ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 173 Number 4992 | New York, N. Y., Thursday, March 8, 1951 | Price 35 Cents a Copy

EDITORIAL

As We See It

With considerable fanfare the Secretary of the Treasury and the Federal Reserve announce a resolution of their recently much publicized controversy. Some observers have interested themselves, as is usual in such cases, in the question of who won the fight. Since "harmony" and "unity" are now the keynotes, emphasis in the public announcements, however, is upon "complete agreement" and the like. At the same time the Administration and its followers in Congress quickly showed themselves not averse to hearty self-gratulation. Some important parts of the story have, meanwhile, been withheld from the public, and will not be available to the outsider prior to March 19 at the earliest. It may be taken for granted, of course, that more will presently be heard on this same general subject, since the present announcement directly concerns only one segment of the government bond market, and one phase of the current difficulty. Judgment in detail as to all this therefore must await full information.

It is, however, obvious that the authorities are merely trifling with the basic problems of debt management and its relation to the money market, and hence to what is commonly termed inflation. Moreover, the inference is plainly to be drawn, we think, from the current announcement that they have no intention of doing more than trifling with these vital issues. The absurdity of the notion that the financial sins of the past can be remedied or their consequences substantially ameliorated by so simple a device as replacing a 2½% "bank-restricted" bond with a 2¾% "nonmarketable" bond is obvious. Such an idea would be absurd even if these "nonmarketable" bonds

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Outlook for Investment

By LEWIS H. HANEY*

Professor of Economics, Graduate School of Business Administration, New York University

Dr. Haney cautions currency inflation and "dis-chasing" of dollar are increasingly driving people into dangerous speculation. Maintains apparently high current yields are really fictitious. States business is near cyclical top, and "the good news is out" on earnings. Concludes people must not jump out of the frying pan of inflation into the Wall Street fire that consumes them.

One of the good old principles is to the effect that investment differs from speculation in that it concerns first the safety of the principal and second the yield. By investment, I will mean putting savings into productive use for safety and yield, "productive use" meaning to make products that any typical individual regards as valuable.

Lewis H. Haney

Thus investment differs from **gambling**, or merely taking chances; from **speculation**, or assuming business risks for a gain in principal; and from **government spending**, or the use of other people's money without much regard to productivity.

And right now, we should specially note that investment is not **hedging against inflation.** Such hedging means putting the emphasis on gain in the principal, which is essentially speculative.

Inflation forces investors to become speculators.

Today there is the greatest need of educating, first the broker and then the public, concerning these facts. As in 1928-29, Wall Street has entered a period of great danger arising from a speculative spree that might be followed by a period that could make the doghouse of the depressed Thirties seem like a palace.

Remember what 1929 did to the "investment business"?

Conditions for Investment

In order that investment may exist, two conditions are

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*An address by Dr. Haney before the Fourth Annual Convention of the National Federation of Financial Analysts' Societies, New York City, March 7, 1951.

World Financial Stability And Military Preparedness

By MELCHIOR PALYI

Dr. Palyi points out since 1930's international finance has been thoroughly revolutionized and we are confronted with a problem of financial instability without precedent. Contends end of gold standard has increased, rather than decreased role of gold in international relations. Warns gold outflow from U. S. adds little or nothing to equilibrium of recipients, while creating threat to dollar's integrity. Describes anti-inflation remedies as contradictory hodge-podge.

I

Remember the Portsmouth Treaty of 1905 which put an end to the Russo-Japanese War? The Czar's negotiator, Minister Witte, got away with comparatively favorable terms, although the Russian army was thoroughly beaten, in retreat, and its capacity to fight badly damaged by the rising wave of domestic unrest. Yet, the Japs were moderate in their demands and willing to bargain. The chief reason was—Japan's financial weakness. In spite of successful bond issues on the London market, her gold reserve was dwindling and her ability to borrow strained, while Russia still had a huge gold hoard and her credit in Paris and Berlin still was in excellent shape.

Dr. Melchior Palyi

Fancy letting the outcome of a major war depend on such little things as the maintenance of one's gold standard or the worry about what international bankers will think of one's credit, as if paper money had not been invented! Folks grown up in the era of world wars, of Bolshevism, Nazism and Managed Economies, can scarcely imagine that less than 50 years ago a bitterly nationalistic country like Japan would sacrifice the virtual certainty of additional conquest for the benefit of financial stability **after** the war.

The survival of this philosophy—the philosophy of the

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FULL TEXTS of the entire Proceedings of the Fourth Annual Convention of the National Federation of Financial Analysts' Societies will be available under one cover in the April issue of the Analysts' Journal, at $1.25 per copy, on application at offices of the Society, Room 900, 20 Broad Street, New York 5, N. Y.

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

Detroit & Cleveland Navigation Co.—Edwin J. Pingree, F. S. Moseley & Co., Boston, Mass. (Page 2)

General Motors Corporation—William Witherspoon, Manager of Statistical Department, Newhard, Cook & Co., St. Louis, Mo. (Page 2)

Homestake Mining — Gaylord Wood, Investment Adviser and Publisher of the "Dow Theory Barometer," Fort Lauderdale, Fla. (Page 2)

EDWIN J. PINGREE

F. S. Moseley & Co., Boston, Mass.

Detroit & Cleveland Navigation Co.

Edwin J. Pingree

If you were to read an article about "The Grand Fleet of the Great Lakes" you probably would not rush out and buy the stock of such a company. However, if you could buy at a discount an old-line stock such as American Optical, that might be another matter.

For those of you who like special situations, the common stock of Detroit and Cleveland Navigation Co. should be of interest.

After years of unprofitable shipping operations, plus the disaster which befell the SS. City of Cleveland III on June 25, 1950, D & C has branched out into other fields. Their latest venture was the purchase of 120,000 shares of American Optical Co. common stock at an average price of less than $36 per share. This makes D & C the largest stockholder of A. O.

American Optical Co. has had sales of more than $55,000,000 in each of the last five years, with the average earnings over the five-year period 1946-50 equal to $4.37. Over the same five-year period dividends paid have averaged $2.12 per share. During the year 1950 A. O. paid $2 dividend. The book value of A. O. is approximately $65 per share and consists of approximately $25 per share in net fixed assets and approximately $40 per share in net current assets.

The acquisition of the A. O. stock has two immediate results: (1) based upon book value of the A. O. stock purchased, there is an immediate increase in the book value of D & C stock of approximately 50%; (2) based on A. O. past dividend record, it assures D & C of a dividend income which may be available for dividends to D & C shareholders.

Since there are 460,000 shares of D & C stock outstanding, you have slightly more than one-fourth share of American Optical behind each share of D & C. The current bid on A. O. is about 42, so that would be in terms of dollars about $10.50 behind each share of D & C. You can buy D & C for 9¼, which means you are indirectly buying A. O. at about a 10% discount.

Besides the A. O. stock, D & C has other assets in connection with their shipping business, which are estimated to have substantial value. These assets may be sold from time to time for cash. This would then enable D & C to branch out into other fields. D & C's President is George J. Kolowich who has had a very energetic and successful business record. Many believe that his influence will be of great benefit in the administration of A. O. affairs.

The stock of D & C is best suited to speculative-minded individuals and trades on both the Midwest and the Detroit stock exchanges.

WILLIAM WITHERSPOON

Manager, Statistical Department, Newhard, Cook & Co., St. Louis, Mo.

General Motors Common Stock

William Witherspoon

I was previously afforded the privilege of participating in this forum in December, 1949. At that time I chose the common stock of General Motors as one issue among a large list of attractive common stocks because of its universal appeal to either large or small investors and also to conservative or speculative investors. During the passage of time this issue has advanced substantially so that the speculative element for capital appreciation over the near future might have dimmed somewhat; but the investment element of this stock still shines brightly. Therefore, my selection from the vast array of attractive common stocks which are still available at relatively "bargain prices" continues to be General Motors.

The automobile industry has been anathema to many investors who have envisioned very sharp curtailment in domestic production as the smaller profit margin business of war production is substituted. This however, is a very short-sighted view, because production of domestic vehicles will probably not be cut below the number produced in 1948 when the company reported earnings of $4.86 per share, and the huge government contracts should add substantially to these earnings even though the profit margin on this war business is not as good.

Suppose this defense business would add another $1.75 per share, which amount was the profit on defense work exclusively during the last war after a much more severe E. P. T. This, of course, is very loose figuring, but it does give some indication that this, the major industrial corporation of the world, might earn at least $6.50 to $7.00 per share in 1951, even in the event of more rigorous controls than now exist. Earnings will probably be closer to $8.00 or $8.50.

Furthermore, the company has a right excellent E. P. T. exemption and appears to be much more adequately protected from the inroads of this tax now than during World War II.

General Motors will pay $1.00 per share on March 10, its first quarterly dividend of 1951. This appears to place the stock upon a $4.00 regular basis for this year, and unless earnings are cut much more sharply than the present outlook would indicate, it is likely that an extra of at least $1.00 per share might be paid toward the end of the year. This $5.00 dividend would thus disperse only about 70% or less of anticipated earnings which would be well within the 80%-85% dividend policy which the management has indicated as a goal in years to come.

If the directors of General Motors see fit to pay $5.00 per share in 1951, it would seem entirely expedient for this stock to sell in the neighborhood of 67 to yield a generous 7½% as compared with the current quotations of around 50 to yield 10%. Hence, even the seeker after a longer-term capital appreciation might turn an objective eye toward the common stock of General Motors even though some of the immediate appreciation glamour of a year ago might now be somewhat dimmed by its sharp advance during 1950. The investor, however, who seeks adequate earnings and dividends will be highly rewarded by choosing this issue, and as a by-product will reap a very welcome appreciation with the passage of time. The stock is listed on the NYSE and other exchanges in the United States, also on the Montreal Curb Exchange.

GAYLORD WOOD

Investment Adviser and Publisher of "The Dow Theory Barometer," Fort Lauderdale, Fla.

Homestake Mining

Gaylord Wood

The security I like best for the future is Homestake Mining.

A great many considerations must be made at the present time, when selecting just one stock. Attention must be paid to the likelihood that the long-range inflation is about to be interrupted by a severe deflation. Thus the investor must avoid stocks that may decline substantially. A stock should be selected which at the worst may resist the decline, and at the best, may advance while the market as a whole is declining.

A little back history is now necessary. England devalued the pound in 1931. We should have devalued the dollar simultaneously, but we did not. We delayed, and devalued the dollar in 1934.

We all know what happened to common stock prices from 1929 to 1932. The bottom dropped out, and many a security lost 95% of its 1929 value. For example, Anaconda Copper fell from 174⅞ to 3! But let's see what Homestake Mining did from 1929 to 1932. All during 1929 Homestake fluctuated in roughly the 9 to 10 area. It briefly got down around 8 in the 1929 autumn collapse. We will suppose that you put your money into Homestake at a price of 10 in 1929. It did not decline in 1930. In 1931, it started to advance, and by 1932 had risen to 20! The top was reached in 1936 at 68!

Of course, we do not have to search very far to find out why Homestake rose in price during the most violent deflation the country has ever known. The advance was a direct forward reflection of the coming devaluation of the dollar in 1934.

One of the safest forms of prop-

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NASD Edict Would Mean No Capital for Small Business Through Sale of Securities

NASD attempting to exercise control over Regulation "A" offerings, constituting issues of $300,000 or under, of small business concerns. Wants seller to determine suitability for customer's portfolio. Would in effect make him an investment adviser. Suggests SEC make the pertinent rules more burdensome. Small business will suffer as a result. Opportunity for Congressional intervention.

The National Association of Securities Dealers is again using the oppressive heel of excessive regulation to further burden the securities business.

This time it is in the form of a "communication" which it has sent "to all members and to all registered Branch Offices of members."

This missive deals with the subject of Regulation A offerings, i. e., offerings up to $300,000, and advises the recipients in substance:

(a) That these are subject to Rules 1 and 2 of Article III of the NASD's Rules of Fair Practice and that the Association is obligated to review Regulation A offerings.

(b) In connection with such offerings each NASD member is required to file with the Association a copy of any information filed with the SEC.

These are the regulatory parts of the letter. The balance deals with suggestions to the SEC that it:

(1) Supervise more closely offerings under the Regulation made by non-members of the Association;

(2) Provide for the inclusion of additional data in the Letter of Notification; and

(3) Amend Rule 223 to provide that the exemption under Regulation A shall not be available unless the offering is made by means of an offering circular which shall contain certain specific data.

We wonder who sits up nights to scheme up these devilish chains. We don't for a moment suppose the Governors of the NASD are at fault. They come and go.

Is the root of this evil in the permanent staff of the organization? Did Wallace H. Fulton, the Executive Director, give birth to this new abomination? Will he give us its complete history?

Let's take a closer look at this most recent brain storm.

Regulation A offerings, members are told, are subject to screening in the light of certain Rules. What are these? We quote:

"Rules of Fair Practice"

"(1) A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade.

"(2) In recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs."

The first of these rules sounds innocuous enough. In effect it says be a good boy. Its danger lies in the generality of the language used. It's amazing what a monopolistic agency, membership in which is compulsory although designated as "voluntary," considers as violative of "high standards of commercial honor and just and equitable principles of trade." In this we believe the Association seeks the observance of standards which it doesn't fol-

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Articles and News

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Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 7, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, March 8, 1951

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 South La Salle St., Chicago 3, Ill. (Telephone: STate 2-0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

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

Subscription Rates

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

Other Publications

Bank and Quotation Record — Monthly, $30.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

A Stock Market Forecast From the Technical Approach

By EDMUND W. TABELL*

Partner, Walston, Hoffman & Goodwin, Members N. Y. S. E.

Prominent technician predicts market has become overbought and faces a 25% reaction and lengthy consolidation before ultimate major advance of the Dow Jones Average to 450 or higher. Asserts this view is supported also by non-technical considerations, such as unrealized two-way effect of institutional and pension fund participation in equities. Offers specific forecasts of action of 32 individual industry groups.

It is gratifying to see our financial analysts adopting a more positive attitude toward the market in the sense of advising a definite course of action, and recommending the purchase or sale of individual securities. This may require a bit more courage, but it is much more constructive than the old "if the market doesn't go up, it will go down" opinion, followed by a list of a hundred stocks from which the potential investor is supposed to select the most attractive for his particular purpose.

Edmund W. Tabell

Actually, I suppose I am a market analyst or technician, rather than a security analyst. My approach is mainly concerned with the technical, or supply-and-demand analysis of the general market than its statistical pattern. The financial analyst studies management, earnings, balance sheets, and the trend of these various items.

The technician studies technical data in order to evaluate the relative strength of the buying and selling pressures which cause the fluctuating willingness to buy or willingness to sell of countless investors and speculators all over the world. Briefly, he studies supply and demand; he attempts to study the psychological state of mind of the investor and the speculator.

In comparison with the large number of trained security analysts doing a full time job, and equipped with the proper working tools, there are relatively few technicians. A convention of technicians of equal calibre to the audience here today would require a much, much smaller room, even though all qualified were present. Certainly there are a multitude of individuals who keep a few charts that require a few minutes work each day, but a technical forecast cannot be based on one single type of indicator. It must be checked against many other types of graphs before a conclusion can be reached. The number of full-time technicians with graphs of the great majority of listed issues together with various moving-average studies and breadth-of-market data and other technical graphs is relatively few.

Actually, most financial analysts consider technical conditions, and most technicians should consider fundamental conditions. In such an atmosphere, discussions about whether the fundamental approach or the technical approach is the better method would be beside the point. It would be something like a group of carpenters arguing about the relative merits of a saw and a hammer. Both are tools of the trade and are used, along with other tools, in building a structure. The technician who blindly ignores fundamental factors is not doing a complete job. The security analyst who recommends the purchase or sale of a security will render a more complete service by checking the technical pattern of the issue in question.

My recommendation for purchase or sale differs from that of a financial analyst only in the initial approach. If I found that XYZ has a favorable technical pattern—that is, that the buying appears to be stronger than the selling—I next check the fundamental background. If both approaches agree, I feel certain of my ground. It is just as logical for the financial analyst to check the technical background.

The Technical Outlook

What, then, is the outlook for the market from a technical viewpoint? A general prediction necessitates the use of an average, which unfortunately is usually a rather unsatisfactory procedure—no matter what average is used. It is particularly unsatisfactory today, when the many diverse elements in our economic picture make for diverse trends in individual stocks rather than a general stock market. However, I will use the Dow-Jones Averages for the overall pattern, and then take up the outlook for individual groups later.

At this point, I am going to quote in part from a market letter which I wrote in September, 1948. A prediction of a market pattern for a ten-year period is a rather hazardous and foolhardy occupation, but market sentiment at that time was at such a low ebb that I attempted what seemed a rather sensational forecast, although today, with the bullish outlook for prices, the long-term pattern would not arouse any undue excitement. I quote it not to prove that, except for timing, it has worked out so far, but because, with a few minor changes, it continues to stand as my general pattern for the future.

Two-and-a-half-years ago I wrote:—

"The stock market has been slowly building up a strong pattern for a number of years. With the many uncertainties of the present day, it is a hazardous task to attempt a long-range forecast. The predictions of today may look awfully bad two years from now. However, while this letter may have many faults, it is always willing to state a definite opinion. Based purely on the action of some 1,500 charts and graphs of the various market averages and individual stocks, I submit the following long-range prediction. The price ranges are definite, but the timing is only approximate and largely guesswork.

"I believe that the stock market in May, 1942, started a long upward war price cycle, similar to that of 1914-1929. Such long-term price cycles usually have five phases—three of advance and two of decline. The first phase was the advance from 93 in the Dow-Jones industrials in May, 1942 to 213 in May, 1946. The second, or declining phase, was the drop from 213 to 160 in May, 1947. This area was again tested in February, 1948. We are now in the third phase—a period of advance. This third, or advancing phase, will be comparatively moderate and selective with the better-grade, well-managed companies leading the advance. The ultimate objective, interrupted by intermediate corrections, will be around 250 in the Dow-Jones industrials, with 5% leeway on either side. This objective should be reached in late 1949. The fourth or declining phase should culminate in the early 1950s (i. e., 1950-1952) in the 200-180 area. The fifth, or final advancing phase will be an upsurge carrying into the middle 1950s (i. e., 1954-1957). This will be the dynamic upswing with over-speculation and heavy public participation. The pattern is not complete as regards the ultimate price objective for this final advancing phase, but the Dow-Jones industrials should sell above the 1929 high of 386. A preliminary objective, calculated from the long-term base patterns, suggests about 450 in the averages.

"The objectives of 250 for the present phase, and 450 for the ultimate advance seem fantastic now, but only because of the present depressed mental state. Percentagewise, the advances are quite in line with the moves of the market over the past 60 years. My prediction may eventually turn out to be quite conservative."

Bullish Pattern Still Ahead

In the main, subject to a few minor changes, this continues to be the market pattern for the foreseeable future. The market has now attained — and passed (but not by more than 5%)—the objective of 250 for the third, or advancing phase of the long-term cycle. The advance has totalled over 105 points, or about 66%, in less than two years, and appears to have reached a rather mature stage of development. True, the percentage advance has been relatively small compared to the 123% rise from 1942 to 1946, and the average bull market advance of around 80%. Also, from a time element, the present advance is below average when compared with the usual two-to-three-year duration for a major advancing phase. However, the third and fourth phases of the long-term cycle are usually comparatively moderate.

There are several technical indicators that point to the probability that the market has reached, or is approaching a top. The market, or individual stocks, seldom advance or decline without first forming accumulation or distributional areas. This usually consists of a trading range in a relatively restricted price. If it is accumulation, the area formed is called a base. If it is distribution, the area formed is called a top. Technically, the length of time and width of these base or top areas gives a fairly accurate idea of how high or how low the stock may move if the trading range is broken. Thus, the stock has an upside objective or a downside objective. For example, **General Motors** built up a base pattern in the 25-33 area (on an adjusted split basis) during the period between late 1946 and June, 1949. The width of the base pattern indicated an upside objective of about 50-55.

In my opinion, the upside objectives of the higher grade, dividend paying issues have, in most cases, been reached. This type of issue has sparked the rise from its inception in June, 1949. The rails and more speculative groups came into prominence after Korea. While the better grade issues have reached their upside objectives, they have not yet formed distributional top patterns. This may take some further time. During the early part of such a distributive phase, some of the relatively backward, secondary issues may become more prominent marketwise while the market leaders churn about near the highs in the process of forming distributional tops.

Volume Tending Downward

Another factor of importance is the lowered volume as the market advances into new high territory. since mid-December, daily volume has been gradually tending downward, despite the fact that the Dow-Jones industrial average has advanced from 220 to 256.

Still another technical factor that ultimately may result in a correction of importance is the rate of advance. This rate of advance, or decline, is not based on the gain or loss of the daily average, but rather on the gain or loss of a twenty-eight day moving average. For example, if the moving average advances or declines above a certain normal rate for a period of three days, or more, the rate of advance or decline is above normal, and the market becomes overbought or oversold.

The advance from June, 1949 to June 1950 was steady and corrected itself by consolidation. At no time, until just prior to Korea, did the rate of advance enter overbought territory. The advance from the July, 1950 lows has been different. By October, when the industrial average reached a new high at 232, the rate of advance, based on an intermediate term moving average, had entered a zone that normally results in an overbought condition. This was corrected by a three-month trading range with wide fluctuations in the 220-236 area. Late in December, the market broke out of this area to reach a recent high of 256. Again, its rate of advance has been above normal, and the market again reached an overbought territory. The market has not even approached oversold territory since July, 1950. It is when the market becomes oversold that real buying opportunities present themselves. It would appear that this must happen again before the market is in a position to offer appreciation possibilities to offset the risk of a greater decline.

Bell Wethers

It will also be interesting to watch the action of **General Motors** over the near term. **General Motors** reached its high of 54¾ on October 5th—more than five months ago. The industrial average at that time was around 232 in contrast with the recent high of 256, and a recent high in **General Motors** of 52¼. In almost every instance in the past, **General Motors** has made its high four months or so before the general market. For example, **General Motors** reached its high in 1929 in March, and the averages reached their high in September. The industrial average reached its high in March, 1937 and **General Motors**

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*An address by Mr. Tabell before the Fourth Annual Convention of the National Federation of Financial Analysts Societies, New York City, March 7, 1951.

The State of Trade and Industry

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

Virtual steadiness characterized nation-wide industrial production last week with total output showing a pronounced rise above the level for the corresponding week a year ago, when a general coal strike paralyzed business and industry and seriously retarded steel output. Employment for the country at large showed no material change from the previous week with both initial and continued claims for unemployment insurance continuing at a low level.

Steelworks operations moved nearer the 2,000,000 ton mark last week as the national ingot rate rose fractionally to within 100% of capacity. Mill schedules called for output of more than 1,995,000 net tons. The industry, however, has not yet fully recovered from effects of the recent switchmen's strike. Shipments of finished steel continue to be hampered at some points because of the log-jam arising from the rail strike, and also a serious shortage of freight cars.

Pressure of defense demand on the steel mills mounts steadily, says "Steel," the weekly magazine of metalworking the current week. Further sharp inroads on supplies for the civilian goods market loom immediately ahead. Decided upswing in the volume of emergency specifications soon may lead to new government demands on producers for additional capacity to expedite the handling of defense requirements. Mills now are scheduled into June, in some cases beyond, on DO-rated priority orders. Only a little additional tonnage can be accepted by producers on such account for May.

Automotive production dropped the past week as manufacturers returned to normal assembly schedules. Longer working hours and Saturday assemblies in the previous week, as manufacturers sought to recoup rail-strike losses, were the reason for the unusually high production.

According to "Ward's Automotive Reports" 575,000 cars will be produced in March, compared with 505,000 last month and 495,000 in January. March production this year will surpass the 469,827 cars assembled in the like month last year, when the U. A. W.'s 99-day strike against Chrysler Corp. was in progress. The walkout, which began Jan. 25, 1950, and ended May 4, was estimated to have reduced the nation's auto and truck output by 450,000 units, this agency noted.

Indications that government purchasing is being stepped up at a sharp rate may be adduced from the figures given out the past week on backlogs on Jan. 31 which rose to $41,700,000,000, or an advance of $3,700,000,000 during that month, the Department of Commerce disclosed. Shipments during January spurted to $22,800,000,000, from $21,800,000,000 in December. On a seasonally adjusted basis, January shipments were 8% above December and were around the level of last August when post-Korea scare buying was at the flood.

The government formally issued its order cutting back the amount of natural rubber available for civilian products in March to 30,000 tons, from 35,000 tons monthly in January and February. But civilian goods will obtain 60,000 tons of synthetic rubber in March, against 53,500 tons in each of the first two months this year. Another section of this order, limiting or banning the use of natural rubber in 40,000 civilian items, will go into effect March 15. The National Production Authority postponed this date from March 1 to give manufacturers more time to revise production schedules.

After a two-month decline, business failures increased 14% in January to 775, but were 10% below the 864 casualties recorded a year ago. One-half as many businesses failed in January as in January of prewar 1939.

January liabilities rose 3% above the December level to $21,685,000.

Retailing and construction failures made up all of the month's increase.

New England, the West South Central, and the Pacific regions sustained fewer business liquidations in January than in the previous month; compared with a year ago slight increases occurred in the Middle Atlantic, West North Central, East South Central, and Mountain regions.

Steel Output Scheduled This Week To Surpass Theoretical Capacity

The controlled materials plan now being readied in Washington will be applied to alloy steel first, states "The Iron Age," national metalworking weekly, in its current summary of the steel trade. Beginning in June all alloy steel will be produced on melt schedules set up in Washington. A dry run will be made in May.

This will be a closely-controlled materials plan. It is designed to match requirements against production, thus spreading available alloy steel equitably among consumers, says this trade authority. Defense and essential civilian users will be allotted first, with non-essential customers getting what is left. First shipments under the new CMP probably won't be made until July when the program becomes fully operative.

Cuts in civilian alloy steel quotas may not be as deep as expected. Many consumers who have seen the handwriting on the wall spelling out alloy shortages have shown an eagerness to switch to leaner alloy steels. A number of steel producers are already melting the leaner grades. Co-operation of the American Iron and Steel Institute and the Society of Automotive Engineers with industry has speeded development of the emergency steels.

Steel mills and warehouses are bracing themselves in anticipation of an avalanche of orders resulting from NPA Regulation 4. This regulation permits non-defense industries and businesses

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Arthur Alexander With Raymond & Co., Boston

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Arthur C. Alexander has become associated

Arthur C. Alexander

with Raymond & Co., 148 State Street. Mr. Alexander was formerly in the trading department of the Boston office of Coburn & Middlebrook, Inc., and prior thereto was manager of the trading department for Boardman, Freeman & Co. and was with H. H. Johnson & Co.

Terry Thompson Opens Own Offices in Seattle

SEATTLE, Wash. — Terry Thompson is engaging in the securities business from offices in the Dexter Horton Building. He was formerly Seattle manager for Fordyce & Co. and prior thereto was with Grande and Co., Inc., and was an officer of Harris, Lamoreux & Norris, Inc.

R. S. Weeks, Jr. With Whiting, Weeks Firm

Robert S. Weeks, Jr.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Robert S. Weeks, Jr., has become associated with Whiting, Weeks & Stubbs, 53 State Street, members of the New York and Boston Stock Exchanges. Mr. Weeks was formerly in the municipal bond department of Coffin & Burr, Inc.

Cushman Opens Own Office in Phoenix

PHOENIX, Ariz. — Allerton Cushman has opened offices in the Westward-Ho Building to engage in the securities business. Mr. Cushman was formerly an officer of Rowles, Winston & Co. in Houston. In the past he was with Morgan Stanley & Co. and W. E. Hutton & Co. in New York.

With Taussig, Day

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Calvin and Lloyd Ainsworth have joined the staff of Taussig, Day & Co., Inc., 316 North Eighth Street, members of the Midwest Stock Exchange.

Kurt Kauffmann Opens

Kurt Kauffmann has opened offices at 535 Fifth Avenue, New York City, to engage in the securities business. He was formerly associated with R. M. Smythe & Co., Inc.

What Protection Against Inflation

By A. WILFRED MAY*

Executive Editor, "The Commercial and Financial Chronicle"

Terming general public's present attitude toward "inflation" its "favorite indoor sport," Mr. May weighs situation from viewpoint of practicable self-protective possibilities of different community groups. Points out the various factors making all available media for capital flight unsatisfactory as hedges, and says only real protection lies through membership in politically-favored pressure group. Concludes while government could and should effectively remove underlying inflationary forces, pending problematical eventuality of such remedial action, owner of capital must realistically keep constantly diversified between equities and fixed-interest investments as hedge against both down- and up-swings.

The topic of inflation can be handled at a length dealing with it completely, or merely with the three words—as in discussing sin —"I'm agin it." Today I will try to strike a happy compromise, by centering our discussion on the specific area of the various community groups' possibilities in dealing with the threat; how they fare during an actually effective inflationary period; and what realistically can be done for their protection, either by themselves or by their government.

A. Wilfred May

We see here today that the nation's stationers have joined the academic economists, taxi drivers, barbers, and show girls, in that most popular of indoor sports, worrying over "inflation." This currently increased interest in a question that is usually disdained as dull and academic, no doubt has been importantly stimulated by the active and bullish stock ticker—entailing a widespread flight from Savings Bonds and other cash media into the more glamorous and fast-moving common stocks.

By indicating overemphasis on inflation, I do not mean to belittle its importance. On the contrary, I beg you to realize that inflation—which I would define as *a price rise resulting from governmental expansion of the supply of money*—is devastating to the country's political as well as economic well being. Far more important even than its well-publicized effect on defenseless holders of insurance and other fixed-income assets is its destruction of the nation's political as well as economic institutions. Even relatively mild doses of inflation bring on socialism and authoritarianism through the clamping-on of curbs on its manifested effects.

What Can the Individual Do for Himself?

Surely the very best protection of all, whether the citizen is the possessor of any capital or not, is that afforded to the individual enjoying the support of some politically-favored pressure group; whether that group delivers the votes emanating from the unionized coal mine or the non-unionized farm (cf. the agricultural gap in our new controls setup). At the bottom of the protection-ladder during a time of rising prices are the numerous dependents on fixed income, along with unorganized workers—entailing the extinction of the middle-class.

The Various Possible Protective Media

Our topic today is concerned with the means of protection open to the owner of capital—large, small, or medium. Formerly urban and rural real estate, in all countries, constituted good inflation hedges, for anyone with enough wherewithal to acquire them. But city real estate's protection against a rising price level has become basically undermined by the 20th century technique of

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*An address by Mr. May before the 35th Annual Convention of the Wholesale Stationers' Association, Hotel Commodore, New York City, March 2, 1951.

Emergency Program's Impact on Savings Banks

By MARCUS NADLER*
Professor of Finance, New York University

Asserting the country is more inflation minded than ever before, Dr. Nadler holds this psychosis will adversely affect public's willingness to save, unless all efforts to stop forces of inflation are implemented. Looks for reduced mortgage financing, and greater difficulty in placing funds by institutional investors. Points out, if Federal budget is balanced, the higher interest rate controversy will become academic, but an unbalanced budget, which will entail more Treasury financing, will mean continued support of government bond market by Federal Reserve. Lauds recent decision to issue new 2¾% nonmarketable Treasury bonds as step in right direction. Warns of added governmental controls over government market and credit policies of institutions if new refunding plan fails.

Introduction

The rearmament program is bound to affect materially savings banks and mortgage institutions. Although the program has barely started, its impact on the economy of the country has already been pronounced and far-reaching. How important this impact has been can be seen from the following figures: Since the beginning of 1950, the level of wholesale prices has risen over 23% and the cost of living over 7%. During the last few months, restrictions have been imposed on the extension of credit and on construction; and price and wage controls have been imposed. Federal expenditures are mounting and the tax burden is rising. If present trends continue, the changes that will take place in our economy and in the lives of many of us are indeed bound to be far-reaching. A continued upward movement of commodity prices will further undermine confidence in the dollar and will adversely affect the savings of the people. Increasing restrictions on business activity in general and building activity in particular will develop and this too, is likely to affect the savings banks.

Marcus Nadler

There appears to be at present no real will to curb the forces of inflation. Most farm prices cannot be frozen until they reach parity levels, and it is doubtful whether they will be frozen even then. Farmers did not oppose government expenditures of hundreds of millions of dollars to keep floors under farm products, but the imposition of ceilings is generally opposed. A continued rise of farm prices will be accompanied by an increase in the cost of living and this, in turn, will make it impossible to stabilize wages. There is no real effort being made at present to institute economy in government and there is no certainty that a sound taxation program will be enacted. There is no indication that the controversy between the Federal Reserve and the Treasury will be solved in the best interests of the country; and in all likelihood, the Reserve Banks will be obligated to continue to support the long-term government bond market, thereby creating additional new reserve balances and feeding the forces of inflation.

The country is more inflation-minded than perhaps ever before. We seem to be witnessing a quiet flight from the dollar; more and more people have come to assume that what they buy today will cost them less than if their purchases were postponed into the future. Sales by department stores, chain stores and mail order houses are running materially ahead of last year. Inventories in the hands of manufacturers, retailers and distributors are very large. Prices of farm land and of real estate in general are steadily rising.

Most individuals in the country are worried and frightened. Many people in the middle class, particularly those with more or less fixed incomes, are trapped by the mounting cost of living and rising taxes. Older people on a pension or those approaching the pension age are greatly concerned over their future and wonder whether the amounts due them will be sufficient to give them even the bare necessities of life. The desire to hedge against inflation is widespread, and only the fear of losing the little they have prevents many people of small means from converting their savings into equities or tangible goods. Every day the cost of living rises, their anxiety over the future increases. The standard of living of the people tends to decline, and more and more people find it necessary to live on accumulated capital.

There is a lack of leadership in almost all walks of life. Every economic group looks out only for its own interests irrespective of the effects on the economy of the country. To mention an example which is likely to strike home: Institutional investors know full well that the sale of government obligations to the Reserve Banks is inflationary in character and complicates credit controls. Yet a somewhat higher return on their investments apparently means much more to them than the decline in the purchasing power of the dollar or the ill effects on the economy of the country which such sales have. It was to be expected that a portion of the government bonds acquired by institutional investors would be liquidated after the war, but it was not expected that a large portion of this debt would be monetized through sale to the Federal Reserve Banks. The consequences are quite evident. It is indeed strange that institutional investors, who can suffer more from a continued spiral between prices and wages than perhaps any other type of business, have themselves contributed to the inflationary forces. Institutions such as savings banks and insurance companies, while they are under the obligation of merely paying out dollars without considering purchasing power, have a moral obligation to take the lead in the fight not only against inflation, but also against the inflation psychosis which is so pronounced at present.

With this as a background, it is now possible to analyze the impact which the rearmament program will have specifically on savings banks and on their activities.

Principal Functions of Savings Banks

The principal functions of savings banks are to foster thrift and to invest the savings of the depositors. How will the rearmament program affect these two functions? The volume of deposits of the savings banks will be influenced by (1) the size of disposable income and the supply of commodities available for civilian consumption, and (2) the effect which the fear of inflation will have on the depositors. The disposable income of the country in 1951 is bound to be very large, perhaps larger than ever before in the history of the country. Employment will be plentiful since once the rearmament program really starts rolling, the country will be operating at capacity. More married women not now employed will be gainfully employed. More older and younger people will be working. At the same time, more overtime payments will be made. All these factors combined should have a favorable effect on the disposable income of the country. At the same time, it is evident that the supply of goods, notably durable consumers' goods, is bound to be smaller than during 1950.

The real question, however, is how much will the people be able and willing to save. It is quite possible that taxes will reduce the disposable income, particularly if income taxes are raised as proposed by the President and the Secretary of the Treasury. It is also fairly certain that the cost of living will increase and that more money will have to be spent on the bare necessities such as food, shelter and clothing. In spite of this, however, the ability of the people to save should be substantial provided there is a willingness to save. This willingness will be determined by the movement of commodity prices, notably the cost of living, and whether the fear of inflation will continue unabated. If the fear of inflation continues, then more and more people will decide that it is better to spend now than to postpone their purchases.

In several respects, the present inflationary period differs from those in the past. In previous periods when a process of inflation set in, the people in general felt this to be only a temporary situation, that sooner or later commodity prices would go down and the purchasing power of the dollar would rise.

The experience after World War II, however, has taught the people that a period of inflation is not inevitably followed by a period of deflation since the decline in commodity prices in 1949 was only very moderate in character. Moreover, at present nobody can tell how long the rearmament program may last and hence how long Federal expenditures are bound to be extensive and the supply of commodities available for consumption limited. Under these conditions, many people have come to feel that even if sooner or later prices are stabilized, they will be at a higher level than at present and that a material decline from that level is not likely to take place.

The volume of savings deposits during the year will accordingly, to a large extent, depend upon the efforts made to stem the tide of inflation and to alleviate the fear of a continued rise in commodity prices. In itself, increased savings would be a potent factor in the fight against inflation. Since deposits are the lifeblood of the savings banks, it is up to them to take the initiative in this fight. This can be done through exerting pressure on the Congress that all necessary economies be instituted and that prices of commodities be stabilized. At the same time, these institutions should also take the lead in educating people that the more that is saved the less will there be available for spending and the less will be the danger of inflation. If this campaign succeeds, the result might well be to channel a significant proportion of the large disposable income to the savings banks; and savings deposits during the year would experience a material increase.

As a general rule, savings depositors, with certain notable exceptions, are not rate-conscious. They are primarily interested in safety, availability and convenience. There are, of course, individuals who keep considerable sums invested in various savings institutions and naturally tend to gravitate toward those banks where the dividend is highest. If, however, the forces of inflation should continue at the present rate and particularly if the fear of inflation should not be stopped, there is a possibility that many individuals will divert at least a portion of their savings into equities, notably mutual investment funds. In this connection, it should be noted that the discussion about the depreciation in the purchasing power of E Bonds has been rather unfortunate. It has often been stated that the individual who invested $75 in 1941, while he will receive $100 in 1951, will actually receive money worth only half. Unfortunately, such remarks are also often heard in banking circles. Everybody realizes that the purchasing power of the dollar has gone down considerably and that in actual purchasing power the dollars they are receiving are worth less than half the amount of ten years ago. All efforts should be made today to stop the forces of inflation; and in this fight, increased savings on the part of individuals could play an important role.

Investment Problems

This phase of the problem centers around the supply of securities that will be available and on the trend of interest rates. In the early part of the year, savings banks will continue to be occupied with mortgage commitments made some time previously. It is, however, fairly certain that after these commitments have been taken care of, the supply of mortgages will decrease. Building activity, particularly of homes, is bound to decline considerably from the level which prevailed in 1950. Commercial construction is also likely to decrease. While industrial construction will increase materially in order to expand the productive capacity of the country, this is not the type of construction that leads to mortgage financing.

It is therefore quite evident that toward the end of the year the supply of mortgages will be reduced and this, in turn, will aggravate the investment problems of institutional investors. They will be confronted with the task not only of investing new money, but also the rather large amounts of amortization funds which accrue to them each year. What the supply of new corporate bonds will be is as yet impossible to state, although there are estimates that the volume of such securities may be somewhat larger than was the case a year ago. To some extent, the decision as to new financing will depend on

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*An address by Dr. Nadler before the Annual Savings and Mortgage Conference of the Savings and Mortgage Division of the American Bankers Association, New York City, March 6, 1951.

The 1951 Building Panorama

By THOMAS S. HOLDEN*
President of F. W. Dodge Corporation

Prominent building economist asserts tapering off of squeeze on civilian economy through increased production will not occur until 1952, and construction will meanwhile remain at high levels. Predicts early 1950 housing boom will nevertheless be tamed down to more normal needs.

The morning newspapers of Friday, March 1, contained the following headlines: "$2,400,000,000 Provided for Year of Army and Air Force Construction"; "Work to Start Today on Big U. S. Steel Plant"; "Republic Steel Corporation to Construct 150,000-ton Seamless Tube Mill"; "Du Pont to Expand New Jersey Plant, Build West Virginia Factory"; "New Jersey Utility Plans Large Expansion"; "Texas Eastern to Begin Building Gas Pipe Line to Serve New England."

Thomas S. Holden

These items typify very important phases of the nation's 1951 construction program. They indicate the current importance of military construction, manufacturing plant expansion, electric utility and natural gas expansion.

There is also an intimation here that construction of new steel-making capacity is playing a major part. Another news item of the same date recorded that nearly all the $1,800 million worth of certificates of necessity granted by the Office of Defense Mobilization through Jan. 30 were for steel expansion. A few days earlier than that radio-listeners and newspaper readers were told by Defense Mobilization Chief Charles E. Wilson that there will be in 1953 more steel and also more aluminum, for civilian use than there was before Korea.

Going back a little further, to Feb. 13, there was another important statement. Defense Secretary Marshall told the House Armed Services Committee that, according to the present program, defense expenditures should rise to a peak in the process of equipping the 3½ million-man military establishment we now aim at mobilizing and should thereafter taper off to a maintenance basis of $35 billion a year. If this estimate is realized it means that the squeeze on the civilian economy will be of comparatively short duration.

To support this conclusion, we can carry our researches among the headlines still further back, to the issuance of the January report of the Council of Economic Advisers to the President. That report, after reviewing the record of expanded production from 1940 to 1950, indicated that a further increase in national output of 25% should be possible within the next five years.

Since the gross national product, or statistical summation of all goods and services, was $280 billion in 1950, the indicated increase would carry it to $350 billion by 1955. This objective should be possible of attainment, provided we have reasonably sound top management of national affairs and a reasonable minimum of work stoppages.

Proportionate Military Cost to Decline

If this increase in productivity is realized and if General Marshall's estimate of future defense expenditures is also realized, the cost of our military burden will taper from a peak of perhaps 18% of total output to something like 10% of an enlarged total output.

It seems to me that these matters I have enumerated are just as essential to an appraisal of the 1951 building situation and of the future building prospect as are the terms and implications of Regulation X, Limitation Order M-4, Limitation Order M-12, and their various amendments.

F. W. Dodge Corporation has attempted to appraise the effects of these current trends and of these various control measures in terms of revised estimates of building and engineering contracts for this year; these revisions were published Jan. 23. The principal changes from the 1951 estimates that we published last November were lowered figures for estimated commercial buildings and higher figures for manufacturing buildings.

The new over-all estimates for 37-states contract volume in 1951 indicate a net decline of 3% from 1950 in non-residential floor space, and a decline of 35% in residential floor space; total building floor space is expected to decline by 23%. Coupled with these building declines a moderate 7% dollar volume increase in public works and utilities contracts is anticipated. Although the total dollar volume of building and engineer contracts is expected to register an 18% decline, this anticipated total will be quite large compared with that of any year previous to 1950.

So far, this year's decline is entirely a matter of anticipation. The 37-states contract total for the period Jan. 1 through Feb. 21 was $1,885,416,000, by far the largest figure ever recorded for a like period. The increase over the corresponding period of 1950 was 43%. Non-residential building, residential building and heavy engineering construction all participated in the rise.

Squeeze to Come

It is obvious that the squeeze has not yet begun to operate. It is also true that defense production under the enlarged program has scarcely begun to chew up metals and other raw materials; defense production is at present largely in the make-ready stage. The expected squeeze on civilian production and civilian construction is due to be felt in the second quarter and to become increasingly severe as the year proceeds.

The over-all factors previously cited indicate a prospect that the expected squeeze trend will have been overtaken by increased production of basic raw materials in 1953. This would seem to imply that the climax of the squeeze will come some time in 1952. It might even be taken as implying a smaller volume of construction in 1952 than in 1951; it is, however, much too early to draw any such inference. Continuing demands for military construction, defense plant construction and defense housing could be of such magnitude as to hold 1952 construction volume up to quite high levels. There is at this time no prospect for a squeeze on construction at all comparable to the one that took place in 1943 and 1944.

Top authorities in the Department of Defense and in the production planning agencies of government have a clear determination to maintain a strong civilian economy. They are also entirely conscious of the need for adequate housing and community facilities in defense areas and in areas where large military establishments are located. Among the community facilities for which there will be pressing needs will be office buildings and warehouses in a number of cities, neighborhood stores in hundreds of new residential areas, and hotels in some important spots. Although such projects are restricted under Limitation Order M-4, there will be good reason for interpreting this order as liberally as permissible under prevailing conditions of material supply.

Housing Starts

In our 1951 estimates we figured an approximate 40% cutback in housing starts, to 850,000 new non-farm units; in this we have been in agreement with the Housing and Home Finance Agency. Thus far housing starts have been running ahead of the corresponding months of last year, and the expected decline is still something for the future.

It is my belief that the estimated 850,000 units, if actually built, will approximately meet the year's needs for new housing as required by basic demand factors. Figures on the 1950 housing census, recently released by HHFA, showed that there were in April of last year a total of 39,390,000 non-farm dwelling units standing in the country, of which 36,711,000 were occupied. By April, 1952, there will have been added, according to present estimates, something like 2,200,000 units and perhaps some 80,000 to 90,000 will have been abandoned or demolished. This should result a year hence in a non-farm housing inventory of something like 41,500,000 dwelling units; this would take care of next year's population with a somewhat higher vacancy ratio than that reported for 1950. The expected result of Regulation X is, therefore, that it will tame down the 1950 housing boom to something approximating normal.

In certain aspects the outlines of the defense mobilization program are becoming clearer, although there still remain large areas of confusion. Some progress has been made in defining the scope of the program and its material requirements; also in assuring increased supplies of some of the important materials.

It is, I believe, evident that the program as now conceived as an insurance policy against the contingency of war can be carried by the American economy concurrently with improvement in our living standards. Admittedly, the analysis I have sketched out stresses only one phase of the problem, the phase of potential physical production, which includes construction. Success in meeting this phase of the problem is of course contingent in numberless ways on avoidance of inflation, on reasonable application of controls, and on willingness to modify or abandon controls when they are no longer needed. It is also contingent on all-out production of essentials with work-stoppages reduced to a minimum.

Much of the current front-page news out of Washington these days would be very discouraging if we did not know that there are some people there of high competence and integrity who are working day and night to shape things for constructive ends. They are the ones to whom we look for progress toward order and reasonableness; I have faith that in the long run their counsel will prevail.

*An address by Mr. Holden before the Fourth Annual Convention of the National Federation of Financial Analysts Societies, New York, March 7, 1951.

Three With Moseley

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Janet E. Mattson, Ralph B. Story and James O. Thorner are now associated with F. S. Moseley & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges. Mr. Thorner was previously with Arthur Perry & Co., Inc.

Continued High Earnings Portend Higher Stock Valuations

By CHARLES F. ROOS*

President, Econometric Institute, Inc.

Dr. Roos contends confidence in permanence of corporate earnings is strong factor in rising stock prices and, in view of assurance that current earnings will be maintained, predicts, by summer of 1951, Dow-Jones averages might reasonably reach between 230 and 270, with likelihood of further rise in valuation index. Says financing of armament program is bound to be inflationary, despite government efforts to avoid it, but a peaceful turn in world situation may result in deflationary trend.

In June of last year I discussed with this group the relation of various business indexes to stock prices.[1] In particular, I exhibited charts showing the relationship of various Standard Statistics-Cowles Commission indexes of stock prices to earnings, dividends and interest rates. I showed then that stock prices were very low relative to either capitalized current earnings or capitalized current dividends and forecast that both earnings and dividends would increase. I also pointed out how in many cases in the past the direction of market moves had been related to the short-term trends of new orders for both consumers' nondurable and capital goods.

Dr. Charles F. Roos

I gave the explanation that the informed long-term investor would pay more attention to the trend of capital goods orders than would the short-term operator or the stock-buying public. The short-term movements, I said, were frequently related to the retailer's guesses as to the business outlook, as he expressed these guesses in the placement of new orders. I emphasized that these guesses were frequently bad ones and, consequently, one should expect a fair proportion of market changes to bear little relation to true prospects or actual business developments. I said that both new order series—consumers' nondurable goods and capital goods—had been rising for over six weeks and further rises were indicated for 1950 and 1951.

That presentation was made just a few weeks before our President decided to intervene in Korea and plunged us into a policing action that has since turned out to be a war.

Korean War Effects

The result of the war in Korea has been that the upward trend in business, that was already so obvious on June 2, was sharply accelerated in an orgy of business and consumers' speculation. Since June the unit volume of new orders for capital goods has risen from 265% of the 1935-39 average to over 400%. The unit volume of consumers' non-durable goods orders rose from 160% in June to 220% in September. It has since dropped down to 160%. Total industrial production reported by the Federal Reserve Board at 196 in June, 1950, reached a new peacetime high in January, 1951, at 219% of the 1935-39 average. Earnings and dividends have increased sharply.

Stock prices nosedived for a few days on the outbreak of war in Korea and then started a strong upward movement to new 20-year highs. Stock prices have now closed about half the gap relative to capitalized current earnings and dividends, to which I called your attention last June.

I also pointed out last June that the buyer of common stocks will not pay the full price indicated by current earnings, dividends and interest rates if he lacks confidence in the permanence of earnings. But what constitutes confidence in earnings and how should one measure it? If one had the answers to these questions, he would be able to combine them with what I told you last June and remove nearly all the risk inherent in stock market operations. But that would make things much too easy and most of you analysts would then be looking for jobs. It is probably just as well therefore that it has not been possible to measure this lack of confidence. There are, nonetheless, some useful guides.

Confidence in the permanence of earnings naturally grows as earnings recur or increase quarter after quarter for a few years. This fact suggests that a good measure of market valuation should also take into account the past trends of earnings and dividends. In short, one should build a market measure of (1) current earnings, dividends and interest rates, and (2) a weighted average of these variables over some period in the past. I have personally long had and used such a measure of stock market values. My index today shows a market value of the Dow-Jones averages of 252 which, as all of you know, is about where stock prices are.

Because of the very high level of new orders today and the assurance that current earnings will be about maintained, I can say today with considerable certainty that my measure of valuation will be about 260 by the summer of 1951. This suggests that the Dow-Jones averages might reasonably sell between 230 and 270 during the next six months.

Rise in Valuation Index Likely

Looking out beyond the summer, it would seem to be reasonably certain that a further rise in the valuation index is likely. Why such a rise is likely can probably be best understood by considering what it means to finance armament production and how such production must inevitably lead to inflation, whether we attempt to meet expenditures out of current taxes or by borrowing.

The labor that produces a tank or gun or sweeps leaves must be paid in the same money as the labor that produces food and clothing. Yet the armaments, military drilling and leaf sweeping provide no economic satisfaction. The problem of financing any armament program, or for that matter any large government effort, is fundamentally that of getting somebody to work for nothing.

The truth of this statement is usually obscured by the fact that the total production of civilian goods and services has tended to increase with military spending. Yet its validity becomes obvious when one builds up to our complicated economic situation from a few simpler ones. Suppose, first, that everybody willing and able to work is working at maximum hours and at maximum efficiency in the production of civilian goods and services. In such a situation, if it were then decided to produce armaments amounting to, say, 14% of the gross product or output of the economy, it would be necessary to cut the production of civilian goods and services by about 14%. To produce the military goods the average individual would somehow or other have to give 14% of his already fully occupied time to the production of armaments and so would have to be content with a correspondingly less amount of civilian goods and services.

In a primitive or non-monetary state, the problem would be to impress labor and take civilian goods from the producers of these goods for redistribution to those engaged in military activities. In a monetary state, the financing could be done os follows: (1) levy a money tax; (2) issue additional money; or (3) issue state bonds or notes.

In the first case, if the levies were in the form of a non-graduated income tax and wages did not change, the net money income (disposable income) of the population would decline and so the population would be able to buy only the smaller amounts of civilian goods and services that would be produced.

If the second method (issuing additional money) were used, and prices were not fixed, the civilian goods and services would be redistributed by a rising price level. This would reduce the real purchasing power of the average worker. During this redistribution of buying power various groups would be able to shift part or all of the impact to other weaker groups. For example, wages generally would rise partly at the expense of holders of bonds, pensions, etc.

If prices were effectively fixed, purchasing power would become superfluous. This would tend to drain all civilian goods and services off the market and create a situation of chronic shortages. These socialistically created shortages, of themselves, would seem to require rationing. For this purpose the state would issue a ration coupon or super-money, which would have to be used with the regular money that had become excessive. The ration coupon would thus immobilize part of the regular money incomes and so lead to forced savings. Because in this example the government is paying its way by inflating the currency rather than by borrowing or taxing, these forced savings would largely take the form of cash. The fundamental problem of surplus money would therefore remain although price inflation would be postponed. Rationing and enforcement would have to be politically impartial and have the whole-hearted support of the public. Otherwise there would be evasions, civilian discontent, and possibly even violence. If ration cards and strict enforcement against black markets were not in effect, the price ceilings could lead only to badly distorted distribution and to quality deterioration.

If the third course were chosen, that of borrowing, the state would be issuing claims to goods valid at a future date. If the borrowing were through short-term bonds issued to the banks, the government would simply be inflating the money supply. It would make little difference whether the government issued currency or bank-eligible notes and bonds. They would all become money.

When a government issues long-

Continued on page 33

*Address by Dr. Roos before the New York Society of Security Analysts, New York City, March 2, 1951.

1 C. F. Roos, "Business Indexes and Stock Prices," *The Commercial and Financial Chronicle*, June 22, 1950.

Dealer-Broker Investment Recommendations and Literature

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

Electronics in Defense—Analysis—William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

Graphic Stocks—January issue contains large, clear reproductions of 964 charts complete with dividend records for the full year of 1950, showing monthly highs, lows, earnings, capitalizations, volume on virtually every active stock on the New York Stock and Curb Exchanges—single copy $10.00; yearly (6 revised issues) $50.00—special offer of three editions of Graphic Stocks, 1924 through 1935; 1936 through 1947 and up-to-date current edition, all for $25.00—F. W. Stephens, 15 William Street, New York 5, N. Y.

Griffith Letter—Investment and business commentary naming the only industry firm believes to be attractive—$10.00—B. Barrett Griffith and Company, Inc., Colorado Springs, Colorado.

How to Make Money in a Declining Stock Market—A book on short selling—$1.00 per copy—Dept. D-1, Mark Weaver, Box 1130, Santa Monica, Calif.

"Information Please!"—Brochure explaining about put-and-call options—Thomas, Haab & Botts, 50 Broadway, New York 4, New York.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the 30 listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an 11-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, New York.

* * *

American Barke Line Company—Analysis—Dayton & Gernon, 105 South La Salle Street, Chicago 3, Ill.

Also available is a memorandum on **National Pressure Cooker Company.**

American Airlines—Memorandum—Dempsey-Tegeler & Co., 407 North Eighth Street, St. Louis 1, Mo.

Also available are memoranda on **Earnings Co. of America, Continental Air Lines, Delta Air Lines, Mid Continent Airlines.**

American Trust Company—Study—Elworthy & Co., 111 Sutter Street, San Francisco 4, Calif.

Audio Devices, Inc.—Analysis—Peter Morgan & Co., 31 Nassau Street, New York 5, N. Y.

Beneficial Industrial Loan Corporation—Annual report—from the Beneficial Industrial Loan Corporation, Wilmington 99, Delaware.

Burlington Mills—Brief data—Abraham & Co., 120 Broadway, New York 5, N. Y.

Also available are briefs on **Eastern Gas & Fuel, Erie Railroad, General Public Utilities, Public Service Electric & Gas, Walworth Co.,** and **Westinghouse Electric.**

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Also available is an analysis of **TELE-tone Radio Corporation.**

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

Continued on page 37

Pegged Treasury Bond Market—Primary Cause of Inflation

By MARRINER S. ECCLES*
Member, Board of Governors, Federal Reserve System

Long-time member of Federal Reserve Board lays inflation's chief cause to pegging of government bond market, thereby permitting money and credit to be created by sales of securities to Federal Reserve Banks. Says it is not responsibility of Federal Reserve System to underwrite public debt at fixed prices, but rather to curb further expansion of money supply.

Adequate defense against Communist aggression calls for more than powerful military forces and strong allies. It also calls for sound domestic economic policies that will assure the preservation of our free democratic institutions. More specifically, it calls for the prevention of further inflation which erodes the savings of the people, impoverishes all recipients of fixed incomes, destroys incentives to productive effort, corrupts the moral fibre of the nation, and in the end destroys the very system which the defense effort is designed to protect. Defense of the free nations of the world and defense of the dollar are equally compelling.

Marriner S. Eccles

The dollar cannot be defended for long, if at all, with a harness of direct controls—we all know what happened to its purchasing power during and after the last war. We should have no illusions about the effectiveness of such direct controls. They attack the symptoms, not the basic causes, of inflation. In the absence of adequate fiscal and monetary measures to curtail buying power in the hands of the public, imposition of direct controls for the prevention of further price increases merely postpones and delays inflation, but does not prevent it. If demands of businesses and individuals supported by money and credit had not exceeded the available supplies of goods and services, prices could not have advanced so rapidly since Korea. You cannot divert labor and material from civilian to defense production and avoid inflation unless you divert a corresponding amount of financial resources from the civilian economy.

The only way that the purchasing power of the dollar can be preserved is through a tax program that will keep the Federal cash budget in balance as long as inflationary pressures exist, and through monetary and debt management policies that will effectively regulate the expansions of bank credit in relation to the total output of goods and services. Adoption of such policies, together with the maintenance of an adequate amount of savings by the public, will bring about the necessary balance between civilian demands for, and the available supply of, goods and services. A pay-as-you-go tax program by itself is not enough to defend the purchasing power of the dollar. During 1950 the Government operated on a cash budgetary surplus; despite this, wholesale prices advanced roughly 16% during the year. The inflation is due, therefore, not to Government spending more than its income, but to excessive spending by the public, a substantial part of which resulted from new money created by bank credit.

*An address by Mr. Eccles at Luncheon of the Executives Club of Chicago, Chicago, Ill., March 2, 1951.

To a great extent, this expansion in bank credit was made possible by the Federal Reserve's purchase of Government securities in the market at fixed prices. Such purchases provided the commercial banking system with reserves that formed the basis for a multiple expansion of loans and deposits. Despite the rapid increase in bank loans since Korea, and the inflationary impact of this credit on the economy, the policy of purchasing Government securities at the will of the holders at fixed prices has been continued. Such action by the Federal Reserve does not assure confidence in the credit of the Government. The credit of the Government is determined by the willingness of the public to buy and hold Government securities. A policy that results in continued monetization of the public debt in time of inflationary pressures leads to destruction of the Government's credit by depreciating the value of the dollar.

Continued support of Government securities at fixed prices, some above par, makes call money, or interest bearing currency, out of the marketable public debt. If these conditions are to prevail, there is no justification for the various issues of marketable Government securities, with their wide variation of maturities and interest rates. Why should the Government discriminate against holders of savings bonds by paying them less interest if they cash them prior to maturity, when it requires that the holders of marketable bonds be protected against any loss of principal or interest if they sell them before maturity? Why should they be called marketable when their prices are not permitted in any degree to reflect market demand?

The Federal Reserve System has been accused of seeking higher interest rates, which primarily enrich the banks and other corporate holders. The Federal Reserve is not interested in higher interest rates as such, but only as they help in curbing the sales of Government securities which add to the reserves and deposits of the banking system. In order to curb such sales of Governments, it is necessary that the market for them become more self-supporting and less dependent on Federal Reserve purchases. The incidental result of such a development, under current conditions, will be somewhat higher interest rates.

An Orderly Market for Government Bonds

This does not mean, as has sometimes been suggested, that the Federal Reserve favors a completely free market for Government securities. The responsibility for maintaining an orderly market that will assure the continued success of Treasury financing has long been recognized and publicly proclaimed by the Federal Reserve System. Let us not confuse the issue—an orderly market, in which the demand for and supply of Government securities are permitted some freedom of action in order to determine what the real public market is, is not the same thing as maintaining a fixed pattern of rates irrespective of inflationary conditions.

If the Federal Reserve became a more reluctant buyer of Government securities, the market for such securities would in no sense get out of hand. These securities are held mainly by large institutional investors who need the income from them. I strongly believe that if the marketable securities eligible for purchase by non-bank investors bore a somewhat higher yield, such investors would be less willing to sell the securities they now own and more willing to take new or refunding issues.

While the maintenance of an orderly, as contrasted with a pegged, market may result in some increase in the interest cost to the Government, such increase would be nominal as compared with the effects of a further depreciation of the dollar. Only that portion of the debt which is refunded or converted each year would bear the higher interest rate. The additional interest cost on that portion of the public debt which may be refunded or converted during the next few years would be very small indeed compared with the added cost of inflation to the Government, if monetization of the public debt is allowed to continue. As a matter of fact, the increased interest cost on the marketable debt would be less than claimed, since the Government will collect in taxes more than half of any additional interest which it pays to holders of its securities.

We must, above all, be realistic in formulating and assessing the effectiveness of debt management policies at the present time. We are not starting with a clean slate. We must recognize the size, structure, and distribution of the public debt. There are a great many different types of Government obligations outstanding which are held by various classes of investors. Consequently, increases in yields on market bonds must not be permitted to adversely influence the very large number of savings-bond holders.

While the establishment of a freer but orderly market for Government securities is essential to curb further sales by banks and other institutional holders, the moderate changes in interest rates permissible in view of the debt structure may not prove to be a sufficient deterrent, especially in the case of banks, which largely hold short-term securities yielding from 1½% to 1¾%. In that event, Congress will have to authorize supplementary authority to increase reserve requirements or some other form of controlling reserves of commercial banks so as to limit their sales of Government securities to the Federal Reserve for the purpose of expanding their loans and investments.

A Conflict of Responsibilities

So far as the disagreement between the Treasury and the Federal Reserve System is concerned, it is not a matter of personalities, but what appears to be a conflict of responsibilities. The Treasury's primary responsibility is that of financing the operations of the Government at the lowest possible cost at which it can induce the public to buy and hold its securities. The Federal Reserve System, as an independent agent responsible to Congress, is charged with the responsibility for regulating money and credit in such a way as to contribute to the maintenance of economic stability. Ordinarily there should be no conflict between the objectives of these two agencies of the Federal Government. However, a conflict has arisen during the postwar period, and particularly since Korea, over continuance of the cheap money policy of the wartime period of heavy deficit financing, despite the existence of budget surpluses and inflationary pressures since the war. These inflationary pressures have been due in large measure to credit expansion by the banks, based upon reserves obtained through the sale of Government securities to the Federal Reserve System because of its support of the Treasury's cheap money policy.

It is not the responsibility of the Federal Reserve System at a time like this to underwrite the public debt at fixed prices, but rather to do everything in its power to curb further expansion of the money supply and further depreciation in the purchasing power of the dollar. Therefore, the Federal Reserve System should not continue to support the market for all Government securities at present prices. If the Congress does not want the Federal Reserve System to carry out its present statutory responsibilities it should repeal or redefine its powers. Until such time as it does, the System has no choice under the present impact of inflationary pressures but to use its powers in a manner consistent with its responsibilities to the public as well as to the Treasury. To do otherwise, would be to fail in its public duty and would not be in the real interest of the Government. A greater degree of independence on the part of the Federal Reserve System is long overdue.

John J. Mullen

John J. Mullen, manager of the trading department of Garrett-Bromfield & Co., Denver, Colo., passed away on Feb. 19.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

STAMFORD, Conn. — Mary E. Gorsuch is now affiliated with Merrill Lynch, Pierce, Fenner & Beane, 80 West Park Place.

Recommendations for Inflation Control

By ALLAN B. KLINE*
President, American Farm Bureau Federation

Spokesman for agricultural interests lists seven steps to control inflation, chief among which are balanced budget through higher taxes and reduced government expenses. Contends present policy of pegging government bond prices is inflationary and recommends $4 billion increase in personal income taxes as well as increased holding period for capital gains levy. Opposes taxation of cooperatives and a general Federal sales tax.

If we really want to control inflation, we must do the following things: (1) Meet increased demand with increased production, wherever possible.

Allan B. Kline

(2) Reduce government expenditures to the minimum necessary for the national interest, essential world aid, and an adequate national defense—to reduce government demands for scarce labor and materials and to keep the tax load from becoming unnecessarily oppressive.

(3) Continue to emphasize measures to restrain credit.

(4) Encourage increased private saving. This will be much easier to do if we adopt a realistic program to control inflation and thereby reassure our people as to the future value of present savings.

(5) Continue to stress the sale of government bonds to individuals and non-bank investors, and take steps to prevent a further shift of non-bank-held negotiable bonds to the banking system.

(6) Recognize that the time has come for the Federal Reserve System to discharge its statutory responsibilities by relating its purchases and sales of government obligations, to the nation's need for money and credit — even though this will result in higher interest rates.

The present government policy of pegging the price of government bonds is inflationary. It puts money in the hands of the public and more importantly, it puts reserves in the hands of the bank. This is the key to the fact that the volume of money in circulation went up $7 billion from Korea to the end of 1950. The public debt should be managed so as to make a maximum contribution to price and economic stability instead of with the objective of keeping the government's interest costs at a minimum.

(7) Finally, we must pay the bill through higher taxes.

The real cost of war or a defense program occurs when labor and materials are diverted from civilian uses to the creation of military strength. As the government spends the money, the bill must be paid, either by taxes or by inflation. We prefer to pay it by taxes. If the bill is paid by taxes, people will know that they are paying it, and we will have an opportunity to distribute the burden equitably on the basis of ability to pay. Inflation, on the other hand, is an insidious and equitable way of paying government costs. It destroys savings, discourages thrift and works an undue hardship on the groups which have the least opportunity to obtain higher prices or wages. Political controls which, of course, a government following an inflationary program must use to conceal the fact that the value of its money is being destroyed, would impair our national strength by reducing production. If the need for a heavy defense program should prove to be of long duration, inflation and the accompanying controls could completely destroy the free-choice system with which we have thus far outstripped every other system of production and distribution.

The American Farm Bureau Federation believes that "tax sources should be selected, not only to bring about fair and equitable distribution of the tax burden, but also with due regard to their effects on the national economy." In the present instance, this means that we should strive to obtain necessary increases in revenue in such a manner as to make the greatest possible contribution to the control of inflation. Furthermore, since the need for an expanded defense program may continue for several years, we should attempt to develop a tax program which can continue in effect indefinitely without destroying the incentives that are basic to American productive capacity.

With these objectives in view, we have developed specific recommendations as follows:

Personal Income Taxes

We recommend that personal income tax rates be increased sufficiently to raise at least $4,000,000,000 in new revenue. This recommendation is based on a section of our Resolution on long-range tax policies which reads as follows:

"The personal income tax should be the major source of revenue for the Federal Government. Its base should be kept as broad as practicable through the retention of low exemptions. All self-supporting persons should make a direct contribution to the support of government."

It is generally agreed that personal income tax is more closely related to "ability to pay" than any other tax. Furthermore, a substantial increase in income taxes at this time would have an anti-inflationary effect by bringing consumer purchasing power more nearly into line with the reduced supply of goods available for civilian consumption.

We also recommend a reduction from $1,000 to $500 in the maximum amount of the optional standard deduction which individual taxpayers are allowed to take as an alternative to itemizing their deductions. The present provision of law which permits taxpayers to deduct 10% of their gross income up to a maximum deduction of $1,000 without itemizing allowable deductions undoubtedly carries a considerable advantage to taxpayers with a gross income of $5,000 to $10,000, since many of these taxpayers would be unable to report deductible items equal to 10% of their gross income. The optional standard deduction is sound in principle, since it facilitates tax computations for many people in the lower income brackets; however, we feel that any person claiming deductions in excess of $500 should be required to list the deductible items.

Capital Gains

We recommend an increase from 6 to 12 months in the length of time assets must be held before income from their sale can be reported as "capital gain." The idea of giving "capital gains" more favorable tax treatment than ordinary income is sound in principle, since it provides an incentive for savings and investment; however, 6 months does not appear to use to be a sufficient length of time to put a transaction in the category of a long-term investment. A longer holding requirement for "capital gains" treatment would appear to be particularly desirable in an inflationary period such as the present to reduce the incentive for speculation.

We also recommend that steps be taken to make it clear that sales of livestock held for dairy, breeding, or draft purposes are eligible for treatment as "capital gains" under Sec. 117(j) of the Internal Revenue Code. The Eighth Circuit Court in the Albright case and the Fifth Circuit Court in the Bennett and other cases have held that Sec. 117(j) does apply to such sales of livestock. In the event these decision are not followed by the Bureau of Internal Revenue, we urge your committee to resolve this question with legislation.

Cooperatives and Other Corporations

Our position on the taxation of cooperatives and other corporations was presented to this Committee on Feb. 23, 1950. Our recommendations are set forth in our Resolutions as follows:

"Agricultural cooperatives are an integral part of the 20th Century farming business and have significantly aided the successful operation of the farm economy. They are a vital part of a free competitive enterprise system. Their basic aim is to enable the farmer to sell his products and to purchase his farm supplies under conditions which allow him to compete effectively in a mass production and distribution economy. Agricultural producers must continue to have the right to market their products, purchase farm supplies, and acquire needed services through their cooperatives. Bona fide agricultural cooperatives must be protected against certain vested interests who are using the term 'cooperative' as a guise for selfish motives. We will defend, to the fullest extent of our ability, the right of farmers to form and operate cooperative associations.

"The attacks on cooperatives under the banner of tax equality by certain groups are deeply resented. Since genuine farmer cooperatives are owned and operated by the farmers who use their services, the cooperative has the alternative of reflecting savings to the patron either through patronage refunds or through price adjustments. We are convinced that it is in the best interests of our entire economy for the savings of cooperatives distributed as patronage refunds to be taxed only in the hands of the individual members.

"We will aggressively oppose any efforts to tax cooperatives on such savings returned as cash, or clearly shown on the books of the coperative to be property of the patron. There is no sound basis for imposing on cooperatives an income tax on patronage earnings refunded in the form of cash refunds, certificates of stock, certificates of indebtndess, or revolving fund certificates where the obligation to the producer patron is certain.

"Savings in the form of unassigned surpluses of cooperatives should be taxed in the same manner as profits of other corporations.

"All corporations should be exempted from Federal income taxes on the portion of their annual earnings that is distributed to the stockholders as dividends, where such dividends are taxed in the hands of stockholders. A reasonable proportion of corporation earnings retained should be taxed at the rate used in the first income bracket of the personal income tax. The balance of any amount retained should be taxed at a rate sufficient to encourage, but not compel, the distribution of earnings.

"We oppose the application of a dividend withholding tax system to cooperatives and other corporations. In many instances patronage refunds or dividends are in such small amounts as to make the necessary bookkeeping transactions impractical. A withholding plan would not accomplish the desired results because recipients of refunds and dividends fall in all tax brackets. The withholding of tax on non-taxable refund items would complicate tax collection procedures."

We recognize that the government's present need for increased revenue makes it impractical for the Congress to take immediate action on that part of our recommendation which would end the present double taxation of corporate dividends by exempting corporations from Federal income taxes on the portion of their earnings that is distributed to the stockholders as dividends. Nevertheless, we believe that this recommendation is sound from a long-range viewpoint and that it should be adopted as soon as conditions permit.

We are unalterably and agressively opposed to any effort to tax farmer cooperatives on savings and earnings returned as cash or clearly shown on the books of the cooperative to be the property of the patron; however, we believe that savings in the form of unassigned surpluses of cooperatives should be taxed in the same manner as profits of other corporations. We will support legislation to implement this principle for farm cooperatives and to extend it on an equitable basis to other cooperatively-owned businesses such as mutual savings banks, loan associations, etc.

For reasons stated in the Resolution just quoted, we oppose the application of a dividend withholding tax system to cooperatives and other corporations.

Corporation Tax Rates

In the present situation, we are prepared to support an increase from 47 to 55% in the effective rate of the combined corporation normal and surtax rate.

Federal Sales Taxes

We are unalterably opposed to a Federal sales tax. Such a tax is undesirable because it would be a drastic departure from the principle of basing Federal taxes on "ability to pay." Furthermore, we need to recognize the need for leaving some possible sources of revenue to the States—many of which already have sales taxes. As an alternative to a Federal

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*Part of a prepared statement by Mr. Kline before the House Ways and Means Committee, Washington, D. C., Feb. 23, 1951.

Fallacies of Price and Credit Controls

By ERNST A. DAUER*

Director of Consumer Credit Studies, Household Finance Corporation, Chicago

Dr. Dauer, characterizing price and credit controls as mere stop gaps which attack symptoms rather than causes of inflation, contends such methods have danger of disrupting production and creating inequities. Sees in all this a handicap to achieving a proper defense program and economy in government operations. Denies consumer credit is inflationary.

The inflation problem exists because individuals and businesses are offering more and more money for a volume of goods, which is expected necessarily to decrease as a result of military requirements.

Dr. Ernst A. Dauer

The total output of goods available for civilian consumption cannot be increased to any great extent. Therefore, the important thing is to reduce the demand for goods, as a means of preventing inflation. How can this be accomplished?

Demand is a function of two chief factors: (1) the desire to acquire goods; and, (2) the ability to buy, or purchasing power. The converse of the desire to acquire goods is the desire to save, to increase past savings, or to abstain from the use of past savings or accumulated assets. Purchasing power is derived from current income or from the use of past or future income. There are only three ways of decreasing purchasing power: (1) by steps which reduce the proportion (amount) of current income available for expenditure, such as appropriate taxation or forced savings; (2) by credit control which prevents credit expansion, the use of future income; (3) by steps which discourage or prevent the use of past savings or past income.

Price Controls

Do price controls reduce purchasing power by one of these methods, or reduce the desire to buy? If not, do other government policies or controls effectively do so? If the answer is still no, then price control can be merely an attempt to suppress or to hold a lid on the inflation which actually exists. Price control alone cannot do that. If demand is not reduced to balance supply, then price control requires rationing. Rationing attempts arbitrarily to restrict the demand to the supply.

What, then does price control accomplish? It is clear that price control does not represent a basic attack upon inflation. It may, however, be a temporary expedient, and have a limited beneficial effect.

If we review the happenings of the last half-year, this will become clear. The general recognition that prices would advance, and that certain goods would become scarce and deteriorate in quality, stimulated demand. Consumers went on a buying spree. Merchants built up inventories, and manufacturers overbought supplies of raw materials. Even the government bought food and supplies at a rate adequate for armed services of 10 million men.

It was also realized that sooner or later price and wage controls would be imposed. Unions and employers alike attempted to "beat the gun." Higher wage and raw material costs were passed on through higher prices, thus causing a spiral of price increases.

In such a situation price control can provide a cut-off point. It can cause people to review and re-appraise their expectations of the future. If people believe that prices are to be relatively stabilized, and may be reduced, that belief will remove the incentive for speculative buying, and for buying in advance of needs caused by anticipated price raises. However, price control would not remove the incentive for forward buying based upon fear of shortages, or quality deterioration. Thus price control deals only to this very limited degree with excess demand, the cause of inflation. At best, it permits us to gain a little time in which to deal with the basic causes.

Yet, while price controls have little beneficial effect, they do have harmful effects on defense production and on our entire economic structure.

Price controls prevent prices from performing their basic, very important, function in our way of life. Under ordinary circumstances, even when the general price level remains stable, prices of individual goods and services are changing. As a rule, it becomes more profitable to supply the goods which are in greater demand. Thus, changes in prices stimulate the output of some articles, and discourage the output of others; in this fashion, prices redirect the use of productive resources.

When prices are controlled, they stimulate demand. They cannot perform the function of calling forth additional production of those goods which are in short supply, because profit margins on them are then inadequate. Thus, it became necessary, in World War II, to set up an elaborate system of subsidies in order to encourage adequate production of thousands of items. On Feb. 7, 1951, officials of the Office of Price Stabilization were quoted in the press as saying that it would be necessary to subsidize almost all basic metals if prices are to be held down and production increased at the same time. The true price then becomes the announced price plus the increased taxes needed to cover the subsidy.

We can reach one basic conclusion. If demand is curtailed by dealing with the causes of inflation, then price controls are unnecessary but they will work. If the causes of inflation are not dealt with adequately, then price controls will not keep prices down without disrupting production. Every exception granted to keep production at a high level will cause prices to continue to rise.

There are a number of reasons, today, why the price level will continue to rise:

(1) The price regulations do not cover all articles and all services. All farm prices which are below parity are exempt. It is impossible to regulate the prices of raw materials which must be imported from abroad;

(2) Developments have already shown that wage controls are not going to be rigid and will be subject to many exceptions. Under the existing regulation, increased wage costs can be passed on in higher prices;

(3) It will be necessary to relieve inequities due to the uneven rate of change of prices of different kinds. Retail prices usually lag after wholesale and raw material prices. The period since Korea was no exception. Also some sellers kept prices down in response to the Administration request voluntarily to "hold the line" while their competitors did not do so.

Every exception granted by the Office of Price Stabilization to relieve inequities will cause new inequities and require new exceptions. Every request for an exception creates an opportunity for corruption and political favoritism.

We must recognize that the prices actually paid do not stay down, even if quoted prices do not rise. Higher prices are paid, of course, on under-the-counter transactions. Higher prices also occur through deterioration in the quality of products as producers attempt to maintain profit margins in the face of rising costs. In addition, when producers find that higher costs threaten the prices of utility lines they discontinue producing those articles and, instead, produce higher priced lines of the same articles.

Price control cannot be effective without popular support. It cannot retain popular support for long in the absence of actual war. Economists who have studied the record of price control in World War II are convinced of that.

If it does not have popular support, price control will be subject to widespread evasion. The experience with meats in World War II is a vivid illustration of such evasion. Supplies of meat were diverted out of regular channels. Thus, above-ceiling, or black market, prices were secured in response to the demand which the controlled supply could not fill. Mr. DiSalle has already announced the regulation of slaughtering in an attempt to prevent such diversion. Thus, every attempt at detailed regulation creates the need for further regulation.

General Credit Controls

Let us turn our attention now to credit controls. How effectively can they be used in the present emergency to prevent expansion of the money supply?

Deposits of commercial banks are today the most important component of our money supply. Expansion of deposits of an individual bank, and of the system, is limited by the requirement that each bank maintain a minimum percentage reserve against its deposits. For most banks, this reserve takes the form of a deposit made by the commercial bank in the Federal Reserve bank.

In the 20s, credit control by the central bank was the generally accepted method of attempting to influence business volume and prices. For example, by a combination of the traditional instruments of control, the Federal Reserve could cause a contraction of member bank credit, of deposits, and of the money supply:

(1) **Rediscount Rate**—By raising the rate which it charged on loans, the Federal Reserve bank could make it more expensive for member banks to borrow in order to replenish or augment their reserves. Presumably, banks would pass the increased cost on to their customers and thus discourage borrowing by customers.

(2) **Open Market Operations**—By selling government securities, the Federal Reserve bank could decrease the balances in member bank reserve accounts so that some fell below the required minimum. Thus, when Federal Reserve banks raised their rediscount rates and also sold government securities they could force banks to borrow from them at the higher rate.

(3) **The Tradition Against Borrowing** — Under these circumstances, the reluctance of member banks to remain indebted to the Federal Reserve bank for any extended period of time, would cause them to contract their loans to customers.

(4) **Changing Member Bank Reserve Requirements**—Since about the middle of the 1930s, the Federal Reserve has had the power to vary legal reserve requirements within certain limits, and thus also make deposit balances of member banks fall below the legal reserve requirements.

These traditional instruments of credit control were thus used to influence the total volume of credit extended by member banks, and its cost, regardless of how that credit was used. Let us appraise the effectiveness of such general credit controls, and then thereafter, consider the suitability of the selective credit controls designed to directly restrict the expansion of credit in particular areas of the economy.

The Effectiveness of General Credit Controls

From the end of June until the end of December, loans of commercial banks increased $8 billion, from $44.8 to $52.8 billion. The increase in that six-month period was larger than has occurred in any preceding full year period. During the last six months of 1950, the money supply of the country increased by almost the same amount as commercial bank loans expanded; namely, from $170.0 to $177.2 billion.

How effectively has the Federal Reserve used its general credit control powers in preventing the expansion of credit during the inflationary upsurge since Korea? How effectively can they be used in the future?

Last August, the Federal Reserve banks increased their rediscount rates on advances secured by government obligations and by eligible paper from 1½% to 1¾%. Since member bank borrowings have been insignificant, the increase in rediscount rates has had only a psychological effect, by indicating the Federal Reserve desire to discourage the expansion of credit. Nevertheless, member banks generally raised their interest rates on loans to prime borrowers from 2 to 2¼% and then from 2¼% to 2½%. However, an increase of this amount, with interest rates as low as they are, can have very little effect upon borrowers.

During January of this year, reserve requirements were increased by two percentage points on net demand deposits at all member banks and by one percentage point on time deposits. This raised reserve requirements about $2 billion. At the present time, the Federal Reserve power to further increase reserve requirements is

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*An address by Dr. Dauer at the Third Annual Business and Economic Conference sponsored by Albion College, Albion, Mich., March 3, 1951.

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.

Dr. Melchior Palyi

In addition to the following letters, reference is made to the fact that others appeared in earlier issues, beginning with that of Jan. 18.

L. M. GIANNINI

President, Bank of America National Trust and Savings Assn., San Francisco 20, Calif.

My reaction to Dr. Palyi's article is favorable. I think that he has analyzed the situation very logically.

It is my firm belief that we must not further appease or compromise with communism. There has been altogether too much of that in the past. I feel that Russia is not much interested in starting a third world war, and I certainly fail to see how she could gain more through a war than she has been able to gain through past practices.

Our experience in Korea is typical of Russian tactics. In this situation, Russia has forced upon us a guerrilla war whereas we had been anticipating and preparing for an atomic war. Thus far, we have been permitting Russia to select the battlefield and, in general, the instruments of warfare.

If we have a real desire to avoid direct conflict between the United States and Russia, it would seem to me that the first requisite would be for the United States to let Russia know definitely what its program is and the types of activities that it will not tolerate and form of retaliation in which we will indulge if the prescribed rules are violated. Of course, by doing this we would have to be prepared to go all out in the event the rules are violated and this, to me, would mean the use of our most modern weapons on the productive capacity of the U. S. S. R.

I had occasion, in my Annual Report to Stockholders for 1950, to comment in general on the question of our national interest. Thinking that you may be interested, I am enclosing an excerpt from that report. (Excerpt follows—Editor.)

(Excerpt from President's 1950 Annual Report to the Stockholders, Bank of America N. T. & S. A.)

"OUR NATIONAL INTEREST"

"As a nation, we enter the new year with the greatest need in all our history for inspired leadership, national teamwork, and exercise of profound wisdom.

"Recent world events make it entirely clear that our efforts to live in peace will be successful only provided they have the backing of defensive strength so impressive, so mighty, that it discourages any acts of aggression, or even the inner ambition to march against free people.

"Second sight reveals it was a mistake for us to have decimated our military strength following the armistice. We should have maintained it in a state of preparedness so effective that it would never have to be used.

"In this world we can never go back to normal. We can only go forward to a new normal—in this case a new normal of defensive preparedness sufficient to win and hold our goal of peace.

"And so, we are now embarked upon the task of retrieving our postwar mistake of excessive demobilization. The cost will be high, but we are prepared to pay it.

"We will pay the price through our sons and daughters in uniform. We will pay the price in higher taxes. We will pay the price in temporary shortages and other inconveniences.

"I am convinced, however, that once our national economy has become adjusted to the requirements of an effective preparedness state, we can—if we possess the will—continue our way of life without sacrifice of any essential freedom. Once having established our national impregnability, we can maintain it permanently in every essential aspect and at the same time produce the goods and provide the services with which our living standard is fashioned. It will be a case of adjustment to a new tempo in all things, which, after all, has always been the basic pattern of our economy to a greater or lesser degree.

"The immediate task will be easier, and our goal more quickly won, if labor and management work in harmony, if political expediency is retired to the side lines, and if the Federal Government sets the example for the people to follow in matters of economical operation and conservation of resources, including manpower resources.

"From now forward, business and industry must make its manpower more productive. It is to be hoped the Federal Government will do the same, shouldering its added tasks without further unnecessary inroads into the labor force, by bringing hours and other working conditions of government employees into line with those which must prevail in factories and fields and stores and offices and homes."

* * *

J. D. A. MORROW

President, Joy Manufacturing Co., Pittsburgh 22, Pa.

From our own knowledge of the international situation, I agree with much of what Dr. Palyi says.

I am certainly convinced that Stalin is deterred from overrunning Western Europe much less by fear of the atom bomb than by fear of the tremendous potential of the American industrial organization, and I am far more concerned about the danger to us here from Stalin's assistants in the United States than about Russian bombs falling on Pittsburgh. His eager helpers in this country are of two kinds: first, the out-and-out Communists and their associates who, in my opinion, are much the less to be feared; second, the stupid, ignorant, and misguided little minds in Washington and elsewhere who are busy wrecking the very industrial potential that is our major safeguard against attack. The spending by the "squandercrats," the shackling of industry, the imposition of unnecessary controls, and all the long story with which you are too familiar to need details is doing Stalin's work for him in "destroying the capitalistic democracy of the United States."

Once it is a socialistic democracy, he need fear it no more. If we want to save this country for what we are pleased to call the "American way of life," our first job is right here at home, rather than in Korea or in Western Europe.

* * *

NORMAN THOMAS

New York 10, N. Y.

I think Dr. Palyi wrote a very able article. I personally feel that by our own acts we have pretty well incurred responsibility greater than 10 years ago for Western Europe, and if there is any reasonable possibility, we should make a joint defense against an agresssive Communist imperialism.

* * *

H. H. SCHELL

President, Sidney Blumenthal & Co. Inc., New York 16, N. Y.

I do not have the time to write you as comprehensively as I would like and to give you the response which Mr. Palyi's intelligent article deserves.

However, I would agree, in general, with what he has to say. For the initiated and sophisticate of international affairs there are many pitfalls to be avoided when making any contracts committing the American people. The first rule we should adopt is to choose good, hard headed, American traders with, of course, a substantial background in international affairs, to represent us at the bargaining table. The next thing is to be sure that everyone assumes a responsibility to cooperate, in accordance with their interests and their resources. If this is done we will come out all right and if it is not done we will come out all wrong. A good example is the amateurish way we piled into Korea. All of the events which finally took place in Korea and which are still to come could easily have been foreseen by a sophisticate. They should have been weighed and we should have made a decision before we went in as to what we would do in each of these eventualities. We never should have gone into Korea as the United Nations without a concrete commitment with other participating nations setting up our purpose, how it was to be accomplished and who was to contribute what and when. The fact that 95% of the manpower, in addition to all the material and money in Korea was supplied by the United States is an international disgrace and in addition evidence of the complete stupidity of our negotiators. At this stage, the least said about this the better. What we want to be sure is that we do not repeat such an error.

In the mind of the competent internationalist grave doubt exists as to whether the people of the Western European countries will stand up under a war in their area, if war should come. There is also grave doubt as to the ability of the present governments in Western Europe to commit their peoples for war, since none of the governments there are strong and most of them are really minority governments functioning under a coalition system. Realizing this I am not saying that we should not supply more men, money and materials to the association of the Atlantic Pact countries. However, when we do it must be as a calculated risk and with definite commitments in hand, recognizing that they may not be able to deliver these commitments.

I am anything but an isolationist. On the other hand, there is no question in my mind but what many dangerous pitfalls lie ahead and the prudent will do everything possible to recognize them and attempt to avoid them.

[Editor's Note: Owing to a mechanical mishap, only a portion of Mr. Schell's remarks was given in our issue of Feb. 22, page 3. Mr. Schell is Chairman of the United States Inter-American Council of Commerce and Production, which covers about 145 business organizations of the Latin American Republics. He was in Europe recently as a Delegate to the International Labor Organization.]

* * *

RICHARD WAGNER

President, The Chicago Corp., Chicago 3, Ill.

I find myself in substantial agreement with Dr. Palyi as well as with Major de Seversky. It seems to me that vastly superior air power and naval power are what this nation should strive for. This would give us a striking force at any point of trouble without committing too many of our young men to land movements in which we are seriously outnumbered.

* * *

ROBERT W. WOLCOTT

Chairman of the Board, Lukens Steel Company, Coatesville, Pa.

The article is intensely interesting and a viewpoint with which I am in full accord. I wish that all thinking Americans could read it.

Tamlyn Admitted Into Kidder, Peabody & Co.

Arthur C. Tamlyn, a member of the New York Stock Exchange, has been admitted into Kidder, Peabody & Co., 17 Wall Street, New York City, members of the Exchange, as a general partner, it is announced. Mr. Tamlyn has been associated with Kidder, Peabody & Co., since 1919, serving as personnel director for the past five years.

Arthur C. Tamlyn

With Noble, Tulk

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Milton R. Aronson is now affiliated with Noble, Tulk & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with Morgan & Co. and Floyd A. Allen & Co.

Harold B. Platt

Harold B. Platt, associated with James M. Toolan & Co., New York City, passed away on Feb. 28.

LETTERS TO THE EDITOR:

"European Attitude on Our Foreign Situation"

More letters on article by Ernest T. Weir, Chairman of National Steel Corporation, giving his impressions of a European trip of inquiry and in which he reported European attitudes adverse to our foreign policies.

We give in today's issue some more of the letters received by the "Chronicle" in connection with the article by Ernest T. Weir which appeared on the cover page of the issue of Jan. 18. Mr. Weir, who is Chairman of the National Steel Corporation of Pittsburgh, prepared his article "European Attitude on Our Foreign Situation," subsequent to a trip abroad where he had an opportunity to discuss the United States foreign policy with public officials and businessmen in various countries. Mr. Weir reported that an adverse attitude prevails toward U. S. policy in the Far East. Our European friends, he stated, do not hold Russia will soon precipitate war, and that the Iron Curtain hides weakness, not strength. Europe, according to Mr. Weir, desires direct negotiation between U. S. and Russia, as well as a better understanding of the Chinese problem, to prevent World War III.

Ernest T. Weir

The initial commentaries on Mr. Weir's article appeared on page 3 of the issue of March 1. Others appear herewith:

JOHN W. BARRINGER
President, Chicago, Indianapolis and Louisville Railway Co., Chicago, Ill.

Since I have long admired the outstanding work of Mr. Ernest T. Weir and have recognized him to be one of America's greatest industrialists and most useful citizens, I have high respect for his views on every subject about which he may express an opinion and welcome such opportunities to benefit from his information and observations.

Both for this reason and because of the importance of the "European Attitude on Our Foreign Situation" I have read Mr. Weir's statement of it with keen interest and have given particularly careful attention to his ideas respecting ways which may avert World War III.

Mr. Weir's statement is an important and timely addition to "the great debate."

My own personal opinion leads me to believe that the policies being suggested by ex-President Hoover and Senator Taft offer the world the best presently available means of avoiding such a catastrophe altogether or of winning World War III with a minimum loss of life and treasure if Russia does later precipitate it by direct attack or goading its satellites to start more brush fires burning along the edges of the iron curtain.

* * *

HON. CLARE E. HOFFMAN
U. S. Congressman from Michigan

I intend to put Mr. Weir's report in the Congressional Record. It is a masterful statement.

HON. RALPH E. FLANDERS
U. S. Senator from Vermont

Mr. Weir talks a good deal of sense. There are, however, some points to which I would like to supplement his observations.

He suggests that we "meet directly with Russia." An alternative plan is supported by a number of Representatives and Senators in the enclosed letter [see below—Editor] to the President. This gives Russia the opportunity to join in obtaining an honest peace in the only way in which peace can be obtained with the Politburo.

It also will move strongly to "prevent World War III." It will do so by giving us more and stronger friends if the offer is rejected and will weaken the internal support of the Politburo in the statellites and among the Russian people themselves if we are wise and effective in our publicity.

Mr. Weir says we "must consider European attitude." The setting up of the ideal of free communication is the earnest suggestion made by a group of Europeans under the leadership of Dr. Niels Bohr. You will note that this item is included in the letter to the President.

It is true that an "emotional approach bars clear thought." I believe I am right in feeling that this particular proposal is a matter of thought rather than emotion. I hope you also will so consider it.

Text of Letter Referred to By Senator Flanders

"Washington, D. C.
"February 26, 1951

"The President
"The White House
"Washington, D. C.

"Dear Mr. President:

"We, the undersigned, urge that your plea for peace through disarmament, made before the United Nations Assembly on October 24 last, be now followed up by definite proposals to be made by our representative on the United Nations Council.

"In your address you set forth principles which we abbreviate as follows:

"First, the plan must include all kinds of weapons. Outlawing any particular kind of weapon is not enough . . .

"Second, the plan must be based on unanimous agreement . . .

"Third, the plan must be foolproof. Paper promises are not enough. Disarmament must be based on safeguards which will insure the compliance of all nations . . .

"Supporting these principles, as we do, we suggest:

"That the first step proposed be the lifting of the iron curtain and the resumption of at least that degree of freedom of communication between all the peoples of the earth which existed between the nations of Western Europe and the American continents prior to the second World War;

"That the proposal be for complete disarmament of all nations under the direction and surveillance of the United Nations;

"That a United Nations Commission be set up to effect disarmament in an orderly, complete and rapid way;

"That a United Nations Police Force be established in accordance with the original intention of the Charter which shall be superior in size and armament to any forces available to the member nations for the maintenance of civil order;

"And finally, that the proposal be permanently in effect and repeatedly offered until it is accepted.

"If the other nations refuse our proposal, we lose nothing; but if they accept, the whole world wins.

"There are many indications that action of this sort would find an immediately favorable response from the American people. We ourselves ask that we may have an early opportunity to discuss this question with you in detail. We look forward to hearing from you at your earliest convenience."

Note: The letter was signed by the following members of the House and Senate:

Members of Senate

Ralph E. Flanders; Lester C. Hunt; Walter F. George; Robert C. Hendrickson; Lister Hill; Estes Kefauver; A. S. Mike Monroney; A. Willis Robertson; H. Alexander Smith; Margaret Chase Smith; John C. Stennis; Edward J. Thye; Charles W. Tobey, and Homer Ferguson.

Members of the House

James C. Anchincloss; Laurie Battle; Frances P. Bolton; A. S. J. Carnahan; Robert Hale; Brooks Hays; Christian Herter; John W. Heselton, and Walter H. Judd.

* * *

THEODORE ROKAHR
President, First Bank & Trust Company of Utica, New York

Mr. Weir's article should be required reading for every Congressman and Senator. It is too much to hope that the President and his Secretary of State and their advisers on foreign policy would read it, because the "outbreak of peace" would deflate the economy, with an adverse effect on employment, and consequently on votes, in the next national election.

* * *

G. T. BAKER
President, National Airlines, Inc., Miami 42, Florida

I have never believed that we would have war with Russia, unless we blundered into it, and Mr. Weir has most certainly clearly explained how we can blunder into a war and how we can keep out of it.

Our President would do well to counsel with Mr. Weir and others like him.

* * *

HON. TOBY MORRIS
U. S. Congressman from Oklahoma

I have read the article by Ernest T. Weir, entitled "European Attitude on Our Foreign Situation," with much interest and find that it expresses, in many instances, my thinking on the foreign situation.

In a speech on Feb. 20 on the Floor of the House, I made the statement: "My general thought is that by following the policy of sending a large land army to Europe and Asia, we will be spreading ourselves out all over the world and by this process, which will also entail almost unbearable financial obligations, we will so weaken ourselves as to endanger our very existence."

In my judgment, the Russian leadership has never contemplated a military conquest of the world, nor do they now do so. It is their fanatical belief that capitalism will some day die of its own weight because of the alleged weakness existing in such a form of Government. In their fanatical way, they believe that communism will finally be accepted, but by force of necessity and not by force of armies.

I truly believe that we should re-examine our foreign policy. In my judgment, we are missing the boat entirely and are building up a great military machine and spreading it out all over the world and doing violence to our domestic economy on the theory that Russia intends to march with its armies, when as a matter of fact Russia has no such intention. With our present policy we are fast drifting toward World War III. Such a war is not inevitable and if we profit by past experience, I think it may be avoided.

Mr. Weir's article appears to contain much good and important information—you are certainly to be commended in publishing it.

* * *

HAROLD P. PARSHALL
President, Commonwealth Bank, Detroit 31, Michigan

Mr. Weir is a capable man. He has proved that, and I am glad to have his views which help keep me informed. I agree with much that he says.

I don't think that we should be fighting in Korea. Neither do I believe that we should try to lead the world, or force our ideas on other people. Herbert Hoover, perhaps, sums up my beliefs, "Let us prepare and be strong." If it becomes necessary for our American boys to shed more of their blood, which God forbid, I would prefer to see it shed on American soil. Twice we have left our shores and fought wars, and settled little or nothing. If we have to keep the peace of the world by fighting wars, what do we gain? We are certainly fighting a war in Korea. I am convinced like Mr. Weir that none of the people in the world want war. It should then be simple to have peace.

HON. PATRICK J. HILLINGS
U. S. Congressman from California

I particularly was impressed by Mr. Weir's remarks that our policy in building our military strength should be not to prepare for war but to prevent war.

I hope that all of our military and government leaders will keep this comment in mind as we develop our defense program.

* * *

T. A. HELLING
President, The El Dorado Refinning Co., El Dorado, Kansas

I enjoyed very much reading Mr. Weir's article and I agree with most of the things he says. It certainly would give anyone food for a lot of thought.

* * *

HARRY A. BULLIS
Chairman of the Board, General Mills, Inc., Minneapolis, Minn.

There is little doubt that our foreign affairs have been handled in such a way that we have been losing the confidence of the European nations with whom we should be firmly allied. As Mr. Weir says, we may not agree with the opinions of Western European people, but those opinions should be carefully considered when we form policies.

I agree entirely with Mr. Weir's statement that "one of the greatest mistakes has been the failure to tell the people of this country what the conditions actually are." I believe the American people can be depended upon to act wisely

Continued on page 33

Government Spending, Not Credit Expansion, Is Chief Inflation Cause!

By F. N. BELGRANO, JR.*

President, First National Bank, Portland, Ore.

West Coast banker, pointing out increase in bank loans is result, and not cause, of inflation, decries criticism of bank lending policies as unjust. Urges pay-as-you-go budget with elimination of all non-essential spending and with more economies in defense outlays. Expresses optimism regarding working out of sound economic future.

Unjustified blame for stimulating inflation has sometimes been placed on the banks. They have been criticized for having lending policies which are claimed to be too liberal. In many instances, banks have had to increase loans to businesses solely to replace normal inventories after prices had gone up. In other words, the increased loans usually were the result of, not the cause of, the price advances. Inflation and the devaluation of the dollar in recent years have occurred because of excessive government spending. The evils of peacetime deficit spending and unbalanced Federal budgets — now so seriously affecting our economy—are becoming more widely understood. The majority of our people now realize that excessive government spending and unsound fiscal policies lead to dangerous inflation. Failure to properly plan our monetary and fiscal affairs will give a great deal of comfort to the Communists. Financial chaos is one of Russia's allies. Communists recognize that one way to bring a nation to communism is to corrupt the currency. We must not allow that to happen here.

F. N. Belgrano, Jr.

Our paper money will become irredeemable if we have continued price advances and continued expansion of the national debt. Failure to balance the budget increases the national debt and devaluates your dollar—thus creating higher prices and inflation. The time has arrvied when the Administration must face the facts and establish a sound monetary policy which is needed to maintain a sound currency now and in the years ahead.

Taxes

Are the people of this country financially able to pay enough taxes to balance the budget while government agencies continue to spend tax money so freely? For all the people in this nation, the average annual tax burden per person has jumped from $130 in 1939 to $400, or nearly $1,600 per family, in 1949. In other words, the per capita burden of taxes was three times as great in 1949 as before the war. This tax burden has skyrocketed largely because of the spendthrift habits of our national Administration. This nation is headed for trouble unless it follows a sound Federal fiscal policy. This entails—among other things—limiting the government spending, especially in peacetime, to the tax-paying ability of the people of this nation.

Pay-As-You-Go

The national debt is now nearly $260 billion, or $1,860 per person, compared with $460 in 1939. In the past decade, Federal expenditures have exceeded revenues by over $200 billion. Thus, four-fifths of the national debt has been created in this 10-year period. This astounding fact, together with the prospect of huge defense spending, has caused even some of the "starry-eyed" government planners to now become alarmed over further deficit spending. The philosophy of trying to spend our way to prosperity has been practiced by the "ouija board" operators on the Potomac for nearly two decades.

To formulate and follow a fiscal policy that will balance the budget in the coming years will require extreme courage on the part of the Administration. However, I can see no alternative. The Administration must come down to earth now and face the facts. All unnecessary government spending must be eliminated immediately. Defense spending should be done as economically as possible. A tax program should be enacted to produce revenue approximately equal to expenditures. This country must be placed on a sound financial basis.

To summarize briefly, I believe that all of 1951 will be a year of national emergency—a year during which every person must lend a hand in preserving our freedom. We cannot hope to raise the standards of living this year, but I am positive that we can preserve our way of life if we do the things that need to be done. Those Communists who reside in this country must be throttled. We must prevent other deteriorating influences inside the borders of this country from further weakening our economic system. We must stop inflation. We must work toward the adoption of sound fiscal and monetary policies. We must prevent the establishment of rules and regulations which cannot ultimately be removed when the emergency is over. This country must maintain its defensive strength. We must be vigilant in our endeavor to prevent further enslavement. Despite the Communist aggression and unsettled world conditions, and despite the fact that there will be more taxes and more individual sacrifices, the people of this nation should not be discouraged or become panicky. Accomplishments are greater when people have a hopeful outlook and there is much to be done. Employment will be high, farming will be profitable, and the velocity of manufacture and trade will be maintained at a relatively high level.

I am convinced a sound economic future can be worked out for this nation. I believe that the international situation ultimately will be settled favorably. I hold these optimistic views in spite of the unsettled national and world affairs, because I am confident that the people of this Christian nation will solve these matters through hard work, sacrifice and prayer. I know that you stout-hearted citizens will expend yourselves unsparingly to maintain the rights, the benefits and the advantages which accrue to a nation of free people.

*Excerpt from an address by Mr. Belgrano before the Chamber of Commerce Forum, Portland, Ore., Jan. 8, 1951.

With Tucker & Co.

(Special to THE FINANCIAL CHRONICLE)

LONG BEACH, Calif.—Harry L. Butzbach is now affiliated with Tucker & Co., 132 Pine Avenue. He was formerly with Mitchum, Tully & Co. and Pacific Company of California.

"Barn Yard" Economics

By ROGER W. BABSON

Asserting "we can absolutely depend upon good profits during war times," because profits furnish basis for 90% of Federal taxes, Mr. Babson discusses effects of placing ceilings on wages and prices. Concludes, when these curbs are removed, a dammed-up demand for things will make prices of real estate and durable goods go sky-high, and thus inflation comes again.

We must start with the dictionary explanation of **Inflation.** It is the name for a rise in prices due to demand exceeding production. Please keep this definition in mind as we follow through why a war causes prices to rise.

Roger W. Babson

We complain about Federal taxes; but even these have a cheerful side, as 90% of all such taxes are dependent upon profits—either on business profits or personal income from dividends, etc. In other words, unless the Government allows us profits, the Government would go broke. Hence, we can absolutely depend upon good **profits** during war times.

Next you ask "But what will prevent the Government from raising these taxes to a much higher percentage of profits?" The answer is that when taxes increase above a certain point, the Law of Diminishing Returns begins to work. If management is not allowed to increase wages and prices to offset any further tax increase, then production falls off and costs increase under our present "mass production" system. Then more money must be raised by more taxes and the Government starts to "kill the geese which lay the golden eggs." When this occurs, taxes are raised no more. The Government then begins to print money and sell bonds. This always increases the people's purchasing power faster than increasing the supply of goods, and results in still higher prices.

Raising an Army

The next financial curse of war comes from pulling five million men and women of the best producers away from normal industry — putting half in training camps and half in factories making war supplies. This not only reduces the production of civilian supplies, but these people must be housed, clothed, and fed, by being **paid real money.** If you will refer now to our definition of inflation, you will see that this shift of employment will further reduce the supply of consumer goods without reducing purchasing power. This makes for still further price increases.

Then you ask: "Why not put a lid on wages and prices?" The answer is that a lid on wages results in decreased production per dollar of wages. Thus, little is gained thereby. A lid on prices, on the other hand, develops "black markets," with resultant graft, inefficiency, and dishonesty. From these "black market" operators, the Government gets no taxes. Although such "ceilings" are popular politically, they are no real solution to the problem. Higher prices are inevitable.

Deficit Financing Coming

All these schemes lead finally to deficit or phony financing which means a further decline in production per hour and a further increase in purchasing power. This is just the reverse of what honest financing requires. Those in the war plants, although making only war goods, must be paid market wages. At this point, after all the "quack cures" have been tried and failed, the value of the dollar begins to decline. If we are forced into World War III, our dollar could easily fall to twenty-five cents or less during the post-war years.

People then get scared. Not content to spend only their wages, they draw out their savings and buy homes and productive land. This is why the prices of houses and land have doubled since 1940 and could easily double again during the next ten years. One final thought—although putting a ceiling on wages and prices tends to keep them down **during a war,** yet when the war is over this dammed-up demand makes the post-war price increase in real estate, automobiles, and all household appliances **go sky high**—much more than prices would have gone if not artificially held down during the war.

No human plans can ever long succeed in breaking either the Ten Commandments or the Law of Supply and Demand.

With Kerr & Bell

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — F. Dwight Leslie has become connected with Kerr & Bell, 210 West Seventh Street, members of the Los Angeles Stock Exchange. He was formerly with Edgerton, Wykoff & Co.

With E. F. Hutton Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Willis I. Morrison Jr. is now affiliated with E. F. Hutton & Company, 623 South Spring Street.

Business Man's Bookshelf

In Search of Peace—F. A. Harper—The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—Paper—No charge for single copies; quantity prices on request.

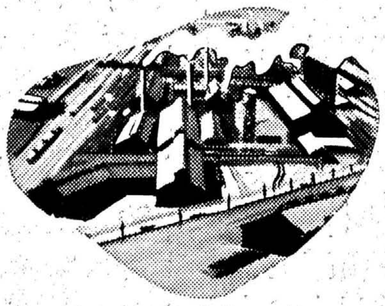
Tax Planning on Excess Profits—J. K. Lasser and William J. Casey—Business Reports, Incorporated, 225 West 34th Street, New York 1, N. Y.—Bond in loose-leaf leatherette binding to permit addition of forthcoming supplements—$20 to subscribers to J. K. Lasser Reports; $24 to non-subscribers.

Maximum Utilization of Employed Manpower—A Check List of Company Practice—Industrial Relations section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—Paper—$1.

ADD Bpsiness Man's Bookshelf

How to Make Money in a Declining Stock Market—Book on short selling—$1 per copy—Dept. D-1, Mark Weaver, Box 1130, Santa Monica, Calif.

Griffith Letter—Investment and business commentary naming the only industry the firm believes to be attractive—$10—B. Barrett Griffith and Company, Inc., Colorda Springs, Colo.

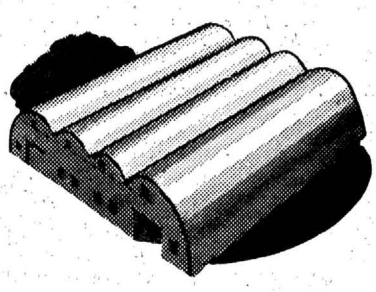


WEIRTON STEEL COMPANY

Mills at Weirton, West Virginia, and Steubenville, Ohio. World's largest independent manufacturer of tin plate. Producer of a wide range of other important steel products.

GREAT LAKES STEEL CORP.

Detroit, Michigan. The only integrated steel mill in the Detroit area. Produces a wide range of carbon steel products . . . is a major supplier of all types of steel for the automotive industry.

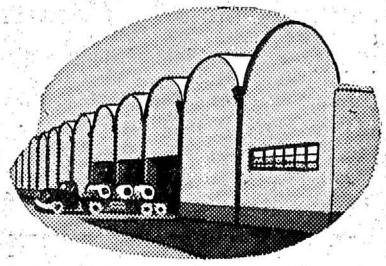


STRAN-STEEL DIVISION

Unit of Great Lakes Steel Corporation. Plants at Ecorse, Michigan, and Terre Haute, Indiana. Exclusive manufacturer of world-famed Quonset buildings and Stran-Steel nailable framing.

HANNA IRON ORE COMPANY

Cleveland, Ohio. Produces ore from extensive holdings in Great Lakes region. National Steel is also participating in the development of new Labrador-Quebec iron ore fields.

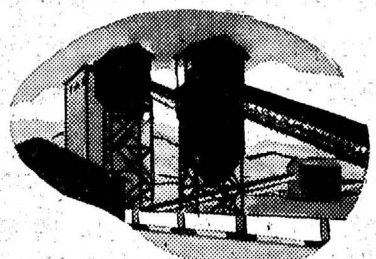


NATIONAL STEEL PRODUCTS CO.

Located in Houston, Texas. Recently erected warehouse covers 208,425 square feet. Provides modern facilities for distribution of National Steel products throughout Southwest.

THE HANNA FURNACE CORP.

Buffalo, New York. Blast furnace division. A leading producer of various grades of merchant pig iron for foundry use.



NATIONAL MINES CORPORATION

Coal mines and properties in Pennsylvania, West Virginia and Kentucky. Supplies high grade metallurgical coal for the tremendous needs of National Steel.

This is National Steel

National Steel is a complete, self-contained steel producer. Its production starts in National Steel properties beneath the earth's surface. It ends with finished steel and specialized products that National Steel furnishes to the industries of America.

Within its structure, National Steel possesses every resource and every facility required for the transformation of ore into steel.

National Steel mines and quarries yield its raw materials. National Steel boats, barges and trucks transport its products. National Steel men and furnaces, mills and machines, melt . . . roll . . . finish . . . distribute its steel.

And National Steel continues to expand, continues to implement its steel-making power. The completion of a new blast furnace, open hearth furnaces and other major facilities will increase its annual capacity from 4,750,000 to 6,000,000 tons of ingots by 1952. In addition, National recently purchased a site for a completely new mill on the East Coast.

This is National Steel . . . completely integrated, completely independent . . . one of America's largest and fastest growing producers of steel.

NATIONAL STEEL CORPORATION
GRANT BUILDING PITTSBURGH, PA.

SERVING AMERICA BY SERVING AMERICAN INDUSTRY

Public Utility Securities

By OWEN ELY

West Penn Electric Company

The company is an important holding company controlling Monongahela Power, Potomac Edison, and West Penn Power. It has now complied with the integration requirements of the Public Utility Holding Company Act. System companies have power interchange arrangements among themselves, and also with certain other systems. The company serves an area of about 29,600 square miles in Pennsylvania, West Virginia and Maryland, and also some small areas in Ohio and Virginia, the total population served being 2,372,000. The area includes some 24 cities with a population of 10,000, the largest being Cumberland with a population of 37,000. The service area is highly industrialized, bituminous coal mines, steel, chemical and glass being the major industries, but Potomac Edison serves an extensive rural area.

Electric revenue constitutes about 92% of total revenues, transit 6%, and gas 2%. Electric revenues are approximately 34% residential, 16% commercial, 46% industrial and 4% miscellaneous. The average revenue per kwh. in the 12 months ended Oct. 31, was 3.10¢, and average residential usage 1,733 kwh. In 1949 the system earned 7.2% on net tangible property according to Standard & Poor's.

The remarkable postwar growth of the company's operations is indicated by the following table (see page 7 of prospectus on pending issue of common stock for explanation of adjustments):

	——Millions of Dollars——		
	Revenues	Oper. Income	Bal. for Common
12 Months Ended Oct. 31, 1950	$92.2	$20.6	$10.8
Calendar Year—			
1949	85.9	19.5	10.6
1948	83.1	17.6	8.6
1947	73.2	16.0	7.4
1946	64.1	14.3	5.5

Earnings on the increased number of shares were $3.08 for the 12 months ended Oct. 31 vs. $3.02 for the calendar year 1949 (the latter figure being adjusted for consummation of the recap plan of September, 1949, and also for the current increase in shares). If adjusted to a 47% tax rate, earnings would have approximated $2.70. However, continued gains in pre-tax earnings during 1951 should maintain earnings around or above the $3 level, in the opinion of the management, even if no rate increase is obtained.

On Feb. 28 the subsidiary, West Penn Power, filed with the Pennsylvania Public Utility Commission a new tariff providing for a general increase in electric rates. It is estimated that, based on 1950 consumption, the new rates would (if approved), produce additional annual revenue of approximately $4,500,000. Since Oct. 31, 1950, subsidiaries have granted wage increases which may result in an aggregate annual increase in payroll costs of approximately $933,000 (not including higher social security, insurance and pension costs). Deducting $1 million for estimated higher labor costs from the rate increase would leave $3.5 million net "pro forma" gain, and after allowing for 47% taxes on this amount the potential net gain for the common stock would approximate $1.9 million. In 1950, Federal taxes probably approximated $10 million and the current jumps in the rate from 42% to 47% would mean an increase of $1.2 million. Assuming that the rate increase were allowed there might, therefore, be a small net gain for the common stock (plus other anticipated gains in pre-tax earnings), assuming that the 47% rate holds.

The capitalization of the company and its subsidiaries as reported in the prospectus is approximately as follows:

Consolidated Subsidiaries—	Millions	Percentage
Long-term Debt	$145	47%
Preferred Stock	69	22
Minority Interest	2	1
Company—		
Long-term Debt	34	10
Common Stock Equity (3,520,000 shs.)	61	20
Total	$311	100%

If intangibles are omitted from the consolidated balance sheet, with corresponding adjustment of surplus, the equity percentage would be reduced to about 18%.

West Penn Electric common stock is currently selling around 29 and pays $2 to yield nearly 7%, which compares with an average yield of about 6% for stocks of other large electric holding and operating companies.

American Power & Light Company

Referring to our recent review of American Power & Light in this column, the position of Electric Bond and Share in the controversy over the proposed sale of Washington Water Power to PUD's and municipalities was clarified in a statement made at a recent hearing before the SEC (file No. 54-168), which may be summarized as follows:

Bond and Share held that the "notice of sale" filed by American did not disclose essential details. Thus there was no indication as to the fees or commissions to be paid, which it was rumored might be as high as $5 million to underwriters and $1 million to an alleged promoter. Bond and Share also questioned how the sale of Washington's Idaho properties (about one-quarter of the total) could be effected in view of legislative difficulties in that state.

Bond and Share also felt that the future earning power of Washington has been underestimated by American. Regarding future earnings benefits which might be derived from construction of the proposed 200,000-kw. Cabinet Gorge Plant, Bond and Share held that the rather sqeptical attitude of American regarding possible issuance of debt securities was unwarranted. If the new plant were entirely debt-financed, the equity ratio would still approximate 38%, and with accelerated amortization provisions and a 3% return on the new plant, earnings on Washington common stock might be double the present amount, EBS estimated. They also questioned the budgeted figures for 1951-52 earnings (before completion of the Gorge Plant).

Bond and Share recited the history of the sale of American's interest in Pacific Power & Light a year ago as "highly significant" in connection with the present proposed sale of Washington. Opening up the sale of Pacific to competitive negotiations resulted in an increase of about 61% in the obtainable prices. At current prices, the entire stock of Pacific is worth $25,000,000, or 2½ times the original proposed sale price in January, 1950, EBS stated.

Continued from page 10

Recommendations for Inflation Control

sales tax, we would prefer to reduce personal income tax exemptions from $600 to $500.

Excise Taxes

As a long-time tax policy, excise taxes should be limited largely to levies on amusements and luxury goods; however, in the present situation, a broader application of excise taxes can be justified both to raise revenue and to assist in the fight against inflation by reducing the demand for scarce goods. We are prepared to support heavy excise taxes (for the duration of the emergency) on luxury goods and on goods which are made of materials of strategic importance or which are in short supply.

In the enactment of new or increased excise taxes, taxes which will increase business costs should be avoided insofar as may be practical, since the common business practice of using percentage mark-ups pyramids the effects of such taxes.

We are opposed to excise taxes on replacement parts for automobiles, trucks, farm machinery and equipment. If we are going to have a period of short supply for equipment of this type, we should make a real effort to keep existing units in operation, and it just isn't sound to tax the fellow who is buying replacement parts to keep an old machine in operation. This recommendation does not apply to accessories, since such items are luxuries.

We are also opposed to any increase in the Federal tax on gasoline. This field of taxation should be left to the States for use as a source of highway funds.

We recommend an amendment to Sec. 3411 of the Internal Revenue Code to provide that the tax (3⅓% of the selling price) imposed on electrical energy for domestic or commercial consumption shall be collected from publicly-owned electrical systems and those owned by cooperatives or nonprofit corporations to the extent that such systems sell electricity for domestic or commercial consumption.

Since this tax is ultimately paid by the consumers of electric energy, we can see no basis for discriminating among consumers on the basis of the source of their supply. We would like to point out, however, that a tax on electric energy is undesirable from the standpoint of long-time tax policy. Electricity is a necessity rather than a luxury. In addition, a tax of this type increases the cost of doing business and may therefore cause a disproportionate increase in consumer prices.

Estate and Gift Taxes

We recommend that there be no increase in estate and gift taxes.

Income From Bonds

We recommend the enactment of legislation to make the income from all future issues of Federal, State and local bonds taxable on the same basis as other income.

Depletion Allowances

We recommend that the Committee give careful study to the possibility of a reduction in depletion allowances and that it provide for the elimination of any such allowances which are bound to be unjustified.

Termination Date

We recommend that all new taxes and increases in existing tax rates be tied to a definite termination date to emphasize their emergency character.

In conclusion, we want again to stress our conviction that a pay-as-we-go tax policy is absolutely essential to the control of inflation. If we are to preserve our freedom, we must be willing to pay, as well as fight, for it. We are not unaware that individual initiative and private enterprise can be destroyed by taxes, and we know that the tax burden required by a pay-as-we-go program will be heavy. We are convinced, however, that a pay-as-we-go program is within the capabilities of the American people. In the long run, we will be far better off if we pay the bill through taxes and take other steps necessary for the real control of inflation than if we take the seemingly easy path of deficit financing, inflation and direct controls over prices and wages. Taxes can be reduced when the emergency has passed, but if we destroy the value of our money and tie up our economy with direct controls, we may never be able to return to the "free-choice" system through which our unparalleled progress has been made possible.

COMING EVENTS

In Investment Field

March 9, 1951 (Toronto, Ont., Canada)

Toronto Bond Traders Association Eighteenth Annual Dinner at the King Edward Hotel.

March 14, 1951 (New York City)

Bond Club of New York Annual Dinner at the Starlight Roof, Waldorf-Astoria.

April 13, 1951 (New York City)

Security Traders Association of New York Annual Dinner at the Waldorf-Astoria Hotel.

May 30, 1951 (Dallas, Tex.)

Dallas Bond Club annual Memorial Day outing.

June 11-14, 1951 (Jasper Park, Canada)

Investment Dealers Association of Canada Convention at Jasper Park Lodge.

June 15, 1951 (Philadelphia, Pa.)

Investment Traders Association of Philadelphia Summer Outing and Dinner at the Manufacturers Golf and Country Club, Oreland, Pa.

June 22-24, 1951 (Minneapolis, Minn.)

Twin City Security Traders Association Annual Outing ("Operation Fishbite") at Gull Lake.

Sept. 30, 1951 (Coronado Beach, Calif.)

National Security Traders Association Convention opens at Coronado Hotel.

Oct. 12, 1951 (Dallas, Tex.)

Dallas Bond Club annual Columbus Day outing.

Nov. 25-30, 1951 (Hollywood Beach, Fla.)

Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Allied Chemical & Dye Corporation

To the Stockholders:

The consolidated balance sheet at December 31, 1950 and the consolidated income account for the year are presented herewith, together with a ten year comparison of financial and operating data.

EARNINGS AND DIVIDENDS—Net income for 1950, the highest in the history of the Company, was $41,212,520 compared with $37,150,977 for 1949. The Company's stock was split four shares for one on August 1, 1950. On basis of the present number of shares, net income was equal to $4.65 per share for 1950 and $4.19 for 1949, after provisions for Federal taxes of $3.71 per share for 1950 and $2.58 for 1949; dividends paid were $3.00 per share in 1950 and $2.50 in 1949.

SUMMARY OF RESULTS—The Company's total receipts in 1950 and 1949, and the manner in which these receipts were distributed, are set forth below:

	1950	*1949*
Received from customers	**$408,042,285**	**$363,743,806**
Interest, dividend and other receipts	**4,404,331**	**3,761,041**
These receipts were distributed as follows:		
Goods and services bought from others	**$220,606,321**	**$196,710,151**
Wages and salaries	**92,017,341**	**85,830,109**
Depreciation, depletion and other charges	**15,782,856**	**16,560,680**
Taxes incurred	**42,827,578**	**31,252,930**
Dividends paid	**26,569,188**	**22,140,990**
Retained for needs of the business	**14,643,332**	**15,009,987**
Total Receipts	**$412,446,616**	**$367,504,847**

Sales and operating revenues in 1950 were the largest since formation of the Company, although operations were adversely affected by strikes at the Company's major alkali plants in the third quarter and in the coal industry in the first quarter of the year. The increase over 1949 approximating 12% was due primarily to increases in volume for most of the Company's products. Increased production to meet the greater demand was obtained from expansion in capacity and facilities for new products provided in 1949 and 1950 and from higher operating rate except during the strike periods.

CONSTRUCTION—Gross additions to the property account amounted to $24,182,233 and retirements were $7,797,023. As in the preceding year, about one-half of the property expenditures during 1950 represented cost of replacements and one-half represented cost of facilities for expansion and for new products developed by research and not heretofore made by the Company. In connection with the replacements advantage was taken of improvements developed in processes and equipment in order to increase the efficiency of the Company's plants.

During the year new facilities were started up to produce urea, additional high grade dyes and intermediates therefor, and sodium tripolyphosphate which is used to increase effectiveness of synthetic detergents; also completed was a new coal-tar distillation plant utilizing an improved process which results in higher yields of naphthalene, a material in short supply.

The Company's basic products are essential to the national defense program and in order to supply them in needed quantities work is under way to expand facilities for soda ash, caustic soda, chlorine, sulfuric acid, phenol, phthalic anhydride and other chemicals. Steps are being taken to equip the Company's two synthetic nitrogen plants to use natural gas as a raw material instead of coke heretofore used; this will release large quantities of coke to the steel and other industries which need it for defense purposes. Facilities are being provided at some of the Company's sulfuric acid plants to enable increased use of comparatively abundant pyrites ore in place of sulfur of which there is a critical shortage, a condition which is expected to grow worse because of the rapid depletion of known sulfur deposits.

An analysis of the property account and the reserve for depreciation, obsolescence, etc. at December 31, 1950 follows:

	Property Account	*Reserve for Depreciation, Obsolescence, etc.*
Land, Mines, Quarries, Brine Wells, etc.	**$18,382,053**	**$3,852,918**
Plant Improvements	**20,570,781**	**14,514,426**
Buildings	**79,052,570**	**52,660,915**
Equipment	**314,498,760**	**202,360,316**
Total	**$432,504,164**	**$273,388,575**

RESEARCH—Through the large research organizations of the operating divisions and the Central Research Laboratory at Morristown, N. J., the Company continues to carry out extensive research in developing new and related products as well as in improving its present operations; expenditures for research are steadily being increased, reflecting enlargement and improvement in the research staff, laboratories and equipment. New research laboratory of The Solvay Process Division at Syracuse, N. Y. was formally opened in May 1950 and will supply exceptional technical facilities for the Alkali Section of Solvay and consumers of its products, particularly the glass industry.

A number of new developments directly connected with the defense program, including a new approach to the production of synthetic benzol and other materials in critically short supply, are in various stages of progress toward commercial production. Extensive research has been under way for some time in the fields of synthetic fibers and plastics, with the objective of developing suitable products and economic processes for production of the required intermediates from basic raw materials.

INVESTMENTS AND SECURITIES—Investment in U. S. Government securities increased approximately $8,969,000 during the year. No material change took place in investment in other securities. In last year's report the letter to stockholders contained a list of principal marketable securities carried under Investments; securities carried under Current Assets were shown in a footnote to the balance sheet. In order to simplify the report all items listed on the New York Stock Exchange are now included in the balance sheet under Current Assets—Marketable Securities. The items carried in this account and market value thereof at end of 1950 were as follows:

Shares	*Marketable Securities*	*Book Value*	*Market Value*
342,300	**United States Steel Corp. common**	**$ 9,033,258**	**$14,419,388**
208,309	**Owens-Illinois Glass Co. common**	**5,985,081**	**15,831,484**
334,000	**American Viscose Corp. common**	**4,464,000**	**21,042,000**
4,800	**American Viscose Corp. preferred**	**516,000**	**571,800**
94,200	**American Natural Gas Co. common**	**3,422,415**	**2,637,600**
268,000	**Air Reduction Co. common**	**3,222,532**	**7,370,000**
43,502	**Virginia-Carolina Chemical Corp. pfd.**	**1,155,035**	**4,959,228**
61,426	**Libbey-Owens-Ford Glass Co. common**	**865,250**	**1,934,919**
	Miscellaneous Items	**1,454,865**	**3,595,271**
	Total	**$30,118,436**	**$72,361,690**

Since market value of Government securities owned approximates cost and aggregate market value of other securities and investments is considerably more than double the value at which carried, the balance of $10,000,000 in the Reserve for Investments and Securities was transferred to Surplus in 1950. At the same time a corresponding amount was transferred from Surplus to the Reserve for Increased Cost of Replacements, since replacement costs continue to substantially exceed original costs on which additions to the regular depreciation reserve are based in accordance with generally accepted accounting principles.

PENSIONS—The Company, and its predecessors prior to the Company's organization in 1920, have paid pension allowances to employees retired after long periods of service. In connection with changes in conditions, the pension plans have been modified from time to time, and formalized at most locations. While some of the plans differ in minor respects, under formalized plans employees with 15 or more years of service may retire on pension at age 65, or earlier if permanently disabled, and retirement is obligatory at age 70; monthly pension is equal to 1% of the average monthly pay during the last 10 years of employment multiplied by the years of service, less one-half of primary social security benefit, except that for employees retired before age 65, such years are reduced by one-half year for each year under 65; minimum monthly pension for employees 65 or over with 25 years of service is $100, including total primary social security benefit, and proportionately less if employee has had 15 years but less than 25 years of service; for employees retired under 65 minimum monthly pension is $50, including total primary social security benefit, if any, subject to increase when employee reaches 65 to minimum for employees retired at 65; maximum pension is $1250 per month. The plans are non-contributory.

It has been the Company's procedure to charge payments made currently for pension allowances against operating expense, which practice was continued during 1950. Remainder of estimated pension cost applicable to 1950, after allowing for anticipated tax credits when payments are made in future years, was provided for in charge to income of $1,500,000 and added to the Reserve for Pensions and Contingencies. This reserve was formerly designated Reserve for General Contingencies and has been accrued through charges to net income not deducted in computing income taxes. It is estimated that the amount of the reserve is sufficient to provide for accumulated pension liability to date computed on an actuarial basis less related tax credits anticipated in the years when pensions are paid.

STOCK SPLIT-UP—During the year the Company's stock was split four-for-one, which was effected by issuing an additional three shares for each share previously outstanding, and the 187,189 shares which had been carried as treasury stock for many years were retired. The split-up increased the number of shares issued and outstanding to 8,856,396. The total number of shares authorized was increased to 10,000,000. On February 15, 1951 there were 24,363 registered holders of the Company's stock, an increase of 17% compared with a year ago.

ORGANIZATION CHANGES—Since the last annual report the Board of Directors has lost a loyal and able member of long standing through the death of Mr. Wallace Campbell, who had been connected with the organization since 1916 and had been a member of the Board since 1932. At the annual meeting in April 1950 two vacancies on the Board were filled by the election of Mr. Eugene Meyer and Mr. C. W. Nichols; the only other vacancy was filled at the November 1950 Board meeting by the election of Mr. Thomas F. Hazard.

In September 1950 Mr. G. B. Miller, Comptroller, was also appointed Vice-President, and Mr. James Sheridan was appointed Assistant Treasurer. In November 1950 Mr. Forbes Silsby, Director of Research and Development, was appointed Vice-President. Effective February 1, 1951 Mr. Charles F. Weber retired as Vice-President and Treasurer, although continuing as a Director. Mr. E. W. Clark, Vice-President, was also appointed Treasurer.

Mr. B. A. Ludwig retired as President of National Aniline Division in September 1950 and Mr. E. M. Maxwell was appointed President and Mr. D. G. Rogers Executive Vice-President of the Division. Mr. F. H. Nichols retired as Vice-President of General Chemical Division in September 1950 and Mr. M. M. Biddison and Mr. C. M. Brown were appointed Executive Vice-President and Vice-President, respectively, of the Division. Mr. Hugo Riemer, Vice-President of The Solvay Process Division, was appointed Executive Vice-President of the Division in November 1950.

The Company is cooperating with our Government in every way practicable in the present emergency, and is prepared to do its full share in supplying goods and services essential for national defense and civilian needs.

Respectfully submitted,

F. J. EMMERICH,
President

February 27, 1951

CONSOLIDATED GENERAL BALANCE SHEET—DECEMBER 31, 1950

ASSETS

PROPERTY ACCOUNT		
Real Estate, Plants, Equipment, Mines, etc. at cost		$432,504,164
CURRENT ASSETS		
Cash	$41,633,035	
U. S. Government Securities at cost, which approximates market	49,804,626	
Marketable Securities at cost (market value $72,361,690)	30,118,436	
Accounts and Notes Receivable, less reserves of $4,265,570	38,182,513	
Inventories at lower of cost or market, less reserves of $7,558,387	41,111,880	
		200,850,490
INVESTMENTS		
Sundry Investments at cost		1,304,209
DEFERRED CHARGES		
Prepaid Taxes, Insurance, etc.		3,258,285
OTHER ASSETS		
Patents, Processes, Trade Marks, Goodwill, etc.		21,305,943
TOTAL		**$659,223,091**

LIABILITIES

CURRENT LIABILITIES		
Accounts Payable	$17,775,081	
Wages Accrued	1,800,286	
Taxes Accrued	38,067,841	
		$ 57,643,208
RESERVES		
Depreciation, Obsolescence, etc.	$273,388,575	
Increased Cost of Replacements	40,000,000	
Pensions and Contingencies	27,656,777	
Insurance	1,786,364	
Sundry	939,163	
		343,770,879
CAPITAL STOCK AND SURPLUS		
Common Stock, without par value, basis $5. per Share Issued 8,856,396 Shares	$ 44,281,980	
Capital Surplus	68,761,695	
Earned Surplus	144,765,329	
		257,809,004
TOTAL		**$659,223,091**

CONSOLIDATED INCOME ACCOUNT

Year Ended December 31, 1950

Sales and operating revenues		**$408,042,285**
Cost of sales and operating, selling and administrative expenses, including normal depreciation and depletion of $12,862,215	**$334,524,249**	
Accelerated depreciation	**1,420,641**	
Reserve to cover increased costs incurred to replace inventories	**966,563**	
Other charges applicable to the year	**1,500,000**	**338,411,453**
Gross income from operations		**69,630,832**
Other income:		
Dividends	**$3,895,510**	
Interest and miscellaneous—net	**508,821**	**4,404,331**
Income before provision for Federal income and excess profits taxes		**74,035,163**
Federal income taxes	**$30,162,935**	
Federal excess profits taxes	**2,659,708**	**32,822,643**
Net Income (per share $4.65)		**$41,212,520**

SURPLUS ACCOUNT

Surplus at December 31, 1949		**$256,996,533**
Deductions account stock split, etc.:		
Issuance of 6,642,297 shares of common stock	**$33,211,485**	
Retirement of treasury stock	**24,901,356**	**58,112,841**
		198,883,692
Net Income year 1950		**41,212,520**
Transfers:		
From reserve for investments and securities	**$10,000,000**	
To reserve for increased cost of replacements	**10,000,000**	**------**
Surplus before dividends		**240,096,212**
Dividends paid (per share $3.00)		**26,569,188**
Surplus at December 31, 1950		**$213,527,024**

Special provisions for accelerated depreciation, inventory reserve and other charges applicable to the year enumerated in above income statement total $3,887,204 and have not been included in deductions for purpose of arriving at the amount of Federal income and excess profits taxes for the year. The special provision of $1,500,000 covering other charges applicable to the year was credited to the Reserve for Pensions and Contingencies.

Allied Chemical & Dye Corporation,
New York, N. Y.

We have examined the consolidated general balance sheet of the Allied Chemical & Dye Corporation and its subsidiary companies as of December 31, 1950, and the statements of consolidated income and surplus for the calendar year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated general balance sheet and related statements of income and surplus present fairly the financial position of the Allied Chemical & Dye Corporation and its subsidiary companies at December 31, 1950, and the results of their operations for the calendar year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McLAREN, GOODE, WEST & CO.

February 27, 1951.

What Price Gold!

By FRANK LILLY*
Statistician, Mines Research Bureau

Contending U. S. has not enough gold to permit going back on gold standard at $35 per ounce, Western mining expert holds price of gold must be advanced or nations will continue down path of inflation via a debt-based paper currency. Recommends commission be appointed to arrive at a reasonable conclusion on a proper price for gold.

The names of "The six honest serving men" who, Rudyard Kipling says, "taught me all I knew," were "Where and What and When and Why and How and Who."

Frank Lilly

I propose on this occasion to let these "six honest serving men," individually and as a group, teach us what we should know about gold with particular reference to What the price should be. This is not designed as as argument in behalf of the gold producer or of any monetary policy except as the facts, "hewed to the line," speak for themselves.

Two Days and Seventeen Years Ago

It was two days and seventeen years ago today that President Roosevelt issued the proclamation which fixed the U. S. Treasury price of gold at $35 an ounce. In this single sentence we have the Who, When, What, Where and How—everything but the **Why.**

The **Why** runs back to August, **1914**, when, at the outset of the First World War, Great Britain went off gold as a war measure. To her everlasting credit, Great Britain made an honest effort, in **1925**, to restore the gold standard which she had maintained for nearly 100 years; but, because she made the mistake of pricing her gold too low at $20.67 an ounce, she was again forced to go off gold in September, 1931—not, be it noted, because she wanted to do so but because she did not have enough gold to back her currency.

Gold Price Always Rises

No inconvertible paper currency can, in the very nature of things, be as good as gold, hence the value or price of gold always rises in terms of such devalued currency. So the price of gold in Great Britain rose from 85s 12d, the equivalent of $20.67 an ounce, to 92s 6d in the last quarter of 1931, to 118s in 1932, and in November of 1933 to a high of 143s 2d, or the equivalent of $34.91 an ounce.

The United States, in the meantime, had remained steadfastly on the Gold Standard, and, both before and after his election, President Roosevelt had insisted that he had no intention or "tampering with the currency"; which I firmly believe he meant. However, circumstances alter cases **and wise men change their minds.**

Since Great Britain, in going **off** gold, gave gold a higher measure of value in that country than it had in the United States, our exports to Great Britain declined and our imports increased, with the result that we lost gold in settlement of trade balances to the extent of $446,219,397 in 1932 and another $173,445,507 up to April, 1933, when an embargo was placed on gold exports.

$35 a "Lucky" Number Figure!

Meanwhile, in the confusion and hysteria of the time, Congress passed, in a single day and without any debate, a law nationalizing gold and making it a crime for a private citizen to own or trade in gold. In May, 1933, the United States entered the world gold market through the R.F.C. and bought back, on a rising scale, some of the gold that we had lost at $20.67 an ounce. Finally, the price was arbitrarily set at $35 because that figure was considered a "lucky" number and not because any investigation had been made to determine whether or not the figure of $35 was a true and proper price.

Prima facie evidence that $35 an ounce was not an adequate price is furnished by the fact that the President and his advisors in the Treasury Department have never subsequently made any attempt to restore the gold standard. As a matter of fact, neither the President nor any Treasury official has ever made an attempt either to provide for currency convertibility into gold at any other price or to determine what the U. S. price of gold should now be, although this country is strictly "isolationist" in adhering to a $35 price.

Nice Business for Federal Reserve Banks

In this connection, it is of interest to note that the gold, which by law must be turned in to the U. S. Treasury, is not paid for directly by the Treasury. The procedure is for the Treasury to issue gold certificates which are turned over to the Federal Reserve System, and receive in return Federal Reserve note currency that is then used by the Treasury to pay for the gold. Incidentally, the Federal Reserve Banks, which are privately owned banks, operating under what amounts to a government franchise, could, under the law, issue additional currency against gold to an amount equal to 3 times $35 an ounce, or a total of $140 of currency on each ounce. Nice business if the gold producer could get it!

It is only fair to point out that the Federal Reserve has not so far taken **full** advantage of this inflationary privilege, but they do not need to do so when, under their monopoly over our currency, they are realizing enormous profits in their use of what should really be the people's gold — your money by inalienable right. This is **How** it is being done, but the **Why** lies in the fact that the public does not realize **What** has been done and is being done.

The Why of High Prices

When gold convertibility was taken out of the monetary system, the brake which would have prevented, or at least slowed down, inflation was removed. The **Why** of today's high prices is uncontrolled, debt-based, printing-press currency that has in the last 17 years reduced the purchasing power of an ounce of gold to approximately one-third of $35.

Assuming, for the sake of argument, that $35 may have been a fair and proper price for gold in 1934, it does not necessarily follow that it is a proper "fit" for 1951 any more than the sizes of hat, shoes and clothes that Junior wore at that time would be proper for the young collegiate of today. Incidentally, try to get your wife to wear today the styles of 1934—just try it!

Junior has grown up, styles have changed and the world of today is as far removed from the world of a decade ago as the iron age was from the stone age. This is now a world of approximately 2,500,000,000 people — more than there have ever been before, despite the losses of World War II. This is the atomic age, combined with speed, unprecedented production and a high scale of living, all of which call for a reexamination and revaluation of former standards.

Foreign Currency Devaluations

The monetary systems of every other country in the world have undergone tremendous changes. Some of them: China, Greece and Hungary, for example, have been forced into complete repudiation of their paper currencies. Italy has devalued its currency to a figure equivalent to $1145 an ounce for gold and France, to $486.50. Russia devalued its currency 10 to 1 as of Jan. 1, 1948 and revalued in gold on March 2, 1950. Great Britain devalued the pound sterling to the equivalent of $2.80 in September of 1949 and her example was followed by 40 other countries, chiefly in the sterling bloc.

So what? says the average U. S. citizen. Just this: These devaluations, because they have given gold a higher measure of value abroad, are the **Why** this country has lost a total of over two and one-quarter billions of its gold since Great Britain's devaluation in September, 1949. Few realize that this is equivalent to more than one-third of all the gold produced in this country during the last 150 years; or that the total loss during the last 6 months is nearly three times as much as this country lost from 1931 to 1933, the two years preceding the raising of the price of gold to $35. As a matter of fact, the average weekly loss during the past 6 months has been as much as is now produced in the U. S. in an entire year.

Only About 10% Gold Backing of Total U. S. Money Supply

It is true that, despite these losses, we still have nearly 60% of the world's monetary gold. This does not, however, necessarily mean that we have enough in relation to our monetary needs. Actually, we have a gold backing equivalent to only a little over 10% of our total supply of money, including bank deposits, but not including many billions of government bonds and other obligations that could be converted into currency. Incidentally, our total supply of gold on the basis of $35 an ounce would pay only about one-third of the annual budget now before Congress.

We must not forget that world trade operates exclusively on gold in the settlement of trade balances. We hear much about the preeminence of the dollar but the cold fact is that over a billion of the world's population now operates within the sterling bloc and nearly a billion, in the Russian gold ruble bloc, both of which give gold a much higher measure of value in their economies than the $35 an ounce price we use in paying foreign trade balances.

U. S. Pays in Cheaply Valued Gold

The United States is currently paying extraordinarily high prices for the world's commodities and paying for them in cheaply valued gold. A year ago, an ounce of gold would, for example, have bought nearly 60 pounds of tin; today it will buy only a little over 15 pounds. Just why we should cut off our nose and spite our face by stubbornly refusing to utilize the purchasing power of gold demonstrated by other countries cannot be answered by any of Kipling's "honest serving men."

A part of the confusion over the price of gold, lies in the fact that there are actually several prices for it; namely, (1) an exchange price, (2) a commodity price and (3) a monetary price, which is the measure of value given gold in a nation's monetary system. The price in the United States is the same for all three. In Great Britain, however, the exchange price, which is officially controlled and essentially a fiction, is maintained at approximately $35. The commodity price paid by processors, jewelers, dentists, etc., is equivalent to about $60 an ounce. The monetary value, on the basis of legal parity, is $102.17 an ounce, according to figures furnished me by the U. S. Mint. In other words, Great Britain's two devaluations, the first in September, 1931, and the second in September, 1949, have given gold the same measure of value in that country as if the price of gold had been raised to $102.17 an ounce.

You have, no doubt, read several newspaper reports about people who have risked the loss of large sums of gold in their efforts to smuggle gold out of this country so as to dispose of it at a large profit in Great Britain, India and other foreign countries. These facts speak for themselves as to the true price of gold abroad.

No Proof $70 Would Be Proper Price

In the course of my study of the question of **What** Price Gold, I have asked a large number of well-informed men for an expression of opinion as to what the price should be. The great majority have replied, $70 an ounce; but in no case has anyone attempted to justify that figure by relating it to such factors as purchasing power in commodities and/or wages, foreign devaluations and world or U. S. monetary requirements.

It is interesting, and probably significant, to note that if the price of gold were related to the present purchasing power and wages, the price here would be approximately the same as the figure of $102.17 which is the London equivalent, on a legal parity basis, of the U. S. price; for commodity prices and wages have, on the average, trebled over that of the period of 1934-1938. Accordingly, to justify, on a comparative basis, a price of $70 an ounce for gold, both commodity prices and wages would have to be rolled back to 1934-1944 averages.

Gold Price Must Be Increased Or Else

One thing, therefore, seems crystal clear: either commodity prices and wages must be rolled back or the price of gold must be increased — unless, of course, we continue on down the path of inflation via a debt-based paper currency to bankruptcy and repudiation. I believe all thinking men must agree on this conclusion.

Times Call for Quick Determination

A free market for gold would probably be the best way to determine **What** the price of gold should be, but we seem to have waited too long for that and must, accordingly, resort to some plan that will permit quicker action. Under the circumstances, the suggestion of the American Mining Congress that the price should be determined by a monetary commission, should, I believe, be carried out without further delay.

How a Proper Price Could Be Determined

It would, it seems to me, be possible to arrive at a reasonable conclusion on a proper price for gold by way of the following steps:

(1) Determine just what this country's **overhead** is or, in other words, the amount required to meet our fixed charges and living requirements.

(2) Determine how much **production** is needed to provide the income and profits necessary to meet those fixed charges.

(3) Determine how much **money** is required to attain and maintain that necessary production, because such production would not be possible without an adequate amount of money.

(4) Having decided how much money is necessary proceed to **make our money sound** by backing it with a minimum 40% of gold and restoring the gold standard with convertibility of currency to gold.

Then, finally, if we do not now have enough gold to provide a 40% backing on the basis of $35 an ounce, or $70 an ounce, **raise the price of gold to whatever figure is needed** to give the necessary gold coverage to make our money sound.

There Is Good in Gold

Failure to use the atom bomb in the present world emergency can be justified on the grounds that its tremendous power to destroy is a two-edged sword. The power in gold, however, is constructive, and failure to use the larger measure of value inherent in it to attain and maintain the healthy economy that is a prerequisite to a peaceful world is not only inexcusable but comes close to being wicked. There is **Good in Gold.** Why not make the greatest possible use of it?

*An address by Mr. Lilly at a meeting of the Colorado Mining Association, Denver, Colo., Feb. 2, 1951. In addition to being Statistician of Mines Research Bureau, Mr. Lilly is also President of American "Hard Money" Association, and Executive Secretary of Prospectors and Mine Owners Association.

Blyth Group Offers Kimberly-Clark Stock

Blyth & Co., Inc., heads a banking group which on March 6 publicly offered 200,000 shares of common stock of Kimberly-Clark Corp., large manufacturers of cellulose wadding and converted products and also of publication type machine coated book paper in the United States. The stock is priced at $45 per share.

Proceeds from the sale will be used in connection with the company's new expansion program which is expected to be completed in 1953 at an estimated cost of approximately $19,000,000. Upon completion of the program the company's daily production capacity of cellulose wadding will have been increased 34%. Sales of cellulose wadding accounted for approximately 62% of the corporation's total volume in 1950. With the issuance of the additional shares, the outstanding number of common shares will be increased to 1,994,951.

Principal mills of the corporation are located in Kimberly, Niagara, Neenah and Appleton, Wisconsin; Niagara Falls, N. Y.; and Memphis, Tenn. Mills of two Canadian subsidiaries are located in the Province of Ontario.

Consolidated net sales of the corporation for the 12 months ended Dec. 31, 1950, totaled $131,301,757, the largest annual volume in the company's history. Net income for the period amounted to $11,209,452, after preferred dividend requirements, equal to $6.24 per share on the 1,794,951 shares of common stock then outstanding.

In August, 1950, a quarterly dividend of 60 cents per common share, was declared and since that time two additional quarterly dividends of 60 cents per share have been declared.

Joins Jones Staff

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — William J. Muckerman has been added to the staff of Edward D. Jones & Co., 300 North Fourth Street, members of the New York and Midwest Stock Exchanges.

Notes Smaller Gain in Savings Bank Deposits

A. Livingston Kelley, President of National Association of Savings Banks, reports gain in January of but $22 million, compared with $141 million in Jan. 1950.

Deposits in the nation's 529 mutual savings banks increased $22,000,000 during January, 1951, to reach $20,047,000,000 at the close of the month, according to A. Livingston Kelley, president of the National Association of Mutual Savings Banks and president, Providence Institution for Savings, Providence, R. I. The increase compares with a December,

A. Livingston Kelley

1950 gain of $188,000,000 and an increase of $141,000,000 in January, 1950. The January, 1951 gain occurred almost entirely in deposits other than regular accounts, such as Christmas clubs and school savings. During January, 1951, amounts deposited in regular accounts were at record high levels, but they were nevertheless exceeded by withdrawals, which had also been the case from July through October, 1950.

The month witnessed a further rise of $136,000,000 in holdings of mortgage loans which brought them to $8,175,000,000 or 36.3% of total assets. This is the highest proportion since 1942.

Bankers Place Plywood Bonds Privately

Georgia-Pacific Plywood & Lumber Co. has placed privately through Reynolds & Co. and Equitable Securities Corp. an issue of $6,000,000 3½%-4½% 15-year promissory notes.

Of the total, $2,000,000 notes carry 3¼% interest and mature in 1956. These were sold to a group of banks headed by the Bank of America NTSA. The remaining $4,000,000 were purchased by an insurance company, carry 4½% interest and mature in 1966.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The Treasury and the Federal Reserve Board, over the week-end, announced the settlement of their long-standing dispute over debt management. The issuance of a new series of non-marketable long-term bonds bearing an interest rate of 2¾% is the medium through which the reported agreement between the monetary authorities was reached. This agreement is designed to curb the inflationary effect of the Treasury's bond-selling activities without hurting the government's credit standing or unduly raising the cost of financing the debt. The new bonds will be offered in exchange for the June and December 2½s of 1967/72. The aim is to reduce the sale of bonds by holders to the Federal Reserve Banks, which have been buying them at prices which have tended to keep the market for them orderly and stable.

Sales by the country's banks and other financial institutions to Federal of government securities provide them with cash reserves on which to make loans. This fans the flames of inflation. By offering to exchange 2¾% non-marketables for the 2½s of June and December 1967/72, the monetary authorities hope to encourage the retention of the 2½s by banks and other long-term investors in Treasury obligations. It is hoped also to take the pressure off the Central Banks in their buying of government bonds at "pegged prices" because it is the purchase of Treasury obligations by these institutions that makes them "engines of inflation." Holders of the new 2¾s, incidentally, will be given an option of exchanging them prior to maturity for marketable Treasury notes. Complete data on the new 2¾% non-marketable long-term government obligation and the convertible issue will not be available until March 19.

Truman Committee's Report Awaited

Despite reports of the agreement between the Treasury and the other monetary authorities over credit policy and interest rates, more than a little attention will be given to the forthcoming recommendations of the group appointed by President Truman, to study and report to him on the measures that could be taken to curb inflationary borrowings. At this recent meeting, the reported suggestions that President Truman made to the so-called big four of Wilson, Snyder, McCabe and Keyserling seems to indicate there will be no fooling this time about action being taken to clear up points of concern over debt management, credit policies, interest rates, and their influence upon the forces of inflation. In addition to reviewing the controversy, the President let it be known that he is not in favor of having the government bond market seek its own level. To allow government securities (especially the longer-term obligations) to find their own levels in an unprotected market is definitely out of the question, according to President Truman.

It is also evident that the President does not want credit curbed to the extent that it will take away needed borrowings for the preparedness effort. On the other hand the really inflationary borrowings, he indicates, must be limited in order to fight the forces that are having such an adverse effect upon the economy. Also the President believes there will be very substantial borrowings by the Treasury later on in the year. This would be in addition to rather sizable refundings that the President also envisages in 1951. These borrowings, according to the President, can be carried out successfully only if there is full confidence in the public credit of the United States based upon a stable securities market. It is interesting to note the borrowings by the Treasury that are expected by the Chief Executive are after higher taxes, which have yet to be voted by the Congress.

A Dangerous Precedent

Because of these two factors, large borrowing and refundings by the Treasury in 1951, the President is not for taking chances on the action of the government bond market. He wants it protected and stable so that the confidence of investors will be maintained in government obligations. There is no doubt the trend of redemptions of Series E bonds is getting more than passing attention in more than one official spot. It is believed the excess of repayments over sales, in an inflation-minded economy, is also an important force calling for stability in the government security market. The suggestions that President Truman has made to the four important cogs in the defense program for study with eventual recommendations as to what should be done to limit the inflationary borrowings, consist of measures that could curb these loans, but could at the same time have an unfavorable effect upon our way of life. These emergency measures, once in use, are very hard to get rid of, because there is very often no desire to admit the emergency has ended.

The President's Objectives

One of the measures that President Truman suggested the group give consideration to in the study is the Emergency Banking Act of 1933. Under this Act are provided the powers to curtail lending by member banks of the Federal Reserve System. These powers are vested in the Secretary of the Treasury subject to the President's approval. The program could be extended to institutions other than member banks, if so desired, by using the powers provided by the Trading With the Enemy Act. Consideration, the President believes, should also be given to the idea of providing the Federal Reserve System with additional authority over bank reserve requirements. The voluntary system of controlling lending is given some credit, and suggested as a method of limiting borrowings. However, not too much confidence, it seems, is held out for the voluntary idea, because the President recommends for study the establishment of a committee similar to the Capital Issues Committee of World War I, but operating in a broader area. The object of such a committee, through voluntary means at first, but if not successful, with real powers, would be to limit or stop new money lending by savings banks, insurance companies.

The President has given his selected group of advisors several methods that could be used to curb lending, and in that way stop the selling of government bonds by banks and insurance companies. This would take the pressure off the market and the Central Banks. Nevertheless, a stable and protected government security market under certain of these methods would not be exactly the best thing that might happen to our economy.

Continued from page 6

Emergency Program's Impact on Savings Banks

whether the corporations will be able to obtain the necessary raw materials and equipment to complete their plants. Institutional investors will also find that the sinking fund provisions of their bond investments will provide them with large funds seeking an outlet. Toward the end of the year, therefore, it is quite likely that institutional investors will again look toward government securities as their principal type of investment.

The Rate of Interest

At present, there is a considerable controversy as to whether or not the Treasury should issue long-term government obligations with a higher coupon rate than prevails at present. Many believe that an increase in the rate of interest paid by the Treasury will not only automatically bring to an end the controversy between the Federal Reserve authorities and the Treasury, but will also stem the tide of inflation. It may be mentioned parenthetically that the conflict between the Federal and the Treasury is not primarily over the rate of interest. That is only incidental to the controversy. The basic question in the controversy is whether the creation of reserve balances through open market operations of the Reserve Banks should be at the initiative of the Reserve authorities or of the holders of government bonds. So long as the Reserve authorities are obligated to maintain stability in the government bond market, the initiative in the creation of reserve balances becomes vested in the holders of government securities. The Federal Reserve Banks under these circumstances are forced to buy government obligations, thus creating additional reserve balances when economic conditions indicate a tightening of credit.

The outcome of the controversy will depend to a large extent on the fiscal position of the Treasury. This also is bound to have an effect on the investment problems of savings banks and other institutional investors. If the budget is balanced for the fiscal year ending June 30, 1952, the consequences, briefly, will be as follows:

(1) The Treasury will not need to appear as a borrower of new money in the open market. It therefore will not offer any new securities to institutional investors.

(2) A balanced budget would result only from the institution of rigid economy on the part of the Federal Government and an increase of the tax burden on individuals as well as corporations. Since both are powerful anti-inflationary measures, a balanced budget would exercise a favorable effect on the inflation psychosis of the country.

(3) A probable result would be increased savings on the part of individuals and sales of E Bonds at a level in excess of redemptions.

(4) Under these circumstances, the Treasury would be in a position to carry out refunding operations which would reduce the holding of government securities by the commercial banks, thus reducing the volume of bank deposits. In exchange for called and matured obligations, now largely held by commercial banks, the Treasury would be in a position to offer long-term government obligations non-eligible for purchase by commercial banks. This would meet the investment demands of institutional investors exclusive of the commercial banks and at the same time constitute a powerful anti-inflationary measure.

If the budget, therefore, is balanced, the question of granting a higher rate of interest by the Treasury will become academic in character. But even under these circumstances, it might be advisable to adopt a more flexible open market policy and for the Treasury to offer securities with a coupon rate which would make them attractive to institutional investors. The 2½% rate was satisfactory during the war when commodity prices were substantially lower and when the cost of operating financial institutions was much smaller than at present. Even the Treasury must recognize the fact that money buys much less today than was the case during the war.

If the budget is not balanced, an entirely different situation will prevail. The Treasury will then be confronted with the task not only of refunding huge amounts of short-term obligations, but also of raising new money in the open market. Moreover, an unbalanced budget could easily aggravate the fear of inflation and cause an increased redemption of E Bonds, thus further aggravating the debt-management problem of the Treasury.

Under these circumstances, the controversy between the Reserve authorities and the Treasury is bound to become more acute. The latter, in order to be able to meet its financial requirements, will insist on the open market support of government securities by the Federal Reserve, while the latter, realizing that this contributes to the inflationary forces, will endeavor to adopt policies to combat the forces of inflation. In an emergency such as the present and particularly with the budget unbalanced, it is impossible to conceive a situation where the government bond market would be permitted to seek its own level. The government bond market is bound to be protected even though the support may be more flexible than at present and government obligations permitted to fluctuate more than during the last few years.

If such conditions should develop, it is fairly certain that the Board of Governors of the Federal Reserve System would seek and obtain from the Congress new powers not only over the money market and commercial bank activities, but also over the investment policies of the large financial institutions of the country. The powers sought may well be:

(1) The imposition of a certificate reserve in one form or another whose purpose would be to force the commercial banks to hold large amounts of short-term government securities. Such a certificate reserve would restrict the lending and investing powers of the commercial banks and could counteract the creation of reserve balances through Federal Reserve open market operations.

(2) The investment policies of the financial institutions outside of the commercial banks may come to be determined not by the managements, but rather by government policy. Since the sale of government securities by insurance companies, savings banks and other institutional investors of this type to the Federal Reserve Banks leads not only to the creation of new reserve balances, but also of new deposits, legisla-

tion may be enacted granting the Board of Governors of the Federal Reserve System or some other agency the power to regulate such institutional investments. An unbalanced budget, therefore, will not only accentuate the forces of inflation, but may also lead to legislation which could have a far-reaching effect on the financial institutions of the country. While such legislation will be considered as an emergency measure, yet, as is well known, once legislation is on the statute books, it is not removed even after the emergency has disappeared.

Inflation Can Be Halted

The activities of savings banks and other financial institutions of the country will to a large extent depend upon whether the forces of inflation are brought to a halt or whether they are permitted to gather momentum. If the forces of inflation are controlled, increased savings on the part of the people will be encouraged; and the volume of savings deposits, reflecting the growth in disposable income and the decline in the volume of durable consumer goods, should increase substantially. Since the supply of mortgages is bound to decrease, institutional investors will be compelled to find an outlet for their funds in government obligations.

A balanced budget will make it possible for the Treasury to adopt a debt management program which in itself would be anti-inflationary, since it would make possible the refunding of bank-held government obligations into non-eligible government securities held primarily by institutional investors.

The forces of inflation can be brought to a halt by rigid economy on the part of government—Federal, State and local; by broadening the tax burden, thereby siphoning off excess purchasing power; and by the exercise of restraint by all economic groups in the country. Large institutional investors also must realize that their sale of government securities to the Federal Reserve Banks contributes to the forces of inflation. It causes a monetization of a portion of the public debt and places funds at the disposal of industry and trade, thus creating an additional demand for raw materials and labor.

An unbalanced budget can have far-reaching consequences on the economy of the country as well as on the financial institutions. It will lead to increased dissaving; and, above all, since under these circumstances the government bond market cannot be left unprotected, it will lead to the enactment of new legislation which will increase the powers of the Federal Government not only over the commercial banks, but also over all financial institutions. It is particularly essential, if the forces of inflation are to be brought to a halt, that each economic group, including the large institutional investors, analyze carefully its own activities and inquire to what extent they contribute to the inflationary trend. If these are stopped, then the problem of halting the forces of inflation, complicated though it may be, can be solved.

Terms New 2¾% Issue Step in Right Direction

The announcement of the Treasury that it will refund the June and December 2½% bonds of 67/72 into long-term 2¾% obligations is a step in the right direction. If this refunding operation is successful it will greatly alleviate the debt management problem and will reduce the pressure on the Reserve Banks to acquire a large amount of government obligations. If the refunding is not successful then some of the measures enumerated by the President in his statement on government securities and credit policies may be adopted. This certainly would not be to the interest of the financial institutions of the country. Apparently a change in the open market policies of the Reserve authorities is taking place. While the government bond market will continue to be protected the aim will be to keep the market orderly and not stable. An orderly market means greater fluctuations and hence makes accessibility to Reserve credit much more risky and more difficult. The statement of the Treasury that the 2¾% bonds will be convertible into notes is intended to give the Treasury greater flexibility in debt management. It also indicates that more extensive fluctuations can be expected in the short-term sector of the government bond market.

Mutual Funds

By ROBERT R. RICH

A MUTUAL UNDERSTANDING and recognition of common interest by members of the financial industry is necessary for the survival of the capital market as it is known today, William C. Cusack stated in an address at the Savings Bank Forum, Essex Chapter, in Salem, Mass., on Feb. 20th.


William C. Cusack

Mr. Cusack, who is with the Keystone Custodian Funds in Boston, stressed in his speech, "Mutual Funds—Why I am For Them," that, "if any part of the financial family becomes ill the body itself suffers."

"I have often thought," he remarked, "it would be desirable to have what is known as financial week or financial day where the various forces in the financial community could have a public forum for the education of the investing public and that savings banks, commercial banks, Stock Exchange firms, over-the-counter houses, life insurance companies, Federal Loan Associations, mutual funds, fiduciaries, and others would be represented."

In addressing the audience of savings banks executives, Mr. Cusack emphasized carefully that mutual funds are not the competitors of savings banks, since their function is entirely different. He said that a large part of savings banks' money is invested in home mortgages—$8 billion in 1950—an investment in which investment companies have no interest.

That the financial community will thrive or starve as an entity was made clear by Mr. Cusack's statement that the growth of mutual funds to an all-time high of $2,530,000,000, an increase of over $2 billion in a ten year period, coincided with the highest deposits in the history of the 500 odd mutual savings banks in the United States, now over $20 billion.

The Keystone Company representative, in his public relations address, listed ten reasons why he was for mutual funds. He stressed the professional selection of securities, the variety of investment objectives which mutual funds could satisfy, the reduction in investment hazards which they provide, and the excellent medium which they provide to corporations wishing to establish retirement trusts.

Mr. Cusack asked members of his audience to consider the advantages of positions in the mutual funds industry, after retirement from their bank, as a way of avoiding "retirement shock."

"For example," he said, "it may be that a retired officer of a savings bank would like to carry on actively after 65 and, if so, he might be interested in knowing about mutual funds and selling them. After all, he has been trained in savings bank finance and the field is not too far away from investments. I am sure that some investment companies in Boston would be happy to have such a person come in, explain to him the operation of the fund, provide him with literature, assist him and place him with a responsible firm."

The Outlook

WELLINGTON FUND reported Tuesday that in the first two months of 1951 it had reduced common stock holdings and increased cash reserves so that its portfolio is "in an even more conservative position than at the beginning of the year."

These changes left the $167,000,000 Fund on March 1 with 58.8% of its resources in common stocks and with 22.65% in U. S. Government bonds and cash as compared with 61.1% and 20.55%, respectively, on Jan. 1, last.

"We believe," the Fund stated, "that this conservative position is sound not only because of the extended market rise, but because of foreign and domestic uncertainties, such as war threats, wage and price controls and higher taxes, any of which could bring about a change in investor psychology.

"In spite of inflationary factors," the report continued, "Wellington Fund believes it is sound policy to reduce common stocks after a 60 point market advance such as experienced since last summer. Although the long-term trend may still be inflationary, this trend may have many setbacks if it follows the course of inflation in other countries."

The principal common stock reductions in the two-month period which the report covered were in the more volatile issues and in rearmament benefited stocks, which had advanced substantially. On these sales the Fund realized securities profits of $2,560,000 which left an unrealized appreciation of investments of $15,800,000.

The report called attention to the high quality of the defensive portion of the Wellington portfolio and added: "This should not only reduce market risks but provide important buying power if the market should decline. The common stocks held are primarily quality issues, well diversified among stocks which should do well in either a peace or semi-war economy."

PROFESSIONAL INVESTMENT Planning, a Keystone publication, in noting that the Dow-Jones Industrial Average has crossed the 250 level in a broad rise from 92 in 1942 (representing, on a price basis, the highest level in 20 years) states: "Many investors have carried a large proportion of common stocks for many years and other investors have added stocks during recent years. Further, the current rise in stock prices has increased the dollar value of stock holdings and has therefore increased the equity investment in relation to the entire investment account even if no new purchases have been made.

"We do not know how long this bull market will last or how high stock prices may go and we are not suggesting that all stocks be sold. Common stock prices — as measured by the Dow-Jones Industrial Average — are approaching the top of their normal historical channel of fluctuation, however, and it would seem only prudent at this time to review all accounts for the purpose of considering whether the present proportion of common stocks held is appropriate."

KEYSTONE HAS ASKED a good many dealers in recent weeks to estimate the proportion of common stocks to bonds and other fixed investments held at present by their combined clienteles. The estimated percentage of stocks has repeatedly been between 80 and 90% of the total. Keystone comments that, "If the historic pattern of fluctuation in the market continues, investors in such a position face the possibilities of substantial shrinkage in capital." Copies of Professional Investment Planning are available, without obligation, from Keystone Custodian Funds, 50 Congress Street, Boston 9, Mass.

INDUSTRIAL ACTIVITY, the Investment Company of America reports, seems certain to attain higher levels in 1951 than in 1950 because of our military preparedness program. Consumer income, which reached a new high level of $222 billion in 1950, is also expected to rise in 1951.

Even allowing for considerably higher taxes, The Fund comments, moderately increased savings and some reduction in debts, the income which consumers will wish to use for the purchase of goods will exceed the volume of goods available for civilian purchase, despite the large increase in the productive capacity of our industry in the past decade. Accordingly, a major problem faced by the government is that of curbing inflation, and one faced by the manager of investment funds is to gauge the impact of government policies, restrictions, allocations, taxes, on various industries and companies.

The Investment Company of America has about 80% of its funds invested in common stocks of companies which we think are fairly priced in relation to earnings prospects and fundamental values. Additionally, the Fund has a substantial reserve in cash and short-term government obligations to take advantage of opportunities which may be uncovered under the changing outlook for net profits for individual companies.

WHILE ADVERSE possibilities are important considerations, Stein Roe & Farnham Fund, reporting to shareholders, states that, "We remain of the opinion that over the longer term the most serious risk to the investor is that of continued shrinkage in the purchasing power of the dollar. 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.

"Favored by mounting corporate profits and growing inflationary sentiment, the stock market has had a large advance since the initial shock of Korean hostilities was overcome. Recently the volume of trading on the New York Stock Exchange has been very heavy. It would not be surprising if a market reaction should occur out of a background of over-speculation or from pessimism generated by the imposition of new controls, restrictions and taxes. We have no conviction as to the likelihood of such a decline, and, in any event, feel this risk is adequately provided for by the government bond and preferred stock holdings of the Fund. The ever-present danger of a full war is, however, an even stronger reason for keeping substantial reserves of fixed-income securities."

NEARLY HALF OF the assets of Fully Administered Fund now are invested in cash, U. S. Government bonds and electric power and light bonds of the highest quality. The balance is invested in selected dividend-paying common stocks.

This current position of 48% defensive, 52% aggressive contrasts with that at the market's low point in July, 1949 when the fund was invested 21% defensive, 79% aggressive; with that just prior to the outbreak of war in Korea at 30%-70% and that at the July, 1950 low point of the post-Korea market decline when the ratio was 25%-75%.

The fund states that, "It is, of course, the purpose of this defensive reserve to enable your Fund to take advantage of buying opportunities as they arise. It is significant that while the reserve has been ranging between 40% and 48% during the quarter under review, the over-all market performance of the fund has been satisfactory and the dividend is at the same rate as for the last quarter last year."

IN BOTH INDUSTRIALS and rails, Technical Fund reported on Feb. 15, 1951 that the situation is favorable for owning common stocks. In its recommended intermediate to longer term position, the Fund reported that common stocks should be owned to the full extent permitted by individual portfolio policies. Technical Fund, which publishes the Technical Record, a monthly digest of news and information expressly for investment dealers, in its February issue traces the results of Technical Trend performance back to 1919, with a record of buy and sell dates. The monthly Technical Record is available to dealers without obligation from Technical Fund Distributors, 155 Sansome St., San Francisco 4, Calif.

News and Notes

"HOW TO BECOME A Successful Investor" a new mutual funds sales booklet, illustrates how good sales literature can be. It is a sales tool for use with customers and prospects with little or no knowledge of the securities market and its functions. Morris Townsend, author of the booklet, lists Four Vital Steps to becoming a Successful Investor, which, in these inflation-ridden days, made candid good sense. Copies are available, without obligation, from Axe Securities Corporation, 730 Fifth Avenue, New York 19, N. Y.

HOLDERS OF FACE amount installment payment investment certificates of Investors Diversified Services, Inc., Investors Syndicate of America, Inc., and participation certificates of Investors Syndicate Title & Guaranty Company of New York State will receive more than $43 million in maturity payments due in 1951, it was announced Tuesday by Norman B. Waag, Vice-President and Controller of the Investors group of Minneapolis.

The maturity payments will be made to more than 16,000 individual certificate holders.

During 1950 the Investors group's face-amount certificate companies distributed more than $29 million in maturity payments to more than 11,500 certificate holders.

More than 55% of the men and women who will receive certificate maturity payments in 1951 are over 50 years old. Over 58% of those receiving 1950 payments were over 50. Majority of current certificate holders — numbering more than 400,000—are between 26 and 50, the company said.

AT THE ANNUAL Stockholders Meeting of Commonwealth Investment Company, the following were re-elected Directors to serve for the ensuing year:

S. Waldo Coleman, George E. Crothers, Roy W. Cloud, Edward L. Eyre, Alan Field.

At the Board of Directors Meeting held immediately after the Stockholders Meeting, the following officers were re-elected:

S. Waldo Coleman, President; George E. Crothers, Vice-President; Douglas R. Johnston, Vice-President; Robert L. Cody, Vice-President, Secretary and Treasurer; Lewis V. Coleman, Vice-President; Alfred A. Hook, Chief Accounting Officer.

NEW PROSPECTUS of Diversified Funds, formerly New York Stocks, is now available from Hugh W. Long, 48 Wall Street, New York 5, N. Y. The excellent typography and layout has made this prospectus as readable as is humanly possible under the circumstances.

Consolidated Investments

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—Consolidated Investments Incorporated has been formed with offices in the Russ Building to engage in the securities business. Officers are: Stuart D. Wattles, President; Robert J. Rankin, Vice-President, and Kenneth R. Richardson, Secretary-Treasurer. Mr. Wattles was formerly with Colvin-Mendenhall & Co., Mr. Rankin with Wilson, Johnson & Higgins. Oscar Cattoire is associated with the firm.

Parker, Robinson & Kristeller Being Formed

MAPLEWOOD, N. J.—Adrian Ralph Kristeller, member of the New York Stock Exchange, John E. Parker, Jr., and Samuel H. Robinson will form Parker, Robinson & Kristeller with offices at 7 Highland Place, on April 1. Mr. Kristeller, a partner in Oppenheimer & Co., will retire from that firm on March 31.

Durand to Admit

Frank Piazza will acquire the New York Stock Exchange membership of Celestin A. Durand on March 15 and become a partner in the firm of C. A. Durand & Son, 11 Wall Street, New York City.

Railroad Securities

Western Pacific

Speculative interest in Western Pacific common was heightened late last week following reports in the press that Alleghany Corporation had been negotiating with the James Foundation for purchase of the latter's interest in the road. The stock, which had apparently been under pressure of Income bond conversions in recent weeks, turned active and moved ahead sharply on Friday when the news broke. The James Foundation owns 153,165 shares of common stock and 55,727 shares of the participating preferred of Western Pacific. This holding last year represented roundly 29% of the voting stock of the company. Presumably this ratio will be reduced by conversion of the Income bonds but, nevertheless, it would obviously still constitute effective control.

The Income bonds, which have been called for redemption on May 1, 1951, are convertible into the common stock on the basis of 20 shares per $1,000 bond. As of the end of 1949 they were outstanding in the amount of $6,287,000. If none were retired last year and the whole remaining issue were converted prior to redemption, this would result in an increase of 125,740 shares in the amount of common stock outstanding, to 534,177 shares. With this as the maximum, the James Foundation holdings would still represent close to 25% of the voting control.

Apparently this latest move by the Young interests caught the public imagination as a possible preliminary to the establishment of the first through transcontinental railroad system of which Mr. Young has so often talked. Alleghany Corporation has a substantial stock interest in Missouri Pacific which it is fighting to retain but which the I. C. C. has found to have no value and which is eliminated under the terms of the I. C. C. proposed reorganization plan. The Alleghany Corporation also has a stock interest in, but by no means control of, Chesapeake & Ohio which, in turn, owns a sizable interest in New York Central. Obviously, the possibilities in this situation are intriguing if one lets the imagination run wild. However, there are many railroad analysts who are inclined to the opinion that the I. C. C. will take a dim view of this proposed change in control of Western Pacific.

Even though inclusion of Western Pacific in any transcontinental railroad transportation system is still, at best, a long way off, there appears to be adequate justification for the obvious enthusiasm for the common shares. The road underwent a drastic reorganization a few years ago and since then has continued to improve and consolidate its capital structure. The latest step was the sale late last year of $22,000,000 of new 1st 3⅛% mortgage bonds. It was proposed to use the proceeds from the sale of these bonds to retire the $10,000,000 of old 1st 4s and the 4½% Income bonds, and for property improvements. Unquestionably practically all of the Income bonds will be converted into stock before redemption date. Thus, funds originally earmarked for their payment will be released for additional property needs or other corporate purposes.

Aside from the new 1st Mortgage bonds and regular serial equipments, capitalization consists of 318,502 shares of $5 participating preferred and a maximum potential of perhaps 534,177 shares of common. The preferred has preference as to $5.00 dividends in any one year and then, after the common receives $3.00 a share, participates equally, share for share, in any further distributions. It is this provision that has presumably militated against the payment of more than $3.00 on the common in any year since reorganization. It is considered likely, then, that at the first feasible opportunity the company will make every effort to refund the preferred stock. Presumably this could be done if some of the company's adequate cash were to be used to reduce the issue in the process.

Western Pacific turned in a particularly impressive performance last year. Gross was up smartly and, much more important, operating costs, particularly the transportation costs were held under strict control. As a matter of fact, the transportation ratio—at 28.3% compared with 35.1% a year earlier—was among the lowest in the country. Common share earnings, before sinking and other reserve funds but allowing for the participating feature of the preferred, amounted to $11.64. In 1949 they had amounted to only $4.17. Moreover, the improvement has continued apace in the current year. For the month of January gross revenues climbed some 47.9% and net income increased from $198,111 to $707,968. The road has a very high excess profits tax exemption and the traffic outlook is highly encouraging. Thus results for the full year 1951 should show a substantial gain over the excellent 1950 showing.

Halsey Stuart Group Offers Equip Tr. Ctfs.

Halsey, Stuart & Co. and associates on March 1 made an offering of $6,555,000 2⅝% equipment trust certificates maturing annually March 15, 1952 to 1966, inclusive, at prices to yield from 2% to 2.75%, according to maturity. Issued under the Philadelphia Plan, the certificates are being offered subject to approval of the Interstate Commerce Commission.

The certificates will be secured by new standard-gauge railroad equipment, estimated to cost approximately $8,197,000.

Other members of the offering group are R. W. Pressprich & Co.; Hornblower & Weeks; Merrill Lynch, Pierce, Fenner & Beane; Otis & Co.; Freeman & Company; A. G. Becker & Co.; Wm. E. Pollock & Co., Inc.; Gregory & Son, Inc., and McMaster Hutchinson & Co.

Samuel Englander in NY

Samuel Englander is engaging in a securities business from offices at 310 West 72nd Street, New York City. Mr. Englander was formerly with Marx & Co., Seligman, Lubetkin & Co. and P. J. Steindler & Co. In the past he conducted his own investment business under the name of Englander & Co.

THEN and NOW . . .

Guess Who? If You Can't Turn to Page 29

(A)

(B)

Continued from page 11

Fallacies of Price and Credit Controls

almost completely exhausted, and cannot be of any importance in the present inflationary situation.

Thus, the only way the Federal Reserve could reduce member bank reserves would be by selling government securities. However, in the last six months of 1950, commercial banks sold $3.4 billion of U. S. Government securities in order to add to their reserves. Federal Reserve banks, instead of selling as one would expect, actually purchased $2.4 billion of U. S. Government securities. Thus, the Federal Reserve banks provided the reserves which enabled commercial banks to expand loans and deposits.

To explain this apparent discrepancy requires a digression. At the outbreak of World War II, it was recognized that a substantial increase in the government debt would be required, and that all government securities not sold to non-banking investors would have to be purchased by banks. To induce commercial banks to do so, the Federal Reserve banks agreed to buy any securities offered, at par or even at a figure in excess of par. This removed the risk of market fluctuations for banks which purchased government securities at the time of issuance.

Thus, ever since 1941, the Federal Reserve, through its open market operations, has supported U. S. Government security prices at or above par. During the last year the Federal Reserve has been increasingly reluctant to do so. You know that the Board's unwillingness to commit itself to continue to support Government bond prices at the low interest rates desired by the Treasury has made headlines during recent months.

For our purpose it is not necessary to examine that argument in detail. It revolves about several factors: (1) the Treasury's long pursued easy money policy is obviously inflationary; but it is questionable whether moderately lower bond prices and moderately higher interest rates, alone, would have an important anti-inflationary effect; (2) the Treasury's insistence that the Federal Reserve commit itself to support government bond prices at or above par with the present pattern of interest rates ties the hands of the Federal Reserve completely; but it is not realistic to suppose that the Federal Reserve Board would completely withdraw support from the government bond market in a period of emergency.

Thus, whether at par, or slightly below par, the Federal Reserve would still be supporting the market. Such support—so long as it continued in fact—causes the Federal Reserve to lose control over the creation of reserves by member banks. The Federal debt of $250 billion, and the presence of $62 billion in commercial bank portfolios has created a situation which will remain regardless of whether the Federal Reserve or the Treasury wins the current argument.

The only way in which the Federal Reserve could regain control over the creation of reserves would be by legislation which would limit seriously the ability of commercial banks to sell their government securities. Federal Reserve authorities have proposed to Congress on several occasions since the end of the war, that, in addition to the presently required deposit reserve, banks be required to hold secondary reserves, consisting of government securities, in an amount equal to a certain percentage of outstanding deposits. Although such a tool has been used in Canada, there is reason to believe that such a reserve is not administratively feasible in a banking system with 14,000 banks of many different kinds.

Effectiveness of Selective Credit Controls

Margin Requirements. Since 1934, the Federal Reserve Board has had the power to specify the minimum proportion of equity required of the credit purchaser of securities. On Jan. 17, 1951, these margin requirements were raised from 50 to 75% of the market value. At the end of the year, the amount of stock market borrowings amounted to the relatively modest amount of $698 million.

Since practically all purchases of securities are being made in the current market for cash, these increased margin requirements can be construed only as a psychological gesture to discourage over enthusiastic buying by the uninformed. They are unlikely to have any important influence on the soundness or the level of security prices and on credit expansion in this area.

Regulation W. Beginning in 1941, the Federal Reserve Board placed limitations on the terms of credit extended to consumers. When consumer credit regulation was reimposed in September, 1950, it took the form primarily of requiring higher down payments and shorter maturities on automobiles and other selected durable goods.

In the three months, from the end of September until the end of December, instalment consumer credit outstandings increased only $134 million, as compared with an increase of almost $2.5 billion in the preceding nine months. Advocates of Regulation W point to this as evidence of the effectiveness of such consumer credit controls. There is no doubt that consumer credit has expanded considerably less than would have occurred without regulation. The regulation has eliminated some marginal purchasers who did not have sufficient cash or earning power to meet the higher requirements. However, it is unlikely that Regulation W has had any material effect upon the effective demand for durable goods during the period in question. That has been determined almost entirely by the degree of fear of impending shortages, of higher prices, and of deterioration of quality. Those fears have caused widespread use of savings to obtain goods; the very large volume of liquid assets has prevented the normal effect of higher requirements on demand.

One of the announced purposes of Regulation W, when it was reimposed in September, was to facilitate the transfer of critical raw materials and manpower from peacetime to defense production. Consumer credit controls cannot do this. Experience of the last few months, as well as during World War II, indicates that manufacturers of consumer durable goods will produce as much and as long as they can, since they anticipate an eventual sharp reduction in output. Rapid transfer of civilian facilities to war production can be accomplished only through material allocations and manpower restrictions.

The purchase of continued output through the use of available bank deposits and liquid assets has activated deposits which were lying idle and not being used. This has exactly the same effect inflationwise as an equivalent amount of consumer credit would have had. Practically the only effect of consumer credit controls has been to prevent the very small, almost insignificant, increase in the total money supply, which unrestricted use of consumer credit would have brought about.

The inflationary effect of consumer credit is vastly overrated by the average person. In no single year, from 1929 through 1950, has the increase in consumer credit outstandings amounted to more than 1½% of disposable personal income, that is the total annual purchasing power of consumers after taxes. Even that increase in consumer credit did not result in a commensurate increase in the money supply. For example, during 1950, the outstanding loans of Household Finance Corporation increased $30 million. Only $4,400,000 of that increase, or less than 15%, was represented by an increase in bank loans. The balance represented sale of securities to insurance companies and other non-banking investors and retained earnings. Since that expansion in consumer credit was made possible through the use of savings, it was non-inflationary in effect.

In the period under review, therefore, the regulation of consumer credit has had a negligible effect upon credit expansion of the country, or in fighting inflation.

Regulation X. In October, the Federal Reserve Board first limited the terms of loans to purchase homes, and for construction purposes. So far as I can determine, the demand for, and the production of, homes in recent months have been subject to influences very similar to those we have described for the consumer credit field.

Urban real estate credit has increased more in recent years than consumer credit. Most of the increase has been financed through institutional sources based upon savings, rather than through bank credit expansion. However, the experience with Regulation X has been much too short to determine its effectiveness.

Conclusion

What, then, is our conclusion? General credit controls of the traditional pattern are powerless in the face of the huge federal debt. Selective controls are but straws with which to stem a tidal wave. So the Federal Reserve must grasp at straws, or be remiss.

Price controls "merely conceal and defer" the effects of inflation. In doing so, price controls may disrupt production and create inequities. In applying price controls the government adopted the conception of the general public as to the proper course of action.

Therein lies the great danger. Focusing national attention on price control diverts efforts from an attack on the causes of inflation. (The emphasis on Regulation W and Regulation X last fall likewise diverted attention from the real issues and postponed action.) Thus, there is grave danger that necessary economy in government will not be achieved; appropriate taxes will not be adopted promptly; no realistic government policy to encourage savings will be established; and no progress will be made toward over-all general credit controls.

Two With Allen & Co.

(Special to The Financial Chronicle)

ORLANDO, Fla. — David and Julian Myrick have become affiliated with Allen & Co., 19 South Court Street.

With Waddell & Reed

(Special to The Financial Chronicle)

ORLANDO, Fla. — Alexander Lucas is with Waddell & Reed, Inc.

Joins Goodbody

(Special to The Financial Chronicle)

ST. PETERSBURG, Fla. — Thomas R. Gaither is now associated with Goodbody & Co. He was formerly with A. M. Kidder & Co.

Rhinelander Paper Common Stk. Offered

An underwriting group managed by A. G. Becker & Co. Incorporated on March 6 offered 150,000 shares of Rhinelander Paper Co. common stock at $29.50 per share. Proceeds are to be used to complete a $3,000,000 improvement program on which the company has already spent some $1,300,000 of its own funds, to retire $2,150,000 of long term debt and to increase working funds. This financing will give the company 540,000 shares of outstanding common stock, the only class of stock authorized.

The company specializes in the manufacture of papers of the glassine and greaseproof type, some 90% of its output going to the food industry. The trend toward sale of food products in packaged form has greatly stimulated the demand for papers of this type and the company has repeatedly increased its capacity in the last 10 years. The additions now under way include principally an eighth paper machine, which is expected to be in operation this Fall, and new facilities for the company's power plant which supplies its entire power requirements. The plant is located at Rhinelander, Wis.

In the fiscal year ended Sept. 30, 1950, the company reported sales of $14,752,000 and net income of $1,484,000, equivalent to $3.81 per share on the present stock, or to $2.75 per share on the stock to be outstanding after the present financing. The latest quarterly dividend declaration of 40 cents per share indicates a $1.60 annual rate.

With Samuel Franklin

(Special to The Financial Chronicle)

LOS ANGELES, Calif. — William B. Hitchcock has joined the staff of Samuel B. Franklin & Co., 215 West Seventh Street.

Joins Harris, Upham

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Albert M. DeLaPlante has joined the staff of Harris, Upham & Co., 523 West Sixth Street.

With E. F. Hutton

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Herschel D. Newman is now with E. F. Hutton & Co., 623 South Spring Street.

Wagenseller-Durst Adds

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Sharon C. Moody has been added to the staff of Wagenseller & Durst, Inc., 626 South Spring Street, members of the Los Angeles Stock Exchange.

With Thomson, McKinnon

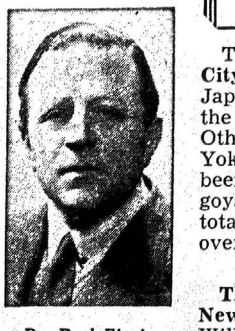
MIAMI BEACH, Fla.—Emmett G. Gibson is with Thomson & McKinnon, 927 Lincoln Road.

Freedom From Want vs. Freedom From Fear

By PAUL EINZIG

Commenting on correspondence in "Chronicle" regarding Dr. Palyi's views on international situation, Dr. Einzig sees a strong preference in both Europe and U. S. for prosperity instead of security. Holds that, despite objections, the material, human labor and financial resources spent on rearmament would be best investment democratic nations could make to save them from defeat and enslavement.

LONDON, Eng.—If the correspondence published recently by the "Commercial and Financial Chronicle," giving its readers' reactions to Dr. Palyi's article, can be regarded as representative of American opinion, then it seems that the attitude of the entire Western world is characterized by a strong preference for prosperity instead of security. On the Continent the governments of Western Europe, having reduced their defenses to a fraction of their prewar strength, are most reluctant to risk a real effort to rearm at the cost of reducing the standard of living. In Britain, many people are complaining because this year 12% of the national income will be spent on arms, compared with 52% at the concluding phase of the war. And it seems that in the United States, too, there are many people only too ready to sacrifice freedom from fear for the sake of freedom from want.



Dr. Paul Einzig

The arguments of those who feel that way are almost identical in France, in Britain and in the United States. They run broadly on the following lines: "The Kremlin is forcing the democratic countries into a rearmament race which leads to a deterioration of their economic strength and a decline of their standard of living, resulting in widespread trouble and discontent that would facilitate Russian conquest through Communist infiltration. We must not fall into this trap. Let us limit our rearmament commitments in order to maintain a sound economy." [This argument is not altogether new. A year or two before the war the late D. M. Mason, Chairman of the Sound Currency Association (the British equivalent of the Economists' National Committee on Monetary Policy), argued in the London "Economist" against unbalancing the British Budget for the sake of rearming. Had his advice been followed Hitler would have been able to take over Britain in a financially sound condition. The fact that German-occupied Britain had a balanced initial budget under the new Nazi regime might have given some satisfaction to a handful of orthodox purists, but not for long, for the occupation costs and indemnities imposed on her by the conqueror would have soon unbalanced her budget.]

Although events have proved D. M. Mason wrong, his argument lives in the minds of the French neutralists, the British pacifists and the American isolationists. The only difference is that they no longer hold out the balanced budget as the supreme aim for the sake of which national defense requirements must be sacrificed; they now argue in favor of maintaining the standard of living, an aim which has a much stronger popular appeal than the balanced budget. It is very tempting to accept the arguments the acceptance of which means a more comfortable existence—for the time being. Nobody can possibly know what Stalin and his associates have in mind. To many people it may appear, therefore, much more convenient to believe that Russia does not really intend to make war. To believe this would save us from the unpleasant necessity of paying higher taxes, working harder, obtaining less goods and services for more money, etc. So it seems to be well worth our while to deceive ourselves and our politicians into believing that the Kremlin does not really mean war, but merely means to frighten us into rearming.

The worst of it is that, whatever may happen, those who are arguing against a supreme rearmament effort will claim to have been right. If there should be no war they will point out triumphantly that, had only their advice been followed the gigantic waste of resources on rearmament could have been avoided. If there should be war they would claim that it was the menace implied by the growing armed strength of the Western powers that induced Moscow to change its mind in favor of war.

In reality, there is a good chance that the progress of our rearmament would affect Moscow's attitude in exactly the opposite sense. The material, human labor and financial resources spent on rearmament would be the best investment the democratic nations could possibly make in existing circumstances. It might save them from a destructive war, or at any rate from defeat and enslavement. It seems probable that, unless by the time Russia has accumulated a considerable stockpile of atom bombs, the democratic Allies are able to muster up an army that stands a chance of resisting the Red Army successfully, they are doomed to be conquered.

Dr. Palyi concedes the need for a limited rearmament which he expects to suffice if confined to a limited zone of defense. What he appears to overlook is that if the United States should abandon Europe to its fate the whole economic resources of the Western world would come under Russian control. Although the Satellite States of Eastern Europe did not surrender their sovereignty willingly, their economic resources and manpower are now at the free disposal of Russia. The same would happen in Western Europe if it were to come under Russian domination. With the aid of the raw materials and man power of Asia and the industrial power of Western Europe, Russia would soon become more than a match for the United States.

Even a country with a much lower standard of living than that of the United States could and should afford to make the sacrifices required by national defense. The loss involved in a defeat by Russia would be so immense that even a substantial reduction of the standard of living must be regarded as a moderate insurance premium against it. And if it should not come to a war the cost of rearmament would not be wasted, any more than is the insurance premium we pay in order to safeguard ourselves against various contingencies which, fortunately, seldom materialize. What matters is that the public should realize that the sacrifices are necessary. In Britain nobody grumbled in 1945 about the use of 52% of the national income for the requirements of national defense, but many people are now grumbling about a sacrifice of less than a quarter of what was willingly given six years ago. This is because the British public is now not sufficiently convinced about the vital necessity of making the sacrifices. Nor is the French public or the American public. And any attempt to weaken their belief in the need for a supreme effort simply increases the psychological burden of the sacrifices.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The new branch of **The National City Bank of New York** at Nagoya, Japan opened on March 5; it is the bank's fourth branch in Japan. Others are at Tokyo, Osaka and Yokohama. J. R. Hummer has been appointed Manager at Nagoya, and this opening brings the total of National City branches overseas to 53.

* * *

The East River Savings Bank of New York City announces that William L. Barton has been appointed Personnel Director and Executive Assistant. A member of the Committee on Employee Relations of the Savings Bank Association of the State of New York, Mr. Barton became associated with the East River in 1941. During World War II he was on active duty as a Lieutenant in the United States Naval Reserve. Miss May R. Dunwoodie, who has been with the Bank since 1932, has been appointed Assistant Personnel Director.

* * *

Under date of Jan. 23, the **Babylon National Bank & Trust Co. of Babylon, N. Y.**, through a stock dividend of $25,000, raised its capital from $125,000 to $150,000.

* * *

William H. Kniffin, President of the **Bank of Rockville Centre Trust Co., at Rockville Centre, Nassau County, N. Y.**, died on Feb. 28. He was 77 years of age. Mr. Kniffin, who was born in Kinston, N. Y., had been in the banking business for 60 years, according to the Brooklyn "Eagle," which states that he began as a clerk in the Rondout Savings Bank in Kingston. From the "Eagle" we also quote:

"He joined the Bank of Rockville Centre as Vice-President in 1917 and became President in 1941. During World War II he headed a committee which sold 90,000 War Bonds valued at $5,000,000.

"Mr. Kniffin was the author of several books on banking used as college textbooks. At one time he taught banking practice at Rutgers and New York Universities. He was former President of the Nassau County Bankers Association and an original sponsor of the Nassau County Chapter, American Institute of Banking."

* * *

Recent improvements in the quarters of the **Union National Bank of Newark, N. J.**, are termed by Wilfred C. Allan, the bank's Executive Vice-President, as the second phase of reorganization and modernization, started when he joined the bank. This is learned from the Newark "Evening News" of Feb. 26, which in part also said:

"The first phase was personnel changes, in which four new officers besides himself, have been installed in executive posts. These have been August A. Horwath, Assistant Vice-President; Charles Dimon and John D. Newhouse, Assistant Cashiers, and Henry M. Edwards, manager of a new public relations department. Mr. Newhouse went to the bank with Mr. Allan in September, but the others started in the last month and their appointments were formally announced today. Mr. Allan is handling Cashier duties in place of E. Michael Donnelly, who requested a leave of absence. Edward J. Slater and William J. Egan continue as Vice-Presidents and Vincent J. Murphy is President."

* * *

In accordance with plans previously noted in these columns (in our Dec. 21 issue, page 2458), the **Passaic-Clifton National Bank & Trust Co. of Clifton, N. J.**, increased its capital, effective February 1, from $2,250,000 to $3,000,000 as the result of a stock dividend of 33⅓%.

* * *

The First National Bank of Toms River, at Toms River, N. J., has increased its capital, effective Jan. 30, from $625,000 to $650,000 by a stock dividend of $25,000.

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The National Bank & Trust Co. of Erie, Pa. (capital $300,000), has been placed in voluntary liquidation, having been absorbed by the **First National Bank of Erie** on Jan. 31.

* * *

The Alexandria National Bank of Alexandria, Va., which on Jan. 9 increased its capital from $300,000 to $300,000 by a stock dividend of $100,000, further increased the amount to $400,000, effective Feb. 5 by the sale of $100,000 of new stock.

* * *

The National Bank of Lima, Ohio, reports a capital of $500,000 (effective Jan. 16), increased from $400,000 by a stock dividend of $100,000.

* * *

The First National Bank of Crawfordsville, Ind., and the **Crawfordsville Trust Co. of Crawfordsville, Ind.**, were consolidated, effective Dec. 30, under the charter of the Trust National Bank and under the title of the **First National Bank and Trust Co.** The initial capital of the consolidated bank is $250,000, the initial surplus $350,000 and initial undivided profits of not less than $150,000. The consolidating institutions each had a capital of $100,000.

* * *

The Board of Directors of the **Federal Reserve Bank of Chicago** announced on Feb. 28 the reappointment of C. S. Young as President and of Ernest C. Harris as First Vice-President of the Bank, each for a term of five years beginning March 1, 1951. These appointments have been approved by the Board of Governors of the Federal Reserve System, it was stated by Franklin J. Lunding, Chairman of the Board of the Bank.

A further announcement on March 2 by the Reserve Bank stated that the directors have elected George W. Mitchell as Vice-President of the Bank, effective April 1. The announcement by C. S. Young, President, added that Mr. Mitchell, presently Senior Economist on leave of absence from the Bank serving in Governor Stevenson's cabinet as Director of Finance of the State of Illinois, will be in charge of the Research Department.

* * *

The Merchants National Bank of Topeka, Kansas, which on Nov. 1 increased its capital from $500,000 to $750,000 by a stock dividend of $250,000 (noted in these columns Nov. 23, page 2000) further enlarged its capital, effective Dec. 21, from $750,000 to $1,000,000 by the sale of $250,000 of new stock.

* * *

Ray M. Gidney, President of the **Federal Reserve Bank of Cleveland**, and William H. Fletcher, First Vice-President of that bank, have been reappointed for five-year terms beginning March 1, 1951, it is announced by George C. Brainard, Chairman of the Board of Directors of the Federal Reserve Bank. Mr. Gidney's affiliation with the Federal Reserve System began with its inception in 1914 when he became Secretary to a member of its Board of Governors in Washington, D. C. In 1917 he joined the Federal Reserve Bank of New York and was Vice-President of that institution from 1936 until Sept. 16, 1944, when he was appointed President of the Cleveland Reserve Bank. Mr. Fletcher joined the bank 33 years ago after eight years as an Assistant and National Bank Examiner. He was chief Examiner and Assistant Federal Reserve Agent previous to his promotion to Vice-President in 1936. He was promoted to First Vice-President on Dec. 1, 1945.

* * *

The directors of the **First National Bank in St. Louis** on Feb. 27 elected Mr. Major B. Einstein a Vice-President, it was announced by William A. McDonnell, President. He will begin his duties with the bank on March 15. Mr. Einstein is associated with the investment firm of Merrill Lynch, Pierce, Fenner & Beane, and was formerly a general partner of Waldheim, Platt & Co., investment brokers. He has been President of the Jewish Hospital board since 1947 and is a member of the board of the St. Louis Chapter of the American Red Cross; he was Chairman of the Special Gifts Division of the 1944 Red Cross Campaign.

* * *

The St. Louis County National Bank of Clayton, Mo., has a capital of $1,000,000, increased as of Jan. 29 from $800,000, by the sale of $200,000 of new stock.

* * *

On Feb. 16 John W. Clay, Hayes Noel and Wendell Phillips were advanced to the positions of Vice-Presidents of the **Third National Bank of Nashville, Tenn.**, by action of the board of directors. The promotions were announced by Sam M. Fleming President. All three of the new Vice-Presidents joined the bank in June of 1937 upon graduation from Vanderbilt University, and their careers have followed the same course of advancement through the various departments of the bank.

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As the result of the sale of $500,000 of new stock, the capital of the **Fulton National Bank of Atlanta, Ga.**, was increased as of Jan. 2 from $1,500,000 to $2,000,000.

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An increase in the capital of the **State National Bank of El Paso, Texas**, from $1,200,000 to $1,500,000 by a stock dividend of $300,000 became effective Dec. 19.

* * *

The $400,000 capital of the **Lubbock National Bank of Lubbock, Texas**, was enlarged Jan. 4 to the extent of $600,000; $500,000 of the increase was brought about by a stock dividend of that amount, while the additional $100,000 resulted from the sale of new stock.

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A stock dividend of $1,000,000 has enlarged the capital of the **South Texas National Bank of Houston, Texas,** from $2,000,000 to $3,000,000; the new capital became effective on Jan. 16.

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The boards of directors of the **Federal Reserve Banks of Atlanta, Dallas, and St. Louis** have elected R. R. Gilbert, President of the Federal Reserve Bank of Dallas, as a representative of the Federal Reserve Banks on the Federal Open Market Committee for the year beginning March 1. Mr. Gilbert, who has been serving as an alternate member of the Committee during the past year, has participated in its two most recent meetings. He succeeds Chester C. Davis who resigned on Feb. 1, 1951, as President of the Federal Reserve Bank of St. Louis and as a member of the Federal Open Market Committee to accept another position.

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Effective Feb. 14 the **Denver National Bank of Denver, Colo.** increased its capital from $1,260,000 to $2,000,000. Part of the increase was brought about through a stock dividend of $252,000, and the additional $488,000 resulted from the sale of new stock.

* * *

Lauren H. Conley has been elected to the post of Assistant Vice-President and A. T. Hartwell, Jr., to the post of Assistant Trust Officer of **Union Bank & Trust Co. of Los Angeles, Cal.** After six years as investment analyst with another Los Angeles bank, Mr. Conley became associated with Union Bank & Trust Co. in 1935 as Manager of the investment analysis department. In 1939 he was named Manager of the investment department, in which capacity he continues. Mr. Conley recently celebrated his 15th anniversary with the bank. Mr. Hartwell served three years with the Navy in World War II and became a Lieutenant in the supply corps. His first assignment with Union Bank & Trust Co. in 1946 was in the bond and investments department; he moved to the trust department in 1947, and two years later was named Trust Administrator.

* * *

The **Anglo California National Bank of San Francisco** plans to increase its capital stock from $15,000,000 to $20,000,000 and its surplus from $12,000,000 to $14,500,000, it was made known on Feb. 13. According to an announcement by Allard A. Calkins, President, the directors on that day approved submission of the proposal to the shareholders at a special meeting March 9. At the same time, Mr. Calkins announced that the directors have declared a dividend of 90 cents per share for the six-months period commencing April 1, 1951 and ending Sept. 30, 1951, payable in two quarterly dividends of 45 cents per share each to all shareholders of record (both of the present and the new shares) as of the close of business on June 20 and Sept. 20, 1951, respectively. He also stated that "under the proposed plan, the additional capital would be derived from the sale of 250,000 additional shares, of the par value of $20 each, at a price of $30 per share. Shareholders of record at the close of business on March 9 would receive rights to purchase one-third of a share for each share of the bank's stock held on that date. Upon the issuance of the additional shares, capital stock would amount to $20,000,000, surplus would be $14,500,000, and estimated undivided profits and unallocated reserves would exceed $6,000,000, thus bringing total capital funds to more than $40,500,000."

* * *

At the annual meeting of the **United States National Bank of Portland, Ore.,** three staff members were elected to Vice-Presidencies and five others were named Assistant Cashiers. New Vice-Presidents are David E. Abram, Walter Johannsen and Fred G. Johnson. All were formerly Assistant Vice-Presidents. Mr. Abram joined the bank in 1944. He was named an Assistant Vice-President in 1949. Mr. Johannsen has been in the bank's foreign department for 27 years and has been acting head of that department since the retirement of L. E. Williams last October. Mr. Johnson started with the bank in 1930. He was named an Assistant Vice-President in 1936 and became head of the bank's investment department in 1940. New Assistant Cashiers include Albert E. Bontty, John J. Breiling, George Buchanan, C. H. Labbe, and Franz Ridgway.

Opposes Use of Emergency Banking Act of 1933

Dr. Walter E. Spahr, Executive Vice-President of Economists' National Committee on Monetary Policy, points out such a move would further destroy independence of individual banks.

Repeal of features of the Emergency Banking Act which were supposed to apply to bank closings and openings in 1933 in order to prevent their use to give Treasury domination over member banks of the Federal Reserve System, was urged on March 2 in a statement by Dr. Walter E. Spahr, Executive Vice-President of the Economists' National Committee on Monetary Policy. Resort to the Trading With The Enemy Act to bring "other institutions" under the control of the Treasury was also opposed by Dr. Spahr on the ground that trading with the enemy is one thing, and proper procedure in banking is something else.

Walter E. Spahr

"On Feb. 1," Dr. Spahr states, "the question of the maintenance of the proper independence of the Federal Reserve System from Treasury domination was brought more sharply to public attention when the President called the Federal Open Market Committee to the White House.

"On Feb. 26, the question of the independence of the member banks of the Federal Reserve System and of 'institutions other than member banks' was likewise given a new importance. On that date, the President asked some Federal Reserve, Treasury, and other officials to consider the necessity or feasibility of using the Emergency Banking Act of 1933 and the Trading With The Enemy Act of 1917, as amended, to put all member banks of the Federal Reserve System and 'institutions other than member banks' under the direct control of the Treasury.

"The Emergency Banking Act of March 9, 1933, was supposedly applicable to the exigencies of the bank closings and openings of 1933, and at least the provisions of Section 4, which the President is proposing to use, were to be terminated when the President, by proclamation, declared the emergency to be at an end.

"Unfortunately, the President has never declared that emergency of 1933, as referred to in that Act, to be at an end.

"Now he suggests that the powers granted the Secretary of the Treasury under that Act — powers which were designed for very different circumstances — be employed to put member banks and other institutions under the control of the Secretary of the Treasury.

"If the laws of the United States are to be administered properly, the President should declare that emergency, and Section 4 of that law of March 9, 1933, at an end. If he fails to do that, then Congress should act. The whole law of March 9, 1933, should be repealed. It should not be used to put member banks under the control of the Secretary of the Treasury.

"Nor should the Trading With The Enemy Act be employed for the purpose of bringing 'other institutions' under the control of the Treasury. Trading with the enemy is one thing; proper procedure in banking is something else.

"It would be unfortunate and regrettable if these statutes, which should have been repealed, should be employed for the purpose of making member banks and 'other institutions' subservient to the United States Treasury.

"Although the President's statement of Feb. 26 ostensibly deals with 'government securities and credit policies,' and public discussion of it seems to be focused principally on the independence of the Federal Reserve System versus Treasury domination of it, the statement is much broader in scope than popular discussion of it would appear to indicate. That statement, when combined with the President's recommendations in the Economic Report of the President, Jan. 12, opens such a wide variety of doors for government control of private enterprise that there is urgent need for an unusually careful scrutiny by Congress of the proposals involved."

Truslow to Be Feted By Curb Exchange

John J. Mann, board chairman of the New York Curb Exchange, has announced that the members of the exchange would tender a dinner in honor of Francis Adams Truslow, retiring president of the Curb, on March 13 in the Sert Room of the Waldorf-Astoria Hotel.

Mr. Truslow will relinquish his office to Mr. Edward T. McCormick, who will retire as a member of the Securities and Exchange Commission on April 1. The Curb president will leave for South America in the near future on an assignment from the United States Department of State.

Mr. Edward A. O'Brien, chairman of the dinner committee, announced that an assemblage of guests, including government and private leaders in finance and the securities industry would be present at the dinner to join the exchange members in honoring Mr. Truslow.

In addition to Mr. Mann, committee members include Edward C. Werle, former board chairman, James R. Dyer, Raymond A. McMann, Charles Leichner, Jacob Feinstein, Alexander R. Piper, Jr. and Francis X Gaudino of the exchange staff.

E. D. Fox Co. Admits

E. D. Fox & Company, 61 Broadway, New York City, members of the New York Stock Exchange, announce that Elliott D. Fox, Jr., has been admitted to the firm as a general partner.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The First of Michigan Corporation, Detroit, Mich., one of the prominent midwest investment concerns, has issued a report on Detroit Banks covering the statistics and highlights of 1950 operations.

With the exception of New York City banks and several other large banking institutions, the market for bank shares has, to a large extent, been restricted to the locality of the institutions' operations. The increasing importance of banks in areas removed from the principal monetary centers and the improvement shown in their earnings have been among the more significant developments in this field in the past decade.

To serve local investors and provide information on investment opportunities in various bank stocks, investment companies in the different areas have been issuing reports on banking results in the various sections which they serve. The Detroit bank review for 1950 is one of these reports and as such provides useful information on bank stocks in Detroit.

The comparison presents statistics covering the seven principal banks operating in the Detroit area. In the following tabulation, we have summarized pertinent figures for the five largest banks in the report. Selected data on capitalizations, earnings, price ranges, dividends, assets, and deposits taken from the First of Michigan Corporation review are shown.

	National Bank of Detroit	The Detroit Bank	Manufrs. National Bank	Common-wealth Bank	Industr. National Bank
Capital, surplus and reserves (000)	$66,408	$27,098	$19,767	$13,863	$6,091
Number of common shares__(000)	1,500	300	100	90	150
Par value	$10.00	$20.00	$50.00	$50.00	$10.00
Book value, Dec. 31, 1950	$44.27	$81.99	$197.67	$154.02	$40.60
Earnings per common share—					
Operating earnings, 1950	$4.43	$9.71	$17.53	$16.25	$4.81
Operating earnings, 1949	3.82	8.20	16.66	15.40	4.48
Total earnings, 1950	4.90	10.16	19.29	16.02	5.11
Total earnings, 1949	4.26	8.25	18.55	15.30	4.81
Common stock data—					
Price range, 1950	43¼–34½	69½–63¾	168–149	142–130	38–33½
Current annual dividend rate	$2.00	$3.00	$7.00	$5.00	$1.60
% of oper. earns. paid in divs.	38.4%	30.9%	39.9%	30.8%	33.3%
Principal assets and liabs. (000)—					
Investments	$827,101	$341,712	$292,082	$166,010	$37,784
Loans, Dec. 31, 1950	317,353	157,068	99,435	47,055	48,282
Loans, Dec. 31, 1949	253,247	121,724	74,447	36,059	47,704
% increase in loans	25.3%	29.0%	33.6%	30.5%	1.2%
Total resources	$1,567,944	$628,640	$538,499	$264,687	$110,148
Deposits (000)—					
Total deposits at Dec. 31, 1950	$1,487,070	$598,462	$515,710	$248,615	$99,895
Total deposits at Dec. 31, 1949	1,293,841	551,680	471,338	227,216	94,097
Deposits oth. than U.S., 12-31-50	1,412,734	589,068	485,895	245,979	97,616
Deposits oth. than U.S., 12-31-49	1,222,775	540,525	418,226	224,576	91,667
Percent increase	15.5%	9.0%	16.2%	9.5%	6.5%
Ratios—					
Cash and govts. to total deposits	74.8%	71.6%	81.0%	81.8%	59.0%
Capital funds to total deposits	1–22	1–22	1–26	1–18	1–16

Operating and total earnings of all the above five banks showed a substantial increase last year. Considering the increases in operating costs and taxes, the results are rather favorable.

The only capital change which occurred in 1950 was the sale of 50,000 shares of the Detroit Bank through the issuance of rights to stockholders. The per share figures for 1949 have been adjusted to the present capitalization.

The percentage of earnings being paid out in dividends is conservative, retained income being used to augment capital funds. The average pay-out amounts to approximately 35% of the operating earnings. This margin should permit the continuance of present rates with modest increases eventually being made.

The substantial increase in loans made by all the banks last year should enable them to offset to a large extent the increase in costs expected this year and report a favorable level of earnings.

Detroit banks are in an advantageous location in the present economy and will undoubtedly continue to show gains in operations relative to the nation as a whole.

Two With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo.—Anna P. Gibbons and Woodrow W. Hillare now affiliated with Waddell & Reed, Inc., 1012 Baltimore Ave.

Cohu & Co. Adds E. J. Stone to Staff

Cohu & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, announce that Edward J. Stone has become associated with the firm in its institutional department.

Mabon Co. to Admit

On March 15, Peter F. Dunigan will acquire the New York Stock Exchange membership of the late Francis B. Thorne, and will become a partner in the Exchange firm of Mabon & Co., 115 Broadway, New York City.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Henry M. Smith is now associated with Waddell & Reed, Inc., 408 Olive Street. He was formerly with Barrett Herrick & Co., Inc.

Canadian Securities

By WILLIAM J. McKAY

The bitter fruits of confusion in so many fields south of the border cannot fail to bring into sharper relief the less complex Canadian situation with its relatively more promising economic growth potential. In view of the intimate intermeshing of the U.S.-Canadian economies the Dominion perforce cannot be entirely immune from economic influences from the south, but at its present stage of dynamic development it is far less vulnerable to inflationary pressures than any other country in the world.

For this reason it is to be hoped that the Canadian monetary authorities will not follow too closely the policies recently adopted here with regard to the management of the public debt and the level of interest rates. In this age of managed money and in the absence of the previous automatic control of a working gold standard, absolute confidence in an accepted level of rates is both essential and desirable. In times of emergency such confidence is all the more indispensable, and once destroyed cannot readily be restored.

In the Canadian case unrestrained inflation can be more easily curbed than is possible in the vastly more complicated U. S. economy. Moreover, in view of the relatively few banks and lending institutions, the Canadian monetary authorities can exercise their will without recourse to a complicated system of regulations. It is not necessary, therefore, for Canada to have resort to drastic manipulation of the delicate system of interest rates in order to combat inflationary pressures. The time will surely come when both here and north of the border, confidence in an established pattern of rates that was created with so much care during the war, will again have to be fostered.

As in the field of fiscal and financial policy the task of economic management in Canada today is distinctly less onerous than in this country. Indeed, the very problems that now exercise her great southern neighbor are favorable developments as far as Canada is concerned. The record of Canadian history demonstrates very clearly that the eras of greatest Canadian development coincide with the periods when the United States has reached the end of self-sufficiency in certain items.

At the beginning of the century Canada's vast empty prairies attracted a wave of immigrants from this country when free lands here were fast disappearing. Similarly when native forests became inadequate to furnish growing domestic demands, impetus was given to the establishment of the great lumber and paper industries of the Dominion. Today, when U. S. domestic production of base-metals, and even iron and oil is proving insufficient to supply the ever-mounting demands of industry, the tremendous undeveloped Canadian resources of these items are again called upon. Also with the insatiable demand for cheap power, Canada's almost limitless sources of hydro-electric power cannot fail to attract to the Dominion industries that can no longer obtain competitively cheap power south of the border.

In view of the increasing problem of shortages of many indispensable industrial requirements in this country and their ready availability north of the border there is little doubt that Canada is now on the threshold of her greatest era of economic development. The international situation in itself provides sufficient reason for attempting to fill U. S. demands from Canadian sources of supply that are as safe militarily as those in the United States. For this compelling reason opposition here to collaboration with the Dominion in the construction of the St. Lawrence Seaway and the development of Canada's aluminum industry can no longer be justified.

Thus another difficult period for this country is likely once again to turn to the advantage of Canada.

During the week interest in the external section of the bond market was concentrated on the new $50 million Quebec issue which promised to go well despite current uncertainties in U. S. bond markets. The internals were marked down in sympathy with the decline in Canada, but the short-term issues still met with steady investment demand. Stocks after earlier attempts to rally finally moved generally lower although a few Western oil and base-metal issues resisted the downward trend.

Midwest Exch. Members

CHICAGO, Ill. — The Board of Governors of the Midwest Stock Exchange elected to membership the following:

B. Franklin Houston, Dallas Union Securities Co., Dallas, Texas; Elmar A. Dittmar, Dittmar & Co., San Antonio, Texas; Erwin H. Eisen, Lucas, Eisen & Waeckerle, Inc., Kansas City, Missouri.

New Officers Chosen by Analysts Societies


Pierre R. Bretey


R. W. Lambourne


Kennard Woodworth

Pierre R. Bretey, analyst, Baker, Weeks & Harden, was elected President of The National Federation of Financial Analysts Societies at the annual meeting of the Federation. Richard W. Lambourne, partner in the investment counsel firm of Dodge & Cox, San Francisco, was elected Executive Vice-President; and Kennard Woodworth, Vice-President of Eaton & Howard, Boston, was elected Secretary-Treasurer.

Continued from page 4

A Stock Market Forecast From the Technical Approach

reached its peak in November, 1936. In 1946, the market reached its high in May while **General Motors** made its top in January. Thus, if **General Motors** fails to penetrate the high of 54¾ of more than five months ago, it may mean, if past precedent is followed, that the market is near an important top.

American Can has acted similarly to **General Motors** in the past. This stock reached its high of 120 in June, 1950, when the averages were at 229. Despite the fact that the averages have advanced almost thirty points since that time, **American Can** has been unable to reach within ten points of its former high. On the other side of the picture, the steel group and **National Lead** are issues that are usually late in reaching their highs. At times, they reach their peaks simultaneously with the general market, and other times after the market has topped out. The steels and **National Lead** have been very strong recently.

If these technical indications, and others which I have not time to mention, prove substantially correct and the market is close to at least an intermediate top, how far can it react? This is not an easy question to answer at this time because distributional patterns have not yet been completed. The distributional pattern—when, as and if it is formed—may take place around the recent highs, or at lower levels. However, until the pattern is formed, no definite downside objectives are available. When the market reached oversold territory late in 1950, it appeared that the broad 236-220 area might be a distributional top. This area indicated a possible downside objective of 210-195, but the upside penetration of the three month 236-220 range has destroyed this objective, and the 236-220 area is now a support level.

However, as a rough guide, and subject to confirmation by the distributional pattern, I would expect the first correction to retrace about half of the advance from the 220 low of December to the recent highs. This would be an initial decline to about 240-236, followed by an attempt at new highs. If technical indications of the moment should prevail, this attempt will fail and the averages will retrace about half of the longer term advance from the June 1949 low of 160. This would bring the industrial average to a low somewhere in the 210-220 area. This should be reached late in 1951, or early in 1952, and should be followed by a consolidation period before the fifth or most dynamic phase of the long-term cycle starts.

Obviously, as always, this general pattern may not hold for all individual groups and issues. While many groups may follow the broad outline, others will act better than the market, and still others, worse. Before attempting to evaluate group patterns, let us diverge for a moment, and discuss a related topic.

The Institutional Investors

Does the increased demand for common stocks by institutional investors and pension funds inject a new element into the technical pattern? Last July, administrators of trust funds in New York State were empowered to invest 35% of such funds in common stocks in accordance with the "prudent man" concept. There is now a bill in the New York State Legislature to allow New York insurance companies to invest 5% of their funds in common stocks. Undoubtedly, there will be additional instances of relaxation of present laws to allow investment in better grade equities. Will this result in a decreasing supply of better grade common equities? Does it mean that the market cannot suffer any severe decline because of the huge potential demand? To reason this way is somewhat reminiscent of 1929 when it was said that the formation of the many new investment trusts would mean that the huge buying power of these newly formed trusts would hold up prices indefinitely.

The situation today is quite different, of course, but in my opinion, it does not guarantee a one-way market. In the first place, the demand from these sources will be concentrated on a relatively few issues, possibly 15% of listed stocks. I don't know of any such funds for example, that will buy **Willys-Overland**, or **Missouri-Kansas-Texas** common. This could be used as an argument for the scarcity value of high grade stocks because of the concentrated demand. However, that brings up the second point. The administrators of these funds are sophisticated, intelligent buyers — much more so than in 1929. They have the power to place certain specified percentages of funds in common equities, but they are not forced to do so. They will be buyers when conditions warrant, but conceivably will also be sellers under other conditions. With the possible exception of pension funds, many of which operate on a type of "dollar averaging," these various sources will not always be on the buying side of the market. Open-end investment trusts, because of competitive yields, may find it desirable to keep pretty close to a fully invested position, but their portfolios are usually concentrated in defensive equities at such times when the market appears high. The various "formula plan" funds will also supply stock as the market advances in addition to their function of buying in a declining phase. Another source of supply is, of course, large blocks of securities in large estates. Because of taxes, this former important source of buying power is disappearing, and is being replaced by small investors and large institutional sources. Large estates, however, will continue to be a factor of supply for some time to come. Briefly, while I believe the increased potential demand for high grade stocks will result in a stabilized market for this form of equity, I do not believe it will result in a continuous bull market.

The Individual Groups

Let us return to the outlook for individual groups. Perhaps the best method would be to review each group in alphabetical order, but before we do so, let us see what the outlook was in 1948, during the 1946-1949 accumulative phase, and how it has changed today. I already quoted my 1948 forecast in which the technical patterns suggested that the high-grade issues showed the best appreciation possibilities. How about groups? In earlier 1948, I said:

"As for individual groups, I believe that rails represent an outstanding purchase. Their technical action has been excellent. As for the industrials — very roughly — I prefer the durable goods or heavy industry shares above the consumer goods or soft goods stocks. I like steels, machinery equipment, automobiles, agricultural implements, oils, household appliances, chemicals, etc. This type of issue was relatively backward in the 1942-1946 advance. That advance was led by the luxury type stocks, such as liquors, moving pictures, department stores. This type of company had little or no competition for the consumer's dollar. No matter how prosperous things may be over the next few years, their record sales of the war period will not be duplicated. They will undoubtedly move ahead too, but I believe the heavy industry shares will show greater price appreciation."

To proceed alphabetically, the first group is **agricultural machinery**. Until this year, the farm implement group has been relatively backward and the group average had been unable to penetrate the 1946 high. Recently, the group has been stronger. The longer term objectives have not yet been reached, but some prior consolidation is needed.

Aircraft manufacturing stocks seem high enough, and are a sale. The upside objectives for most individual issues have been reached. The group average has rallied to approximately the same level reached in 1940 and 1946. There is not much chance for further appreciation. The price performance in World War II was mediocre, and I would expect the same pattern to follow today.

The **airlines** were my favorite group for price appreciation in 1950, and I still continue to believe they will work higher despite their recent rise. Strong base patterns were built up in the 1947-1950 period, and they have had only half of their potential advance. As an example, **Eastern Airlines** has rallied 10 points from 14 to 24. The pattern suggests an ultimate 34, or a possible further 10 point appreciation. Some consolidation may be required, but the group appears attractive on all minor price declines.

The issues in the **automobile groups**—particularly the leaders

— have probably reached their highs and will require an extended period of accumulation. **General Motors** has ranged in the 54-44 area for five months. A decline below this area would indicate a return to the mid 30's—to be followed by a long period of reaccumulation similar to the three-year range between 25 and 35 in 1946-1949.

The **auto accessory group** has shown relatively poor action, and is still below 1946 highs. I do not expect this group to do much more than consolidate at lower levels for the next year or so.

I like the **building supply** group. Issues in this group are forming a very strong base pattern. They may not do too much marketwise over the near term, but eventually they indicate substantially higher levels. They could be one of the market leaders of the 1952-1957 rise.

The **chemicals** have, in most cases, reached the upside objective indicated by the wide base areas formed in 1946-1949. This group has appreciated almost 100% from the 1949 lows, and a long period of consolidation and reaccumulation appears needed. The new base area will be formed at lower levels.

The **coal** group reached its high in 1948 and declined sharply in 1949 and 1950. Most of its loss has been regained since Korea. It appears high enough, and the group offers little in further price appreciation.

The **container** group must be divided into its various components. The metal division is selling considerably below both 1946 and 1950 highs. Stocks appear to be in the process of reaccumulation and should be bought on weakness. Although they appear to be slow, the glass division could work moderately higher after some consolidation. The paper container group appears high enough for the moment. I would expect the container group to be relatively stable over the intermediate term at moderately lower levels.

The **drug** group is selling considerably below the 1946 highs and is much less vulnerable than many other groups. It may be in a long-term accumulation area. It is a good defensive group with longer term possibilities.

The **electrical equipment** group has rallied back to approximately the 1946 highs. The nearer term objectives have been reached, but the longer term objectives still indicate higher levels. The group appears high enough at the moment, but should show above action average in any general market decline.

Finance companies have reacted quite sharply since Korea, but at recent lows, they were at strong support levels. Regardless of popular opinion, this group appears reasonably priced and should be bought on price dips. It might be of interest to observe the price pattern of this group in the war period of 1942 to 1945. During this period, the finance group advanced over 100%, and greatly outperformed such war groups as aircrafts, metals and steels.

The **food** group has a relatively mediocre and uninteresting pattern, both in the store field, and in the wholesale field. There are a few exceptions.

Household furnishings also present an uninteresting and incomplete pattern, and more work appears needed.

Investment companies will, of course, follow the pattern of the general market, and should be available at lower levels. The low priced leverage issues might have a final fling before the market turns down.

The **machinery** group is composed of many different types of companies so it is difficult to predict a general pattern. There are a great many individual issues in this group that have attractive technical patterns, so I am classifying the group as one that should be bought on minor price declines.

Metals and mining are also rather a diverse group. In the main I would say that the technical patterns suggest that these issues are no longer on the bargain counter and some decline and consolidation is needed.

The **natural gas** group reacted quite sharply after Korea, but at the July lows were at strong support levels. I believe this group is forming a reaccumulation area. The action may be slow, but purchases should be made on weakness. This should be a relatively stable group.

If **I. B. M.** is eliminated from the **office equipment** group, the rest of the issues have done little marketwise for a long period. Substantial base patterns have been formed, and the group occupies a good defensive position. I would suggest buying on declines in anticipation of above average action and long-term price appreciation.

The **oil and petroleum** issues have been recent favorites. However, most individual issues have reached their upside objectives and further appreciation possibilities appear limited. The sharp advance has placed this group in a vulnerable position.

The **paper group** formed wide accumulation areas during 1946-1949 and the upside breakout of this range resulted in almost 150% advance in the group average. Most upside objectives have been reached and the group appears in need of a lengthy consolidation period.

Printing and publishing stocks have been backward, but they have formed fairly good base patterns. The group appears attractive on declines. The issues are not vulnerable and offer moderate appreciation possibilities over the longer term.

The **radio and television** group has undergone some wild gyrations in the past two years. The technical pattern suggests reaccumulation and higher levels after an extended trading range. **Radio Corporation** can be used as an example. It rose from 10 in July, 1949 to reach a high of 23 before Korea. The July, 1950, low was 15, and the stock has held in the 15-19 range since then. I expect further time to be spent in that area followed by an upside breakout and new highs. I would not buy on strength, but in the lower part of the 15-19 area. The same applies to other issues in the group.

The **rails** have been the market leaders—particularly since Korea —and a large public following has been acquired. The advance has been rapid and many issues have reached their upside objectives. Some consolidation and the formation of a new pattern appears needed. However, any decline should be less percentagewise than in the industrials. The average has risen from 40 in June, 1949, to over 90. Strong support should be met at 70 over the next year or so. Selection is important in this group.

The **railroad equipment** group shows many diverse patterns. Some individual issues appear attractive on declines, while there are mediocre patterns in others.

The **retail trade** group has built up good base patterns and the upside objectives have not yet been reached. I would buy on all minor price dips.

The **shipping and shipbuilding** group appears to be in a slow uptrend, and further moderate price appreciation is indicated.

The **steel** group, after making a new low in June, 1949, rallied sharply to move above the 1946 highs. In most cases, the upside objectives of the 1946-1949 base have been reached. A reaction of about 25% and some further consolidation appears needed.

Sugar stocks have been in a mild uptrend. However, individual companies show diverse patterns and selection is important. Some correction is needed.

Despite the very sharp rise, the long-term objectives of some **textile** issues have not yet been reached. Correction appears needed but individual issues in this group should be watched closely during periods of market weakness.

Theatre and motion picture stocks have held in a narrow range near the lows for over three years. The long-term upside potentials are very large percentagewise, and the group appears oversold. A very interesting appreciation opportunity is possible for the longer term.

Tire and rubber stocks have advanced sharply and would appear in need of consolidation. Some issues in the group appear behind the market and offer buying opportunities during periods of market weakness.

Tobacco issues are selling close to five year lows and appear to be in a good defensive position. Appreciation possibilities, however, are limited.

Conclusion

In conclusion, I believe the following:—

In 1948, the prediction that the averages would reach 450 — or even 250—seemed fantastic. Now that 250 has been reached, there is a more or less general feeling that the advance will continue indefinitely. Personally, I believe that at least a 25% correction, and a lengthy consolidation is needed first. The market is overbought at the present time. It must again become oversold before the advance to 450 — or even higher—is attained.

Shearson, Hammill Admit H. C. Ballou

Shearson, Hammill & Co., 14 Wall Street, New York City, members of the principal stock and commodity exchanges, announce that H. Cushman Ballou has become associated with the firm in its main New York office.

Mr. Ballou was formerly manager of the institutional department for Hayden, Stone & Co. and prior thereto was with Dominick & Dominick.

Northern Trust Adds Byram in New York

The Northern Trust Company of Chicago announced that John P. Byram has become associated with it in the Municipal Bond Department of its New York City office, 15 Broad Street.

Notes Declining Export Surplus Trend

Secretary Snyder, as Chairman of the National Advisory Council on International Monetary and Financial Problems, reports shift of our trade with raw material producing countries as result of increased demand by U. S. for inventory replacements and stockpiling.

Secretary John W. Snyder, as Chairman of the National Advisory Council on International Monetary and Financial Problems, transmitted to the President and to the Congress on March 1 a report of the Council's activities during the six months ending Sept. 30, 1950.

John W. Snyder

The Council reviews changes in the balance - of - payments position of the United States in the postwar period since June 30, 1945. For the five-year period ending June 30, 1950, the surplus of U. S. exports of goods and services over imports amounted to $36,800,000,000, with the large-scale foreign aid programs of this country accounting for about three-fourths of this. The Council noted that the surplus has been declining rather steadily since the peak year of 1947. In this connection, it is noted that the position of raw material producing countries has shifted as a result of the increased demand on the part of the United States for replacement of inventories, stockpiling, and increased raw material consumption.

A comparison of foreign assistance extended in the war and postwar periods shows that net wartime foreign aid amounted to $41,000,000,000, whereas net foreign aid extended in the postwar period up to June 30, 1950, aggregated $26,200,000,000.

The report stresses the increasing importance of the Mutual Defense Assistance Program in foreign aid. For example, $5,400,000,000, or more than 60% of the total foreign aid for fiscal 1951 made available by the Congress, is provided under the Mutual Defense Assistance Program. In contrast, new funds available for obligation to continue the European Recovery Program for fiscal 1951 were about $2,600,000,000, as against $3,600,000,000 obligated for fiscal 1950, and $6,000,000,000 for the period April, 1948-June, 1949. Under the European Recovery Program, the report reviews the use of local currency counterpart funds.

New credits extended by the Export-Import Bank during the period totaled almost $400,000,000 —more than in any corresponding six months' period since 1946, the report states. These credits were principally for economic development, the production of strategic and critical materials, and the facilitation of United States trade. The principal countries receiving such aid were Mexico, Argentina, Brazil, Peru, Saudi Arabia, Iran, and Yugoslavia.

The report reviews the more important actions of the International Monetary Fund on exchange rates, the role of Fund missions, and the lending activities of the International Bank which, during the period, granted 10 loans aggregating $229,000,000 to eight of its member countries. Five of these countries had not previously borrowed from the Bank (Australia, Uruguay, Turkey, Iraq, and Ethiopia). The Council noted that 12 additional countries took action toward making available for lending all or part of the 18% portion of their capital subscriptions paid in local currencies. Steps were taken in Mexico and France to broaden the market for the Bank's securities.

As in the past, the report is accompanied by comprehensive statistics on various aspects of U. S. Government foreign assistance in the postwar period, as well as on gold and short-term dollar resources of foreign countries and gold transactions between the United States and foreign countries.

Did You GUESS?

Here's the 1951 version of the two angels appearing on page 24.

Joaquin Titolo

P. C. Kullman, Jr.

(A) Joaquin Titolo, Harris, Upham & Co., 14 Wall Street, New York 5, N. Y.

(B) Philip C. Kullman, Jr., John J. O'Kane, Jr. & Co., 42 Broadway, New York 4, N. Y.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW RORK

Security Traders Association of New York (STANY) Bowling League standings as of March 2, are as follows:

TEAM	Won	Lost
Donadio (Capt.), Demaye, O'Connor, Whiting, Workmeister	8	4
Burian (Capt.), Manson, King, Voccoli, G. Montanyne	8	4
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	7	5
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	7	5
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	6	6
Krisam (Capt.), Bradley, Montanyne, Weissman, Gannon	6	6
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	6	6
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	5	7
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	5	7
Serlen (Capt.), Gersten, Gold, Krumholz, Young	5	7
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	5	7
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	4	8

Vin Lytle (Shields & Co.) and Bill O'Connor (Fitzgerald & Co.) had high games of 208.

Tom Greenberg (C. E. Unterberg & Co.) had high series of 513.

FIC Banks Place Debs.

A successful offering of an issue of debentures of Federal Intermediate Credit Banks was made Feb. 15 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $118,445,000 of 1.875% consolidated debentures dated March 1, 1951 and due Dec. 3, 1951. The issue was placed at par.

Of the proceeds, $70,205,000 was used to retire a like amount of debentures maturing March 1, 1951, and $48,240,000 was "new money."

As of the close of business March 1, 1951, the total amount of debentures outstanding amounted to $605,040,000.

Securities Salesman's Corner

By JOHN DUTTON

Advertising in the Retail Securities Business

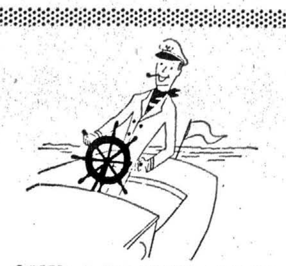
ARTICLE No. 5

Does it pay to do institutional advertising? The answer is, do you expect to stay in business—if you do, of course institutional advertising pays. Can you obtain a profit on an ad, or a series of ads, that you can measure in dollars and cents? Even this is possible; but more often the long-range results of a sound advertising campaign can only be measured in the growth of your business—in the good will you have established. All the promises in the world will not build up a business, but honest advertising plus performance will do it. These are the things which cannot be measured in dollars and cents—but they are the basic foundation stones of every successful enterprise — the profit takes care of itself.

What makes people believe in you? Isn't it the continued advocation of sound and successful policies? What makes any person or any business organization stand out from the crowd? Isn't it because they are willing to tell people the truth about their business in a language that can be readily understood? It takes courage to buck the trend, but if you know that you are right the rewards are great. For years, for example, we have been talking statistics, averages, and technicalities to people when we discussed securities—we have done it in our advertising, in our offices, and when we interviewed investors in their homes and offices. To do otherwise, for some unknown reason or other, has almost been sacrilegious. We have been slaves to custom.

There was a time when the life insurance business was in such low repute, that men who braved the ridicule and antagonism of the public and who went out and sold it, were actually pitied by their friends. But today the picture is different. Successful life insurance salesmen stand at the very top of the ladder, and life insurance is now considered a most important asset in every investment portfolio—as it should be. What did it? Education!

I am not suggesting that you crusade—that you appoint yourself number one educator in your home town—even though your long-run self interest rests upon the fact that the people in this country become **economically literate.** I am not proposing that you try to save America, but I do believe that if there were 50,000,000 shareholders in American Business Enterprise, instead of 10,000,000 or thereabouts, that the future would be a great deal brighter, and that freedom itself would be more secure. I am only stating a fact—do your part unselfishly and see what happens.



STEER A STRAIGHT COURSE

Determine in advance whether you are going to invest or speculate. If both, segregate your funds and steer a straight course. Early, unexpected success sometimes wrongly sways an investor toward speculation. On the other hand, an initial reverse may influence a speculator to unwisely consider himself an investor. In your investment account stick to sound *investment* principles...in your speculative account to sound *speculative* principles.

Dreyfus & Co.

TODAY'S METHODS FOR TODAY'S MARKETS

Members: N. Y. Stock Exchange • N. Y. Curb Exchange

Leading Commodity Exchanges

Corporate and Municipal Bonds

50 Broadway, New York 4, N. Y.

Telephone: WHITEHALL 3-4140 • Teletype: NY 1-1301

Tell people how to invest successfully. Tell them not to put all their eggs into one basket. Tell them not to try to get rich over night. Tell them to have a sound investment program. Tell them that they must have reserves for a rainy day. Tell them to investigate before they invest. Tell them that it takes courage to sell when prices are high but the rewards are great, because they can then have buying power when prices are low. Tell them the tree never grows to the sky. Tell them the truth about investing—tell it to them in language which they can understand. Tell it to them over and over and see what happens. See if your firm doesn't eventually become the place where people go, because they believe that they are going to have sound investment assistance and advice. And live up to what you preach!

Some advertisements that in my opinion "hit the bull's eye" along this line appear in a booklet published by Dreyfus & Co., entitled "Wall Street, the Human Approach to Successful Advertising." Possibly they have some extra copies and would send you one upon request. Reproduced herewith, in smaller size, is one of the ads in this series. Notice how it talks common sense without wincing or welching. It educates and it sells—every ad is the same as to layout, border, and attractive illustration. It is institutional advertising that dares to be different. Does it pay? I understand that in educating new investors, and the old ones who were willing to learn, Dreyfus & Co.'s share of the total stock exchange volume in 1950 was 50% greater than the previous year. Surely even in an active market such as last year, this does indicate that the business of the firm increased at a greater rate than would normally be expected.

The answer seems to be—advertise—tell your story simply and honestly—and dare to be different. The field is wide open in your town—your firm can be the place where people go for sound investment assistance, and the best of service regarding their securities. **But Tell Them About It in Language That They Will Understand.**

Morgan Stanley Group Offers Borden Debs.

Morgan Stanley & Co. heads a nationwide group comprising 130 investment firms who offered for public sale (yesterday, March 7) a new issue of $60,000,000 30-year 2⅞% debentures due 1981 of the Borden Co. The debentures are priced at 100% and accrued interest to yield 2.875%. The bonds represent the largest publicly offered industrial bond issue for nearly a year.

Principal members of the group include Dillon, Read & Co. Inc.; The First Boston Corporation; Kuhn, Loeb & Co.; Blyth & Co., Inc.; Goldman, Sachs & Co.; Harriman, Ripley & Co. Inc.; Lehman Brothers; Smith, Barney & Co. and Wood Struthers & Co.

The company will apply $46,404,000 of the proceeds from the sale to the retirement of the outstanding $30,800,000 of 1¾% promissory notes due serially March, 1951 to 1956 and the $15,000,000 3% promissory note, due serially September, 1958 to 1968. The remainder of the proceeds will be used for general corporate purposes, including maintenance of inventory and working capital positions and expansion of its business.

The new debentures are redeemable at 102½% if redeemed during the 12 months beginning March 1, 1951 and thereafter at prices decreasing to par on and after March 1, 1978. A sinking fund commencing in 1953 provides for annual payments of $1,250,000 and the company may, at its option, on any sinking fund payment date make additional payments up to $1,250,000.

The $60,000,000 of new debentures constitute the company's sole long term debt. There are also outstanding 4,300,000 shares of capital stock of $15 par value.

For 1950 the company reported net income of $20,147,073 after provision of $15,731,165 for income and excess profits taxes and Canadian income taxes. For 1949 net income was $21,890,479 after $12,870,762 provision for taxes. The Company operates more than 700 properties throughout the United States and Canada.

With Fahnestock Co.

NEW HAVEN, Conn.—John G. Schryver is now associated with Fahnestock & Co., 205 Church Street. He was formerly with Smith, Ramsay & Co., Inc.

Continued from page 3

NASD Edict Would Mean No Capital for Small Business Through Sale of Securities

low, e. g., its refusal to share commissions and underwriting earnings with non-members.

One wouldn't think that there can be a divergence of opinion on what constitutes being a good boy; but then, the NASD can produce, and has produced, some amazing edicts, standards, rules and yardsticks. The juggling of language is one of its specialties.

When we consider that Regulation A offerings are almost always speculations, so designated, and that these are intended to start small business or to help finance existing small business, we readily recognize how fraught with danger the second of these "Fair Practice" rules is. In fact, if the English language means anything, what the NASD is really saying via this second rule is that these small issues of $300,000 and under can henceforth only be sold to wealthy individuals. Should this rule be enforced it would mean no capital for small business at all through the sale of securities since as a practical matter they cannot be sold to any appreciable extent to wealthy people alone. Is this what Congress intended? We think not.

Since the disclosure is made and it is also common knowledge that the offering is a speculation why should a member assume any responsibility for any sale of the instant type of securities in the light of the rest of the customer's portfolio? Why should he have to determine that these securities are "suitable for the customer"? After all he is not an investment adviser. There may be a difference of opinion on suitability. Why should the NASD member lay himself wide open?

Many customers are interested in pure speculations from a possible capital gains standpoint.

Small business, already sorely beset, has a potent enemy in this latest NASD eruption. Certainly it is contrary to all the expressed Congressional intention to help the little fellow, and will serve to throttle venture capital as far as he is concerned.

Advising the SEC to watch the non-member more closely, and to modify its rules so as to make Regulation A offerings more burdensome, is the tops in NASD cheek. By this indirect method the NASD seeks to control non-members. That's a new low. Having already deprived these non-members from dealing on an equal footing with their brethren in the securities fraternity, the NASD would further harden their existing difficult lot. How much more four square and American it would be for the NASD to remove the restriction which prevents non-members from profiting share and share alike with members, as a result of securities sales and underwritings.

To solidify its monopoly the NASD does not hesitate to enlist SEC aid.

Clearly the time has come to place Congressional limitation upon such efforts and to modify the Maloney Act so that all in the security field shall be on a parity.

In this regard the members of Congress owe the country an obligation. We believe they are sincere in their desire to help small business. Here is the opportunity.

AIB to Hear Debate On Marshall Plan

"That the Marshall Plan Should Be Discontinued Immediately" will be the subject of a debate between teams representing New York and Philadelphia chapters of the American Institute of Banking on Friday, March 9, 7:30 p.m., at New York Chapter Headquarters in the Woolworth Building.

New York will be represented by Joseph Kremar, Chemical Bank and Trust Company; Max Reutlinger, Manufacturers Trust Co., and Charles Young, Bank of New York and Fifth Avenue Bank. The Philadelphia team consists of John Grant, First National Bank; Ralph Henry, Pennsylvania Company for Banking and Trusts, and Joseph Restifo, Philadelphia National Bank. Edward H. Dunckelmann, First Vice-President of the New York Chapter and an Assistant Cashier of the Public National Bank, will preside.

F. J. Pflugfelder Co.

Fredrick J. Pflugfelder, member of the New York Stock Exchange, will form Fredrick J. Pflugfelder & Co. with offices at 61 Broadway, effective March 16. Gloria P. Dalton will be a limited partner in the firm. Mr. Pflugfelder has recently been active as an individual floor broker.

Clarence Anderson With Standard Invest. Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif. — Clarence F. Anderson has become associated with Standard Investment Co. of California, 87 South Lake Avenue. He was formerly with Edgerton, Wykoff & Co. and Floyd A. Allen & Co.

Continued from page 2

The Security I Like Best

erty you can hold during a long-term inflation is gold. But the bulk of gold dust is adverse, and gold coins are forbidden. So the next best method of gaining a stake in gold is to buy a good gold stock. A sound gold stock is Homestake Mining.

Homestake is the largest producer of gold in this country. Mines are located in the Black Hills of South Dakota. Mining operations were started in 1877. In other words, this is no fly-by-night venture, but is a sound business that has been in existence for three-quarters of a century. An unusual fact is the state of the veins—the lower the mining operations go, the greater has been the gold content. Company finances are considered sound. Working capital consists principally of cash and governments. There are no bonds, and no preferred stock. There are 2,009,280 shares of common outstanding.

Now, what of the future? As I see it, the situation today closely resembles that of 1929-1932. England devalued the pound in 1949 from $4.03 to $2.80. We did not devalue the dollar. England devalued the pound in 1931—we devalued in 1934. It does not necessarily follow, but nevertheless, *I predict that the United States will be obliged to devalue the dollar in 1952 or 1953.* The price of gold will be raised from $35 per ounce to $50 per ounce, or perhaps even higher.

In view of the probable coming devaluation of the dollar and the rise in the price of gold, it seems to me quite logical that Homestake Mining may resist declining prices in the stock market as a whole. There is even a chance that Homestake will advance against a declining market, just as it did from 1929 to 1932.

K. I. M. Mar. 9th

Harold B. Smith

Harold B. Smith of Pershing & Co., 120 Broadway, New York City, is celebrating his birthday on March 9. K. I. M. that date to congratulate the jovial chairman of the advertising committee of the National Security Traders Association.

C. B. Whitaker Co. Formed in New York

Clarence B. Whitaker has formed C. B. Whitaker Co. with offices at 60 Broad Street, New York City, to engage in the securities business. Mr. Whitaker was formerly trader for Batkin & Co. and prior thereto was with Alexander Eisemann & Co.

Terry Carpenter, Inc.

(Special to THE FINANCIAL CHRONICLE)

SCOTTSBLUFF, Neb. — Terry Carpenter, Inc. is engaging in a securities business from offices here.

Continued from first page

As We See It

were not to be made convertible into notes with an early maturity. It is absurd even if one assumes that holders of the 2½s will quickly and eagerly exchange their holdings—an assumption one hesitates to make without fuller knowledge about some of the terms.

Battle of the Pegs

These long term "bank restricted" bonds are the bonds which off and on during recent years have edged down toward par, and have, accordingly, been central figures, as it were, in debt management controversies. They may not at present be held by commercial banks and will not be eligible for such ownership for years to come. The Federal Reserve holds considerable amounts of them and has been obliged on more than one occasion to take on more of them, as insurance companies and other institutions placed them on the market. If current holders are willing to exchange them for the new 2¾s, this intermittent "battle of the pegs" may come to some sort of an end. It may then be possible for the politically-minded leaders at Washington to lead the attention of an uneasy public away from this phase of the debt management problem.

But how then would inflation be less threatening? Echo answers "how"! In the first place only about $19 billion of the national debt is in these bonds. If they entirely disappeared from the market, there would still be some $235 billion Federal interest-bearing debt untouched by all this. A very substantial part of this remainder is owned by the Federal Reserve and commercial banks of the country. One may fairly assume, quite safely assume, that the Administration (and doubtless the Reserve) expect presently to come forward with one scheme or another to prevent commercial bank sale of their holdings of government obligations. That is to say that unless the Treasury is now willing to go along with ideas of more than small fractional changes in the yield rates on shorter term obligations, the commercial banks of the country are to be saddled with a large block of quite frozen assets yielding substantially less than could be obtained elsewhere.

For a time, of course, this could result in avoidance of enlargement of the money supply, and—assuming technical success—some avoidance of greater activity of funds already in hand which, of itself, could support an enormous inflationary price movement. But even on this, the most favorable basis, the gain would at most be but temporary. Holders of the bank-restricted 2½s are not likely to be eager to make the conversion without assurances of a reasonable convertibility into something else that they could put on the market. It is not probable that it would be politically feasible—to say nothing of other aspects of the case—to make it indefinitely impossible for the banks of the country to accommodate their customers. The time would come sooner or later, as it came in 1946 and subsequent years, when the accumulated inflationary forces will break bounds, and we should again be facing the same set of circumstances.

Not Even Temporary Gain

The fact is, however, that not even this temporary surcease from inflationary sorrow is likely to flow either from the "agreement" now announced with a flare of trumpets, or from such further action as forcibly restricting commercial banks in the sale of their holdings of government bonds. The President has said that we shall for a time be incurring a substantial Treasury deficit even if in the end taxes are collected to cover all rearmament outlays. In other words, the Treasury will be in the market for substantial amounts of new funds during the twelve months to come. Are these sums to be sought in a market which stands on its own feet, or is the Treasury to seek special favor in this case as it has consistently done in the past? One would suppose that the authorities would have considerable difficulty in persuading banks to take on more relatively unprofitable investments after having been obliged to hold governments when they believed it to be to their advantage to sell them. Besides, purchase by the banks of additional bonds, the proceeds of which are promptly to be spent by the Treasury, would be as inflationary as the very things the authorities are trying to end.

Two Other Factors

But we have so far not taken into consideration two factors of importance in this matter. One of them, perhaps the one of lesser importance, is that the government itself is urging, almost demanding, that business expand its capacity at its own expense, or at most with but partial Treasury aid. To do so it would appear that either activization of funds now idle (or perhaps in government obligations) or bank borrowing would be necessary. In other words the campaign against the extension of private credit, about which a good deal is now heard, must wince and relent and refrain at a good many points in any event.

But fully as important, is the fact that consumers in this country as well as business already have on hand extraordinary amounts of cash and other liquid assets. The "other" liquid assets are government securities of one sort or another. He would be an optimist who could believe that one-quarter of a point in the interest rate—even if it applies in such cases—will hold these government obligations where they now are. In any event, a more active utilization of existing cash could of itself overthrow any such anti-inflationary program as is now apparently contemplated.

When debt management is taken out of Fair Deal politics and placed in the hands of men who know what they are doing, we shall begin to make progress. Until then such compromises as that now being publicized will be of little avail.

Transcontinental Gas Pipe Line Pfd. Stk. Offered by Bankers

An underwriting group headed by White, Weld & Co. and Stone & Webster Securities Corporation offered for public sale on March 6 a new issue of 550,000 shares of Transcontinental Gas Pipe Line Corp. cumulative preferred stock, $2.55 series (stated value $50 per share). The stock is priced at $52 per share, to yield approximately 4.90%.

Proceeds of the sale will be applied by the company to the redemption at 106% of the presently outstanding $26,500,000 of 6% interim notes due May 1, 1951. The balance required for this purpose will be supplied from the general funds of the company.

The new preferred stock is subject to redemption at $53.50 per share on or prior to May 1, 1956 and thereafter at prices scaling down to $52 per share if redeemed after May 1, 1966. Beginning Nov. 1, 1955 the issue will also have the benefit of a sinking fund calculated to retire all of the issue by 1978. The sinking fund redemption price is $52 per share.

Giving effect to the financing the company will have outstanding, in addition to this issue of preferred stock, 3,530,000 shares of common stock, $175,000,000 of long term debt and $10,000,000 of short term notes.

Transcontinental constructed and operates the world's longest natural gas pipe system, the main line extending 1,840 miles from the gas fields in Texas and Louisiana to New York. The company recently began the delivery of natural gas to New York and other communities in the metropolitan area. In January of this year an increase in capacity to 555 million cubic feet per day from 505 million was authorized by the Federal Power Commission, the additional 50 million cubic feet being required principally to serve customers in North and South Carolina, Georgia and Alabama.

Continued from first page

World Financial Stability And Military Preparedness

gold standard—as late as 1914 is illustrated by the fact that, at the outset of World War I, best expert opinion on both sides of the battlefront agreed on one thing: that the war could not last long, not longer than a few months. Pretty soon, the belligerents would be stopped dead—by financial bankruptcy. Indeed, the participants "bankrupted" themselves in no time. But that did not affect a bit their will and ability to fight for several more years. They simply turned to paper money. So did Germany, especially, not having the advantage of American support. Her rich international assets and credit facilities were soon lost. The blockade made vital raw materials from overseas inaccessible even in exchange for gold. By 1917, Ludendorff was ready to scrap money and finance altogether and to run the whole German economy as a single barrack—that was to become everywhere the pattern of organization in war times and in Soviet Russia at all times.

II

Before trying to appraise the current scene in international finance and what it implies under the point of view of military preparedness, the pre-1914 set-up should be recalled. It operated on the principle that every effort has to be made to maintain the currency on gold at a rigidly fixed par; that budgets have to be balanced and debts paid in gold or its equivalent; that recourse to deficit financing for non-productive purposes is permissible only in extreme emergency, and then only long-term loans should be issued; that the tax-bearing capacity of the nation should be used sparingly; and that international credit, private and public, should be preserved by all means.

This was the sort of financial stability the pursuit of which had come to be regarded as axiomatic even in war, and for good reasons. In the capitalistic age, when private property was sacrosanct and money could move freely over national borders, financial "tinkering" would have defeated its own purpose. Oppressive taxation, monetary depreciation, interference with the free flow of capital, would drive capital, the vital sinews of war, into hiding or into "flight." And without command over capital, domestic and foreign, men could be drafted, but they could not be provided with the means with which to fight.

On the other hand, a government whose credit was unimpaired could draw on this invisible capital and turn it into purchasing power to obtain the physical means of warfare. This was especially important to European nations facing recurrent armed conflicts. During the Crimean War, as an example, a Russian loan matured in London and the Czar's treasury could make private arrangement, with the full knowledge of the Prime Minister, to renew it. That may have been an exception; but it was a rule that in war as in peace, obligations have to be honored. We speak today of the Balkanization of international finance, but slight thereby those countries which during the two Balkan wars of the 1910's made great sacrifices to keep up the service on their foreign debts. In effect, the world constituted a single money market in which capital could flow freely in every direction.

This idyl was suspended and morally undermined in World War I. In the 1920's, it was restored but on the shaky foundations of manipulated interest rates, fictitious gold exchange standards and artificially boosted capital exports, all of which broke down in the 1930's, in the Great Depression and its socialistic or pseudo-socialistic aftermath.

III

Since the 1930's, international finance has been thoroughly revolutionized. From temporary emergency measures dictated by depression and World War II, a new and perplexing financial "climate" evolved. Confiscating and hamstringing foreign capital rather than protecting and attracting it, is the fundamental tenet of this new approach that is essentially anti-capitalistic and is, or has been, inspired by the "success" of the Soviet experiment along such lines. (The "intellectual-moral erosion of the basis of internal and international investment" has been penetratingly analyzed by Alexander Sachs.) The philosophy of Full Employment has found its most cynical formulation in the famous words of its outstanding theorist, Lord Keynes, about the Humbug of Finance, meaning that Power can manipulate money as it pleases. The practical guidance on the road of Full Employment has been provided by the policies of Germany's equally cynical Dr. Hjalmar Schacht. These two most influential economists of our life-time were intellectual products of the wild boom and depression era after World War I, which exploded the economic and political ethics of of the 19th Century.

By this time, the automatic gold standard is delegated to the ash can for all practical purposes. Mankind has freed itself from the "golden cross" on which it used to be "crucified." We are free to manipulate monetary systems, replacing the self-adjustments and self-restraints which the automatism of capital movements under the gold standard provided, with the "wisdom"—or arbitrary rules—of political managements. Such is, at any rate, the trend of public policy almost everywhere. But the problems of international finance are still with us. Nay, we are confronted with a problem of financial instability without precedent. It is among the most significant issues of a non-military type burdening the preparedness-economy of the Western World.

IV

Paradoxically, the death of the gold standard has vastly increased the role of gold in international relations. Having lost its monetary throne, the king of the metals went underground, so to speak. As a king, it was a pillar of stability; underground, it helps to sabotage all efforts at stabilization. The greater a currency's "freedom" from gold, the less confidence it commands. The more thoroughly the international banker, that symbolic arch-villain of the neo-Marxian mythology, is weeded out, the more difficult it is to induce investors into foreign ventures and the greater is the dependence of exchange rates on the vagaries of the trade balance and of foreign exchange speculation.

Briefly, gold has turned from serving as the monetary base into being a prime monetary nuisance. The fact that private hoards absorb annually a large percentage of its new output is the source of financial weakness, not only in Latin America and the Orient, but especially also in France, Switzerland and the Mediterrenean countries. In France alone, an estimated $4.0 billion are "buried" in private treasures. Obviously, the withdrawal of such huge liquid wealth from productive use must affect wealth-creation and generate a psychology detrimental to economic progress. What is more, this hoarding propensity is detrimental to the preparedness-effort. Gold still is essential for the settlement of international balances; its disappearance in "stockings" reduces the supply and tends to raise the price of gold in terms of all currencies, including the dollar. That, in turn, has repercussions on foreign exchange and prime commodity markets. Nor is that all.

V

Since the bona fide capital stream between countries, both of short-term and of long-term character, virtually has dried up, the movement of gold has grown in dimension. But instead of this being a factor for stabilizing exchanges, and for bringing about international equilibrium, these gold movements produce a disequlibriating momentum. They follow the lead of the least productive of all economic motives: pure in-and-out speculation. Each time a currency is under fire, gold runs out from under in a panicky fashion; each time a currency's position strengthens, gold rushes in. The weakness of the pound in 1949 induced capital to run out of England and forced her into devaluation; the recent weakening of our balance of payment position, due to a new boom and then to the Korean "police action," drives it the other way—out of the dollar. We have lost well over $2 billion of gold in barely more than a year, most of it in seven months' time. Simultaneously the dollar price of the yellow metal in the free markets of the world is climbing; in Paris and Tangier, gold coins again are selling at the equivalent of $50 and better per ounce. This irrational capital flight has raised the Uruguayan currency, as an example, from a parity of 3 pesos to the dollar, to a high of 2:1. Having acquired unlimited power over its foreign exchange rates, and having broken the "rigidity" of the gold standard, the Welfare State is incapable of securing exchange stability. All American aid could not save a sophisticated and efficient planner like Sir Stafford Cripps from breaking his word and scrapping his plans.

Now, losing $2 billion of gold in a short stretch, possibly the greatest single gold movement in any such period, proves that the international capital market is very much alive. Indeed, a person with a high fever may be more "alive" than one with normal temperature. Presently, the continued loss of gold which the U. S. Treasury countenances, is being shrugged off by many of our administrators and experts as a healthy sign of a better distribution of gold. The trouble is that it is not being better distributed by foreigners converting their dollar holdings into gold. It is adding little or nothing to the equilibrium of the recipients while creating a threat to the dollar. But confidence in the dollar is a *conditio sine qua non* for efficient mobilization. At both ends, this gold flow fosters inflationary conditions or expectations and endangers the preparedness potential in more than one way. The danger is far more serious in Europe than on this side.

For one thing, not all nations gain gold when we lose it; the greatest gainers are often those which contribute least to the common military effort. Others lose, while the effect of their luckier neighbors' credit expansion on their own system is inflation-stimulating, too. And even the gainers enjoy it with misgivings; the recent strengthening of the French gold reserve by gold influx resulted in a proportionate rise of the French note circulation, which now has reached an unprecedented record.

Nor is this gold and dollar redistribution without drawbacks. It is due basically to the unprecedented upsurge of American demand for foreign raw materials which skyrocket in price. The sterling area may profit in terms of doubled gold and dollar reserves; but Britain's domestic equilibrium is on the verge of collapse due to the rising material prices which—coming on top of the devaluation of the pound and of extreme import restriction against American products—call in turn for higher wages, unleashing the well-known price-wage-price spiral. Faster or slower, the same vicious circle is at work in France, Germany, Italy, the Scandinavian and the Low Countries—everywhere. In other words, while our normal exports are falling off, we are *exporting inflation* in a big way.

What about the prospect of a further continuation of this gold flight from under the dollar? Under the bygone gold standard, it would have brought about skyrocketing interest rates and falling commodity prices until our balance-of-payments position had been restored. Presently, deflation even of a mild sort is taboo. The ideal of Full Employment—meaning permanently stable or rising prices and wages—combined with the necessities for preparedness, and with the frozen structure of our interest rates, precludes the possibility of any such normal corrective. That is where the outer world's fear comes in. It anticipates one of two courses to stop the gold outflow: that the dollar will be either devalued or "frozen." In either case, the entire commercial system of the Western World will be thrown out of gear, and the expectation may set into motion new capital flows of huge dimensions. Foreign capital accumulated in this country and ready to "jump the gun"—so-called hot money—is estimated at $8 billion.

VI

The one common denominator of the world's economic and therefore psychological troubles is *inflation*. It is the prime reason for most countries' inability to withstand strain, for being thrown off center at any provocation. If partial mobilization puts the European nations under such a severe economic test, as it does, indeed—even before it seriously has started—this is because of the inflationary pressures under which their economic bodies labor, pressures that go a long way to explain the European public's reluctance to being drawn into military preparedness. When almost all budgets are in the red before the impact of armaments hits them, people who are over-taxed already resist the invitation to pay still higher taxes and to incur larger deficits.

Inflation, like the devil, appears in many shapes and forms. It is easily identified in its crude nakedness. But in latent, controlled, sidetracked and overhanging disguises it is obscured. In one disguise or another, openly or surreptitiously, it is omnipresent. It scarcely would be an exaggeration to call this era one of world-wide chronic, but repressed, inflation-pressures with recurrent outbreaks of the acute condition.

During the reconstruction quinquennium just behind us, some progress in disinflating the world, Europe in particular, has been made. But the fight against the evil has not been perceived as an overwhelmingly significant objective. It received full recognition and consideration only where, and as long as, its virulent or runaway phase had to be stemmed. (Japan provides a latest example.) Once the acute stage of a nation's monetary inflammation is overcome, the patient is dismissed from the financial clinic, so to speak, and is left to drift. Drift he did, but largely without the benefit of the cure that nature—i. e., the self-regulating mechanism of the free markets—would provide. Nay, he scarcely could slip out of the hands of one kind of economic doctor without falling prey to the opposite school. (In Germany, as in Italy, and more discreetly also in Belgium, E. C. A. administrators swung from advising anti-inflation to urging anti-deflation.)

VII

The inflationary virus in the life-blood of the western world is evident. It has been injected systematically by policies, the principles of which were embodied in the Bretton Woods program, or more precisely, in Lord Keynes' idea of such a program. That project marked a new departure in monetary history. The two institutions, the Fund and the Bank, and what they stand for, were a compromise, naturally, but the idea should be clear. It was a combination of ultimate objectives of a mutually excluding character. On the one hand, the stability inherent in the old-fashioned gold standard was to be restored but without the gold standard. This was to be accomplished by several sets of directives. All member currencies were to be attached to one another by being put on a dollar base, and the exchange rates fixed after a fashion. They were changeable by collective consent only, not by the arbitrary decision of any single government. Multiple currencies and what they entail—exchange restrictions, payment-, clearing- and barter-agreements and similar discriminatory tricks a la Schacht —were outlawed. The whole system was to function with the aid of short-term credits from the Fund and reconstruction loans from the Bank, the assumption being that the credits serve merely to ignite the motor of international capital flow.

On the other hand, each individual country was left to follow domestic policies as it saw fit. It was supposed to do so along the lines of the Full Employment ideal, propagated by such super-planning bodies as the U. N. Economic Commission. To permit inflating the currency at home and simultaneously stabilizing it abroad, escape clauses were inserted into the Bretton Woods program, allowing for devaluations and exchange controls. But the Full Employment policies to be pursued domestically and the stabilization to be attained internationally, simply were not compatible with one another.

The Bretton Woods institutions soon turned out to be a failure in the sense that they could not possibly fulfill the impossible: to recreate the free capital markets and to normalize the balances of payments, i. e., to play a game in which two sets of rules were applied, one annulling the other. (That the same pernicious contradiction has stymied our trade-liberalization policies represented by the abortive Havana Charter, as has been forcefully pointed out time and and again by Philip Cortney.) The Fund and the Bank were left with the choice between throwing their substantial but limited resources into a bottomless barrel and going bankrupt, or else throwing in the sponge and leaving the solution of the insoluble problem to someone else.

The someone else was Uncle Sam, needless to say, who has been the promoter of Bretton Woods from the outset. Naturally, the job to make it work was his, and he tried to make it work by pouring out an annual $6 to $7 billion through well-known channels with the result of maintaining artificially his inflated domestic price and wage level and weakening his own financial position without restoring that of Europe or Latin America to anywhere near a genuinely self-supporting condition.

VIII

It was a superbly grandiose conception—to make the best of both worlds of finance, to merge the monetary stability of the gold standard with the economic security of the managed paper money. But it is as unrealistic as to concoct an economic system by infusing socialistic over-all control and planning into a capitalistic body of competitive markets.

A game can be played rationally if its rules are clearly defined and if the players adhere to the rules. The Bretton Woods philosophy did not fulfill the first criterion, which made it simple for the players to violate the second. In any event, the system failed on every score: genuine international lending and investing did not materialize; instead of dying out, multiple currencies and monetary barbed wires strangulate the commercial and financial intercourse between nations; instead of being stabilized, all but three or four currencies have been amputated once or several times, and not a single one is standing safely in its golden slippers—with the possible exception of the gold-saturated Swiss franc.

The most spectacular aspect of this general unbalance is the fact that, notwithstanding all American aid and all European maneuvering, the dollar-shortage of the outer world grew into a permanent calamity—and turned almost overnight into a dollar-surplus with almost equally calamitous implications. Both stem from the same source: inflation. And both were or are treated with the same medicines: more domestic doses of inflation mixed with purgatives to repress inflation. The less chance this hodge-podge of contradictory policies has of curing the world's illness, the more we rely on curing it—by spending more billions of dollars.

IX

Dollars are supposed to save a world that lives in inflation, but at the same time suppresses its manifestations. The methods of repression include excessive taxation, domestic and foreign exchange controls, import restrictions, cartelizations, international commodity agreements, Schuman plans, etc.—futile if not actually inflation-fostering devices. The two types of policies add up to what has been aptly labeled a Rigid Society. The term Rigid Society was coined to describe the absence of dynamic momentum, the defensive attitude, the lack of incentive and of adaptability, the bureaucratism and passivity of the mature economy—the qualities which are responsible for Europe's impotence in matching the American industrial progress. Their most tangible expression is the inability of her industries, by and large, to compete with ours for the export outlets. Despite very much lower wages and with devalued currencies, no country can lower the average of prices of manufactured products to the U. S. level—not even when American know-how and machines are utilized. This is a baffling mystery to efficiency experts who think in terms of the stop-watch rather than of initiatives. The truth of the matter is that the European type of controlled or subdued inflation produces all the disadvantages and few of the (temporary) stimulating effects of inflation. In short, the world that has beaten the "rigidity" of the gold standard, pays for the victory by being compelled to "freeze" rigidly its own vital economic organs.

Did the Marshall Plan—which was but another attempt to fulfill the Bretton Woods promise—succeed in making Europe self-supporting? Nothing of the sort is indicated. Whatever else it has accomplished (such as expanding productive facilities and raising living standards in the recipient countries), it certainly has fallen short of its main purpose. Most important, it contributed to weakening Europe's ability to prepare for its self-defense.

X

We are on the threshold of a new departure in global finance. An inflation-ridden dollar, threatened to be driven into devaluation or worse, is supposed to carry on its back the financial structure of the Occident. What the latter needs is a psychological adaptation and a physical plant conversion to meet the requests of the new situation. However, we are faced with the heritage of two decades' tinkering with the dollar, and of the post-war international policies. Our well-meant attempts to persuade and cajole our friends (such as by the European payments union and other luring offers) into greater flexibility and self-reliance, have not been entirely futile, and the attitudes differ substantially from country to country. (See Belgium!) But broadly speaking, there is no doubt that what we have financed is a process of economic freezing. Protected by bureaucratic set-ups, unionized and cartelized monopoly interests, their prices and incomes tend to freeze into solidified aggregates. The billions spent on Europe, whatever their value from the humanitarian point of view, have failed in preparing the ground for the kind of mobility and flexibility that grows out of the free inter-play of competitive incentives only.

We have relieved Europe of the implicit burden of capital accumulation—from the burden of saving and investing under the guidance of the cold profit motive. The result is a system so feeble that its price structure can be kept together only by extremely careful navigation between the cliffs of shaky price-wage systems and conflicting vested interests. Monetary injections do not work any longer because they have gone so far that any greater doses are likely to create run-away conditions. Taxes cannot be raised because they have reached the limit; as a matter of fact, they are so high that they must be shifted on the consumer, i. e., on the working masses whose real income is deficient accordingly. Direct controls do not work because people's patience has been exhausted, too, and they merely underscore the emptiness of a monetary unit that is based on promises by which people do not live. What works is—bigger American subsidies, for civilian as well as for military purposes. But they undermine the dollar by bringing about run-away prices and an unfavorable balance of U. S. trade (for the first time since 1893!), plus a flight out of the dollar.

If international finance of the post-war years, looking at it from the preparedness angle, is a dismal picture, it is not because this or that group of politicians or administrators is not worth its salt (which may be the case, incidentally, too). It is because it was a totally misquided system from the outset. The problem of our international preparedness policy, now is extremely difficult. How to induce the Frenchman and the Britisher to raise his unit-productivity or to work longer than six days a week and eight hours a day unless at substantially higher wages, and therefore at run-away costs, after having imbued him with the notion that such "overwork" is unethical and causes depressions? How to make a production apparatus convert itself in a hurry after its entrepreneurial spirit has congealed into monopolistic security-seeking, emasculated by petty bureaucratism and diverted into tax evasion as its chief preoccupation? That is exactly what our global spending has financed.

In desperation, nations are willing to fight wars at any sacrifice. But long-run war preparations are a different story. Europe's reluctance to arm is rooted in the public's feeling that it means irrevocably uprooting its very existence. It can be induced successfully only by a change in "peace-time" policies: by a return to entrepreneurial freedom that would stimulate increased productivity and economic progress—and the hope for a better life—to prevail simultaneously with the process of diverting a large proportion of each nation's resources into military channels.

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Continued High Earnings Portend Higher Stock Prices

term savings bonds to the public as a means of reducing inflationary pressures, it merely temporizes. Immediate pressures are thereby reduced but new pressures are built up for the future. These can be lessened only by increases in the productivity of the worker. When the armaments are financed by 20-to-30-year bonds, the government shifts the burden of payment from mother and father to their offspring.

The Current Situation

In the United States economy, the situation is, of course, more complex than that just discussed. In general, not all the potential working force is employed at any time and the hours are usually much less than maximum. Furthermore, it would be highly unrealistic to assume a fixed wage cost, for neither the wage rate nor output per man-hour is rigid. Yet the modifications of the simple case are not difficult.

If we start from conditions of unemployment and short hours of work, as in 1940, total civilian production and per capita civilian production may increase. But both would increase only because there would be more employed workers in the labor force and those previously employed would work longer hours. Even here the production of civilian goods and services **per hour worked by the working population** would necessarily decrease. The problem is still that of getting somebody to work these extra hours for nothing. It is somewhat obscured by an almost continuous shifting of the incidence of taxation by changes in wage rates, industrial and agricultural prices and interest rates.

Because of the higher personal taxes and price rises, the worker demands additional wages; that is, he wants the same real income per hour. The farmer, in turn, insists that he must have a full increase in his parity price. Corporations treat taxes as cost and pass them on to the consumer, who is primarily the wage and salary earner and the farmer. Price rises decrease the real values of pensions and fixed income obligations and cause political discontent. No group believes that the government is really trying to tax it. One after the other temporarily shifts the burden to others who later shift it back.

The political price controls only determine which particular political pressure is to be relieved at the time. If any segment of labor refuses to work for the current wage, it gets a wage increase. If industry refuses to produce at the current price, it gets an increase in price.

These pressures are readily accommodated by our banking system. Our Banking Act of 1935 is so wide open with respect to the creation of new reserves that credit demands arising from increased wages and prices can be met by the banks, regardless of what action the Federal Reserve Board takes. When a bank is running out of reserves, it need only sell part of its government bonds or other notes to the Federal Reserve Banks and thereby obtain a base for lending about five times the amount of securities sold. In short, the bank credit of the country will accommodate whatever wage and price level is determined by the play of economic forces and political pressures.

Until the politicians convince the public that it—not the impersonal corporations, not the limited number of rich people, and not the unincorporated businesses—has to produce armaments and support large government spending by the sweat of its brow, and not by government legerdemain, such expenditures can lead only to long-term inflation.

Over the short-term the price outlook will depend principally upon the prospects for world peace and so the degree of rearmament likely to be attempted. If the Korean war should be concluded during the next few weeks and the Communists choose the course of peace—i.e., not attack Yugoslavia, Indo-China or other areas which we would defend—some segments of the price level would experience considerable deflation. Such deflation would occur primarily in the economic groups which have so far been most successful in throwing the burden of rearmament to others.

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"European Attitude on Our Foreign Situation"

when they know the facts. Considering the sacrifices which they are being called upon to make, they have the right to know them. It is the responsibility of our elected representatives in Congress to demand the facts before they appropriate the money.

With respect to the Chinese situation also we need facts. If our present policies with respect to China are bringing us closer to actual war with that nation, we should know why it is necessary to pursue those policies rather than heed the advice and counsel of our allies.

I believe that Mr. Weir's article is timely. In bringing to us some of the thinking of responsible people in Europe he makes us aware that if we really wish to preserve world peace the course we have been pursuing may not be the wisest.

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JOHN P. GATY
Vice President-General Manager, Beech Aircraft Corporation, Wichita 1, Kansas

I see nothing new in Mr. Weir's remarks. It all has been expressed before as British propaganda. He advocates that we recognize Red China, with whom we are at war, and he apparently advocates the turning over of the only potential allies we have in Asia to the Red forces in China.

It looks to me as if he got sucked in by the people that he contacted in Great Britain, to act as a spokesman for them.

* * *

WILLIAM A. ROBERTSON
East Orange, N. J.

Mr. Weir's views are so fine that I can not assume to say more than that they express my own thoughts far better than I could myself. I wish the article might go through the length and breadth of our country, and cause a stoppage of this frightful drawing of our soldiers and boys in this terrible mess.

Very nearly 100 years ago the people of England and France engaged in a war which obliged them to call their sons and husbands from home and business to assail a distant enemy in a foreign land. The enemy was Russia; the foreign land was the peninsula of the Crimea; the alleged cause of the war was that the Czar Nicholas was a most serious danger to the peace of the world because he wished to possess the fortress of Sebastopol, which stood upon his own land.

From a military standpoint, England and France were victors. What did they really gain? The loss of life was terrible. A famous cavalry charge at Balaclava became an example of magnificent bravery, made useless because "someone had blundered." About 20 years later Lord Salisbury declared: "England put her money on the wrong horse." Sir Robert Morier called the war "perfectly useless." John Bright called it "a crime."

In 1870, the supposed advantages to England faded away when during the Franco-Prussian War, Russia coolly denounced the promises which she had been forced to make respecting the Black Sea; and her ambassador said that the Czar would "resume his sovereign rights" over that sea. England quietly acquiesced.

In all this, is there no lesson for today? Must we Americans sacrifice thousands of American soldiers in these distant quarrels which make so very slight an appeal to the American people? "One cool judgment," said Woodrow Wilson, "is worth a thousand hasty counsels."

Is there not a possibility, once again, that "someone has blundered"?

* * *

HON. WESLEY A. D'EWART
U. S. Congressman from Montana

I found the article enlightening and constructive, but have to admit that I could not concur in all the conclusions. One in particular, I do not think this country can gain by recognizing Communist governments, that is China, as was suggested. In order for recognition of a foreign government to be successful, we must have a certain amount of confidence in that government.

I do not believe that Congress, or those who conduct our foreign affairs, can have confidence in a government founded on the philosophy of Communism.

* * *

H. J. BAUER
President, New York Steam Corp., New York 3, N. Y.

Mr. Weir's article is one of the most sensible approaches to our foreign situation that I have read in a long time, and I believe he has expressed very clearly some of the problems which face us today. A less rigid attitude on the part of ourselves and the Russians would go a long way towards answering these problems.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

In the previous week's column I suggested waiting for what I believed would be a decline. I'll now try to give you more specific information; information about stocks and at what prices I think they should be bought. You won't get them all, some you'll probably never be able to buy, or when you can they'll no longer be attractive. But in the main, I think the list you'll find below will be a good one to follow as a rule-of-thumb.

* * *

Before going into the list I'd like to disabuse you of any ideas you may have or I've unintentionally given that I know what's going to happen. Because I don't. If I have any system I doubt if I can put it down in any logical sequence or make anybody else understand it. I use all sorts of tools, charts, other opinions (so I can know what the others are thinking), the tape and a knowledge of history. If I can overcome my natural laziness I occasionally will try to break down balance sheets and earnings statements. Oh, yes, I also listen to rumors.

* * *

From all the above you can readily see that I'm not what can be described as a scientific forecaster. Maybe it's because I don't think there's any science involved. I think it's more of an art.

* * *

Okay, now that I got that off, let's get down to cases: I think there's a reaction of about 10 points or so in the Dow averages. If I can digress at this point, I'd like to add that a bear market isn't signalled by any theory until it is actually here. So a new high yesterday may well be the high for the market and a turning point for a bear market, though you won't know it until later in retrospect.

* * *

Let me hasten to add that I don't think we are in for a bear market with all the trimmings we remember so well. Naturally, that's only an opinion subject to change.

* * *

Now, how about stocks, where can they be expected to go? Well, here's a sampling. I've purposely omitted the high price issues because they can swing much wider than the market. International Harvester can get down to around 30; General Motors in the low 40s; du Pont somewhere around 75; U. S. Steel under 40; U. S. Rubber in the mid-40s, say about 44-45.

* * *

The lower priced shares and their probable reaction levels are: Paramount, 20-22; Loew's, 15-16; R. H. Macy around 30; 20th Century-Fox, 19-21; Gimbels, 18-19. Incidentally, the amusement shares (movie stocks) and retail stores, *e.g.*, department store shares, in my opinion, act better than many of the so-called war beneficiaries.

* * *

Then there are a flock of stocks that are prime war babies: Consolidated Vultee, 15-17; Eaton Axle, 31-32; Briggs Mfg., 30-31; Burroughs Adding, 13-14; Anaconda, 36-38; Allis Chalmers, 39-40; American Car & Foundry, 31-33. There are plenty of others. But there's no point in giving you any more stocks to watch. If you'll watch those above you'll have all you can manage.

* * *

It is quite possible that many of these stocks will see their low prices within one period. It is also very probable that if they do, the bearishness will be thick enough to cut. Anybody can be bearish when they're down and looking lower. It's then that the best buying comes in. Such buying isn't always right. But at least it doesn't go out on a limb very often.

[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.]

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Outlook for Investment

necessary: (1) a sound and stable money, and (2) freedom of choice in free markets. It is hard to say which is the more important, but right now we are further from having good money than we are from freedom. Or you may say that the main threat to our freedom is our "managed currency".

Today we have neither of the requirements for investments.

Probably the most important single factor in the investment outlook is the growing lack of confidence in the dollar. In an entirely objective way, I can say that the people of this country no longer trust either their currency or their savings bonds.

Only two or three years ago, when I would suggest in class discussions that maybe the dollar might be insecure and savings bonds not good, I would meet with incredulity or resentment. Now I can say that I meet with understanding and agreement. So it is with my "fan mail." Only a little while ago I got scurrilous letters (from insurance company and savings bank executives down) attacking me for saying that savings bonds were unwise as investments. Now the letters ask: Shall I buy stocks or real estate?

So my first point is that the inflation of our currency has become effective in undermining confidence in the dollar, and that this is destroying saving and investment. More and more, it is driving people into hedging against inflation. And in seeking such hedges they are not "investing" as much as they are speculating on higher stock prices.

The Multiplier Inapplicable

Another point to note is this: the multiplier principle does not now apply. The idea that spending, private or public, stimulates business and production, is valid only when full employment does not exist, and when the spending is not wasted. But now, we start with practically full employment, and the spending is for the great waste of war.

Accordingly, the pump is not going to be primed this time.

What is going to happen is a growing effective inflation.

Any rise in prices is not going to generate optimism and hopes of gain. It is not going to be stimulating. Rising prices, reflecting the generally recognized depreciation of the dollar, are going to cause—they are causing—a flight from the dollar that springs from **fear.**

A price rise that is not seen as a depreciation of the dollar is vastly different. Then we "chase the dollar," and the more of them we get, the merrier. Now we are fleeing from the dollar—a Keynesian might say that we are dischasing dollars—and the fewer we hold the better.

In the one case, there is hope of gain; in the other, only fear of loss.

The Significance of Yields

Perhaps this is the point at which to refer to the significance of the present yields of stocks and bonds. Typical common stocks still yield about 6%. High grade bonds yield somewhat less than half that percentage. Such a difference, apparently in favor of stocks, is unusual except in depressions, when stocks are relatively low in price.

But is this difference in yield what it seems? Upon the answer, depends an important point in the investment outlook.

(1) To begin with, this is clearly not a depression. To point out, after a long bull market and in the midst of a boom, that nominal stock yields are at high levels such as are found only in depressions, probably is to point to something that is unreal — a mirage. This thought raises a doubt.

(2) In the second place, the yields, both on stocks and on bonds, are either artificial or abnormal, or both. (Obviously the bond yield is manipulated.) Such being the case, it seems safe to say that there is a prima facie **doubt** that the ordinary or orthodox significance attaches to the relationship between the two.

(3) But to speak more positively, it seems to me that the current relatively high yield of common stocks is largely the result of uncertainty as to the continuation of such yields—uncertainty as to the future of earnings; and perhaps doubt as to corporations being able to pay on average the traditional proportion of earnings as dividends.

Is it not true that, in the past, an extraordinarily high yield on any stock has usually aroused questions concerning the security of the yield, and has thus been a danger signal? Are times different?

As to earnings prospects, we have to make some allowance for:

(a) Government controls in the name of "security" or "defense."

(b) Growing ambition and great power of the labor bosses.

(c) A record burden of taxation affecting both buyers and sellers, and savers and investors.

(d) Discrimination in favor of the important raw material produced on farms.

This is to say nothing of the threat of state socialism. In the days of Paul Revere and Bunker Hill, it was "The British are coming." Dont you know that in the steel and aluminum industries, for example, our business generals can almost see the whites of the eyes of the British socialism? (Or do they have pink eyes?)

My own thought is that, to a considerable extent, the existing high stock yields are an expression of a heavy discount on future earnings and dividends for equities.

4. In the fourth place, I ask a question that many of us ask about our own income: Is the yield on stocks really as high as it seems?

We should remember that the rates charged by banks on ordinary small business loans are upwards of 4½%.

We should note that these and other rates are tending upwards. (As this is written, the trend of stock yields appears to be downward.)

Above all, however, we should consider carefully the important fact that existing money rates do not reflect the true condition of demand for and supply of money and credit. This condition is best seen in the necessary results of rising commodity prices. These necessary results are: Businessmen and others **tend** to borrow more in order to take advantage of the anticipated price rise, and thus bid up rates. Lenders **tend** to ask more for loans, since they will receive a reduced purchasing power when the principal is returned. Therefore, rising prices inevitably **tend** to cause rising "money rates."

What, then, happens when these **tendencies** are not allowed to find expression? One of two things, I think: Either (1) there is a deadly restriction of the free forces of demand and supply in the money markets and elsewhere, to make them fit the low money rates. Or (2) "black markets" for money. This may be illustrated by the use of government securities as reserves for real estate loans, consumer loans, and to some extent for loans for purchasing and carrying non-government securities.

The fact is that in one way or another people have been able through the government to borrow and buy all the stocks, real estate, cars, and television sets they want. It has been easy to get money; but they have not paid the debts (their public debt) and their high taxes should be charged in part as black market interest payment on their borrowings.

To this higher-than-seems cost of "money," is to be added the fact that stock yields are not what they seem.

The purchasing power of the $3 dividend that a $50 stock pays, is not what it was when the same yield existed back in 1941-2, 1932, 1919 or 1907. In these earlier periods the dollar was worth far more than it is today. Can one deny, then, that a $3 dividend is worth less than it was 10, 20, or 30 years ago?

"What's in a Per Cent?"

What's in a per cent? With stocks, the purchasing power of the money income is what counts. The value of a stock depends mainly upon dividend prospects, which, in turn, depend mainly upon earnings prospects. If a corporation earns $10 a share and pays $6 a share, its value at 5% is $120. If, however, the purchasing power of the $6 dividend falls to $3, the stock may be worth only $60.

There are other variables, including the rate per cent used to capitalize, but this is sufficient to make my point here.

Now consider the bond. The government wishes to pay 2½%, so it pegs the dollar price at 100, and we say that the dollar yield is 2½%. The bond is merely a promise to pay a fixed number of dollars as principal and a fixed number of dollars as interest. Fixing the coupon rate and pegging the price is about all there is to it.

But with stocks it's different! We don't peg stock prices to maintain their yields. So while the dollar-yields of stocks are high, the **"real"** yields in purchasing power are low, and why should one expect stock prices to ignore this fact by rising to higher prices?

5. Finally, the bond yield is now abnormally low, and therefore is not effective as an element in determining investment tendencies, as it might otherwise be. This is a distinct reason why the large spread between the nominal yields of stocks and bonds is not likely to stimulate further investment in stocks.

In other words, the big price inflation has been in government bonds. The government pegs the price. This gives the people the illusion of a fixed purchasing power, which makes the bond yield seem higher than it is.

You will recall that a little while ago it was the low yield of the government bonds that was most frequently objected to. But at that time there was little tendency for people to sell savings bonds and go into stocks. Now the attention has shifted to the loss in the purchasing power of the dollar principal.

So instead of seeking a better yield, what most people are doing is to buy stocks as a hedge against depreciation in principal.

Conclusions

From the foregoing, what should one conclude? It is clear that confidence in the dollar is waning. Government spending can therefore no longer serve as a stimulant. Rising prices cause fear, not hope. The spread between the dollar yields of stocks and bonds has lost its old significance.

From these conditions, I think that three different developments are possible in the next year or so.

1. We may have a run-away inflation, with a few months of soaring markets, accelerated by the rush to get rid of dollars, par-

ticularly dollars in the form of savings bonds. Turnover of bank deposits, though still low, has been gaining. Already a large proportion of us have been stockpiling on our own. This sort of flight from the dollar might spill over into the stock market where we already see Calahan Zinc, Spiegel, and Childs doing rather well, and stocks being bought merely because they are "backward."

2. We may react rather quickly to the realization of our financial follies, and, with the government controllers clamping on the brakes in a panic, we may have recession and deflation sooner than most of us have been expecting. Drastic credit controls could plunge us into deflation. The people could rush to the other side of the boat. Having bought the car and television set, and stocked up with canned goods, they may stop buying.

3. We could be subjected to such complete government controls over production and consumption that, with the aid of a war-emergency psychology, we could be frozen at a level of economic activity not a great deal lower than the current one. This would depend greatly upon the degree of war enthusiasm that might exist.

As to these three alternatives, I doubt that run-away inflation is probable or to be expected. Who wants such inflation? I can think of no one. In fact, one of the most widely known and feared conditions is that of the German inflation after World War I. Moreover, there is a considerable and growing amount of understanding of our own spiralling wage-price inflation.

Under these circumstances, I think that the controls which are in the hands of the authorities are very likely to be used rather promptly and effectively, if any signs of real run-away or galloping inflation develop.

The current inflation has been building up for over a decade. As a result, the suspicions of the American people have been aroused concerning their currency and the monetization of the public debt. The game of "sopping up" or "syphoning off" excess purchasing power by discriminatory taxes or savings bonds sales, is no longer played with enthusiasm.

It is later than you think—particularly you Keynesians.

I will add the opinion that business is probably nearer the top of a cycle than is generally recognized. The long and large expansion of bank loans, associated with anticipatory buying and accumulation of stocks of goods, has an ominous look. The average of raw-material commodity prices is badly out of line with the average price of finished goods. Building activity can hardly be far from a boom top.

It is easily possible that "the good news is out" in the case of corporation earnings.

It follows that, if my thought about run-away inflation is true, then tendency will be toward **deflation.** It seems quite clear to me that if inflation be stopped, it will inevitably turn into deflation. There is no such thing as a "plateau" in such matters.

So the alternatives reduce to either (1) a war-frozen economy or (2) a recession and liquidation in the not very distant future—say within a year. (I well remember turning bearish late in 1928 and waiting till the fall of 1929 for the crisis.)

In conclusion, may I say that I can see no destruction of the American system of private enterprise lying at the bottom of the next recession. It is my opinion that the ones who have undertaken to manage our currency and our economy will be the ones to bear the blame.

I consider it of great practical importance now, however, that Wall Street lean over backward to avoid assuming responsibility for the crash of the 1950s. We should discourage speculation as distinct from investment. We should not become the scapegoat for the Washington spendthrifts. The people are jumping out of the frying pan of inflation. Let Wall Street not become the fire that consumes them.

Assuming that the politicians do not succeed in shifting the blame, I believe that just about a generation after 1933, we will again see sound money and freedom for investment.

Continued from page 5

The State of Trade and Industry

priority in buying steel for maintenance, repair and operation. They establish their own priority by applying the symbol DO-97.

Many believe it will be impossible for NPA, or any other agency, to effectively police this order. In the end, CMP may come in time to rescue NPA from a hopeless situation.

Steel conversion has been the subject of considerable attention in Washington. Converters, who buy ingots or other semi-finished steel in one place and ship it to another point to be converted into finished steel, have won official status by proving that they add to total steel production, this trade weekly points out. Some steel firms have excess ingot capacity; others have excess rolling capacity. The steel converter permits both to employ their facilities more fully, thus making more steel.

While conversion has finally gained official status, it has also come under government control, the trade magazine notes. Some consumers who might want to drop conversion tonnage because they are now assured steel at regular mill prices under government-directed programs are being told they must continue using the same percentage of conversion steel.

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 101.0% of capacity for the week beginning March 5, 1951, based on the industry's increased capacity of Jan. 1, compared to a rate of 99.8% a week ago, or a rise of 1.2 points.

This week's operating rate is equivalent to 2,019,000 tons of steel ingots and castings for the entire industry, compared to 1,995,000 a week ago. A month ago the rate was 96.7% and production yielded 1,933,100 tons; a year ago it stood at 73.5% of the old capacity and amounted to 1,401,100 tons.

Electric Output Continues To Decline

The amount of electrical energy distributed by the electric light and power industry for the week ended March 3, 1951, was estimated 6,822,098,000 kwh., according to the Edison Electric Institute.

The current total was 10,902,000 kwh. lower than that of the previous week, 943,310,000 kwh., or 16.0% above the total output for the week ended March 4, 1950, and 1,270,487,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Lower in Holiday Week

Loadings of revenue freight for the week ended Feb. 24, 1951 which included Washington's Birthday holiday, totaled 734,794 cars, according to the Association of American Railroads, representing a decrease of 5,763 cars, or 0.8% below the preceding week.

The week's total represented an increase of 188,037 cars, or 34.4% above the corresponding week in 1950 when loadings were reduced by a general strike at bituminous coal mines, and an increase of 46,666 cars, or 6.8% above the comparable period of 1949.

Auto Output Declines With Return to Normal Assembly Schedules

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 181,109 units, compared with the previous week's total of 199,247 (revised) units and 124,072 units a year ago.

Total output for the current week was made up of 138,651 cars and 31,897 trucks built in the United States and a total of 7,700 cars and 2,861 trucks built in Canada.

For the United States alone, total output was 170,548 units, against last week's revised total of 188,657 units, and in the like week of last year 116,869. Canadian output in the week totaled 10,561 units, compared with 10,590 units a week ago and 7,263 units a year ago.

Business Failures Show Higher Trend

Commercial and industrial failures rose to 170 in the week ended March 1 from 127 in the previous holiday-shortened week, Dun & Bradstreet, Inc., reports. Despite this increase, casualties were slightly lower than in the comparable weeks of 1950 and 1949 when 179 and 185 occurred, respectively. Continuing below the prewar level, failures were down 33% from the 1939 total of 254.

Liabilities of $5,000 or more were involved in 127 of the week's casualties; failures in this size group increased from 98 in the previous week but did not reach the 152 recorded in the similar week a year ago. Small casualties, those having liabilities under $5,000, rose to 43 from 29 and from the 27 occurring last year.

All industry and trade groups had increases in failures, with the rise marked in retailing. Slight increases were noted in other lines. More businesses succumbed than a year ago in retail trade and construction, but failures continued below the 1950 level in other industry and trade groups.

Wholesale Food Price Index Records First Decline in 20 Weeks

The wholesale food price index, compiled by Dun & Bradstreet, Inc., dropped back six cents last week in the first downward movement during the past 20 weeks, or since the week of Oct. 10, last. This brought the Feb. 27 index to $7.25, from $7.31 the week before, which was only slightly under the all-time peak of $7.36 recorded on July 13, 1948. The current figure compares with $5.85 at this time a year ago, or a rise of 23.9%.

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

Wholesale Commodity Price Level Shows Mildly Lower Trend

Continuing the mild downward movement of the previous week, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., again fell slightly to close at 325.49 on Feb. 27. This contrasted with 327.96 a week earlier, and with 248.93 on the like date a year ago.

Grain markets were irregular last week with prices moving generally lower.

Wheat declined sharply as the result of liquidation induced by fears of export curbs, together with reports of good rains over a large part of the Southwest.

Although corn closed slightly lower, the undertone of prices was better than in wheat due to a broad demand for the cash article. Oats weakened along with wheat and corn while rye ran counter to the general trend and scored a moderate rise for the week. Sales of grain futures expanded materially last week. The daily average volume on the Chicago Board of Trade totalled about 43,000,000 bushels, as against 31,000,000 in the previous week and 23,600,000 in the corresponding week a year ago.

Domestic flour bookings were small. Moderate declines in prices failed to stimulate any demand for bakery or other types of flour. Raw sugar prices moved higher at the close, aided by covering against heavy purchases last week from the Cuban Sugar Institute. Demand for actual lard was fairly good but futures were under pressure and finished slightly lower for the week. Cattle prices were mostly steady during the week but hogs and lambs turned lower due largely to weakness in wholesale dressed meat markets.

Activity in spot cotton markets last week was again practically nil, while trading in futures markets remained suspended for the fourth successive week. Primary cotton textile markets were also at a virtual standstill.

The entire cotton industry has been stalled by the delay in government action that would clarify the price situation for cotton and cotton textiles.

Mill stocks of cotton on Feb. 1 increased for the fifth consecutive month to a total of 2,253,000 bales, the largest in three years. Consumption of cotton during the five-week January period, as reported by the Bureau of the Census, amounted to 1,041,000 or a daily average of 42,500 bales for the period. The latter compared with a daily rate of 41,300 bales for December, and 37,400 in January a year ago. Mill consumption of the staple during the first six months of the current season totalled about 5,445,000 bales, as against 4,333,000 in the corresponding period of last year.

There was very little activity in the Boston wool market except for a fair volume of scoured woolen wools sold for use in government contracts. Futures markets in grease wools and wool tops remained closed for the fourth week. Foreign wool markets reported brisk demand with prices inclined to be firmer.

Trade Volume Stimulated By Pre-Easter Buying

Shoppers throughout the country spent slightly more money in the period ended on Wednesday of last week than during the week before. The total dollar volume of retail spending continued to be noticeably above the level for the comparable week a year ago. Part of the buying influx was attributed to the increasing proximity of the Easter season.

There was a moderate rise in apparel buying with total dollar sales increasing to a point appreciably above the level for the similar 1950 period.

While the volume of meat and confectionery remained somewhat depressed, in keeping with Lent, the over-all purchasing of food rose very slightly in the week. Dollar sales were considerably above the level of a year ago. Canned goods, frozen fruits, and condiments were in enlarged demand by housewives.

The amount of house-furnishings sold during the week in the nation's stores was virtually unchanged from that of the week before. Total dollar volume was considerably above the level of a year ago.

There was a marked response in many vicinities to promotions for furniture and floor-coverings.

Interest was generally limited for some kinds of large appliances and television sets. The purchasing of housewares rose slightly in scattered communities.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 13 to 17% above a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England +7 to +11; East and Midwest +12 to +16; South +10 to +14; Northwest +11 to +15; Southwest +14 to +18 and Pacific Coast +15 to +19.

Wholesale ordering continued to be nearly unchanged during the week. While some lines of soft goods were increasingly requested, there was a slight dip in the buyer demand for other items, notably large appliances. Total wholesale dollar volume was moderately above the level for the similar period in 1950. There were slightly fewer buyers attending various markets than in the prior week, and about the same number as a year earlier.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Feb. 24, 1951, advanced 24% from the like period of last year. This compared with an increase of 18% (revised) in the previous week and 15% for the four weeks ended Feb. 24, 1951. For the year to date department store sales registered an advance of 23%.

Retail trade in New York last week was spurred by Easter buying which sent estimated sales volume for the period 18% above the like week of 1950.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period of Feb. 24, 1951, advanced 22% from the like period of last year. In the preceding week an increase of 24% was registered above the similar week of 1950. For the four weeks ended Feb. 24, 1951, an increase of 17% was recorded over that of a year ago, and for the year to date, volume advanced 22% from the like period of last year.

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:

		Week Latest	Week Previous	Ago Month	Ago Year
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Mar. 11	101	99.8	96.7	73.5
Equivalent to—					
Steel ingots and castings (net tons)	Mar. 11	2,019,000	1,995,000	1,933,100	1,401,100
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Feb. 24	5,945,150	5,936,900	6,065,700	5,000,000
Crude runs to stills—daily average (bbls.)	Feb. 24	¶6,524,000	6,444,000	6,483,000	5,277,000
Gasoline output (bbls.)	Feb. 24	20,815,000	20,425,000	21,106,000	17,703,000
Kerosene output (bbls.)	Feb. 24	2,632,000	2,904,000	2,873,000	2,484,000
Gas, oil, and distillate fuel oil output (bbls.)	Feb. 24	10,545,000	9,430,000	9,954,000	6,890,000
Residual fuel oil output (bbls.)	Feb. 24	9,471,000	9,209,000	9,905,000	7,855,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Feb. 24	136,870,000	134,598,000	126,261,000	133,888,000
Kerosene (bbls.) at	Feb. 24	12,527,000	13,314,000	16,446,000	16,227,000
Gas, oil, and distillate fuel oil (bbls.) at	Feb. 24	48,764,000	49,420,000	58,997,000	56,050,000
Residual fuel oil (bbls.) at	Feb. 24	38,995,000	39,874,000	40,378,000	48,663,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Feb. 24	734,794	740,557	784,185	546,707
Revenue freight received from connections (number of cars)	Feb. 24	729,311	717,538	725,547	508,151
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Mar. 1	$352,081,000	$223,777,000	$235,102,000	$133,448,000
Private construction	Mar. 1	274,560,000	140,562,000	156,215,000	87,578,000
Public construction	Mar. 1	77,521,000	83,215,000	78,887,000	45,870,000
State and municipal	Mar. 1	52,501,000	61,169,000	65,308,000	38,455,000
Federal	Mar. 1	25,020,000	22,046,000	13,579,000	7,415,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Feb. 24	10,050,000	*10,685,000	11,410,000	2,709,000
Pennsylvania anthracite (tons)	Feb. 24	933,000	890,000	974,000	620,000
Beehive coke (tons)	Feb. 24	157,400	*155,600	159,600	2,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Feb. 24	274	272	278	221
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 3	6,822,098	6,833,000	7,099,385	5,878,788
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Mar. 1	170	127	159	179
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Feb. 27	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Feb. 27	$52.69	$52.69	$52.69	$46.38
Scrap steel (per gross ton)	Feb. 27	$43.00	$43.00	$47.75	$27.08
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Feb. 28	24.200c	24.200c	24.200c	18.200c
Export refinery at	Feb. 28	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Feb. 28	182.000c	183.000c	182.000c	74.125c
Lead (New York) at	Feb. 28	17.000c	17.000c	17.000c	12.000c
Lead (St. Louis) at	Feb. 28	16.800c	16.800c	16.800c	11.800c
Zinc (East St. Louis) at	Feb. 28	17.500c	17.500c	17.500c	9.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Mar. 6	100.79	101.14	101.39	103.33
Average corporate	Mar. 6	114.85	115.83	116.02	116.41
Aaa	Mar. 6	118.60	119.20	120.02	121.46
Aa	Mar. 6	117.60	118.20	118.80	120.02
A	Mar. 6	114.27	115.04	115.43	116.02
Baa	Mar. 6	109.42	110.15	110.15	108.70
Railroad Group	Mar. 6	112.37	112.75	112.93	111.62
Public Utilities Group	Mar. 6	114.85	115.43	115.82	117.40
Industrials Group	Mar. 6	117.40	118.60	119.20	120.22
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Mar. 6	2.44	2.41	2.39	2.25
Average corporate	Mar. 6	2.91	2.87	2.85	2.83
Aaa	Mar. 6	2.72	2.69	2.65	2.58
Aa	Mar. 6	2.77	2.74	2.71	2.65
A	Mar. 6	2.94	2.90	2.88	2.85
Baa	Mar. 6	3.20	3.16	3.16	3.24
Railroad Group	Mar. 6	3.04	3.02	3.01	3.08
Public Utilities Group	Mar. 6	2.91	2.88	2.86	2.78
Industrials Group	Mar. 6	2.78	2.72	2.69	2.64
MOODY'S COMMODITY INDEX	Mar. 6	525.2	528.2	533.4	357.2
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Feb. 24	201,026	215,033	204,050	172,503
Production (tons)	Feb. 24	251,715	243,154	242,721	200,998
Percentage of activity	Feb. 24	105	105	104	90
Unfilled orders (tons) at	Feb. 24	663,339	718,490	659,349	314,640
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Mar. 2	153.9	153.3	152.2	121.7
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	Feb. 17	32,547	44,487	50,996	26,406
Number of shares	Feb. 17	973,779	1,332,109	1,547,897	813,684
Dollar value	Feb. 17	$42,436,272	$57,290,522	$68,725,311	$29,843,368
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Feb. 17	31,825	42,365	51,227	28,864
Customers' short sales	Feb. 17	240	280	471	245
Customers' other sales	Feb. 17	31,585	42,085	50,756	28,619
Number of shares—Total sales	Feb. 17	890,110	1,209,250	1,467,551	815,590
Customers' short sales	Feb. 17	9,157	9,850	17,492	9,363
Customers' other sales	Feb. 17	880,953	1,199,400	1,450,059	806,227
Dollar value	Feb. 17	$37,516,646	$50,604,718	$58,418,339	$28,179,563
Round-lot sales by dealers—					
Number of shares	Feb. 17	257,770	347,300	475,230	288,140
Short sales	Feb. 17				
Other sales	Feb. 17	257,770	347,300	475,230	288,140
Round-lot purchases by dealers—					
Number of shares	Feb. 17	331,300	459,750	527,470	248,130
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Feb. 27	182.9	*183.3	180.9	153.0
Farm products	Feb. 27	201.6	*203.4	197.1	159.6
Grains	Feb. 27	189.3	192.3	189.6	162.9
Livestock	Feb. 27	266.3	270.9	257.0	200.7
Foods	Feb. 27	188.7	*189.5	185.2	157.2
Meats	Feb. 27	273.2	274.3	265.5	219.2
All commodities other than farm and foods	Feb. 27	171.1	170.9	170.0	146.0
Textile products	Feb. 27	181.9	181.8	180.9	138.0
Fuel and lighting materials	Feb. 27	137.8	137.6	136.2	131.2
Metals and metal products	Feb. 27	188.7	188.7	188.7	168.5
Building materials	Feb. 27	227.9	226.7	225.4	193.6
Chemicals and allied products	Feb. 27	148.5	147.7	144.9	115.2

*Revised figure. ¶Includes 475,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of February:	$	$	$
Total U. S. construction	1,271,045,000	1,266,892,000	686,215,000
Private construction	932,612,000	682,593,000	411,984,000
Public construction	338,433,000	584,299,000	274,231,000
State and municipal	260,680,000	300,704,000	210,443,000
Federal	77,753,000	283,595,000	63,688,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—			
As of Jan. 31 (000's omitted)	$356,000	$333,000	$258,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939 = 100)—Month of January	353.8	*315.1	276.8
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES:			
Lint—Consumed month of January	1,040,891	784,057	729,738
In consuming establishments as of Feb. 3	2,253,240	1,998,850	1,750,068
In public storage as of Feb. 3	5,636,221	6,663,560	10,167,592
Linters—Consumed month of January	116,031	110,250	135,464
In consuming establishments as of Feb. 3	299,494	297,087	298,011
In public storage as of Feb. 3	121,541	117,873	56,961
Cotton spindles active as of Feb. 3	20,900,000	20,730,000	20,227,000
COTTON SPINNING (DEPT. OF COMMERCE):			
Spinning spindles in place on Feb. 3	23,201,000	23,149,000	23,286,000
Spinning spindles active on Feb. 3	20,900,000	20,730,000	20,217,000
Active spindle hours (000's omitted) Feb.	13,273,000	9,376,000	9,091,000
Active spindle hours per spindle in place Feb.	541.8	523.2	496.0
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-1939 AVERAGE = 100—Month of January:			
Sales (average monthly), unadjusted	237	441	*181
Sales (average daily), unadjusted	233	450	*185
Sales (average daily), seasonally adjusted	291	266	*231
Stocks, unadjusted	240	239	*201
Stocks, seasonally adjusted	273	263	*228
HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE — (AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION)—Month of January:			
Factory sales of washers (units)	321,092	377,013	275,576
Factory sales of ironers (units)	24,600	38,800	20,300
Factory sales of dryers (units)	31,935	41,418	19,495
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of January (1935-39 average = 100)	127.7	127.1	117.3
METAL PRICES (E. & M. J. QUOTATIONS)—			
Average for month of February:			
Copper (per pound)—			
Electrolytic domestic refinery	24.200c	24.200c	18.200c
Electrolytic export refinery	24.425c	24.425c	18.425c
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)	90.160c	88.709c	73.250c
Silver, London (pence per ounce)	78.500d	76.568d	64.000d
Sterling Exchange (Check)	$2.80000	$2.79972	$2.79750
Zinc (per pound)—East St. Louis	17.500c	17.500c	9.750c
Tin (per pound)—			
New York Straits	182.716c	171.779c	74.352c
‡‡New York, 99% min.	181.716c	170.779c	73.352c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$215.273	$195.000	$71.000
‖Antimony (per pound) (E. & M. J.)	45.280c	38.742c	30.598c
Antimony (per pound), bulk, Laredo	42.000c	35.462c	27.318c
Antimony (per pound), in cases, Laredo	42.500c	35.962c	27.818c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$90.000	$90.000	$66.000
†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	$2.10000	$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	50.500c	40.000c
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Feb.:			
Industrials (125)	6.53	6.58	6.49
Railroad (25)	5.94	5.73	6.85
¶¶Utilities (24)	5.64	5.81	5.33
Banks (15)	4.48	4.73	4.32
Insurance (10)	3.52	3.52	3.28
Average yield (200)	6.27	6.32	6.24
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS ASSOC.)—Month of Jan.:			
Total number of vehicles	569,460	*611,243	560,063
Number of passenger cars	459,567	*507,120	475,495
Number of motor trucks	109,262	*103,522	84,374
Number of motor coaches	631	*601	194
RAILROAD EARNINGS — CLASS I ROADS (ASSOCIATION OF AMERICAN RRS.) — Month of December:			
Total operating revenues	$927,930,231	$862,200,971	$710,822,417
Total operating expenses	645,421,522	618,610,515	568,470,428
Operating ratio-per cent	69.55%	71.75%	79.97%
Taxes	$154,803,205	$119,090,878	$57,868,309
Net railway operating income before charges	113,318,982	110,000,603	68,770,310
Net income after charges (est.)	121,000,000	86,000,000	51,000,000
Number of motor coaches	631	*601	194
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION —Month of December (000's omitted):			
Savings and loan associations	$375,716	$406,464	$337,474
Insurance companies	152,586	172,066	103,397
Bank and trust companies	277,178	297,274	230,692
Mutual savings banks	92,715	112,062	82,420
Individuals	188,234	201,834	171,359
Miscellaneous lending institutions	234,466	267,373	199,858
Total	$1,320,895	$1,457,073	$1,125,200
ZINC OXIDE (BUREAU OF MINES) — Month of December:			
Production (short tons)	20,170	18,980	10,743
Shipments (short tons)	20,256	19,241	10,876
Stocks at end of month (short tons)	9,911	9,997	9,960

*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. ¶¶Not including stock of American Tel. & Tel.

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What Protection Against Inflation

rent control. In France apartment rents have for many years been held near their 1914 levels, despite a 99% depreciation in the franc. Only now are some temporary increases being permitted there. And now in this country we see that rent ceilings constitute the type of price control easiest and most popular to impose—voting tenants so far outnumbering the landlords. So, city real estate may well be merely an investor's cemetery.

Farm real estate has always kept pace with rises in price levels, in this and other countries. But here the mechanics are most difficult, if not insuperable, for the private investor. First the right farmland must be chosen, and then there must be expert management of the land. For the average investor, unless he himself be an ex-farmer, the only way out is through a tenant farmer, whose choice and control offers many difficulties.

The purchase of commodities would seem to present another obvious hedge—since a rise in the commodity price level is part and parcel of the inflationary process. But the holding of commodities is highly impracticable for most private individuals. There is the mechanical difficulty of arranging storage facilities; and the incurrence of storage *charges* instead of gaining *income* from securities. If his anticipation of the price level is wrong, he will be doubly punished with storage charges as well as a shrinkage in his capital. If he buys non-durable commodities the individual will be licked by physical depreciation; and now in the case of durable commodities, he will be estopped by the anti-hoarding laws and by other restrictions bound up with the government's armament economy controls and priorities.

Hence, by a sort of process of elimination, the capital-holding citizen is virtually forced to find his anti-inflation refuge in securities. So let us consider what he can gain here—the disadvantages as well as the advantages.

The Economic Forecast the First Difficulty

Deciding the net effect of the economy's opposing inflationary and deflationary elements surely is difficult enough. On the one hand, we must remember that along with expansion of the money supply and facets of the world-wide long-term process of politically-promoted monetary debasement, there are also strongly counterbalancing offsets. In war and semi-war times they include government controls and taxation; and permanently the nation's enormous plant capacity, potential industrial and agricultural overproduction, and ever-rising taxation.

Surely still existing are chronically deflationary forces, such as the nation's enormous productive (overproductive in some fields) capacity, which would of course be accentuated during a possible reduction of the armament, including stock-piling, activties. In addition to the potentially enormous supply of goods and services available for civilian consumption (probably exceeding any period excepting 1948-1950), deflationary factors include increasingly heavy taxation, decreased purchasing power by the consumer, and inventory surpluses. Also we must not lose sight of buyers' psychology and buyers' resentment, whose effectiveness was recently manifested in the precipitate 25% drop in the steak price through housewife forebearance.

Stocks Not Tied to the Commodity Price Level

Even assuming the correctness of a forecast of general inflation, its translation into presumption of a stock price rise raises basic doubts. Actually, equity shares are not commodities with inherent value, nor are they tied automatically to prices. Rather are they correlated with profits and the shareholder's "net-net"—after corporate and individual income tax—take-home pay. The fact that so many stocks of well-managed companies consistently sell below their book and replacement values throughout inflationary periods proves that they are not tied to the general price level. **Stock prices reflect gain-able earnings rather than plant and equipment reproduction costs.** Even in the celebrated German inflation after World War I, the real rise in common stocks occurred only after the drastic collapse of the monetary unit in 1921.

The European Experience

The post-World War I experience of European countries, as France, Germany, Austria, and Italy, constitutes a useful laboratory for scrutinizing the process of large-scale inflation. In France, wholesale commodity prices climbed to eight times their 1913 level. In Italy, they rose six-fold, while in Germany by 1922 they stood at 147,500% of their 1913 figure, and by 1923 the increase was 1.5 trillion to 1. The wealthier possessors of capital tried to protect themselves by buying securities.

Not only the holder of bonds, on whom inflations have wrought havoc in the form of both capital shrinkage and loss of purchasing power, but the shareholder as well has found the difficulties insuperable. In the overall picture, stocks have given much better protection than bonds or cash, but have lagged far behind the concurrent rises in commodity prices, or the degrees of currency depreciation. Thus, in France, at the time of the currency stabilization of 1926, stock prices had risen to only 250% of their 1913 prewar level against 800% for wholesale prices; in Germany, from 1913 to 1923 stock prices offset only one-fifth of the commodity price rise. In other words, in France the stockholder's position deteriorated by about 45%, and in Germany by 35%. In the German inflation between 1914-23 cost of living rose 2,355 times, common stocks by 417.

Europe's Second World War Experience

A somewhat similar pattern of inadequate inflation-protection by European equities has existed during the period surrounding World War II. In France the rentier has been ruined—a government bond price decline of 40% combined with a 17-fold increase in his cost of living has in effect inflicted on him a capital levy of over 90%. The holder of common stocks, faring considerably more poorly than the owners of rural land or gold, has nevertheless thereby been able to retrieve 66% of the concurrent rise in his living costs.

In Great Britain, between 1933 and the present, while the cost of living has risen by 92% and the wage-earner has gained in real income, consols stand unchanged, while stocks have risen 32%. Since 1945 and the subsequent advent of the Labor Government, plus a devaluation, the equity shareholder has suffered a 10% shrinkage in his capital, while his cost of living has risen by 25%.

The following figures evidence the proportion of the cost-of-living rise which was offset by the concurrent rise in common stocks, in each of the important countries between 1938 and the end of 1950.

Italy	35%
France	56
Belgium	31
Argentina	280
India	24
United Kingdom	35
Sweden	18
U. S. A.—	
1938-49	31
1938-50	72

The United States Experience

In this country no consistent correlation has been evidenced between monetary expansion and commodity price increases on the one hand, and common stock price rises on the other. In fact, in the late 1920s the converse occurred; the wildest bull stock market occurring in the face of a declining commodity price level. In the mid-1930s concurrent credit and stock market expansions took place. But since 1938 the traditional divergence has been constant, during both short and long periods. Over the period 1939-1948 (terminating before the start of the 50% advance of the current bull stock market) wholesale prices rose by 100% and the cost of living by 71%; yet stocks, via the Dow-Jones Industrial Average, rose only by 16%. Over the entire period to date, which takes in the past 12-month stock rise, stock prices have risen considerably less than the cost of living, 50% versus 73%.

Similar divergence occurred during shorter periods. Between 1937 and 1942 an appreciable expansion in the money supply was accompanied by a 50% decline in share prices. Post-OPA, when inflation really took hold in the economy, stock prices broke sharply and remained depressed. Between June, 1946 and 1948, wholesale prices rose 40% and the cost of living 30%, but the stock averages fell by 10% net.

It is quite possible that we are now stationed in the mere foothills of inflation, with the real heights still before us. But beginning one's investment journey even at the top of a foothill, and becoming hung-up there for months, years, or decades, can entail anguish if not disaster.

So—we must come to the conclusion that real inflation-protection to the owner of money cannot be gained from *any* form of *investment*. The real protection for him—as well as for the non-pressure group citizen—must come from government policy itself.

What the Government Can and Must Do

One underlying difficulty hindering thorough remedial anti-inflation measures is that too much of the community becomes frozen into the inflation picture—that is, too many people have a stake in its continuation, only give high-sounding lip service toward "the great war" on it, or at best fight it in the case of everyone excepting themselves.

The public must realize that price controls attack effects and not causes, are impracticable, and at best put only a temporary lid on a rising price level.

The weapon of taxation should be used non-politically forthwith to curtail the great flooding of the spending stream with armament earnings leavened with the current buyer's *scare* psychology. To reduce spendable income wherever it is, *tax policy must be removed from the political sphere*, raising the imposts on lower and middle-income groups in lieu of relying on progressive "soaking-of-the-rich"; and obviously higher and much broader excise taxes should be imposed. Taxation must be used effectively to keep the demand for goods and services within the bounds of the available supply.

The economic, even if not political, need for a general sales tax and excise taxes is unassailable.

Timing Difficulties

The *timing* of inflationary movements is an element whose existence is too often completely unrealized, and importance practically always not appreciated. First, there is timing as applied to the general economy's inflation. Just let me point out that, despite the many and varied inflationary influences in peace and war throughout the 1930s and 1940s, after the post-World War I inflation peak of 1920, it took a full 25 years for the dollar's purchasing power to sink back to its 1920 level. During the monetary expansion from 1937 through 1941, the cost-of-living index remained practically stationary (and common stocks fell by almost one-half).

Even after the general inflationary trend has been correctly guessed, there still remains a second phase of the timing difficulty confronting our inflation-ducking owner of capital. This results from the part of our "parlay" requiring the winning of the bet on whether the market will follow the economy's inflation. And such correlation can by no means be taken for granted. We must remember that during the wartime inflation of 1917 stocks broke 50% in a seven-month period. There was also a halving of stock market prices 'midst the 1937-1942 period of monetary expansion. Similarly in the post-OPA decontrolling period of 1946-1948, when inflation really took hold on the economy and commodity prices rose by 40% and the cost of living by 30%, the stock price averages nevertheless fell by 10% net. Likewise, over the longer term, the 82% rise in commodity prices since 1929 has been accompanied by a net decline of 35% in the average price of stocks.

The present shadow-boxing with non-defense extravagance must be stopped. It is not so much the matter of possible budgetary deficits; but the extra dollars pushed out in the spending stream and the undermining of the public's confidence in the currency through demonstrated mismanagement that are important.

Increase of production undeniably is one of the basic effective weapons to keep down the price level and preserve the dollar's value. But the multitude of orders now emanating from Washington curbing the use of materials, the slaughtering of animals, and imports, surely are not aiding a production upsurge.

"Scare-buying" gives an artificial lift to the price level via "borrowing from the future." And surely Washington officials' long string of publicized pronouncements have given a 100% push in this direction—viz. the successive statements about imminent shortages, the dire need for price ceilings, and statements such as Administrator DiSalle's current statistically pin-pointed prediction of a further 5-6% price rise by mid-year.

We cannot here go into the important issues manifested in the publicized "civil war" between the Treasury and the Federal Reserve Board. Suffice it to say that maintenance of the interest rate must not be permitted to paralyze the Federal in its use of open-market operations for contracting the credit base. The Reserve System must not be made a "doormat" for the Treasury's financing purposes. Prostitution of the central bank recurrently has been part and parcel of currency debauchery throughout the world. Recognition of this by the public is another stimulant to its flight from the currency and the propulsion of inflation.

"Pending" Policy

Who knows whether, or when, such constructive remedial action of a fundamental nature will be taken? The topic assigned to me is not concerned with this question — fortunately! Instead, my theme is determining the attitude the individual shall follow in the real world of inflation-deflation and politically-dictated manhandling of the free enterprise system. In this vein my "net" advice to the individual is:

(1) Join a pressure group, if possible.

(2) With your capital, *diversify* among both common stocks and savings media, including Series E U. S. Savings Bonds.

In this way you will be insulated, emotionally as well as financially, from the drastic effects of the recurrent but unpredictable up-*and*-down savings.

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Dealer-Broker Investment Recommendations and Literature

National Company, Inc.—Analysis—J. B. Maguire & Co., Inc., 31 Milk Street, Boston 9, Mass.

Nopco Chemical Company—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Oliver Corp.—Memorandum—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.
Also available is a memorandum on **Sears, Roebuck & Co.** and a brief report on the **Buda Company.**

Otis Elevator Co.—Memorandum—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.
Also available is a memorandum on **Standard Brands.**

Placer Development, Ltd.—Analysis—John R. Lewis, Inc., 1006 Second Avenue, Seattle 4, Wash.

Portland General Electric Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Potomac Electric Power vs. Long Island Lighting Co.—Memorandum—Josephthal & Co., 120 Broadway, New York 5, N. Y.

Public Service of New Mexico—Data—Floyd A. Allen & Company, 650 South Frand Avenue, Los Angeles 14, Calif.
Also available are data on **Lindsay Light & Chemical Company** and **F. H. McGraw & Company.**

Remington Rand, Inc.—Analysis—Kean, Taylor & Co., 14 Wall Street, 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.** and on **Seneca Falls Machine Co.**

Sheraton Corporation—Bulletin—Faroll & Company, 209 South La Salle Street, Chicago 4, Ill.
Also available are data on **United Air Lines Inc.**

Trailmobile Co.—Analysis—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alhambra Gold Mines Corp., Hollywood, Calif.
Nov. 1 filed 80,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For further development of mine and for working capital.

Alliance Tire & Rubber Co., Ltd.
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. **Offering**—To be made through private channels.

Allied Laboratories, Inc. (3/12-13)
Feb. 19 filed 50,000 shares of common stock (no par). **Price**—To be related to the market price for the outstanding shares on the Midwest Stock Exchange. **Underwriter**—Goldman, Sachs & Co., New York. **Proceeds**—For expansion program and working capital. **Meeting**—Stockholders will vote March 13 on authorizing 100,000 additional shares of common stock.

American Dairy Products Corp., N. Y.
Feb. 16 filed 300,000 shares of preferred stock (par $4) and 300,000 shares of common stock (par 10 cents) to be offered in units of one share of preferred and one share of common stock. **Price**—$5 per unit. **Underwriters**—Emanuel, Deetjen & Co. and Barrett Herrick & Co., Inc., both of New York. **Proceeds**—To acquire plant, to pay indebtedness and for working capital. Expected after the middle of the month.

American Gas & Electric Co. (3/29)
Feb. 28 filed 339,832 shares of common stock (par $10), to be offered to common stockholders on or about March 30, 1951, on the basis of one share for each 15 shares held, together with an oversubscription privilege; rights to expire April 17. **Price**—To be supplied by amendment. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Union Securities Corp.; Dillon, Read & Co. Inc.; with bidders to name compensation following company's naming of price. **Proceeds**—To be invested in equity securities of operating subsidiaries as part of the System's plan for financing its large construction program. **Bids**—Expected to be received on March 29.

American Hospital Supply Co. (3/20)
Feb. 28 filed 175,000 shares of common stock (par $4), of which 150,000 shares are to be offered to public through underwriters and 25,000 shares to employees. **Price**—To be supplied by amendment. **Underwriters**—Harris, Hall & Co., Inc., and Union Securities Corp. **Proceeds**—For expansion and general corporate purposes. **Business**—Hospital equipment.

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. and Harriman Ripley & Co., Inc., New York, and other members of the NASD. **Proceeds**—To make investments in certain enterprises.

American Telephone & Telegraph Co.
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.

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.
Jan. 30 filed 819,737 shares of common stock (par $10) now being offered for subscription by common stockholders of record Feb. 26, 1951, on the basis of one share for each five shares held; rights to expire on March 14, 1951. **Price**—$41 per share. **Underwriters**—Smith, Barney & Co. and W. E. Hutton & Co. **Proceeds**—For expansion program and additional working capital. Statement effective Feb. 27.

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.

• **Atlantic Steel Boiler Co., Inc. (Del.)**
Feb. 28 (letter of notification) 5,000 shares of capital stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To acquire capital stock of Atlantic Steel Boiler Co. (Pa.), to purchase equipment and raw materials and for working capital and general corporate purposes. **Office**—22nd Street and Washington Avenue, Philadelphia, Pa.

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.

Bachmann Uxbridge Worsted Corp. (3/15)
Feb. 21 filed 300,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriters**—Kidder, Peabody & Co. and Bear Stearns & Co. **Proceeds**—To 11 selling stockholders.

Baldwin-Lima-Hamilton Corp.
Feb. 8 filed 486,312 shares of common stock (par $13) to be issued in exchange for 303,945 shares of Austin-Western Co. common stock on basis of 1⅗ shares of Baldwin for one Austin-Western share. **Underwriter**—None.

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. Statement effective Feb. 21.

• **Burlington Mills Corp., Greensboro, N. C.**
March 5 filed 300,000 shares of convertible preference stock (par $100). **Price**—To be supplied by amendment. **Underwriter**—Kidder, Peabody & Co., New York. **Proceeds**—For additions and improvements to plant and equipment. Expected at end of month.

Bymart, Inc., New York
Feb. 28 filed 5,000 shares of 5% cumulative preferred stock (par $100) and 50,000 shares of common stock (par $1) to be offered "as a speculation," in units of one share of preferred and 10 shares of common stock. **Price**—$200 per unit. **Underwriter**—None. **Proceeds**—to repay bank loans and purchase equipment. **Business**—Production and sale of "Tintair."

Canadian Breweries, Ltd.
Feb. 8 filed 61,220 shares of common stock (no par) to be offered in exchange for Brewing Corp. of America common stock on basis of two shares for each Brewing Corp. share held. **Underwriter**—None, but Georgeson & Co., New York, will solicit exchanges. Statement effective Feb. 28.

Canadian Prospect, Ltd. (3/12-17)
See Prospect Exploration Ltd. below.

Carolina Power & Light Co. (3/20)
Feb. 28 filed 200,000 shares of common stock (no par). **Price**—To be supplied by amendment. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane, New York; and R. S. Dickson & Co., Inc., Charlotte, N. C.—**Proceeds**—For construction program.

Central Illinois Electric & Gas Co. (3/21)
Feb. 28 filed 25,000 shares of cumulative preferred stock, series C (par $100). **Price**—To be supplied by amendment. **Underwriter**—Stone & Webster Securities Corp., New York. **Proceeds**—For construction program. **Offering**—Tentatively expected about the middle of March.

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.

Chanslor & Lyon-Palace Corp., San Francisco
Feb. 6 (letter of notification) 11,111 shares of capital stock (par $5). **Price**—At market (estimated at $9 per share). **Underwriter**—Hooker & Fay, San Francisco, Calif. **Proceeds**—To six selling stockholders. **Office**—730 Polk Street, San Francisco, Calif.

• **Columbine Development Co., Grand Junction, Colorado**
Feb. 28 (letter of notification) 2,091 shares of common stock (par $10). **Price**—$12.50 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—614 Rood Ave., Grand Junction, Colo.

• **Consolidated Engineering Corp., Pasadena, California**
Feb. 23 (letter of notification) 345 shares of common stock (par $1), to be issued to H. W. Ruby pursuant to an option agreement at 100/115th of $5 per share, or for a total of $1,500. **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.

Consumers Power Co. (3/27)
Feb. 23 filed $40,000,000 of first mortgage bonds, due 1981, with interest not exceeding 2⅞% and maturing not earlier than 1981. **Unlerwriters**—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 at 11 a.m. (EST) on March 27.

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.

Cribben & Sexton Co., Chicago, Ill.
Feb. 5 (letter of notification) 1,000 shares of common stock (par $5). **Price**—$5.50 per share. **Underwriters**—David Noyes & Co. and Swift, Henke Co. of Chicago, Ill. **Proceeds**—To selling stockholder.

Crossett Lumber Co., Crossett, Ark.
Feb. 16 (letter of notification) an unspecified number of shares of common stock (par $5) to raise approximately $300,000. **Price**—$21.50 per share. **Underwriter**—Equitable Securities Corp. of Nashville, Tenn. **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.

Day Mines, Inc., Wallace, Ida.
Feb. 21 (letter of notification) 58,425 shares of common stock (par 10 cents), of which 48,425 shares are to be publicly offered at $4 per share by the escrow agent, without underwriting, and the remaining 10,000 shares are to be issued in exchange for 10 patented mining claims in the Hunter Mining District.

• **Detroit Edison Co. (3/30)**
March 1 filed not exceeding 850,000 shares of common stock to be offered to common stockholders of record March 30, 1951 on basis of one share for each 10 shares held; rights to expire April 26. **Price**—At par ($20 per share). **Underwriters**—None. **Proceeds**—For construction program.

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.

Electronic Computer Corp., Brooklyn, N. Y.
Feb. 2 (letter of notification) 90,000 shares of class B non-voting common stock (par $1). **Price**—$3 per share. **Underwriters**—Pioneer Enterprises, Inc., Bluefield, W. Va., and G. H. Hecht of Washington 5, D. C. **Proceeds**—To provide working capital.

First Securities Corp., Philadelphia, Pa.
Feb. 26 (letter of notification) 200,000 shares of capital stock (par 1 cent). **Price**—50 cents per share. **Underwriter**—Corporation itself. **Proceeds**—For working capital and expansion program. **Office**—1520 Locust Street, Philadelphia, Pa.

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.

• **Fosgate Citrus Concentrate Cooperative, Forest City, Fla.**
March 2 filed 400 shares of class A membership stock (par $100); 5,000 shares of class B preferred stock (par $100); 8,000 shares of class C stock (par $100); 2,000 shares of class C stock (par $50); and 4,000 shares of class C stock (par $25). **Underwriter**—None. **Proceeds**—To construct and equip plant. **Business**—To process citrus fruit juices to a frozen concentrate form.

General Telephone Corp. (3/14-15)
Feb. 27 filed 225,000 shares of common stock (par $20). **Price** — To be supplied by amendment. **Underwriter**—Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; Mitchum, Tully & Co.; and others. **Proceeds**—To repay bank loans and for new construction.

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.

● **Green Bay Drop Forge Co., Green Bay, Wis.**
Feb. 27 (letter of notification) $200,000 of first mortgage 5% serial bonds due annually Feb. 1, 1952 to Feb. 1, 1961, inclusive. **Price**—At par and accrued interest. **Underwriter**—None. **Proceeds**—To pay debt and for working capital.

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.

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.

● **Honeybugs, Inc., Brooklyn, N. Y.**
Feb. 28 (letter of notification) $250,000 of 3-year 5% unsecured bonds due Feb. 15, 1954 (in denominations of $1,000 and $5,000 each). **Price**—At par and interest. **Underwriter**—None. **Proceeds**—To expand and increase volume of production and business. **Office**—601—39th Street, Brooklyn, N. Y.

● **Income Indemnity, Inc., Kansas City, Mo.**
Feb. 26 (letter of notification) 1,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—234 West 53rd Terrace, Kansas City, Mo.

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.

Jamaica Water Supply Co.
Feb. 7 (letter of notification) 4,545 shares of common stock (no par). **Price**—At market (estimated at $22 per share. **Underwriter**—Blyth & Co., Inc., New York, who has agreed to purchase said shares for resale to public. **Proceeds**—To selling stockholders.

Jerry Fairbanks, Inc., Hollywood, Calif.
Feb. 16 (letter of notification) 193,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—D. Gleich Co., New York. **Proceeds**—For production of motion pictures for theatrical and television purposes and for working capital.

Jersey Central Power & Light Co. (3/27)
Feb. 21 filed $1,500,000 first mortgage bonds due in 1981. **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 at noon (EST) on March 27.

Jersey Central Power & Light Co. (3/27)
Feb. 21 filed 40,000 shares of cumulative 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.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly). **Proceeds**—From sale of preferred, together with proceeds to be received from the sale of 350,000 additional common shares to General Public Utilities Corp., the parent, will be used for new construction. **Bids**—Tentatively scheduled to be received at noon (EST) March 27.

● **Jones & Laughlin Steel Corp. (3/26-31)**
March 5 filed 1,000,000 shares of common stock (par $10). **Price**—To be supplied by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—From sale of stock, together with other corporate funds, to retire $40,000,000 in serial notes issued on Feb. 1, 1951, in connection with expansion program. Expected week of March 26.

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.

Kittanning Telephone Co., Kittanning, Pa.
Feb. 15 (letter of notification) 6,021 shares of capital stock (par $25) being offered, first to stockholders of record Feb. 24 at rate of 223/1000ths of a share for each share held; right to expire on March 31. Unsubscribed shares to be offered publicly. **Price**—$45 per share. **Underwriter** — None. **Proceeds** — To convert to dial equipment and for expansion program. **Office** — 208 Arch Street, Kittanning, Pa.

Lake Superior District Power Co.
Feb. 5 filed 42,344 shares of common stock (par $20) now offered to common stockholders of record Feb. 16 on a one-for-five basis; rights to expire March 12. **Price**—$22.75 per share. **Underwriters**—Robert W. Baird & Co., Inc., Milwaukee, Wis. **Proceeds**—For new construction. Statement effective Feb. 23.

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. **Bids**—Only one bid was received on March 5, which was rejected. Halsey, Stuart & Co. Inc. bid 100.20 for the bonds as 3¼s. It is the company's present intention to readvertise for bids on the issue.

NEW ISSUE CALENDAR

March 8, 1951

Northern Pacific Ry., noon (EST)—Equip. Tr. Ctfs.

March 12, 1951

Allied Laboratories, Inc.—Common
Canadian Prospect, Ltd.—Common
Piedmont Natural Gas Co., Inc.—Common
Prospect Exploration, Ltd.—Common

March 14, 1951

General Telephone Corp.—Common

March 15, 1951

Bachmann Uxbridge Worsted Corp.—Common
Seaboard Air Line RR., noon (EST)—Eqp. Tr. Ctfs.

March 19, 1951

Pacific Gas & Electric Co.—Common

March 20, 1951

American Hospital Supply Co.—Common
Carolina Power & Light Co.—Common
Illinois Central RR., noon (CST)—Equip. Tr. Ctfs.
Lorillard (P.) Co.—Debentures
Middle South Utilities, Inc., 11 a.m. (EST)—Com.
Oregon Washington Telephone Co.—Pfd. & Com.
Pennsylvania Power Co., 11 a.m. (EST)—Preferred

March 21, 1951

Central Illinois Electric & Gas Co.—Preferred
Lorillard (P.) Co.—Common
River Brand Rice Mills, Inc.—Common

March 22, 1951

Great Northern Ry., noon (EST)—Equip. Tr. Ctfs.

March 26, 1951

Jones & Laughlin Steel Corp.—Common
New Hampshire Fire Insurance Co.—Common

March 27, 1951

Consumers Power Co., 11 a.m. (EST)—Bonds
Jersey Central Power & Light Co., noon (EST)—Bonds & Pfd.

March 29, 1951

American Gas & Electric Co.—Common

March 30, 1951

Detroit Edison Co.—Common

April 3, 1951

Potomac Edison Co.—Bonds
Southern Co., 11:30 a.m. (EST)—Common

April 9, 1951

Public Service Co. of Oklahoma—Bonds

April 19, 1951

Illinois Central RR.—Equip. Trust Ctfs.

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

Lithium Corp. of America, Inc.
Feb. 19 (letter of notification) 1,000 shares of common stock (par $1). **Price** — $6.75 per share. **Underwriter** — Riter & Co., Chicago, Ill. **Proceeds**—To Willis W. Osborne, the selling stockholder.

● **Lithium Corp. of America, Inc.**
Feb. 28 (letter of notification) 12,500 shares of common stock (par $1). **Price**—At market (approximately $6.87½ per share). **Underwriters**—Peltason, Tenenbaum Co., St. Louis Mo.; and Riter & Co., Chicago, Ill. **Proceeds**—To Karl M. Leute of Minneapolis, Minn., the selling stockholder.

● **Lorillard (P.) Co., New York (3/21)**
Feb. 28 filed 249,600 shares of common stock (par $10) to be offered to common stockholders of record March 21 at rate of one share for each nine shares then held; rights to expire about April 4. **Price**—To be filed by amendment. **Underwriters**—Lehman Brothers and Smith, Barney & Co., New York. **Proceeds**—To reduce bank loans.

● **Lorillard (P.) Co., New York (3/20)**
Feb. 28 filed $15,000,000 of 25-year debentures due March 1, 1976. **Price**—To be filed by amendment. **Underwriters**—Lehman Brothers and Smith, Barney & Co., New York. **Proceeds**—To pay at maturity (Aug. 1, 1951) $6,195,450 of 5% gold bonds and to reduce bank loans.

Maine Central RR.
Feb. 12 (letter of notification) 4,800 shares of common stock (par $100). **Price**—At market. **Underwriter**—Stillman, Maynard & Co., New York. **Proceeds**—To selling stockholder.

Maryland Credit Finance Corp., Easton, Md.
Feb. 19 (letter of notification) 2,100 shares of 6% cumulative preferred stock (par $100). **Price**—$102.50 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—National Bank Bldg., Easton, Md.

● **Mathie-Ruder Brewing Co., Wausau, Wis.**
Feb. 26 (letter of notification) 7,000 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To retire debt and for working capital. **Office**—416 Grand Ave., Wausau, Wis.

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.

Metal Products Mfg. Co. Inc.
Feb. 12 (letter of notification) 25,000 shares of class A voting common stock (par $1). **Price**—$5 per share. **Underwriter**—James T. DeWitt & Co., Washington, D. C. **Proceeds**—For organizational expenses and working capital. **Office**—Wolfe and Jackson Sts., Fredericksburg, Va.

Mexican Gulf Sulphur Co.
Feb. 16 (letter of notification) 42,800 shares of common stock (par 10 cents). **Price**—At the market (estimated at $7 per share. **Proceeds**—To further develop company's properties and for general working capital.

Middle South Utilities, Inc. (3/20)
Feb. 21 filed 450,000 shares of common stock (no par). **Underwriter**—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 invest $8,000,000 in additional common stock of Arkansas Power & Light Co., a subsidiary, and for new construction. **Bids**—Expected to be received up to 11 a.m. (EST) on March 20.

Morton Oil Co., Casper, Wyo.
Feb. 21 (letter of notification) 100,000 shares of common stock (par 10 cents). **Price**—60 cents per share. **Underwriter**—Lasser Bros., New York. **Proceeds**—To Gordon R. Kay, the selling stockholder.

● **Mountain States Power Co.**
March 7 filed $5,500,000 of first mortgage bonds due April 1, 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Kidder, Peabody & Co. **Proceeds**—To repay bank loans and for new construction.

● **Mountain States Power Co.**
March 7 filed 150,000 shares of common stock (par $7.25). **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To repay bank loans and for expansion program.

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 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, 130,281 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); Lehman Brothers; 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.

● **New Hampshire Fire Insurance Co. (3/26)**
March 5 filed 75,000 shares of capital stock (par $10) to be offered to stockholders of record March 26, 1951 at rate of one share for each four shares held; rights will expire on April 10, 1951. **Price**—To be supplied by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—To increase capital and surplus.

Norris Oil Co., Bakersfield, Calif.
Feb. 7 (letter of notification) 1,000 shares of capital stock (par $1). **Price**—500 shares at $3.50 each and 500 at $4 each. **Underwriter**—E. F. Hutton & Co., Los Angeles, Calif. as to 500 shares. **Proceeds**—To A. W. Scott, a selling stockholder.

● **Oklahoma Gas & Electric Co.**
March 5 filed 215,380 shares of common stock (par $10) to be offered to common stockholders of record April 5, 1951 at rate of one share for each 10 shares held. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds**—For construction program.

Oregon-Washington Telephone Co. (3/20)
Feb. 14 (letter of notification) 1,500 shares of 5% cumulative preferred stock (par $100) and 5,000 shares of common stock (no par). **Price**—$100 per share for the

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preferred and $22 for the common. **Underwriter**—Conrad, Bruce & Co., Portland, Ore. **Proceeds**—For construction work.

Pacific Gas & Electric Co. (3/19)
Feb. 21 filed 1,419,562 additional shares of common stock (par $25) to common stockholders of record on March 13, 1951 on the basis of one share for each seven shares held (with an oversubscription privilege); rights to expire on April 4, 1951. The subscription period is expected to open March 19. **Price**—To be supplied later. **Underwriter**—To be supplied by amendment. May be Blyth & Co., Inc., New York. **Proceeds**—To be applied toward new construction, estimated to cost $130,000,000 in 1951.

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.

Palestine Economic Corp., New York
Feb. 15 filed 200,000 shares of common stock (par $25). **Price**—$28 per share. **Underwriter**—None. **Proceeds**—For further development of Israel industry.

Pan American Milling Co., Las Vegas, Nev.
Jan. 24 filed 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.

Park-Ad Co., Chicago, Ill.
Feb. 19 (letter of notification) 1,500 shares of preferred stock and 1,500 shares of common stock. **Price**—The preferred at $100 per share and the common at $1 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—333 No. Michigan Ave., Chicago, Ill.

Pennsylvania Power Co. (3/20)
Feb. 16 filed 40,000 shares of preferred stock (par $100). **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.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—From sale of preferred stock, together with proceeds from sale to Ohio Edison Co., parent, of 40,000 additional common shares (par $30) for $1,200,000 cash, will be used to finance in part the company's construction program for 1951. **Bids**—Expected to be received up to 11 a.m. (EST) on March 20. **Additional Financing**—It is estimated an additional $7,000,000 of financing will be required before the end of 1952.

Pepsi-Cola Bottling Co. of Washington, D. C., Inc.
Feb. 20 (letter of notification) 50,000 shares of common stock (par 10 cents). **Price**—40 cents per share. **Underwriter**—Ferris & Co., Washington, D. C. **Proceeds**—To go to Samuel Schwartzman, the selling stockholder.

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. Not consummated. Registration subsequently withdrawn.

● **Piedmont Mines, Inc., Hilltop, Ariz.**
Feb. 26 (letter of notification) 1,698 shares of common stock (par $100), of which 933 shares are to be issued in exchange for promissory notes held by Ernest Watson and Victor L. Gould, 446 shares to be issued to Dr. R. L. Crudgington for a mill purchased and erected on mining property, 320 shares or less to be issued for services rendered by individuals.

Piedmont Natural Gas Co., Inc. (3/12-17)
Feb. 20 filed 100,000 shares of common stock (par $1) to be offered to common stockholders at rate of one share for each 2½ shares held. **Price**—$4.50 per share. **Underwriter**—White, Weld & Co., New York. **Proceeds** — To construct and operate six lateral pipe lines. Expected week of March 12 for a 10-day standby.

● **Potomac Edison Co. (4/3)**
March 2 filed $10,000,000 first mortgage and collateral trust bonds due April 1, 1981. **Underwriter**—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**—From sale of bonds, together with proceeds from sale of 200,000 shares of common stock to West Penn Electric Co. (parent) for $4,000,000, will be used for expansion program. **Offering**—Expected on April 3.

Prospect Exploration, Ltd. (3/12-17)
Feb. 9 filed 170,000 shares of common stock (par $1), of which 75,000 will be sold for the account of the company and 95,000 shares for selling stockholders. **Price**—$11 per share. **Underwriter**—White, Weld & Co., New York. **Proceeds**—To company for working capital and general working purposes. Name to be changed to Canadian Prospect, Ltd.

● **River Brand Rice Mills, Inc., N. Y. (3/21)**
Feb. 28 filed 245,500 shares of common stock (par $3.50). **Price**—To be supplied by amendment (probably about $15 per share). **Underwriter**—Lee Higginson Corp., New York. **Proceeds**—To 16 selling stockholders.

● **Rohm & Haas Co.**
March 1 (letter of notification) 900 shares of 4% preferred stock (par $100). **Price**—At market (about $106 per share). **Underwriter**—None, but F. S. Moseley & Co., Philadelphia, Pa., will handle sales. **Proceeds**—To Otto Haas, the selling stockholder.

Rotary Electric Steel Co.
Feb. 15 filed 48,419 additional shares of common stock (par $10) now offered for subscription by common stockholders of record March 5 at rate of one share for each four shares held; rights expire March 19. **Price**—$37 per share. **Underwriter**—W. E. Hutton & Co., Cincinnati, O. **Proceeds**—For expansion program and working capital.

Salem Gas Light Co., Salem, Mass.
Feb. 16 (letter of notification) 2,143⅓ shares of capital stock (par $10), to be offered on a two-for-three basis to stockholders of record Feb. 21, other than New England Electric System, owner of 93% of Salem stock, who will subscribe for an additional 28,092⅔ shares. Rights expire March 16. **Price**—$15 per share. **Underwriter**—None. **Proceeds**—To total $453,540, will be applied to the payment of indebtedness and to addition to plant.

● **Saul (B. F.) Co., Washington, D. C.**
Feb. 21 (letter of notification) $51,000 promissory notes to reimburse company for loans made to S. F. & W. Corp., Washington, D. C.

● **Seaboard Container Corp.**
March 1 (letter of notification) 12,000 shares of class A common stock (par $1). **Price**—$5.50 per share. **Underwriter**—Barrett Herrick & Co., New York. **Proceeds**—To Frederic R. Mann, President, who is the selling stockholder.

● **Shore Line Oil Co., Inc., Ft. Worth, Tex.**
Feb. 23 (letter of notification) 400 shares of common stock. **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds**—To drill well and for working capital. **Office**—203 Majestic Bldg., Fort Worth, Tex.

● **South Carolina Insurance Co., Columbia, S. C.**
Feb. 28 (letter of notification) 5,000 shares of common stock. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—To provide additional capital and surplus. **Address**—P. O. Box 1199, Columbia, S. C.

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 Petroleum Corp.**
Feb. 23 (letter of notification) 15,750 shares of common stock (par $2). **Price**—$19.25 per share for 13,250 shares and $17 per share for 2,500 shares. **Underwriter**—For 13,250 shares, J. Barth & Co., San Francisco, Calif. **Proceeds**—For working capital.

● **Southern Co. (4/3)**
March 2 filed 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; Harriman Ripley & Co., Inc. **Proceeds**—To purchase common stock of the following subsidiaries—Alabama Power Co., Georgia Power Co., Gulf Power Co. and Mississippi Co.—who will use the funds for construction expenses. **Bids**—Expected to be opened at 11:30 a. m. (EST) on April 3 at company's office, 20 Pine St., New York, N. Y.

Southern Industries Corp., Mobile, Ala.
Feb. 15 (letter of notification) 2,000 shares of common stock. **Price**—At par $100 per share. **Underwriter**—None. **Proceeds**—For additional working capital for subsidiaries, particularly Ewin Engineering Corp. **Office** — Waterman Bldg., Mobile, Ala.

Standard Factors Corp., New York
Feb. 23 (letter of notification) $100,000 of 5% subordinated debentures due Dec. 31, 1956, and 15,000 shares of common stock (par $1). **Price**—$950 per $1,000 debenture, and cash purchaser thereof may purchase 150 shares of stock at $2.70 per share. **Underwriter**—Crowell, Weedon & Co., Los Angeles 14, Calif. **Proceeds**—For working capital.

State Bond & Mortgage Co., New Ulm, Minn.
Feb. 5 filed $1,500,000 of accumulative savings certificates, series 1207-A at $95.76 per $100 principal amount and $15,000,000 of accumulative savings certificates, series 1217-A at $85.68 per $100 principal amount. **Underwriter**—None. **Business**—Investment.

● **Stein Roe & Farnham Fund, Inc.**
March 6 filed 75,000 shares of capital stock (par $25). **Price**—At market. **Underwriter**—None. **Proceeds**—For investment.

● **Superdraulic Corp., Detroit, Mich.**
Feb. 23 (letter of notification) 100,000 shares of non-cumulative convertible preferred stock (convertible into common stock (par $1) share-for-share). **Price**—At par ($1 per share). **Underwriter** — None. **Proceeds** — For working capital. **Office**—14256 Wyoming Ave., Detroit, Mich.

● **Tennessee Gas Transmission Co.**
March 7 filed 100,000 shares of cumulative preferred stock (par $100) and 400,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriters**—Stone & Webster Securities Corp. and White, Weld & Co., New York. **Proceeds**—To repay bank loans and for expansion of pipeline.

Trailmobile Co., Cincinnati, Ohio
Feb. 15 (letter of notification) 3,000 shares of common stock (par $5). **Price**—At the Market. **Underwriter**—None, but Bear, Stearns & Co., New York, will offer the shares for the seller on the New York over-the-counter market. **Proceeds**—To George M. Bunker, President, the selling stockholder. This offering has been withdrawn.

● **Trango Corp., New York**
March 1 (letter of notification) $200,000 of 10-year 3% secured notes, to be negotiated with friends and business acquaintences. **Price** — At par. **Underwriter** — None. **Proceeds**—For working capital. **Office**—270 Park Avenue, New York, N. Y.

● **Ulrich Products Corp., Roanoke, Ill.**
Feb. 26 (letter of notification) 1,000 shares of common stock (no par). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—For working capital.

● **Union Standard Oil Co., Inc., De Witt, Neb.**
Feb. 26 (letter of notification) 960 shares of common stock, to be offered 10 shares to incorporators, 710 shares to public and 240 shares in exchange for 2,320 acres of oil and gas leases. **Price**—$100 per share. **Underwriter**—None. **Proceeds**—To drill and test wells.

● **Universal Products Co., Inc., Dearborn, Mich.**
Feb. 26 (letter of notification) 9,000 shares of common stock (par $10). **Price**—At market (about $33 per share). **Underwriter**—Watling, Lerchen, & Co., Detroit, Mich. **Proceeds**—To Executors of Estate of Christine R. Edwards.

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.

● **Washington Institute of Technology, Inc.**
Feb. 26 (letter of notification) 3,000 shares of class B stock. **Price**—$100 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—4810 Calvert Road, College Park, Md.

Welex Jet Services, Inc.
Feb. 9 (letter of notification) 2,000 shares of common stock (no par). **Price**—$20.50 per share. **Underwriters**—Barron McCulloch and Wm. N. Edwards & Co., both of Ft. Worth, Texas. **Proceeds**—To Robert H. McLemore, Vice-President, the selling stockholder. **Address**—P. O. Box 11307, Ft. Worth, Texas.

Welex Jet Services, Inc., Fort Worth, Tex.
Feb. 13 (letter of notification) 1,500 shares of common stock (no par). **Price**—$20.50 per share. **Underwriter**—Barron McCulloch, Ft. Worth, Texas; and Wm. N. Edwards & Co., Ft. Worth, Tex. **Proceeds**—To George A. Jaggers, Vice-President, who is the selling stockholder.

West Penn Electric Co.
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 about March 8, with an oversubscription privilege; rights to expire March 26. Unsubscribed shares to be offered to employees of companies in the West Penn Electric System. **Price**—$27 per share. **Underwriters**—Harriman Ripley & Co., Inc. and associates were on March 7 awarded the underwriting of this issue. **Proceeds**—To purchase additional equity securities of two of its subsidiaries—Monongahela Power Co. and The Potomac Edison Co. Statement effective Feb. 21.

● **Westerly (R. I.) Automatic Telephone Co.**
Feb. 27 (letter of notification) 7,000 shares of common stock to be offered to stockholders of record March 7, with rights to expire on March 27. Of these shares, 4,435⅔ are to be subscribed for by New England Telephone & Telegraph Co. **Price**—At par ($25 per share). **Underwriter** — None. **Proceeds** — To repay short term loans and for plant improvements. **Office**—38 Main St., Westerly, R. I.

● **Worcester County Electric Co.**
March 5 filed $12,000,000 of first mortgage bonds, series B, due March 1, 1981. **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 repay bank loans and advances and for new construction. **Bids**—Expected early in April.

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.; Union Securities Corp. and Equitable Securities Corp. (jointly); Kidder, Peabody & Co.; The First Boston Corp.; Lehman Brothers. **Proceeds**—For expansion program. **Bids**—Tentatively expected to be opened on Sept. 11. **Registration**—About Aug. 10.

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. **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 Natural Gas Corp., Charlotte, N. C.
Feb. 20 a fourth amended application was filed with the SEC for authority to build a natural gas pipeline system to serve certain areas in North and South Carolina. Estimated cost of the proposed facilities is $3,595,295, to be financed by the sale of first mortgage bonds and the issuance of junior securities. Underwriters may include R. S. Dickson & Co., Charlotte, N. C.

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.

Columbus & Southern Ohio Electric Co.
Feb. 19, J. B. Poston, Chairman and President, announced company contemplates issuance and sale of additional common stock during the first half of 1951. If competitive, probable bidders may include Dillon, Read & Co., Inc.; Lehman Brothers and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Proceeds**—For expansion program.

Commonwealth Edison Co.
Jan. 10 it was announced the company contemplates $181,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Morgan Stanley & Co. Proceeds are to be used for construction program.

Consolidated Natural Gas Co.
Jan. 9 it was reported company contemplates issuance of between $50,000,000 and $60,000,000 of convertible debentures. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Paine, Webber, Jackson Curtis (jointly); Dillon, Read & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Morgan Stanley & Co. **Proceeds**—To finance construction program. **Offering**—Expected late in April.

Denver & Rio Grande Western RR.
Feb. 20 the company was reported to be considering issuance and sale, probably in May, of about $40,000,000 first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co. **Proceeds**—From sale of new bonds, together with other funds, to redeem $35,000,000 of 3%-4% first mortgage bonds, series A, due Jan. 1, 1993, and $8,666,900 of Denver & Salt Lake income mortgage 3%-4% bonds, due Jan. 1, 1993.

Duke Power Co.
Feb. 27 directors approved issuance and sale of $35,000,000 of new first and refunding mortgage 30-year bonds and not exceeding 126,255 additional shares of common stock to common stockholders at rate of one new share for each 10 shares held. **Price**—For stock, $75 per share. **Underwriters**—For bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Stone & Webster Securities Corp.; The First Boston Corp. **Proceeds**—For construction program.

Englander, Inc.
Feb. 19, it was reported to be contemplating new financing. Underwriter—Glore, Forgan & Co., Chicago, Ill.

Florida Power Corp.
Feb. 13 it was announced common stockholders will vote March 29 on a proposal to increase the authorized common stock (par $7.50) from 1,600,000 to 2,500,000 shares and the authorized preferred stock (par $100) from 120,000 to 250,000 shares. Underwriters for preferred stock to be determined by competitive bidding. Probable bidders may include Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; Equitable Securities Corp.; Union Securities Corp. Probable underwriters for common stock. Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane.

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.

Foote Mineral Co.
Feb. 15 stockholders approved an increase in authorized common stock from 100,000 to 300,000 shares to provide for the payment of a 200% stock dividend on the 57,995 outstanding shares, par $2.50. G. H. Chambers, Vice-President, stated that the company is committed to a policy of expansion. "This," he said, "will require more money, and the directors later this year may seek some form of new capital." Traditional underwriter—Estabrook & Co., New York. Expected this Spring.

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. and Kidder, Peabody & Co. (jointly); 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. **Registration**—Scheduled for April 4.

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 12. It is planned to raise $6,000,000. Traditional underwriter: Merrill Lynch, Pierce, Fenner & Beane, New York. Proceeds will be used for expansion.

● **Great Northern Ry. (3/22)**
Bids will be received up to noon (EST) on March 22 for the purchase from the company, at Room 905, 2 Wall St., New York 5, N. Y., of $10,740,000 equipment trust certificates to be dated April 1, 1951 and to mature semi-annually from Oct. 1, 1951 to April 1, 1966, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Wood, Struthers & Co.

● **Green Mountain Power Corp., Montpelier, Vt.**
Feb. 23 amendment to plan for reorganization was filed. This plan, among other things, provides for sale of 104,094 shares of new common stock (par $10) through underwriters, subject to the right of present preferred stockholders to subscribe for the new shares.

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.

Harrison-Rye Realty Corp., N. Y.
Bids are invited for purchase of 5,000 shares of class A preferred stock (no par value) of the above company from Commodore Hotel, Inc., 42nd St. and Lexington Ave., New York 17, N. Y.

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. (3/20)**
Bids will be received up to noon (CST) on March 20 at the office of A. B. Huttig, Treasurer, for the purchase from the company of $3,600,000 equipment trust certificates, series FF, to be dated April 1, 1951, and to mature in 30 equal semi-annual instalments from Oct. 1, 1951 to April 1, 1966, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc., and Lehman Brothers (jointly).

Illinois Central RR. (4/19)
Feb. 13, it was reported company expected to raise $6,800,000 through the sale of equipment trust certificates. **Bids**—Tentatively scheduled to be received on April 19 Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; The First Boston Corp.

Kansas City Power & Light Co.
Feb. 7, Harry B. Munsell, President, announced company expects to raise $15,000,000 of new money through the sale of new securities, including from $5,000,000 to $8,000,000 preferred stock, and the remainder common stock and bonds. Probable bidders for preferred stock: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Smith, Barney & Co.; The First Boston Corp.; White, Weld & Co., Shields & Co. and Central Republic Co. (jointly); Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler and Merrill Lynch, Pierce, Fenner & Beane (jointly); Union Securities Corp. and Stern Bros. & Co. (jointly). Probable bidders for common stock: Lehman Brothers; Glore, Forgan & Co.; Harriman Ripley & Co., Inc.

Kansas-Nebraska Natural Gas Co., Inc.
Feb. 15, it was announced that company plans to raise $4,200,000 through the sale of debentures or first mortgage bonds in the spring of 1951 (this is in addition to current sale of 10,950 shares of $5 cumulative preferred stock (no par) at $105 per share plus accrued dividends and 133,812 shares of common stock (par $5) at $15 per share (the latter to common stockholders). The bond financing early last year was placed privately through Central Republic Co. (Inc.), Chicago, Ill. The proceeds are to be used for the company's expansion program.

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).

Lake Shore Pipe Line Co., Cleveland, Ohio
Feb. 15 FPC authorized this company to acquire, construct and operate pipeline facilities which will carry natural gas into northeastern Ohio for the first time. Financing plan includes the issuance and sale of $1,075,000 in bonds to Stranahan, Harris & Co., Inc., Toledo, O., $225,000 in preferred stock and $150,000 in common stock.

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.

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); Lehman Brothers; Union Securities Corp. and Equitable Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For construction program. **Bids**—Tentatively expected to be received on July 17. **Registration**—Scheduled for June 15.

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.

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Montana-Dakota Utilities Co.
Feb. 16 company applied to the FPC for authority to acquire natural gas facilities of three companies operating in Montana and Wyoming and to construct additional facilities, estimated to cost $5,864,094. In connection therewith, and the proposed funding of $5,800,000 short-term bank loans, it is planed to issue and sell common stock, preferred stock and mortgage bonds for a total of $11,500,000. Traditional underwriters are Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane. Financing expected before April 1, 1951.

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 Jersey Power & Light Co.
Feb. 19 it was reported that company tentatively plans to issue and sell $2,500,000 of preferred stock to public and $1,500,000 of common stock to General Public Utilities Corp., parent. **Underwriters**—For preferred to be determined by competitive bidding. Probable bidders: Drexel & Co., Kuhn, Loeb & Co., and Lehman Brothers (jointly); W. C. Langley & Co.; Smith, Barney & Co. and Union Securities Corp. (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler. **Proceeds** — For 1951 construction program. Expected late Summer and early Fall.

New York, Chicago & St. Louis RR.
Feb. 23, it was announced that stockholders will vote March 29 an authorizing a new issue of cumulative preferred stock which may be offered in exchange for the present $36,056,700 of $6 preferred stock. Probable bidders: Blyth & Co., Inc.; Smith, Barney & Co.

● **Northern Pacific Ry. (3/8)**
Bids will be received up to noon (EST) on March 8 at the company's office in New York for the purchase from the company of $6,900,000 of equipment trust certificates to be dated March 30, 1951 and to mature annually from 1952 to 1966, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Kidder, Peabody & Co.

● **Ohio Edison Co.**
Feb. 28 it was announced company plans shortly to file with the SEC a registration statement covering 150,000 shares of preferred stock (par $100) to be sold at competitive bidding and 436,224 shares of common stock (par $8) to be offered for subscription by common stockholders. Probable bidders for preferred stock: Morgan Stanley & Co.; Lehman Brothers and Bear, Stearns & Co. (jointly); W. C. Langley & Co., Glore, Forgan & Co. and White, Weld & Co. (jointly); The First Boston Corp. Probable bidders for common stock: Lehman Brothers and Bear, Stearns & Co. (jointly); First Boston Corp., Lazard Freres & Co., Union Securities Corp. and Wertheim & Co. (jointly); Glore, Forgan & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Morgan Stanley & Co. **Proceeds**—For expansion program. **Bids**—Expected to be received in April or May.

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.

Pennsylvania Electric Co.
Feb. 16 it was reported company plans to issue and sell $3,000,000 of first mortgage bonds, $2,500,000 of preferred stock and $2,500,000 of common stock (latter to General Public Utilities Corp., parent). **Underwriter**—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co., Lehman Brothers and Drexel & Co. (jointly); Harriman Ripley & Co., Inc. Probable bidders for preferred stock: W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Kuhn, Loeb & Co.; Smith, Barney & Co.; Kidder, Peabody & Co.; Harriman, Ripley & Co., Inc. **Proceeds**—For 1951 construction program. Expected late Summer or early Fall.

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.

Piedmont Natural Gas Co., Inc.
Feb. 20 it was announced company plans sale of $1,800,000 of interim notes (dischargeable at maturity by delivery of 36,000 shares of cumulative preferred stock at rate of one share for each $50 principal amount) and an unspecified amount of common shares, to be sold in units with notes. **Underwriter**—May be White, Weld & Co., New York. **Proceeds**—For conversion to natural gas and for new construction. (See also registration of 100,000 common shares above.)

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.

Public Service Co. of Colorado
Nov. 1, J. E. Loiseau, President, announced that "it will be necessary to raise additional funds for construction purposes in the second quarter of 1951. The amount needed is estimated at about $7,000,000." Probable bidders for a reported issue of $15,000,000 new bonds are: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly); The First Boston Corp.; Lehman Brothers; Kidder, Peabody & Co.; Harris, Hall & Co. (Inc.); Glore, Forgan & Co., and W. C. Langley & Co. (jointly).

Public Service Co. of Oklahoma (4/9)
Feb. 9 it was stated that 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.; Glore, Forgan & Co.; White, Weld & Co. and Shields & Co. (jointly); The First Boston Corp.; Kuhn, Loeb & Co. and Union Securities Corp. (jointly); Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. **Proceeds**—For new construction. **Registration**—Expected about March 5. **Bids**—Tentatively expected to be received up to April 9.

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.

Seaboard Air Line RR. (3/15)
Bids will be received by the company at the office of Willkie Owen Farr Gallagher & Walton, 15 Broad Street, New York 5, N. Y., up to noon (EST) on March 15 for the purchase from it of $2,400,000 equipment trust certificates, series J, to be dated April 1, 1951, and to mature in 30 equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutler; Harris, Hall & Co. (Inc.).

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.

South Jersey Gas Co.
Feb. 7 it was reported that this company is planning to refinance its outstanding $4,000,000 of 4⅛% bonds and $3,338,000 of short-term bank loans with a new issue of bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders may include Halsey, Stuart & Co. Inc.

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.

● **Virginia Electric & Power Co.**
March 6 directors announced tentative plans for the sale of additional common stock to common stockholders at rate of one new share for each 10 shares held. **Price**—To be determined by market and other conditions. **Underwriter**—Stone & Webster Securities Corp., New York. **Proceeds**—For construction program. **Offering**—Tentatively planned for June. (See also present offering of 100,000 shares of $4.20 dividend preferred stock registered with SEC under "Securities in Registration.")

● **Warner-Hudnut, Inc.**
March 3 it was announced company plans issuance and sale to public of 300,000 new shares of common stock (par $1). An additional undetermined number of new common shares may be sold for the account of the Estate of Gustavus A. Pheiffer. **Price**—To be supplied later. **Underwriter**—F. Eberstadt & Co., Inc., New York. **Proceeds**—To retire bank loans and for working capital.

Our Reporter's Report

The seasoned investment market found itself enmeshed in a new phase of readjustment this week in the wake of the latest move to compose the differences between the Treasury and the Federal Reserve over interest rates.

The proposal to "freeze" some $20 billion of Treasury debt through a new nonmarketable issue of 2¾% bonds failed to clear the air immediately since a number of the details pertaining to the projected new bonds remained to be unfolded.

But the market, from the government list right on down through the corporate high-grades, eased perceptibly in deference to the Reserve's indicated victory in the form of a higher Treasury coupon rate.

Keen market observers were not too sure, however, that the adjustment had been completed and pointed especially to the municipal market which had been showing signs of a new "glut" for more than a week.

The corporate market appeared to have developed a situation where the bids had been pulled, but where, at the same time, there was no apparent urge on the part of portfolio managers to sell.

That section of the market, it appeared, had already discounted the current developments at least to a degree, and therefore was in a better position to withstand the effects.

Quick Adjustment

Bankers sponsoring The Borden Co.'s $60,000,000 of 30-year debentures were quick to readjust their operation to bring it into step with newly created conditions.

When registration covering the issue was filed with the Securities and Exchange Commission recently it was specified that the debentures would carry a 2¾% coupon rate. And par had been indicated as the offering price for a 2.75% yield basis.

But the offering brought out yesterday, at par, carried a 2⅞% interest rate, bringing the yield to the buyer up to 2.875%. This quick reappraisal was viewed as making quite certain a satisfactory investor reception.

Province of Quebec

Bankers handling the Province of Quebec's $50,000,000 of 20-year 2⅞% debentures, due on the market today, were confident that this issue would not encounter any serious resistance.

Priced to yield slightly better than 3% to maturity the underwriters were satisfied that the issue would appeal to portfolio men with cash available.

Sponsors based their confidence on the fact that they had originally based their ideas on a market situation something along current lines, and therefore had made due allowance for it in their calculations.

Jones & Laughlin Stock

When Jones & Laughlin Steel Corp.'s offering of a million shares of additional common stock reaches market a fortnight hence, it will be handled by a group of about 130 underwriters and dealers around the country.

One of the largest junior equity financings in recent years, and certainly the largest this year to date, it can be offered directly to the public, rather than on "rights" to current holders, since there are no pre-emptive rights involved.

Together with $28,000,000 to be borrowed from the General Motors Corp., this financing will place J. & L. in funds to finance its expansion program and to retire $40,000,000 of 2½% serial notes.

Big Business Ahead

A number of sizable new issues are looming for the near-term future, among them $15,000,000 of 25-year debentures and 249,600 shares of common stock for P. Lorillard & Co.

Meanwhile Duke Power Co. is readying plans to float $35,000,000 of 30-year bonds, via the competitive bid route, plus 126,255 shares of common stock on "rights."

Two other smaller utility deals are nearing registration, one by Worcester County Electric Co. involving $12,000,000 of first mortgage bonds and the other by Carolina Power & Light Co., which plans to raise $6,000,000 by the sale of 200,000 shares additional common stock.

Quebec Debs. Offered

A group of underwriters, under the management of The First Boston Corp. and A. E. Ames & Co., Inc., today are offering $50,000,000 of 2⅞% debentures dated April 1, 1951 and due April 1, 1971 of Province of Quebec (Canada) at 97.75% and accrued interest. The debentures will be payable in U. S. dollars. Also associated in the offeirng are Harriman Ripley & Co., Inc.; Smith, Barney & Co.; Wood, Gundy & Co., Inc.; The Dominion Securities Corp.; and McLeod, Young, Weir Inc.

The proceeds of the loan will be applied by the Province to the redemp.ion in U. S. dollars of $7,500,000 4½% debentures due July 1, 1956 and $10,000,000 3¼% bonds due July 15, 1953. The balance of the proceeds will be used to pay at maturity (less applicable sinking fund), an internal issue of $15,000 000 3% debentures due Nov. 1, 1951 and for the construction of roads and bridges in the Province.

Peter Cummings, Jr. Is With Faroll & Co.

BOSTON, Mass. — Peter H. Cummings, Jr., has become associated with Faroll & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges and other leading exchanges. Mr. Cummings has been in the investment business in Chicago for many years.

Orvis Bros. Opens New Office in Missouri

SIKESTON, Mo.—Orvis Bros. & Co., members of the New York Stock Exchange, has opened a branch office at 211 East Malone Street. Harris N. Draughon is in charge of the new branch.

Joins Goodbody Staff

(Special to THE FINANCIAL CHRONICLE)

SARASOTA, Fla. — Hubert T. Houston is now associated with Goodbody & Co.

With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

DAYTON, Ohio—Omer M. Minnich is with Slayton & Co., Inc., 1126 Oakwood Avenue.

Joins Greene & Ladd

(Special to THE FINANCIAL CHRONICLE)

MIDDLETOWN, Ohio—John M. Rutledge is now associated with Greene & Ladd, First National Bank Building.

Newton S. Walton Opens

LUBBOCK, Texas—Newton S. Walton is engaging in the securities business from offices at 2626 25th Street, under the firm name of Newton S. Walton Investment Securities.

MEETING NOTICE

Joins Shearson, Hammill

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Kenneth C. Hardy has become associated with Shearson, Hammill & Co., 618 South Spring Street. He was formerly with Merrill Lynch, Pierce, Fenner & Beane and Schwabacher & Co.

Leroy Taylor Opens

SHAWNEE, Okla. — Leroy T. Taylor is engaging in the securities business from offices in the American National Bank Building.

DIVIDEND NOTICES

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Eric Johnston, Economic Stabilization Administrator, has achieved a temporary and uneasy peace between big labor and the Truman Administration, by his decision last week-end to OK the escalator clauses of union contracts.

This achievement, however, has taken the form of a purchase. As a purchase last week-end's action represents only the down payment, and the total cost of this temporary solution of labor's attacks upon the Administration will come high.

At the same time, Mr. Johnston, wittingly or unwittingly, has thrown labor's ranks into confusion, making almost inescapable a temporary retirement of labor from the big battle.

Ultimately, however, labor will reform its ranks and in one way or another, come back to achieve its objective, which is fundamentally to put itself in a position to veto any actions of Defense Mobilizer Wilson which labor believes are detrimental to its interests.

This, in summary, is the way the situation is appraised by some of this Capital's most seasoned and astute observers of labor politics.

* * *

Johnston's order was to approve escalator or cost of living clauses which existed in union contracts as of Jan. 25, 1951. This then becomes a clear and shining victory for Walter Reuther of the CIO auto workers. He has the first and biggest of the escalator contracts. His contract and those that followed are, assuming the order is not rescinded, now in the clear.

Few of the contracts of the American Federation of Labor, however, have escalator clauses. There is none in the contract of Phil Murray's steel workers. Phil Murray is president of the CIO. Walter Reuther is his great rival for the presidency of the CIO.

Union politics aside, it is considered extremely doubtful that the Economic Stabilization Administrator can stop with approving a break in a wage formula which is tailored just to the needs of the auto workers and others similarly situated. Otherwise all union hades would break loose. Sooner or later, Mr. Johnston will be confronted with the need for making new and large breaks in the formula to permit the steel workers, the A. F. of L., and other labor groups, unprotected by cost of living clauses, to get their share of the wage raises.

When provisions have been adopted in due course permitting reopening of wage contracts, cost of living adjustments, even where these are not provided for in contracts, and so on, it will be apparent that the solution recommended by Mr. Johnston just a week ago tonight is but the down payment, and the total cost is high both to industry which will pay the higher labor bill, and to the stabilization program.

* * *

However much labor screams, it would appear that Mr. Johnston has achieved a sort of peace if not a quiet one, for he has in effect broken the supposedly united labor front. Mr. Reuther has got his, and so have all the boys who followed. Whatever Mr. Johnston inevitably does to give the other boys theirs, Reuther has scored a victory, and Mr. Murray is widely believed to love Mr. Reuther just as much as he would a case of the Bubonic plague.

And then John L. Lewis, having already been taken care of, is already outside the united labor front.

Mr. Truman also had a hand in checking the so-called united front. He simply went off fishing, ignoring labor's demand for reconstitution of the Wage Stabilization Board, and its big play for power in the form of the pulling off of labor men from any part in the defense mobilization program.

Some of organized labor's astutest friends are saying that labor has pulled more than one boner in the current little affair with the Administration. Its demand for a stronger place for labor in the mobilization set-up was a demand that it could not meet when Charley Wilson called their hands, because of the rivalry and dissension within the so-called united front.

George Meaney, secretary-treasurer of the A. F. of L., was most anxious to have his cheftain, president William Green, become The labor man in the mobilization set-up, for this would probably make Mr. Meaney acting president of the A. F. of L. This was not a prospect pleasing to Mr. Green, who refused, thinking that perhaps once he was officially out as the craft union president, he might never get Meaney off the presidential seat.

Emil Rieve of the textile workers faces a hostile faction seeking to replace him, and he feared that the minute he took responsibility for any kind of "wage stabilization," no matter how milk and watery, the opposition would use that as an argument to oust him.

And Phil Murray has no remote intention of ever taking time out to assume the chores of a great public official, for then the field would be clear for Walter Reuther, who now, as a result of Mr. Johnston's order, leads the parade of "forward-looking labor leaders" with a record for getting something for their voting union constituents.

There is also a belief that the proposal to "reconstitute" the Wage Stabilization Board was such a bare-faced demand that the President appoint merely stooges to the Board, that not even a friendly President could accept it and maintain any public pose of self-respect. There are some who say the President probably realizes some of this union politics, knows that for the time being labor can't do much about it, and has just gone fishing to let the unions scream and holler about it for a while.

* * *

Nevertheless, although the united labor front, so advertised, appears to look a little sick right now, labor can be counted upon, it is asserted, to make another try to check-mate Wilson when the occasion seems appropriate. Mr. Wilson, it is predicted, would resign the minute the President failed to back him, and Johnston would then go out with him.

* * *

Some tucks were taken by the House Banking committee this week in the Administration's Defense Housing bill. Instead of permitting the Federal Housing Administration to obligate $3 billion for a new form of defense housing mortgage insurance alone, the committee proposed that all forms of insurance of defense housing whether under older FHA insurance titles, by the new defense housing Title IX, or by VA, should not exceed $3 billion. This thus would seem to limit the program to $3 billion, instead of possibly two or three times that much.

The committee further proposed that expenditures for community facilities, such as sewers, streets, police stations, schools, day care nursery centers, etc., plus expenditures for housing constructed directly with Federal funds, also should be included within the $3 billion total outside limit on defense housing. The actual amount, however, which would be spent for direct Federal construction or for community facilities, was left to the Appropriations committee to decide.

This is not far from the form in which it is reasonable to expect the Senate Banking committee to approve the bill.

An unknown factor in the possibilities for this legislation is the House Rules committee. A move will be made to cut the cost of defense housing still more as a condition to its being cleared by the Rules committee.

* * *

Adoption of the no third term constitutional amendment is not expected to have any important effect upon the question of whether Mr. Truman becomes the candidate of the Democratic party in 1952, in the opinion of the professional politicos.

If Mr. Truman should get the idea that he wouldn't go across in 1952, or if the party as a whole came to that conclusion and so persuaded Mr. Truman, then the present incumbent of the White House would not choose to run. The President might himself, as he hinted, decide for personal reasons not to run.

In that case the new amendment would provide a convenient excuse for the President to renounce the nomination. He could make the renunciation on the grounds that he was abiding by the spirit of the constitutional amendment even though he was expressly exempt from it, and this would provide a graceful out. This is seen as the net importance of the amendment.

On the other hand, who will have a chance for that nomination is something much too far away to settle today. If Gen. Dwight D. Eisenhower should decide to be persuaded to accept the Democratic nomination, all the king's patronage and all the king's bureaucracies could not move the party organization to pick him and shove Gen Eisenhower to the Republicans.

Or if the Republicans should get the General, it is entirely possible that the Democrats would have to force Mr. Truman to run on the theory that no one else would want to be a loser.

There is still another of several hypothetical possibilities. The Republicans might become so badly split between the Lodges and other internationalists, and the Taft wing, that even though offered at a heavy political discount today, Harry Truman might look like a sure thing by default, and provided there was no flaming warrior to take the opposition out of its political box.

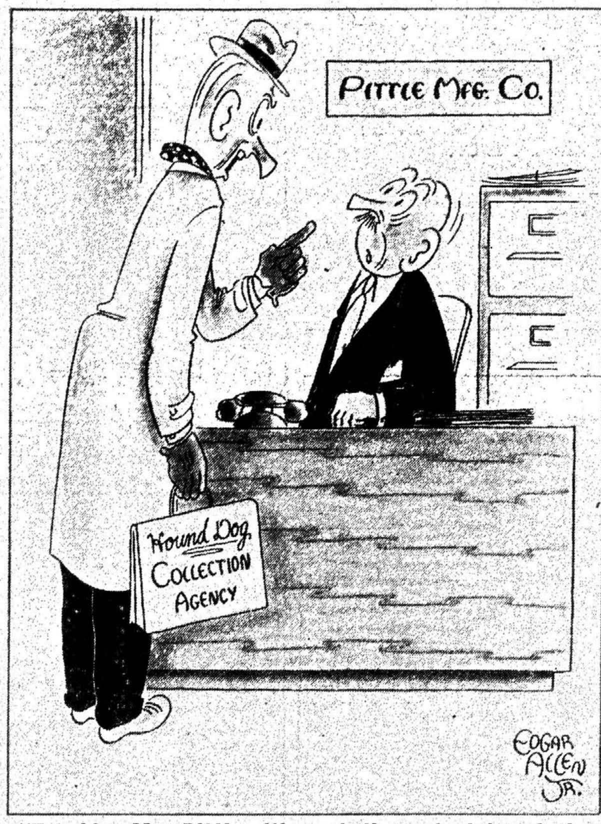
Not the least of the hypothetical possibilities, it is observed, is that something might happen to the General to make him less available politically.

In any case, nobody sophisticated is getting very excited about Mr. Truman's coy hints that he would like nothing but to be a Senator once more. Those in a position to know the President's mind inspired the stories printed from Mr. Truman's train after the 1948 campaign, that Mr. Truman would not seek another term.

It is taken for granted that whatever the President hints or says before 1952, unless categorical, unequivocal, and positive, has no binding significance until the time of decision, which is 1952, rolls around.

(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



"Frankly, Mr. Pittle, it's not the principle of the thing—it's the money!"

Opens Office in Phoenix

PHOENIX, Ariz. — Adelia G. Taylor has opened offices at 1614 East Culver Street to engage in the securities business.

Waddell & Reed Add

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Harold F. Ellis has been added to the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

William Holt Opens

(Special to THE FINANCIAL CHRONICLE)

LAGUNA BEACH, Calif.—Wilian B. Holt is engaging in the securities business from offices at 125 Emerald Bay.