so on through the 1931 buyers.

Change in purchasing power being neither unprecedented nor a one-way street, it is difficult to discern the justification of using it as an argument to challenge the validity or equity of an otherwise fair contract.

Nor, going behind the quantitative measurements, are the recent and current expansionary credit policies of this Administration being sprung as something unprecedented. The present publicly-aired feud between the Reserve Board and the Treasury has advertised the Reserve's functioning as "an engine of inflation" in its supporting of the government bond market. But already in the early 1930s were the Reserve's open-market operations castigated by such as Carter Glass and Parker Willis, the Reserve Act's architects, as prostituting it into "the doormat of the Treasury." And present expansions of the money supply had their counterparts recurrently through the 1930s.

The Bonds Versus the Stock Market Lure

A kindred complaint being leveled against the Savings Bond program is that it has diverted the individual from more advantageous investment in common stocks. The intensity of this charge is seemingly bound up with the public's current excitement over the luring bull market. In its newly-arrived-at-equity-mindedness; the aversion to cash or fixed interest securities is entailing the baiting of trustees or advisers who utilize them.

But here again, in comparing past performance, selection of the period is vital. Of course, during the past decade's net price inflation, the stockholder has fared much better than the bondholder (cf. for ex., Howard Vultee's article on the cover of this issue of the "Chronicle").

On the other hand, there have been many 10-year periods where the opposite has occurred. Even during wartime is this so. During the earlier years of World War II bonds registered a better performance than did stocks in both England and France. In England between September, 1939, and November, 1941—despite the general price inflation—while equities remained unchanged, Consols advanced 30% and industrial bonds by 8%.

Mr. Donald Kemmerer, Professor of Economics, University of Illinois, has compiled an interesting table (published in the "Chronicle" of Feb. 1, 1951, p. 24) tabulating the comparative 10-year performances of stocks versus bonds in terms of purchasing power changes. This shows that in 10 of the years from 1900 to 1940, a purchase in bonds would have been more advantageous even according to this criterion. Besides, the indictment of bond investment on the basis of hindsight performance of the averages, overlooks the many pitfalls in the way of successful results from common stock management attaintable by the average individual.

That all is not so rosy in the equity world, is manifested by the long-term performance of the most popular stocks. The 20 most popular dividend-paying common stocks (selected on the basis of trading volume) between 1901 and 1936 suffered an average decline of 39%, one-half of the issues shrinking by 50% or more.[3] From 1929 to the present, despite our current bull market, the Dow, Jones Average still shows a net decline of 35%, and in the Standard and Poor's Composite Price Index (comprising one-third of all listed stocks in number, and 90% in market value) there has been an intervening fall of about 15%. Noting the actual equity-investing results obtained in the past by the experts, such as the investment trusts, here and abroad: can it be assumed that the lay saver could have surpassed these overall results?

In any event, the currently circulated demonstrations (often by self-interested sources) of the greater anti-inflation hedging functions of stocks, scaring the very wits out of our dollar-holding citizenry, are in effect misleading and dangerous. They are irrelevant to the question of the worth—past and future—of the Savings Bond, to either the small saver or expert investor. The Bonds have been useful to the former as a valuable instrument of his saving program; to the latter as an integral part of a diversified long-term portfolio.

Definitely—the buyer of U. S. Savings Bonds has NOT been cheated. This is wholly apart from the patriotic motive; any such personal satisfaction he derives constitutes "gravy."

A second instalment of this analysis of the Savings Bond program will appear in our column of next week, and will discuss whether blame for any shortcomings in the Bonds' past performance is chargeable to the Treasury; the status of prospective buyers; the current demands for additional guarantees; and relevant constructive economic policies.

1 Source—Cost of Living Index, Bureau of Labor Statistics.
2 Statistical Abstract.

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

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The Coming Stock Market Decline

tax factor will become progressively less favorable during at least the next 12 to 24 months.

(4) A fourth consideration is the indicated probability of an increase in the floating supply of stocks, in spite of the belated buying by pension funds and trust companies. I believe that the influence of purchases by these groups can be easily exaggerated, and I cannot help but recall that in 1929, there was a widespread belief that the dozens of large investment trusts being formed, plus the increased popularity of stocks as long-term investments, would preclude a substantial decline in the market from that point on.

My suspicion that the floating supply of stocks is increasing, and likely to continue to increase, stems partly from the action of such heavily capitalized companies as General Motors, and the selling schedules called for by various Formula Plans. Purchases by Formula Plan Funds in June, 1949, helped to absorb the floating supply of stocks at that time, and I suspect that the selling by Formula-minded individuals when the Dow-Jones Industrial Average crossed the 225 level last June, had a great deal to do with weakening the technical position of the market by the time war broke out in Korea a few weeks later. An accelerated rate of selling also seems likely by individuals who place emphasis on the duration of market advances. If we date the present rise from June, 1949, the advance is now in its twentieth month. This is slightly in excess of the duration of previous advances following declines which have lasted 15 months or longer.

(5) My final point is that I do not think we should be too shocked or surprised if Mr. Stalin upsets our economy this Spring or early Summer, by either making a real drive for world disarmament, or by resuming his expansion program in Europe. It is quite possible that Stalin's failure to move in Europe during the past three years was due principally to the fact that he had more to gain by waiting for us to rebuild Western Europe while he was strengthening his hold on the satellite countries. Logic would seem to call for either aggressive action or a disarmament drive by Russia before we become strong enough to be in a position to encourage the satellite states to stand up for the rights promised to them at Yalta and Potsdam.

Since our knowledge of international affairs is definitely restricted by the State Department's policy of secrecy and propaganda, I would not want to let this consideration of possible trouble in Europe influence my judgment on the stock market to any great extent. However, it is worth keeping in mind. With the market at current levels, any move by Russia in Europe could have the same influence on our stock market as did the sudden ending of the so-called "phony war" in the Spring of 1940, when stock prices in a few days lost more than they had gained following the outbreak of war in the preceding September. On the other hand, any real peace scare would certainly upset our economy, in view of the terrific amount of forward buying of almost everything from automobiles to paper, because of the fear of both scarcities and higher prices.

Market Risk Now at Maximum

By way of summary, I think that the risks in the market are now very substantial and certainly much greater than they were in 1947, 1948, and 1949, when we still had the benefit of large pent-up demands for peacetime products, some hope of a decline in the tax burden, and a price level in the stock market of only 60% to 70% above the 1938 lows as compared with a rise in the general commodity price indices of 90% to 100% from the 1938 lows. The Dow-Jones Industrial Average is now 150% above the point at which it was an obvious purchase, on the basis of our work, in the Spring of 1942. Commodity prices have risen less than 80% from the levels prevailing during that year. The rise in the stock market from its 1949 low is now about 55%, as compared with a rise in commodity prices of less than 20%. Surely stocks have gone a long way in discounting the inflation in the commodity price level which has taken place so far. With a fair chance that our Federal budget will not be out of balance by the equivalent of more than 2% or 3% of our gross National product, there is some question as to whether the inflation argument in the market has not been overdone, at least from an intermediate point of view.

Market No One-Way Street

I definitely do not believe that the stock market is a one-way street, as I have lived through several periods when this seemed to be the general impression. For the reasons I have outlined, I believe that investors should be selling on balance and limiting their positions in equities to somewhere between 25% and 50% of the amount of stocks they were willing to hold when fundamentals were generally favorable — and when public psychology was the reverse of what it is today. If history continues to repeat itself, in general pattern if not in detail, many weaknesses in individual situations which are now hidden will come to the surface once the decline in the market as a whole gets underway. At that time, the investment of cash will be possible with considerably less risk and greater possible long-term rewards, than is true under the conditions prevailing today.

Collin, Levis Named By Clinton Foods

At the current meeting of the board of directors of Clinton Foods, Inc., Harry E. Collin and William E. Levis were elected directors and members of the executive committee of the company.

Mr. Collin is the senior partner of Collin, Norton and Co., investment bankers of Toledo, Ohio. He is also a director and member of the executive committee of Owens-Illinois Glass Co. and director of National Union Radio, Textileather, Inc., Robert Gair, Inc., and of other corporations.

Mr. Levis is a director and chairman of the executive committee of the Owens-Illinois Glass Company and a director of the New York Central Railroad, Ohio Bell Telephone Company and other corporations.

A. G. Edwards Adds

(Special to The Financial Chronicle)

ST. LOUIS, Mo.—Floyd H. Beatty has become associated with A. G. Edwards & Sons, 409 North Eighth Street, members of the New York and Midwest Stock Exchanges. He was previously with the Mercantile-Commerce Bank & Trust Co.

With Waddell & Reed

(Special to The Financial Chronicle)

OMAHA, Neb.—Harry Knudsen is now affiliated with Waddell & Reed, Inc., of Kansas City.

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News About Banks and Bankers

was merged into Manufacturers Trust Co. in October, 1950, and in his new capacity will serve as a loaning officer and Credit Department manager at the Brooklyn Trust office of Manufacturers Trust.

Manufacturers Trust Co. also announces the opening on Feb. 3 of its new Marine Park office at 2929 Avenue U, corner of Nostrand Avenue, Brooklyn. The new office will be in charge of Raymond P. C. Green as Manager and Daniel J. Brannigan as Assistant Manager. It is the third new office opened by Manufacturers Trust Company in the past three months and brings the total number of the company's offices to 107.

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Approval was given on Jan. 18 by the New York State Banking Department to a certificate of increase of the capital stock of the **Garden City Bank and Trust Company, of Garden City, N. Y.,** from $600,000 to $750,000. The stock is in shares of $10 par value. A. M. Kidder & Co. announce that they have completed an underwriting of 15,000 additional shares of this stock, which were offered to stockholders at $16 per share.

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The First National Bank of New Rochelle, N. Y., increased its capital as of Jan. 17 from $600,000 to $750,000 by a stock dividend of $150,000.

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Dr. Karl T. Compton, Chairman of Massachusetts Institute of Technology, has been named a Class C director of the **Federal Reserve Bank of Boston,** Harold D. Hodgkinson, Chairman of the Board, has announced. Dr. Compton, who has taken a prominent rôle in the development of the atomic bomb, has been Chairman of the Research Board for National Security and a member of the Secretary of War's Special Advisory Committee on the Atomic Bomb. His affiliations cover a wide range of activities, not only in the field of physics, but in business and in community development as well. He has served on the New England Council, on the New England Industrial Research Foundation and on the Boston Community Fund. He is a director of a number of business enterprises. His appointment as a director of the Boston Federal Reserve Bank is for the unexpired term ending Dec. 31, 1953. Dr. Compton will assume his new duties immediately.

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At the annual meeting of the directors of the **Worcester County Trust Company of Worcester, Mass.,** immediately following the stockholders' meeting on Jan. 9, Herbert V. Lindsay, Jr., was elected an Assistant Trust Officer. Mr. Lindsay is in charge of the Tax and Estate Planning Division of the bank's Trust Department. Mr. Lindsay has been with the bank since 1948, having previously been associated with the Equitable Trust Company of Wilmington, Del., for nine years. During World War II he served four years with the U. S. Navy, principally in the Pacific theatre of operations. President Edward L. Clifford, of the trust company, in his report at the stockholders' meeting—his first since becoming President of the bank last July 1—pointed out that the year-end statement of condition reflects the recent increase in the par value of the capital stock from $2,000,000 to $2,500,000.

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At the annual meeting of the **Lincoln National Bank of Newark, N. J.,** on Jan. 16, Arthur F. Ferkel, who had been Assistant Vice-President, was appointed a Vice-President in charge of Personal Credit. The Newark "Evening News" reports that Mr. Ferkel has been with the bank for 20 years. It also states:

"Wilbur E. Dunkel, who has been a Federal Reserve bank examiner, joins the bank as an Assistant Cashier. Horace R. Ward, Manager at the Colonial office, was advanced from Assistant Cashier to Assistant Vice-President. Two other Assistant Cashiers also were made Assistant Vice-Presidents—Edgar N. Caruso, Jr., of the Vailsburg office, and John Deck, of Personal Credit in the main office. Alois K. Koschir, Auditor, was made Controller. William Marold, Manager of the Melrose office, was made an Assistant Cashier."

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The Caldwell National Bank of Caldwell, N. J., was placed in voluntary liquidation at the close of business Dec. 15, having been taken over by the **National Newark & Essex Banking Company of Newark, N. J.;** details of the acquisition were given in our December 14 issue, page 2353. The Caldwell Bank had a capital of $223,950, as follows: $125,000 common, $48,950 preferred "A" and RFC $50,000 preferred "B" Local.

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Effective Jan. 15, an increase was brought about in the capital of the **Peoples National Bank & Trust Co. of Irvington, N. J.,** raising it from $200,000 to $250,000, through a stock dividend of $50,000.

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Announcement was made on Feb. 1 that a proposal for the consolidation of the **Corn Exchange National Bank and Trust Company** and the **Girard Trust Company,** both of **Philadelphia,** has been informally approved by the boards of the two institutions. A detailed plan to effect the combination is being worked out by counsel for both companies. When completed and formally acted upon by each board it will be submitted to stockholders and to governmental banking authorities for approval. It is proposed that stockholders in each bank receive one share of stock in the combined institution for each share presently held. The united bank is to be State-chartered and will be named **Girard Corn Exchange Bank and Trust Company.**

David E. Williams, President of Corn Exchange, will be Chairman of the Board of the combined bank; James E. Gowen, Girard Board Chairman, will be Chairman of the Executive Committee of the board; Geoffrey S. Smith, President of Girard Trust, will be President. There will be four Senior Vice-Presidents of the combined institution: two from the Corn Exchange, George R. Clark and Russell J. Bauer; and two from the Girard Trust, J. Malcolm Johnston and Basil L. Harlow. It is stated that the enlarged institution will provide banking service to businesses and individuals in the communities served by a total of 13 neighborhood, downtown and mid-city offices. Both Girard and Corn Exchange have been growing and expanding in the commercial and correspondent banking, trust, foreign and consumer credit fields. The combined bank will have total resources of more than half a billion dollars. Statements as of Dec. 31, 1950, showed the two present institutions together had total deposits of over $490,000,000 and capital funds, including reserves, of more than $46,000,000.

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The title of the **Security Savings and Commercial Bank of Washington, D. C.,** a State member of the Federal Reserve System was changed, effective Jan. 15 to the **Security Bank.**

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Through a stock dividend of $250,000, the **Third National Bank & Trust Co. of Dayton, Ohio,** increased its capital, effective Jan. 15, from $1,000,000 to $1,250,000.

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George C. Brainard, Chairman of the Board of Directors of the **Federal Reserve Bank of Cleveland,** has announced the appointment of Wilbur T. Blair as Vice-President, Counsel and Secretary, and of Elwood V. Denton as an Assistant Cashier of the bank. Mr. Blair had been Counsel and Secretary of the bank and Mr. Denton had been manager of the bank's personnel department. Mr. Blair became associated with the Federal Reserve Bank more than five years ago. He served first as Assistant Secretary and after six months was appointed Secretary. In 1948, he was appointed counsel of the bank. Mr. Denton joined the Federal Reserve Bank 11 years ago as a research assistant, later becoming senior credit analyst and chief job analyst.

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Three changes were made in the official staff of the **Federal Reserve Bank of Minneapolis** by its board of directors in January, Roger B. Shepard, Chairman, announced. Maurice H. Strothman, Jr., Assistant Vice-President, was advanced to Vice-President; Clem Van Nice, Assistant Cashier, was advanced to Assistant Vice-President, and Kyle Fossum was elected an Assistant Cashier. All other officers were reelected. Mr. Strothman has been with the bank nine years, and after becoming a trust examiner Jan. 1, 1942, was elected Assistant Counsel March 15, 1944. He was elected Assistant Vice-President Dec. 6, 1949. Mr. Van Nice joined the bank in October, 1938, coming from Pierre, S. D. Entering army service in February, 1941, he held rank of Captain in infantry on discharge in March, 1946. He was elected an Assistant Cashier in December, 1949. Mr. Fossum joined the bank in June, 1941, and in April, 1942, joined the armed forces. He was a Lieutenant-Colonel in command of the 68th Finance Disbursing Section when discharged in October, 1947. Since returning to the bank he has been Administrative Assistant to the First Vice-President. The reappointment of Mr. Shepard as a Class C director of the Federal Reserve Bank of Minneapolis was noted in our issue of Jan. 11, page 176.

The appointment of G. R. Milburn as a director of the Helena branch of the Federal Reserve Bank of Minneapolis was announced on Jan. 12 by Mr. Shepard. Mr. Milburn's appointment is for the unexpired portion of W. A. Denecke's term, ending Dec. 31. Mr. Denecke was recently elected to the head office board.

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A change in the name of the **American Exchange National Bank in St. Louis** to the **American National Bank in St. Louis** became effective Jan. 25, according to the Jan. 29 issue of the weekly Bulletin of the Office of the Comptroller of the Currency.

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Delos C. Johns, of Kansas City, Mo., was elected President of the **Federal Reserve Bank of St. Louis** at the regular meeting of the board of directors on Jan. 11. He succeeds Chester C. Davis, who resigned from the bank, effective Feb. 1, to become Associate Director of the Ford Foundation. Mr. Johns was elected for the full term beginning March 1, 1951, and also for the unexpired portion of Mr. Davis' term, Feb. 1-28. Olin M. Attebery was reelected First Vice-President of the Reserve Bank for the term beginning March 1, 1951. Mr. Attebery is presently serving out the unexpired portion of the term of F. Guy Hitt, who resigned Jan. 3 (noted in our issue of Jan. 25, page 453) to reenter private banking in southern Illinois. As specified in the Federal Reserve Act, the President and First Vice-President of a Federal Reserve Bank are elected for five-year terms by the Board of Directors of the Bank, subject to the approval of the Board of Governors in Washington. Mr. Johns' and Mr. Attebery's elections have been so approved.

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Announcement was made on Jan. 25 by J. R. Parten, Chairman of the Board of the **Federal Reserve Bank of Dallas,** of the election of DeWitt Ray as a member of the Federal Advisory Council to represent the Eleventh (Dallas) Federal Reserve District. He succeeds J. E. Woods, Chairman of the Board of the Temple National Bank, at Temple, Texas, whose term ended Dec. 31. Mr. Ray, who is President of the National City Bank of Dallas, has been active in Texas banking circles for 30 years. He is former President of the Texas Bankers Association, the Dallas Clearing House Association and Vice-President of the American Bankers Association.

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A dividend of 19 cents a share, the first of a series of monthly dividends instituted under a new policy, was announced on Jan. 27 by Fred F. Florence, President of the **Republic National Bank of Dallas.** The dividend, amounting to $152,000, was declared on 800,000 shares of the bank's capital stock. It was payable Feb. 1 to stockholders of record as of Jan. 20. The increase in capital and surplus of the Republic National Bank to $32,500,000 became effective Jan. 8 upon approval by the Comptroller of the Currency. This increase of $5,000,000, the result of the sale of 125,000 shares of additional stock, has been divided equally between capital and surplus, raising the capital from $13,500,000 to $16,000,000 and surplus from $14,000,000 to $16,500,000. A previous item regarding the increase appeared in our issue of Jan. 11, page 176.

Glen Facka, formerly of the Bank of America, Los Angeles, recently joined the staff of the Republic National Bank of Dallas as an Assistant Vice-President in charge of the Savings Department.

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Promotions in the official staff of the **Crocker First National Bank of San Francisco,** at the annual meeting of the directors on Jan. 9, were reported as follows:

From Trust Officer to Vice-President and Trust Officer, R. V. Walsh and E. F. Lawrence; from Assistant Trust Officer to Trust Officer, E. T. Hannon and F. P. Gray; from Assistant Cashiers to Assistant Vice-Presidents, F. R. Stent and C. A. Corrasa, both in the New Business Department; Arthur Merkt, Loaning Officer, and H. L. Kaufmann of the Foreign Department; appointed Assistant Cashiers were: Wm. A. Sheehan, Richard M. King, Albert J. Rice, Jr., A. Chas. de Limur and J. D. Middleton.

The stockholders at their annual meeting elected two new directors, Wm. Pflueger, Vice-President of the bank, and Lingan A. Warren, Presidenet of Safeway Stores. Mr. Pflueger joined the bank in 1915. He was elected an Assistant Cashier in 1930 and a Vice-President in 1942.

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Appointment of Kyhl S. Smeby to the position of Assistant Vice-President in the Transamerica Corp. and Bank Relations Department of the **Bank of America National Trust & Savings Association of San Francisco** has been announced by A. J. Cook, Chairman of the Board. The appointment will require Mr. Smeby to spend several months each year in New York and New England with headquarters in Los Angeles. He joined the bank's staff in 1939.

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O. S. Aultman, Cashier of **California Bank of Los Angeles,** marked his 30th year of service with the bank in January. Following various promotions, Mr. Aultman became Assistant Cashier in 1940, Assistant Vice-President in 1943, and assumed his present position as Cashier of the entire California Bank system in 1946.

* * *

The capital of the **Pacific National Bank of Seattle, Wash.,** has been raised from $2,500,000 to $3,000,000, effective Jan. 18, by a stock dividend of $500,000.

Continued from page 5

Merrill Lynch Profits At Record High Level

to the plan since it was organized in 1945.

Mr. Merrill said that investors and the investment industry have a vital part to play in helping build up our military power. "There are two keys to a successful mobilization economy—production and inflation control," he said. "Production comes first because without greatly expanded production we cannot provide the goods we need for our army and our civilian economy. Without expanded production any talk of controlling inflation is idle poppycock.

"The efficient, the practical and the economically sound way to finance this expansion is through the sale of new securities to investors. The needed capital will be readily forthcoming if artificial barriers are not raised in the way."

Mr. Merrill advocated that all corporations seriously consider establishing profit sharing plans, some part of the funds to be invested in the company's own stock. He said that profit sharing provides for a more equitable distribution of the proceeds of industry. Furthermore, he said, "I am convinced production would be stimulated and relations between labor and capital would be greatly improved."

Despite all efforts to increase production there will still be more money available in the hands of consumers in 1951 than there will be goods to buy, Mr. Merrill predicted. It will then be the job of government to step in and soak up the excess purchasing power in the hands of consumers. "It is drastic and unpleasant medicine, to be sure, but is far easier to take than the ravages of inflation," he said. "Sharply higher taxes, materials allocation, price curbs, bond sales and perhaps forced savings will be required.

"Certainly our sacrifices will be inconsequential in terms of the heritage we will be protecting."

Merrill Lynch's annual report disclosed that commissions from the purchase and sale of listed securities accounted for 65% of income, commodity commissions for 12½%, underwriting and unlisted trading brought in 12% and interest and miscellaneous income accounted for 10½%. During 1950 the firm underwrote corporate, municipal and equipment trust securities with a total value of $125,011,250 and arranged the placement of corporate securities valued at $63,300,000 with insurance companies and other large institutional investors.

Two With Merrill Lynch

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—Thomas M. Howard and Ted J. Sork are now with Merrill Lynch, Pierce, Fenner & Beane, 301 Montgomery Street. Mr. Howard was previously with Mitchum, Tully & Co.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

You probably read many articles in the past few days showing how the market was up to a new 20-year high. And if you looked at your own list, you discovered that it was always the other fellow's stock that was up. Yours was about where you paid for it; or less.

* * *

Supposing you wanted to get into the 20-year high class at this late date, you'd have to pay way up for them. So you start looking for bargains; something that "looks higher" and hasn't gone up yet.

* * *

I've been thinking of such stocks over the weekend. I've gone over the list from A to Z. Some show promise but an equal number show nothing. The chief trouble with getting in, or rather on the band wagon, is that once it stops rolling the late jumpers-on may fall off with a resounding thump, damaging not only themselves but what is perhaps more important, the bank account as well.

* * *

The so-called quality stocks, the blue chips, are probably going higher. But because they are reputed to have all the virtues that one looks for, they're selling for high prices. The word "high" is of course a relative term. But any stock which costs 100 or more to buy is high.

* * *

I prefer stocks selling in the low or medium price areas for chiefly one reason. I'm assuming that they're bought for their profit possibilities. But with every purchase there has to be a theoretical level where a sale must be considered. If it advances the sale will become a matter of judgment based on various factors. If it declines action is urgent. How long to hold it; how much lower, etc., etc.

* * *

A high priced stock can go down considerably before it becomes dangerous. A low priced issue can also break sharply, but because it's low priced the loss is seldom permitted to go very far.

* * *

Having given you a lot of semantics, I'll now try to go into the various stocks I think show better than average possibilities from present levels. There is Paramount selling around 22. It looks like 26 in the near future, with a stop at 20½ on the downside. Another is American Bank Note between 15 and 16 (now about 18). Then there is American Steel Foundries between 34 and 35 with a stop at 32.

* * *

There are other stocks I'll talk about in the coming weeks but basically remember that all stocks will be dominated by the market, and the market is close to a top.

[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.]

Continued from page 11

U. S. Production—Target for Termites!

accepted as a fact; for no one challenged or corrected it.

The true and exact facts, of course, are to be found in the government's own official records. They were gathered by two separate agencies, each working entirely independently of the other. The Federal Reserve Board studied the war experience of 3,000 companies, and the Department of Commerce studied 2,000. The results in both cases were exactly the same.

It was found that the bulk of the World War II contracts had, indeed, gone to the 100 largest manufacturing companies in the country, but that these companies had subcontracted the work so liberally that small and medium-sized firms reaped the greatest share of the benefits. Specifically, it was found that the small and medium-sized companies had enjoyed a vastly greater increase in sales, in profits and in assets, than did the larger corporations.

I repeat these facts here because it seems to me that if—in the guise of helping Small Business—any political agency should ever destroy the natural and established channels through which orders flow in and out of our industrial machine — then, indeed the termites will have scored a magnificent victory in their attack upon American production.

Danger of Permanent Regimentation

The third — and perhaps the greatest—danger, I think, lies in the fact that the present emergency may last from 15 to 20 years, according to General Bradley, and that during this time our government will have absolute power over every phase of American economic life. It can fix wages, control prices, regulate credit, and limit—or eliminate—profits. By edict, it can seize existing plants, or create new enterprises to be financed out of taxes or on Federal credit.

In short, these are the same war powers which our government has assumed and relinquished again in the past, but I think we must recognize that for the duration, at least—and perhaps for as long as 15 or 20 years to come—a Socialistic State will be an accomplished fact in America; although a Socialized Economy will not. Wisely used, these tremendous powers could conceivably be the salvation of our democracy; but used unwisely, arbitrarily or maliciously they could easily destroy it. To triumph over Communism and then succumb to Socialism would be an empty victory indeed; because between the two there is no honest difference. In the end, both stand for the death of democracy and the murder of freedom.

To prevent the misuse of these powers and the destruction of private initiative is, to my mind, the most compelling responsibility of every man in this room.

It is our responsibility that we understand fully the problems that confront our government; and that we shirk no burden we should rightfully bear.

It is also our responsibility to see that our government knows and understands the problems of business and does nothing that will prevent the necessary growth of our production.

Finally, it is our responsibility to see that the public is kept clearly informed on both sides, so that our people may be guided by an accurate knowledge of the facts.

Gentlemen, I know of no time in our history when a full, free and open exchange of information between business and government has been more essential to our national welfare.

The Trained Termites won't like it, of course. They don't believe in Free Speech for Business. They may even call it "lobbying."

But it isn't.

I'd call it "Termite Control."

Smithwick Joins Moors & Cabot

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Austin K. Smithwick has become associated with Moors & Cabot, 111 Devonshire Street, members of the New York and Boston Stock Exchanges. Mr. Smithwick was formerly Vice-President of A. W. Smith & Co., Inc. In the past he conducted his own investment business in Portland, Maine.

With Scranton Co

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, Conn.—John P. Welsh is with Chas. W. Scranton & Co., 209 Church Street, members of the New York Stock Exchange.

Continued from page 12

Mutual Funds

ferred Stock Fund, K2 shows net assets of $9,579,880 on Dec. 31, 1950, compared with $9,358,268 a year earlier. Net asset value per share on the 364,779 shares outstanding at the end of 1950 was $26.26, against $22.51 on 415,703 shares at the close of 1949. In addition to $3.71 per share gain in net asset value, the Fund paid special distributions of net realized profits equal to $1.63 per share during 1950.

"National" January Sales Set All-Time Record

Sales of "National" mutual funds for January, 1951, were reported at $4,432,536, by H. J. Simonson, Jr., President of National Securities & Research Corporation, the highest month's sales in the history of the company—up 39% from the previous high monthly sales record made January, 1950.

As of Jan. 31, 1951, the net assets of funds managed by National Securities & Research Corporation were over $88,000,000 — up 37% from a year earlier figure.

The market value of the securities held in the various trust funds on Jan. 31, 1951, exceeded their cost by over $10,800,000.

Stock Series continues to be the largest of the "National Funds" with net assets on Jan. 31, 1951, at over $25,000,000. Net asset value of Stock Series was $6.14 on Jan. 31, 1951 — which compares with $4.77 a year earlier.

Whitehall Fund Makes Special Dealer Concession

Effective Feb. 7, 1951, and continuing through June 30, 1951, the concession to all dealers on regular sales of shares of Whitehall Fund, Inc., is increased to 6% from 5% and the concession on discount sales is increased proportionately. On July 1, 1951 all concessions will revert to those presently applicable. Regular and limited special concessions are set forth below:

Amount of Sale at Regular Offering Price	Effective Sales Load	Dealers' Regular Concessions	Dealers' Special Concessions
Under $25,000	7.00%	5%	6.0%
$25,000 to $49,999.99	5.49%	4%	4.8%
$50,000 to $99,999.99	4.22%	3%	3.6%
$100,000 and over	3.23%	2¼%	2.7%

Whitehall Fund has maintained its relative position in the growing balances fund field but still is comparatively small in size. The allowance of limited special concessions to dealers is intended to stimulate interest and to accelerate the growth of the Fund. It seems to be the best means for eliminating as quickly as possible the inconvenience to dealers and their clients resulting from the fact that quotations on Whitehall Fund are not now available to local newspapers through the Associated Press. This results from the fact that the Fund lacks the necessary number of stockholders to qualify under a recent decision of the Quotations Committee of the National Association of Securities Dealers, Inc., to limit the list furnished to the news service to investment companies having assets of at least $1,000,000 and at least 500 stockholders.

In addition to meeting the primary objective of qualifying Whitehall Fund for the quotation list, allowance of special concessions will be beneficial to dealers in increasing the Fund's size. Smallness has been regarded a disadvantage by some dealers irrespective of the fact that the Fund has established a good investment and dividend record in its 3¾ years of operation and is a member of a large investment company group with the services of experienced management and research organizations.

Dealers now signed with us to sell Whitehall Fund need only execute an added agreement specifically covering the special concessions. Dealers who have not signed must execute both our regular sales agreement and the added agreement. All orders for Whitehall Fund shares received between Feb. 7 and June 30, 1951, will be accepted subject to the signing of the added agreement or both the regular and added agreements, as may be required.

Stein Roe Fund Up 50% in 3 Months

The Stein Roe & Farnham Fund, Inc., has reached a net asset value of $3,000,000, achieving a 50% growth in the past three months, Harry H. Hagey, Jr., President, announced in conjunction with the release of the Fund's 1950 annual report.

In the annual statement, Mr. Hagey reported that since Korea numerous shifts have been made in investments of the Fund to adjust to changed conditions. "Increasing emphasis has been placed," he said, "upon securities which should be able to sustain or improve operating profits under defense preparation and whose earning power should not be too severely affected by higher taxes."

In this readjustment of portfolio, the common stock position of the Fund has been maintained at approximately 60% of funds invested.

"Over the longer term, the most serious risk to the investor is that of continued shrinkage in the purchasing power of the dollar," Mr. Hagey told shareholders. "Until that threat is substantially diminished, or until stock prices seem unrealistically high in relation to earnings, yields and book values, we feel that the common stock position of the fund should be maintained."

Net asset value of the Stein Roe & Farnham Fund was $2,432,427.90 as of Dec. 31, equal to $61.49 a share on the 39,555 shares outstanding. This compares with net assets of $677,868.47 a year earlier, equal to $54.23 a share on the 12,500 shares then outstanding.

Rittenhouse Reports Units to Be Split 10-1

Rittenhouse Fund net assets increased more than 50% during 1950 to $1,199,582.07. The value of each participating unit increased from $104.87 to $107.69. At the same time $3.12 per unit of income and $1.88 per unit of realized capital gains, or a total of $5 per unit was distributed to participants in the Fund. Of the total paid during the year, 33.981% was taxable as a long-term capital gain.

On Feb. 15, 1951, Rittenhouse Fund units will be split ten for one.

Joins A. M. Kidder

(Special to THE FINANCIAL CHRONICLE)

CLEARWATER, Fla. — Thomas D. Richardson is with A. M. Kidder & Co., 405 South Garden Avenue.

John L. Ahbe Adds

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, Fla.—Julian T. Bishop is now associated with John L. Ahbe & Company, 268 South County Road.

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:

	Date	Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Feb. 11	96.7	101.3	99.1	91.5
Equivalent to—					
Steel ingots and castings (net tons)	Feb. 11	1,933,100	2,025,000	1,980,800	1,744,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Jan. 27	6,065,700	6,051,350	5,767,910	4,955,950
Crude runs to stills — daily average (bbls.)	Jan. 27	¶6,483,000	6,505,000	6,388,000	5,470,000
Gasoline output (bbls.)	Jan. 27	21,106,000	20,724,000	20,512,000	18,363,000
Kerosene output (bbls.)	Jan. 27	2,873,000	2,926,000	2,693,000	2,686,000
Gas, oil, and distillate fuel oil output (bbls.)	Jan. 27	9,954,000	9,366,000	10,024,000	7,302,000
Residual fuel oil output (bbls.)	Jan. 27	9,905,000	9,637,000	9,434,000	8,389,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Jan. 27	126,261,000	123,782,000	116,872,000	124,270,000
Kerosene (bbls.) at	Jan. 27	16,446,000	17,177,000	20,335,000	18,449,000
Gas, oil, and distillate fuel oil (bbls.) at	Jan. 27	58,997,000	61,147,000	71,318,000	66,337,000
Residual fuel oil (bbls.) at	Jan. 27	40,378,000	*40,109,000	41,062,000	57,036,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Jan. 27	784,185	779,816	602,376	635,934
Revenue freight received from connections (number of cars)	Jan. 27	725,547	731,518	583,166	573,952
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Feb. 1	$235,102,000	$305,269,000	$154,206,000	$160,683,000
Private construction	Feb. 1	156,215,000	235,369,000	63,439,000	90,540,000
Public construction	Feb. 1	78,887,000	69,900,000	90,767,000	70,143,000
State and municipal	Feb. 1	65,308,000	48,380,000	80,698,000	47,481,000
Federal	Feb. 1	13,579,000	21,520,000	10,069,000	22,662,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Jan. 27	11,375,000	11,175,000	9,415,000	7,500,000
Pennsylvania anthracite (tons)	Jan. 27	974,000	956,000	647,000	726,000
Beehive coke (tons)	Jan. 27	157,900	*162,400	141,600	20,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Jan. 27	278	301	237	222
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Feb. 3	7,099,385	6,969,566	6,602,122	6,062,095
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Feb. 1	159	193	144	199
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 30	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Jan. 30	$52.69	$52.69	$52.69	$46.05
Scrap steel (per gross ton)	Jan. 30	$47.75	$46.08	$45.09	$27.08
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 31	24.200c	24.200c	24.200c	18.200c
Export refinery at	Jan. 31	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Jan. 31	182.500c	180.000c	151.000c	74.500c
Lead (New York) at	Jan. 31	17.000c	17.000c	17.000c	12.000c
Lead (St. Louis) at	Jan. 31	16.800c	16.800c	16.800c	11.800c
Zinc (East St. Louis) at	Jan. 31	17.500c	17.500c	17.500c	9.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Feb. 6	101.39	101.38	101.36	103.79
Average corporate	Feb. 6	116.02	116.02	115.63	116.41
Aaa	Feb. 6	120.02	120.02	119.82	121.46
Aa	Feb. 6	118.80	118.80	118.80	120.02
A	Feb. 6	115.43	115.43	115.04	116.02
Baa	Feb. 6	110.15	110.15	109.60	108.70
Railroad Group	Feb. 6	112.93	112.93	112.19	111.62
Public Utilities Group	Feb. 6	115.82	115.82	116.02	117.40
Industrials Group	Feb. 6	119.20	119.20	119.00	120.43
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Feb. 6	2.39	2.39	2.39	2.22
Average corporate	Feb. 6	2.85	2.85	2.87	2.83
Aaa	Feb. 6	2.65	2.65	2.66	2.58
Aa	Feb. 6	2.71	2.71	2.71	2.65
A	Feb. 6	2.88	2.88	2.90	2.85
Baa	Feb. 6	3.16	3.16	3.19	3.24
Railroad Group	Feb. 6	3.01	3.01	3.05	3.08
Public Utilities Group	Feb. 6	2.86	2.86	2.85	2.78
Industrials Group	Feb. 6	2.69	2.69	2.70	2.63
MOODY'S COMMODITY INDEX	Feb. 6	533.5	530.8	511.1	355.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Jan. 27	204,050	218,278	158,208	178,895
Production (tons)	Jan. 27	242,721	244,416	139,385	208,433
Percentage of activity	Jan. 27	104	104	63	92
Unfilled orders (tons) at	Jan. 27	659,349	705,371	617,245	337,785
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Feb. 2	152.2	152.1	148.9	122.1
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. 20	50,996	51,396	39,378	28,169
Number of shares	Jan. 20	1,547,897	1,553,886	1,248,831	833,639
Dollar value	Jan. 20	$68,725,311	$65,981,391	$48,803,549	$34,501,271
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Jan. 20	51,227	47,785	41,401	29,369
Customers' short sales	Jan. 20	471	514	360	282
Customers' other sales	Jan. 20	50,756	47,271	41,041	29,087
Number of shares—Customers' total sales	Jan. 20	1,467,551	1,377,606	1,256,542	804,312
Customers' short sales	Jan. 20	17,492	18,543	13,677	10,906
Customers' other sales	Jan. 20	1,450,059	1,359,063	1,242,865	793,406
Dollar value	Jan. 20	$58,418,339	$53,607,787	$46,632,342	$29,546,513
Round-lot sales by dealers—					
Number of shares—Total sales	Jan. 20	475,230	365,040	405,690	261,610
Short sales	Jan. 20	------	------	------	------
Other sales	Jan. 20	475,230	365,040	405,690	261,610
Round-lot purchases by dealers—					
Number of shares	Jan. 20	527,470	551,430	419,360	289,140
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Jan. 30	180.5	*180.0	176.8	151.8
Farm products	Jan. 30	197.1	196.4	189.3	156.2
Grains	Jan. 30	189.6	186.2	185.6	160.7
Livestock	Jan. 30	257.0	257.0	241.2	198.0
Foods	Jan. 30	185.2	183.9	181.9	154.5
Meats	Jan. 30	265.5	263.5	257.9	208.1
All commodities other than farm and foods	Jan. 30	169.4	*169.3	167.1	145.9
Textile products	Jan. 30	180.7	180.7	172.4	138.5
Fuel and lighting materials	Jan. 30	136.2	136.2	136.1	131.3
Metals and metal products	Jan. 30	188.7	188.4	187.4	168.9
Building materials	Jan. 30	225.4	*225.4	222.4	192.1
Chemicals and allied products	Jan. 30	144.9	144.9	141.2	115.7

*Revised figure. ¶Includes 588,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES):			
Production of primary aluminum in the U. S. (in short tons)—Month of November	62,276	62,915	35,865
Stock of aluminum (short tons) end of Nov.	14,192	13,731	39,738
BUILDING CONSRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR — Month of November (000's omitted):			
All building construction	$702,243	*$870,390	$620,839
New residential	374,663	*447,326	374,624
New nonresidential	247,337	*329,189	181,684
Additions, alterations, etc.	80,243	*93,875	64,531
CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM — Estimated short-term credit in millions as of Dec. 31:			
Total consumer credit	$20,093	*$19,403	$16,809
Instalment credit	13,478	*13,304	10,890
Sale credit	7,923	*7,805	6,240
Automobile	4,134	*4,175	3,144
Other	3,789	*3,630	3,096
Loan credit	5,555	*5,499	4,650
Noninstalment credit	6,615	*6,099	5,919
Charge accounts	4,227	3,739	3,909
Single payment loans	1,326	*1,298	1,018
Service credit	1,062	*1,062	992
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES— 1935-1939=100—As of Nov. 15:			
All items	175.6	174.8	168.6
All foods	209.5	209.0	200.8
Cereals and bakery products	177.3	177.1	169.2
Meats	247.7	250.0	226.4
Dairy products	191.5	190.6	186.4
Eggs	206.5	207.2	207.8
Fruits and vegetables	193.3	187.0	202.0
Beverages	333.3	343.9	265.3
Fats and oils	154.6	154.6	139.7
Sugar and sweets	185.8	186.3	178.9
Clothing	195.0	193.4	186.3
Rent	125.4	125.0	122.0
Fuel, electricity and refrigeratos	143.7	143.1	139.1
Gas and electricity	96.8	96.8	97.0
Other fuels	200.4	199.4	190.0
Ice	151.8	150.3	146.6
House furnishings	202.3	199.8	185.4
Miscellaneous	160.5	159.5	154.9
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—Month of Nov. (000's omitted)	24,673,060	24,430,996	20,654,764
Revenue from ultimate customers—month of November	440,961,000	435,281,900	391,006,600
Number of ultimate customers at Nov. 30	44,840,531	44,703,490	42,693,499
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of December:			
Earnings—			
All manufacturing	$64.15	*$62.38	$56.40
Durable goods	68.64	*66.54	59.56
Nondurable goods	58.56	*57.19	52.73
Hours—			
All manufacturing	41.6	*41.2	40.0
Durable goods	42.5	*41.9	40.3
Nondurable goods	40.5	*40.3	39.5
Hourly earnings—			
All manufacturing	$1.542	*$1.514	$1.410
Durable goods	1.615	*1.588	1.478
Nondurable goods	1.446	*1.419	1.335
METAL PRICES (E. & M. J. QUOTATIONS)— Average for month of January:			
Copper (per pound)—			
Electrolytic domestic refinery	24.200c	24.200c	18.200c
Electrolytic export refinery	24.425c	24.425c	18.420c
Lead (per pound)—			
Common, New York	17.000c	17.000c	12.000c
Common, St. Louis	16.800c	16.800c	11.800c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	88.709c	80.000c	73.250c
Silver, London (pence per ounce)	76.568d	70.000d	64.000d
Sterling Exchange (Check)	$2.79972	$2.79925	$2.79750
Zinc (per pound)—East St. Louis	17.500c	17.500c	9.763c
Tin (per pound)—			
New York Straits	171.779c	144.940c	76.070c
§§New York, 99% min.	170.779c	143.940c	75.070c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$195.000	$126.240	$71.000
¶Antimony (per pound) (E. & M. J.)	38.742c	35.280c	33.200c
Antimony (per pound), bulk, Laredo	35.462c	32.000c	29.920c
Antimony (per pound), in cases, Laredo	35.962c	32.500c	30.420c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$90.000	$90.000	$69.000
†Cadmium (per pound)	$2.55000	$2.55000	$2.00000
‡Cadmium (per pound)	$2.67500	$2.67500	$2.07500
§Cadmium (per pound)	$2.80000	$2.80000	$2.15000
Cobalt, 97%	$2.10000	$1.80000	$1.80000
Aluminum, 99% plus, ingot (per pound)	19.000c	19.000c	17.000c
Magnesium, ingot (per pound)	24.500c	24.500c	20.500c
**Nickel	50.500c	49.500c	40.000c
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) —Month of October:			
Net railway operating income	$134,629,278	$122,622,396	$46,652,013
Other income	17,741,621	22,842,089	17,522,705
Total income	152,370,899	145,464,485	64,174,718
Miscellaneous deductions from income	4,031,300	4,033,979	2,706,615
Income available for fixed charges	148,339,599	141,430,506	61,468,103
Income after fixed charges	111,135,559	102,549,067	26,721,676
Other deductions	3,272,329	3,583,906	3,369,937
Net income	107,863,230	98,965,161	23,351,739
Depreciation (way & structures & equip.)	36,473,536	36,892,710	34,064,934
Amortization of defense projects	1,279,513	1,368,408	1,360,623
Federal income taxes	86,590,307	81,612,421	21,679,133
Dividend appropriations:			
On common stock	14,065,088	14,788,788	5,240,856
On preferred stock	12,232,312	1,341,893	4,371,855
Ratio of income to fixed charges	3.99	3.64	1.77
ZINC OXIDE (BUREAU OF MINES) — Month of November:			
Production (short tons)	18,980	20,576	10,919
Shipments (short tons)	19,241	19,672	11,594
Stocks at end of month (short tons)	9,997	10,258	10,093

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colburne, N. S., U. S. duty included. §§Tin contained.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Affiliated Fund, Inc., New York
Jan. 26 filed 5,000,000 shares of common stock. **Underwriter**—Lord, Abbett & Co., New York. **Proceeds**—For investment.

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.

● **Alliance Tire & Rubber Co., Ltd. (Israeli)**
Feb. 1 filed 28,770 shares of class A common stock (par five Israeli pounds). **Price**—$50.40 per share (to be offered as a speculation). **Underwriter**—None. **Proceeds**—To construct and equip a modern tire and rubber plant in the State of Israel **Business**—Plans manufacture of tires and other rubber products.

● **Allied Van Lines Terminal Co., Chicago, Ill.**
Jan. 31 (letter of notification) 29,000 shares of class A stock to be offered only to agents of the company. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For construction of a terminal and office building. **Office**—1018 South Wabash Ave., Chicago 5, Ill.

● **American Buyers Insurance Co. of Utah**
Jan. 26 (letter of notification) trust certificates to be issued under a trust agreement and to be offered by William Isaac Lowry and William Ashton McLeod, "by the terms of which a Legal Reserve Stock Insurance Co. is to be activated, or this company is to be converted into a Legal Reserve Stock Insurance Co. when the funds received by the trustees as dividend assignments and accumulations thereto equal $100,000 but not more than $300,000 and capital stock of such Legal Reserve Stock Insurance Co. is to be issued and distributed to the subscribing policyholders on the basis of one share of stock for each $2 in dividends received by the trustees for such trustors." **Underwriters**—None. **Proceeds**—To be placed in either a surplus or reserve fund of Legal Reserve Stock Insurance Co. **Office**—461 Seventh Ave., Salt Lake City, Utah.

● **American Research & Development Corp., Boston, Mass.**
Feb. 1 filed 106,420 shares of common stock (par $1). **Price**—$25 per share. **Underwriters**—None, but subscriptions may be obtained by Estabrook & Co., Harriman Ripley & Co., Inc. and Clark, Dodge & Co., New York, and other members of the NASD. **Proceeds**—To make investments in certain enterprises.

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) being 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. Statement effective Jan. 24.

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.

Armco Steel Corp. (2/26)
Jan. 30 filed a maximum of 884,000 shares of common stock (par $10) to be offered for subscription by common stockholders of record Feb. 26, 1951, on the basis of one-fifth share for each share held; rights to expire on March 14, 1951. **Price**—To be supplied by amendment. **Underwriters**—Smith, Barney & Co. and W. E. Hutton & Co. **Proceeds**—For expansion program and additional working capital.

● **Athey Products Corp., Chicago, Ill.**
Jan. 29 (letter of notification) 10,000 shares of common stock (par $4). **Price**—$7.50 per share. **Underwriters**—F. S. Yantis & Co., Inc., Chicago, Ill. **Proceeds** — To Charles O. Kalman of Captiva, Fla., the selling stockholder.

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.

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.

● **Bever Corp., Miami Beach, Fla.**
Jan. 29 (letter of notification) 400 shares of non-voting 10% cumulative preferred stock. **Price**—At par ($500 per share). **Underwriter**—None. **Proceeds**—To expand business and for development of new drugs and drug ideas. **Office**—1440 Alton Road, Miami Beach, Fla.

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.

Brown Co., Berlin, N. H.
Jan. 25 filed 144,151 shares of $5 cumulative convertible preference stock (no par) and 144,151 shares of $3 cumulative second preference stock (no par), together with voting trust certificates representing the same, to be offered in exchange for 144,151 shares of $6 cumulative convertible preferred stock on basis of one share of each class of preference stock for each share of $6 preferred stock. **Underwriter**—None, but Georgeson & Co. will solicit exchanges.

Canyon Gold, Inc., Cripple Creek, Colo.
Jan. 22 (letter of notification) 5,000,000 shares of capital stock. **Price**—At par (1¢ per share). **Underwriter**—Melson Allen Cleek, of Spokane, Wash. **Proceeds**—For mining operations. **Office**—209 East Bennett St., Cripple Creek, Colo.

Central Illinois Electric & Gas Co. (2/21)
Jan. 29 filed 80,000 shares of common stock (par $15) to be offered to common stockholders at rate of one share for each seven shares held on or about Feb. 21, 1951, with an oversubscription privilege; rights to expire March 8. **Price**—To be supplied by amendment. **Dealer-Managers**—Stone & Webster Securities Corp. and Allen & Co., both of New York. **Proceeds**—For construction program.

Central Illinois Light Co. (2/13)
Jan. 25 filed 100,000 shares of common stock (no par) to be offered to common stockholders of record Feb. 13 at rate of one share for each eight shares held, with an oversubscription privilege subject to subscription rights of employees to expire on Feb. 28. Rights to stockholders to expire on March 2, 1951. **Price**—To be supplied by amendment. **Underwriters**—Union Securities Corp.; Lehman Brothers; White, Weld & Co.; and A. C. Allyn & Co., Inc.—Proceeds—For expansion program.

Central Louisiana Electric Co., Inc.
Jan. 25 filed 250,297 shares of common stock (par $10) and 21,480 shares of 4.5% preferred stock (par $100), of which the preferred stock and 214,800 shares are to be offered in exchange for shares of common stock of Gulf Public Service Co., Inc., on basis of 4/10ths of a share of common and 1/25th of a share of preferred for each Gulf common share. The remaining 35,497 common shares are reserved for possible future issuance and sale by the company to holders of common stock then outstanding. **Underwriter**—None. **Purpose**—To acquire not less than 429,600 shares (80%) of Gulf common stock.

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.

Coconut Products, Inc.
Jan. 25 (letter of notification) 4,000 shares of preferred stock (par $50) and 8,000 shares of common stock (par $1) to be offered in units of one preferred and two common shares. **Price**—$52 per unit. **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—460 West 24th Street, New York 11, N. Y.

Consolidated Edison Co. of N. Y., Inc. (2/27)
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 at 11 a.m. (EST) on Feb. 27.

● **Consolidated Engineering Corp., Pasadena, California**
Jan. 25 (letter of notification) 1,840 shares of common stock (par $1) to be issued upon exercise of stock options held by Robert L. Smallman and Robert Sink. **Price**—At 100/115th of $5 per share. **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.

● **Continental Copper & Steel Industries, Inc.**
Jan. 29 (letter of notification) 11,000 shares of common stock (par $2). **Price**—At market (about $8.25 to $8.75 per share). **Underwriter**—Dansker Brothers & Co., Inc., New York. **Proceeds** — To three selling stockholders. Placed privately to a limited number of investors.

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.

Crown Finance Co., Inc., New York
Jan. 25 (letter of notification) $50,000 of 5% subordinated debentures due May 1, 1980. **Price**—At principal amount in denominations of $1,000, $500 and $100 each. **Underwriter**—Hodson & Co., Inc., New York. **Proceeds**—For working capital.

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. (2/14)
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. Statement effective Jan. 26.

● **Devereux & Simon, Washington, D. C.**
Jan. 29 (letter of notification) $60,000 of 6% real estate trust notes to mature on or before three years (in denominations of $400 each). **Underwriter**—None. **Proceeds**—To finance purchase of real estate. **Office**—1025 Connecticut Ave. N. W., Washington, D. C.

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.
Dec. 29 filed 57,846 shares of cumulative preferred stock, series A (par $50), convertible into common stock prior to Jan. 1, 1961, to be offered initially for subscription by common stockholders at rate of one share of preferred for each eight common shares held. **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. Proposal temporarily abandoned.

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.

● **First Investment Co., Columbus, Ohio**
Jan. 25 (letter of notification) $150,000 of registered debentures (in denominations of $1,000 and $100 each). **Underwriter**—None. **Proceeds**—To make secured loans and to enter into factoring agreements. **Office**—55 East State St., Columbus 15, Ohio.

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.

● **General American Oil Co. of Texas**
Feb. 5 filed 90,748 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—Sanders & Newsom, Dallas, Texas. **Proceeds**—For working capital and to acquire and develop oil and gas properties.

General Instrument Corp.
Jan. 2 filed 221,715 shares of common stock (par $1) of which 121,715 shares are being offered to common stockholders of record Feb. 5 at the rate of one share for each four shares held, with an oversubscription privilege; rights will expire Feb. 21. The remaining 100,000 shares are being offered to certain executives and key employees of the company and its subsidiaries. **Price**—$9.50 per share. **Underwriters**—Hirsch & Co., New York;

M. M. Freeman & Co.; Emanuel Deetjen & Co.; Butcher & Sherrerd. **Proceeds**—To expand plant facilities.

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.

● **Goodrich (B. F.) Co.**
Jan. 29 (letter of notification) 5,073 shares of common stock (no par). **Price**—At market about $43 per share), but not less than $40 per share. **Underwriter**—None, but Goldman, Sachs & Co., New York, will act as agent. **Proceeds**—For working capital.

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.

● **Hawkeye-Security Insurance Co., Des Moines, Iowa**
Jan. 29 (letter of notification) not to exceed $27,000 participating interest in the Profit-Sharing and Retirement Plan during the calendar year. Eligible employees may deposit not less than $30 nor more than $300 each in any one year.

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.

Indianapolis Power & Light Co.
Jan. 9 filed $6,000,000 of first mortgage 2⅞% bonds due Feb. 1, 1981. **Underwriters**—Halsey, Stuart & Co. Inc. awarded issue on Feb. 7. **Price**—Reoffering planned at 101.515 to yield 2.80% to maturity. **Proceeds**—For construction program. Statement effective Jan. 26.

Indianapolis Power & Light Co.
Jan. 9 filed 196,580 shares of common stock (no par) being 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**—$28 per share. **Underwriters**—Lehman Brothers; Goldman, Sachs & Co.; and The First Boston Corp. **Proceeds**—For construction program.

● **Investment Trust of Boston, Boston, Mass.**
Jan. 31 filed 200,000 shares of beneficial interest. **Price**—At market. **Underwriter**—Securities Co. of Mass., Boston, Mass. **Proceeds**—For investment.

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.

Kansas-Nebraska Natural Gas Co., Inc. (2/10)
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 on a 17-day standby at rate of one share for each five shares held; unsubscribed shares to be offered to employees. **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. Offering expected about Feb. 10.

King Bros. Productions, Inc., Hollywood, Calif.
Jan. 19 (letter of notification) 300,000 shares of common stock to be offered first to present stockholders in proportion to their present holdings; thereafter to employees; and any unsubscribed shares to public. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To make motion pictures and for general corporate purposes. **Office**—4376 Sunset Drive, Hollywood 27, Calif.

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.

Kingsburg Cotton Oil Co.
Jan. 24 (letter of notification) 5,000 shares of capital stock (par $1). **Price**—At market (about $4.25 per share). **Underwriter**—None. **Proceeds**—To Fewel Brothers, Inc., the selling stockholder. **Address**—P. O. Box 277, Kingsburg, Calif.

● **Kingsburg Cotton Oil Co., Kingsburg, Calif.**
Jan. 29 (letter of notification) 5,000 shares of capital stock (par $1). **Price**—$4.25 per share. **Underwriter**—None. **Proceeds**—To John H. Dinkins, the selling stockholder. **Address**—P. O. Box 277, Kingsburg, Calif.

Laclede-Christy Co., Chicago, Ill.
Jan. 29 filed 50,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—Paul H. Davis & Co., Chicago. **Proceeds**—For working capital.

NEW ISSUE CALENDAR

February 8, 1951
United New Jersey RR. & Canal Co. Noon (EST) .... Bonds

February 10, 1951
Kansas-Nebraska Natural Gas Co., Inc. .... Preferred & Com.

February 13, 1951
American Telephone & Telegraph Co. .... Debentures
Central Illinois Light Co. .... Common

February 14, 1951
Brilhart Plastics Corp. .... Common
Dansker Realty & Securities Corp. .... Pfd. & Com.
Facsimile & Electronics Corp. .... Class A
Pittsburgh & Lake Erie RR. Noon (EST) .... Equip. Trust Ctfs.

February 15, 1951
Taylorcraft, Inc. .... Common

February 16, 1951
Lake Superior District Power Co. .... Common

February 20, 1951
New England Power Co. .... Bonds
Southern California Edison Co. 10:30 a.m. (PST) .... Bonds

February 21, 1951
Central Illinois Electric & Gas Co. .... Common
Connecting Ry. Co., noon (EST) .... Bonds

February 26, 1951
Armco Steel Corp. .... Common
Tennessee Gas Transmission Co. .... Bonds

February 27, 1951
Consolidated Edison Co. of New York, Inc. 11 a.m. (EST) .... Bonds
Standard-Thomson Corp. .... Debentures

March 1, 1951
Television Ventures, Inc. .... Common

March 7, 1951
West Penn Electric Co. .... Common

March 8, 1951
Virginia Electric & Power Co. .... Preferred

March 20, 1951
Pennsylvania Power Co. .... Preferred

March 27, 1951
Consumers Power Co. .... Bonds

March 30, 1951
American Gas & Electric Co. .... Common

April 2, 1951
Detroit Edison Co. .... Common

April 3, 1951
Potomac Edison Co. .... Bonds
Southern Co. .... Common

April 24, 1951
Monongahela Power Co. .... Bonds

June 5, 1951
Georgia Power Co. .... Bonds

July 17, 1951
Mississippi Power Co. .... Preferred

September 11, 1951
Alabama Power Co. .... Bonds

● **Lake Superior District Power Co. (2/16)**
Feb. 5 filed 41,845 shares of common stock (par $20) to be offered to common stockholders of record Feb. 16 on a one-for-five basis. **Price**—To be supplied by amendment. **Underwriters**—Robert W. Baird & Co., Inc., Milwaukee, Wis. **Proceeds**—For new construction.

● **Lake Superior District Power Co.**
Feb. 5 filed $2,000,000 first mortgage bonds series D, due March 1, 1981. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Otis & Co.; Robert W. Baird & Co., Inc. **Proceeds**—For expansion program.

● **Lakeville Water Co., Lakeville, Conn.**
Jan. 25 (letter of notification) 1,200 shares of common stock to be offered first to stockholders of record Feb. 2, 1951; rights to expire on Feb. 28, 1951. **Price**—At par ($25 per share). **Underwriter**—None, but unsubscribed shares will be offered at private sale to public through the Salisbury Bank & Trust Co., as agents, at par. **Proceeds**—For expansion program.

Lexa Oil Corp., Conrad, Mont.
Jan. 19 (letter of notification) 1,200,000 shares of common stock (par 1¢), to be offered initially to stockholders of record Jan. 19 on a one-for-two basis; rights to expire March 7. **Price**—25 cents per share to stockholders; 30 cents to public. **Underwriter**—Tellier & Co., New York. **Proceeds**—To drill wells and develop leases.

● **Madison (Arthur A.), Inc., Montgomery, Ala.**
Jan. 31 (letter of notification) 800 shares of 6% preferred stock and 200 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To erect buildings, build homes and deal in real estate. **Office**—121½ Monroe Street, Montgomery, Ala.

● **Madison Park Development Corp., Montgomery, Alabama**
Jan. 31 (letter of notification) 1,600 shares of 5% preferred stock and 400 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To erect buildings, build homes and purchase property. **Office**—121½ Monroe Street, Montgomery, Ala.

● **Massachusetts Investors Trust, Boston, Mass.**
Feb. 6 filed 1,912,755 shares of beneficial interest. **Underwriter**—Vance, Sanders & Co., Boston, Mass. **Business**—Investment.

● **McGraw (F. H.) & Co., Hartford, Conn.**
Jan. 29 (letter of notification) 9,000 shares of common stock (par $2). **Price**—$10.75 per share. **Underwriters**—Granbery, Marache & Co. and Bear, Stearns & Co., New York. **Proceeds**—To Clifford S. Strike, the selling stockholder. **Office**—780 Windsor St., Hartford 1, Conn.

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.

● **Mid-America Research Corp., Kansas City, Mo.**
Jan. 29 (letter of notification) 128,500 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For organization, research and development. **Office**—413 Bryant Bldg., Kansas City, Mo.

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.

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**—Manufacturers of gas and electric water and space heaters. Request to withdraw SEC statement filed Jan. 29.

● **Missouri Edison Co.**
Jan. 29 (letter of notification) 12,683 shares of common stock (par $5), of which 10,344 shares are to be offered to stockholders, 344 shares to employees and 1,995 shares to underwriters. **Price**—$8.25 per share. **Underwriter**—Blair, Rollins & Co. Inc., New York. **Proceeds**—For construction of electric utility plant.

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.

New England Power Co. (2/20)
Jan. 24 filed $12,000,000 of first mortgage bonds, series D, due Feb. 1, 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; Equitable Securities Corp. and Blair, Rollins & Co. Inc. (jointly). **Proceeds**—To repay bank loans and for new construction. **Bids**—To be published about middle of February.

New Hampshire Electric Co.
Jan. 25 filed 15,000 shares of $4.50 cumulative preferred stock (par $100) and 140,000 shares of common stock (no par). Of the latter, 130,100 shares are to be offered for subscription by common stockholders of New England Gas & Electric Association (parent) at rate of one New Hampshire share for each 12 New England common shares held. **Underwriter**—To be determined by competition biddnig. Probable bidders: The First Boston Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co., Inc. (latter for preferred only). **Proceeds**—To retire $2,425,000 of 2⅞% bonds and the remainder to retire 4½% preferred stock of New England.

● **Norden Laboratories, Lincoln, Neb.**
Jan. 31 (letter of notification) 11,055 shares of capital stock to be offered first to stockholders on basis of one share for each two shares held; unsubscribed shares to be publicly offered. **Price**—$25 per share to stockholders, and $26.50 to public. **Underwriter**—Ellis, Holyoke & Co., Lincoln, Neb. **Proceeds**—For working capital and to produce anti-hog cholera serum and other pharmaceutical products. **Office**—227 North 9th Street, Lincoln, Nebraska.

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.

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.

Pan American Milling Co.
Jan. 24 (letter of notification) 200,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To purchase machinery and equipment, to construct a mill in Mexico and for general corporate purposes.

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● **Piasecki Helicopter Corp., Morton, Pa.**
Feb. 2 (letter of notification) not to exceed 5,000 shares of capital stock. **Price**—At market (approximately $35 per share). **Underwriter**—None. To be offered through regular brokers acting as agent for the seller. **Proceeds**—To A. Felix du Pont, Jr., the selling stockholder.

● **Piper Aircraft Corp., Lock Haven, Conn.**
Feb. 5 (letter of notification) 25,000 shares of common stock (par $1). **Price**—At market on New York Curb Exchange (about $3.50 per share). **Underwriter**—None, but sale will be made through Josephthal & Co., New York. **Proceeds**—To William T. Piper, President, the selling stockholder.

● **Pittsburgh-Continental Oil Co.**
Jan. 31 (letter of notification) 2,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To acquire leaseholds and equipment and for working capital. **Office**—4403 Center Ave., Pittsburgh 13, Pa.

● **Pulse Publishing Co., Washington, D. C.**
Jan. 29 (letter of notification) 18,000 shares of preferred stock and 950 shares of common stock. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—To develop, promote, print and publish a news and opinion magazine to be called "Pulse Magazine." **Office**—930 F Street, N. W., Washington 4, D. C.

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. Angus 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. **Offering**—Reported made on Feb. 2. Statement effective Jan. 31.

● **Saul (B. F.) Co., Washington, D. C.**
Jan. 26 (letter of notification) $75,000 of 4½% promissory notes of Joseph and Rose Berger. **Proceeds**—To reimburse company for funds advanced to issuers.

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 California Edison Co. (2/20)
Jan. 29 filed $35,000,000 of first and refunding mortgage bonds, series C, due Feb. 15, 1976. **Underwriters**—To 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. **Proceeds**—To retire bank loans and for construction program. **Bids**—Tentatively expected to be received up to 10:30 a.m. (PST) on Feb. 20.

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 Natural Gas Co.
Dec. 18 filed 155,546 shares of common stock (par $7.50) being 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.
Jan. 8 filed 150,799 shares of common stock (par $1) being 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. Statement effective Jan. 30.

Southwestern Public Service Co.
Jan. 12 filed 233,576 shares of common stock (par $1) being offered for subscription by common stockholders of record Jan. 31, 1951, on a 1-for-13 basis, with an oversubscription privilege; rights to expire Feb. 14. **Price**—$14.75 per share. **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. Statement effective Feb. 1.

● **Standard-Thomson Corp. (2/27)**
Feb. 2 filed $1,500,000 of 5% sinking fund debentures, series B, due Sept. 1, 1967, with common stock warrants attached. **Price**—To be supplied by amendment. **Underwriters**—Lee Higginson Corp. and P. W. Brooks & Co., Inc., New York. **Proceeds**—To pay off RFC note, to repay bank loans and for working capital.

● **State Bond & Mortgage Co., New Ulm, Minn.**
Feb. 5 filed $1,500,000 of accumulative savings certificates, series 1207-A and $15,000,000 of accumulative savings certificates, series 1217-A. **Underwriter**—None. **Business**—Investment.

● **Suburban Water Co., Oklahoma City, Okla.**
Feb. 1 (letter of notification) $294,000 of first mortgage bonds dated Jan. 1, 1951 and due Jan. 1, 1976. **Price**—102% and accrued interest. **Underwriter**—Wachob-Bender Corp., Omaha, Neb. **Proceeds**—To retire presently outstanding debt and for corporate purposes.

● **Taylorcraft, Inc., Conway, Pa. (2/15)**
Feb. 5 (letter of notification) 150,000 shares of common stock. **Price** — At par ($2 per share). **Underwriter** — Graham & Co., Pittsburgh, Pa. **Proceeds**—For working capital, to pay as due the obligations of the Ohio corporation which it has assumed.

● **Television Ventures, Inc., New York (3/1)**
Feb. 1 (letter of notification) 49,000 shares of common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For organizational and general operating expenses. **Office**—55 West 42nd Street, New York, N. Y.

Tennessee Gas Transmission Co. (2/26)
Jan. 26 filed $35,000,000 of first mortgage pipeline bonds due Feb. 1, 1971. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly). **Proceeds**—To repay bank loans and for expansion program.

● **Thomas (F. C.), Inc.**
Jan. 30 (eltter of notification) 2,644 shares of 6% cumulative preferred stock, class B. **Price**—At par ($50 per share). **Underwriter** — None. **Proceeds** — For working capital to pay for store equipment and salable merchandise. **Business**—Owns and operated chain of retail food stores. **Office**—422 East State Street, Olean, N. Y.

Utah Home Fire Insurance Co.
Jan. 9 (letter of notification) 10,000 shares of capital stock (par $10), to be first offered to stockholders of record Jan. 19 for subscription on or before Feb. 28, 1951, on basis of one share for each six shares held. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—47 West South Temple, Salt Lake City 1, Utah.

● **Virginia Electric & Power Co. (3/8)**
Feb. 1 filed 100,000 shares of preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriter**—Stone & Webster Securities Corp., New York. **Proceeds**—For construction expenditures. **Offering**—Expected in March. Preferred stockholders will vote March 2 on approving issuance of the new securities.

● **Vulcan Iron Works, Wilkes-Barre, Pa.**
Jan. 30 (letter of notification) not to exceed 30,000 shares of common stock (par 50 cents). **Price** — At market (about $3 per share). **Underwriter**—Straus & Blosser, Chicago, Ill. **Proceeds**—To John A. Roberts, Chairman of the Board, who is the selling stockholder.

● **Vulcan Silver-Lead Corp., Wallace, Idaho**
Jan. 29 (letter of notification) 17,500 shares of common stock (par $1). **Price**—$3.08 per share. **Underwriter**—J. A. Hogle & Co., Spokane, Wash. **Proceeds**—To Callahan Zinc-Lead Co., the selling stockholder. **Offering**—Made on Feb. 1, with oversubscription reported.

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.

West Penn Electric Co. (3/7)
Jan. 31 filed 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.

Westerly (R. I.) Automatic Telephone Co.
Dec. 1 (letter of notification) 7,000 shares of common stock to be offered to stockholders of record Dec. 9, 1950, of which total 4,434 shares will be subscribed for by New England Telephone & Telegraph Co. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—38 Main St., Westerly, Rhode Island.

● **Western Gold Mines, Inc., Carson City, Nev.**
Jan. 25 (letter of notification 14,400 shares of common stock (par 10 cents), to be issued in exchange for $14,400 principal amount of 5% convertible notes held by Mrs. Ruth H. Brown. The conversion privilege will expire on March 1, 1951.

Wilson Brothers, Chicago, Ill.
Jan. 19 (letter of notification) 4,000 shares of common stock (par $1). **Price**—$7.12½ per share. **Underwriter**—Cohu & Co., New York. **Proceeds**—To Sheboygan Chair Co., Inc., the selling stockholder. No general public offer planned.

● **Young (Thomas) Orchids, Inc., Bound Brook, New Jersey**
Feb. 1 (letter of notification) 2,500 shares of common stock (par $1) of which 1,100 shares are being reoffered (1,000 sold Jan. 29 at $37 per share and 40 on Jan. 30 at $40 per share). **Price**—Of remaining 1,400 shares at market (about $37 per share). **Underwriter** — Smith, Barney & Co., New York. Proceeds—To two selling stockholders.

● **Zetka Television Tubes, Inc.**
Jan. 26 (letter of notification) 39,150 shares of common stock (par 10 cents). **Price**—75 cents per share. **Underwriter**—Hugh J. Devlin, New York 5, N. Y. **Proceeds**—To Emanuel M. Siegel, the selling stockholders. Statement later withdrawn.

● **Zetka Television Tubes, Inc.**
Jan. 26 (letter of notification) 117,450 shares of common stock (par 10 cents). **Price**—75 cents per share. **Underwriter**—Hugh J. Devlin, New York. **Proceeds**—Equally to Emanuel Abrams, Meyer Bonuck and Allen H. Shindel, who each will loan one-half of net proceeds to company who will use same for working capital. **Office**: 131-137 Getty Avenue, Clifton, N. J.

Prospective Offerings

● **Alabama Power Co. (9/11)**
Feb. 6, it was stated that company contemplates issuance and sale of $10,000,000 first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co., Inc.; Harriman Ripley & Co., Inc.; Shields & Co. and Salomon Bros. & Hutzler (jointly); Drexel & Co.; The First Boston Corp.; Lehman Brothers. **Proceeds**—For expansion program. **Bids**—Tentatively expected to be opened on Sept. 11.

American Gas & Electric Co. (3/30)
Jan. 26 company announced that an offering of about 340,000 additional shares of common stock will be made to stockholders on or about March 30, 1951 on the basis of one share for each 15 shares held, together with an oversubscription privilege. **Price**—To be filed by amendment. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc. and Goldman, Sachs & Co. (jointly); The First Boston Corp.; Union Securities Corp.; Dillon, Read & Co. Inc., who will name compensation. **Proceeds**—To be invested in equity securities of the operating subsidiaries as part of the plan for financing the American Gas & Electric System's large construction program. **Registration**—Expected about Feb. 28.

● **Appalachian Electric Power Co.**
Feb. 5 it was stated the company plans to issue and sell about $18,000,000 of first mortgage bonds in May or June (it had been reported on Jan. 26 that consideration was being given to issuance of about $50,000,000 of bonds). **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Union Securities Corp. (jointly); The First Boston Corp.; Harriman Ripley & Co., Inc. **Proceeds**—For property expansion and improvements, on which company may expend up to $90,000,000 during the next three years.

● **Arkansas Louisiana Gas Co.**
Feb. 1 it was announced company plans issuance and sale of $27,500,000 new first mortgage 3% bonds, the proceeds to be used to repay bank loans ($20,125,000 at Nov. 30, 1949), to retire $3,500,000 funded debt incurred in 1950 and for construction program. The sale of these bonds is contingent upon approval by SEC of Arkansas Natural Gas Corp.'s plan to split itself into two new companies. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Lazard Freres & Co. (jointly); Union Securities Corp.; Smith, Barney & Co.; Equitable Securities Corp.

● **Arkansas Natural Gas Corp.**
Feb 1 announced unexchanged new 3¾% preferred stock (issuable in exchange for 6% preferred stock on basis of $10.60 of new preferred for each old share, under proposal to split company into two units) may be sold publicly.

● **Arkansas Power & Light Co.**
Feb. 6 it was reported that the company will sell $8,000,000 additional first mortgage bonds, probably in late summer or early fall. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp. and Central Republic Co. (jointly); Union Securities Corp.; The First Boston Corp.; White, Weld & Co. **Proceeds**—For construction program, estimated to cost about $20,000,000 in 1951.

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.

● **Atlantic City Electric Co.**
Jan. 29, it was announced that the stockholders will on April 10 vote on a proposal to increase the authorized cumulative preferred stock from 100,000 to 150,000 shares. Previous preferred stock financing was handled by private placement through Union Securities Corp. and Smith, Barney & Co.

● **Boston Edison Co.**
Jan. 30, J. V. Toner, President, announced that company plans to issue $32,000,000 of securities to aid in financing its construction program, which, it estimated, will cost $65,300,000 through 1954. He added that no common stock financing is planned until 1955.

Byers (A. M.) Co.
Jan. 25 L. F. Rains, President, revealed that the company is considering a plan to refinance its 7% cumulative participating preferred stock (par $100), about 50,000 shares outstanding. These shares are redeemable at 110 and accrued dividends. Holders may be offered in exchange a new convertible preferred stock, plus common stock. Company being advised by Blyth & Co., Inc., and Fahnestock & Co.

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 $15,000,000 first mortgage bonds now being publicly offered.

Central Illinois Electric & Gas Co.
Jan. 25 stockholders approved a proposal to issue and sell publicly 25,000 shares of preferred stock (par $100). **Underwriters**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Proceeds**—For construction program. **Offering**—Tentatively expected in March.

Chicago, Milwaukee, St. Paul & Pacific RR.
Jan. 24 there were talks of issuing $60,000,000 of refunding bonds. In event of sale by competitive bidding, probable bidders may include Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co.

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.

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.

● **Connecticut Ry. Co. (2/21)**
Bids will be received in the company's office at 44 East Lancaster Avenue, Ardmore, Pa., on or before noon (EST) on Feb. 21 for the purchase from it of $12,728,000 first mortgage bonds, series A, to be dated March 1, 1951 and to mature March 1, 1976. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Blyth & Co., Inc.; Union Securities Corp.; The First Boston Corp. **Proceeds**—To redeem a like amount of first mortgage bonds due March 15, 1951.

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.

Consumers Power Co. (3/27)
Jan. 26 company sought Michigan P. S. Commission authority to issue $40,000,000 of first mortgage bonds with interest not exceeding 2⅞% and maturing not earlier than 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Kuhn, Loeb & Co. and Union Securities Corp. (jointly); Harriman Ripley & Co., Inc. and The First Boston Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly); Morgan Stanley & Co.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly). **Proceeds**—To redeem $5,300,000 of first mortgage bonds, to repay $8,000,000 of bank loans and for 1951 construction program. **Bids**—Expected to be opened on March 27. **Registration**—Scheduled for Feb 23.

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.

Detroit Edison Co. (4/2)
Jan. 29 it was announced company plans to offer about 850,000 shares of additional common stock to its stockholders on the basis of one share for each ten shares held. **Price**—At par ($20 per share). **Underwriter**—None. **Proceeds**—For construction program.

Detroit Steel Corp.
Jan. 30 the management disclosed that it had approved plans to double the company's ingot capacity to 1,290,000 tons annually and to increase its finishing capacity from the present 180,000 tons to more than 1,000,000 tons at the company's Portsmouth, Ohio, works. The expansion program is estimated to cost about $50,000,000. The method of financing is being determined. In January of 1950, $15,000,000 of bonds were placed privately.

● **Food Machinery & Chemical Corp.**
Jan. 29, P. L. Davies, President, announced an expansion program which will involve well in excess of $25,000,000, to be financed, in part, by the issuance of $25,000,000 of debentures. Later it is probable rights may be given to stockholders to purchase additional common stock, possibly by the end of 1952 or early 1953. Traditional underwriters: Kidder, Peabody & Co.; Mitchum, Tully & Co.

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. (6/5)
Jan. 8 it was reported company may issue and sell $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**—Tentatively expected to be opened on June 5.

● **Gibraltar Steel Corp., Trenton, Mich.**
Jan. 29 it was announced company is being formed to operate a $100,000,000 fully-integrated steel plant with a capacity of 700,000 tons of ingots annually, to be built at Trenton, Mich. C. S. Eaton, of Otis & Co., who will be Chairman of the Board, stated that no public offering of securities would be involved.

● **Granite City Steel Co.**
Jan. 26 it was announced that company plans to offer additional common stock to common stockholders following proposed 2-for-1 split-up of 497,201 shares and change in par value from no par to $12.50 per share to be voted upon March 13. Traditional underwriter: Merrill Lynch, Pierce, Fenner & Beane, New York.

● **Greenwich Gas Co., Greenwich, Conn.**
Feb. 7 stockholders were to vote on approving issuance and sale of 60,000 additional shares of common stock at $5 per share to common stockholders on a 2.045-for-1 basis and to issue and sell 8,000 additional shares of preferred stock. **Underwriter**—F. L. Putnam & Co., Boston, Mass.

● **Gulf Power Co.**
Feb. 6, it was reported that this company may sell securities "for new money" this year. In event of preferred stock issue, probable bidders may be Kidder, Peabody & Co. and White, Weld & Co. (jointly); Equitable Securities Corp.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Harriman Ripley & Co., Inc. But definite plans have not as yet been formulated.

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.; 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**—May be indefinitely deferred as company may be able to finance 1951 expansion program without recourse to outside borrowing.

● **Idaho Power Co.**
Feb. 6, it was reported that this company will raise $18,500,000 through sale of securities this year. It is believed that this financing will be through sale of mortgage bonds and preferred stock. Bond financing may be private, while preferred stock may be underwritten by Wegener & Daly Corp., Boise, Idaho. Proceeds would go toward expansion program, which, it is estimated, will cost nearly $23,000,000 for 1951.

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 reported that $20,000,000 of new consolidated mortgage bonds will be issued. Probable underwriter—Kuhn, Loeb & Co., New York. No immediate financing expected.

● **Illinois Power Co.**
Jan. 29 Illinois Commerce Commission authorized company to construct a $16,700,000 steam-electric generating station on the Illinois River, near Hennepin, Ill. Initial installation is scheduled for completion in 1953. Probable underwriters for equity financing: The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane.

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.

● **Laclede Gas Co.**
Jan. 30, R. W. Otto, President, stated it appears likely that the company will sell additional mortgage bonds some time this year to finance its 1951 construction requirements. During the current fiscal year, he said, about $10,000,000 may be spent for new construction, of which more than $4,000,000 had been spent up to Dec. 31, 1950. It was also stated that the company is giving serious consideration to early refinancing of its outstanding $19,000,000 3½% bonds due Feb. 1, 1965, and $6,500,000 3½% bonds due Dec. 1, 1965, through the issuance of possibly $28,000,000 of new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Goldman, Sachs & Co.; White, Weld & Co.; Lehman Brothers and Merrill Lynch, Pierce, Fenner & Beane (jointly).

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 facilitiies. Plan on Jan. 25 indefinitely postponed.

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.

● **Long Island Lighting Co.**
Jan. 31, Edward F. Barrett, President, said an increase in the number of common shares is in prospect to assist in financing construction. These shares will be first offered to stockholders. How much stock will be issued has not yet been determined. Probable bidders may include W. C. Langley & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.

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.

● **Mississippi Power Co. (7/17)**
Feb. 6, it was reported that this company contemplates the issuance and sale of $4,000,000 of preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders: W. C. Langley & Co., Glore, Forgan & Co. and Sterne, Agee & Leach (jointly); Blyth & Co., Inc.; The First Boston Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly). **Proceeds**—For construction program. **Bids**—Tentatively expected to be received on July 17.

Monongahela Power Co. (4/24)
Dec. 1 it was announced company plans issuance and sale of $10,000,000 of first mortgage 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. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co.; Harriman Ripley & Co., Inc. **Proceeds**—For expansion program. **Offering**—Tentatively expected on April 24, with SEC registration on March 23.

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,

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Pierce, Fenner & Beane, New York, was the principal underwriter of a common stock offering in April, 1949. Stockholders on Jan. 30 voted the issuance of 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. 24 it was estimated that $32,000,000 of new financing will be required prior to Dec. 31, 1952 (including the $12,000,000 of bonds filed with SEC). Between 70,000 to 80,000 shares of preferred stock may be initially offered. Probable bidders: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; W. C. Langley & Co. Proceeds to be used to repay bank loans and for construction program.

New York, Chicago & St. Louis RR.
Jan. 25 it was reported that in event company refunds its outstanding $36,057,700 6% preferred stock (par $100), with dividend arrearages of $45 per share, probable bidders for a new preferred stock with a lower dividend rate may include Blyth & Co., Inc. The 6% preferred is callable at $110 per share, plus accrued dividends.

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.

● **Niagara Mohawk Power Corp.**
Jan. 26, it was announced company may sell late this year or early 1952 about $15,000,000 of additional common stock to finance part of its $150,000,000 construction program scheduled for 1951, 1952 and 1953. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and White Weld & Co. (jointly); Morgan Stanley & Co.

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 Power & Light Co.**
Jan. 29 company applied to FPC for authority to construct a $33,000,000 power plant on the Lewis River in the State of Washington. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Lehman Brothers; Blyth & Co., Inc.; White, Weld & Co. and Harris, Hall & Co. (Inc.) (jointly); Blair, Rollins & Co. Inc. and Carl M. Loeb, Rhoades & Co. (jointly); Kidder, Peabody & Co.; W. C. Langley & Co. and First Boston Corp. (jointly).

● **Pennsylvania Power Co. (3/20)**
Jan. 31 company notified SEC it proposes to issue and sell 40,000 shares of preferred stock (par $100) to public (in addition to 40,000 shares of common stock to Ohio Edison Co., parent, at par, $30 per share). Underwriter—To be determined by competitive bidding. Probable bidders: Kidder, Peabody & Co. and White, Weld & Co. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); First Boston Corp.; and Blyth & Co., Inc. (jointly); Lehman Brothers; Smith, Barney & Co.; Harriman Ripley & Co., Inc. **Proceeds**—For construction program. **Registration**—Expected about Feb. 16. **Bids**—To be opened around March 20.

Pennsylvania Power & Light Co.
Jan. 26 it was announced that an offering of 40,000 shares of preferred stock is expected to be announced shortly. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp. and Drexel & Co. (jointly); Blyth & Co., Inc.; White, Weld & Co.; Harriman Ripley & Co., Inc. **Proceeds**—To finance, in part, the company's expansion program.

● **Pitney-Bowes, Inc.**
Feb. 5 directors voted to submit to stockholders on April 4 a plan to increase authorized preferred stock by 60,000 shares in order to have such shares available in the event that future conditions require new financing. Latest preferred stock financing was placed privately through The First Boston Corp.

● **Pittsburgh & Lake Erie RR. (2/14)**
Bids will be received by the company, at 466 Lexington Ave., New York, N. Y., up to noon (EST) on Feb. 14 for the purchase from it of $5,300,000 equipment trust certificates, to be dated March 1, 1951, and to mature $530,000 annually on March 1 from 1952 to 1961, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Portland General Electric Co.
Jan. 27, Thomas Delzell, Chairman, said that the $20,000,000 Deschutes River project, temporarily being financed by short-term borrowings and bank loans, will be refinanced later by the sale of long-term bonds and common stock. The latest stock financing was handled by Blyth & Co., Inc. Probable bidders for bonds may be Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler and Shields & Co. (jointly); First Boston Corp.; Harriman Ripley Co., Inc.

Potomac Edison Co. (4/3)
Dec. 1 it was announced that company plans to issue $10,000,000 of first mortgage 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); Lehman Brothers; Equitable Securities Corp.; Drexel & Co. **Proceeds**—For expansion program. **Offering**—Expected on April 3 with SEC registration tentatively scheduled for March 2.

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.
Jan. 18 stockholders approved a proposal to increase 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. No public financing planned at present.

Rhinelander Paper Co., Rhinelander, Wis.
Jan. 22 it was reported company plans issuance and sale, without preemptive rights by stockholders, of about 100,000 shares of common stock (par $5). **Underwriter**—A. G. Becker & Co., Chicago. **Proceeds**—For new construction and working capital.

St. Louis-San Francisco Ry.
Jan. 19 it was reported that in event company issues and sells $70,000,000 of refundnig mortgage bonds, probable bidders may include Halsey, Stuart & Co. Inc., and Blyth & Co., Inc.; Kuhn, Loeb & Co.

Salem Gas Light Co.
Jan. 26 company applied to SEC for authority to issue and sell to common stockholders 30,236 additional shares of capital stock (par $10) to common stockholders on the basis of two new shares for each three shares held. New England Electric System (parent), owner of 42,138 shares (92.9%) of the 45,353 outstanding shares, will subscribe for 28,092 shares, plus any not subscribed for by the minority stockholders. **Price**—$15 per share. **Proceeds**—To repay bank loans and advances from parent, and the remainder for expansion program.

● **Schering Corp.**
Feb. 2 it was reported that the company's entire common stock issue (440,000 shares) was expected to be registered with the SEC in the near future and offered for sale probably in March to the highest bidder by the Office of Alien Property. Probable bidders: A. G. Becker & Co. (Inc.), Union Securities Corp. and Ladenburg, Thalmann & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; F. Eberstadt & Co.; Allen & Co.; new company to be formed by United States & International Securities Corp.; Dillon, Read & Co.; F. S. Moseley & Co.; Riter & Co.

Sharon Steel Corp.
Jan. 29 it was announced that as a preliminary to financing some phases of the corporation's $49,000,000 expansion program, stockholders will be asked to vote at the annual meeting March 22 to increase the debt ilmit of the company to $30,000,000 and to increase authorized capital stock to 2,500,000 from 1,000,000 shares. At present, the company has 925,863 shares outstanding. The company's expansion plan, recently announced, will sharply increase ingot capacity, pig iron and coke output and finishing facilities. The additions and improvements are to be completed over the next five years.

● **Southern California Edison Co.**
Jan. 29 it was announced that following the proposed bond sale (filed with SEC), it is intended to raise an additional $58,600,000 through the sale of securities. The type of securities involved and time of offering have not yet been determined. The proceeds will be used for expansion program.

● **Southern Co. (4/3)**
Feb. 6 it was reported that the company plans to issue an additional 1,000,000 shares of common stock (par $5). **Underwriters**—To be determined by competitive bidding. Probable bidders: Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Union Securities Corp. and Equitable Securities Corp. (jointly); Blyth & Co., Inc.; Lehman Brothers; Harrimon Ripley & Co., Inc. **Proceeds**—For construction program. **Bids**—Expected to be opened on April 3. **Registration Statement**—Scheduled to be filed with SEC on March 2.

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 150,799 additional shares of common stock filed with SEC on Jan. 8.—see preceding columns).

Texas Gas Transmission Corp.
Jan. 3 company asked FPC permission for approval of a $42,300,000 construction program, which will include the building of 580 miles of pipe line to supply natural gas in its own mid-Western service area and in Appalachian markets. The program would increase the capacity of the Texas-to-Ohio pipe line system to over 900,000,000 cubic feet per day. Tentative plans include the sale of around $30,000,000 bonds (which may be placed privately with insurance firms) and about $10,000,000 of preferred stock (depending upon market conditions). The balance of the funds needed will be obtained from treasury cash or temporary bank loans. Traditional underwriter is Dillon, Read & Co. Inc., New York.

Texas & Pacific Ry.
Jan. 24 it was stated that in event company issues and sells $36,000,000 of refunding mortgage bonds, probable bidders may include Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Kuhn, Loeb & Co.

● **Transcontinental Gas Pipe Line Corp.**
Feb. 2 it was reported directors on Feb. 14 will consider a plan to issue and sell $26,500,000 of preferred stock, the proceeds of which are to be used to retire a like amount of notes which mature on May 1, 1951. Probable underwriters: White, Weld & Co. and Stone & Webster Securities Corp. Expected in March.

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.; Salomon Bros. & Hutzler, Dick & Merle-Smith and R. W. Pressprich & Co. (jointly); The First Boston Corp.; Lehman Brothers; Kidder, Peabody & Co. **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.

● **Virginia Electric & Power Co.**
Feb. 1 it was announced that (in addition to proposed issue and sale of 100,000 shares of preferred stock (par $100) filed with SEC on Feb. 1) further financing in 1951 is anticipated in an amount which may aggregate $25,000,000. The proceeds will go toward company's construction program.

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.

Continued from page 8

Dealer-Broker Investment Recommendations

& Co., 15 Broad Street, New York 5, N. Y.

"Report To Our Clients, 1950"—Brochure—Georgeson & Co., 52 Wall Street, New York 5, N. Y.

Uncle's Paper Turkeys — An analysis of market trends—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Watching Service — Brochure describing a new service planned to help an investor keep posted on his securities by sending brief items of important developments on securities in which he is interested — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

* * *

American & Foreign Power Company—Analysis—Abraham & Co., 120 Broadway, New York 5, N. Y.

American Telephone and Telegraph Company—Table of related values — New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Anaconda Copper Mining Company—Bulletin—Sills, Fairman & Harris, Inc., 209 South La Salle Street, Chicago 4, Ill.

Also available are data on **Columbia Gas System, Inc.**, and a memorandum on **Oak Manufacturing Co.**

Ashland Oil & Refining Company—Circular—Faroll & Co., 209 South La Salle Street, Chicago, Illinois.

Also available is a study of **Greyhound Corporation.**

Ben-Hur Products, Inc.—Memorandum—Holton, Hull & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Also available is a memorandum on **Foote Bros. Gear & Machine Co.** and **McDonnell Aircraft Corp.**

Brown Company—Analysis of proposed new preferreds — L. S. Jackson & Co., Ltd., 132 St. James Street, West, Montreal, Que., Canada.

Chadbourn Hosiery Mills — Memorandum — R. S. Dickson & Co., Wilder Building, Charlotte 1, N. C.

Also available is a memorandum on **National Life & Accident Insurance Co.**

Cutler-Hammer, Inc.—Analysis —Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available is a memorandum on **Kaiser Aluminum & Chemical Corp.** and bulletins on **Mississippi River Fuel Corporation, Federated Department Stores, Link Belt Company,** and **International Harvester Co.**

Elliot Company — Analysis — David A. Noyes & Co., 208 South La Salle Street, Chicago 4, Ill.

Also available is a brief study of **Louisville & Nashville Railroad Company.**

Foreign Power Securities Corporation, Limited—Analysis—Nesbitt, Thomson & Co., Ltd., 355 St. James Street, W., Montreal, Que., Canada.

Helicopter Air Service, Inc. — Analysis—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Illinois.

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

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

Northern Indiana Public Service—Memorandum—Josephthal & Co., 120 Broadway, New York 5, N. Y.

Rhodesia Broken Hill Development Co., Ltd.—Report on zinc and lead producer — New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

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

Also available is a memorandum on **Gear Grinding Machine Co.**

Sylvania Electric Products, Inc. —Study of the company in peace or in war—Paine, Webber, Jackson & Curtis, 24 Broad Street, New York 4, N. Y.

Also available is a comparative analysis of 36 representative **Banks** as of Dec. 31, 1950.

Vicana Sugar Co. — Special memorandum—Edelmann & Capper, 29 Broadway, New York 6, N. Y.

United States Radiator Corporation—Detailed analysis of the 6% cumulative preferred stock—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Warren Petroleum — Analysis, outlining growth prospects—Halle & Stieglitz, 52 Wall Street, New York 5, N. Y.

Welex Jet Services — Memorandum — Laird & Co., Nemours Building, Wilmington 99, Del.

Halsey, Stuart Group Offers Equip. Tr. Ctfs.

Offering of $2,415,000 The Nashville, Chattanooga, & St. Louis Ry. 2½% equipment trust certificates, series G, due annually Feb. 1, 1952-1966, inclusive, is being made today (Feb. 8) by Halsey, Stuart & Co., Inc. and Associates. The certificates are priced to yield from 1.90% to 2.65%, according to maturity. Issuance of the certificates is subject to authorization of the Interstate Commerce Commission.

The certificates will be secured by the following new standard-gauge railroad equipment estimated to cost $3,021,422; six 1,500-horsepower Diesel electric road locomotive "A" units, ten 1,500-horsepower Diesel electric general purpose locomotive units and five 1,200-horsepower Diesel electric switching locomotive units.

Associated with Halsey, Stuart & Co. Inc. in the offering are: R. W. Pressprich & Co., Freeman & Company, and McMaster Hutchinson & Co.

Oakes & Company Is Formed in Miami Beach

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, Fla.—J. Lowell Oakes, Jr., has formed Oakes & Company with offices at 605 Lincoln Road to engage in the securities business. Associated with him will be A. L. Pennock Smith.

SITUATION WANTED

Wholesaler & Dealer Contact Representative Available

Knows dealers throughout the United States and Canada. Willing and able to travel. Will relocate if necessary. Box P 1026, Commercial and Financial Chronicle, 25 Park Place, New York 7, N. Y.

Joins Stewart, Scanlon

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Leonard J. Smith is now affiliated with Stewart, Scanlon & Co., 216 Montgomery Street, members of the San Francisco Stock Exchange. He was formerly with Davies & Mejia.

DIVIDEND NOTICES

AMERICAN GAS AND ELECTRIC COMPANY

Common Stock Dividend

• A regular quarterly dividend of seventy-five cents (75c) per share on the Common capital stock of the Company issued and outstanding in the hands of the public has been declared payable March 10, 1951, to the holders of record at the close of business February 13, 1951.

W. J. ROSE, Secretary.

February 1, 1951.

CANCO AMERICAN CAN COMPANY

PREFERRED STOCK

On January 30, 1951 a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable April 2, 1951 to Stockholders of record at the close of business March 15, 1951. Transfer books will remain open. Checks will be mailed.

EDMUND HOFFMAN, *Secretary.*

Atlas Corporation

33 Pine Street, New York 5, N.Y.

Dividend No. 37
on Common Stock

A regular quarterly dividend of 40¢ per share has been declared, payable March 22, 1951, to holders of record at the close of business on February 28, 1951 on the Common Stock of Atlas Corporation.

WALTER A. PETERSON, *Treasurer*

February 3, 1951

ALLIS-CHALMERS MFG. CO.

COMMON DIVIDEND NO. 107

A regular quarterly dividend of seventy-five cents (75¢) per share on the issued and outstanding common stock, without par value, of this Company has been declared, payable March 31, 1951, to stockholders of record at the close of business March 5, 1951.

PREFERRED DIVIDEND NO. 18

A quarterly dividend of eighty-one and one-quarter cents (81¼¢) per share on the 3¼% Cumulative Convertible Preferred Stock, $100 par value, of this Company has been declared, payable March 5, 1951, to stockholders of record at the close of business February 20, 1951.

Transfer books will not be closed.

Checks will be mailed.

W. E. HAWKINSON,
Secretary and Treasurer.

February 1, 1951.

American

INVESTMENT COMPANY OF ILLINOIS

81ST CONSECUTIVE DIVIDEND ON COMMON STOCK

The Board of Directors declared a regular quarterly dividend on the Common Stock of 40 cents per share, payable March 2, 1951, to stockholders of record February 15, 1951.

D. L. BARNES, JR.
Treasurer

January 29, 1951

Financing the Consumer through nation-wide subsidiaries—principally:

Public Loan Corporation
Loan Service Corporation
Ohio Finance Company
General Public Loan Corporation
Citizens Finance Company

DIVIDEND NOTICES

EATON MANUFACTURING COMPANY

Cleveland 10, Ohio

Wishes to inform its shareholders of record close of business February 5, 1951, that Dividend No. 111 of Fifty Cents (50¢) per share will be paid on March 3, 1951, by order of the Board of Directors.

H. C. STUESSY, *Secretary*

February 5, 1951

THE DAYTON POWER AND LIGHT COMPANY

DAYTON, OHIO

19th Consecutive Quarterly Dividend

The Board of Directors has declared a regular quarterly dividend of 50c per share on the Common Stock of the Company, payable on March 1, 1951 to stockholders of record at the close of business on February 14, 1951.

GEORGE SELLERS, Secretary

February 2, 1951

THE FLINTKOTE COMPANY

30 ROCKEFELLER PLAZA — NEW YORK 20, N. Y.

A quarterly dividend of $1.00 per share has been declared on the **$4 Cumulative Preferred Stock** payable March 15, 1951 to stockholders of record at the close of business March 1, 1951.

A quarterly dividend of $.50 per share has been declared on the **Common Stock** payable March 10, 1951, to stockholders of record at the close of business February 24, 1951.

CLIFTON W. GREGG,
Vice-President and Treasurer

February 7, 1951

BENEFICIAL INDUSTRIAL LOAN CORPORATION

DIVIDEND NOTICE

Dividends have been declared by the Board of Directors as follows:

CUMULATIVE PREFERRED STOCK
$3.25 Dividend Series of 1946
$.81¼ per share
(for quarterly period ending March 31, 1951)

COMMON STOCK
Quarterly Dividend of $.37½ per share and in addition an Extra Dividend of $.12½ per share

The dividends are payable March 31, 1951 to stockholders of record at close of business March 15, 1951.

PHILIP KAPINAS
Treasurer

January 23, 1951

OVER 600 OFFICES — Personal Finance Co. Loans — IN U.S. AND CANADA

DIVIDEND NOTICES

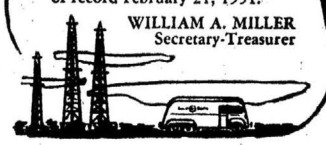
TECHNICAL OIL FIELD SERVICES

LANE-WELLS COMPANY

Dividend Notice

The Directors have declared a quarterly dividend of 60 cents per share on the common stock, payable March 15, 1951, to stockholders of record February 21, 1951.

WILLIAM A. MILLER
Secretary-Treasurer



NATIONAL CONTAINER CORPORATION

On February 5, 1951, a **regular quarterly dividend of 20c per share** was declared on the Common Stock of the National Container Corporation, payable March 10, 1951 to all stockholders of record February 20, 1951.

HARRY GINSBERG,
Treasurer.

PEPPERELL FABRICS REG. U.S. PAT. OFF.

100th *Dividend Year!*

PEPPERELL MANUFACTURING COMPANY

Boston, February 1, 1951

A regular quarterly dividend of Seventy-five Cents (75¢) and an extra dividend of Fifty Cents (50¢) per share have been declared payable February 15, 1951, to stockholders of record at the close of business February 8, 1951.

Checks will be mailed by the Old Colony Trust Company of Boston, Dividend Disbursing Agents.

PAUL E. CROCKER, *Secretary*

160 State Street, Boston, Mass.

TISHMAN REALTY & CONSTRUCTION CO. INC.

DIVIDEND NOTICE

The Board of Directors declared a quarterly dividend of thirty-five cents (35¢) per share on the Capital Stock of this corporation, payable March 27, 1951, to stockholders of record at the close of business March 15, 1951.

NORMAN TISHMAN, *President*

THE ***West Penn Electric Company***

(INCORPORATED)

QUARTERLY DIVIDEND DECLARED

Common Stock
50¢ per share

Payable on March 19, 1951 to stockholders of record on March 1, 1951.

H. D. McDOWELL,
Secretary

February 7, 1951.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—If anything can be reckoned as a certainty in this capital of confusion, it is that the Federal Reserve Board will make little progress in persuading Congress to go along with its death-bed conversion to higher interest rates.

The Administration's opposition already has been made clear in the action of President Truman in calling the Board and the Open Market Committee to the White House to let these gentlemen know that Mr. Truman means it when he says the 2½% rate is to stick for the duration.

There was also released belatedly the views of two members of the Council of Economic Advisers, Chairman Leon H. Keyserling and member John D. Clark. The two attacked completely the fundamental thesis of the Board's position on higher interest rates, namely, that they would curb inflation and that overall curtailment of bank credit expansion was desirable. There is a presumption that Roy Blough, the third member of the CEA, goes along with the Reserve Board, but his adherence to the cause will not decisively help it at this time.

* * *

Among the 435 members of the House and 96 members of the Senate, it may be doubted more than a score of Representatives or half-dozen Senators can actually comprehend the technical argument that by raising interest rates, credit can be curtailed. The overwhelming majority would be inclined to react, as did Chairman Joseph C. O'Mahoney of the Joint Economic Committee, when Marriner S. Eccles presented this idea to the committee recently. O'Mahoney said, in substance:

You mean what you are asking is that at a time when we are freezing everybody's wages and raising everybody's taxes you are proposing that banks and other big interests shall have a raise in pay through higher interest rates so that taxpayers can pay them more money.

This is the simple demagogic way in which this issue would be regarded if it were ever put to a test vote, but even a test vote is remote. The published views of the 400 economists would be regarded practically as naught.

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There is more to it than this, however, for the Federal Reserve Board's following in Congress has seldom been smaller, a condition which Congressmen would say, if possibly not for publication, is the Board's own fault.

Those who might have been impressed with the apparent deep sincerity of the Reserve Board in asking currently for the abandonment of the rigid pegs, wonder why the Board waited until this time—when any one can comprehend that the Administration's "battle" against inflation is fought half with blank cartridges—to finally come around to this viewpoint. During all the postwar years, the Board has stoutly defended the 2½% top rate. They did this even to heaping scorn upon those who several months ago, dared to question this policy.

Mr. Eccles has frequently argued the dire consequences of abandoning the 2½% rate, that it would scare holders of E bonds, and so on. Consequently, after having been fed for years the gospel according to 2½%, Congress finds it a little hard to understand the conversion, even with such a convincing advocate as Mr. Eccles stating the case.

Actually the Board stuck to the ancient gospel until the figures showed people had lost interest in savings money. This kind of a conversion, likewise, does not impress too many Congressmen.

However, what is cited as a fundamental difficulty of the Federal Reserve Board is that it has become so steeped in pure monetary theory that it has lost sight of the human and political considerations of policy. The incentive to save is not to be released from the chains of 2½% until it is proved absolutely necessary.

Thus, Chairman Tom McCabe the other day complained because insurance companies in the postwar era were selling too many governments and moving into more profitable loans and investments. It is almost as though Gov. McCabe considered insurance companies to be rival aggregations of capital which were operating to thwart the divine will of the Reserve Board's monetary managers.

It doesn't seem to influence Mr. McCabe's thinking that insurance companies are aggregations of investments of millions of people who are trying desperately to secure some earnings on their savings—within and despite the pattern of 2½%. Likewise Gov. McCabe seems to overlook the fact that the movement out of governments was in large part a response to another high government purpose, the construction of millions upon millions of housing units at a cheap money cost—albeit not as cheap as the going government rate.

In 1935 the Banking Act of that year sought to sew up the independence of the Reserve Board from the Administration by taking the Comptroller of the Currency and Secretary of the Treasury off the Board, and by giving the members 14-year terms. The Board's independent status as an agency of Congress was underscored.

Nevertheless, Congressmen feel, the Board has until even this date acted as though it were entirely a member of the executive team. It usually allows the Budget Bureau to express an opinion on its proposed legislation — although not always being bound by the opinion of the Budget Bureau.

Occasionally, but only rarely, has the Board as such spoken up against the postwar headlong flight into new and extravagant annual social undertakings, even though the ultimate logic of these was inflation. It has approached Congress by shutting the eye to what was happening in the "lay world" of the Roosevelt-Truman Administrations, and given the harshest prescription it could to cure the evils generated thereby. For that reason it lacks following even among Congressional conservatives who should be its natural supporters.

And, it is apparent at every hearing of Congress, that hardly a handful of Congressmen comprehend that it is by law an agency of Congress, and are surprised when the Board regularly says it is.

The isolation is even physical, epitomized by the heavily guarded building on Constitution avenue. The Board does not welcome criticism even from those who would like to be its best friends.

* * *

Total automobile production during the first quarter of 1951 is now expected, controls and all, according to latest forecasts, to equal or exceed first quarter 1950 output, but, except for Chrysler, most other makes of cars will be cut back 20% to 25%. Because Chrysler was shut down for 100 days in 1950, most of it during the first quarter, it has a quota, in effect, larger than other producers and will pull the total output of the industry up to or better than last year, it is reported.

It is now expected that second quarter output probably will cut back 35%. Beyond the second quarter, there is no informed guessing.

* * *

Although the scrap over drafting 18-year-olds is overshadowing the whole selective service bill, Congressmen are prepared to give the Administration a battle on two other provisions of the bill.

One would give broad power to the President, allegedly, to build up a reserve of technically-trained personnel, to haul 75,000 young men out of the Services, after they had undergone their "boot" training, and send them to colleges. Congress wants the conditions of selection of these favored boys spelled out, as well as the terms under which they would go to college, and does not desire to leave this to Administration whim.

Another controversial provision gives the President the broadest possible authority to rehabilitate 4-F's, sending them to hospitals and schools, building the hospitals and schools, and much else. The fear is that such broad provisions might be used to launch some new broad social programs.

* * *

Congress's semi-private reaction toward General Eisenhower's Congressional presentation was that he "pulled his punches," and tried to calm Congressional fears about sending troops to Europe. They gather that General "Ike" leans toward the idea of no positive troop commitments until the firmest kind of commitments are obtained from Atlantic Pact allies. Within reason, this will "sell" to Congress. Belief in Congress is that the tentative disposition of the U. S. is to supply troops for the North Atlantic forces on the ratio of one U. S. soldier to every five supplied in the aggregate by all the other Pact members.

* * *

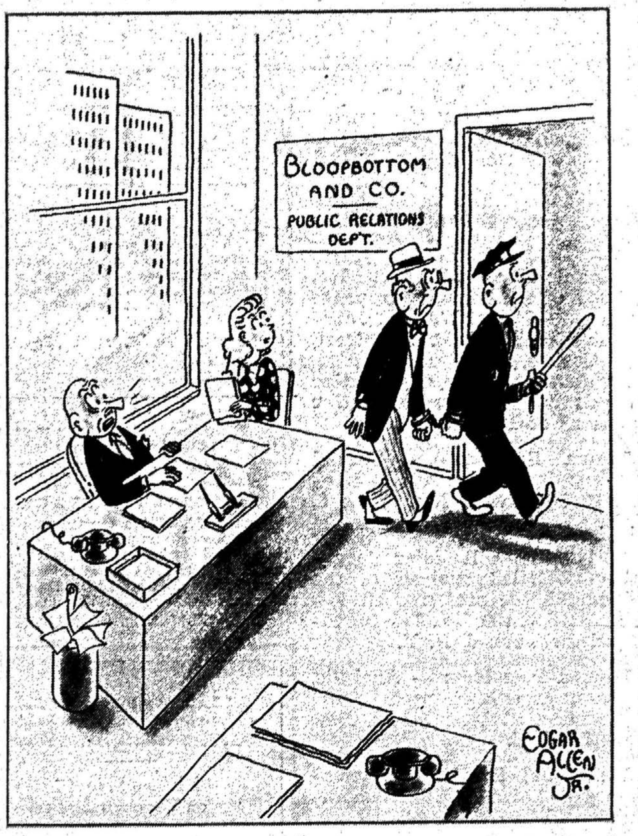
A prominent member of Congress who advocated publicly a "quickie" tax program got deluged with mail from his constituents letting the gentleman know in no uncertain terms that the constituents thought that the government was collecting enough, and ought to do something about cutting expenses before putting a bigger bite on the taxpayers.

* * *

Everybody is wondering why Eric Johnson wants another Labor-Management wage stabilization conference. All previous such conferences have been wonderful dog fights, and organized Labor is sure to use the conference to clamor for repeal of the Taft-Hartley Act.

(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



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1951-1956 Trend Outlook with two charts, detailed month by month for 1951, and general expectations ahead to 1956—$35, or with one year weekly bulletins, both inclusive, $125—James Mars Langham, Box 795, Santa Monica, Calif.