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EDITORIAL

As We See It

Late in 1948, President Truman, in preparing the inaugural address which would usher in a term in office which very few had supposed that he would be selected to serve, is said to have felt the need of some "stirring" new proposal which would fire the imaginations of the voters after the manner of the "four freedoms" of his predecessor. Considerable difficulty was encountered, so the story goes, in hitting upon just the right idea, but finally someone coined a set of phrases which were appended at the President's insistence to a three-point program, making it a four-point program, and giving rise to what has ever since been known as "Point Four."

The real content of "Point Four" seemed at the time to most students to be without form and void. As the months and even years have passed, various interpretations have been placed upon the terse and grandiloquent sentences of this part of President Truman's 1949 inaugural address. Some have said that the President really had nothing very specific in mind at all, that what he said was intended merely as a set of catch phrases. However that may be, it has been evident that ever since an effort has been under way to give substance to "Point Four," an effort to which the President has been a party and to which he has lent encouragement more or less continuously.

Several months ago the President appointed an "International Development Advisory Board," whose function was to give substance to "Point Four," and to integrate any ideas it might develop into the needs and demands of the current international "emergency." This organization, whose membership is the usual conglomerate supposedly

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Government Controls and The Business Outlook

By WESLEY LINDOW*

Vice-President and Economist, Irving Trust Company, New York City

After reviewing current situation with reference to raw materials, allocations, capital outlays and manpower shortage, Mr. Lindow discusses inflation problem and effectiveness of government controls. Expresses view inflation problem will not go on forever, since expansion of production and tapering-off of military program may offset inflationary forces. Sees 1951 a year of transition, and concludes we can carry large military program with reduced strain as time passes.

Government impinges on economic matters in a great many ways—in fact, government is something like the mushroom in Alice in Wonderland. You may remember that the rabbit told Alice to eat some of a special mushroom: "One side makes you smaller, the other one taller." The government mushroom affects the economic structure—enlarging and contracting—in a great variety of ways, which way be conveniently summarized in four broad groups:

Wesley Lindow

(1) Fiscal Policy, including such matters as spending, taxing, lending and guaranteeing, and debt management.

(2) Monetary Policy, including such matters as selective credit controls over specific kinds of credit, and general efforts to influence the volume of bank credit.

(3) Regulatory functions, as for example the supervision of transportation and communication.

(4) Physical controls used in war and emergency periods to influence the use of materials and manpower and put ceilings on prices and wages.

My assignment today is to review the economic situa-

*An address by Mr. Lindow before the Annual Meeting of the Commercial Chemical Development Ass'n, New York, March 21, 1951.

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Controls and Comparisons

By DR. MELCHIOR PALYI

Dr. Palyi, asserting there is no over-all plan, no coordination of piecemeal policies, and no cooperation between regulating agencies of the government, likens it to a dish that is neither fish nor fowl. Says banks are made scapegoats in the inflationary credit expansion, but contends credit expansion must go on to enlarge defense production. Sees crisis within a crisis, and contends merely a nominal improvement in East-West relations may suffice to shake price structure.

Stabilization has bogged down in top-level confusion, economic waste, political bickering, demagoguery, and name-calling. One positive accomplishment so far is the providing of jobs to meritorious politicians. People curse the bureaucrats who in turn complain about the public's selfish and nonchalant attitude. The truth is that there is no overall plan, no coordination of piecemeal policies, no logic in administering them, and no cooperation between regulatory agencies which are constantly being "overhauled."

Dr. Melchior Palyi

The farm groups blame the processors and the middlemen. Labor bosses accuse Big Business in general, mobilization chief Wilson and stabilization director Johnston, in particular. Both have displayed a lamentable lack of effectiveness (to say nothing of Mr. DiSalle's fumbling with price edicts and hardship-cases and of the more or less shelved Mr. Symington's "research" activities). Maybe their real job consists in minimizing the damage that the Washington setup might do, permeated as it is by ward politics, skulduggery and corruption.

Neither fish nor fowl is the name for this sort of dish. Automobile prices are frozen one day and thawed out the next. Wages are under ceilings—with a "fifth round" of 10% boosting thrown into the bargain, plus the door opened for further hikes by way of job reclassifications and other fringe benefits. Additional cost-of-living

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SECURITIES NOW IN REGISTRATION — Underwriters, dealers and investors in corporate securities are afforded a complete picture of the issues now registered with the SEC and potential undertakings in our "Securities in Registration" Section, starting on page 42.

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

Stone and Webster — Candler Dobbs, Partner, Dobbs & Co., New York City. (Page 2)
Pacific Gas and Electric Common —Lester B. Robinson, Counselor for Stocks, Grains, Cotton, San Francisco, Calif. (Page 2)
International Hydro Electric Systems $2 Class A—Bernard F. Seligmann, General Partner, Seligmann & Co., Milwaukee, Wis. (Page 24)
Prudent Advice on How to Invest a Church Legacy—John B. Shober, Partner, Woolfolk & Shober, New Orleans, La. (Page 25)

CANDLER DOBBS
Partner, Dobbs & Co., New York City
Members of N. Y. S. E.

Stone & Webster

As we stated in a previous article in this forum, and it bears repeating, it is most difficult, if not impossible, to select a security that would be best for all investors. However, after considerable thought, keeping in mind the major factors of return on money invested and equity appreciation, we feel that Stone & Webster would meet the requirements of the average investor. Although the shares are speculative in character because of the cyclical nature of the important utility and industrial construction divisions, service operations lend an element of stability.


Candler Dobbs

Stone & Webster is not a utility company itself, since divestment of its utility subsidiaries in 1937, but remains closely identified with that industry. The Stone & Webster Engineering Corporation, a subsidiary, engages in design and construction work for practically all types of industries with particular emphasis on electric utility companies. The Badger Co., another subsidiary, concentrates its activities in the highly specialized field of process engineering and construction, serving clients in the pharmaceutical, petroleum, chemical and petro-chemical industries. Construction activities in all fields should maintain operations at a high level during the coming period, especially considering the necessity for many industrial companies to expand due to pressure of government contracts in our present defense economy.

Another major subsidiary is Stone & Webster Securities Corporation, which is engaged in investment banking activities. At present there are large unrealized profits in its securities portfolio. Investments carried at $8,301,033 (classed as non-current) had a market value of $25,784,345 Sept. 30, 1950.

An interesting factor in the makeup of Stone & Webster that increases its attractiveness as an investment is its subsidiary, San Salvador Development Co., owning an estimated 250 billion cubic feet of natural gas reserve in Texas. The company is believed to own around 15% of Transcontinental Gas Pipe Line Co. and about 8.7% of Tennessee Gas Transmission.

As for the vital statistics, Stone & Webster was in a strong financial position as of Sept. 30, 1950, with cash more than double current debt. There were no current notes payable. The stock is presently selling around 24, with 2,104,391 shares outstanding. $2.00 dividend was paid in 1950; 75 cents in June and $1.25 year-end in December. The same dividend can be expected in 1951, giving a yield of better than 8% at the present price.

It seems to me that in view of future earnings prospects and the possibility of an even more liberal dividend policy in the foreseeable future, Stone & Webster would be a wise inclusion in any investment portfolio.

LESTER B. ROBINSON
Counselor for Stocks, Grains, Cotton,
San Francisco, Calif.

Pacific Gas & Electric Common

The other day I overheard two gentlemen discussing the stock market. Since my profession is that of investment counselor I was naturally intrigued when one of these men said to the other, "I've told my wife that when I die she should invest most of our cash in additional Pacific Gas & Electric common stock." I learned later that the death of this man would mean a considerably increased investment on the part of him and his family in PG&E stock. Hence I thought it would be interesting to investigate just what prompted such a specific recommendation and such faith in this company, not only on the part of this investor, but also of the other 170,498 stockholders of this progressive California gas and electric utility company.


Lester B. Robinson

Using all the measurements common to investors, PG&E would recommend itself to all interested in steady income and security. For instance this "Western Blue Chip" can trace its history through predecessor companies back to the old gold rush days. It has paid dividends on its common stock every year since 1918 and the policy has been liberal, usually $2 per share. This has meant a yield of 12.90% at the 1942 low of 15½ to the present yield of 5.8% at the current price of $34 per share. The undepreciated historical cost of the physical properties now approximates $1.4 billion and operational revenues from the sale of gas and electricity have more than doubled during the past ten years.

Now, just who are the owners of PG&E? Here is the breakdown of stock ownership by class of investor as of December 31, 1950:

Class of Investor—	No. of Stkhldrs.	No. of Shs. Owned
Women stockholders	68,996	4,979,898
Men stockholders	43,779	3,617,040
Joint & oth. tenancies	40,605	3,021,575
Trustees, guardians & other fiduciaries	12,688	3,730,843
Corporations, partnerships and proprietorships	1,765	905,877
Charitable, fraternal organizations & foundations	859	203,735
Banks, investment cos. & security dealers	729	777,595
Insurance companies	426	2,259,443
Religious institutions	366	68,794
Educational institutions	285	151,875
TOTALS	170,498	19,721,680

Although the usual tools of investment analysis are favorable to PG&E as a sound investment, I am swayed even more by other considerations and factors which make this company unique among major utilities in America.

First: You discover something about the unusually fine management and employee morale of this utility when you talk with a PG&E serviceman. He will pridefully point out to you that his company is considered the model in the industry and that the skill and technical knowledge of its engineers and operating officials are quite often "borrowed" by foreign countries.

Second: When you study a map of California you discover another significant point. The area serviced by this utility company is not only huge (equivalent in area to the states of New York and Pennsylvania), but it is also a highly diversified one. It includes California's fabulously rich farming valleys — one farmer's electric bill amounts to one million dollars annually — its ever abundant orchards, its producing mines and oil lands, its cattle country, its steady growth of residential area, and last but not least, the gigantic industrial, manufacturing and distributing areas of Northern and Central California.

Third: No other utility operates in such a widely diversified area and none other has greater possibilities for consistent growth. PG&E farm sales during the usual off peak season in other areas, remains high, giving the company an annual load factor of 63.8% as against the U. S. average of 58.8%.

The company has 17,000 employees and serves 2,386,000 customers. But these statistics are less interesting than the good will which has been built up among these Californians. The local manager in each of the hundreds of communities serviced is usually a member of Rotary, Kiwanis, Lions, etc., and is quite active in civic affairs. The maintenance crews have preformed many public services like rescue work, protecting fish and game and in general have contributed greatly to maintaining this inestimable good will.

These facts plus the low rates customers pay for gas and electricity, acknowledged good service and the willingness of the company to provide service to anyone who wants it, in no small way contributes to this company's position as a favorable investment.

The management of PG&E is tops. James Black, President, a graduate engineer has been an operating man since leaving college and in addition to his knowledge of technical matters is intimately acquainted with utility financing. The operating and administrative staffs are considered the finest in the field and have initiated many revolutionary ideas — including the successful customer idea of not requiring new customers to sign contracts. A former president in 1914 introduced the customer-ownership plan of stock financing, since widely copied throughout the U. S. From that year to 1941, PG&E alone marketed $80,000,000 in preferred stock under this plan.

The public confidence in PG&E is evidenced by the company's ability to raise [illegible] lions of dollars from the sale of stocks and bonds to finance the largest postwar expansion of any U. S. utility — nearly $600,000,000. The Company is currently offering its common stockholders of record March 13, 1951 the right to subscribe to one additional share of common stock in the ratio of 1 share for each seven then held.

Perhaps a better demonstration

Continued on page 24

Inflation Impact Ended On Stock Market

By THOMAS D. SEARS

Investment Counsel, Santa Barbara, Calif.

Stock market analyst reviews inflation forces, both abstract and concrete, and contends, many of these forces have already produced their effects on stock market. Holds deficit financing in significant amount will probably be avoided unless war with Russia develops, and, should international conditions improve, some deflation may set in. Concludes facts in current and prospective situation do not provide basis for strong further rises in stock prices, and may even suggest possibility of reaction.

The events of recent months, on the international scene and at home, have been of such a surprising and ominous nature that the entire complexion of the economic and business outlook over the indefinite future has been changed. The course of industrial, business and financial trends from this time forward will not be determined primarily by the interplay of economic forces, but rather by the arbitrary decisions taken by the government in its efforts to build up military strength to check the expansion of the hostile powers who hold the initiative. Inasmuch as the initiative on the international scene does not lie in our hands, such decisions will be more than ordinarily arbitrary and therefore even less than ordinarily subject to forecast. Although the superstructure of our economy will be composed of a flimsy structure of spot judgments and arbitrary rulings, it will rest upon the solid foundation of a sustained productive effort of great magnitude and, to that extent, the outlook, so far as it concerns production and general activity in the economy, is favorable. So long as we are engaged in large scale rearmament there need be no fears of unemployment or tendencies towards recession. Such a condition is always characteristic of a nation preparing for war or defense.

Thomas D. Sears

The confident projection of high industrial activity for an indefinite period does not carry the assurance of a state of well-being and improved living standards such as has been with us during the postwar years. Production for civilian use will be superseded to an indeterminable degree by production of goods and materials which not only cannot be used or consumed in the usual way, but also are built for the purpose of destruction. Wars, and the preparation for them, produce an illusion of prosperity, but the cost fastens itself upon the nation for generations.

Inasmuch as production in the armament period is not for consumer use, the diversion of labor and materials inevitably calls for a restricted consumption of such goods and services by the civilian economy. These restrictions take various forms, with most of which we are familiar as a result of experience during World War II. The very existence of these restrictions and demands calls for collateral restrictions and these produce varying reactions from the population. To a very considerable degree, the amount of inflationary and other pressures generated by the armament effort will be determined by the reactions of the American public to these arbitrary decisions and emergency policies, or to the lack of them. To date, the reactions of the American public have followed simple but sometimes conflicting patterns. It remains to be seen whether these patterns of behavior will persist in the difficult period which lies ahead or if they will change under the pressure of the disciplines and restrains which are being imposed at an accelerated rate.

At the time of the Korean War outbreak the economy of the country was still functioning at high speed. The forces of deferred demand built up during the war years had waned in many sectors, but the housing boom was being prolonged and intensified by the forced draft of easy credit, and record instalment plan borrowing was maintaining a terrific demand for household equipment and automobiles. Commodity prices, in general, were firm with tendencies towards strength in some areas, particularly where industry buying was in competition with government procurement of critical materials for stockpile. Commercial bank loans had shown no rise for nearly nine months, but instalment credit and long-term mortgage credit had been mounting to the point where banking authorities were beginning to be apprehensive. The Cost of Living Index had been virtually stationary for a year. Inventories in the hands of manufacturers, wholesalers and retailers had increased moderately since the close of 1949, and merchandise of virtually all types was in free supply. In short, we appeared to be going through the final phase of a post-war boom which had lasted for over four years and was destined to be followed, probably before the year was out, by a less fevered state of activity.

Korea Changed Picture

The Korean episode marked the end of the cold war and assured some intensification of our arma-

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Proposal for Revising Capital Gains Tax

By ELISHA M. FRIEDMAN

Consulting Economist, New York City

In pointing out erroneous concept of capital gains, Mr. Friedman maintains capital gains is not income and has been so ruled by the courts and admitted in reports of the appropriate House and Senate Committees. Analyzes Treasury's capital gains statistics and concludes the graduated income tax, if applied to capital gains, produces more revenue than present capital gains rates. Proposes: (1) segregation of capital gains from income; (2) an offset of losses against segregated gains; (3) low tax rate, viz. 12½%; (4) graduation of rates by time; and (5) reasonable carry-forward of losses.

I
Erroneous Concept of Capital Gain

Capital Gain Is Not Income—Court decisions have so ruled. In a trust fund, capital gains may not be paid to a beneficiary entitled to income and capital losses may not be deducted from such income.

Elisha M. Friedman

Except for the capital gains tax, every tax is inevitable. The taxpayer has no option. He must pay. But an investor may have a paper profit and refuse to sell because the capital gains tax rate is too high or the holding period too long. On capital gains, the taxpayer does have an option. He may be coaxed but cannot be compelled to realize gains or to pay taxes.

Capital gain is utterly different from income. To raise the rates of the capital gains tax because of a rise in income tax rates reveals mental confusion and gullible acceptance of a popular fiscal delusion.

The above basic errors were officially admitted in reports of the House and Senate Committees and by individual Senators.

Pertinent quotations are as follows: "The Committee is convinced that transactions are prevented by the capital gains tax and that the result has been a material hindrance to business and a considerable loss of revenue."

"The conclusion has been definitely arrived at that it is to the advantage of the government from a revenue standpoint to give some relief on long-term gains."

II
Merit and Defect of the Present Law

The great merit of the present law is that it produced revenue—over $750 million in 1945 compared with a previous peak of $576 million in 1928 and $420 million in 1929. The present law also has the shortest holding period in history—six months. Is not this cause and effect?

The defect of the present law is that it continues the historic confusion between income and capital gains.

III
Summary of Legislation on Capital Gains

The details of changes since 1913 in rates, in length of holding periods and in deductibility of losses reveal the historic perplexity of Congress and even its frequent reversals.

IV
Analysis of Treasury Capital Gains Statistics

The Effect of Changes of Rates of Tax on Treasury Receipts—Treasury revenue rises as rates are reduced. Treasury revenue falls as rates are increased. The correlation is clear. This can be proved by comparing large Treasury receipts in years of low rates and small Treasury receipts in years of high rates.

Analysis Within One Year Shows Also the Effects of High and Low Rates — When short-term gains were taxed like income, for example, in 1938, low tax rates produced large capital gains but high tax rates produced small capital gains.

The brackets up to 6% yielded $76 million, but capital gains were insignificant at the 27% bracket and faded away sharply at higher tax rates. The top bracket of highest income produced a petty pittance.

A similar decline in capital gains will surely result under the proposed high rates.

But long-term capital gains were taxed at a flat 15% in 1938. The lowest income bracket reported $30 million and the top bracket, also taxed at 15%, reported a rise to $60 million, instead of a fade-away to $175,000. Apparently a 15% rate does not discourage taking capital gains and does produce abundant revenue.

Let the Treasury present the figures for any year it pleases and an analysis will easily again prove that the graduated income tax applied to capital gains produces more revenue in the low rates than in the high rates of tax.

The Holding Period—The shorter the holding period, the greater the revenue. The present holding period of six months is the shortest in history and the revenue from capital gains is the largest in history.

The Market Effect of the Capital Gains Tax—The capital gains tax deterred profit-taking by big holders. It helped to exaggerate the market rise in 1928-29 and in 1936-37 and thus made possible the subsequent collapse with great loss to millions of the little people.

V
Foreign Experience

There is no capital gains tax in Canada or even in Socialist Britain, which is levying terrific high rates on every conceivable source of revenue. Bankers from Holland, Belgium and France explained to the House Committee in 1942 why these countries had no capital gains tax.

VI
Proposals for Legislation

History of Legislative Perplexity—In 1934, 21 years after income tax was introduced, the Vinson report admitted that "a practical, intelligent and just law has not yet been found." In 1951 it still has not been found, but it may be if delusions are discarded and facts followed.

Aims and Methods of Present Proposals—The aim of a revenue bill is to produce revenue. Every other aim is alien and irrelevant. To collect capital gains taxes abundantly, the holding period should be shortened. Short-term capital gains will be caught by a short holding period but will be missed by a long holding period. A short tugboat on the ocean waves will pitch and roll. A long transatlantic liner will withstand the waves.

I should like to make the following recommendations:

(1) **Segregate capital gains from income.** Never confuse them. Never subject capital gains to income tax rates.

(2) **Offset losses against segregated gains.**

(3) **Set a rate that produced plentiful revenue in the past.** Productive long-term rates were 12½%, over 18 months, from 1921-1933, and 15% above 24 months, from 1938 to 1941.

(4) **Graduate Rates by Time**—If the tax should begin at the high unproductive rate of 37½%, proposed by the Treasury, it should be graduated down to the productive rate of 10%. Graduation by time is not a new principle. It was in effect from 1934 to 1937. However, please note that the largest revenues were received at the lowest rate of tax as shown in the tables and charts to be presented. The Committee should consider the proposal that the rates should be graduated according to the length of the holding period. Suggested bases might be: (a) up to 3 months, about 35%; (b) 3 to 6 months, about 25%; (c) 6 to 12 months, about 20%; (d) 1 to 2 years, 15%; (e) 2 to 3 years, 12½%; (f) 3 to 5 years, 10%; (g) over 5 years, about 7½%; (h) over 10 years, about 5%; and less where privately owned businesses become public companies. Such a low rate would increase the desirable diffusion among the broad strata of the people of family owned businesses developed over long periods.

(5) **Permit a reasonable carry-forward of losses.**

VII
Experience Justifies the Proposals

Low Rates Produced Revenue. High Rates Prevented Revenue. Does Congress Wish This Result?

Short Holding Periods Produced Revenue. Long Holding Periods Prevented Revenue. But Is That the Aim of a Tax Bill?

The shorter the term, the more trades are possible. A holding period of three months permits four times as many trades as one of twelve months. Statistics show that large paper profits arising within three months have disappeared within twelve months.

Resulting Benefits—A low rate and a short holding period will encourage profit taking, increase revenue, check too rapid rise, encourage buying at low prices and thus lay the basis for subsequent capital gains and thereby stabilize the market.

Furthermore, frequent realizing of short capital gains would increase Treasury receipts from transfer taxes and brokers' income taxes. There would also be an increase in the number of public issues and a wider market for stocks formerly privately held.

When privately held companies become public and enjoy free markets, Treasury revenue should rise from (1) taxes on underwriters' fees, (2) increase in transfer taxes, and (3) increase in taxes on capital gains. Taxes on changes in market value of privately held companies are rarely collected and generally only on the death of proprietors. Besides, the Treasury benefits because inheritance taxes are simpler to administer on marketable stocks than on privately held stocks.

In short, capital now frozen and immobilized by high rates would become liquid and seek out new enterprise.

VIII
Estimates of Increased Revenue

In 1945, on a six-months' holding period the government collected $750 million. On the proposed changes in rates and holding period this revenue should increase substantially.

IX
New Treasury Proposal Refuted.

The Treasury is Now Asking for a Holding Period of at Least One Year and a Rate of 37½%—No Treasury statistics will support the Treasury's proposal. Indeed, all Treasury statistics will surely refute it. Certainly, Treasury receipts will decline as the holding period is lengthened, for fewer turnovers are possible. Certainly, as the rates are raised, realizing of gains will be discouraged and realizing of offsetting losses encouraged. Revenues will then inevitably decline. Is that the Treasury intent?

The Treasury Proposals Are a Potential Menace—If they are enacted into law, the country faces another "boom and bust"—similar to 1929-32. Can our American way of life survive another such catastrophe? Congress has a grave responsibility. It can avert or create such a crisis. It should examine the facts most minutely and take action only on the basis of supporting statistics. Let Congress demand such data!

Finally, this Congress has a unique opportunity to clarify the 90-year-old confusion on capital gains dating back to the Civil War and to increase revenue substantially by reducing the minimum holding period to three months and by graduating longer term rates from 35% to somewhere near 10%.

John S. Green, Inc. Formed

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — John S. Green, Inc. has been formed with offices in the Fidelity Building to engage in the securities business. Officers are John S. Green, President; George R. Green, Vice-President and Treasurer; and H. R. Green, Secretary.

Thomas A. Melody With Merrill, Turben & Co.

Thos. A. Melody

CLEVELAND, Ohio — Thomas A. Melody has become associated with Merrill, Turben & Co., Union Commerce Building. Mr. Melody was formerly for many years with First Boston Corporation as assistant manager of the Cleveland office.

Jos. McManus Wire to Stephenson, Leydecker

Stephenson, Leydecker & Co., 1404 Franklin Street, Oakland, Calif., announce that the New York stock exchange firm of Joseph McManus & Co., 39 Broadway, New York City, will act as their New York correspondent, with a coast-to-coast direct private wire between New York and Oakland. In making the announcement, Webster S. Rutledge, President of Stephenson, Leydecker, said that "these expanded operations will better enable us to meet the need of investors and industry."

With Quincy Cass

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif. — Frank Foellmer is with Quincy Cass Associates, First Trust Building.

With Atkinson, Jones

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg. — June S. Jones, Jr. is now associated with Atkinson, Jones & Co., U. S. Bank Building.

The State of Trade and Industry

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

The nation's industrial production effort last week reflected a fractional decline from the previous week, but total output continued to be sharply above the level for the corresponding period a year ago. In the field of employment, over-all claims for unemployment insurance for the latest recorded week revealed no appreciable change from that of the prior period.

Between November and January, last, some decline in employment took place, the Bureau of Employment Security asserted, but added that it was only seasonal and an upturn can be expected in the Spring.

The Bureau stated that of 151 areas in the country it surveyed, seven out of each ten had some falling off in employment.

It was further noted that defense production still was of rather minor importance compared with civilian goods production and services, even though there was a substantial increase between November and January in the flow of contracts for defense materials.

Forecasting the future trend, a majority of employers in nine out of every ten major areas estimated their employment would rise. They anticipated substantial expansion, mostly seasonal, by May. Increases were looked for in aircraft, military installations and in reactivated ordnance plants and government arsenals, and in manufacturing and metal industries, the Bureau stated.

On the steel front, last week steel production dropped close to a point, reacting adversely to railroad labor difficulties at the Pittsburgh works of the Jones & Laughlin Steel Corp. The mills produced slightly less than 2,000,000 tons of steel.

Some conception of the confusion that is hampering the steel industry and those dependent upon its output may be gleaned from this week's issue of "Steel," the magazine of metalworking, which asserts that steel distribution is becoming increasingly involved in a tangle of government regulations. Priorities are piling up on priorities, and the trade is rapidly attaining the stage of high confusion which characterized conversion to all-out armament and related production in the early days of World War II. Increasingly, hopes are pinned on adoption of a Controlled Materials Plan as the only means of averting serious disorder in mill scheduling and shipping. Control authorities are driving to set up a CMP organization, but it appears unlikely the plan can be made operative before July.

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N. Y. State to Permit Insurance Investm't In Common Stocks

Two similar bills passed by New York Legislature, one an alternative measure, which would permit life insurance companies to invest up to 2% of assets in common stocks under certain restrictions. One of these measures, Condon-Rabin Bill, also permits restricted investm't in leaseholds.

On March 16, the New York Legislature passed a bill (the Condon-Rabin Bill) which would permit life insurance companies, organized or operating in New York State, to invest, under restrictions, in common stocks of corporations as well as in leaseholds. Because of the possibility that the passage of this measure might be contested in the courts, at the suggestion of Governor Dewey an alternative bill was also provided, which is similar to the Condon-Rabin Bill, but eliminates the provision regarding the privilege of companies to invest in leaseholds having an unexpired term of at least 21 years.

The text of the Condon-Rabin Bill relating to stock investments of life insurance investments reads as follows:

"13. **Common stocks or shares.** A domestic life insurance company many invest in, or otherwise acquire or loan upon common stocks or shares of any solvent institution, created or existing under the laws of the United States or of any state, district, or territory thereof, if (a) such institution is not an insurance company or a national or state bank or trust company, (b) all the obligations and preferred stock, if any, of such institution are eligible as investments under this article, (c) such institution has paid cash dividends on such common stock or shares for a period of ten fiscal years next preceding such date of acquisition by such insurer, and shall have earned, during such period, an aggregate sum applicable to dividends upon its common stocks or shares, equal, at least, to an aggregate sum which would have been sufficient to pay dividends of four percentum per annum upon the par value (or in case of common stocks or shares having no par value, then upon the value upon which stocks or shares were issued) of all its common stocks or shares outstanding during such period, and (d) such common stocks or shares are registered on a national securities exchange, as provided in an act of congress of the United States, entitled the "Securities Exchange Act of 1934," approved June sixth, nineteen hundred thirty-four, as amended.

"No such insurance company shall invest in or loan upon any common stocks or shares of any other institution an amount in excess of two per cent of the total issued and outstanding common stocks or shares of such institution, nor shall the amount so invested exceed one-tenth of one per cent of the admitted assets of such insurance company as of the thirty-first day of December next preceding. The cost of any such investment in common stocks or shares, pursuant to this subdivision, when added to the aggregate cost of all other such investments in common stocks or shares then held by such insurance company, pursuant to this subdivision and section eighty-two, shall not exceed the lesser of three per cent of the total admitted assets or one-third of the surplus of such insurance company as of the thirty-first day of December, next preceding."

Observations . . .

By A. WILFRED MAY

The New Government Bond Market and the Investor

INVESTMENT PRONOUNCEMENT BEFORE THE SENATE CRIME INVESTIGATING COMMITTEE. By expert witness Frank Costello (New York, March 21, 11:13 a.m.):—

"I bought my [oil] stock, and make my investments, on hunch, like betting on a roulette wheel. That's the way everybody invests. . . . No, they don't base their judgment on facts."

* * *

The new Reserve Board-Treasury policies for the handling of the Government debt assuredly have left a multitude of imponderable effects as yet unfathomable by the economist, the bond expert, and the investor. They, even if not the Reserve officials themselves, are still playing the situation by ear—a condition scarcely alleviated by the confinement of Chairman-designate Martin's Senate Committe testimony behind closed doors.

A. Wilfred May

What *can* be constructively analyzed now is the specific proposition of a possible impact of money-market change on the individual's general investing policy.

We assuredly do have the obvious and long-withheld move toward a higher interest rate manifested in the Treasury's offer of exchange of the Victory 2½'s into a 2¾% coupon. And we do have the abandonment of pegging at the former unrealistically low interest rate.

Offsets to the Rising Yield

But these factors presaging higher fixed-interest yields carry important offsets prohibiting the easy unqualified conclusion that increased attractiveness of government bonds should *per se* entail the revaluation of the competing investment media. First, regarding the new 2¾% coupon, although it gives the full-term holders the benefit of a ¼% increase in yield, it must be remembered that the security is unmarketable excepting at a penalty, and that it has a maturity that is longer by eight years. Incidentally, only 19 of over 100 billions of open-market Treasury Bonds are being so raised coupon-wise.

The second, and more basic, offset to the presumption of more advantageous Government Bond investing, is the uncertainty now being injected into Government-Bondholding by virtue of the abandonment of rigid pegging. Not only is the great attractiveness of interest-bearing currency removed, but the props have been pulled from the fiscal and emotional assurance of a rigid par-or-above price floor. This insecurity also extends to the market price to be relied on for the marketable five year Treasury notes into which the new "Investment Series 2¾'s" are exchangeable. Overall, to the institutional expert now feverishly making his intricate slide-rule projections as well as to the run-of-the-

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From Washington Ahead of the News

By CARLISLE BARGERON

It is a paradox that the American people are represented as being thoroughly disillusioned about World War II, disgusted with the handling of our foreign affairs, with the Korean adventure, with the drafting of their boys to send again to Europe, with more military spending, with high taxes and the high cost of living—yet look to a man who is inextricably tied in with this picture, as their favorite deliverer. I wouldn't want to pin any of the responsibility for high taxes and the high cost of living on General Eisenhower; neither for the Korean adventure. But it seems to me that he must share some of the responsibility, either through the sins of omission or commission, for the terrible debacle that has come out of the war that gave him his fame. A man who held the position he did in that war, who is a full General, cannot take the attitude that he has been but a soldier in the ranks. General Marshall, his mentor and patron, would make no such claim. It seems inescapable that Eisenhower definitely belongs with the group that has held our destiny in its hands for some 10 years, and that group has made a shambles of our affairs. It is doubtful we would be sending any more troops to Europe now had he not lent his name to the undertaking. It is all very well for his friends to be whispering that he has not always seen eye to eye with Truman or Acheson; as an outstanding leader, a man who is listened to and commands respect when he talks, he has on no occasion intimated in the slightest that he is not one of the same internationalist, global thinking crowd.

Carlisle Bargeron

To my mind, if there was no other objection to his being President, the fact that he is of the Big Brass at a time when one of the most serious dangers confronting this country is the Big Brass' ascendancy in our affairs, would be sufficient. This ascendancy is so pronounced, so serious, that it has alarmed a man like Senator Wayne Morse, who is as internationalist as any of them. The benign General Marshall, maybe because he is growing old, has come to the point where he can't disguise his impatience with mere members of Congress, mere Senators. The military has always had its arbitrary way in time of war; now it is showing no restraint or modesty in its demands in time of, shall I say "police action." Anyway, it is not a full-scale war, and it is scarcely a secret in Washington that the military's prime objective in continuing the Korean affair is to accomplish rearmament. The influence the military has come to have on our government is no small matter of concern, I can assure you that. Eisenhower is of this crowd. He owes everything to them.

However, all the poltical soundings out in the country, polls by local newspapers, the word coming to members of Congress whose business it is to keep their ears to the ground indicate that millions of voters want Eisenhower for President whether he runs as a Democrat or a Republican. I say it is a paradox and reflects a confused thinking on the part of the people, but that doesn't discount it as a fact. It is a tribute to the man, to his winning way, his pleasant smile, there is no doubt of that.

Of course, this very situation may be the stumbling block to what Presidential aspirations the General may have, and you won't find anyone in Washington politics who doesn't think he has these aspirations aplenty. The General is in danger of being grabbed by the Democrats, or of being sought by both sides to the extent that he will lose his appeal for the working mechanics on either side.

It would be difficult to tell how far the comparison goes but Herbert Hoover found himself in a similar position right after World War I. Both the Republicans and Democrats toyed with him and he ended up by not being seriously considered by either convention in 1920. In the ensuing eight years his friend, Julius Barnes, definitely convinced him that if he wanted to be President he had better make up his mind to be a Republican.

The point for the General in this, I think, is that he had better make up his mind which nomination he wants long before the conventions roll around. And I should think he would have a devil of a time deciding.

Political Washington is pretty well convinced, more so than it has been for a long time, that Truman will not seek another term. With or without Truman next time, the Democrats or the conglomeration operating under that banner, would seem to be in for an awfully hard time. They would be more in need of a glamorous General, more desperate for him. And I am speaking now of the professionals, the party mechanics. As of now, it would seem that only an Eisenhower could pull them out of the mire in which it appears they have sunken up to their necks. The enthusiasm for him among the Republican professionals is limited pretty much to the Eastern seaboard; indeed, his nomination by the Republicans might easily split the party in two. The Democrats would likely adhere to him like flies.

So the unfolding picture of the next several months may be something truly interesting to see and not without its comic aspects, though not calculated to add to the General's appetite. The spectacle of this heterogeneous crowd of CIO's, Americans for Democratic Action, intellectual pinks, big city political machines, grafters and crooks—all calling themselves Democrats—clamoring for and beseeching the General not to let them down, to remember the party that nurtured him, and the General trying to sidestep them, should be very funny, indeed. In the end I hope they capture him.

Turmoil in Treasury Issues and Its Impact on Bond Prices

By WILLIAM WITHERSPOON

Statistical and Research Dep't, Newhard, Cook & Co.
Members, New York Stock Exchange

Commenting on the unsettlement of the government bond market, due to change in Treasury's price support policy, stock market analyst sees in it a probable decline in general bond market and further tightening of credit. Says development may not affect level of stock market and concludes higher long-term interest rates will restore normalcy to money market.

The Treasury Department made a proposal about two weeks ago for the conversion of the June and December 2½s of 1972-67 into a non-marketable 30-year 2¾% bond. This caused unsettlement in the government bond market until a semblance of stability was manifested after more details of this exchange were announced. But, even the filling in of more details was not sufficient to firm the market after the Federal Reserve System withdrew its long established support. The Victory 2½s (December maturity) declined from the 100 22/32 bid to about par, recovered only slightly from that figure, and then broke through the mysterious 100 to close at 99 bid on March 13.

William Witherspoon

The decline in the government market has been rather sharp up to the present time, but of greater importance is the probability that it presages a lower trend in bond prices that might be expected to develop over the next few years. Until now the Federal Reserve System has been using vast sums to support government bonds in its "holding of the Treasury's hand," but this cannot go on indefinitely; there must be a break of this tradition somewhere along the line. As I have pointed out on many occasions, the support of the government market has been entirely foreign to sound economics and creates an artificiality in bond prices that cannot long endure. Hence, the action of the past two weeks has been far from unexpected.

Gold continues to leave this country at a prodigious pace. Only last week $135 million was transferred to foreign account, and during the past year or more $2.7 billion has left the "haven" of America. This trend is not to be ignored because the loss of gold shrinks the fundamental base of credit in our economy. Many persons refuse to believe in this function of gold, but the recent slipping in bond prices is only one of the many steps in this downhill procession of bond prices and of tightening credit which will ultimately prove gold's rightful position.

It has been suggested that this sliding of bond prices presages a decline in stock prices, and likely was a contributing factor in a decline of 4.01 points on March 13 in the Industrial Average. On a few occasions a decline in bond prices has been a forerunner of a break in the stock market, but the relationship between bond yields and stock yields is so at variance under the present circumstances and the relationship is so loosely joined that a direct correlation is not practical. With a sharp rise in bond yields (a decline in bond prices) it is truly said that the ultimate decline in stock yields (advance in stock prices) will be modified. However, it cannot be said that an advance in the yield on high-grade corporate bonds from about 2.80% to, let us say 3.75%, will cause stock yields to advance from about 6% to a figure even higher than this level. Such a correlation is only fictitious.

The decline in the bond market, however, does presage a further tightening of credit. This, of course, does not mean that lower bond prices tighten credit, but that the tightening of credit results in lower bond prices. There has been a substantial expansion in commercial loans at reporting member banks during the past year or more, and other types of loans both inside and outside of the banking system have expanded. Hence, even without a shrinking of the gold base, this demand for credit accommodation will naturally cause a somewhat greater scarcity and, therefore, put a higher price upon money. However, the base is shrinking while the credit structure is being enlarged, thereby producing a twofold pressure toward higher interest rates. If interest rates then advance, bond prices will decline. Hence, we have a manifestation of this tightening credit throughout our economy by the current decline in the bond markets.

As this credit for commercial and other loans is extended throughout our economy, the money supply will be enlarged. As the money supply is enlarged, the volume of business will grow even larger. As volume of business accelerates there will be an even greater demand for loans to finance inventory and a multitude of other just causes. Thus, our economy at the present stage is where it tends to feed upon itself, and in so feeding the enlarging demand for credit exerts more and more of a pressure upon the price of money-rate securities.

The turmoil in Treasuries is therefore, only one development in a long chain of events which will mark the natural development of tightening credit in an economy that has become accustomed to the quite unnatural easy credit which has existed and developed since 1934, when gold began entering the United States in vast quantities. Therefore, the returning toward "normalcy" should not be frightening, but on the contrary should be reassuring in that the fundamental laws of economics have not been permanently abrogated but have been only obscured by temporary expediencies.

John G. White Director

On March 6, 1951, John G. White was elected to membership on the board of directors of Budget Finance Plan. Mr. White is a partner in Reynolds and Company, Chicago, members of the New York Stock Exchange, and is well known in national financial circles.

An Analysis of Economic Conditions

By DR. MARCUS NADLER*
Professor of Finance, New York University

Assuming there will be no major war in 1951, Dr. Nadler concludes (1) there will be this year a high degree of business activity; (2) full employment, with more workers and more overtime pay; (3) gross national product along with expendable consumer income will be very large; and (4) retail trade will expand. Lists strains on the economy but holds danger of inflation is not as great as generally stated.

Ordinarily when a professional economist comes before a group of businessmen to tell them what the future holds in store for us, he begins with "on the one hand and on the other hand," and he injects so many "ifs, as and whens," that you go away more confused than you were before. In the end, the economist is always right because he can then say, "I told you so."

Marcus Nadler

Fortunately, or perhaps unfortunately, this time no guesswork is needed. No guesswork is needed because, as the speakers mentioned, the international situation as well as the mobilization program of the government enters into the picture.

In my analysis, I shall make only one assumption, and that is that there will be no war during 1951, and this assumption is basic because were I to assume that there will be another global war in 1951, my message to you would be entirely different. In that case I would say to you, the younger gentlemen, "Go home, put your house in order and make ready to join the colors."

To the somewhat older people I would say, "Make sure that you get a defense job," and for us oldsters, I don't know what to advise.

Conclusions Reached

My analysis, therefore, is based on the assumption that there will be no war, and the conclusions that I reach briefly are these:

(1) The year 1951 will be marked by a high degree of business activity. The limit will be set by the productive capacity of the country, the availability of raw materials and of labor. Business will be indeed at a high level.

(2) We will have full employment, with more people working overtime than since the war; more married women now unemployed will be gainfully employed; more younger people and more older people will remain at work.

(3) The national income of the country, the national gross product as well as the disposable and expendable income in the hands of the people, is bound to be very large.

(4) The volume of retail trade is bound to continue high and to expand.

Briefly, therefore, at this time of the year, trying to look ahead to what the future holds in store for us, we don't ask ourselves so much the question, "What will business be?" but rather, "What kind of pattern of business will develop in a period of a 'garrison' economy?"

This is something new in our history. Never before have we spent so much money and effort in peacetime to keep our arms strong in order to prevent Russian aggression.

Some Unforeseen Events

To be sure, some unforeseen events may take place which can have a temporary effect on business activity. It is possible—how probable I don't know—that the Russians may endeavor to make a peace effort. What has been called a peace scare may develop, and the people may say to themselves, "There won't be any war; what is the use of buying? I already have all the merchandise I need."

You and I know that retail trade during the last few months was very large. You and I know that inventories in the hands of business people are very large. The figures of the Department of Commerce prove it.

You and I know that the volume of bank credit has increased rather considerably, that a great deal of inventory has been accumulated with the aid of bank credit.

It is possible — how probable I don't know—that if a peace scare should develop, temporarily we might have a moderate decline in the volume of business, primarily in the sales of soft goods; but, in my humble opinion, even if this were to take place, it is bound to be only temporary in character.

A rearmament program must continue and in all probability will be accelerated. The rearmament program will continue for years to exercise a very powerful influence on business activity.

The Pattern of Business

What will the pattern of business be? Briefly stated, the pattern of business will develop itself somewhat as follows:

Our economy will be subjected to three strains, one coming from the rearmament program which will mean an increased demand for all kinds of commodities and labor; increased drafting of our young men to train them to be professional soldiers.

A great strain will be imposed on the economy because of the increased capital expenditures. Our aim is to increase our productive capacity in order to be able to maintain our standard of living and at the same time to increase our military might.

This requires billions of dollars of capital expenditure in new plants and equipment. While these plants are being erected and the equipment is being manufactured, there is as yet nothing available for consumption; but at the same time it creates a demand for raw material and labor.

The rather large capital expenditures during 1951 will also impose a great strain on our economy.

The third strain will come from the great demand on the part of the civilian population. The supply of money in the hands of the people is already very great. Unfortunately, some people are even spending some of their savings.

As I stated a moment ago, employment will be large, wages will be high and they will be increasing. Overtime payments will be made. This huge purchasing power in the hands of the people will create the demand for all kinds of commodities, thereby imposing another strain on the economy.

As a result of the rearmament program, certain shortages are bound to develop. It is quite evident now that during 1951 we will not be able to produce as many automobiles and other durable goods as we produced during 1950. It is quite clear that during 1951 we will not be able to erect as many homes as during 1950. The supply of durable goods is bound to go down, and this decline in the supply of durable goods comes at a time when the disposable income in the hands of the people is bound to increase, and whenever the supply of commodities goes down and the supply of money in the hands of the people increases, naturally it creates inflationary dangers. Nobody can deny that the forces of inflation in the United States are pronounced and that we are confronted with a serious danger of inflation.

No Runaway Inflation

At the same time, let me tell you this—and what I say is based not only on experience but also on study—the danger of inflation is not as great as most people believe it to be. There is no need for a runaway from the American dollar.

The type of inflation that has occurred in most countries in Europe cannot take place in the United States, and this is not wishful thinking.

The reasons for this statement, briefly are these:

(1) The productive capacity of the United States is great and is constantly increasing. By the end of 1952, if there is no war in the meantime, we may be in a position to produce as many civilian goods as we did during 1950 and at the same time be in a position to maintain our military might.

(2) Not everybody's income is protected by an escalator clause. Not everybody is a farmer, the price of whose product is protected by parity provisions of the law. There are many millions of Americans whose incomes are more or less steady.

There are many Americans living on a pension, and many Americans will live on the benefits of an insurance policy. There are many civil and public employees whose income does not increase as the cost of living goes up and, as their purchasing power goes down, they buy less on the market and sooner or later, this is being felt in the movement of commodity prices.

(3) Taxes have already increased, and in all probability taxes will be increased more. Taxes tend to siphon off excess purchasing power.

(4) Already we have mild credit restrictive measures. You are familiar with Regulation X, dealing with loans on the construction of homes; Regulation W, dealing with the purchase of durable goods. Before long, ordinary credit control will be strengthened; it will be more difficult to obtain bank credit; it will be more difficult to borrow. The expansion of credit brought about by the private sector of the economy will not continue to rise as it did during the last few months.

(5) Controls have already been imposed and if need be other controls will be imposed, because one thing is certain, and that is, just as we make sure that we can handle all international problems as they arise, so must we make sure that there is no inflation in the United States. Serious inflation will wipe out the middle class, you and me, and once the middle class, the torch-bearer of liberty, is wiped out, then the country is ready for great economic, political and social changes.

I am therefore convinced that we will not have serious inflation.

In all probability, commodity prices will rise by another few points, maybe 5, maybe 10%, and then in all probability commodity prices will level themselves out and will stay there during the period of the emergency.

I repeat, therefore, while we cannot deny that there is a danger of inflation, while the forces of inflation operating in the economy are great, there is no need for a runaway from the dollar and there is no need to fear that the purchasing power of the dollar will decline to an extent as we witnessed in the currencies of other countries.

Labor will be in short supply. The demand for labor will be very great. This in turn will lead not only to increases in wages, but

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*An address by Dr. Nadler delivered at a symposium of the Seagram, Calvert, Frankfort and Browne-Vintners Companies, New York City, March 2, 1951.

Industry Characteristics Important In Investment Planning

By THOMAS W. PHELPS*
Assistant to the Chairman, Socony-Vacuum Oil Company, Inc.

Investment expert asserts investment characteristics of a common stock are determined not only by its industry's stability, but also by management, quality and leverage. As leverage factors, he cites uncontrollable wage costs as well as pyramided capitalization. States correct market timing can turn poor investment elements into good speculation.

Why do they make this business of investing so hard? The difficulty right here, I think, is that the investment characteristics of any common stock are determined not alone by the industry it represents but by its leverage of various kinds. The result is that earnings of a relatively stable industry with high leverage may fluctuate more than earnings of a relatively unstable industry with low leverage.

Thomas W. Phelps

What makes an industry stable? What gives it leverage? Let's try to answer one question at a time. What makes an industry stable is continuity of steady demand. Recently there has been some talk of travel to the moon. As a matter of fact, our company got out a guidebook for the trip. Here it is. Now as I understand it, there is no air on the moon. That means that tourists must buy the air they breathe there. Such demand is probably the steadiest we can imagine. Even by breathing hard, no one can store up enough air to last himself more than a few minutes. Regardless of the price, it would be very hard for anyone to economize on his use of air. And second-hand air is so inferior to fresh air as to present no serious competition.

Even such a stable business as selling air on the moon could be upset by bad management, of course, but in talking today about investment characteristics of various industries, we are assuming good management throughout. It would be pointless to do otherwise because bad management can wreck any business. Aside from changes in the population of the moon, which presumably could be anticipated, and in the absence of government competition or rate regulation, our Lunair business should be a model of stability.

The nearest thing to such a business on earth is, of course, food and drink. Anyone who has ever been deprived of both for a day or two knows that they should be listed in reverse order—drink and food. The need for something to drink is not only less postponable but less variable than the need for food. Water for washing and irrigating is something else again, but the business of supplying drinking water is probably inherently the most stable in the world.

Elements of Stability and Instability

I am sure you all are thinking ahead of me not only as to what makes businesses stable but what makes them unstable. Obviously, the more regularly and steadily you have to use a product, and the less you are able to build up supplies of it against future needs, the more stable the business of furnishing that product to you is likely to be. On the other hand, the longer you can postpone buying a product, and the farther ahead you can stock up on it, the more unstable the business of supplying that product to you is bound to be. Clothing, for instance, is basically not quite so steady a business as food because you can buy clothing farther ahead of your needs, and put off repurchases longer. Back in the old days, when we still had business depressions, it used to be said that the turn for the better would come as soon as the average man had time to wear holes in the seats of two pairs of pants. The theory was that he then would have to buy, and the wheels of industry would pick up speed once more.

You can put off buying rugs and furniture longer than clothes, usually, and most of us can and do postpone building a house until we have the down payment, no matter how long we have to wait to get it.

In cold climates, though, the need for heat in winter can't be postponed, no matter how long delayed one's new home may be. When night comes we turn on the lights, whether our house is new or old, rented or mortgaged. And automobiles won't run without gas and oil, no matter how hard we may be trying to avoid spending money in other directions.

The important thing in considering the investment characteristics of major industries is to see why the earnings of some industries are usually more variable than others, rather than to try to memorize any list of stable and unstable earners. If you know what makes an industry stable or unstable, you can recognize when changing conditions may make a normally unstable industry a steady earner for a period of years, and vice versa. War, for example, may insure capacity operations for makers of steel and heavy machinery, not only while the fighting is on, but to fill deferred demands when it is over.

In investing, as in many other walks of life, rules may guide our thinking but they never should be permitted to become substitutes for thought.

We have seen some of the things that make an industry stable; but what gives it leverage and why does leverage affect its stability?

The Leverage Factor

Suppose two girls own a hairdressing shop that earns $10,000 a year. They share alike in the profits or losses of the business. If the profits of the business increase 10%, each girl's share of those profits increases 10%. If the profits of the business drop 50%, each girl's share is cut in half. There is no leverage in that arrangement.

Now suppose one of the two girls is the safety-first type. She suggests to her partner that the profits be divided on a new basis. The first $5,000 earned in any one year is to go to Miss Safety First. All the rest earned in any one year is to go to Miss Take-a-Chance. If the business continues to earn $10,000 annually, the profits are divided exactly as before. But if the earnings rise 10% to total $11,000, Miss Safety First gets only $5,000 as agreed, while Miss Take-a-Chance gets all the rest, or $6,000 an increase of 20% over her former $5,000 share. And if the earnings drop 50% to total $5,000 Miss Safety First still gets her $5,000 while Miss Take-a-Chance gets nothing. That's one kind of leverage. Its effect is to magnify business ups and downs. In general it is the result of placing certain claims on the earnings and assets of a business ahead of certain other claims.

Suppose Consolidated Doorknobs Corporation makes $100,000 a year by manufacturing and selling $1,000,000 worth of brass knobs. Suppose the corporation's wage bill is $500,000 a year, and that its other expenses total $400,000. The two expense figures total $900,000. Subtracting $900,000 expenses from $1,000,000 sales leaves $100,000 in profits. Now let's suppose that prices fall 20%, so that the same number of doorknobs sell for $800,000. If wages and other expenses are cut 20% each, they now total $720,000. Subtracting $720,000 expenses from the reduced sales figure of $800,000 leaves a profit of $80,000. That is down 20% just like everything else. There is no leverage in such a situation.

But now suppose that for one reason or another, it proves impossible either to reduce the labor force or to cut wages when prices fall 20%. The year's output of doorknobs sells for $800,000 instead of $1,000,000. Other expenses drop to $320,000, from $400,000. But wages stay at $500,000, so the total of wages and other expenses is $820,000, compared with a total income of $800,000. The corporation loses $20,000. That is leverage with a vengeance.

Now if all the corporations in the doorknob industry were similarly situated, you might say that the earnings of the industry varied widely with changes in the prices of doorknobs, and you would be right. But the reason for the instability of that industry's earnings would be the leverage imparted by uncontrollable wage costs rather than anything to do with doorknobs per se.

You may think that I am splitting hairs, but unless we see why the earnings of one industry are more volatile than another we can't hope to foresee when an industry's situation will get better or worse, and foresight is the only kind of vision that pays off in investing.

In the case of both the beauty shop and the doorknob factory we note one thing in common: Leverage is the result of setting up preferred claims on the earnings of the business. The tendency to magnify any falling off in earnings is exactly the same whether those preferred claims belong to bondholders, preferred stockholders or employees.

In one respect, and speaking solely from the point of view of investors, leverage due to uncontrollable wage costs is worse than leverage due to a pyramided capitalization because wages in such circumstances are so often on a ratchet—they won't go down when prices fall, but they do rise promptly when prices go up. Occasionally you can buy that kind of one-way leverage for yourself through the medium of a participating preferred stock which benefits by its prior claim on earnings when times are bad but shares with the common stock in the increased profits when times are good. The danger is that when a company feels it necessary to issue that kind of one-sided bargain stock, its prospects may be so poor that even the preferred claim on its earnings may be of no value. Obviously when any group in our society succeeds in carving out for itself a participating preferred position

Continued on page 26

*A talk by Mr. Phelps at the New School for Social Research, March 14, 1951.

Dealer-Broker Investment Recommendations and Literature

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

Air Transport Industry—Analysis with particular reference to **United Airlines** and **Trans World Airlines, Inc.**—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Bank Stocks—Price record of selected bank stocks—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Bank Stocks—Brochure discussing the case for bank stocks including pertinent facts on 18 selected banks—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

"Exchange"—Monthly magazine now issued in a streamlined edition—10¢ per copy or $1.00 per year—New York Stock Exchange, 11 Wall Street, New York 5, N. Y.

Exchange of U. S. Treasury 2½s 1967-72 into 2¾% bonds—Bulletin—First Boston Corporation, 100 Broadway, New York 5, N. Y.

Favorite Fifty—Analysis showing the listed stocks most popular with professional management and the relative standing of these stocks since 1947—Aigeltinger & Co., 52 Wall Street, New York 5, N. Y.

Free Market—Study of its implication—C. F. Childs and Company, 1 Wall Street, New York 5, N. Y.

Graphic Stocks—January issue contains large, clear reproductions of 1,001 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.

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

Natural Gas Distributing Companies—Discussion of opportunities in their common stocks—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Norway—Memorandum—Chemical Bank & Trust Co., 165 Broadway, New York 15, N. Y.

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.

PDQ Dividend Indicator—3 x 5 pocket chart prefiguring returns on dividend-paying stocks—$1.00—Thomas Pub. Co., Box 190, Batavia, N. Y.

Planning for Profits in the Stock Market—Discusses three basic principles of correct investment procedure and outlines specific plan of action for applying these to individual investment programs on a week-to-week basis—Included with each copy is a current basic strength analysis of 440 leading stocks and 43 groups, primary trend graph, showing present actual trend of the market, and a complete analysis of the market's technical position—$1.00—Dept. 4-A, Investors Research Company, Mihran Building, Santa Barbara, Calif.

Portfolio Management—Three suggested portfolios for the investment of $5,000 to meet varied needs—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y. Also available is a leaflet of market discussion.

Potential War Babies—Discussion of four issues selling under $1 per share—Olds & Company, 35 Montgomery Street, Jersey City 2, N. J.

Shop Talk—Bulletin on developments in various stocks—Georgeson & Co., 52 Wall Street, New York 5, N. Y.

* * *

Aetna Standard Engineering Company—Analysis—Moore, Leonard & Lynch, Union Trust Building, Pittsburgh 19, Pa.

Allis Chalmers Manufacturing Company—Analysis—Freehling, Meyerhoff & Co., 120 So. La Salle Street, Chicago 3, Ill.

Atlas Steels, Limited—Analysis—L. S. Jackson & Company, Limited, 132 St. James Street, W., Montreal, Que., Canada.

Berry Motors, Inc.—Analysis—Samuel S. Cadwell Co., Westport, Conn.

Berry Motors—Bulletin—Coffin, Betz & Co., 123 South Broad Street, Philadelphia 9, Pa.

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Is This a New Era?

By HARRY D. COMER*
Partner, Paine, Webber, Jackson & Curtis
Members, New York Stock Exchange

Mr. Comer, in maintaining we are in a New Era, cites as evidence: (1) highest living cost on record; (2) lowest value of consumers' dollars; (3) inordinately high taxes; (4) highest food prices ever; (5) unprecedented inflationary bond market; (6) a controlled economy, and (7) an irredeemable paper currency. Points out also something new has been added in stock market, and inflationary trends are causing an Era of Distortion. Foresees long period of high production of near boom proportions. Concludes, as long as wide disparity in bond and stock yields exists, investors need not worry about coming bear market.

There is an old saying that "There's nothing new under the sun." Nowadays, almost everybody knows that that's not true. We have all heard plenty about the atom bomb — to mention just one new thing under the sun. Maybe the atom bomb or the hydrogen bomb is **hotter** than the interior of the sun or other stars. I do not know and neither do the scientists, for sure. But these bombs most assuredly are something new for us to contend with on this earth.

Harry D. Comer

How about penicillin, aureomycin and terramycin—to mention a few of the new things under the sun which man has produced in the technical laboratories?

I am sure you will all agree that there are such things as new discoveries and inventions in the physical world. Some of these have had a profound influence on our economic world. For example, the steam engine and the application of power to machinery. The automobile. The telegraph. The telephone. The cotton gin. The reaper. Consider the wheel itself. This invention is said to have been the greatest single step forward, mechanically, in the history of mankind.

To help evaluate the vast increase in technological efficiency in industry, a **"new era,"** to be sure, consider the invention of the spinning jenny in 1733. Some years ago William Green, President of the AFL, made the following statement: "Today one man with modern machinery can accomplish as much as 45,000 women could with their spinning wheels two centuries ago. . . . By the end of the 1890s, people were looking back at a century of so many marvels that even the skilled engineers believed we had come to the end of machine development. Little did they dream that before them lay an era in which machine progress would so far outstrip that of the past that the growth of a century would in many industries be telescoped into a brief 10 years."

There are plenty of new things under the sun and it behooves us not to blind ourselves to the vast potentialities inherent in new things and new eras.

Webster defines an "era" as: "A period of time during which certain influences, social conditions, or the like, prevail." A New Era, therefore, would be a period during which **New** influences, **New** social conditions, and the like, prevail.

When dealing with the social sciences and man's reaction to his environment maybe it is true that "human nature never changes." Maybe people will always be captivated by the same old emotions of joy and grief, love and hate, fear and greed. Self-preservation may continue to be the first law of nature, but to conclude therefore that there is nothing new in this field would be utterly erroneous. So much depends upon which of these emotions is uppermost, which is swaying the mass mind, which one is receiving the most emphasis in a given period of time.

Look into the field of music for a moment. The standard piano has 88 notes, the same old 88 notes. Are we to conclude, therefore, that we cannot have any new music because there are no new notes? Not at all. New musical compositions are being produced continually. What makes a new composition of piano music? Yes —the same old 88 notes are used. But the difference comes in new combinations of notes, new sequences, new emphasis.

New Era in America

We are living in a new era in this country—playing a new piece on the piano. Some of the prominent evidences of that fact are the following, to name a few:

(1) The cost-of-living is the highest on record, in terms of dollars.

(2) Stated the other way around, the value of $1 in the hands of the consumer is the lowest on record.

(3) The annual tax bill of the typical American citizen exceeds the annual cost for food.

(4) Yet, food prices are the highest in history.

(5) We have come through the most inflationary bond market on record.

(6) We have a semi-managed or controlled economy.

(7) Domestically we are on a paper-money standard.

(8) The XXII Amendment to the Constitution was recently adopted. You all know that is the amendment limiting the tenure of office of the President. If this amendment had been in effect 20 years ago, all subsequent history might have been different. Much of our New Era of recent years might have been avoided.

(9) **In the stock market, something new has been added.** We have seen, and still see, yields on good quality stocks about double the yield available on high-grade bonds. That never happened before in times that passed as periods of general prosperity. I shall refer to these and other elements of this **new** era as we go along.

Virtually all of these and other developments contributing to our present **New** conditions have stemmed directly or indirectly from war and inflation. Large-scale war always means destruction of lives and property. There is nothing new there. War usually causes inflation of the currency and lowering of the value of money. Nothing new there. But never before in this country have we had to pile one inflation on another without an intervening period of time long enough to permit a correcting deflation to occur. Here again it is due, basically, to the factor of war. Long before we had time to recover from the damaging effects of World War II, we have found it necessary to build up our defenses against a possible World War III. And we are doing this under a system of managed-money which adds up to "inflation."

Inflation is itself a distortion. It causes or accompanies many other distortions. **For example,** the wage-price spiral, which has been twisting so furiously these last several years. One distortion generates another. Perhaps rather than to call the present simply a new era, a more descriptive name would be an **Era of Distortion.**

Since 1933, when Roosevelt took office and the New Deal reflation was started, the value of the dollar has fallen 50%. This is based on official data published by the U. S. Bureau of Labor Statistics. (In that period the Cost of Living index rose from 91 to 182.) (If we take the dollar in 1900 as equal to 100 cents, it is now down around 22 cents.)

All statistics stated in dollars are distorted by the inflation which has been progressing in this country for years. **The distortion must be somehow removed before we can really know what has been going on.** The dollar figures themselves are confusing rather than revealing.

I have said that this is an age of distortion. Let us look at the changes in a few general statistics over the past 20-odd years.

Distortions in Dollar Figures
1951 Versus 1929

	1929	1951 (Estim.)	Percent Increase
National income	$87,000,000,000	$270,000,000,000	+ 210
Industrial production	*110	*225	+ 113
National debt	$16,500,000,000	$257,000,000,000	+1458
Avg. hourly earnings, mfg.	$0.57	$1.54	+ 170
Population	122,000,000	153,000,000	+ 25
Industrial stock prices	198	191	— 4

*Federal Reserve Board.

The year 1929 is often thought of as typifying a big boom in American business. Yet, stated in dollars, our national income **this year** will be more than twice what it was in 1929. $270 billion versus $87 billion, a rise of 210%.

Average hourly earnings of workers in manufacturing industries now are $1.54 versus only 57 cents in 1929. Up 170%, if we look only at the dollars.

Meanwhile, the population has expanded 25% (from 122 millions to 153 millions).

In these same 21 or 22 years, however, the national debt has gone from 16.5 billion of dollars to 257 billion, an expansion of over 1400%.

Meanwhile industrial stock prices, on average, are still slightly below their 1929 high, also measured in dollars.

The Case of General Motors

For a specific illustration of distortion in dollar comparisons, take the case of General Motors. Last week a New York tabloid paper carried this news item: "General Motors today announced net earnings of $834,044,039 during 1950, **the highest profit ever reported by any corporation in the world.**" I think that is very poor publicity. Although the dollar figures seem to support such a statement, it is not very enlightening and may even be misleading. Just about everything at GM is bigger now than it was in the past. Dollar volume of sales, payrolls and taxes all made new highs last year.

There are two principal ways in which **dollar data** (like GM's earnings) can be adjusted to allow for changes in the value of money. One way is to express the data in terms of a constant dollar. I will refer to this again in connection with the level of stock prices.

Another useful way to eliminate the distortion in such dollar figures is simply to relate one set of data to another in the same year. Express **dollar profits** as a percentage of **dollar sales** in each year, and then compare the percentages. Because the dollar factor is in both the numerator and denominator of such ratios, the distorting influence of inflation is cancelled. When we do this with GM's 1950 earnings, we find that profits were only 11.1% on sales, versus 12.6% in the prewar period 1936-40. In relation to sales, therefore, profits in 1950 were certainly **not** the largest on record; they were even **below prewar.**

Incidentally, it should be noted that the government had a greater financial interest in the prosperity of GM last year than did the stockholders. GM President Wilson pointed out that "ascertainable" taxes for 1950 totalled $1,536,000,000. That figure is almost double the net earnings accruing to the corporation after taxes, which totalled $834,000,000. Taxes nearly equalled the total wage bill, which was $1,809,000,000.

Outlook for Industrial Production

It is not always profitable to attempt to appraise the stock market on the basis of the projected trend of business. Particularly in time of war, or postwar, some very unhappy results have followed such a practice. The market and business have frequently gone in opposite directions.

From a near-term business viewpoint, there are, of course, grounds for some misgivings. Public psychology is very difficult to predict. In fact, there is no method of forecasting when buying sprees in department stores, such as those which have developed since the Korean war, will begin or end. In April, cuts on use of materials for civilian production will begin to pinch somewhat harder, as follows: Steel, a cut of 20%; Copper, 25%; Aluminum, 35%; Nickel, 35%. Defense orders are steadily stepping up. In five months after Korea, orders placed were less than $2 billion per month; December, $2.8 billion; January, $4.4 billion. February and March will both show gains over January.

Some international observers who claim to understand the workings of Stalin's mind have come to the conclusion that the next three or four months will decide whether 1951 is to witness a general war. If nothing new develops soon, it would appear to be almost certain that some letdown in consumer and business buying would occur in the next few months. That tendency would be accentuated if there is a real "peace movement." However, I think there has been some exaggeration of the probable severity of the near-term squeeze on civilian production. Our capacity to produce is much larger than it was when World War II started.

Looking still further ahead, it seems to me that the safe assumption is that rearmament programs for this country and our allies will continue to expand. We are going

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*A talk given by Mr. Comer before the Convention of Western Sales Managers of Paine, Webber, Jackson & Curtis, at Chicago, Ill., March 16, 1951.

A Look at the Steel Stocks

By LOUIS STONE
Hornblower & Weeks
Members, New York Stock Exchange

Investment analyst presents data on leading steel company shares, and, on basis of his study, concludes it appears fairly safe to say that 1951 earnings and dividends are not slated for any major decline and may go up in some cases. Holds steel stocks are relatively undervalued and are attractive, since they represent equities in a basic industry which must continue to grow.

At current prices, off about 15% on the average from their January highs, the leading steel stocks are selling at only 4.7 times their 1950 earnings, and yielding 8.25% on their current dividend rates. Assuming that they do not stay at their present levels, and this is always a valid assumption in the case of the highly volatile steel group, steel stocks will either go up to a more "normal" ratio to present earnings and dividends, or they will go down in reflection of declining earnings and dividends. Without prejudging the question, it appears fairly safe to say that 1951 earnings and dividends are not slated for any major decline—and they may go up in some cases.

Louis Stone

An Earnings Projection

The accompanying projection (table I) of 1951 net per share for 13 leading steel equities is based on a purely arithmetical calculation—the 1950 second half net before taxes has been doubled and taxes have been taken at the 62% maximum rate provided in the present law.

The projection in table I is not of course to be taken as a realistic estimate, because there are far too many unknown factors at this stage to allow any simple rule of thumb arithmetical approach. But the figures are of value to those who are willing to assume a continuation of the present high rate of operations. Actually there will be considerable variation among the individual companies from the results indicated by a simple doubling of the 1950 second half net before taxes—some companies will probably be able to improve their operating ratios this year to a point which should make their 1951 pretax earnings somewhat more than twice the 1950 second half figure. In this connection, it is of interest to note, in table II, the considerable variation in operating ratios between the different companies; present conditions of premium demand for steel will help to offset the normally higher cost factors of the less efficient producers, and it will not be surprising to see a much better profit realization on the part of such concerns as Sharon, Allegheny Ludlum, Crucible, and Pittsburgh.

In the case of the four smallest companies, shown in table II, an increase of several percentage points in profit margins, on top of a further increase in dollar sales volume, will make for a considerable increase in the per share figures projected. In the case of Sharon Steel, for example, realization of a 17% pretax margin on a sales volume of $150,000,000 will increase the 38% net after tax by more than $1 a share above the $9.56 projected figure for 1951. And in the case of Pittsburgh Steel a 15% margin on a $130,000,000 volume will raise the projected net by about $2 a share.

A 62% tax rate is used in arriving at the projections of 1951 net, for the very good reason that the 62% maximum under the present law was reached by a number of companies in the second half of 1950, and the average for all 13 companies was 59%. Tax computations for an interim period are necessarily inexact, and the two retroactive changes in rates in the last half of 1950 resulted in complicated adjustments; a clearer indication of tax liability is indicated by the 51.3% overall average for the full year 1950. Since the rate on consolidated returns was only 40% in the first half, and the maximum rate was 62% in the second half, the actual average of 51.3% for the full year supports the assumption that the 62% maximum was reached in the second half, and there are only minor variations from the overall average for each of the 13 companies.

What the Earnings Indicate

Assuming that the projections are at least some indication of the current earnings rate, after adjustment for the particular factors present in each case, the question remains as to what these earnings are worth. One year's earnings, or two or three years' earnings for that matter, in a period of government stimulated production, are not a satisfactory basis for any calculation of investment "value." Consideration must be given to the underlying position of the steel industry in relation to the overall economy, and further, to the relationship between present market values and actual book values. In this latter connection, it may be helpful to present the figures on the total market value of each company's common stock equity, and the net market valuation of fixed assets after deducting net current assets and allowing for funded debt and preferred stocks (table III).

The figures in table III reflect what appears to be a ridiculously low market valuation of fixed assets;—the rated ingot capacity of each company as shown, and the low market valuation per ton, averaging only $30 a ton against estimated present replacement costs of about $300 a ton, but fixed assets represent a good deal more than just rated ingot capacity. Finishing facilities rather than basic ingot capacity are often the determinant of a company's earning power, particularly in a period of lessened demand, and of course there is no consideration in the figures of all the assets other than steel capacity which go to make up an integrated steel company—ore reserves, coal, coking plants, railroad facilities, shipping facilities, etc., etc. There are no adequate figures on the present day valuations of the leading companies; the book values, tabulated in table IV, represent only an accounting abstraction based on original cost less allowed depreciation—if depreciation charges over the last 10 years had been based on present replacement costs, there probably wouldn't be any book values left today, but actual values would still be astronomically higher than those shown.

Question of Current Market Prices

Current market prices represent, on the average, about 80% of book values, with considerable variations in individual cases — Inland sells 40% above book value, Pittsburgh sells 40% below. On the whole, it is true that anyone buying into any of the leading steel companies today is getting his equity at a very large discount from any common sense appraisal of value—you couldn't buy an interest in your neighborhood grocery store or stationery shop at anything like the same ratio to assets and earnings.

All of the foregoing considerations of current market prices in relation to current earnings and current assets are of little value in guessing the future market action of the steel stocks—as a practical matter, steel stock prices will go up or down over the immediate future purely in response to the public's evaluation of the war news and the resultant prospects for a long or short period of capacity production. But the investment buyer with funds to invest on a long-term basis is presumably not concerned with the superficial moods of an ever-changing public psychology — given the facts as to the present market's low appraisal of current earnings and assets, the basic question is the position of the steel industry in relation to the nation's economy. Steel capacity now totals about 104 million tons; present expansion plans are scheduled to raise total capacity to about 120 million tons, with most of the increase being provided by the 13 companies included in the tabulations. Total rated capacity of these 13 companies is about 87 million tons, with their announced expansion plans calling for an increase in this total to about 100 million tons by the end of 1952. Is it possible that completion of the present program will leave the industry greatly over-expanded, with the armament program approaching completion and the civilian economy heading for a cyclical down turn? Sure—anything is possible, but there isn't any basis in the figures for any such conclusion.

Steel capacity increased 58% from 1914 through 1929 compared with an increase of about 230% in the national dollar income and about 23% in the population. Despite the ensuing depression, capacity continued to expand through 1932, when it reached about 79 million tons, and then, for the next eight years through 1940, expansion practically stopped —the only eight-year period in the history of the industry that did not witness an expansion of at least 10%. Throughout the so-called New Deal recovery period, when all emphasis was placed on panaceas for increasing the mass standard of living, the average steel company executive was afraid to turn around in his office without government permission, no less plan the kind of expansion program without which there could be no real improvement in the whole nation's standard of living. And as late as 1940, at the TNEC hearings in Washington, the steel industry was berated for causing technological unemployment by too rapid an expansion of its mechanized plant. Beginning in 1940, as a result of the fortunate two-year warning period before our entry into the war, steel capacity was again expanded at a fairly steady rate of about 3 million tons a year, rising from 81,619,000 tons at the end of 1939 to 95,505,000 in 1945. In the next four years, new facilities came into use at only about the same rate as retirement of obsolete facilities, which had been kept going at a greater than normal cost during the war, and total capacity was only 96,121,000 tons at the end of 1948. Starting in 1949, the net expansion was accelerated, partly in response to the government's now reversed position that the industry had failed to meet its social obligation to expand; the 4,000,000-ton a year increase in 1949 and 1950 is being raised to a 10 million-ton a year rate now, in response to the obvious need for an armament program that must continue until there is real assurance of peace. At the present level of about 104 million tons of rated capacity, up 27% from the 1939 level, and up 43% from the 1929 level, the steel industry is certainly not in an over-expanded position in relation to the needs of its principal customers. Automobile production in 1950 for example, was 80% above the 1939 level and 47% above 1929; 1950 building construction, in terms of new dwelling units provided, was 170% above the 1939 and 60% above 1929. Even the talked about level of 120 million tons at the end of 1952 will not necessarily be adequate—it almost certainly will not be adequate if a continuing $50 billion a year armament program is to be superimposed on an inflating $250 billion a year civilian economy.

In summary, it would appear that steel stocks at current prices are basically undervalued; in terms of current earnings and current asset values they are obviously cheap—in terms of their relative position in an expanding national economy, they represent the equities in a basic industry which must continue to grow—in capacity, in production, in sales volume, and in earnings.

TABLE I

	Price 3-13-51	1950 Net per sh.	1951 Projected Net per sh.	Indicated Dividend Rate*
Bethlehem	53½	$12.15	$10.84	$5.00
Inland	53	7.76	6.95	4.00
Youngstown	51	12.13	10.07	3.25
National	48	7.85	7.14	†3.25
Armco	43	8.97	7.71	4.12½
U. S.	42	7.28	6.04	3.75
Republic	42	10.54	9.28	4.50
Sharon	41	10.03	9.56	4.00
Allegheny	40½	5.95	5.89	2.50
Crucible	39½	9.74	14.92	†
Wheeling	35½	11.59	11.89	3.00
Jones & Laughlin	25½	7.36	‡6.63	1.80
Pittsburgh	24½	6.13	6.39	---

†2% in stock declared payable March 31, 1951. *Based on present quarterly rate plus extras or specials paid at 1950 year end. ‡Before giving effect to current financing.

TABLE II

	1950 Sales (000)	Net before Taxes (000)	Ratio to Sales
U. S. Steel	$2,955,235	$449,338	15.2%
Bethlehem	1,439,822	244,976	17.0
Republic	888,314	142,995	16.1
National	537,820	118,915	22.1
Jones & Laughlin	487,451	73,594	15.1
Inland	461,377	79,240	17.2
Armco	444,299	95,173	21.5
Youngstown	403,997	74,436	18.4
Wheeling	184,803	*38,445	20.8
Allegheny	177,962	*20,400	11.5
Crucible	147,705	15,089	10.2
Sharon	135,409	19,230	14.2
Pittsburgh	118,009	12,860	10.8

*Estimated; final figures not yet available.

TABLE III

(000's Omitted)

	Mkt. Value of Common	Mkt. Valuation of Fixed Assets	Ingot Capacity	Mkt. Valuation per Ton
U. S. Steel	$1,096,620	$971,346	33,900	$28
Bethlehem	512,691	370,963	16,000	23
National	353,376	264,334	4,700	56
Inland	259,700	215,315	3,750	56
Republic	247,506	178,590	9,000	20
Armco	190,060	139,349	4,193	33
Youngstown	170,850	21,434	4,008	5.30
Jones & Laughlin	132,625	110,993	4,800	23
Allegheny	66,825	47,668	900	53
Wheeling	50,552	66,972	1,800	37
Sharon	37,966	14,233	1,500	9.50
Pittsburgh	22,809	13,128	1,072	12.30
Crucible	19,315	37,303	1,113	34

TABLE IV

(000)

	Total Assets	Net Capital & Surplus	Pfd. Stock	Common Equity	Per Share
U. S. Steel†	$2,556,366	$1,917,613	$360,281	$1,557,332	$64.15
Bethlehem¶	1,314,267	811,646	93,389	718,257	74.89
Republic†	496,093	354,848	28,204	326,642	58.18
Jones & Laughlin¶	466,322	305,465	29,357	276,108	53.10
Youngstown¶	381,896	273,286	-----	273,236	81.57
Armco*	362,954	223,963	19,998	203,965	52.30
National†	360,479	254,830	-----	254,830	37.40
Inland†	300,668	168,377	-----	168,377	38.10
Wheeling†	173,272	117,246	38,317	78,929	55.43
Crucible¶	120,097	72,785	31,057	41,728	85.51
Pittsburgh¶	78,170	53,540	12,037	41,503	44.58
Sharon¶	72,466	47,147	-----	47,147	50.92
Allegheny†	67,900	52,659	‡	52,659	31.91

†As of Dec. 31, 1949. *As of Sept. 30, 1950. ¶As of Dec. 31, 1950. ‡Preferred stock retired in February, 1951.

Blyth Group Offers Com. Stk. of Middle South Utilities, Inc.

Blyth & Co., Inc. heads an investment group which yesterday (March 21) offered 450,000 shares of the common stock of Middle South Utilities, Inc. at $18.12½ per share. The issue was awarded to the group at competitive sale on March 20.

Middle South Utilities, Inc. is a holding company organized on May 27, 1949 upon dissolution of Electric Power & Light Corp. Its operating subsidiaries are Arkansas Power & Light Co., Louisiana Power & Light Co., Mississippi Power & Light Co. and New Orleans Public Service, Inc. and it is estimated that the construction programs of these subsidiaries will aggregate approximately $100,000,000 in 1951 and 1952.

The subsidiary companies together operate an interconnected electric utility system and certain other utility properties in the States of Arkansas, Louisiana and Mississippi. Operating revenues of the subsidiaries for the 12 months ended Dec. 31, 1950 totaled $100,286,273.

Middle South Utilities, Inc. paid quarterly dividends on its common stock of 27½ cents per share on Oct. 1, 1949, to and including Oct. 2, 1950. A dividend of 30 cents per share was paid on Jan. 2, 1951 and a like dividend has been declared payable April 2, 1951, to stockholders of record March 9, 1951.

Joins Daniel Reeves

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Milton Y. Russotto has joined the staff of Daniel Reeves & Co., 398 South Beverly Drive, members of the New York and Los Angeles Stock Exchanges.

Inflation and Price Controls In a War-Peace Economy

By DR. JULIUS HIRSCH*

Former Secretary of Commerce and Industry in Germany, Former Chief Consultant of U. S. Office of Price Administration

Dr. Hirsch maintains inflationary rise following Korean outbreak—resulting from scare buying, scare investment, and sudden business expansion financed by liquidation of savings —was psychologically motivated and based on political mismanagement. Predicts overhanging "peace scare" will result in a price plateau by next summer. Concludes for permanent stabilization we need, not more controls, but rather a staunch national will to halt steady dollar depreciation.

I

What Are the Real Causes of the Present Inflation?

There is no question that we have an inflation since the Korean outbreak. The question as to why we have had this inflation is a puzzling one. The better we know the causes, the the surer will be our remedies.

Julius Hirsch

The government's own figures show that since June 24 we have had an increase in: Cost of living by about 7%; wholesale food food prices 12%; industrial prices 14%; farm prices 16%; chemicals more than 25%; wholesale textiles more than 25%, and "basic" commodity prices almost 50%.

There is absolutely no clear picture of what really caused this inflation. The customary textbook reasons are:

(1) A deficit in the balance of payments.

(2) A deficit in the Federal budget (money printing).

(3) Oxerexpansion of credits.

(4) Unproductive expenditures, creating excess purchasing power.

Let us see:

(1) **A deficit in the balance of payments**—does not apply to the United States.

(2) **A deficit in the Federal budget**—everybody believes so, but in fact we had **no cash deficit in the fiscal year 1950.** The theoretical deficit of about $3 billion was paid for by surplus income of social security and other funds "borrowed" by Uncle Sam against negotiable bonds (from one pocket of the U. S. to the other).

In spite of the Korean war we had a $2 billion surplus in the first half of fiscal 1951. It is even possible we will have a budget surplus for **the whole of fiscal 1951.** There is no actual cash budget deficit. This inflation cannot have been caused by deficit spending. There are very good reasons for saying that even in fiscal 1952 the deficit will be much smaller than forecast. Even if we spend the $71½ billion for fiscal 1952, we will not have a deficit of $16½ billion as the President has stated, or even half that much. Even if Congress votes not a penny of new taxes, our deficit may be as low as $5 or $6 billion, and we will probably have no deficit at all until calendar 1952. This is because our national income will be **much** greater than in 1950.

Did this inflation perhaps come from the printing of new money —the European nightmare of the printing press? No—on Dec. 31, 1950, we had **exactly the same amount of currency** in circulation as we had a year before.

(3) Or from a sharp **expansion of credit?** Total loans and investments were unchanged from December, 1949 to December, 1950 ($127.2 billion). Bank loans rose by $9.7 billion (from $43.0 to $52.7 billion) — practically the **same amount as the increase in business inventories.** So they could not have caused the inflation.

What then were the real causes?

Immediately before Korea we had a boom, a pre-inflationary upswing, artificially created by the action of the Administration, and then came the outbreak in Korea, creating an excess demand over supply through the following factors:

(1) **Scare buying** in 3 waves (July — October — January) not only by the private public, but also by business. Compared with last year total retail sales grew by perhaps $15-$16 billion at an annual rate, and on top of the additional production needed to cover these sales, there took place an inventory accumulation of at least $10 billion, or 16½% beyond the corresponding months of last year.

(2) **Scare investment** — some signs of a "flight from the dollar," and not in the stock exchange alone.

(3) **A sudden business expansion,** all this financed by less savings, cashing of E Bonds, dissolution of some business reserves.

II

The Present Inflation is Primarily Psychological

This was an almost exclusively psychologically - created inflation based on political mismanagement —**classical proof that an inflation can very largely be psychological in origin.**

If our policy had been deliberately designed to produce inflation—in spite of budget surplus and in spite of large and growing production (which increased 10-11% in volume, at an annual rate, in the second half of 1950)—it could almost not have been accomplished more effectively. Thus the Administration announced that cuts in production were coming long before any actually materialized. The curtailment of automobile production was loudly proclaimed from August on—yet in January we were producing cars at the highest rate in history and no actual restriction will be made before April. We clamped down on tin and nickel and cobalt, and each announcement made the headlines. While the total actual impact of these cutbacks on the economy was still insignificant, they contributed to the inflationary wave, because one scare was pyramided on top of another.

Then came the premature announcement of restrictions on business credits and after this perhaps the greatest tragi-comedy: price control, called for by Mr. Bernard Baruch in his testimony before Congress on July 27, 1950, the success of which was tremendous.

President Truman himself had **not** asked Congress for price control in his Defense Production Bill. The law that Congress finally passed was a hybrid sort of thing.

In the past there had existed three kinds of price control: **Voluntary,** which helps most when it is least need; **selective,** where first one price is fixed, then another, and then still others—the system which I have called the **Hammurabi-Henderson** system—because it was first tried by King Hammurabi of Babylon around 2200 B. C. and was used by Leon Henderson in World War II; and the third, the **overall freezing** of all prices, wages, rents and fees as of a given period, which I call the **Baruch system** because it has been associated with Bernard Baruch.

Congress gave the President power to invoke **all three** kinds of price control—voluntary, selective and overall freeze — and then added some unworkable ingredients. The immediate effect of the law was actually to encourage inflation.

For one thing, it provided that when prices were fixed they should be fixed with reference to the month before Korea and this was also to be the "base period" for the stabilization of wages. What followed was a spree of wage increases, to which employers freely consented. In fact employers often made the original suggestion for the wage increases. They know that no Price Administrator in the future would attempt to reduce a wage rate arrived at through collective bargaining. Thus, these wage increases, insofar as they were made to fortify more substantial price increases, rendered such increases fire-proof against possible future rollbacks. We created for this the new term "voluntary" wage increases. Increases of 10c an hour or even of 10% of the hourly rate, for which eight months before long and bitter strikes would have had to be waged, were granted after less than five hours of negotiation.

III

Has Our Present Price and Wage Control any Chance of Success?

My answer is conditional, but it is not as unfriendly as that of most others.

We may not be able to prevent any further rise in the price level, but at least we have a chance to prevent a continued sharp rise:

If backed up by increasing production;

If carried out cautiously and with due regard to the great American incentive to insure productive ingenuity—which makes profits and provides the means for a better life in the future;

If we reduce demand—and one way to do this is to **make saving again much more attractive,** protecting the bondholder in the future.

This is **the picture of our past and present price controls:**

The present ones are by and large a continuation of where we left off in October, 1946.

In 1941 we had many voluntary agreements.

From Jan. 30, 1942 on, we completed these by mandatory price schedules—about 150 of them—for most basic non-farm production.

From May, 1942 on, we had a quasi-Baruch overall ceiling, but farm prices and wages were still excepted (General Maximum Price Regulation, called "General Max").

From October 2, 1942 on, we had the full Baruch Plan (Economic Stabilization Act), but this was soon punctured by:

Exemption of military orders.

Margin control for retailers and some wholesalers caused by changing import prices.

And then **individual relief** for more and more producers — at least 80,000 manufacturers got relief—ours was for a time a **"relief economy."**

Finally, in many areas, the **black markets** disrupted controls long before they were officially ended.

How it Looks Now

This time we have had a somewhat reversed sequence:

First we tried **"voluntary fair price"** standards as of Dec. 1, 1950. It failed. All we got of real importance were 3 or 4 single price schedules—for automobiles, hides, scrap.

Then, on Jan. 26, 1951, we made the **overall freeze of prices and** wages with the exception of farm products not yet at parity (General Ceiling Price Regulation)—with a clear recognition of all the deficiencies of the system. This action froze prices and wages at the highest level they had ever reached.

Almost immediately, military orders were exempt. They follow the cherished "cost-plus" system, but with some bitter aftertaste; renegotiation.

Then one month later, on Feb. 27, the Retail Ceiling Price Order was issued, following closely the model of MPR 580 of World War II and freezing the margins of retailers at their highest level—Feb. 24, 1951.

We must develop a more flexible system in our price control than that tried from 1942 to 1945 and I think it was not unwise to freeze prices at the highest levels ever reached.

(1) According to the whole attitude of the government, **first** to bring about **some lasting stability** was more important than the exact level stabilized. It is practically always dangerous to try to roll back prices and it has never been possible to roll back wages—the more or less open friends of a "mild inflation" are probably a majority in business and labor even now.

(2) The freeze at the highest price level probably makes for a **somewhat better compliance** during the dangerous initial period of such a venture.

Big business must and will comply anyway—but it will do so more readily when it earns good profits. Big business is sharply controlled by its customers and its own employes.

Much more important: Small and medium size business have no serious reason not to comply, especially as large inventories are in some areas already becoming cumbersome.

Big business has at least 70% of all industrial processing; it has, however, only 25-30% in retailing, and not much more in wholesaling.

From now on we can expect a **growing trend toward uniform**

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*A talk by Dr. Hirsch before the Institute of World Affairs, New School for Social Research, March 12, 1951.

Investment Problems of Savings Institutions

By JOHN W. KRESS*
Executive Vice-President,
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Chairman, Investments Committee of the Savings and Mortgage Division, ABA

Discussing current problems relating to institutional investment portfolios, executive of leading savings bank sees need for more emphasis on income and less on liquidity in selection of investments. Says this is required if savings banks are to meet competition. Foresees no substantial rise in interest rates, and urges more aggressiveness on part of savings banks. Comments on broadening the field of savings banks' investments.

The year 1951 promises to bring many problems to the managers of institutional investment portfolios and a greatly increased dependence on this source of invested assets for the income with which to run the bank. The Government program for national defense makes this prospect inevitable.

John W. Kress

It would seem that critical times are ahead of us and it is necessary to face the future realistically. Since the termination of World War II, this country has seen the greatest housing boom the world has ever known. Mutual savings banks have been able to greatly increase the total of their mortgage portfolios to a point where they amount to almost 36% of total assets. The trend during the past three years has been to invest new deposits in mortgages and, as a matter of fact, Government bonds have been sold to provide funds for investment in mortgages. However, with Regulation "X" and other restrictions designed to lessen private housing, it is obvious that we are going to find it more and more necessary to seek other outlets for the investment of savings funds.

In a discussion of the investment of deposits during various periods of the world's history, it is a human failing to put particular emphasis on the investment difficulties of the present. As time goes on, we are prone to consider the problems of the past as relatively unimportant, compared with present uncertainties. This is not to infer that present conditions do not present a real investment problem, because they do indeed, but many of us remember the period preceding and following the bank holidays of 1933, the years of the New Deal and of conditions during World War II, and so in retrospect, the problems which lie ahead of us may not seem insurmountable. The transition from a peacetime to a semi-war economy involves so many factors it is difficult to determine to what extent each factor will affect the supply of investments. We have knowledge that Congress has appropriated 40 billion dollars, over and above our yearly requirements, for use in the defense effort. Banks may look forward to the probable need for continuing large holdings of United States Government securities and possibly to expand them even further. In this situation, we may only hope that the authorities in Washington who control our financial destiny will give due regard to the need for eliminating political expediency and that all unnecessary expenditures which would place added burdens on our national economy at a time like this be eliminated. The accumulated savings of the American people are at stake in this tremendous defense effort. The preservation of these savings becomes the bankers' first line of duty, and every effort to emphasize on every occasion the great need for preserving the intrinsic value of our dollar is essential. It should be one of the most important efforts in our daily life. The influx into our financial economy of vast sums of money is bound to have a tremendous effect on our approach to investment problems.

The determination of an investment policy is bound to be influenced by many factors: the turnover of deposits, depositors' demands, the character of the banks' investments, the surplus and reserve condition and the general characteristics of the banks' services. Mutual savings banks are service institutions with two essential functions: (1) a responsibility to encourage thrift and to provide convenient and safe facilities to care for the community's savings; and (2) a necessity to invest those savings productively in mortgages and in marketable and safe securities. Although a substantial part of the banks' investments should be in the highest grade obligations, it may be that liquidity has been over-emphasized and income sacrificed accordingly. Where investment accounts have a substantial number of regularly amortized mortgages, the need for short-term investments seems unnecessary because these regular payments of principal provide a steady inflow of funds for reinvestment or, if required, for depositor needs.

Furthermore, more risk can be undertaken by a bank having substantial surplus and valuation reserves than one which is not in as comfortable a position. Basically, the aim of the investment accounts should be to complement one another. If, for instance, the mortgage account is substantial, it would seem logical that the bond account should be invested only in risk-less securities. If the mortgage account is small, it would be wise not only to have a substantial total of high grade bonds, but also a reasonable amount of other bonds to provide a greater income return.

Interest rates in recent years have tended to increase, due at least in part to the growth in mortgage investments, resulting in more income and greater ability to pay a higher return. It would seem most expedient not to become further involved in a competitive race on interest/dividend payments and it would be most propitious for us to strengthen our banks by taking advantage of increased earnings to augment our surplus and reserves. Interest rates should be as much as earnings and additions to surplus and reserves permit, without having the investment policy dictated by the need for increased income to pay higher rates. It is fairly well established that depositors are as much interested in convenience of location and in service and courtesy as they are in the interest they receive on their deposits. Confidence in management, too, has much to do with the growth of any banking institution. I would strongly urge all banks to follow the policies of metropolitan department stores and national mail-order houses and find the ways and means to aggressively sell the services of their institutions to an ever-widening number of people in the communities wherein they operate.

Unless we are aggressive and alert to the responsibility to serve our community, we shall lose our position to our competitors. By Federal and individual state approval "something new has been added" as competition for the savings dollar. We talk quietly and behind closed doors of the grave danger of a "third banking system." I speak to you frankly and publicly about competitors who are in a position to pay a higher rate of interest to savers because of more liberal investment regulations and a willingness to go "all out" accordingly. You have heard this morning of the growth in savings funds held by Savings and Loan Associations, to which I allude. Much of this rapid growth can be attributed to a primary source: higher return on savings, insured against loss by a Government agency. And they don't hesitate to tell the public about it in very large savings letters and to minimize the "and loan." We'll get nowhere with complaints, gripes and criticisms. This "system," which attracts a large volume of savings funds for investment and the competition which goes along with it, is here to stay. It can be met and we can hold our position in the financial structure by hard, aggressive work and by astutely investing our deposits. It should be our duty to search our portfolios, to re-examine our policies, and to make alterations to permit paying a maximum rate while maintaining sound principles.

The announcement that the Treasury and the Federal Reserve Board had "reached full accord with respect to debt management and monetary policies" will not, in my opinion, stabilize the government and corporate market in 1951, nor increase appreciably interest rates on long-term securities. The exchange offer of non-marketable 2¾s for marketable 2½s affects only the specialized investor, insurance companies, pension funds, savings banks and savings and loan associations. The real issue of whether the Federal Reserve System is ever again to be independent in all of its activities associated with bank credit and whether Treasury debt is ever again to compete in the securities market on equal terms with corporate debt, remains unsettled. It is our duty to be militant, to be concerned with the soundness of our economy and to avoid domination of capital markets for political purposes. The preponderance of evidence seems to indicate that interest rates on unrestricted marketable issues will continue low and that the Treasury will dominate the market, particularly should the Administration achieve its goal of substantially reducing the number of housing units. The determination to maintain low rates will be further strengthened if the war effort continues and corporations, due partly to lack of materials, are unable to expand in their customary fashion. This would mean that new financing would be at a minimum, supply of mortgages would be inadequate and yields of marketable government and corporate issues would decline from present levels.

While government bonds and government guaranteed mortgages can easily provide an outlet for all of the funds available for investment, such a medium may in many instances be the easiest way to solve the problem. If it is, it may not be the best for our income nor for the future preservation of our heritage. If we are going to rely upon government guarantees, pay excessive premiums and service charges for mortgage loans and shirk our responsibility of properly serving our communities and the nation by a diversification of our assets, we'll have no cause for complaint if Congress legislates more control over our profession.

The Committee on Investments of your Division is always giving careful consideration to methods they hope will prove helpful to bankers. A project toward this end has recently been completed. It is a comprehensive appraisal of the outstanding factors which help to determine the quality of railroad bonds. The purpose in making this study was to put to actual test the reliability of those factors which investment managers are most apt to depend upon in the selection of bonds for their portfolios. The value of this study to investment officers is not so much to determine which quality characteristics should be used, and which avoided, as it is to point out the weaknesses in the use of criteria that had previously been relied on too strongly.

My own conclusions are that there is no one, or even two, quality factors, which can be relied upon by themselves in determining the future assurance of safety. Through the application of these various tests, in the light of existing conditions, the road to better selection and safer experience is provided.

"Measurements of Railroad Bond Quality" will be available on or about May 1. I commend it to your reading.

Investor confidence in railroad securities was severely undermined and in many instances not fully restored during and after the numerous bankruptcies of the 30s. Nevertheless, there are still some excellent railroad bonds suitable for bank investment and in New Jersey we have established a formula for legality, based upon the coverage of interest and balance remaining to operating revenues, at least equal to that of Class I railroads as a whole. We are hopeful that it will prove to be as effective as the historical record indicates.

One important segment of this field of railroad bond investments, which should command the interest and attention of every banker, is equipment trust certificates. These securities are unique in the protection afforded the investor and their record is proof of their security. Even in cases of bankruptcy, there were few defaults of income and in only one of the 63 bankruptcies since 1886, did a principal default occur. Purchase of this type security also permits the adoption of a "staggered maturity policy" because of the issuance of equipments serially. By reinvesting current maturities and existing funds at the prevailing rate of interest, we continually average peaks and valleys of the money rate cycle. To be frozen in a long-term position during low money rate periods, in order to obtain the highest rate of return, would result in substantial declines in market values, if and when changes in money rates occur.

One of the favored outlets for investment for many years, and justifiably so, has been the public utility industry. Many high investment quality issues are available, generally of long maturities. Our problem in the purchase of such bonds is to determine a reasonable return in comparison with comparable governments and to determine better secured issues, based upon all of the factors at our command. Yields on public utility issues today fit into an accepted pattern, predicated upon ratings by statistical services. As indicated by our railroad study, ratings were shown to have wide fluctuations over a 15-year period. A high grade rating at the time of purchase was no guarantee that difficulties would later be avoided. Ratings, like yields, have a tendency to lag behind fundamental changes in bond quality. Our Committee expects to make a study of this field and to determine what factors should be considered to give greater indication of the soundness of quality than is presently available.

A development of recent origin is the right of savings banks to invest a certain percentage of surplus in bonds not eligible under existing statutes. Such a provision is in effect adopting the "Prudent-Man" theory respecting bonds and affords an opportunity to purchase securities which, for one reason or another, do not qualify under the statutory provisions. It is difficult to legislate common sense and good management and consequently it is gratifying that our legislators and supervisors have seen fit to give their approval to our efforts to provide maximum income for greatly increased deposits.

New Jersey, too, has been fortunate in another respect. We have for several years had the opportunity of investment in industrial bonds under stringent requirements. While the yields are low and fairly close to government bonds of comparable maturities, it has given us another outlet for our funds and an opportunity for capital appreciation, particularly if the issues were convertible. Investment in industrial bonds of medium maturities with large sinking fund requirements affords reasonable yields and an adherence to a staggered maturity program. Investment horizons are ever changing and it behooves us to consider every available avenue of investment, consistent with safety and security.

It is logical to relate our present position to the early years of the last war as they offer the closest parallel to our present semi-war economy. In those years, savings deposits increased from 10 to 15% annually. It seems logical to assume that we will have a similar period of deposit increase, as undoubtedly consumer goods will be in short supply. In the year ahead we have much progressive work to do as custodian of the people's savings, work to improve our portfolio and to derive the greatest tangible benefit from it. It is our responsibility and we are being compensated to obtain the most income for our depositors, consistent with safety. We cannot afford to relax, nor to rely upon government guarantees. Let us be militant, let us be aggressive and let us meet this challenge with courage and determination.

*An address by Mr. Kress at the Savings and Mortgage Conference, sponsored by the American Bankers Association, New York City, March 5, 1951.

Two With Dean Witter

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Gurdon D. Smith and John B. Wells, Jr., are now affiliated with Dean Witter & Co., 38 South Los Robles Avenue.

With Schwabacher Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — Charles W. Henderson is now connected with Schwabacher & Co., 600 Market Street, members of the New York and San Francisco Stock Exchanges.

With Eastman, Dillon

READING, Pa.—Eastman, Dillon & Co., Colonial Trust Building, members of the New York Stock and Philadelphia-Baltimore Stock Exchanges, announce that C. Robert Walter has become associated with them as a registered representative.

Controls Under Inefficient And Inadequate Government

By ALAN H. VALENTINE*

Former Economic Stabilizer, Office of Defense Mobilization

Prominent educator, commenting on his recent experiences as Economic Stabilizer, criticizes Administration policies of economic controls as inefficient, inadequate and ineffective. Condemns patronage in Federal Administration and points out faults in Defense Production Act, as well as failure to take strong, prompt and fundamental steps toward deflation. Concludes time has come for President to undertake major housecleaning, since his loyalty is being imposed upon, his faith is misplaced, and his friendship is betrayed.

When in January your officers invited me to speak today they thought they were going to get the Economic Stabilizer. So did I. But instead you get only a private citizen, only another Republican fired by a Democratic President. If you feel short-changed, how do you think I feel?

Dr. Alan Valentine

Actually I feel relieved. It is nice to know I have no responsibility whatever for the words and actions of the officers of Price Stabilization and of the members of the Wage Stabilization Board, if any. They have my good wishes though not my envy. May they succeed, or at least survive!

Though relieved at my freedom, I did not seek it. I took on the job of Economic Stabilizer aware of its difficulties and dangers, and was prepared to see it through. But any man not supported by organized labor, or by the White House secretariat, or by the Democratic National Committee needs to watch his step, and I was unpopular with all three. The President gave me support for some weeks against heavy odds; and finally gave me the distinction of being Washington's finest example of what inventory accountants call Last In First Out. My personal regard for him remains.

There is nothing more unstable than the job of an Economic Stabilizer. It is easy to talk stabilization but not to stabilize; and it is possible to appear to stabilize our economy but actually to impair it. But if one tries to act the economist and the statesman, he is moving against the crowd. Perhaps it is wiser to be like the demagogue of the French revolution, who, hearing in the small hours the noise of a riot in the street below, leapt from his bed and announced to his lady: "There go my people. I am their leader; I must follow them."

Paris has no monopoly of such leaders. In its milder form that kind of leadership is now called "rolling with the punches." I am glad that some of our business leaders now serving in Washington have learned how to "roll with the punches," for we need badly their continuance in the top councils of our government. I do not know where our defense program would be without men like Charlie Wilson, Bob Lovett and Bill Harrison. Hoping that my praise is not the kiss of death, I want you to know that in my observation one of the finest jobs of production ever done anywhere, and against heavy odds, is being done by General Harrison.

But there are issues too important to compromise; sometimes one must refuse to roll with the punches. One cannot compromise one's basic economic judgment especially when it is supported by the wisest advisors one can assemble. I have always believed that free enterprise produces best when it is most free and that its mechanism is delicate and should be adjusted only after the most careful consideration. I knew we could not in any case, for want of staff, arrest inflation for a month or two, and believed that during that period it was better to endure inflation and not risk impairing production, than to impose a regimentation which would not in any case hold down prices of most consumer goods about which the complaints centered. Therefore I would not impose general controls until government took certain other deflationary steps (mostly still not taken) to help make controls workable. My judgment may have been wrong, but events since February first have not changed it. My judgment was not shared by most of the powers in Washington. As prices rose it became increasingly difficult for me, and for the President who supported me, to resist the pressures of those whose opinions were seldom tempered by any knowledge of the complications of price regimentation and wage regulation—to resist the sincere and vocal people who had all the popular arguments on their side—to resist those who cared more about placating the public than helping the public.

That was an economic issue, though it became a political one. But there was another. It was one I had been promised would not be allowed to impede my work. I was forced to choose between being a participant in large-scale partisan patronage or of being a victim of it. I chose the latter; forced the issue; and do not regret my choice. Perhaps it would have happened in any Administration; it did happen in this one.

There are few men more boring than he who wants to tell you about his recent operation and how much it hurt. There are few figures more pathetic than the defeated football coach who spends all winter explaining how all he needed was more good material. I shall try not to be an Ancient Mariner either. What happened to me is unimportant—except to me—unless it brings some clarification to matters of greater importance. The times are too crucial to permit any of us the luxury of destructive criticism or personal tirades. Our government needs our support. We owe support, with all the largeness of spirit and generosity of judgment we can muster, to that government and to a President whose honesty and devotion, whose difficulties and problems, we never can belittle. Any further references to my own misadventures will be purely illustrative. I come to bury Valentine, not to praise him.

Two Considerations in Stabilization

I want to give my remaining time to two considerations.

First, are government efforts toward stabilization succeeding, and if not why not?

Second, what does that tell us about the future of our democratic government?

If in 15 minutes I can answer either of those I shall not have died politically in vain.

Can our economy be stabilized? That depends on what we mean by stabilization.

If we mean bringing our national economy wholly under the control of government; if we mean arresting and freezing our productive organization within some predetermined framework; then our economy cannot be stabilized, at least short of complete dictatorial socialism. Such regimentation would reduce personal incentive and impair production; it would strait-jacket initiative and destroy free enterprise. If that be stabilization, I am against it, for the essence of our economy is its flexibility; the merit of our system is its relative freedom.

But if by stabilization we mean eliminating the extremes of booms and busts; ameliorating the worst effects of inflation and deflation; and spreading more fairly the profit and the pain of our defense program—if that be stabilization it is desirable and possible. Are we on our way to it? I think we are on our way, but with more noise than efficiency, more disagreement than unity, more cooks than consistency, more contumely than courage, more politics than progress.

Whose fault is that? The fault lies in many places and has a long history. I can suggest a few factors, but I shall try to name no names!

One trouble has been an over-emphasis in government circles, in press circles and in the public mind, upon the price-control aspects of economic stabilization. This was natural and perhaps inevitable. Prices are of immediate concern to the public; prices are news to the press, price control can provide legislators with an excuse for not voting unpopular taxes or troublesome government economies. This over-emphasis has led to too little emphasis—and too little action—upon other and more basic deflationary measures absolutely essential to stabilization.

Allied with this error was the widespread fallacy that to control prices one had only to issue a few orders. Actually price control is one of the most complicated, delicate and difficult aspects of economic endeavor — a field really understood as a whole only by a few professional experts, and really understood in detail only by a few specialists in government and business. Last week Walter Lippman wrote that even Mr. Charles Wilson "seemed to accept the notion that prices could be frozen by decree without taking any serious measures to stop the inflation." If Mr. Wilson did accept that notion it was despite several hours of conversation, right up to the eve of my resignation, in which I endeavored to convince him to the contrary. Perhaps he did recognize the difficulties and dangers of the course which he then approved, but did not feel he could afford to take the risk of supporting a policy and a man so politically unacceptable. He had and has my sympathy and support.

Faults in Defense Production Act

Another fault lies in the terms of the Defense Production Act, which by various conditions makes it difficult and perhaps impossible to achieve effective price and wage control. Parity protection of agriculture is one of these hurdles, but there are others.

Then there are many areas of our economy in which controls of prices and wages are for practical reasons extremely difficult. How can one enforce price controls in many unorganized small-unit trades; how can one enforce a wage freeze among thousands of tiny groups of unorganized workers? In industries like motor cars or steel, when the units of management are large in size, few in number, law-abiding, socially responsible and very much in the public eye, the problem of enforcement is a minor one. But there are many other industries, each with thousands of small operators, where that description does not apply, and where there is no medium for internal leadership of external control. Mr. DiSalle has yet to demonstrate that he can do—without rationing and without a Pearl Harbor psychology—what Messrs. Henderson, Bowles and Porter could not do; control the retail price and quality of meat and men's clothing! Yet there were two of the items which both Congress and the public apparently expected any understaffed stabilizer could roll back in price by the simple issuance of an order.

But the greatest weakness in our stabilizing effort has been the failure of government to take strong, prompt and fundamental steps toward deflation—including government economy, a wise and fair plan of increased tax revenue that would draw off excessive spending power, greater credit restrictions, more intelligent policies on interest rates, increased personal savings and purchase of government bonds. Most of these remain undone, and meanwhile the ship of state drifts with the vagrant pressure-tides and stabilizers flounder.

Need Efficient Federal Government

If war becomes so near or inflation so devastating that we Americans are lifted by patriotism or by fear out of our normal selfishness and inertia — if that happens then the difficulties described will be promptly overcome. But even then we will still lack a major essential to effective stabilization — an efficient Federal government.

That essential we do not now have. It cannot be quickly created or recruited, for it is a matter of spirit and purpose as well as talent and experience.

Some 50 years ago Henry and Brooks Adams warned that American democracy might descend from mediocrity to mediocrity until it became too mediocre to survive. If they feared that in 1900, what would they think of the quality of American politics and society today? The problems which currently face our government are more complicated and difficult than ever in our history. More than ever before we need many men of fine mind and character in government, and an atmosphere in government in which

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*An address by Dr. Valentine at the 31st Annual Luncheon of the Associated Industries of Cleveland, Cleveland, Ohio, March 14, 1951.

With Otis in Denver

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Barton E. Newlin is now affiliated with Otis & Co., First National Bank Bldg.

Mutual Funds

By ROBERT R. RICH

DESPITE A RISE of more than one and one-half year's duration from the lows of June, 1949, well-selected stocks will remain, in the opinion of Hare's Ltd., one of the few uninflated segments of the economy. Unlike the overvaluation of stocks which in the past has preceded severe market declines, the stock market today remains at a price level still amply justified by basic factors, such as unusually low price ratios to earnings and book values, in addition to very liberal dividend yields.

Technical market reactions of more or less severity always occur from time to time in a rising market. However, the stock market never goes through a period of decline, except for short intervals, while the ratios characteristic of all rising markets are present as they are today, Hare's reports.

The sponsor of Institutional Shares comments that the market has always followed a consistent pattern in connection with rearmament and wars. The first impact is always bearish, but the long-term trend has always been bullish. Facing today's uncertainties, the problem of management is to direct its investments to stocks of strong companies, the sponsor states, whose earnings should be comparatively favorable under either a peacetime, semi-wartime or all-out wartime economy, with due regard for the varying effect that the excess profits tax may have on various corporations.

Net profits of leading corporations for the third quarter of 1950 were 54% higher than for the third quarter of 1949 and for the whole nine-months' period their net profits were 37% higher than in the comparable 1949 period. Earnings for the last half of 1950 were in most cases computed at a tax rate of 46% to compensate for the 38% rate which applied during the first half of the year.

The new tax law provides for a 45% rate in 1951, but it is probable that Congress will increase this, in addition to the excess profits tax. Should this result in combined rates averaging as high as 55%, the earnings cited above would nevertheless exceed those of the 1949 period by approximately 11%.

On average, Hare's states, net profits of these corporations are approximately double their annual dividend disbursements. Thus, barring a severe business depression, which seems unlikely, and despite the higher taxes anticipated in 1951, it appears to Institutional Shares' sponsor that earnings should be sufficient to permit dividends to be fairly well maintained around present rates, though these are unusually high in relation to the current market price of their stocks.

In the opinion of the sponsor, the market may rest around present levels or decline on adverse war or economic news, or on profit-taking, but such a decline should be of a temporary nature and thereafter the long-term trend of stock prices should again be upward.

NATHANIEL S. CHADWICK has resigned as Vice-President and a member of the policy committee of National Securities & Research Corp. to join E. F. Hutton & Company, member of the New York Stock Exchange.

He will act as an adviser to National Securities, with his headquarters in San Francisco, on business conditions and the operations of portfolio companies located on the West Coast.

Mr. Chadwick will be succeeded by John A. Munro as Vice-President, member of the policy committee and chairman of the investment committee of National Securiteies and Research Corp.

"A USEFUL, PRODUCTIVE life can really begin at 40 for men and women with inherent sales capabilities," according to Grady Clark, vice-president and general sales manager of Investors Diversified Services, Inc., who supervises activities of the nation's largest retail securities sales force.

Are Common Stocks Selling Too High?

Common stock prices have lagged behind values no matter how you measure them, declares the current edition of "Management of Money," the trade publication for investment firms active in the distribution of shares of Group Securities, Inc. Here, measured in dollars, are the changes during the past decade in the basic economic factors that create values:

Percentage Changes January 1, 1940-January 1, 1950

Gross national product	+195%
Corporation profits bef. taxes	+416%
Corporation profits after taxes	+283%
Dividends	+145%
Ploughed-back profits	+512%
Prices of common stocks	+107%

Adjusting these same figures for the change in the **buying power** of the dollar only accentuates the extent of the lag in stock prices:

Percentage Changes January 1, 1940-January 1, 1950

Constant Dollars — 1940 Base

Gross national product	+ 62%
Corporation profits bef. taxes	+184%
Corporation profits after taxes	+111%
Dividends	+ 35%
Ploughed-back profits	+237%
Prices of common stocks	+ 14%

The investor group's nation-wide staff of over 1,900 investment sales representatives numbers 1,102 men and women over 40, Clark pointed out.

"Selling investment company securities requires the sincerity, judgment, sensitivity and understanding as well as the seasoned competence possessed by men and women who have acquired the experience maturity can bring," he said.

As proof that mature sales representatives have the drive and energy to produce results ordinarily associated with youth, he pointed out that Investors sales representatives over 40 were responsible for more than 64% of the company's total sales of $311,-500,000 in face amount investment certificates and mutual funds investment shares during 1950.

EATON & HOWARD, investment managers of Eaton & Howard Balanced Fund and Eaton and Howard Stock Fund, have completed publication of the 1951 Year Books of both funds. Detailed data pertaining to the objectives, policies, management and records of the Funds comprise the contents of the Year Books together with charts which graphically depict the growth and development of the Funds since their origination.

1951 Year Books are available without obligation from Eaton & Howard, 24 Federal Street, Boston 10, Mass.

GROWTH COMPANIES, which began business as an open-end mutual fund on Aug. 1, last, may have set some kind of a record for the first five months of its operation. In that period not a single share was presented for redemption by any shareholder.

The Fund had 28,500 shares outstanding on Aug. 1 and 46,885 outstanding at the end of the year. Of the shares outstanding at the year-end, 14.9% are owned by the directors themselves.

Growth Companies, one of the few companies of its kind organized for the primary purpose of capital gain, last summer in its organization, marked the initial association of four of the nation's outstanding industrialists and scientists with the mutual fund industry.

The Fund reported total net assets of $483,991 or $11.03 a share on Dec. 31, 1950 as compared with total net assets of $256,000 or $9 a share on Aug. 1, 1950.

PRESENT INDICATIONS are that over two-thirds of the 5,000 odd shareholders of Gas Industries Fund will take the March 31 distribution of realized capital gains in the form of additional shares of stock. The distribution will give the holder of 100 shares about three additional shares.

This will result in practically all cases in odd lot holdings, and it offers dealers and their salesmen an opportunity to suggest to shareholders the rounding-out of their holdings at a time most advantageous to them—namely as soon as possible after the shares go ex-dividend on March 16.

If 1951 is the big gas year that it could easily be, the $25,000,000 limit on Gas Industries Fund referred to on page 7 of the prospectus may be reached sooner than expected.

ANNOUNCEMENT was made by Earl E. Crabb, Chairman and President of Investors Diversified Services, Inc., of the election of Harry C. Thompson as Treasurer of I. D. S. to serve as the company's chief financial officer. It is contemplated that he will be elected a director of the firm, the largest single factor in the nation's investment company field, at the annual I. D. S. board meeting in Minneapolis on April 24.

Mr. Thompson is a director of the Chesapeake & Ohio Railway Company and a member of the C. & O. finance committee and Chairman of its retirement committee.

A former Vice-President of the Chemical Bank & Trust Company of New York, he has long been prominently identified with New York banking circles. Throughout his banking career he has specialized in trust fund management and administration.

Mr. Thompson will make his headquarters in Minneapolis.

DAVID W. BARTON, President of Income Foundation Fund, Incorporated, announced that the shareholders voted to retain E. W. Axe & Co. Inc., as investment advisers and Axe Securities Corporation as general distributors for the Fund. The Board of Trustees continues to have full responsibility for the general management of the Fund.

HARE'S LTD. HAS prepared a special report on the unusual "leverage" feature of its Aviation Group Shares. The report is available without obligation from Hare's Ltd., 19 Rector St., New York 6, New York.

EASTERN WHOLESALE distributors of Texas Fund will be Banks & Holcombe, 44 Wall Street, New York, it was announced by Bradschamp & Company, Houston, Texas.

Investment Registrations

CHEMICAL FUND, New York, on March 15, filed a registration statement with the Securities & Exchange Commision covering 1,088,195 shares of capital stock. No underwriter.

INVESTMENT COMPANY of America, Los Angeles and Washington, on March 15 filed a registration statement with the Securities & Exchange Commission covering 1,500,000 shares of $1 par value common stock. No underwriting.

JOHN H. LEWIS Fund, New York, March 15, filed a registration statement with the Securities & Exchange Commission covering 100,000 shares of capital stock. Underwriter is Lewis Investment Management Company, Inc.

Commercial Banking Problems Today

By WILLIAM G. F. PRICE*
Vice-President, Bank of the Manhattan Company, New York

Executive of prominent New York banking institution describes effects of commercial bank loans on bank reserves, currency volume, and prices. Points out since last June, commercial bank loans have increased $9 billion, or 20%, while production has risen only 10% and wholesale prices moved up 16½%. Sees possibility of further loan increase, but warns banks have obligations not only to create credit for production but also to seek to maintain value of dollar, while keeping banking situation sound. Urges less civilian spending and restriction of non-essential loans by banks.

I would like to break our subject down into these four questions: (1) What actually takes place when a commercial bank makes any kind of a loan or buys any kind of a bond or mortgage? (2) Precisely what is meant when it is said that a commercial bank is "loaned up"? (3) Why is it important that we discuss these questions and keep abreast of them? (4) To whom do we owe obligations and what are they?

William G. F. Price

Let me here make it explicitly clear that any opinions expressed by me are my own. These do not necessarily represent the point of view of the institution with which I have the privilege of being associated.

Now we are ready to have a go at our first question. What actually does take place when a commercial bank makes any kind of a loan or invests in any kind of a bond or mortgage? The answer is that the bank creates deposits. These newly created deposits are placed at the disposal of the borrowers. The latter, through the issuance of their checks, disburse the funds thus created. The three exceptions to this generalization do not bulk large enough to warrant discussion here.

This concept of credit-deposit creation is fundamental. One other basic fact must be kept in mind. The commercial banks are the only privately owned institutions to whom Congress or state legislatures have granted the privilege of credit-deposit creation. Savings banks, savings and loan associations, and life insurance companies do not create credit. Such organizations accumulate the savings of many individuals and businesses (the residue of current production, not immediately spent) and place them at the disposal of other individuals and businesses (who currently wish or need to spend more than they are currently producing).

Creation of Bank Check Currency

Most of us have acquired the habit of using an inept phrase. We speak, at times, of "lending deposits." Unintentional though it is, this language does not describe what actually takes place when a commercial bank makes a loan. We do not lend deposits. What we do lend is "Excess reserves." While we are at it, "deposits" also is an unfortunate description for demand balances (and probably for an appreciable portion of time balances too) in commercial banks. "Bank check currency outstanding" would be a much more accurate designation.

*An address by Mr. Price before the National Installment Credit Conference sponsored by the Consumer Credit Committee of the American Bankers Association, Chicago, Ill., March 12, 1951.

Let us now trace through a hypothetical but typical loan transaction. We will see what takes place within the bank making the loan, within the banking system as a whole, and then in the business world outside the banking system. Fictitious names are used, of course.

The Excelsior Radio and Television Co. here in Chicago, for example, enjoys an excellent credit standing. It arranges for a loan, say, of a quarter of a million dollars with its fine Chicago bank. When the note is delivered to the bank, the latter debits "loans and discounts" $250,000 and credits Excelsior's checking account with the proceeds. For the moment the Chicago bank has increased its deposits by $250,000. To simplify our example, let us assume that Excelsior borrowed the "money" to pay for tubes purchased from the Radio Tube Co. of Camden, New Jersey.

Excelsior airmails its check for $250,000 on the Chicago bank to the Radio Tube Co. in Camden. Radio Tube deposits the check in its Camden bank, thus increasing its deposits. This institution sends the check to the Federal Reserve Bank in Philadelphia, to be credited to its reserve account. The Philadelphia Federal airmails the check to the Federal Reserve Bank of Chicago. There the item is charged to the reserve account of the bank which made the loan. Its reserves are depleted to the extent of $250,000.

From the viewpoint of the banking system, one end result of the Chicago bank's loan to Excelsior is to increase Camden bank deposits by $250,000. Against this newly created deposit, the Camden bank must maintain, at the present moment, a legal reserve of 24% or $60,000. The remainder, $190,000 is available, as "Excelsior Reserves," for investment, temporarily at least. Thus a second end result of the Chicago loan is to use up $60,000 of the banking system's excess reserves. They stay "used up" until loans and/or securities held by the commercial banking system are reduced net by $250,000. When this happens, the process we have just described takes place in reverse.

In our model, we have assumed that when the Chicago bank made the loan, it had $250,000 in excess reserves. Suppose it did not. Nevertheless, the bank felt obligated to extend the credit to its valued client—the Excelsior Radio and Television Co. There is usually some friendly competitor bank which is "in reserves" and which is diligently seeking our good business. There are four methods which the Chicago Bank could employ to increase its reserves. We will talk about only one of these, since it is the route which banks most commonly have followed for the last 17 or 18 years. If the bank were "short reserved," it would probably sell a quarter of a million of its government securities through a dealer to the Federal. This would result in an increase in the member bank's reserve account.

Let us raise another question about our hypothetical case. Our friend, Excelsior, might have wished to borrow to enable it to complete assemblies for existing civilian orders. It might have wished to borrow to stockpile tubes in anticipation of shortages and/or higher prices. It might have wished to borrow to fill urgent orders from the Signal Corps. Remember now, you and I are in a highly competitive field, and the Excelsior account is one which any bank would be anxious to obtain. How much weight should we give to the purpose for which we are creating bank check currency — especially under today's conditions? How much weight, in practice, would we give? How should the matter be handled vis-a-vis Excelsior? What are our obligations? To whom do we owe them?

Before we take a brief look "at the record" to see what has been happening in the past few months, one matter must be mentioned. We have seen how deposits are created through the medium of loans. The attitude of the ultimate recipients of these deposits towards spending them has an important bearing on what takes place businesswise. If we can lean on good old Excelsior just once more, we made previously one unrealistic assumption. We postulated that the entire proceeds of the loan would be used to purchase tubes. In practice, generally part would go for materials, part to pay salaries and wages, part to buy equipment, part to pay taxes, and so on for the manifold needs of the business.

In turn, suppliers would use the transferred deposits for much the same purposes. If the government got a part of the proceeds, it would use them to pay Congressmen or to buy aeroplanes, or to pay farmers or what not. the portion received by labor might be used to buy nylons or beer, or to pay the rent or to make a down-payment on an automobile, or for pretty much whatever the little woman determines.

One significant indicator of the attitude of people towards spending is the rate at which bank deposits turn over. Just to make sure that these words convey the same idea to all of us, let us say that you maintain an average balance of $5,000 in your personal checking account. If, in the course of a year, you drew $75,000 worth of checks, your deposit would have turned over 15 times per annum. When business is very active, the rate of deposit turnover tends to increase. The reverse is generally true when business is on the decline.

What Is Going on in Banking System?

We are now ready to see what has been going on both in and out of the banking system. We are going to confine our look to the eight months since the tragedy in Korea was forced upon us last June.

The loans of all the commercial banks in our country have increased by about $9 billion. This is a growth of nearly 20%. It occurred in eight months. The total now outstanding is around $54 billion. No series of events in our financial history has ever caused an approach to the present total or to the expansion which preceded it. In the spree which culminated in 1929, the total loans of all banks was short of $42 billion. The preceding expansion (to the extent of 25%) took some four years, not eight months.

About 70% of the recent increase has taken place in loans to business. The balance is represented by the growth in real estate loans and consumer loans, with the latter somewhat outstripping the former. In the last three or four months, the pace of real estate and consumer loans shows some signs of slowing down. The business loan figures continue to be feverish.

Largely because of this expansion of bank credit, the supply of money in the country (demand deposits, as adjusted, plus currency outside banks) had increased at year end by some $8 billion. Nearly 80% of the money supply consists of demand bank balances. Deposit turnover has been on the increase.

While we were creating this huge added volume of credit and the recipients were turning it over more rapidly, let's see what was going on outside of the banking system. Physical production, as measured by the Federal Reserve Board's Index, moved up from around 200 to the presently estimated 220. Some confirmation of the reasonable accuracy of this 10% change in unit production is given by a study of freight carloadings. There is further confirmation in the fact that the increase in our gross national product from 1949 to 1950 was 7½%, when the growth due to higher prices is eliminated.

In the period which we are examining, a very substantial increase in business inventories has occurred. The latest figures available on these are for the end of December. In the last six months of 1950, business inventories increased by some $7½ billion. The increase was straight across the board. Manufacturers, wholesalers, and retailers all added to their stocks. Aggregate business inventories stood at close to $62 billion at the end of the year. This represented a jump of nearly 15% since June. How much of this accumulation is represented by higher prices and how much by more units is difficult to say. The guess here is that most, if not all, of it

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Dividends aggregating 55 cents per share were declared March 20 and will be paid May 1 to shareholders of **The National City Bank of New York** of record at the close of business April 13. The payment just declared establishes the regular dividend rate at 50 cents per share per quarter, or $2 per annum. The five cents additional is paid at this time to make up for the smaller payment in the first quarter, when 45 cents was paid. It is the intention of the directors to continue the $2 annual rate, if conditions permit, by payment of 50 cents per share in each of the last two quarters of this year. In 1950 National City Bank paid regular quarterly dividends of 45 cents per share and an extra of 20 cents, a total of $2. Of the dividends declared March 20 (which aggregate $3,410,000) 50 cents a share or $3,100,000 will be paid by the bank and the remainder by **City Bank Farmers Trust Company.**

* * *

George C. Johnson, President of **The Dime Savings Bank of Brooklyn, N. Y.,** announced on March 16

George N. Mauger

Everett J. Livesey

Andrew D. Wilson

that at a meeting of the Board of Trustees of "The Dime" on that day the following new appointments were made: George N. Mauger, Vice-President; Everett J. Livesey, Comptroller, and Andrew D. Wilson, Assistant Secretary. Mr. Mauger entered the employ of "The Dime" on Nov. 1, 1931, as general bookkeeper. On June 16, 1939 he was appointed Assistant Comptroller, and on Oct. 24, 1941 he was appointed Comptroller. Mr. Mauger started his business career with the American Trading Co. and was affiliated with that company for over 30 years, during which time he served as Manager of their Tokyo (Japan) office for 12 years. Mr. Mauger is active in the Savings Banks Auditors and Comptrollers Forum of the State of New York and is a member of the Controllers Institute of America.

Mr. Livesey started with "The Dime" in 1930 as a clerk at its Bensonhurst branch. In 1935 he was transferred to the Auditing Department at the main office, and in August, 1940 was appointed Assistant Secretary in charge of mortgage servicing. In 1946 he was appointed Assistant Comptroller, and in 1949, Assistant Vice-President. During the years 1943-1946, Mr. Livesey served in the U. S. Navy with the rank of Lieutenant Commander. He was graduated from the American Institute of Banking and the Graduate School of Banking of Rutgers University, and in 1949-1950 served as President of the Savings Banks Auditors and Comptrollers Forum of the State of New York.

Mr. Wilson entered "The Dime's" employ in July, 1936. He has been employed in the Real Estate Management Department, the Mortgage Servicing Department, and the Mortgage Application and Appraisal Department which he now supervises. Mr. Wilson started his business career in 1932 with the Premier Realty Co. Prior to his joining "The Dime," he was in charge of management for James F. James & Sons, Inc., 193 Montague St., Brooklyn. Mr. Wilson served in the U. S. Army with the rank of 2nd Lieutenant in the Infantry. He attended the American Institute of Banking and has taken several extensions courses at New York University and Columbia University. He is active in the Brooklyn Real Estate Board, the Mortgage Bankers Association and the Long Island Home Builders Institute.

* * *

Merger of **The National Safety Bank and Trust Company of New York** with the **Chemical Bank & Trust Company of New York** was approved on March 15 by stockholders of both banks at special meetings, and became effective on Monday, March 19. This move brings to a total of 18 Chemical Bank & Trust Company's offices in New York City. Founded in 1824, the Chemical Bank has its principal office at 165 Broadway. The main office of National Safety Bank and Trust Company at Broadway and 38th Street, will be designated the Broadway office of Chemical Bank & Trust. The other three newly acquired offices are at Seventh Avenue and 27th Street, in Manhattan; at Boston Road and 174th Street and 167th Street at Jerome Avenue in the Bronx. Chemical Bank & Trust Company, with the merger in effect, has combined deposits of more than $1,500,000,000 and total resources over $1,600,000,000. Under terms of the merger, stockholders of National Safety receive a quarter of a share of Chemical Bank stock plus $32 cash for each share of National Safety Bank stock. References to the merger plans appeared in our issues of February 15, page 737 and March 1, page 922.

* * *

Stanley Phillips, President of Cannon Mills, Inc., has been elected to the Advisory Board of the Textile Office of **Chemical Bank & Trust Company of New York** at 320 Broadway according to an announcement March 13 by N. Baxter Jackson, Chairman of the bank Mr. Phillips is also a director of the Association of Cotton Textile Merchants and of The First National Bank & Trust Co. of Montclair, N. J. Mr. Jackson on March 16 announced that Curt H. Reisinger has been elected to the Advisory Board of the Times Square Office of Chemical Bank & Trust Co. Mr. Reisinger is also a director of Anheuser-Busch, Inc.

* * *

Central Hanover Bank and Trust Company of New York announced on March 20 the election of Henry Neubert as a Vice-President. Mr. Neubert has been a member of the Branch Advisory Committee of the bank for several years. In his new post, Mr. Neubert will devote most of his time to the development and servicing of the bank's business in the textile and wearing apparel fields. He will work closely with three of the branches of the bank: 34th Street, Herald Square and Church Street. He will make his office for the present at the Church Street office, which is at 271 Church Street, corner of Franklin Street. Mr. Neubert has been identified with the textile business throughout his entire career.

Central Hanover Bank and Trust Company also announced on March 20 the promotion of George B. Moran from Assistant Vice-President to Vice-President. Mr. Moran, who has been with Central Hanover since April 1, 1946, is at the bank's Herald Square Office. He served as a Lieutenant Colonel in the Army Air Forces during the last war. Before the war Mr. Moran was Assistant Cashier of Sterling National Bank.

* * *

A new branch of the **Chase National Bank of New York** was opened on March 17, in Santurce, a surburb of San Juan, Puerto Rico, bringing to four the number of new branches the Chase has added to its operations in the Caribbean area during the past few months. David Rockefeller and Otto T. Kreuser, Vice-Presidents at the Chase Head Office in New York, flew to Puerto Rico to be present at the opening ceremonies. "The opening of this new branch in Santurce represents part of an expansion program by the Chase National Bank in the Caribbean area," Mr. Rockefeller said in a statement issued by the bank. "We have had branches in the Republic of Panama, the Canal Zone and Havana since 1925 and in San Juan since 1933. Our Caribbean branches which, in the first instance served primarily the southern subsidiaries of continental corporations, more and more are taking part in the programs of economic development which have been fostered in those areas." The Santurce Branch will be managed by Fred M. Ahles under the supervision of Carl B. Brunner, Second Vice-President, who is in charge of all Chase operations in Puerto Rico. The Chase opened a branch in David, Republic of Panama, in November and another in Vedado, a newly developed section of Havana, Cuba, in February. A new branch in Marianao, Cuba, is to be opened shortly.

* * *

E. Chester Gersten, President of **The Public National Bank and Trust Company of New York,** announced on March 19 that Maxwell Silver of the Public Relations Staff has been advanced from Assistant Vice-President to Vice-President; also that Harold C. Beppler of the Credit Department at Main Office has been advanced to Assistant Cashier.

* * *

What is believed to be one of the first private traveling displays of United States gold coins has just been placed on view in the windows of **The National City Bank of New York Branch,** Park Avenue at 57th Street. Gold coins were ordered withdrawn from circulation by Executive order of the President of the United States, in March 1933. Thus there is a whole new generation of United States citizens who have never seen the gold coins of their country. This exhibit is made up of coins taken from the private collection of the National City. The Act of April 2, 1792, established a mint, and authorized, among others, the following coins: Gold—Eagles (each of the value

Continued on page 35

McCabe Addresses Voluntary Credit Restraint Committee—Warns of Tighter Credit Controls

Outgoing Chairman of Federal Reserve tells newly constituted National Voluntary Credit Restraint Committee representing banks, insurance companies and investment bankers, that initiative and success of voluntary curbs rests with private financing institutions. Names of committee members listed.

The newly constituted National Voluntary Credit Restraint Committee, appointed by the Board of Governors of the Federal Reserve

Thomas B. McCabe

Oliver S. Powell

System and comprising representatives of commercial banking, investment banking, and life insurance, met for the first time in Washington on March 14 under the chairmanship of Oliver S. Powell, a Federal Reserve Governor.

In an address welcoming the Committee members, retiring Reserve Board Chairman Thomas B. McCabe pointed out that "in a democracy like ours we prefer to accomplish our objectives by reliance on voluntary methods whenever it is possible. If this program which has been initiated, at the request of responsible leaders of the financial community, is effective in restraining private credit expansion, it will not be necessary to invoke more drastic types of compulsory restraint such as have been suggested as possible alternatives."

Mr. McCabe then emphasized that the role of the Federal Reserve System in this program, under the authority of the Defense Production Act and the President's Executive Order delegating its administration to the Board, is essentially that of guarding the public interest. The initiative rests with the private financing institutions of the country. Representatives of the Federal Reserve System will attend committee meetings to assist in facilitating the operations of the program.

"Up to now," Mr. McCabe said, "voluntary efforts on an individual basis have not been very successful, even though many individual institutions have done a statesmanlike job of holding down loans in their own organizations. With this new approach, groups of institutions in a community will be able to band together under legal sanction to halt the 'shopping around' for loans which has been the principal weakness in voluntary efforts to date. If lenders will really go to work on this new program, it is not too much to hope that the expansion of private credit will be greatly curtailed. I have no use for the cynics who say that credit will inevitably continue to rise even under this new program. There are always loopholes for those who are looking for them, but I think the financial leaders of this country, given this opportunity, will look at the spirit and intent of the program and make it a success."

Members of the National Committee appointed today include the following:

Commercial Banks

George S. Moore, Vice-President, The National City Bank, New York City.

Carlisle R. Davis, Vice-President, State-Planters Bank and Trust Co., Richmond, Va.

Kenton R. Cravens, Vice-President, Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.

Everett D. Reese, President and Trust Officer, Park National Bank, Newark, Ohio.

Insurance Companies

George L. Harrison, Chairman, New York Life Insurance Co., New York City.

Carroll M. Shanks, President, Prudential Insurance Co. of America, Newark, N. J.

E. B. Stevenson, Jr., Executive Vice-President, National Life and Accident Insurance Co., Nashville, Tenn.

Claude L. Benner, President, Continental American Life Insurance Co., Wilmington, Del.

Investment Bankers

Lee M. Limbert, Vice-President, Blyth & Co., Inc., New York City.

Rudolf Smutny, senior partner, Solomon Bros. & Hutzler, New York City.

Francis Kernan, partner, White, Weld & Co., New York City.

William K. Barclay, Jr., partner, Stein Brothers & Boyce, Philadelphia, Pa.

The Committee will be under the chairmanship of Oliver S. Powell, member of the Board of Governors of the Federal Reserve System.

The National Committee will designate subcommittees throughout the United States to be available for consultation with individual financing institutions and to assist them in determining the application of the program with respect to specific loans. Participation in the program is entirely voluntary, but the Board of Governors and the National Committee expressed the hope that all financing institutions would join in the program and cooperate in making it effective.

Two With Hamilton

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Benjamin H. Birrell and Hershiel D. McGraw are now connected with Hamilton Management Corp., Boston Bldg.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Kermit G. Turley is with Waddell & Reed, Inc., United States National Bank Bldg.

With Eaton & Howard

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Harry J. Wiggins is now with Eaton & Howard, Inc., 24 Federal Street.

With Estabrook & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Robert M. Gary is with Estabrook & Co., 15 State Street, members of the New York and Boston Stock Exchanges.

Joins Georgeson Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Ernest T. Gregory has become associated with Georgeson & Co., 24 Federal Street. He was recently connected with Cooley & Co.

Goodbody Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Edwin F. Littlefield has been added to the staff of Goodbody & Co., 50 State Street.

A Conversation on The Stock Market

By AUGUST HUBER
Spencer Trask & Co.
Members, New York Stock Exchange

Mr. Huber records conversation between a bullish and a bearish individual, indicating opposite factors in stock market outlook. Concludes divergent views and opinions are truly "stuff of which markets are made" and this is as it should be.

Sitting in the club one evening, two gentlemen chanced to set themselves behind me and began talking about the stock market. Being more than vaguely interested in the subject myself, their discussion soon interested me. It quickly became apparent that these fellows were not in complete agreement—one being the proverbial optimist—the other the inevitable pessimist—but I soon found innocent eavesdropping more interesting that the television, which I turned off and devoted myself to listening to their market discussion:

August Huber

Optimist—"Well, it certainly looks as though the stock market can go only one way—and that's up."

Pessimist—"That may be Joe, but personally, I'm looking for a lower market."

Optimist—"What? — How can the market go down—corporate earnings are at the highest rate in history. Stocks certainly are cheap in relation to earnings."

Pessimist—"Those earnings were shown **last year**, weren't they? It seems we now have higher normal and surtaxes; an excess profits tax is in force; price restrictions are likely to be applied more rigidly than the controls are exercised on labor costs. Also, more government work with narrower profit margins than on regular civilian lines is in prospect, while some dislocations arising from plant conversions and an absence of last year's large inventory profits must be taken into consideration. I wouldn't think they are going to help 1951 earnings."

Optimist — "Oh, I grant that overall net profits will be down—maybe 20% or so—but with many stocks selling at 4, 5, or 6 times 1950 earnings, there is plenty of room for some earnings decline and still keep stocks on the bargain counter."

Pessimist—"That may be so, my boy, but in looking back over the years, I find that the market doesn't usually advance when earnings are declining, particularly after a substantial and sustained advance. It is probably true that earnings could still be substantial but so often it is the change in the profit trend that is disturbing. There is the fear that once the trend is reversed, earnings may go still lower the following year, and so on. This tends to lessen confidence among investors and speculators alike which could be reflected in stocks selling at an even lower ratio to earnings."

Optimist—"Yes, but the earnings that are in prospect, from the way I look at it, should be able to support very good dividends. The desire for higher income—as compared with the meager return on savings accounts and high grade bonds — should keep stocks in good demand. After all, many good stocks still yield up to 6% and even 7%."

Pessimist—"Oh, Joe, don't you think the fact that yields are so relatively high, in itself, reflects the uneasiness with which their maintenance is regarded? The present yield is measured against the highest dividends ever distributed. Common stock dividends vary over the years as earnings fluctuate. If we take **average dividends** over a few past years, the present yield is a bit different. A realistic approach must take cognizance of the historical fact that corporate earnings will continue to fluctuate in the future as in the past. Also, that 1950 earnings will probably mark a peak for some time to come. Lower earnings create doubts about future dividend payments and these doubts have a way of tranmitting themselves to stock prices."

Optimist—"That kind of reasoning doesn't make too much sense to me. There is a tremendous volume of funds available for common stock purchase. Pension funds need higher income than that afforded by bonds and preferreds; then there are trust funds, insurance companies, and the mutual open-end trusts which have been finding new security buyers all over the country. This has all created new demands for common stocks."

Pessimist—"The persistent buying from the sources you mention has indeed been a strong force in the market. Yet, at some point, the initial heavy common stock requirements to form the basis of a pension fund will have been acquired. Then the initial aggressiveness may be lacking for the investment of the additional funds, as they accrue. If a downtrend is in force, fund managers, like most others with human tendencies, may pull back and wait, or at least, buy on a scale-down. This can cushion a decline, but would not, in itself, prevent one. The mutual open-end trusts have been selling shares to many people who never invested in common stocks before. So long as the market trend is encouraging such holders are not concerned. But, it is feared, should the market decline for a period and the asset value of such trusts also be reduced in the process, such holdings may be liquidated to preserve the principal, since this type of small investor may be easily frightened if he sees the value of his investment dwindling. This could mean selling of securities by the trusts themselves to raise the cash to redeem their own shares. More recent reports from these trusts indicate they have been doing some selling at this level of the market and are increasing their cash resources to some extent."

Optimist—"Why and how can the market go down very much when inflation is bound to get worse? The dollar has been depreciating in buying power right along. The government will get back into the red when present large appropriations become actual expenditures. Deficit financing later on will again increase the money supply. Higher wages and overtime, full employment and more shifts will raise disposable consumer income even though taxes on individuals will be raised. A reduced supply of available civilian goods—due to government cutbacks—at a time when incomes are high can push prices higher as people bid against each other. Also, private industry is planning to spend around $21 billion for new plants and facilities this year, compared with $18 billion last year. All this, on top of accelerated government spending, is bound to create greater inflationary pressures."

Pessimist—"You are absolutely right, Joe, and we are going to have what the economists like to call a 'full-economy.' Later this year government spending for defense may account for around 20% or more or our gross national product. On the other hand, shortages for civilians may not be as bad as has been feared. Already there has been a very substantial volume of anticipatory buying. Business inventories are more than $10 billion greater than a year ago. Probably more important, people themselves have been stocking up on many things—soft goods and semi-durable goods—not because they currently need them, but because they are afraid the goods may not be available later or, if so, only at a higher price. This type of buying can be at the expense of future sales volume. Then we must remember that about $80 billion has been spent since the end of the last war to increase the nation's productive capacity. Unless there is a full-scale war, the volume of goods available for civilian use is likely to be larger than that currently realized. Overall industrial production as measured by the FRB is now about 218 (1935-39=100). Only a relatively small portion thus far is going to war work. It is estimated that by the year-end the production index may reach 230-235. Of this, perhaps 180 would still be for civilian goods, unless a full-scale war breaks out. This would compare with **total** production in 1950 of 200 and 176 in 1949 and 125 back in 1940. Then again, if incomes do for some reason get too far ahead of the supply of goods, the government could start an 'enforced savings' plan—deducting a certain portion of wages for bond purchase. The government can also do considerably more in regulating credit, and thus control the money supply."

Optimist—"Yes, but I still say that inflation as such should put common stocks higher. As the dollar declines in value equities should advance."

Pessimist—"Maybe over a long period of time that works out, but the record shows even this to be doubtful. In a period where inflation is caused primarily by heavy government spending, there are also many bureaucratic controls and steadily heavier taxes. Controls, restrictions, allocations, and all that sort of thing, progressively multiply and become offsetting factors against business profits and dividends. The trend toward greater bureaucracy and governmental control over the economy is apt to lessen the confidence of people who have money to invest in private business which is becoming less private. This can be seen in Britain and France, where stock prices are no higher today than they were in 1947 and yet the price levels in those countries have advanced very substantially. Meanwhile, here in the United States, we have seen the same thing at times. In the years 1940-1942, the overall level of prices in the United States **increased** 30% and common stock prices **declined** about 40%. By June of 1948 the general price level in the United States was 110% over January, 1940, yet stock prices were only 10% higher at that time."

Optimist—"If the skies should suddenly clear with our foreign relations—that is, with Russia—and the shooting stops in Korea and none breaks out elsewhere, the regulations, restrictions and tax burdens may be lessened."

Pessimist—"Well, it seems to me that if the war in Korea should be negotiated and fighting cease, our preparedness program, as outlined, would nevertheless continue as planned, because Russia only understands strength. If we should modify our defense plans it would be at least temporarily deflationary, particularly with all the anticipatory stocking up of goods more recently by industry and individuals. On the other hand, if a full-scale war should develop this would mean a total war economy with all that that would entail. Such a completely regulated economy by the government would not help the stock market from this advanced level."

Optimist—"Apart from all you say, I still think the yields on common stocks are attractive and the earnings outlook to me points to a continuance of good dividends. There seem no good reason to sell stocks here."

Pessimist—"My experience has been that when the market is low few reasons can be found on which to base buying, and at a high level in the market there are always good reasons not to sell—that's why prices are high. Then, suddenly, a change comes. There has never been a year yet that the Dow Jones Industrials did not sell at 200 or under."

Optimist—"Yes, but there is always an exception—1951 may be it. All I can say is that this discussion has certainly opened my eyes to factors and possibilities I hadn't realized before. I thought earlier that the Dow Jones Industrials might go to 300. Now, I'm convinced they will go much higher than that."

Pessimist—"Great Scott! It's all worse than I had imagined. A discussion such as this brings out latent ideas which had not crystalized in my mind before. I had only sold out by long position. Now I'm going short."

This was about where I came in—it seemed time to leave, at any rate. Like the two fellows I had been listening to, I was more convinced of a few things myself. For one, divergent views and opinion are truly the "stuff" of which "markets are made," and so long as there is a stock market, the controversy between bulls and bears will go on. And that is as it should be in a healthy democracy where free opinions can be openly arrived at and expressed. But, it is with men's opinions as with their watches—none goes exactly alike, yet each believes his own.

Andrews, Posner to Admit Partners

Andrews, Posner & Rothschild, 60 Wall Street, New York City, members of the New York Stock Exchange, will admit Joseph Klee and Timothy J. Reardon to partnership on March 29. Mr. Klee, a member of the New York Curb Exchange, will acquire a Stock Exchange membership. He has been active as an individual Curb floor broker for some time.

Railroad Securities

Rate Increases and the Carriers

Acting with commendable dispatch the Interstate Commerce Commission last week granted the railroads an interim increase in freight rates, to become effective on not less than 15 days' notice after March 12. In these proceedings the railroads had asked for an immediate increase of 6% (with certain exceptions and limitations), and had expressed their intention of upping this request to 10% following the recent wage settlement. As usual, the ICC did not grant the full increases asked for by the carriers. Also, as had been done in the preceding case, the eastern roads were granted larger percentage increases than were roads in other sections of the country.

Earnings experiences in recent years have indicated plainly that the eastern roads are in need of greater relief than are the western and southern carriers. To a considerable degree this is attributed to the relatively heavier burden on the large eastern roads of terminal and handling costs which are not compensated for in interterritorial rate divisions. Also, the western and southern sections of the country for many years have been experiencing relatively greater growth than has the highly developed east. Thus, the traffic potential has risen more sharply in the south and west than in the east.

In the recent decision the Commission granted a 4% increase in freight rates in official, or eastern, territory. In other territories, and between other territories and the east, the increase amounts to 2%. There are, however, many exceptions as well as limitations below these percentages for many commodities. Thus, it has been estimated that the average will amount to an increase of only 2.4%. For the east the net increase is estimated at 3.0%, for the Pocahontas region 2.5%, for the South 2.0% and for the West 1.9%. Depending on which estimates of 1951 traffic volume turn out to be true, it is calculated that additional revenue from the rate increases will run between $194 million and $219 million on an annual basis.

Psychologically from a market point of view the announcement of the Commission order could not have come at a poorer time. Reflecting uneasiness over monetary developments and the slump in government bonds, as well as uncertainty over foreign developments, the market generally was displaying considerable weakness. There was an attempt at a rally on the news but it was short-lived and before the day was over stocks were being marked down appreciably. Later in the week, however, a firmer tone was again in evidence. Whether the recent nervousness has run its full course is a moot question but certainly over any reasonable period railroad stocks should more fully reflect the highly favorable earnings and dividend prospects for the entire industry.

Last year the railroads reported net income, after charges and income taxes, of $783 million compared with $438 million a year earlier. Part of the sharp climb was naturally due to the non-recurring retroactive mail payments. However, even if the portion of mail pay applicable to the period prior to 1950 were eliminated it would still have left net income of $721 million. The magnitude of these figures is obvious when it is realized that only twice before since 1929 (the war peak in 1942 and 1943) has railroad net income topped $700 million. The 1951 showing should be better than that of 1950 even with higher taxes.

The current year started off with a bang. Revenues for the opening month were well above those of a year ago and, in fact, were greater than those of any previous January on record. The rise was largest in the Pocahontas region which a year earlier had been seriously hampered by coal strikes. Percentagewise the western district was next, followed by the eastern district and with the southern region last. Operating expenses were also up but at a slower pace than gross. As a result, the operating ratio dropped to 76.0% compared with 83.2% in January 1950. Net operating income of $77.7 million was up $44.9 million from a year earlier. February comparisons will presumably not be so favorable due to strikes on the railroads themselves but subsequent months should witness the resumption of sizable year-to-year earnings gains.

National Bank Assets at All-Time High

Comptroller of Currency Preston Delano reports combined assets at year-end exceeded $97 billion or $7 billion more than year previous. Deposits also increased by $6 billion.

The total assets of national banks on Dec. 30, 1950, amounted to more than $97 billion, an all-time high, it was just announced by Comptroller of the Currency Preston Delano. The returns covered the 4,965 active national banks in the United States and possessions. The assets were more than $5 billion over the amount reported by the 4,975 active national banks on Oct. 4, 1950, the date of the previous call, and were $7 billion greater than the total reported by the 4,981 active banks as of Dec. 31, 1949.

Preston Delano

The deposits of the banks at the end of December, 1950, were nearly $90 billion, an increase of over $5 billion since October, and exceeded by $6 billion the amount reported at the end of the previous year. Included in the recent deposit figures were demand deposits of individuals, partnerships and corporations of $52.052 billion which increased $3.3 billion, or nearly 7%, since October, and time deposits of individuals, partnerships and corporations of $19.011 billion which were slightly in excess of the amount held in October. Deposits of the United State Government of $1.905 billion were up $84 million, or nearly 5%, since October; deposits of States and political subdivisions of $5.707 billion showed an increase of $351 million and deposits of banks amounting to $9.135 billion were up $1.159 billion, or nearly 15%, since October. Postal savings deposits were $6 million and certified and cashiers' checks were $1.714 billion.

Net loans and discounts at the end of December, 1950, were $29.277 billion, another all-time high. They were $2.109 billion, or nearly 8%, above the October figure, $4.606 billion, or 18.7% above the June 30 figure, and $5.349 billion, or 22%, above the amount reported at the end of 1949. Commercial and industrial loans as of the recent call date totaled $13.402 billion, up 12% over the amount three months previous. Loans on real estate of $6.978 billion were up 4% in the period; consumer loans to individuals of $5.669 billion showed an increase of nearly 2%, while all other loans, including loans to farmers, to brokers and dealers and others for the purpose of purchasing and carrying securities, and to banks, etc., amounted to $3.616 billion, an increase of 10% since the October call. The percentage of loans and discounts to total assets on Dec. 30, 1950, was 30.11, in comparison with 29.65 on Oct. 4 and 26.52 in December, 1949.

Investments of the banks in United States Government obligations (including $3,600,000 guaranteed obligations) on Dec. 30, 1950, aggregated $35.692 billion, which was a small decrease since October, but a decrease of more than 6% in the year. These investments were nearly 37% of total assets, compared to 42% a year ago. Other bonds, stocks and securities of $7.331 billion, which included obligations of States and political subdivisions of $4.687 billion, were $215 million, or 3%, more than in October, and $1.394 billion, or 23%, more than held at the end of the previous year. The total of securities held amounting to $43 billion was slightly above the figure reported for October, but was nearly 3% less than the amount held at the end of December, 1949.

Cash of $1.147 billion, reserves with Federal Reserve banks of $11.421 billion and balances with other banks (including cash items in process of collection) of $11.246 billion, a total of $23.814 billion, showed an increase of $3.399 billion since October.

The unimpaired capital stock of the banks on Dec. 30, 1950, was $2.002 billion, including $15 million of preferred stock. Surplus was $2.925 billion, undivided profits $1.124 billion and capital reserves $278 million, or a total of $4.327 billion. Total capital accounts of $6.329 billion, which were 7.07% of total deposits, were nearly $2 million more than in October when they were 7.54% of total deposits.

First Boston Elects Two New Directors

Brainerd H. Whitbeck, Vice-President of The First Boston Corporation in charge of the municipal bond department, and Emil J. Pattberg, Jr., Vice-President and Manager of the U. S. Government securities department, were elected to the board of directors of the corporation at the annual meeting of stockholders.

B. H. Whitbeck

Emil J. Pattberg

Mr. Whitbeck joined The First Boston Corporation in 1930, entered the municipal department in 1932 and became head of the department in 1950. Mr. Pattberg has been with First Boston since 1929 except for two years of military service during the war. He has been in the government department since 1937.

Both Mr. Whitbeck and Mr. Pattberg are associated with the firm's New York office, 100 Broadway.

Melniker to Admit

On April 2 Aaron A. Melniker will be admitted to limited partnership in Jerome Melniker & Company, 40 Wall Street, New York City, members of the New York Stock Exchange.

Continued from page 7

Analysis of Economic Conditions

it will also lead to upgrading of workers.

There will be a tendency of some workers to shift from one industry to another, being attracted primarily by higher wages or better working conditions. Overtime payments will increase. More green workers will be employed, and the task of the manufacturer is not going to be an easy one.

No Shortage of Soft Goods

There is no likelihood of any shortage of soft goods. When I speak of soft goods I don't mean merely textiles. When I talk about soft goods I mean all items in which certain commodities in short supply do not increase.

There will be no shortages of luxuries or semi-luxuries, and if weather conditions continue to be good, and based on the increase in acreage that has already taken place, the supply of food in the United States on the whole ought to be more than satisfactory.

Since supply of durable goods is bound to decrease, since the supply of money at the disposal of the people is bound to increase considerably, since in spite of all the talk we do know that the tax burden will not be imposed evenly in the entire population — that some will have to pay a greater share than others, one may therefore definitely reach the conclusion that the volume of business done by the soft goods industry, the volume of business done by the luxury and semi-luxury industries, is bound to be very large. It cannot be otherwise because the supply of money at the disposal of the people is bound to increase and the supply of durable consumer goods is bound to decrease.

Therefore I believe that you gentlemen in a great industry need not worry what your business will be, what the volume of business activity will be. I believe your real problem during 1951 is to instill into the people confidence in the purchasing power of the dollar, to persuade people not to run away from the dollar, to persuade people to save perhaps more than ever before. It is of the utmost importance that individuals and unincorporated businesses who have about $200 billion of liquid assets at their disposal keep it and don't spend it now when the supply of commodities available for civilian consumption is so much smaller than it was last year. But as far as the general business outlook is concerned, I don't believe that anybody need worry.

Problems Ahead

The problem will be in some industries of obtaining materials. In others it will be the problem of obtaining labor. In others there will be the headaches created by the necessary rules and regulations imposed by the government. Certain dislocations are bound to develop, but on the whole business activity is bound to be at a very high level.

Now, what conclusions can one draw from all this? Our country is confronted by a dual problem, a problem which is today greater than ever before in the history of the nation.

Our problem is, one, to defeat international communism whose unalterable aim is to destroy our way of life, to destroy the capitalistic system wherever it is. It makes no difference what type agreement the Soviet Union may make with the other powers, it is the unalterable aim of the Soviet leaders to destroy the capitalistic system in every country in the world.

Our prime task, therefore, is to be strong, to be able to resist and if necessary to fight an aggressive force from abroad.

The second problem is to keep our economy sound, to produce as much as we can and, above all, to defeat the forces of inflation.

For us to achieve military security at the expense of economic soundness of the country would be a hollow victory. I don't know whether Stalin and his gang pray at all, but if they do pray, in all probability they pray to the spirit of Lenin to send to the United States a good dose of inflation, to lead to a sharp decline in the purchasing power of the dollar, because this will do more for them than all their sword rattling or all of the menaces of war.

Therefore our second task is to keep our economy sound, to prevent inflation, to maintain the integrity of the United States dollar.

Can we do it? Of course we can. According to the economic message of the President, at the end of 1951, only 18% of the gross product of the country will be devoted to the defense effort — 18%! From this one may conclude that during 1951, and, if condtiions do not become worse, during 1952 and later on, we will have more commodities available for civilian consumption than we had at any time in the history of the country with the possible exception of 1947, '48, '49 and '50, and the standard of living of the people prior to 1947 was high indeed.

We can have both guns and butter. Even though the butter may be somewhat thinner spread than before, even though we may not be able to buy a new car every year or a new washing machine every year, our productive capacity is increasing.

More and more facilities will become available during the year. We need not fear inflation if we consider the welfare of the country first, if we fight to the best of our ability all pressure groups who care not for the country as a whole but are out only for what is in their own pockets. Great military effort such as we are making now requires sacrifices on everybody's part, not only on the part of the businessmen, not only of the man with a fixed income, but also of the worker and the farmer.

If we work together, above all if we realize that our way of life is being threatened, that it isn't a question of more profits or less profits, but it is a question as to whether the freedom of men should survive, then we will cooperate together, we will have our military might, and we will keep our economy sound.

SOUTHERN RAILWAY COMPANY

Fifty-Seventh Annual Report for the Year Ended December 31, 1950

Richmond, Va., March 20, 1951.

To the Stockholders of

SOUTHERN RAILWAY COMPANY:

The Board of Directors submits the following report of the affairs of the Company for the year ended December 31, 1950, which is the annual report it is contemplated formally to present to the stockholders of the Company at the annual meeting due to be held on May 15, 1951.

Foreword

It is tragic and ironic that after our Country was triumphant in the greatest war that had ever involved mankind, history has again, in ten short years, come "a full circle"; and that we are again involved in another serious effort to defend our system of life against powerful forces that would destroy it.

The following, quoted from Southern Railway Company's Annual Report *issued March 25, 1941*, is as applicable to the present situation, as it was when it was drafted, exactly ten years ago:

"The United States is now undertaking the largest defense preparation effort in its history, and the result of the devotion of billions of public moneys to defense has been the fastest expansion in its industrial activity of all time.

"The South, served by Southern Railway Company and its affiliated lines, because of its natural advantages, such as its climate, favorable to all-year-round training of recruits for the Army and Navy, its adequate transportation facilities, its labor supply, water-power and coal, and all of its other resources, has been chosen by nature as one of the most essential areas for a major role in the National Defense Program . . .

"In timely preparation for the increased traffic, now rapidly developing from these defense activities, Southern began, after the worst of the depression, to acquire and put in service new and modern equipment . . ."

(Here were enumerated some 17,240 new freight cars, the beginnings of the System's Diesel-electric fleet, and certain new passenger trains acquired by the System to December 31, 1940.)

"Thus, this program of equipment acquisition, together with increased appropriations for maintenance and additions and betterments, expanded of necessity during the year 1940, to take care of the sudden upturn in defense and industrial activity, has put Southern in position better than ever to say that it 'Serves the South,' and, in addition, to vary its slogan for the emergency by saying also: 'The Southern Serves National Defense.'"

We were thus preparing in 1941 for the effort then before us; now after ten years, after the retirement of over $112,500,000 of Southern Railway System securities outstanding in the hands of the public on January 1, 1940, and after the investment already effected of over $153,000,000 in additional new cars and Diesel-electric power, together with facilities and additional equipment now under construction and on order as defense projects, Southern Railway Company and its affiliates comprising Southern Railway System are better prepared than ever before in their history, financially and physically, to serve their Southern territory and the Country in their patriotic preparation for defense and victory.

Traffic, due to the defense effort and Government spending, steadily accelerated during the year, particularly during the last six months of 1950; and the revenues therefrom, together with increasing economies derived from mechanization and further Dieselization of power, produced a steady improvement in the results of operation, and in the earnings of the year, as compared with those of 1949, as will be shown in the following report.

I.

The Year 1950

Operating Statistics

The Revenues from Operation of the railroad in 1950 amounted to $239,906,392, an increase of $27,134,684, or 12.75% over the Operating Revenues in 1949.

The volume of business handled and the receipts therefrom, compared with 1949, were:

	1950	1949
Freight moved (tons)	60,582,010	52,917,266
Average distance moved (miles)	215.10	215.13
Ton miles	13,031,314,554	11,384,053,718
Average revenue per ton mile	1.550¢	1.569¢
Total freight revenue	$201,940,658	$178,569,622
Number of passengers	3,183,960	3,898,036
Average journey (miles)	197.51	177.20
Passenger miles	628,857,092	690,716,630
Average revenue per passenger mile	2.609¢	2.600¢
Total passenger revenue	$16,407,976	$17,960,923

The volume of freight business increased, as measured by the ton miles shown above, 14.47%, although the average revenue per ton mile actually decreased, despite the fact that the 1949 freight rate increases partially effective in that year were in effect during the entire year 1950.

The Company, along with the other American railroads, still hauled a ton of freight a mile on the average for a "penny and half," and continued to furnish the most dependable, reliable, indispensable and economical form of mass transportation, which continues to be a vital factor in the Country's safety.

Attention, however, is again called to the decreasing Passenger Revenue, year by year, attributable in large part to the greatly increased buying and use of new passenger automobiles and to airplanes, buses and other competing forms of passenger transportation.

A gratifying result of the Company's long-continued program of mechanization, Dieselization and improved techniques of operation was attained in the control of expense during the year. Total Operating Expenses increased to $168,557,964, an increase of only $2,119,361, or 1.27%, as compared with 1949, while Revenues and freight volume substantially increased as has been shown above.

This control of expense, in the face of continued inflationary trends, is better reflected by the extraordinary drop in the ratio of Transportation Expense to Operating Revenues, which fell to 34.34¢ out of the operating dollar in 1950 from a corresponding "C.T.," or Cost of Transportation, of 38.35¢ in 1949; and the decrease in the Operating Ratio, which is the percentage relationship of total Operating Expenses to Operating Revenues, and which decreased from 78.22¢ out of the operating dollar in 1949, to 70.26¢ in the year under review.

Railway Tax Accruals, due principally to the increase in Federal taxes, consumed $35,138,494, an increase of 58.64%, as compared with 1949, and took, as the Government's exaction from a self-supporting enterprise, nearly 15¢ out of each dollar of gross revenue, and were equivalent to approximately $1,095 per employee, and to over $27 per share of Common Stock.

Net Railway Operating Income (what is left out of Operating Revenues after the deduction of Operating Expenses, Taxes, and Equipment and Joint Facility Rents) amounted for 1950 to $31,933,359, an increase of $10,069,539, or 46.06%, over the corresponding figure for the previous year. Thus, despite the huge increase in Taxes and in other categories of uncontrollable expenses, the Company by its economies was able to "bring down" into Net Railway Operating Income more than 33⅓% of the increase in gross revenues over those of 1949.

The comparative ratios of the several subdivisions of Operating Expenses, Taxes, and Equipment and Joint Facility Rents, expressed in the number of cents out of each dollar of revenue, were as follows:

	1950	1949
Transportation	34.34¢	38.35¢
Maintenance of Way	12.71¢	14.38¢
Maintenance of Equipment	17.58¢	19.17¢
Traffic Expense	1,74¢	1.99¢
General Expense	2.97¢	3.34¢
Incidental Expense	0.92¢	0.99¢
Totals	70.26¢	78.22¢
Taxes	14.65¢	10.41¢
Equipment and Joint Facility Rents	1.78¢	1.09¢
Grand Totals	86.69¢	89.72¢

After Operating Expenses, Taxes, and Equipment and Joint Facility Rents, there was left for fixed charges and other corporate needs and for the owners, 13.31¢ out of each dollar of the year's revenue, as compared with 10.28¢ in 1949.

Net Income

Net Income (after taxes and charges) amounted to $22,400,042 for 1950, as compared with $11,914,308 for 1949.

This showing of earnings, however, was aided by a large non-recurring item of back mail pay for the period commencing February 19, 1947, amounting to approximately $5,357,500, which was added to Gross Revenue in the month of December, 1950.

Fixed charges were covered 2.74 times in 1950, as compared with 1.91 times in 1949.

After a dividend of 5% on the Preferred Stock, the balance of Net Income in 1950 was equivalent to $14.94 per share on the Common Stock, as compared with $6.86 per share in 1949.

Dividends

Dividends of 5% on the Preferred Stock were continued, and there was paid on the Common Stock, out of the surplus net earnings for the year 1949, an aggregate of $3.00 per share at the rate of $0.75 per share quarterly in March, June, September and December, 1950, as compared with $4.00 per share, paid in 1949, out of the more ample earnings of 1948.

A dividend of $1.00 per share on the Common was paid on March 15, 1951, out of the surplus net earnings of 1950.

Operations

These Reports have told, and re-told, year after year, the story of increasingly productive installations of mechanical tools, machines, the continued acquisition of Diesel locomotives with the direct and indirect economies attributable to their use, the learning of better and "cheaper" ways to do the job, resulting in improved net operating earnings.

In the year 1950, while progress in all these things was greatly accelerated, the principal operating emphasis was placed on the commitment to improve and modernize the Company's freight yards, in order more efficiently to handle the increasing defense traffic.

The Company's major improvements in Inman Yard at Atlanta, Georgia, were approaching completion at an estimated expenditure of $1,980,000.

Work was undertaken and is now in steady progress to mechanize the Company's John Sevier Yard at Knoxville, Tennessee, at an authorized cost of approximately $2,750,000, which when completed will be the most efficient and economical car-retarder hump yard in Southern territory.

In December, 1950, the Company's affiliate, The Alabama Great Southern Railroad Company, broke ground for the construction of a new and ultra-modern car-retarder hump yard at Birmingham, Alabama, to cost in the neighborhood of $9,000,000, from which the owner and the Company (and all Southern Railway System Companies) will benefit immeasurably in increased efficiency and economies, the Company to pay for its use of the new facility through proper charges.

Work has been steadily in progress also on new freight facilities being installed by the Company's affiliate, the New Orleans and Northeastern Railroad Company, in its Press Street Yard, in New Orleans, Louisiana, the estimated cost of these new and efficient improvements being approximately $2,000,000.

The program of taking off unprofitable passenger trains continued, not without opposition and difficulty, but with estimated annual savings of over $300,000 effected during 1950.

Among the outstanding incidents of the year's operations were recurrent work stoppages, due to strikes of operating employees growing out of pending demands for increased wages and changes in rules.

The Managment desires to take this opportunity to express its appreciation of the effective aid during such interruptions of service rendered by its supervisory officials and volunteer personnel from all departments who so ably assisted the Company in continuing to maintain, as nearly as possible, its schedules and its service to the public.

Labor Difficulties

Demands for increased wages, and for changes in labor rules by both organized employees and the carriers, were under discussion during the entire year 1950, and, pending the procedures under the Railway Labor Act, resulted in the several work stoppages and strikes, just referred to.

These difficulties culminated in the seizure of the railroads, including all of Southern Railway System companies, by the Government, and their operation under the direction of the Secretary of the Army of the United States, effective August 27, 1950.

The demands continue under negotiation and, when settled, will result in increased wage costs to the Company.

Freight Rate Increases

Seeking to compensate, in part, for increased cost of labor and materials, the railroads in *Ex Parte 175*, filed on January 16, 1951, an application with the Interstate Commerce Commission, seeking a general increase in freight rates of approximately 6%. Hearings on the application are pending, and, if the increases are granted, it is estimated they will produce some $11,000,000 annually to the Company in increased Freight Revenue.

New Rail

During 1950 there were laid 18,557 tons of new rail, as compared with 17,612 tons laid in 1949.

The cost of new rail was increased on December 1, 1950, to $80.64 per gross ton, f.o.b. mills, a new high price for this indispensable commodity.

New Equipment

During 1950, the Company received and put into service the 14 passenger train cars, included in Southern Railway Equipment Trust, Series "RR," financed in 1949; and the Company's affiliates received 114 Diesel-electric locomotive units.

No additional equipment debt was incurred by the Company in 1950, its outstanding Equipment Trust obligations having been reduced during the year by $9,248,440, to a balance of $48,907,440, as compared with $58,155,880 on December 31, 1949.

In order, however, to aid in the Country's effort to prepare itself for defense, there were ordered immediately after hostilities started in Korea in June, 1950, (a) 2000 all-steel box cars and (b) 100 units of Diesel-electric power; and the purchase of this new equipment, the estimated cost of which is $27,750,000, will be financed in 1951. Deliveries are expected to begin early in that year.

Including the locomotives just mentioned, the Company, its system affiliates and its subsidiaries, have in service or on order 745 units of Diesel-electric power.

As of December 31, 1950, the Diesel freight units in service were handling 80.30% of the System's gross ton-miles, and Diesel-electric locomotives were moving 79.11% of the System's passenger car-miles.

Use in 1950 of the Company's Financial Resources

In addition to meeting all its current expenses and fixed payments during the year, the Company paid from its treasury the following conspicuous items:

(1) For capital improvements to the property, $9,096,047 for Road and Structures, and $11,214,210 for Equip-

SOUTHERN RAILWAY (Continued)

ment, an aggregate of $20,310,257 for the year, as compared with $26,818,366 so expended in 1949;

(2) For dividends, $6,894,600, being a decrease of $1,298,200 from the corresponding amount so paid in 1949;

(3) For acquisition and cancellation of $1,735,000 principal amount of the Company's Development and General Mortgage Bonds, $1,742,236;

(4) For acquisition of approximately 4.6 miles of the Buffalo, Union-Carolina Railroad, running from Union, South Carolina, to Buffalo, South Carolina, $150,000; and

(5) For an advance of $12,480,237 to the Company's subsidiary, The National Investment Company, on December 27, 1950, wherewith that company acquired as of January 1, 1951, the $12,474,000 principal amount of the Company's St. Louis Division First Mortgage 4% Bonds, outstanding in the hands of the public.

The Company had left on December 31, 1950: (a) Investments in United States Government securities in the principal amount of $33,218,000, held in reserve for the acquisition of debt or reduction of maturing obligations, subject to further order of the Board of Directors, and (b) cash of $18,971,569, as shown in the balance sheet (the latter being reducible by items which were not cleared through the banks as of the close of business for the year).

Funded Debt and Fixed Charges

The table of funded debt at the end of 1950 showed the following comparison with 1949:

	Dec. 31, 1950	Dec. 31, 1949
Funded Debt	$192,568,500[1]	$194,303,500
Leasehold Estates	44,958,600[2]	44,959,600[3]
Equipment Trust Obligations	48,907,440	58,155,880
Totals	$286,434,540	$297,418,980

[1] Includes $12,474,000 of the Company's St. Louis Division Bonds which were acquired by a subsidiary of the Company as of January 1, 1951.

[2] Includes $9,563,000 of Bonds acquired by the Company or its subsidiaries since January 1, 1940.

[3] Includes $9,415,000 of Bonds acquired by the Company or its subsidiaries since January 1, 1940.

The Company's net fixed charges, on an annual basis, as defined by the Interstate Commerce Commission, less income from securities of its leasehold estates owned by the Company, were approximately $12,200,000 at December 31, 1950; and such charges payable to the public are to be reduced by $498,960 annually as of January 1, 1951, by reason of the acquisition of the St. Louis Division 4% Bonds. These Bonds are being extended so as to have this first mortgage issue available for future financial uses.

Reduction of Long Term Debt and Future Maturities

During the years 1937 to 1950, inclusive, the Company has acquired or retired from the hands of the public securities and debt which it was obligated to service having a face or par value of over $107,500,000, including (a) $41,538,000 principal amount of its Development and General Mortgage Bonds maturing in 1956 (leaving a balance of $69,795,000 of that issue, which aggregated $111,333,000 in 1940), and (b) $12,474,000 of the St. Louis Division Bonds, acquired as of January 1, 1951.

Since January 1, 1945, the Company has also acquired or retired securities of subsidiaries in the principal amount of $3,500,000, and has paid $3,000,000 with reference to the winding up of the lease of The Atlantic and Danville, which had the effect of relieving the Company of annual fixed charges of $305,000; and during the last few years the Company's System affiliates have reduced debt in an aggregate amount of over $6,284,000.

The Company and its System affiliates have thus, in little more than ten years, reduced long-term debt in the aggregate amount of over $120,000,000; and the Company's net fixed charges, on an annual basis, have been reduced from approximately $16,500,000 as of December 31, 1939, to approximately $12,200,000 as of December 31, 1950, to be still further reduced by approximately $500,000 as of January 1, 1951, as shown above.

The Company has no maturity of its own funded debt until 1956.

The New Orleans and Northeastern Railroad Company, one of the Company's system affiliates, expects to retire its entire funded debt of $7,195,000 at its maturity on January 1, 1952.

The Company's subsidiary, the New Orleans Terminal Company, had outstanding as of December 31, 1950, $14,000,000 principal amount of First Mortgage 4% Bonds of July 1, 1953, which are guaranteed by the Company. With the proceeds from the release of surplus property and with certain of its treasury funds, the New Orleans Terminal Company has acquired and cancelled, as of the date of this Report, $1,789,000 of these Bonds, reducing the amount outstanding to $12,211,000.

Federal Tax Liability for Past and Future Years

In preceding Reports there have been mentioned the substantial claims for additional income and excess profits taxes made against the Company by the Federal government for the period 1941-1946, inclusive. The Company has been engaged in analyzing and studying the revenue agent's voluminous reports, preparing defenses and conferring with the tax authorities. However, it is not yet possible to make a definite forecast as to the final disposition of the claims.

While it is almost certain that the Company's federal tax burden will increase in the years ahead, the imponderables present in the situation, among them new standards embodied in the present Excess Profits Tax Law and the likelihood of early revision in that and the Income Tax Law, render it impossible to forecast the amount of increase with accuracy. Every available provision of law relative to the calculation of the invested capital credit for regulated public utilities in computing excess profits taxes and to amortization of emergency facilities will be used to minimize the tax burden.

The "Reparation" Cases

Reference was made in last year's Report to a series of fifteen complaints on behalf of the United States pending before the Interstate Commerce Commission, to which the Company is a party defendant, in which the Government assails the reasonableness of freight charges paid by it during World War II. These complaints constitute a broad attack on the railroad rates charged the Government during the war period. Reparation ranging from two to three billion dollars, according to Government estimates, is sought from the railroads of the country as a whole. It is impossible at this time to estimate the amount the Company has involved. Extensive hearings have been held during the year and a final hearing is now scheduled for May 9, 1951. No decision is expected until 1952. These cases are believed to be wholly without merit.

In another complaint brought by the United States against this Company and several other railroads, the rates charged the Government on bauxite ore during a period subsequent to World War II were assailed. The amount of asserted liability the Company has involved is approximately $728,000 and interest. Hearings on this complaint have been concluded and on February 1, 1951, the presiding Examiner issued a proposed report recommending the dismissal of the complaint.

Divisions

In last year's Report reference was made to the pending controversy before the Interstate Commerce Commission involving divisions of joint revenues between the north and the south and west. Mention was also made of the proposals advocated by the northern carriers which would affect the revenues of the Company. The hearings before the Commission in this proceeding were concluded on December 8, 1950. A final decision is not expected before 1952.

II.

Industrial and Agricultural Development

During the year there were 142 new traffic-producing plants located at points served by Southern System. The expansion of existing industries, as well as modernization and rehabilitation programs, proceeded with increased momentum. There were 107 additions made to existing plants as compared with 66 such additions during the previous year. Also, there were established during the year 53 new large distribution warehouses, the purpose for which is to draw in carload traffic from other territories for subsequent sale throughout the South.

Construction was started during the year on a large cellophane plant at Pisgah Forest, in Transylvania County, North Carolina. The plant is scheduled to be in full operation by September, 1951. This eight-machine plant will produce an estimated 33 million pounds of cellophane annually to help relieve the shortage of this product which has existed since the beginning of World War II.

Early in the year, the first newsprint made from southern pine rolled from the paper-making machines of the first newsprint mill in the Southeastern part of the United States. Built at a cost of $32 million at a point served by the Company in Alabama, this mill produced during the year an excess over its designed yearly capacity of 100,000 tons of newsprint, and 50,000 tons of bleached sulphate pulp.

Far-reaching in its industrial potentiality is announcement that a chemical plant is to be built on the Company's lines in south Alabama to manufacture chlorine and other products from salt recently discovered in that area.

A multi-million dollar plant now under construction on the line of a subsidiary in South Carolina for the assembly of sewing machines is a welcome diversification of industry in that State.

Grain farmers in Tennessee, Kentucky, north Georgia, Alabama, North Carolina and South Carolina will have a new market for grain when the $2.5 million plant now under construction at Chattanooga, Tennessee, goes into operation sometime in 1951. This plant will manufacture feeds and other grain products.

The defense effort will have a profound effect on Southern industrial activity.

It is reported that within the next two years the steel-making capacity in the Birmingham-Gadsden and Atlanta areas will be increased by approximately 700,000 tons.

Likewise, the textile industry of the South continues its phenomenal expansion. High-lighting this development is the announcement of a large synthetic fiber plant to be built on a tract of 615 acres of land on the Company's lines in northern Alabama.

The production of rayon yarn will be further increased by 10 million pounds annually when an $8 million plant expansion now under construction on the Company's lines in East Tennessee is completed.

A $3.5 million expansion of a cotton mill on the Company's lines in Virginia is now underway. It will increase present facilities and afford additional space for storage.

Other expansions completed or now in process include a rayon plant costing between $15 and $20 million. When completed, this company will have invested close to $60 million. A $2 million contract has been awarded for a new rayon weaving mill; construction is under way on a 90,000 square foot plant to house 400-500 looms for the weaving of synthetic fabrics; machinery is expected to be installed early in 1951 in a 125,000 square foot addition to another cotton mill.

Consuming 8,746,307 bales of cotton during 1950, or 90.6% of the total consumption in the United States, the textile industry in the South maintained its dominant position. It is interesting to note the textile industry in the South during 1950 increased its cotton consumption by 96.1% as compared with 1925.

Cotton production during the year, as a result of acreage reduction plus severe weevil damage and unfavorable weather in the cotton-growing states served by the Company, was 26.5% under that of 1949. However, this is not as serious to our economy as was formerly the case because the bulk of the crop is now grown west of the Mississippi River.

Whereas at one time cotton was king in the territory served by the Company, farmers now practice diversification. Because of more and better pastures, and better markets, the livestock and dairy industries continue to grow. Soil conservation is being practiced more and more, and the mechanization of farms is greatly increasing.

Demand for electric power continues to increase. A $15.5 million expansion by one company in North Carolina, and an additional expenditure of $21 million for 1951 has been announced. A new 140,000 kilowatt steam-electric generating plant on Dan River near Draper, North Carolina, was put in service during the year. Power companies all over the South continue the expansion of their facilities.

Of course the most important asset of the South is its people. Business follows population; therefore, it is gratifying to note the Census of 1950 shows a continuing increase in the number of inhabitants in Southern States served by the Company. Preliminary counts in the ten states of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Virginia give a figure of 29,690,642 people compared with the 26,312,442 in 1940, an increase of 3,378,200 or 12.8%.

Truck, Water and Air Competition

The competition the Company experiences from trucks and buses on the highways, from barge lines on the inland rivers and from coastwise water service between the East and ports of the South Atlantic and Gulf, was referred to in some detail in the Annual Report of a year ago. Suffice it to say here that this competition was in no wise diminished during the current year. Indeed, it was intensified as more and more equipment became available. For example, the Interstate Commerce Commission in its 1950 Annual Report, just released, makes this observation:

"The rail share of the total (freight traffic) fell from 68.6% to 61.4%. A staff estimate indicates that the ton-miles of class I, II, and III motor carriers, which represented about 6% of the ton-miles of class I railroads in 1939 and less than 4% in 1944, advanced to about 10% of rail ton-miles in 1949, with a further increase indicated as likely in the first half of 1950. The inter-city freight revenues of these motor carriers are estimated as equivalent to 31% and 38% of rail freight revenues in 1948 and 1949, respectively."

Competition from subsidized air lines handling passengers, mail, express and high-class freight traffic likewise increased during the year.

III.

Public Relations

The Management is aware that good, constantly-improved service is the keystone of good public relations. Accordingly, the Management strives continually to provide that sort of service and to conduct the Company's affairs generally in a way that will enable the Company to earn and deserve the good will and friendly support and cooperation of its employees and of all the people it serves.

Additionally, the Management realizes the need for "humanizing" the industry and takes advantage of every opportunity to do so. Also, through media such as advertisements, newspaper and magazine articles, a company magazine, specially prepared material, and personal and written contact with opinion makers and community leaders, the Management works diligently to create an atmosphere of understanding and appreciation of what the Company is, what it does, what it means to the economic life of the South, and how it is endeavoring to promote even greater growth and progress in the Southland.

The Board records, with deep regret, the death on August 27, 1950, of their esteemed colleague, Guy Cary, a Director of the Company for thirty-one years.

The Board also records, with deep regret, the death on December 30, 1950, of William J. Wilkins, a Vice President of the Company.

Conclusion

The Company, the Country and the world face a situation fraught with danger and uncertainty; and in such a time the Company can only pledge itself anew to strive

Cattle and Dairy Farming Prospects

By ROGER W. BABSON

Mr. Babson maintains that though cattle prices should remain relatively high, rising production costs are likely to cut profit margins in 1951, thus increasing risk in stock cattle farming. Sees also greater risks in dairying, due to higher feed costs.

The changed international situation is already being felt in rural areas throughout the country. Farm land values, which had been declining gradually for several months, reversed their downward trend almost immediately after the Korean outbreak.

Roger W. Babson

I have always maintained that land, and that includes good farm land, is an acceptable hedge against inflation or other types of crises. It may not be the very best hedge, but in the long run it should turn out to be a pretty good thing when cash is worth little and when other values dip accordingly. However, I do not generally recommend that my readers go out and buy a farm with the idea of growing produce or feeding cattle or hogs to sell commercially. Farming today is too specialized for any such hit-or-miss approach. What I advocate is that every city family who can afford it should own a sustenance farm, as **insurance**, capable of sheltering and supporting them in an emergency.

Readers who are now engaged in cattle raising, dairy farming and in producing large grain crops, often write asking me what I think of the prospects for the coming year in these fields. In my opinion, cattle prices generally will be well maintained over the next six months. Heavy employment at high wages should result in a continued high demand for beef. I do not anticipate that such demand will be adversely affected, to any substantial extent, by the imposition of still higher individual income taxes in 1951.

Lower Profits Possible

While cattle prices should remain at relatively high levels, increased producing costs generally may further cut profit margins in 1951, thus immeasurably increasing the risk in stock cattle farming. Breeding herds that grow in numbers should maintain their value even in the face of such declines, provided you keep a sharp eye on local conditions, with a view to buying replacements and selling finished cattle at the most opportune time profitwise.

Those readers who now have farm land and wish to buy more or who, having had previous experience as owners of farm land, wish to make purchases in new locations are advised to act promptly. Good farm land will go higher. Admittedly, this is not the best time to buy it, but you should do much better now than you will be able to do by late summer. Thus, if you can find a good farm or good farm land that is not over-priced, my advice would be to go ahead, **provided** that you can pay about 50% down and still have enough cash left for proper stocking and operating, as well as for emergencies. Productive land is a sound investment and good land should continue to have real value, no matter what price changes may come over the longer term.

Dairy Farming Discussed

Those readers now considering going into dairying should think twice and then stop and think again, even if they have had previous experience in this very uncertain field. Profit margins in dairying vary considerably in different sections of the country and many an otherwise able man has lost his shirt by plunging enthusiastically into a dairy program without giving sufficient thought to the possible consequences. The principal problem in dairying, and it is essentially the same in New England, in the Mid-West or in the Rockies, is the cost of feeds. These feed costs usually represent more than half of the total cost of milk production and largely determine profits.

If you think you can control feed costs, through a well-balanced feed program, which includes careful management of your feed inventory, you can probably make money in dairying. But if you have grave doubts as to your ability to keep feed costs within bounds, steer clear of such an operation. Yet, I think farming generally will be profitable in 1951. Farm income will be up, at least through the first half and, perhaps, beyond. For the year, it should average some 15% above 1950.

Pacific Gas & Electric Offering Underwritten By Blyth & Co. Group

Stockholders of Pacific Gas & Electric Co., the second largest public utility in the country from the standpoint of total assets, are being offered rights to subscribe to an additional 1,419,562 shares of $25 par value common stock of the company at the rate of one new share for each seven shares of record March 13, 1951. The offer of additional shares is at a subscription price of $31 per share, and expires April 4, 1951. A nationwide group of approximately 200 underwriters, headed by Blyth & Co., Inc., have agreed to purchase from the company all unsubscribed shares at the original subscription price.

Proceeds from the sale of the common stock will become a part of the treasury funds of the company. The company proposes to use an amount equal to such net proceeds to finance, in part, its construction program. In the five-year period, 1946-50 inclusive, the company has spent $663,000,000 for construction. The peak of its building activities was reached in 1949, when $192,480,000 was spent. In 1950 $168,634,000 was expended, and it is estimated that similar expenditures will be still further reduced in 1951 to approximately $130,000,000.

Pacific Gas & Electric Co. is an operating public utility company engaged in supplying electric and natural gas service throughout the major part of Northern and Central California. In 1950, gross operating revenues totaled $237,437,000. The company is now in its 46th year of corporate existence and the 98th year of operations including predecessors.

Sydonia B. Masterson With J. Henry Helser

FRESNO, Calif. — Sydonia B. Masterson has resigned as Resident Manager of Francis I. du Pont & Co. to become Manager of the Fresno office of J. Henry Helser & Co., Inc., Investment Managers, in the Fulton-Fresno Bldg. She will succeed her husband, John P. Masterson, who has been promoted to District Manager of the San Joaquin Valley, covering Sacramento to Bakersfield.

Although J. Henry Helser & Co. have been located in Fresno for only a little over one year, they have met with such outstanding success in the Valley that it is their intention to open offices in the key cities of this area. They have acquired additional office space in their present location in order to accommodate an increased force of representatives.

Mrs. Masterson is well known in the Fresno community, having resided there since early childhood. She received her early education in the Clovis High School, the Fresno State College, and the University of California at Berkeley. During her very successful career she has been affiliated with Nelson Douglass & Co., which later became the First of California Co.; Merrill Lynch, Pierce, Fenner & Beane, as one of their first women account executives, and until her present appointment was possibly the only woman Resident Manager of a New York Stock Exchange member firm.

The principal offices of the Helser Company are in San Francisco and Los Angeles, Calif.

H. C. Sylvester, III Joins Hall & Co.

Hall & Co., 70 Pine Street, New York City, dealers in state and municipal bonds, have announced that Horace C. Sylvester, III is now associated with the firm. Mr. Sylvester formerly was associated with the New York office of the bond department of The Northern Trust Company.

Lawrence Deschere With Bache in Chicago

CHICAGO, Ill. — Lawrence Deschere, until recently with Bache & Co. in New York, has joined the firm's Chicago office, 135 South La Salle Street, to head the investment trust department, Myron F. Ratcliffe, resident partner, has announced. Prior to his association with Bache & Co., Mr. Deschere was with the Public National Bank & Trust Co. in New York. He is a graduate of the American Institute of Banking and served for 4½ years in the Army during the last war.

In Inv. Business

American Financial and Development Corporation for Israel is engaging in a securities business from offices at 2 Park Avenue, New York City.

George Abbott Opens

George Abbott is engaging in a securities business from offices at 630 Fifth Avenue, New York City.

I. L. Bander Opens

I. L. Bander has opened offices at 1560 Broadway, New York City, to conduct a securities business.

Fred'k C. Bothwell Opens

GARDEN CITY, N. Y.—Frederick C. Bothwell is engaging in the securities business from offices at Cherry Valley Apartments.

Gold Selling At a Premium

By PAUL EINZIG

Commenting on renewals of substantial premiums on gold in free markets, despite opposition of International Monetary Fund, Dr. Einzig defends South African attitude in favor of higher gold prices. Reports general feeling in Europe that official price of gold is unfair and unreasonable, and efforts of Monetary Fund to reassert its authority to stabilize its price are doomed to failure.

LONDON, Eng.—The International Monetary Fund has embarked on another effort to ensure a better observance of the rule under which the sale of gold at a premium is not permitted in member countries. During the second half of 1950, temptation to circumvent or disregard this rule increased considerably as a result of the increase of hoarding demand for gold following on the Korean conflict. A number of member governments have failed to take the necessary steps to prevent the sale of home-produced or imported gold at a premium. Indeed, in some instances, the offenders were the governments themselves, or, at any rate, they authorized and encouraged the private interests concerned.

Dr. Paul Einzig

Since the beginning of 1951 the evasion of the rule against the sale of gold at a premium continued unabated. The International Monetary Fund specifically names South Africa as one of the chief offenders. It is an open secret that a large proportion of newly mined South African gold (the sale of which at a premium was authorized for industrial purposes) found its way to the free markets and was acquired for hoarding purposes. The government of the Union of South Africa is, however, profoundly dissatisfied with the present position and insists on the removal of the existing restrictions on the sale of gold at a premium, or at any rate its further relaxation.

Public opinion in South Africa strongly resents the restriction, in view of the fact that the official dollar price of gold has remained unchanged since 1934 in spite of the all-round increase of prices in general. It is strongly felt that South Africa is entitled to some compensation for having to sell her staple export at prewar prices while the prices of her imports are rising day after day. The least South Africans feel entitled to do is to sell their gold on the free market without restriction.

This feeling is so strong that, if South Africa were confronted with the choice between abandoning or reducing the present practice of selling part of her output at a premium for "industrial" purposes and withdrawing from the International Monetary Fund, the latter alternative would be chosen without much hesitation.

The Fund is not in a very strong position to enforce its rule at present. Its initial authority has been weakened by the fact that it did not play a very active part in the solution of the dollar gap problem, and by the growing volume of criticism against its out-of-date statutes. Many influential critics argue that when these statutes were drafted in 1944 at Bretton Woods, and even when they were accepted by the member governments in 1945-46, it was impossible to foresee the shape of things in the postwar world, and that in the light of experience a thorough revision of the institution's rules and activities is overdue. So far there is no indication that any such revision is contemplated.

The easing of the dollar scarcity has also contributed towards the weakening of the authority of the Fund. Even though the Fund suspended early in 1948 the granting of further dollar facilities to countries in receipt of Marshall Aid, a large number of countries outside Western Europe remained qualified to draw on their respective quotas. Moreover, Western European countries, too, considered it expedient to remain on the Fund's good books, to ensure its facilities after the termination of Marshall Aid. Now that most countries have become less dependent on that potential source of assistance, they may feel that it is hardly worth their while to make extensive sacrifices for the sake of problematic future assistance from the Fund.

The fact that the balance of payments of the United States has turned adverse is also a relevant consideration. Hitherto, there could be no two opinions about it that the diversion of newly mined gold into private hoards is against the public interest, because to the extent to which this is done the settlement of the American export surplus by means of gold shipments becomes reduced. Now that the export surplus has given way to an import surplus this consideration no longer prevails, at any rate as far as the whole world outside the United States is concerned. Many individual countries may of course continue to need gold in settlement of their adverse balances with the Dollar Area, in spite of the change in the overall balance of the United States with the rest of the world. South Africa is one of the countries needing dollars, and for this reason there is a limit to the extent to which she could afford to divert her newly mined gold towards the free markets. Given her dollar requirements, she has to sell to the United States a large proportion of her gold output in spite of the fact that she could get much higher prices by selling it in the Sterling Area or in various soft currency countries in Europe, the Middle East or the Far East.

In view of the rapid rise in commodity prices and the cost of living, there is a growing feeling that the official price of gold is unfair and unreasonable. Given this feeling, the Fund's efforts to reassert its authority against the evaders of the rule against the sale of gold at a premium are doomed to failure. If a law comes to be regarded as obsolete and unfair, its enforcement tends to become increasingly difficult even within a country where the authorities have means at their disposal to punish offenders. The Fund has no such means at its disposal. By persisting in its attempt to enforce its increasingly unpopular rule, the Fund runs the risk of undermining its own authority. It is high time for those responsible for its policies to realize that there are two sides to the question of gold sales at a premium. If and when the official price should be adapted to the changes in the world price level the Fund will have every moral right to expect the full application of the rule. Meanwhile, it must view with tolerance the practice of evasion.

LETTER TO THE EDITOR:

Sees Rearming of West Germany Fomenting Another Korea

W. E. Cole, Clergyman and author, says question "Are We Falling Into History's Greatest Trap?" cannot be answered until some solution of the German problem is found or the inevitable civil explosion in Russia's satellite states takes place. Would have a neutralized Germany.

Editor, The Commercial and Financial Chronicle:

Now that the discussion on "Are We Falling Into History's Greatest Trap?" appears to have ended, it is interesting to recall the great change in contemporary national thought during the past two months. When that article appeared in the "Chronicle" of Jan. 11, fear of imminent global war and runaway inflation was widespread. Yet there has been scarcely any adverse criticism from scores of eminent people who have responded. (Chief criticism has been from Dr. Einzig in England —issue of March 8, p. 26.) Now we have a widespread peace boom, and war fears are banished. Whether time will prove it correct or otherwise, the vast majority are in virtual agreement, and the influence of that article has extended far beyond the circulation of the "Chronicle" itself—distinguished though that may be. This is likewise true of Ernest T. Weir's article ["European Attitude on Our Foreign Situation" in the issue of Jan. 18]; and for such public service in clarifying the issues involved, the thanks of many are due both to Dr. Palyi and to Mr. Weir, and to the "Chronicle" for permitting this discussion.

There is, however, one point which still seems to be overlooked, i.e., the necessity for removing one of the main causes which has led to the present situation and which threatens to engulf the world in war **even though neither Russia nor anybody else seeks war.** This writer pointed out in detail in the "Chronicle" of Jan. 25, last (p. 28), how the division of Germany meant eventual civil war, how difficult it may be to confine that war, and why Russia would force the United States to act **first** in starting world war. For what other purpose has Marshall Rokossovsky remodelled the Polish and Czechoslovakian armies, except to form a second "China" if needed?

Now we read in yesterday's "Chronicle" headlines, March 15, 1951 (p. 3): "Atomic Bomb Can Destroy Russia, So No War," and Dr. Vannevar Bush states: "No all-out war is in sight for the immediate future unless they or we make some very serious error, indeed. If Russia knows she cannot go beyond certain boundaries without provoking a war, she will not pass those bounds; no war will occur. This has been well shown in recent years." . . . and "The Kremlin will not strike unless it makes a mistake or unless we by the utmost foolishness cause it to make a false move in the belief that it can do so without bringing our retaliation upon it."

Precisely! But are not most wars started by some slight incident, miscalculations and reprisals? Was it not our "utmost foolishness" in inviting Russia to go ahead in Korea and then reversing our position that brought about this situation with China? And have we notified Russia definitely and categorically **that any move by East Germany or Poland will be considered an act of war by Russia herself and mean bombs on the Kremlin itself and not on East Germany nor Poland?** Have we, in fact, yet defined—in Dr. Palyi's words — "what we will fight for," and "quit waiting for the next Russian move"?

Then many people only see world war developing **when Russia is ready** and wants the oil of the Middle East. To quote Roger Babson in the "Chronicle" of March 1, 1951 (p. 11): "... no need for another World War **now.**" . . . "Nearly all the top brass are agreed that Russia's first attack will be against Yugoslavia, Turkey and Greece, to get the oil fields of Iran and neutralize Italy and France. Here are the powder kegs which could destroy the world."

Of course this is correct regarding the **distant** future, but for Russia to move openly towards this oil **first,** would relieve the restraint of the United States in bombing the Soviet Union and her Caucasian oil supplies. This in turn would add fuel to the fires of unrest already behind the Iron Curtain and be a powerful incentive to satellites to revolt. The whole Soviet empire might collapse internally. As pointed out previously ("Chronicle," Jan. 25, p. 28), Uncle Joe is not likely to **help** Uncle Sam that way at this time.

Germany, however, is a bird of another color and, I submit again, is the key to the **present** situation. The United States has been maneuvered into the preposterous position of defending Western Germany against the East, or of enlisting the western part as an ally against the eastern part of the same nation—turning the German fatherland into another battleground. West German rearmament has now been temporarily postponed because the Germans themselves won't have it—being far too intelligent a people to be catapulted **now** into a war for the west which could only mean further ruin for them. (Have we not told them that their unpardonable sin for half a century has been arming against Russia!) But nobody is fooled by the reasons therefore, and Russia knows perfectly well that the rearmament of West Germany is the necessary intention of the West when safe to proceed. Will East Germany (and Poland and Czechoslovakia) be kind enough to wait until the West is ready to rearm West Germany? If Russia intends to move, she will do so **this year (indirectly)**—before our power grows even greater; and if she does not intend to move, then we may be wasting our resources and straining our economy as the Soviets intend. It is the Russians who have been permitted to come forward with the Berlin "World Council of Peace," and proposals for a disarmed and united Germany—with Berlin as capital, of course.

We have, therefore, another Korea (spawned from the same disastrous conferences at Teheran, Yalta and Potsdam); and just as Danzig and the Polish Corridor inevitably touched off World War II, so might this divided Germany touch off World War III. Now when two dogs quarrel over a bone, the simplest way to stop the fight is to remove the bone. And the surest way to remove this potential fuse to the powder keg of world war is (or **was**) to **neutralize** Germany—to form a buffer between the two opposing giants. There might even be (or **have been**) some arrangement like the Swiss Constitution which permits defense but forbids war except in an invasion.

While, therefore, we may be grateful to Dr. Palyi and agree with his general thesis, the question: "Are We Falling Into History's Greatest Trap?" cannot be answered immediately—until some solution is found for Germany, or the inevitable "civil" explosion occurs, and we know how that fire can be kept under control without involving Russia and engulfing the world.

W. E. COLE.

P. O. Box 15, Orlando, Fla.
March 16, 1951

THE TEXAS COMPANY

and Subsidiary Companies

HIGHLIGHTS

From the Company's 1950 Annual Report

	1950	1949	Average 5 Prewar Years 1936-1940
Net income	$ 149,071,743	$ 132,743,159	$ 36,081,632
Net income per share	$ 10.82	$ 9.62	$ 3.41
Cash dividends paid per share	$ 6.50	$ 3.75	$ 1.95
Net worth per share (end of year)	$ 81.91	$ 76.59	$ 42.22
Total assets (end of year)	$1,448,712,495	$1,368,132,586	$619,313,270
Working capital (end of year)	$ 346,281,902	$ 321,188,144	$118,934,652
Gross crude oil and condensate produced (barrels)	122,487,476	114,513,076	69,375,022
Net crude oil and condensate produced (barrels)	102,904,483	96,280,939	57,902,088
Wells drilled in United States	969	807	894
Crude oil and condensate delivered by pipe lines (barrels)	186,461,495	160,445,686	114,627,497
Refinery runs to stills (barrels)	140,325,593	151,037,739	97,826,252
Number of ocean-going vessels over 5,000 gross tons (end of year)	34	36	31
Average number of employes	38,246	39,157	30,400

CONSOLIDATED STATEMENT OF INCOME AND UNDISTRIBUTED EARNINGS EMPLOYED IN THE BUSINESS

For the Years Ended December 31, 1950 and 1949

	1950	1949
Gross Income:		
Sales and services	$1,248,502,334	$1,077,270,246
Dividends, interest and other income	60,781,116	38,766,810
	$1,309,283,450	$1,116,037,056
Operating Charges:		
Costs, operating, selling and general expenses	$ 981,946,072	$ 830,117,530
*Taxes (other than income taxes)	34,273,822	31,838,351
Intangible development costs (amortization and dry holes)	33,640,663	32,915,353
Depreciation	50,864,957	46,136,901
Depletion and leases surrendered	11,298,245	13,175,424
	$1,112,023,759	$ 954,183,559
	$ 197,259,691	$ 161,853,497
Interest Charges:		
Interest and amortization of discount and expense on debentures	$ 3,760,164	$ 3,760,164
Other interest charges	1,627,784	1,150,174
	$ 5,387,948	$ 4,910,338
	$ 191,871,743	$ 156,943,159
Provision for Income Taxes	42,800,000	24,200,000
Net Income for the Year	$ 149,071,743	$ 132,743,159
Undistributed Earnings Employed in the Business at Beginning of Year**	578,556,179	500,955,448
	$ 727,627,922	$ 633,698,607
Deduct—Cash dividends declared	75,795,357	55,142,428
Undistributed Earnings Employed in the Business at End of Year**	$ 651,832,565	$ 578,556,179

*In addition, state and Federal gasoline and oil taxes were paid or accrued in the amounts of $198,406,704 during 1950 and $186,159,305 during 1949.

**Includes $25,000,000 appropriated as a reserve for contingencies.

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1950 AND 1949

ASSETS

	1950	1949
Current Assets:		
Cash	$ 94,680,039	$ 104,718,904
U. S. Government short-term securities, at cost	73,250,834	49,040,000
Accounts and notes receivable, less reserve of $1,000,000 in 1950; $850,000 in 1949	112,487,338	90,868,884
Inventories—		
Crude and refined oil products and merchandise, at cost determined on the first-in, first-out method, which in the aggregate was lower than market	165,291,070	176,888,114
Materials and supplies, at cost	23,719,956	22,070,163
Total current assets	$ 469,429,237	$ 443,586,065
Investments and Advances	$ 165,551,703	$ 169,708,531
Properties, Plant and Equipment—at Cost:		
Producing	$ 676,442,369	$ 615,367,799
Pipe line	117,594,832	120,796,460
Manufacturing	396,626,750	376,190,338
Marine	89,785,441	89,242,289
Marketing	190,162,510	171,384,561
Other	6,392,558	6,236,183
	$1,477,004,460	$1,379,217,630
Less—Reserves for depreciation, depletion and amortization	687,970,282	637,159,375
Net properties, plant and equipment	$ 789,034,178	$ 742,058,255
Deferred Charges	$ 24,697,377	$ 12,779,735
	$1,448,712,495	$1,368,132,586

LIABILITIES AND STOCKHOLDERS' EQUITY

	1950	1949
Current Liabilities:		
Notes and contracts payable	$ 8,820,489	$ 8,510,759
Accounts payable and accrued liabilities	101,905,941	90,655,486
Provision for Federal income taxes (less U. S. Treasury obligations held for payment of taxes: 1950—$40,000,000; 1949—$25,000,000)	12,420,905	9,449,919
Dividend payable January 3, 1950	—	13,781,757
Total current liabilities	$ 123,147,335	$ 122,397,921
Long-Term Debt:		
3% Debentures, due May 15, 1965	$ 60,000,000	$ 60,000,000
2⅜% Debentures, due June 1, 1971	80,000,000	80,000,000
Notes of The Texas Pipe Line Company payable approximately $1,600,000 annually with interest rates of 2.6% to 2.9%	36,666,667	38,333,333
Other long-term debt	2,138,775	1,795,444
Total long-term debt	$ 178,805,442	$ 180,128,777
Reserves:		
Employes' pension plan	$ 13,728,027	$ 5,901,918
Incentive compensation plan	2,929,123	1,892,648
Foreign exchange fluctuations	1,766,883	1,826,448
Total reserves	$ 18,424,033	$ 9,621,014
Stockholders' Equity:		
Par value of capital stock issued and outstanding—13,797,624 shares, par value $25 each, including treasury stock deducted below—(20,000,000 shares authorized)	$ 344,940,600	$ 344,940,600
Additional amounts paid in	133,103,357	133,103,357
Undistributed earnings employed in the business (including $25,000,000 appropriated as a reserve for contingencies)	651,832,565	578,556,179
	$1,129,876,522	$1,056,600,136
Less—Capital stock held in treasury, at cost: 22,633 shares in 1950; 10,000 shares in 1949	1,540,837	615,262
Total stockholders' equity	$1,128,335,685	$1,055,984,874
Contingent Liabilities (see page 14)		
	$1,448,712,495	$1,368,132,586

The foregoing financial statements are taken from the 1950 Annual Report, dated March 19, 1951, to stockholders of The Texas Company, and should be read in conjunction with such report which contains a Financial Review and the certificate of Messrs. Arthur Andersen & Co., Auditors, accompanying the financial statements. A copy of the report to stockholders may be had upon application to the Company. The said financial statements and report are not intended to constitute an offer, solicitation of offer, representation, notice, advertisement, or any form of a prospectus in respect of any security of The Texas Company.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

New York City bank earnings for the first quarter of 1951 to be published in about ten days are expected to compare favorably with those of a year ago.

Although there will be considerable variations in the showings of the individual institutions, most banks should report earnings equal to or slightly higher than those for the comparable period of 1950.

The general forces at work in the banking field a year ago have been augmented by events arising out of the Korean War and the resulting buildup of inflationary forces. In the early part of 1950 the economy was being supported by the high level of activity in the automobile and construction industries. The recovery from the adjustment period of 1949 had been rapid and inventories were being rebuilt to carry on the favorable business being experienced.

Bank loans during this period followed the trend of business and moved steadily upward. Loan volume was maintained at a high rate in the early months of 1950 in reflection of the prevailing business conditions. The normal seasonal contraction usually made in the first six months of the year was not experienced.

With the outbreak of hostilities in Korea, the expansion of loans was resumed. The volume reached an unprecedented total in the third and fourth quarters of the year.

The gains have continued into the current period with the result that totals at the end of this month are expected to show increases of around 30%-35% over the similar period of 1950.

This is one of the most important factors in current operations and accounts for the ability of the banks to maintain earnings despite increases in taxes and higher expenses.

Another important consideration in this connection is that increasing loan volume has been accompanied by rising interest rates. Thus earnings benifit not only because of the larger volume of loans but also through a higher return.

Investments of the various banks, on the other hand, are considerably lower than a year ago. Security holdings have been liquidated to provide funds for the increases in loans and the higher reserve requirements currently in effect. Also a considerable amount of funds have been placed in state and municipal securities but from the standpoint of size this total is not particularly large. Although deposits have shown some gain during the period the bulk of funds for loans and other purposes has been provided by selling U. S. Government securities.

The income from this source, as a result of the foregoing, will be lower. The decline, however, should not be in direct relation to the reduction in holdings as higher interest rates should, in part, offset the lower security portfolios.

The impact of the decline in the value of investments as a result of the Federal Reserve Board's action within the past few months should be relatively minor. One reason is that the holdings of New York City banks have been primarily in short-term securities. However, profits from the sales of securities are expected to show a decline relative to those of 1950.

Operating expenses will be higher. Increasing payroll charges and other expenses have been advancing in reflection of the inflationary forces which have been prevalent. Lower Federal Deposit Insurance assessments as a result of the legislation passed last year will, in part, offset the increase in expenses, however.

Thus a large portion of the increase in gross earnings will be brought through to pre-tax income. Taxes, of course, will be higher and absorb most of the improvement from operations. As New York banks do not have an excess profits tax problem, a gain of around 10% in pre-tax income will enable most of them to offset the higher corporate and surtax rates currently prevailing. It is believed that this is a resonable possibility and expect some of the banks to show an improvement over last year's earnings.

Possibly as a reflection of the current outlook for operations National City Bank on Tuesday raised the quarterly dividend rate to 50 cents a share. In addition an irregular payment of 5 cents was declared to bring total payments this year, including a previous disbursement of 45 cents, to $1.00.

It is considered significant that the management rather than wait until the end of the year and declare a 20-cent extra, as was done last year, took action at this time and placed the stock on a regular $2.00 annual rate.

LETTER TO THE EDITOR:

New Deal Scandals Versus Teapot Dome

Berkeley Williams points out Republican Administration in Teapot Dome scandal took prompt action to clear-up mess and punish guilty, but questions when Truman Administration will do same. Hails Indiana's protest against wasteful Federal expenditures.

Editor, "Commercial and Financial Chronicle":

When scandals of the New Deal, such for example as those of the Maritime Commission, whose books were kept so badly according to the Comptroller General that there were no records on $900,000,000 worth of ships which the Commission had built; when more than $900,000,000 in purchases by the Commission "can never be allocated"; when unrecorded transfers between shipyards involving materials estimated at $800,000,000 and other examples of thievery and larceny that have been committed by individuals and commissions of the present Administration; when these conditions are mentioned to New Dealers, their stock comback is, "Look at Teapot Dome."

Berkeley Williams

So let's take a look. Let the record speak.

When evidence of wrongdoing in connection with the public oil lands was made public, largely through the activities of the Senate Committee headed by Senator Walsh, Democrat of Montana, the Republican Administration took prompt action to clear up the mess and endeavored to punish the guilty.

Secretary of the Interior Fall was gotten out of the Cabinet in March, 1923. Early the next year Secretary of the Navy Denby resigned, and furthermore, President Coolidge got rid of Attorney General Dougherty. The prosecution of Fall and some oil men dragged on for a long while, but it is clear that the Coolidge Administration did not pull any punches in going after them. Furthermore, it is significant to note that President Coolidge instructed the Department of Justice to follow very closely the hearings conducted by the Senatorial Committee and also cooperated with the Committee in making files and government records available to the Committee to assist in its work!

Although the Teapot Dome scandal is admittedly a black mark, the Republican Administration did take action to clear up the mess. That line of action is quite different from the action upon the part of the Democratic Administration today to try to cover up their sins and keeping the Congressional Committees from getting possession of many of the government files and records which are needed to make a full investigation of fraud, etc.

"The President just can't bear to fire a crony," says one Capitol advisor, and the Truman boys snarled up in chiselling are just as cocky as their boss. One of them is quoted as saying, "I say whatever I did isn't illegal. I didn't break any law and if you say I'm a thief, I'll sue you in the courts for libel." "In recent years the enrichment of political favorites has been legalized," says "Whaley-Eaton." Understatement if there ever was one.

So the record shows that the Ohio gang was indicted, brought to trial and convicted by fellow Republicans in spite of the fact that their offenses were at the cube root of a vacuum compared to these of the New Dealers.

What will the Missouri gang's boss and his Attorney General, former member of the Democratic National Committee, do and how much?

Meanwhile, the Hoosier State is showing a way to dispose of unworthy, selfish, grasping, spendthrift politicians. It is in a state of rebellion. State Senator Van Ness, in addressing the Legislature, asserted: "Indiana taxpayers poured more than $1,000,000,000 into the Federal coffers in 1950 and got back less than 5% of that total." The Indiana House has passed a resolution "serving notice on the Congress of the United States that the people of Indiana are fed up with subsidies, doles and paternalism."

"Human Events" hits the nail on its head when it says: "Whatever the outcome of the rebellion in Indiana, the above development does suggest an explosive possibility; a real State's Rights movement may grow when the several State Legislatures realize that they cannot get back from Washington as much as their citizens send in. Since the citizens send it in under the income tax law, the battle cry might be: Abolish the 16th Amendment." It is a complete answer to the $64 question.

That will abolish Federal controls and subsidies. Indiana is everlastingly right. Let's fall in line.

BERKELEY WILLIAMS.

March 20, 1951,
Richmond 19, Va.

Continued from page 2

The Security I Like Best

of the efficiency of this company and its good will is the results of an election held recently in Redding, California, a city which is practically next door to the Government's mighty Shasta Dam power plant. In 1949 that city turned down an offer to buy public power at a savings of $30,000 per year, preferring the proven fine service of PG&E to involving themselves in government red tape and restrictions as to rate making, etc.

Good management, unparalleled diversification of area served and good employee relationship, are factors that add considerable weight to the investment stature of this company. Measured together with the sustained progress, increasing revenues, substantial earnings and a service territory with the economic strength of Northern and Central California, with its continuously expanding industry and population, Pacific Gas & Electric Company wins my vote as the Security I Like Best. It is the "Giant with Eternal Youth."

BERNHARD F. SELIGMANN

General Partner, Seligmann & Company, Milwaukee, Wisconsin

International Hydro Electric Systems $2.00 Class A

A security with prospect of 65% capital appreciation, and adequate tax shelter to protect the investor from any more than a 25% tax rate will always be of interest to the trader and the public alike.

B. F. Seligmann

I believe such a security to be International Hydro Electric Systems $2.00 Class A Stock. This is a public utility holding company liquidation situation but unlike many other of these situations it is relatively simple to work out from their investment assets and arrive at a reasonably sound estimated value per share for the Class A Stock.

Investment assets include 1,099,024 shares of Gatineau Power Co. common stock which is currently trading on the New York Curb at 18; 587,572 shares of New England Electric Systems common stock on the New York Stock Exchange at 12¾; and 320,000 shares of Eastern New York Power Company common stock which represents the total outstanding common stock of this company.

This security alone then must be analyzed to determine the probable value. Earnings of over $4.50 per share and regular annual dividends of $3.00 per share, coupled with other favorable information, should form a conservative basis for establishing a price of $50 per share as a reasonable value for this stock.

These investments plus their cash position with allowance for current liabilities leaves approximately $46,500,000 for the long-term creditors and stockholders.

International Hydro Electric Systems owes $9,000,000 to the banks, which leaves $37,500,000 for the equity holders. These are of two classes, the $3.50 cumulative preferred shares and the Class A mentioned previously. The $50 par $3.50 preferred is callable at sixty. Dividends have accumulated since 1933 and arrears presently amount to $61.10 per share, thus giving this preferred a liquidating value of $111.10. It is currently selling for 86, thus affording interesting possibilities in its own right.

After allowing for the $3.50 preferred on the above basis, the Class A has a liquidating value of approximately $23.70 per share and is currently selling at about 13.

The System has been in liquidation since January 17, 1941 when the SEC rendered an opinion that the Class B stock was without value and was turned over to the company for cancellation. It was not until this past August that any definite measures have been taken toward liquidation; at that time 340,000 shares of Gatineau Power common were sold and a bank loan of $9,500,000 was obtained in order to redeem the 6% debentures of 1944 which had remained outstanding.

However, during the period to final settlement of the liquidation, income is being acquired from the Systems' subsidiaries at the rate of approximately $2,500,000 annually, the balance of which is being applied toward increasing the liquidating value of the Class A stock.

Recent developments emanating from Washington conferences indicate that the $3.50 preferred holders might accept six shares of Gatineau Power for each share of preferred. Enough of the remaining assets would be sold so that the System would qualify as an Investment Trust. These developments may be forthcoming within one month, and would considerably enhance the value of the Class A because of its potential net asset value.

Under any circumstances, barring market collapse, International Hydro Electric Systems $2.00 Class A stock appears as an interesting work-out situation with relatively near-term possibilities. The 1950 annual statement should further substantiate these estimates.

JOHN B. SHOBER

Partner, Woolfolk & Shober, New Orleans, La.

Prudent Advice on How to Invest A Church Legacy

How interesting to hear that the old church has received such a generous legacy. That amount, properly invested, should go a long way towards caring for the old building and the adjoining graveyard. The problem now is how to invest it. This poses several difficulties. In the first place, being in a rural community such as yours, there is no investment dealer resident there to advise you in the matter. Secondly, it is natural that the divergent and uninformed views of your associates on the Vestry must be considered.

John B. Shober

The assumption is that the sum mentioned represents the bulk of your endowment. I do not know what else you have, other than a few government bonds. That being the case, I feel that this new amount should be placed in equities, especially in view of the inflationary trends in clear view before us, and the probabilities of still further and continuing decline in the purchasing power of the dollar. First, above all, you should insist on diversity. You have enough to make several selections, which you can make for yourself, or you can accomplish the same end by putting all the money in one or more of the mutual funds, about which you may have some knowledge. This latter would be my advice.

If you prefer to select your own, I suggest that you ask old Mr. X if he will not let you have 20 or 25 shares of First National Bank in your own town. It is a fine old bank with years of successful operation and an unbroken dividend record for many years. These bankers usually know about a few shares of their own stock which they can supply to the right customer. The old First National is strongly entrenched in your county. It has been a consistent money maker and dividend payer for many years. Your county is one of the most prosperous and yet stable and developing areas in the State. Earnings of the bank consistently average over $10 per share annually and the regular $4 plus $2 is considered as sure as anything in this uncertain world. There are a couple of good young men on the staff whom, of course, you know, and the President's son seems quite able to carry on the tradition. Talk to him about your problem. For that matter, County National ought be good, too. Of course, it is a younger and smaller bank, but there is ample need there for two good banks and for a couple of rural banks in the county, too. Stock in a good, well-run country bank should be a sound investment, especially for a need such as yours.

Another thoroughly good stock is the utility company serving your area. This seems to be a dependable investment. I can toss a lot of figures and ratios at you, but a review of the enclosed leaflet will give you the picture. The stock is said to have a high percentage of local ownership. Some of your associates may have some, and good blocks are held by many of the better run mutual funds. I think a position in this would be prudent and wise. It pays a good steady, dependable return, serves a prosperous and stable area, and should achieve a healthy growth in line with the growing development of the area it serves all around you and all the part of your State. The current dividend is $1.20, and the current market is about 20. The stock is traded on the New York Stock Exchange.

Having gone this far with two definite suggestions (I think $2,000-$2,500 would be enough for each one) I still think any one of the top grade mutual funds should be used for the remainder of the money. You will get a fair and regular return; you will certainly get the best of management and a measure of Federal regulation. You will have no administrative problems for the future, something always to consider in small funds, with volunteer committees and changing control and the inevitable but not intentional negligence and inertia common to all organizations such as yours.

With F. I. du Pont & Co.

CHICAGO, Ill.—Francis I. du Pont & Co., 300 South La Salle Street, announce that Thomas F. Ford has become associated with them.

Auchincloss, Parker Admit

Auchincloss, Parker & Redpath, members of the New York Stock Exchange, will admit Arthur W. Sesselberg, member of the Exchange, to partnership on March 23. He will make his headquarters at the firm's New York office, 52 Wall Street.

Eric & Drevers Admit

Eric & Drevers, 115 Broadway, New York City, members of the New York Stock Exchange, will admit Thomas J. Brown to partnership on April 2.

T. Donald O'Neil With Wagenseller & Durst

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—T. Donald O'Neil has become associated with Wagenseller & Durst, Inc.,

T. Donald O'Neil

626 South Spring Street, members of the Los Angeles Stock Exchange. Mr. O'Neil was formerly with Cohu & Co. and prior thereto was manager of the trading department for Morgan & Co. In the past he was an officer of O'Neil & Co.

Schwarting Director of Albert Frank Agency

Wm. V. Schwarting

William V. Schwarting, Vice-President of Albert Frank-Guenther Law, Inc., 131 Cedar Street, New York City, advertising agency, has been elected a director of the company, it was announced. Mr. Schwarting has spent his entire business career in the field of financial advertising.

Herman N. Fink Opens

(Special to THE FINANCIAL CHRONICLE)

WEST LOS ANGELES, CALIF. —Herman N. Fink is engaging in a securities business from offices at 10450 Bainbridge Avenue.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market is in the process of adjusting itself to the new conditions which were created when Federal gave up the pegging of prices of Treasury obligations. So far the performance in a comparatively free market has been satisfactory. A base seems to have been established at about the 99 level on the longest tap bonds. Whether this level will hold or somewhat lower prices will have to be witnessed before another stabilization area develops is purely a matter of conjecture. It does, however, seem as though the fear psychology which was created by concern as to what might happen if prices broke the 100 level, has abated considerably. This is due in no small measure to the fact that many of the dire things that were predicted if prices broke par have not materialized so far.

The intermediate and longer bank issues have been under modest accumulation by out-of-town institutions. Nonetheless, not too many bonds have been obtained despite the wide price movements. The taps are being bought, sold and switched in moderate amounts. The largest interest is in the exchangeable 2½s and much of this buying is evidently for conversion purposes.

The resignation of Chairman McCabe of the Federal Reserve Board and the appointment of Martin to succeed him may or may not change recently instituted credit policies. Only time will give an answer to this one.

Market Acts Favorably

The government security market is being probed and tested in an attempt to find where a new area of stability in prices will develop. The action thus far in a market which has been mainly on its own has not been unfavorable. Although quotations dropped on not-too-heavy volume to the 99 level, and there have been only minor rallies since the breakthrough of the 100 level, the tone of the market appears to be improving. Because of the lack of official support, except in isolated instances, there may be a tendency for prices to still go below levels established thus far. Nonetheless, the attraction of long-term governments increases as quotations decline. This recession in prices of the June and December 1967/72s has brought more than a passing interest in these obligations from insurance companies, savings banks and pension funds. Purchases of the conversion 2½s by these institutions at quotations below 100 gives them a larger return than 2¾% (about 2.80%) on the June and December 1967/72s that are turned in for the non-marketable obligations.

Although there are no more than talking estimates of how successful the conversion of the last two maturities of the ineligibles into the 2¾% non-marketables is likely to be, there is great hope in the financial district that the offer will be very well taken. Commercial banks, savings banks and insurance companies have gotten behind the exchange in no uncertain way and their recommendations to go along with the offer should have a very favorable effect upon owners of the exchangeable bonds. The success of the exchange of marketable 2½s for the non-marketable, but note convertible 2¾s, will go a long way towards determining the other types of monetary measures that will be used by the powers that be in their efforts to break the forces of inflation. It is evident that the current offer is favorable enough to be accepted by holders of the June and December 2½s of 1967/72, and in the interest of keeping what we have, there should be no hesitancy to take the 2¾s.

The new way of doing business in the government market, that is, without official support and help, except at intervals, is making for sharper price movements and for wider spreads between bid and offers. Positions of dealers are light and will no doubt continue that way until there is more certainty in the market. Investors are making both scale and spot purchases in selected issues and while this makes for intermittent periods of stability it does not give the market the necessary fillip that is needed to bring about the establishment of a trend. In time and with more history on the free market movements, there will be greater nimbleness among traders and investors and this should make for an active and profitable Treasury market, even though the level of prices could be lower than they have been in the past.

Good Buying in Progress

There are signs that fear is lessening in the government market, and the fact that buying is coming into the intermediates and longs as well as the shorts indicates buyers are satisfied that yields on certain issues are attractive enough to be acquired in limited amounts. This seems to be the case particularly with the bank obligations since there is a growing interest in the market for the September 2½s, the 1956/59s and the partially-exempts. None of these bonds, according to reports, has been easy to get, even during the days when prices were breaking sharply. It seems as though quotations on the longer eligible obligations were run up and down with very few of them changing hands. The last four partials, after a sharp drop on very light volume, are again being sought after, without too much success as far as size is concerned. The 2⅞s now appear to be the limelights of the group.

The short-term end of the list is the favored spot at the moment, because in order to get and keep liquidity one must have near-term maturities. The ending of official support by Federal took liquidity away from the longs. Despite the demand for the shorts which has eased these rates somewhat, it is believed the monetary authorities will keep the short market uncertain so as to make reserve creation more difficult. A wider fluctuating near-term market might bring about borrowings from the Central Banks, and this in turn could bring back the effectiveness of the discount rates, which may be raised in the near future.

THEN and NOW...

Guess Who?

If You Can't Turn to Page 28

(A)

(B)

Continued from page 8

Industry Characteristics Important In Investment Planning

in an industry everyone else involved in that industry is pushed farther out toward the end of the limb.

Various Elements of Leverage

Many industries are subject to more than one type of leverage. For example, the companies in them may be faced not only by relatively large and rigid wage costs but also must meet large prior claims of bondholders and preferred stockholders before the common stockholders can sit down to dinner. Some of you doubtless are thinking of certain railroads in this connection, and you are on the right track.

Another important type of leverage is found in industries where the value added by manufacture is a relatively small part of the selling price of the finished article. Companies in such industries are extremely vulnerable to fluctuations in the prices of their products. How does that leverage work? Let's consider two purely hypothetical companies. One bakes bread and cake. The other butchers beef. Let us suppose that the butter, eggs, sugar and flour used by the baker account for 20% of the selling price of his finished product, the balance being fuel for his ovens, wages, depreciation, packaging and 10% profit. Obviously, if the price of his raw materials falls 10%, if all other costs remain the same, and if he still is able to sell at 10% profit, his price will be cut by 2%. That is just 20% of the profit he hoped to make on the bread and cake baked with the higher cost raw materials, so his inventory loss, assuming he cut prices immediately, would be really no loss at all but merely a reduction of hoped-for earnings.

Now consider the butcher. Let us suppose he buys a steer for 80% of what he hopes to get for the meat, and that wages and other costs take another 10%, leaving him 10% profit based on then current prices. The price of steers drops 10%, and the price of meat follows. Our butcher has to reprice his inventory. But a 10% drop in the price of steers costs him 80% of his hoped-for profits, compared with 20% for the baker when his raw materials' prices drop 10%. In other words, the more a company has to pay for its raw materials in relation to the selling price of its finished goods, the more vulnerable it is to fluctuations in the prices of those raw materials. As you realized when I spoke of prices declining, the illustrations are hypothetical. Any resemblance to actual costs and profit margins of any bakers or butchers, either living or dead, is purely coincidental.

The farther I get into this subject of investment characteristics of major industries in relation to planning a program, the more complicated it becomes. I'm sure you all will agree to that. My plight reminds me of Mark Twain, who had his heroine disguise herself as a man in order to go where women were forbidden to go on penalty of death. While thus disguished, his heroine—I think her name was Mary—attracted the attention of the king's daughter who fell in love with Mary. When Mary failed to reciprocate the royal affections, the king's daughter in a fit of anger charged that Mary, who, of course, still was posing as a man, had seduced her. That too was a capital offense. Thus Mary found herself facing death whether she doffed her disguise or not. At that point as I remember it—I read the story many years ago and may have forgotten some of the details—Mark Twain said, "I give up, gentle reader. You take her and get her out if you can."

Stability of Industries

Because relative stability of demand for a product can be nullified investmentwise by such leverage factors as pyramided capitalizations and uncontrollable labor costs, it is dangerous to particularize about the investment characteristics of major industries. In general, however, those industries are most stable which meet some or all of the following criteria:

(1) Their products should be consumed currently.

(2) Their payroll should be low relative to the value of their products, or their sales.

(3) Their payroll should be low relative to the value added by manufacture or they should own their raw material sources.

Businesses which qualify under all three headings include the cigarette, chewing gum, liquor, condensed milk, ice cream and cheese, petroleum, flour, soap, fertilizer and chemical.

At the opposite extreme are such businesses as the manufacture of machine tools, elevators, furniture, clocks and watches and sewing machines.

There are at least two considerations more important than any I have mentioned thus far in connection with the investment characteristics of major industries. One is management and the other is the outlook for growth in the use of the industry's products.

When I suggested the historical approach to judging managements and markets of leading industries, I am not unaware of the fact that hindsight is of value only when the trend observed continues into the future. By the time it changes and we become aware of the change, a good deal of damage may have been done to our portfolio. What other tests may we apply?

Research Vital

Without going into the whole question of analyzing management, which has been the subject of many books and even more numerous articles and speeches, I think the most important forecasting indicator insofar as management is concerned is its interest in research. There, too, if you start digging, you will discover that American oil companies spend about $100,000,000 a year on research which not only goes far to explain the fact that today's sales of oil products in this country are roughly six times what they were in 1920, but underwrites the prospect that they will continue to gain absolutely and relatively over the years to come. Only by constantly improving its product is any industry able to continue to forge ahead in these days when science is wiping out so many of the lines that used to separate one industry from another. Sometimes I think the best thing that could be said about the oil industry from an investor's point of view is that gasoline (before taxes) currently is selling at about the same price at which it sold 25 years ago notwithstanding the fact that today's gasoline is so much better than the gasoline of 25 years ago that two gallons of the product that goes into your tank now will do as much work, measured by any standard, as three gallons did back in 1925.

Throughout our discussion, I have been keeping in mind the word "investment." Mrs. Myles, our moderator, has discussed some of the varied interpretations of the word with you. For this purpose, the distinction I have tried to keep clear in my own mind is that of timing. To an investor, as I understand the meaning of the word, timing is relatively unimportant. To a speculator, timing is always of major importance. Some of the very characteristics, in fact most of the characteristics that detract from the investment quality of an industry, actually enhance its speculative potentialities if one's timing is right.

I say that in the hope that you won't blame me for giving you some rules of investment which may some day deter you from a profitable speculation.

I have talked too long already, but the importance of the various investment characteristics of our major industries changes with the times. Judging by the experience of some other nations, and projecting some of the political tendencies of our own country into the future, the day may come when the most important investment characteristic of a major industry will be its susceptibility of government operation. How can we measure that? History will help us some—the history of those countries which have socialized some of their leading industries. Logic, I think, may help us more. Generally speaking, and the development of the atom bomb is the exception that proves the rule, governments operate at least disadvantage in fields which are cut and dried. Bureaucrats, generally speaking, do not get that way by taking chances.

Industries that are aggressively developing new products and raw material sources are likely to remain free till the last. When they're taken over, you'll no longer have investment problems.

Lee Higginson Group Offers River Brand Rice Mills Stock

Lee Higginson Corp. headed an underwriting group which on March 20 offered for public sale 245,500 shares of River Brand Rice Mills, Inc., common stock at $14.50 per share. The offering comprises a portion of the holdings of a group of selling stockholders who will receive the proceeds of the sale. The transaction marks the first distribution of the company's shares to the general investing public. The offering was over-subscribed and the books closed.

The company, one of the largest domestic producers of milled rice and the largest distributor of packaged rice for household consumption, was formed in 1946 to consolidate the Southern Rice Sales Co., Inc., Pfeffer Rice Milling Co., Inc., Houston, Tex.; Champion Rice Mills of Tennessee, Memphis, and Champion Rice Mills, Eunice, La. Acquired at about the same time were the Champion Elevator and Storage Co. and Champion Rice Export Co., Inc. Following the consolidation rice milling capacity was increased by acquisition of the Jonesboro Rice Mill Co., Jonesboro, Ark., and certain properties of El Campo Rice Milling Co., El Campo, Texas.

The company's output of milled rice is sold both in bulk and packaged form with particular emphasis on packaged sales under its nationally advertised brand names, "Carolina" and "River." Under these the company also distributes natural brown rice and wild rice. It is also a major supplier of rice to the brewing industry and to certain export markets. For the fiscal year ended July 31, 1950, net sales and operating revenues were $21,282,973 and net income was $775,716. For the six months ended Jan. 31, 1951, sales and operating revenues were $11,758,474 and net income $319,760.

Principal customers of the company for packaged and bulk rice include Great Atlantic & Pacific Tea Co., The Kroger Co., First National Stores, Francis H. Leggett, American Stores Co., and Grand Union Co.

Canadian Securities

By WILLIAM J. McKAY

Economic history not only demonstrates that booms provoke depressions, but also, especially since the era of Keynesian managed money, that financial authorities invariably act at inopportune moments in their endeavors to correct undesirable trends. Also it is a characteristic of human nature that considerable reluctance is usually displayed in bringing to a halt an era of inflationary prosperity. Furthermore undue respect is paid to the evidence of official statistics which, dealing only with the past, can be a deceiving guide to the economic course of the future. For this reason it is only too easy to crack down belatedly on a trend that has practically ceased to exist.

The more closely the present situation is analyzed, the greater the impression is gained that once again resort is being made to heroic measures to combat a condition that was on the point of correcting itself. It might also be fairly observed that the preliminary steps taken, in the form of manipulation of the rate of interest in conjunction with failure to curb effectively the undesirable growth of consumer credit, have served only to add to inflationary pressures. While prospects were high for an indefinite continuance of higher prices, possessors of already inflated inventories were encouraged to extend still further when it was announced that credit restrictions would be imposed, not immediately, but at a future date. Similarly the consumer buying spree was further stimulated as a result of efforts to beat the deadlines of the proposed restrictions.

These half-hearted and belated endeavors to check the mounting tide of inflation were duplicated in Canada, but there the situation was less confused. There was no open confliction of views between official bodies responsible for financial and credit policies. In addition, in view of the relatively few lending institutions in the Dominion, it was comparatively simple to ensure effective cooperation in enforcing stricter conditions for new loans. Still harsher terms for consumer borrowing are now contemplated and thus there is little fear that inventory and consumer excesses in Canada will now approach the U. S. levels. However as the Dominion economy is so intimately related to that of its great southern neighbor, the Canadian authorities must be prepared to take appropriate action to cope with any reversal of the U. S. economic trend.

As it begins to appear, the possibility of the approaching end of the U. S. boom can now be seriously considered. Despite the conditions that still apparently favor the continuance of higher prices and the persistent fears of possible future shortages, there are now incipient indications of a desire to liquidate inflated inventories. Credit curbs in view of their delayed action will shortly operate will all the greater effect. In the meantime the tremendous potential of U. S. productive capacity now appears sufficient to provide adequately for both "guns and butter." Thus the scales are being increasingly weighted on the side of production. On the other hand with inventories at a dangerously high level and consumer demand largely satiated, the stage would appear to be set for a period of deflation.

These calculations would be upset by the outbreak of all-out war but this no longer appears to be an imminent prospect. In its absence, production, strongly stimulated by war preparations will become an increasingly potent deflationary force. Coming at a time when the monetary authorities have rudely shocked any remaining inflationary psychology, this might prove to be the determining factor in the reversal of the U. S. economic trend.

It will not be surprising therefore to see recent history repeat itself. Measures always belatedly adopted to correct an economic trend in one direction have invariably to be discarded almost immediately in order to combat the contrary trend. As previously mentioned both the U. S. and Canadian economies are still at a stage of dynamic development. Consequently if any bias is to be applied to economic policy it should be on the side of controlled inflation. Progress in such cases can best be achieved by the encouragement of private enterprise and the confident employment of risk capital. Ill-timed deflationary measures, especially when they involve tinkering with the delicate mechanism of bond markets with all their widespread ramifications, can only defeat the purposes for which they were designed.

During the week business in the external section of the bond market was at a standstill. The only activity in the internals was switching from recorded to unrecorded bonds, which produced a measure of weakness in the Canadian dollar. Stocks after an earlier rally subsequently resumed their recent decline. The base-metal and gold issues were notably weak but the Western oils led by Federated Petroleums moved against the general trend in exceptionally active trading.

Did You GUESS?

Here's the 1951 version of the two angels appearing on page 26.


F. W. Stephens


B. W. Pizzini

(A) Florence W. Stephens, F. W. Stephens Co., 15 William Street, New York 5, N. Y.

(B) B. Winthrop Pizzini, B. W. Pizzini & Co., Inc., 25 Broad Street, New York 4, N. Y.

FHLB Notes on Market

A new issue of $60,000,000 Federal Home Loan Banks 2% consolidated notes, series G-1951, non-callable, was offered to the public on March 21, by the Federal Home Loan Banks through Everett Smith, fiscal agent. The notes, dated April 2, 1951 and maturing Oct. 15, 1951, are priced at par. A nationwide group of securities dealers will participate in the financing.

The above offering was made in connection with the maturity on April 2, 1951 of $85,000,000 outstanding series D-1951 1¾% consolidated notes. The Federal Home Loan Banks will retire $25,000,000, or approximately 30%, of the 1¾% notes from current cash resources. The balance of the 1¾% notes will be retired through proceeds from today's offering of notes.

Upon completion of the financing and the retirement of the series D-1951 notes, outstanding consolidated obligations of the Federal Home Loan Banks will have been reduced to $523,000,000.

Firm Name Now Pierce-Carrison Corp.

JACKSONVILLE, Fla. — Clyde C. Pierce Corporation announces the change of its name to Pierce-Carrison Corporation. Officers are Clyde C. Pierce, President; H. George Carrison and H. C. Wellborn, Vice-Presidents; H. S. Carpenter, Secretary-Treasurer; and Robert J. Pierce, Assistant Treasurer. There will be no change in personnel, telephones or teletype.

Joins First Calif. Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF. — Glenn M. Jones has become associated with First California Company, 112 South Los Robles Avenue. He was formerly with Jones, Cosgrove & Co. and George R. Miller & Co.

With Standard Inv. Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—Byron I. Pesin has joined the staff of Standard Investment Co. of California, 87 South Lake Avenue.

With Paul Rudolph

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — James P. Begley is now connected with Paul C. Rudolph and Co., 749 Market Street.

Continued from first page

As We See It

representing various elements in the population, early last week came forward with a report which, if accepted at face value, gives "Point Four" a substance and a significance which can scarcely leave any thoughtful mind at ease. The general idea apparently is the application of the New Deal, the Fair Deal, Santa Claus Economics, the managed economy notion and all the rest to the so-called free world under the general theory of our "manifest destiny" to manage and to support the economies of all peoples outside the Kremlin orbit.

Some of the paragraphs of this report (with which the President finds himself "impressed") would be quite incredible in other circumstances and in the absence of the long list of incredible things that have actually been said or done of late years. A few passages extracted from various sections of the report are well worth reproducing for the purpose of emphasizing the nature of the underlying philosophy of this most remarkable document.

For example:

"This Board also recognizes that to achieve lasting peace, security and well-being in the world we must join forces in an economic offensive to root out hunger, poverty, illiteracy and disease. Only by working together in common interest can we produce the necessary increase in foods, raw materials and manufactures.

"As a result of these findings, the Advisory Board feels that strengthening the economies of the underdeveloped regions and an improvement of their living levels must be considered a vital part of our defense mobilization."

And what is involved in "strengthening the economies" of these regions? Well, a good deal more than might be supposed. Let the Board explain:

"Economic development means much more than merely increasing the production of food and raw materials. It also means a relentless war on disease. It means improved educational opportunities, land and other reforms, where people want them, fair and rising labor standards, a living wage, full participation in the benefits accruing from increased wealth or income, the removal of discrimination based on race, color, nationality, religious belief, caste, or sex.

"Our concept of economic development also includes training in democracy to enable all of the people to take active part in public affairs; to have the right of trial by jury, the right to work, the right to self-organization, to strike, to vote, as well as steady progress toward freedom from want."

Five-year plans, and how many? The Board probably has not yet got down to such details, but there's still time. Here is how current thinking goes:

"What are the gravest difficulties confronting each country and what is required to overcome them? What are the available resources in the country itself, from the United States, from other nations?

"How can the over-all job be spread over the years so that the maximum use is made of all available resources and priority is given to those projects which make the greatest contribution to expanded production and defense?

"These questions must be answered if the most economical and effective use is to be made of available resources. The time for vagueness in administrative objectives has passed. Simply to allocate United States funds for something 'worthwhile' is not good enough.

"Whatever is undertaken should be aimed at overcoming specific problems, with targets of accomplishment clearly set forth within set time limits."

And again:

"The Board wishes to emphasize that, although current international tensions give special urgency to our recommendations, the world-wide task of economic development would still remain to be done even if there were no threat of aggression. The problem of constructing a lasting peace is not one of preserving an existing order in the world but of building a new structure in which all nations can work together, exchanging their skills, labor and capital to mutual benefit.

"The essential task of statesmanship in this whole field might be described as one of finding the means to forget the past and to get on with the future.

". . . The whole current economic pattern of underdeveloped regions could be revolutionized through a consistent investment flow from the Western industrialized world of three billion dollars a year, less than 1% of the national incomes of the United States and the countries of Western Europe."

The report, which is entitled "Partners in Progress," does not, of course, content itself with such vague generalizations as these—though, of course, even when it gets somewhat nearer to earth it is not always very specific. It would add to our already large collection of ineffective, wasteful and worse, governmental organizations. The authors apparently have learned nothing from the history of the Reconstruction Finance Corporation. Various types of subsidies, and other devices now all too familiar, are suggested to bribe business to do what is wanted. And so the labyrinth of economic semi-totalitarianism grows.

What will all this cost? Of course, one can hardly expect the Board to be greatly concerned with such matters as these, but here is a summary of proposed outlays for some fairly early period—some of the items being recurrent year after year:

United States Overseas Economic Administration	$500,000,000
Private investments in existing productive facilities abroad to produce critical material urgently needed now	2,000,000,000
Private capital for general investment abroad	1,000,000,000
Proposed new International Development Authority, in which all free countries would participate, for constructing foreign public works (United States share $200,000,000)	500,000,000
Funds of the Export-Import Bank to be earmarked to underwrite new foreign debt obligations purchased by United States investors, in the sum of	100,000,000
International Finance Corp., to be created as an affiliate of the International Bank for Reconstruction and Development, would issue non-voting stock to member countries and make loans in local and foreign currencies to private enterprise. United States would subscribe $150,000,000 of its authorized capital of	400,000,000
	$4,500,000,000

Evidently, Point Four is attaining manhood!

Labor Shortage Ahead!

Calvin Bullock organization points out present conditions are more formidable than in 1940, because defense program is superimposed on already tight labor situation, and labor force is increasing less rapidly than population. Foresees more women in industry.

Under the caption "The Labor Force," the March 15 number of "Perspective," a house organ issued by Calvin Bullock, 1 Wall Street, New York 5, N. Y., analyzes the present labor situation. The study, which contains a number of pertinent statistical tabulations, notes that an increasing scarcity of labor as a whole, and shortages of skilled labor which may reach bottleneck proportions, confront the United States as it advances into the defense economy. As a result, nonessential civilian industries are certain to suffer losses of manpower eventually in the rearmament economy, the analysis declares.

Asserting the problem of a labor shortage "has received far less emphasis than it deserves," the analysis compares the currently available and potential labor force with that after the beginning of the second World War "When we were able to increase our output of butter at the same time that we produced guns." A reason for "the miracle of production attained in the last war" was that expansion of defense and civilian employment was then "relatively easy." It was "relatively easy," the study explains, because superimposition of a rearmament boom on top of peacetime production "was possible largely because we entered the war at a time when men and material resources were not fully utilized under peacetime conditions." For example, "unemployment averaged over 8 million in 1940, or 14.6% of the civilian labor force; in 1944 the number of persons employed in civilian and defense production had expanded by about 6½ million."

"Today the situation is different," the review says, for "unemployment in the last five months of 1950 averaged only slightly more than 3% of the civilian labor force."

To help meet the labor shortage three sources of manpower are available, the study says: (1) a reduction of perhaps 500,000 or more in unemployment, (2) the annual increase in population, and (3) an increase in the participation of the population in productive endeavors.

The major hope of "getting adequate additions to the labor force is by increased participation by women, and recent unofficial statistics suggest that an influx of female workers is already under way," according to the study.

The need is "greater now than ever before for intelligent mobilization plans to conserve manpower," the review states. "Furthermore, the need to encourage a greater participation in the labor force means additional pressures to provide incentives. During all-out war a sense of urgency and motives of patriotic self-sacrifice are of inestimable help in expanding participation rates. Under the present emergency reliance must be placed in large part on selfish monetary incentives. The inflationary implications are obvious."

"Not all the factors relating to labor supply are as discouraging as those that we have mentioned," the article states. "We do not suggest that an adequate rearmament and defense economy cannot be achieved. But the *urgency* of the problems that we face should be recognized."

"One source of additional manhours," the survey says, "is a lengthening of the work day and the work week. Average weekly hours in manufacturing, for example, increased from 38.1 in 1940 to a peak of 45.2 in 1944. Under peak peacetime prosperity in 1948 hours per week were only 40.1, although they have since climbed to about 41.6 at the beginning of 1951. Expanding man-hours as a means of solving labor shortages is essentially inflationary, both because of penalty rates for overtime and also because laborers probably do not contribute a proportionate increase in output during overtime. Organized labor, in insisting that straight time hourly rates must keep pace with the cost of living, provide assurance that lengthened hours will be inflationary. Another potential source of greater labor output is the normal increase in productivity per man-hour. We suggest that it might not be wise to count on this increase at a time when labor has reached a new peak in bargaining power based on scarcity, particularly during the period of shifting from peace to war production."

Chase, Meyer, Barnett NYSE Firm Forming

Chase, Meyer, Barnett & Co., members of the New York Stock Exchange, will be formed as of April 2 with offices at 120 Broadway. Partners will be Philip G. Volpe, who will acquire the Exchange membership of Charles K. Dickson, Michael Chase, Joseph H. Meyer, and Harold Barnett. Mr. Volpe is a partner in Bendix, Luitweiler & Co.

New McKelvy Partners

PITTSBURGH, Pa. — McKelvy & Company, Union Trust Building, members of the New York and Pittsburgh Stock Exchanges, will admit William S. McKelvy and Reginald R. Church to partnership on April 1st.

Joins Revel Miller

(Special to The Financial Chronicle)

LOS ANGELES, Calif. — John W. MacKusick has become associated with Revel Miller & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with Walston, Hoffman & Goodwin and Gross, Rogers & Co.

Morgan Co. Adds Two

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Walter Fruehling and Stanley G. Randall have become affiliated with Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Fruehling was formerly with Mitchum, Tully & Co. and Wagenseller & Durst, Inc.

Securities Salesman's Corner

By JOHN DUTTON

Very often we have opportunities for increasing our business, and for securing new customers, and we don't even realize that they exist. I had to wait almost 25 years to find out that "stock rights" could be anything but a nuisance for brokers and securities dealers. Possibly some one else may have thought of them otherwise, but it just never came to my mind that they might offer an opportunity for obtaining new customers. Here is an idea that worked:

The firm of Allen & Co. have an office in Orlando, Fla., under the direction and management of E. L. Kendrick. Several times in the past I have given you some of his ideas that have proven profitable, and here is another one. The advertisement reproduced in today's column gives you the whole story. Offer people service, show them an easy way to do something which they might otherwise wish some one would do for them; and make your offer friendly, courteous, and as short as possible. Here are some of the results of this advertisement.

One lady came into the office with a burned corner of a stock "right" in her hand. She said, "I don't know what I would have done if it hadn't been for your ad —I was ready to toss out the ashes from the fireplace, where I remembered I had thrown one of those certificates for some rights. I thought they were an advertisement. You know how these companies are doing now-a-days. They send you all kinds of printed papers through the mails. Then I remembered that possibly this was what you were advertising in the papers and I found this burned piece of paper. Could it be one of those rights?" Allen & Co. checked and found out that it was. They had the lady make out an affidavit, and they were able to sell them and present her with their check for the proceeds. I don't think this investor is going to forget them the next time she has a financial problem.

This advertisement is running every day in the local paper. People are writing to Allen & Co. and asking for a representative to call upon them. Others are telephoning and some are coming into their office. Offering a service such as this leads to friendly relationships and builds business. Possibly you can find an idea in it for your own organization?

STOCK RIGHTS

Soon to Expire

A. T. & T.
Armco Steel
Detroit Edison
Lorillard Co.
Pacific Gas & Elec.
West Penn Elec.

Some of these expire and will become worthless unless exercised or sold immediately. We shall be glad to assist in handling these rights without charge for our services. Call personally or telephone for information.

Allen & Company
Investment Securities
19 S. Court St.
Telephones 9876-9877

L. Clark Brown Is Partner in Rohrbaugh

WASHINGTON, D. C.—Austin B. Rohrbaugh, member of the Washington, D. C. Stock Exchange, has admitted L. Clark Brown to partnership in Rohrbaugh & Co., Union Trust Building. Mr. Brown was formerly a partner in Brown, Goodwyn & Olds and was an officer of the Union Trust Company.

Stephen Hopkins in N. Y.

Stephen W. Hopkins has opened offices at 527 Fifth Avenue, New York City, to engage in the securities business.

Hugh Scott in Knoxville

KNOXVILLE, Tenn.—Hugh Scott is conducting a securities business from offices at Fort Sanders Manor 1.

With Courts & Co.

(Special to THE FINANCIAL CHRONICLE)

GAINESVILLE, Ga. — William P. Whelchel, Jr. is now associated with Courts & Co.

Continued from page 13

Controls Under Inefficient And Inadequate Government

they can work happily and effectively. As the task of our government has enlarged so has its size. It has multiplied in numbers, cost and power. Has it increased proportionately in the wisdom and character of its leaders? Were our social gains of the 1930's, for example, accompanied by comparable improvements in standards of public propriety? Has the power, for example, which leaders of organized labor have gained since 1932 been balanced by an added sense of responsibility on their part for the welfare of **all** Americans? Indeed, does the American people any longer even expect to see Washington set an example of high-mindedness? Is our public now so inured to improprieties of public conduct that it is no longer offended by them? Are we, also, satisfied so long as our Congressmen or Federal officers do nothing actually illegal?

What About Future of Democratic Government?

This brings me to my final question:

What does the current state of affairs in Washington tell us about the future of democratic government? I do not even suggest the possibility of any political corruption. I do not even suggest that many of the reported improprieties have seemed improper to the men who so acted — though that makes them doubly frightening! After all, let us gladly recognize that Washington does contain many men exceptional in ability, vision and political integrity, with whom any man should be proud to associate.

A government in which even men of cabinet rank are advised to ingratiate themselves at regular intervals with certain members of the White House staff is an inefficient government.

A government in which thousands of Federal employees are strongly influenced by fear they will lose their jobs or their promotions if they offend the party political watchdogs in their department or agency is an inefficient government.

A government in which, in a declared emergency, top officials pursue various courses in matters of crucial financial, economic, labor and manpower policy is an inefficient government.

A government which leaders of business and professions hesitate to join, even in a national emergency, because of the frustrations, defeats, compromises and personal lacerations they know they must endure, is an inefficient government.

A government in which leading Senators and other public servants are obliged to spend much time, in a crucial year, investigating the propriety and even the integrity of other public servants is an inefficient government.

A government in which thousands of Federal employees have forgotten that the function of government is to serve the people is an inefficient government.

It is said that democratic government must be in some respects inefficient; that that is the price of democracy. But the inefficiencies I have described do not derive from democracy; are not inherent in its working or essential to its welfare.

So I conclude that a government so inefficient is inadequate to our times.

"Too mediocre to survive." Are we approaching that stage? There have always been some men of third-rate ability in our government, and our nation has survived them. But never, I suggest, have such third-rate standards and objectives flourished so openly or been more generally accepted and more loyally defended. This tolerance of the mediocre began long before the present Administration, and Mr. Truman thus inherited a downward trend in political morality. That trend would have been difficult to reverse. It was not reversed but augmented. The moral ground on which contemporary Washington now rests is so low that mists of contagion can rise quickly and spread far.

Surely our President fails to realize how many and how large are the spots on the fabric of his Federal mantle. If he did realize, surely he would act.

The Evils of Patronage

The heart of this contagion is patronage whenever and wherever it can be got away with. We cannot, of course, have democratic government without political parties, and political parties cannot live without patronage. But patronage has become not a means to life but an end in itself to a political machine which has been too long at the trough. That patronage has become an excuse for the creation of a government within a government.

Our official government is headed by an honest, well-intentioned, industrious and likeable President.

But there is a second government, nominally headed by the President but with activities of which he can be only vaguely aware. That government is largely unofficial in its standing, anonymous in its membership, undercover in its operations, undefined in its functions, and nebulous in its actual leadership, with few records, few scruples and little or no sense of public responsibility.

Nominally a creature of the Democratic National Committee, in practice it appears to include men not officially connected with that committee, who are primarily in pursuit of personal power or personal wealth. Perhaps no single person knows all that is said and done in the name of this nameless government, but let there be no doubt of its influence! There is perhaps no complete record of its membership or of its plans, its promises and its proscribed victims, but some of us soon learn to feel its power. I do not even hint at any illegality, for these are all, all honorable men. I merely suggest that this obscure and irresponsible power is a danger to the defense effort, and if long endured could become a menace to free government. The Fulbright Commission has come upon some revealing traces and some familiar names.

Such a situation could not exist unless the leaders of our government had become a little too tolerant of mediocre political ethics and a little too complacent about their own. How else can one explain an apparent willingness to be satisfied with public servants so long as their actions are not clearly illegal, and to be unconcerned about actions which, though legal, are highly improper?

These factors are not remote from my discussion of stabilizing our economy, for they are major hazards which our stabilizers must overcome. Sound economics and partisan politics simply do not mix. Even a Charles Wilson cannot successfullly organize our production and oversee our stabilization if he must also cope with an undercover government as well as a legally constituted one.

Only one man can repudiate and demolish this second and unofficial government. Only one man can raise the level of our political morality; only one man can drive the money - lenders from his own temple. That man is the President of the United States. If I do not misjudge the American people, they know the time has come for the President to undertake a major house-cleaning. They admire his loyalty to his supporters; they like his good nature. But he, who has himself declared a national emergency, must recognize this situation as one aspect of that national emergency. He must not let loyalty or good nature blind him to the fact that his loyalty is being imposed upon, his faith is being misplaced, his friendship is being betrayed by some whom he has thought to be his friends. They are no friends of his or of the nation. In their own ways they are saboteurs of our defense program.

Only the President can act now, and by his action lift his Administration from moral mediocrity. Only the President can act now. If he does not, the people can act later, if it is not too late.

Alfred McGowan With Pulis, Dowling Co.

Alfred J. McGowan

Alfred McGowan has become associated with the trading department of Pulis, Dowling & Co., 25 Broad Street, New York City. Mr. McGowan has recently been associated with Seligman, Lubetkin & Co.

Halsey, Stuart Group Offers Equip. Tr. Ctfs.

Halsey, Stuart & Co. Inc. and associates on March 16 offered $2,400,000 of Seaboard Air Line RR. 2¾% equipment trust certificates, series J, maturing semi-annually Oct. 1, 1951 to April 1, 1966, inclusive, at prices to yield from 2% to 2.90%, according to maturity.

The certificates are secured by new standard-gauge railroad equipment estimated to cost not less than $3,216,000.

Other members of the offering group are R. W. Pressprich & Co.; Freeman & Co., and McMaster Hutchinson & Co.

New York Stock Exchange Weekly Firm Changes

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

On March 29th the Exchange will consider the proposal that Thomas J. Brown act as alternate on the floor of the Exchange for Francis G. Lauro.

Interest of the late J. Bowling Bruns in Bruns, Nordeman & Co., ceased Feb. 28.

Leon G. Ruth retired from partnership in Doolittle & Co. March 1.

Arthur L. Niles

Arthur L. Niles, retired investment broker and for many years a member of the New York Stock Exchange, passed away at his home at the age of 81.

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Government Controls and The Business Outlook

tion with particular reference to the effects of government controls. First, I want to consider what's ahead in raw materials, capital, and manpower. Then I shall make a few remarks on the inflation problem. Finally, I will conclude with a note on business trends in 1951 and possible developments in the longer run.

Raw Materials

Everyone knows that there is a general shortage of raw materials throughout the world. In some cases, the shortage is merely uncomfortable; in other cases, it borders on the desperate. I believe tnat tnis general snortage of raw materials has been the single most important inflationary factor in the United States since the Korean War began.

Prices of raw materials were tending upward in 1950 even before Korea. After the outbreak of hostilities, these upward movements were intensified.

The Bureau of Labor Statistics spot index of market prices for 16 sensitive commodities rose by 11% within one month after Korea. The climb continued so that eight and one-half months after Korea the rise was almost 60%. Among specific commodities, cotton is up 35%, lead 50%, hides 50%, print cloth 55%, shellac 60%, cottonseed oil 70%, lard 70%, rosin 80%, wool-ops 105%, burlap 105%, silk 115%, rubber 150%, and tallow 205%. Tin is up about 75% now but only two weeks ago had been up 140% over last June.

These are dramatic price increases. Most commodities moved very much slower. The BLS all-commodity index has gone up about 17% in the eight and one-half months since the Korean War began, and the Consumers Price Index has gone up about 7%.

Throughout the economic structure shortages and fears of shortages have been the most important economic fact of life in the last nine months. These fears have been largely stimulated by expectations with regard to the defense program but they were also made more serious by the fact that there has been a long-run tendency for raw material capacity to lag behind finished goods capacity.

In some cases, we have not increased our raw material facilities from the peaks reached back in the 1920's. This is true of some of the nonferrous metals, notably copper, lead, and zinc. In others we have increased capacity in recent years but not enough to satisfy demands. Steel capacity, for example, has been enlarged more that one-quarter since 1940, but manufacturing output as a whole has almost doubled during this period. Aluminum capacity has been multiplied fourfold in the last decade, but civilian use of aluminum is being cut back one-third because of inadequate supplies. As you know, there are also some severe shortages in the case of certain industrial chemicals even though as a whole industrial chemical capacity has tripled in the last decade.

With this general background of tight raw material supplies it was no wonder that the new defense program contributed to such dramatic price rises in raw materials. There was not only the business demand for commodities but the government itself further compounded the problem by its ambitious stockpiling programs.

In this situation, I believe that the government has three major functions in the field of raw materials: The first function is to take every possible means to enlarge available supplies. The second is to undertake a continuous review of the military program and stockpiling programs to make them fit the realities of the supply situation. The third function is to allocate the remaining limited supplies to civilian users on some sensible basis.

To increase supplies, production facilities must be made larger and imports must be expanded if possible. How can the government help? One approach is to provide for subsidy payments through higher prices by government purchase contracts to encourage marginal producers. This is being done today and probably will be expanded.

Another important way to encourage output of raw materials is to ease the tax laws in certain areas. The outstanding effort in this respect is the use of certificates of necessity to give more rapid depreciation to approved projects. This is a very important method of helping industry to expand. Not only is there a sizable tax saving, but a supply of tax-free dollars is made available for various corporate capital purposes. With the 47% corporate tax rate, depreciation dollars are equivalent to $1.89 as compared with the $1.00 which comes on through the undistributed profits account after taxes. With the 77% excess profits tax rate, depreciation dollars are equivalent to $4.34 as compared with the $1.00 after tax.

Accelerated amortization may be a very helpful thing to many companies, but it is not an unqualified blessing, however. Every company should remember that accelerated depreciation creates what might be described as a tax debt for the future. The greater the depreciation now, the smaller it must be later on even though tax rates will presumably be lower after the emergency period.

Coming back now to the role of government in the field of materials, I have discussed the first part of the three-way role—i. e., the enlargement of available supplies. The second part of the government's role is to assure that the military program and stockpiling programs are appropriate to the whole supply situation. It goes without saying that essential needs should be met first and I am not suggesting in any way that they be sidetracked. It does seem though that there must be degrees of urgency even in this area. The various essential requirements ought to be catalogued by degree of urgency and with an eye to statistics on total supply, requirements of our allies, civilian requirements, price movements, and other factors. Perhaps the less urgent of the essential needs could be postponed at times and stockpiling programs could be made very flexible. As one example, it made a great deal of sense when the government stopped stockpiling tin after the price had gone altogether too high.

The third part of the government's role in raw materials concerns the allocation of supplies which are left after essential needs are met. If supplies cannot be increased enough to take care of all requirements, then the problem is to allocate them where they will do the most good. This includes outright prohibition on certain end-uses, and percentage cut-back limitations geared to some base period. These actions may be helped considerably by selective credit controls designed to restrain spending in important areas.

At this point I would like to turn for a moment to the problems of small business. The Defense Production Act of 1950 says that "It is the sense of the Congress that small business enterprises be encouraged to make the greatest possible contribution toward achieving the objectives of this Act." In the case of materials in short supply, the President is directed by the Act to see that a fair share is made available to all segments of business and with due regard to the needs of new business. My impression is that these directives are high in the considerations of the government people making decisions regarding direct controls over materials.

It is impossible to do the job of allocating scarce goods to the satisfaction of all of the people concerned. It is simply a question of trying to do it with the least amount of criticism, knowing full well that the greater the lengths that are taken to achieve fairness, the more cumbersome the machinery becomes. The people in this government work have to develop thick skins. Those of us on the outside should try to see all the sides to their problems before indulging in Bronx cheers.

The problem of raw material shortages is likely to be with us for some time, although it may turn out that the next year or so will be the year of the worst pinch. The pinch has been surprisingly slow in coming largely because we were living off accumulated stocks to a considerable extent. Now we must learn to live within our current production and imports. A year from now our resources will be greater and some large increases in capacity of raw materials will be in sight. I am generalizing here, and there are bound to be exceptions. However, I would like to stress the thought that a year from now we may have passed the greatest squeeze on raw materials—always assuming, of course, that no full-scale war breaks out.

Capital

Now let me turn to the matter of capital. Business investment in plant and equipment will probably hit a new high this year under the national policy of encouraging expansion of productive facilities. Some non-essential business plans will not be carried through, however, because of the needs of the defense program.

Business projects for the time being will generally have to meet the test of whether they: (a) contribute to the defense program, or (b) contribute significantly to the output of basic necessities, including, of course, the all-important industrial raw materials. If they do not meet these tests, projects for business investment in plant and equiment will generally not be permitted to be undertaken. Many such projects are now in process and when these are completed I expect to see total business investment show a declining tendency from the earlier peak levels.

Now we come to the question of whether business will have the financial resources to do the job required in this emergency period. The answer to this question involves a great many factors in-

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Government Controls and The Business Outlook

cluding corporate profits, corporation taxation, and government policies on several matters.

Generally speaking, corporate capital problems are not likely to be severe in the present emergency period. There will be cases of great difficulty, I am sure, but these will represent exceptions rather than the rule.

Direct controls should hold down capital spending to necessary projects, and thereby make it easier to obtain capital where actually required. That is to say, the elimination of non-essential projects should clear the field for the necessary projects.

The government will also affect business finance directly in a great many ways, such as: (1) government purchase contracts to buy the total output of a new or expanded plant, (2) prepayments on government contracts, (3) direct government financing, (4) government guarantee of loans, (5) renegotiation of profits, (6) certificates of necessity, and (7) new corporate taxation. These are complicated matters and it is going to take time before they are all worked out.

On the whole, government attitude is likely to be cooperative. Small business particularly is to be encouraged and competition is to be promoted as much as possible. I believe that businessmen should think through their problems and raise questions early in the game. Government officials are glad to know what these problems are so that they can work toward early solutions. The presence here this afternoon of top government administrators illustrates the willingness to cooperate with businessmen to solve mutual problems.

Corporations are probably going to be able to finance a large part of their outlays from internal operating funds, including both undistributed profits and current depreciation allowances. Last year these sources provided about two-thirds of the total corporate requirements for funds. That is, in 1950 corporations required about $28 billion to cover their expenditures on plant and equipment, increases in inventories, and growth of receivables (exclusive of additions to inter-corporate receivables, cash and government security holdings). To finance these requirements undistributed profits provided $13 billion and current depreciation allowances provided $7 billion, making $20 billion in all from internal operating sources. My estimates indicate that in 1951 these internal funds will probably provide better than two-thirds of corporate requirements for funds.

Now as to external sources of funds for business, we run into the question of government credit policies. A new voluntary program to restrain lending by the various classes of lenders is just getting under way. This is designed to facilitate credit for desirable purposes and to restrict it for unnecessary and speculative purposes.

The Treasury and the Federal Reserve System have also come to some agreement regarding the conflict between public debt management and monetary controls. The agreement is designed to give the Federal Reserve more control over interest rates and bank reserves.

Even so, I do not believe that business will have serious difficulty getting the external funds which it needs in this period.

The insurance companies will have about $4 billion of new assets to invest each year plus another $2 billion from the amortization of mortgages and other loans. Beyond this they may provide further credits through the liquidation of government securities. In addition, the banks will provide credit to legitimate borrowers and have ample resources to do so, even if bank lending is tightened in various ways.

Businessmen are bound to have mixed feelings about credit controls. They want them to be effective in the interests of controlling inflationary pressures. They are fearful that they will be too effective, however, and prevent the proper credit from being available to them. On balance, I think that you will find the credit supply will be adequate for the needs of business.

Manpower

Next we come to manpower, which represents a potentially serious bottleneck. Government programs to direct the use of manpower to some extent will emerge as time passes, but right now these are embroiled in the fight between organized labor and the Office of Defense Mobilization.

We have been setting new records in the number of people employed and the 59 million figure for February of this year was the highest February employment ever reached. Unemployment in February stood at just under 2½ million.

We know that many more people are going to be needed for the military services and for military production. The President's last economic report said that, in round numbers, perhaps 5 million more people will be needed for these purposes by the end of this year. The normal annual growth in the labor force of about 700,000 and some reduction in unemployment will meet part of these needs. Also some part-time workers can be shifted to full-time jobs.

The labor force, of course, will also be increased as more women go into the factories and some older persons come out of retirement to work. At present, only about 32% of all women over 14 and 83% of all men over 14 are in the labor force. These figures compare with 37% and 89% at the peak of World War II. We could increase our labor force by a theoretical 5-6 million persons by applying the peak wartime rates to the February figures.

This is not likely to actually work out, however, unless we are engaged in a full-scale war. Perhaps 2 to 3 million is a reasonable estimate of the probable increase in the labor force this year under present circumstances.

There will therefore have to be extensive shifts out of some less essential jobs to meet manpower requirements. This should not be too difficult, speaking in general terms, because many of the non-manufacturing industries have increased their employment tremendously in recent years and presumably would not be pinched too greatly if there were some reverse shifts. The number of workers in construction, for example, is 1¼ million higher than five years ago. As construction is now cut back, many workers will be made available. Similarly, there are now about 10 million persons engaged in trade compared with 8 million five years ago. Some reductions ought to be possible in this area without too much disruption.

The small companies can be great reservoirs of manpower taken as a group, particularly if they try to tap the great crowd of people who are available for part-time work rather than full-time jobs. Millions of housewives with children in school can do part-time work, and especially with the smaller companies which can tap the local neighborhoods effectively.

On the whole, I do not view the manpower bottleneck with the same degree of seriousness as the raw materials bottleneck. We have far more leeway in drawing on people than we have in drawing on short supplies of raw materials. We shall probably find that the labor supply is fairly adequate for our needs, short of full-scale war in which the pinch would again be extreme. Perhaps the worst pinch in the manpower situation will be in certain classes of skilled labor.

I also want to mention here the matter of increasing the work-week. It should certainly be possible to increase the work-week further in some of the industries which are pinched. Some industries worked as much as 50 hours a week at the peak during the war and I think that a few hours more now would be both feasible and very helpful. It also seems to me that it would be desirable to change the law requiring premium pay after 40 hours of work. That was a depression idea which is not consistent with today's inflationary environment.

Inflation Problem

Now let us turn to a brief review of the nature of the inflation problem. Everyone seems to have his own idea about what caused prices to rise in this country in the postwar period, and particularly since the outbreak of war in Korea. Obviously, there are a great many factors involved, both governmental and private, so generalizations are dangerous.

I would like to give you a list of ten important inflationary factors for the last five years just to show the variety:

(1) The various "rounds" of increases in wage rates which took place with the blessing of the government.

(2) Agricultural support programs.

(3) The housing program of the government with mortgage guarantees and subsidies, and public works generally.

(4) Foreign aid programs involving buying in this country.

(5) Government payments to veterans.

(6) Postwar "catching up" by consumers.

(7) The record expansion programs of business.

(8) State and local government spending in excess of taxes—although this was more than balanced by a Federal cash surplus of $13 billion in the last five calendar years.

(9) Wartime growth of public debt leaving individuals and businesses with more liquid assets than ever before.

(10) Active loan expansion by banks, insurance companies, and other lenders.

Then after the Korean War began, still another new and vital factor was added, namely, the severe shortage of raw materials which I mentioned earlier. Naturally the sharp price increases in raw materials caused much apprehension since the dollar had already lost a great amount of purchasing power earlier. Some people have been blaming the whole inflation on an "excessive" money supply and an "unnecessary" expansion of bank loans. It has even been said that practically all of the price increases since Korea could have been stopped by "adequate" monetary action. This I doubt very much. Indeed, I believe that these price increases would have occurred to a very large extent even if bank credit had not increased during the period.

American business has tremendous internal financial resources and, as I noted earlier, approximately two-thirds of total corporate requirements for funds last year were met from internal operating sources. The remainder was covered by financial sources, such as new issues of securities, mortgages, bank loans, etc. Only $2½ billion of the total came from expansion of commercial and industrial loans made by banks.

In addition, corporations held an unprecedented amount of cash and government securities, aggregating, as of June 30, 1950, about $44 billion. These funds could have been used for corporate spending even if bank loans had not been available.

In the present situation, shortages of raw materials continue to represent one of our most important inflationary factors. The government's program to increase the supply of raw materials is a vital approach to controlling inflationary forces. While this will necessarily be a slow acting program, it should be pushed to the utmost. Meanwhile, prices of raw materials need not continue to skyrocket if the government uses physical controls to keep demand in line with supply. The proper allocation of materials in short supply can be coupled with prohibitions on end use and other restraints regarding the use of industrial raw materials for non-essential purposes to hold demand within the limits of supply.

Conclusion

In closing I would like to make a few comments on the business situation as a whole in 1951 and possible trends thereafter. The year 1951 is going to be a year of transition. The military program is inexorably growing day by day and month by month. Military spending will more than double during the year, reaching an annual rate of something in the neighborhood of $45 or $50 billion by the end of 1951.

Up to now cut-backs in civilian production have been less harsh than many people expected. The warehouses are bulging with inventories in many lines. Some people are beginning to talk about an impending weakness in the business picture because of excessive inventories. For my part, I would discount these difficulties. This is the lull before the storm. By the third quarter of this year military contracts will be flowing at an accelerated pace, and civilian cut-backs will become painfully larger. I believe that the talk of inventory weakness will quickly fade.

There are also some worries today that the transition from civilian production to a higher military program will bring with it heavy spot unemployment and local business weakness. These difficulties too are probably being exaggerated.

By the end of the year the Federal Government in the aggregate will be taking about one-sixth of our total national product (as compared with one-tenth at the beginning of the year). Compare this with World War II when the Federal Government took almost half of total production. This is a real difference in degree, which suggests that this country can carry the present program without very much dislocation.

Now let's look beyond 1951. If we can avoid all-out war, and I think our present programs are in the right direction to accomplish this, then we may have to look forward to a military program of $50 to $60 billion a year for several years. Meanwhile, our productive capacity will continue to grow for we have an enormous facility for economic growth. Our technical "know-how" all along the line is so great that we can improve and enlarge our capacity in a most remarkable way. As we grow we can carry a large military program with less and less strain. Some of the controls can be dropped from time to time. The burden of taxes can be lessened as production and national income rise.

There is a tendency these days to assume that the inflation problem will go on and on forever. I am quite optimistic on this matter. Our productive machine is likely to provide the answer to the inflation problem as time passes. We shall probably be able to carry along with whatever military program is necessary and without indefinite inflationary pressures once we get over the hump in 1951.

Moreover, as we build up our military and productive strength, we may also be able to let the military program taper off. I wouldn't want to relax our awareness of the Russian problem for one minute, but I think our confidence is bound to grow importantly. I am hopeful that we have already passed the darkest moments of the Russian threat. Even if I am wrong, I reiterate that we can carry a large military program with less and less strain as time passes.

Olaf Fennekohl Opens

Olaf Fennekohl is engaging in a securities business from offices at 215 East 86th Street, New York City.

H. O. Hartley Opens

CALDWELL, IDAHO—Hardy O. Hartley is conducting a securities business from offices at 1023 Cleveland Boulevard.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

Security Traders Association of New York (STANY) Bowling League standings as of March 16 are as follows:

TEAM—	Won	Lost
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	11	7
Burian (Capt.), Manson, King, Voccoli, G. Montanyne	11	7
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	10	8
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	10	8
Danadio (Capt.), Demaye, O'Connor, Whiting, Workmeister	10	8
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	10	8
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	9	9
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	8	10
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	8	10
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	7	11
Serlen (Capt.), Gersten, Gold, Krumholz, Young	7	11
Krisam (Capt.), Bradley, Montanyne, Weissman, Gannon	6	12

Abe Strauss, (Strauss Bros.) had high game of 202.

High series of 576 went to George Leone (Leone & Pollack).

Business Man's Bookshelf

Business Statistics — John R. Riggleman and Ira N. Frisbee—McGraw-Hill Book Company, Inc., 330 West 42nd Street, New York 18, N. Y.—cloth—$5.50.

Charity: Biblical and Political—Russell J. Clinchy—The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—Paper — Single copies free of charge; quantity prices on request.

Cumulative Voting for Directors—Charles M. Williams—Harvard Business School, Soldiers Field, Boston 63, Mass.—Cloth—$3.00.

Farmand—Jubilee issue of the oldest business journal in Scandinavia—Special international section—"Farmand," Oslo, Norway.

Internal Financial Stability in Member Countries — Organization for European Economic Cooperation—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$1.50.

Investment & Speculation in Convertible Bonds & Preferreds—Sidney Fried—R. H. M. Associates, Dept. C, 220 Fifth Avenue, New York 1, N. Y.—$2.00 (or free descriptive folder on request).

Navy and the Industrial Mobilization in World War II, The—Robert H. Connery, Princeton University Press, Princeton, N. J.—Cloth—$6.00.

PDQ Dividend Indicator—3x5 pocket chart prefiguring returns on dividend paying stocks—$1.00—Thomas Pub. Co., Box 190, Batavia, N. Y.

Planning for Profits in the Stock Market — Discusses three basic principles of correct investment procedure and outlines specific plan of action for applying these to individual investment programs on a week-to-week basis—included with each copy is a current basic strength analysis of 440 leading stocks and 43 groups, primary trend graph, showing present actual trend of the market, and a complete analysis of the market's technical position — $1.00 — Dept. 4-A, Investors Research Company, Mihran Building, Santa Barbara, Calif.

Rates of Return Class I Line-Haul Railways of the United States 1921-1948—An Analysis and Appraisal Embodying a Comparison With Other Industries Regulated and Unregulated—Sidney L. Miller, Virgil D. Cover and Others—University of Pittsburgh Press, Pittsburgh, Pa.—Cloth.

"Security Dealers of North America"—1951 edition of complete directory of stock and bond houses in the United States and Canada — Fabrikoid — Herbert D. Seibert & Co., Inc., 25 Park Place, New York 7, N. Y.—$10.00.

Toward Worker Security: The Role of Management—Chamber of Commerce of the United States, Washington 6, D. C.—Paper—25c.

Transportation Industries, The—1889-1946—A Study of Output, Employment and Productivity—Harold Barger—National Bureau of Economic Research, Inc., 1819 Broadway, New York 23, N. Y.—Cloth—$4.00.

UN Statistical Yearbook 1949-1950—(1950 XVII 3) — Columbia University Press, 2960 Broadway, New York 27, N. Y.—Cloth—$6.00.

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Inflation and Price Controls In a War-Peace Economy

price schedules for more and more important industry lines, some "rollbacks" and "rollforwards."

Some "Rollbacks" — The new "margin ceiling" for retailers contains an implied threat of a rollback for large-scale retailers:

Those department and chain stores which use the "inventory system of accounting"—and these are only the very large ones—have to hand over to the local OPS office their "markups" for one year before Korea and then after it, while the small store does so only for one day, Feb. 24, 1951. The big corporation has to mark every commodity on which it exceeded the percentage markups since June 24 and has to "explain" this. Subsequent action by OPS may or may not follow.

Now the OPS announces that **most manufacturers** will be requested to roll their prices back to pre-Korean levels plus costs for direct materials and direct labor (Manufacturers' Margin Ceiling).

This may bring about inequities where overhead costs and those for indirect labor have risen. In cases in which this new margin figuring might increase the present ceiling price, the OPS proposes that no such increase may exceed 10% of the highest pre-Korean price or 5% of the "base period" ceiling price. But there is no doubt that relief will be given where necessary. At the end of the old OPA many times 10,000 firms had received relief. This would bring us, in more and more areas, to a **"cost-plus economy"** sooner or later to be followed by a **"relief economy."**

Some "Rollforwards"—Two elements may roll the official prices forward: **Farm prices** which have not yet reached the "parity" level can continue to move upward. The effect of this should, however, not be over-estimated. If all farm prices were to reach parity, it would mean an increase at the farm level of 5%; at the retail counter of 2½ to 3%; in the cost of living of 1%.

The other element that may help roll prices forward is **wages.** The wage regulations issued so far have been a great disappointment to the rank and file of labor. Wages were at first frozen as of Jan. 26, 1951—the general increase of wages since Korea has certainly been smaller than that of the price level. The concessions which followed in February—the new "little steel" formula — allowed for a 10% wage increase over the level of January, 1950 and left untouched "fringe" benefits (health, welfare and pension plans) and, up to June 30, 1951, already existing "escalator" and "productivity" clauses.

Labor is greatly dissatisfied. The union leaders withdrew their members from the Wage Stabilization Board. This has been called a "labor revolt." But it will pass.

The result will be some more concessions as to the wage level. I would estimate that coming concessions for ironing out "inequities," etc. may add another 5% or so to the wage level.

The impact on the price level should not be overrated. In American manufacturing industries as a whole, wages account for one-fourth to one-fifth of total costs.

So, in spite of further increases to be expected in farm prices and wages, the hopes of our Price Stabilizers, Johnston and DiSalle, may not be unfounded. We may indeed reach a state of quasi-stability by summer 1951.

The Peace Scare

The happier turn of events in Korea and the more hopeful views on Europe have brought some commodity prices down. The "peace scare" may well slow down the expansion of our civilian economy. If, at the same time, defense orders will gain momentum, this will take up some civilian slack, if no new war scare or "excise tax scare" should threaten.

Then, indeed, we might have a temporary **"near-stabilization,"** a **"plateau" of price and wage movement, by summer.**

Business as well as the Administration must at the same time envisage two different kinds of emergency:

The one — if we should be plunged into World War III—would bring a mobilization of perhaps 14 million persons, annual war costs of perhaps $150 billion in present purchasing power, cutbacks in civilian consumption by perhaps 16-20%, a work-week of 48 hours and manpower regulation.

The other—the Charles Wilson Plan of a "plateau of preparedness"—might mean an expenditure of $150 billion in two to three years and then a relative standstill, a "plateau" from which to develop again the vigorous progress of our civilian economy.

IV
Controls and the Businessman

During the last war controls killed neither enterprise nor profits. As a matter of fact, the number of failures in business concerns declined from about 11,000 in 1936-39 and 1941 to a mere 810 in 1945; while profits before taxes nearly trebled between 1939 and 1945 and, even after deduction of heavy wartime taxation, were twice as high in 1945 as in 1939.

Controls do, however, introduce new rules and devices in business, such as:

In addition to—and sometimes, instead of—studying the markets, you will have to **study the new authorities, their way of thinking and acting.**

Market thinking is partly replaced by cost-plus thinking, the more so if the new "back to pre-Korea" policy of the OPS should assume real importance.

Commodity hedging and other uses of the free market are partly replaced by quota systems and by government guarantees for yourselves and also for your subcontractors.

Credit controls are bound to be tightened, probably not so much installment sales but more so for loans by banks and financing institutions.

Therefore, **keep your credit lines alive;** advise your clients and other business friends to do the same. Defense work will be given special financing facilities and also easier depreciation terms, as was done in the last war.

For price and wage controls: Prepare all materials for the coming "cost-plus" thinking (and also, when needed, for relief claims).

Prepare labor-saving devices, reduction of the number of patterns, replacement of scarce materials and—rather important—good labor relations.

In all areas of strategic and other scarce raw materials, business management has already changed fundamentally (and this will not be affected by a peace scare). Buying is becoming much more difficult and much more important than selling. The **purchasing end is now getting high priority** over the otherwise all-overruling sales organization.

Importers, who are often badly needed for scarce materials, have been **too long left in the dark** as to the ultimate form of price regulations which will govern them. In the meantime, highly desirable strategic commodities in foreign countries are being bought up by eager purchasers and are disappearing behind the Iron Curtain. There has been some discussion about the advisability of setting up international government purchasing cartels, but nothing has come of it up to now.

V
Can We Indeed Stabilize the Dollar?

This is ultimately a question of the real will of the nation. It is not a question of the form of controls.

I have my doubts whether we have in the United States today a majority willing to stop the play with the dollar, or whether we have not perhaps a majority who would rather have a continuing "mild inflation" of the sort Mr. Keyserling has been engineering.

Up to now, more and more groups have tried to protect themselves against loss through shrinking purchasing power:

The farmer by his "parity."

The worker by cost-of-living (escalator) and productivity clauses in his wage contract.

The owner of real estate mortgages and the great mass of other debtors.

All these will, during inflationary times, maintain their security at the expense of those who own a dollar, those who have saved a dollar, those who must live on fixed incomes or yields of bonds and mortgages, and those who depend on life insurance to protect themselves and their families.

Once in an international committee I was asked: At what point in the depreciation of a currency do people begin to understand that it is no longer a question of rising prices, but of shrinking money values. My answer was: When a currency falls to or below half of its original gold value. Then this rule holds good: The shrewdest among the young people become inflation-minded. The younger they are, the quicker this happens. The older people hate to see the work of their lives dwindling into the hands of inflation-profiteers who see that a monkey business is going on which is making the purchasing power of every dollar honestly earned and saved disappear.

The greater the weight pulled by the older age groups in our country, the greater will be the resistance against the "easy way out" for every administration to make more employment by robbing a part of the population.

As soon as an active majority of our people really wills it, we will achieve stabilization.

Rutter & Co. to Admit

Rutter & Co., 20 Exchange Place, New York City, members of the New York Stock Exchange, will admit to partnership April 2nd Halsey S. Downer, Joseph C. Rutter, Richard Wallower and Carl J. Muller. All have been associated with the firm for some time.

With Bosworth, Sullivan

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — J. Wallace Coxhead, Jr., has become associated with Bosworth, Sullivan & Co., 660 Seventeenth Street.

Continued from page 3

Inflation Impact Ended On Stock Market

ment effort. This assurance carried with it the promise that the economy of the country would have the benefit of rather sharply increased expenditures for arms which would go a long way towards cushioning the anticipated decline in production for civilian use. From that time, the principal question with respect to the business outlook, the inflationary trend, and the international prospect as well, has been whether the aggression in Korea would spread and involve us in a major war. Following the breakout from the Pusan perimeter and, indeed, until late November, there appeared to be a good chance that the conflict would be minor and localized. Under such circumstances, there was some reason to believe that the economy of this country would not be too severely dislocated and that we could plan on having both "guns and butter." In other words, the armament effort, as envisaged in the minds of most people, was not to be of major proportions but would be sizable enough to underwrite a continuation of the industrial and business boom. The investing public in general appeared to look upon the Korean development as one of a series of police actions into which our commitments all over the world might lead us, a condition which would not call upon all of our resources, would not hurt us very badly, would not call for an excess profits tax, for price controls, or the other inconvenient impedimenta of a full scale war. Inferentially, there would be moderate Federal deficits, upward pressure upon commodity prices and a continuation of the atmosphere of the "sellers markets" with its companion piece—rich corporation earnings and liberal dividends. Part of the uncertainty regarding the extent of our active military involvement has been resolved in an unpleasant way by the entry of Red China into the Korean War. We now know that our rearmament effort will be on a much larger and much more accelerated scale than we originally thought. Our losses have been rather heavy in men and material. An excess profits tax law has been put on the books. Credit restraints have been imposed and more are in prospect. Price controls have been put in effect and a controlled materials plan regulating the flow of critical materials is on its way. In spite of these developments, the investing public has maintained the same confident and enthusiastic attitude toward the stock market that it had last autumn. A moderate amount of inflation is an exceedingly pleasant thing.

Impact of Scare Buying

The Korean incident re-kindled the manufacturer's demand for raw materials and the consumer's appetite for durable goods. During July and August, there was spirited bidding for commodities by industry and feverish buying of household equipment, automobiles, etc., by individuals against the possibility of later shortages. The buying fever quited down in the autumn months but broke out again when the Chinese entered the conflict. Retail sales of all types of equipment and merchandise are now at levels never before witnessed. This avid anticipatory demand on the part of the public quickly translated itself into demand at the wholesale and manufacturing levels. Commodity prices spurted under the impact of consumer buying to get "under the wire," government buying to build stockpiles and manufacturers and merchant demand to build inventories. Bank credit rose alarmingly, wage demands increased and the public became increasingly aware of the mounting spec er of inflation which they in large part were and are doing their best to create.

There can be little doubt that the psychology of inflation—which means different things to many different people—has played a major part in price movements of stocks, commodities and real property in recent months. Upon the record, there can be some question as to whether, in the minds of many people, high profits, high wages and dividends are not synonymous with inflation. Also, there is considerable evidence to suggest that fear of inflation may have obscured a sense of values with many people. They have been so concerned with the fact itself that they have not asked the questions of how much, when, what kind, and how permanent. In any event, the following table of figures provides some groundwork for the measurement of our present economic position against that of a year ago and that of the weeks preceding the Korean outbreak. It also affords some basis for conjecture as to what lies ahead for the economy by way of industrial activity, business profits, commodity prices, etc. Such estimates can be made, of course, only on the following premises:

(1) That we will not become engaged in an all-out war during the next two years.

(2) That existing serious differences with the Soviet and satellites will not be settled by peaceful means involving a suspension of re-armament activity.

Trends in National Economy

	1-1-50	6-1-50	2-1-51 or latest	% change from 6-1-50
FRB Index Ind. Prod. adj.	180	195	220	+13.0%
Durable	203	231	268	+17.0%
Non-Durable	176	181	195	+ 7.7%
Dept. Store Sales Index	293	296	360	+21.6%
Mfg. Sales (Mils. of $)	16,083	18,649	21,809	+17.0%
Mfgr. New Orders (Mils. of $)	16,009	19,097	23,515	+23.0%
All Inventories (Mils. of $)	49,588	51,186	59,119	+15.5%
Money Supply (Mils. of $)—				
Currency plus Deposits	173,030	172,400	180,000	+ 4.4%
Commercial Loans (101 banks)	13,904	13,359	18,120	+36.0%
Mortgage Credit (101 banks)	4,342	4,595	5,280	+14.9%
Instalment Credit	10,890	11,667	13,478	+15.5%
¶Treasury Cash Receipts & Expenditures—				
Receipts (Mils. of $)	*8,975	†21,551	‡16,412	
Expenditures (Mils. of $)	*9,960	†21.865	‡16,101	
Commodity Prices—				
Spot Commodity (Moody)	346.7	390.9	533.5	+36.0%
Farm Prod. 1910-14=100	233	247	286	+15.7%
Wholesale 1926=100	151.2	155.9	182.2	+16.9%
Retail 1935-39=100	184.4	185.7	198.4	+ 6.8%
Average Weekly Wage in $—				
Factory Employees	56.04	57.54	64.15	+11.7%
Cost of Living Index—				
BLS Consumers Prices	165.3	170.2	178.4	+ 4.8%
Dow Jones Averages—				
Industrials	200.20	223.46	255.10	+14.0%
Rails	54.31	54.72	88.65	+62.0%
Moody's Yields—				
AA Bonds	2.57%	2.61%	2.66%	
200 Stocks	6.28%	6.17%	6.32%	

All figures not indicated otherwise are from U. S. Dept. of Commerce Survey of Current Business.
¶Source: Federal Reserve Bulletin. *3 months. †6 months. ‡5 months.

Post-Korea Economic Trends

The figures in the accompanying table show that from the high production levels of last June (not far below the all-time peak of late 1948), the production of goods in this country has expanded by 13% to a new all-time high. Sales have also risen to surpass all previous records. Despite this, the figures show that there has been an addition to business inventories amounting to well over $7 billion in seven months. By any standards other than those current, an inventory level of nearly $60 billion value would be considered burdensome. In other words, the economy has produced during the last few months considerably more goods than it has consumed.

At the same time, the records show that the terrific rise in sales at production and distributing levels has been made possible only by heavy drafts upon the savings of the past, a complete utilization of current personal income and extensive borrowing against the future. The velocity of money turnover has risen by 25%. Commercial bank loans have expanded since last June by 36% and the increase is at a dollar figure closely approximating the rise in inventories. The ratio of loans to the dollar value of all goods and services produced by our economy is the highest since 1921. Instalment credit has also risen by over 15% during the period and mortgage credit has gained by 14%. Savings deposits, according to Federal Reserve figures, have shown a net decline of over $1 billion since last June and the cash-in of savings bonds has exceeded sales. Beyond this, the Federal Reserve figures measuring liquid savings by individuals from current income have slanted sharply downward in recent months and have reached the vanishing point—and this is in the face of a sharp rise in personal income as a result of higher wages, etc. The inference, from a credit standpoint, is that the current rate of spending by the individual citizen represents an approximate maximum. The fact that the percentage of gross national product represented by personal spending for durable goods has been at a 12% level vs. a normal expectancy of about 8% suggests strongly that individuals have bought well ahead of their requirements in anticipation of higher prices or shortages or both. Such condi ions carry the implication that at a future date there will be a period when personal earnings are diverted into the reduction of debt to the detriment of general trade. At least, this has always been the case.

The figures of government income and spending show that, during this period of unprecedented sales and activity, the government cash income has actually been slightly in excess of its spending. Furthermore, on balance, there has been no resort to borrowing. Therefore, the rise in sales to date can be charged wholly against non-government participation in the markets. However, although government spending has not been a direct factor in the increased demand for goods, the knowledge that huge expenditures are contemplated has led to inventory accumulation and forward buying by all.

Reaction of Commodity Markets

The impact of this concentrated wave of buying upon the sensitive commodity markets has been severe. As shown in the table, Moody's Index of Spot Commodity Prices has advanced 36% since last June. This extraordinary advance reflects the wild scramble by speculators and industrialists for raw materials. This Index contains a good many commodities which do not figure importantly in living costs. Some of them are regarded as critical materials in the war effort. The Wholesale Price Index has shown an advance of about 16.9%, whereas retail prices have advanced by only 6.8%. The cost of living, as measured by the Bureau of Labor Statistics, has increased by approximately 4.8%. Although there is a fair chance that numerous commodities may recede from present fantastic levels, some of the increases in basic commodity prices must eventually work their way through to the finished goods price structure. It is apparent that there will have to be some further rise in living costs and retail prices before a stabilization area is achieved. On this count, one is tempted to go along with the estimate of the Price Stabilization chief—that living costs may rise by another 5%. The imposition of price controls and the allocation of materials into armament manufacture will serve to restrain the pressure upon prices but cannot be expected to stifle them entirely. However, there is, as a result of these strictures, bound to be some squeeze on individual and business profits.

Current Economic Premises

It is probably a mistake to attempt to draw hard and fast conclusions from such a set of facts, fancies and emotions as currently prevail on the economic, political and international scene. One suspects that some of the convictions held widely now have been arrived at because they provide a comforting answer. They have been based consciously or unconsciously on some or all of the following premises:

(1) That ours is a spendthrift Administration with little regard for budget balance and a record of inflationary policies.

(2) That it has no stomach for tax increases.

(3) That these attitudes will continue.

(4) That wars are inflationary because (a) manufacture of armament creates an unbalance between supply of goods and (public) purchasing power, known as the inflationary gap, in o.her words, a shortage of goods; and (b) they call for deficit financing, resulting in permanent expansion of the money supply.

(5) That ownership of property and common stocks affords protection for capital against the declining value of money.

(6) That earnings and dividends from property or equities rise as the dollar declines and protect the purchasing power of one's income.

Offsetting Principles

These beliefs are all relatively well-founded in experience but they require clarification:

(1) The Administration's attitude on fiscal matters has probably not been based upon a love of inflation so much as a dread of deflation.

(2) Although an inflationary policy finds favor with the public after a prolonged period of depression or deflation, its continuation after years of price rises and dollar cheapening does not please the electorate. Congressional mail is and has been heavily weighted with protests against price rises. Congressional leaders are definitely impressed. "Good politics" at present would appear to be anti-inflationary.

(3) The Administration has already sponsored and written into law one large tax bill, and set up another for passage currently. The presence of a national emergency makes extension of the tax burden a much smaller political hurdle than is ordinarily the case.

(4) Productive capacity for all types of goods has been enormously increased in the past five years and is headed for another great expansion in 1951 and 1952. Increased productive facilities provide the best solution for an inflation gap.

(5) Present plans do not call for the early manufacture of a great stockpile of weapons which could accumulate and become obsolete before needed. Rather they place emphasis upon the creation of new facilities for future production of arms in terrific volume. Immediate production will be for replacement in the field, for training needs, and the rearmament of Europe. Should war with Russia come at an early date, this schedule would of course be changed.

(5a) The volume of goods available for civilian consumption in the period which lies ahead, after allowance for the armament effort on the basis of present plans, will amount in the aggregate to as much as was available in 1947 and 1948. Some lines will be shorter than others, but unless Russia starts a war, there will not be any major hardships.

(6) During the past seven months, consumers have anticipated future needs for durable goods to a great degree. This will relieve later pressure, and the payment of loans and instalment contracts will siphon off considerable buying power in the months to come.

(7) The increased productive capacity will provide pretty liberal quantities of all but the most critical materials for consumer as well as armament use within two years. If for some reason war should cease to be an immediate threat, such capacity could become burdensome.

(8) Deficit financing in significant amount will probably be avoided unless war with Russia develops. Economists agree that it is entirely possible to come within striking distance of a budget balance without crippling the economy. If this should be the case, then there will be no large and permanent increase in the money supply of the country which would call for a markedly higher price level whenever controls are released.

(9) Theoretically, the ownership of property or common stocks affords protection against shrinkage in the future purchasing power of capital funds, but if prices have been driven up sharply by investor demand before the feared inflation takes place, the protection may be more apparent than real. The 14% rise in the Dow Jones Industrial Stock Average from the rather high pre-Korean levels has certainly anticipated a portion of the inflation which lies ahead. To be more explicit, Standard Oil at $100 per share affords less protection than it did at $70 per share last June.

(10) Protection of the purchasing power of income by investment in equities must be measured by setting the earnings and dividend levels prevailing at the time of purchase against the prospective earnings and dividend level during the emergency period. The high earning power of the past two or three years is, in large part, the product of accumulated needs arising out of the war years. Present high earning power stems from anticipation of future needs. As such, they cannot be considered as representing a normal level. There is every indication that corporation earning power during 1950 was considerably higher than can be expected while the economy is operating under the burden of excess profits taxes, low profit margins on government contracts, and price controls.

Earnings to Decline

Higher tax schedules now in force will reduce earnings by some 10% to 20% for the average corporation. Under the Mills Plan, the speed-up in tax payments involves the payment of five years' taxes during the next four years, and will call for an additional cash outlay by corporations. Further, with commodity prices leveling out under contrals it is not likely that the large inventory profits of the year 1950 will recur. It is estimated that as much as 10% of reported earnings in 1950 for the average company arose from inventory profits.

Dividends in 1950 doubtless recorded a peak for some time to come. With needs for working capital increased and outlays for expansion rising, it is unlikely that dividend policy will be liberalized. The regular dividend rates of most major companies seem reasonably secure, but a duplication of the rich extra dividends of late 1950 is not a reasonable expectancy.

In conclusion, one may say that although inflationary fears and speculations have been dominant in the price movements of commodities, real property and common stocks during the past seven months, and are still a potent force, there is statistical ground for believing that the inflation has been self-induced and that the potential inflation may have been over-estimated. The rise in prices and in industrial activity and sales since last June has been the product not of scarcity but of fears of scarcity. We have produced in the aggregate more than we have consumed and the surplus has found its way into business warehouse stockpiles and reserves where it will be available for future consumption.

To finance this wave of anticipatory demand, savings have been reduced and borrowing has rocketed thereby creating a charge against future income. Such a charge will reduce the size of expendable personal funds in the future and serve to diminish demand. Should inflationary psychology cool, the materials and goods purchased on borrowed funds for inventory will be burdensome.

In the aggregate, the government has not contributed materially to this increased demand. Its expenditures have not risen measurably and, on balance, it has not been a borrower. Whatever increase has come in money supply has been the direct result of the rise in bank loans. Furthermore, barring all-out war, there is good prospect that the Treasury's net borrowing throughout the rearmament period may not be large. If the Federal budget on a cash basis comes within $3 or $4 million of balance and the deficits are financed from nonbank sources, there need be no significant increase in the money supply. In short, the inflation gap which has been generally viewed with apprehension as a future development, has actually been with us for a number of months and may not grow appreciably wider. The 13% increase in industrial production which has occurred since last June in response to anticipatory buying is almost as large as the 16% bite which rearmament is expected to take from out industrial production by the fourth quarter of this year.

The credit restrictions imposed last summer and autumn are now beginning to be effective. Price control has been established and the record in the war years shows that for some four years such restraints held prices well in check. As a matter of fact, price controls have been in effect for four weeks now and, in that time, there has been no advance in the sensitive commodity index and the indices of "futures" prices have shown a moderate decline.

Market Reaction Probable

Emotion appears to have played a large part in the public's avid demand for stocks just as it has in the wild scramble for commodities and merchandise. Buyers are seemingly convinced that the economic pressures in evidence during the years of the postwar boom and the present pre-armament boom, are of a permanent nature. This suggests that the demand for stocks may be as much in response to the attraction of boomtime earnings and dividends as to the urge for protection against the inroads of inflation. Perhaps this attitude is right, but our economic history is spotted with similar popular delusions. The fact is that lower earnings and probably dividends too are in prospect for an indefinite period. Temporarily at least, in the presence of increasing tax and credit structures as well as high inventories and over-expanded bank loans to finance them, the physical setting is somewhat deflationary even if emotionally it is otherwise. Should inflation psychology cool in the months to come, and it might if the international situation grows no more acute, there could readily develop a more considered attitude toward common stock values.

The foregoing analysis does not provide a reason for disturbing long-term investment positions in well selected common stocks. Neither does it seek to obscure or minimize the inflationary forces which might have been and still are in evidence. It does point up the fact that the steep rise in stock prices since last June has discounted as much or more dollar cheapening as we are likely to see in the near future. Price-earnings ratios for average industrial stocks are no longer unsually low and in many individual cases are high. Yields are liberal but are more likely to decline than rise from this point. These facts do not provide a very strong background for further rises in price and suggest the distinct possibility of a reaction. It does not appear to be the time for the average investor to expand stock holdings. Buying reserves will probably encounter better opportunities for use.

American Hospital Supply Stock Offered

The first public distribution of securities by The American Hospital Supply Corp., Evanston, Ill., was made on March 20 with the sale of 150,000 shares of common stock, $4 par value, at $22 per share. Harris, Hall & Co. (Inc.) and Union Securities Corp. are managers of the underwriting.

Net proceeds from the sale, representing new financing, will apply to the retirement of $1,600,000 of bank loans, incurred to finance expansion of the corporation's business, provide an estimated $500,000 for expansion of physical facilities of the corporation and subsidiaries, and supply funds for corporate purposes. The company is also offering 25,000 shares of common stock to certain of its employees at $20.25 per share, to be paid for under an instalment payment plan.

Ross G. Wheaton Joins Bache in Kansas City

(Special to The Financial Chronicle)

KANSAS CITY, Mo.—Ross G. Wheaton has become associated with Bache & Co., 1000 Baltimore Avenue. He was formerly with Harris, Upham & Co. for many years.

With King Merritt

(Special to The Financial Chronicle)

PONTIAC, Mich. — Thomas L. Salaske is now associated with King Merritt & Co., Inc., 53½ West Huron Street.

Continued from page 16

News About Banks and Bankers

of 10 units or dollars), half-eagles and quarter-eagles. Silver—Dollars, half-dollars, quarter-dollars, dimes and half-dimes. This was the first attempt of any nation to adopt by law a bimetallic standard with free and unlimited coinage of both metals, each having full power as legal tender. Coinage of silver was begun in 1794, and of gold in 1795.

* * *

Rutherford Hubbard has been elected to the Board of Trustees of the **Broadway Savings Bank of New York** it is announced by Thomas Riggs Cox, President of the bank. Mr. Hubbard is Vice-President and Secretary of Byrne, Bowman & Forshay, Inc.

* * *

Plans for the merger of seven **Marine Midland** banks in western New York were announced on March 13 by President Charles H. Diefendorf of the Marine Midland Corporation at Buffalo, N. Y., it was noted in the Buffalo "Evening News" of March 13, from which we also quote:

"Under the plan, the Power City Trust Company of Niagara Falls, Niagara County National Bank & Trust Company of Lockport, First Trust Company of Tonawanda, State Trust Company of North Tonawanda, Marine Midland Trust Company of Albion and Medina Trust Company will be merged into the **Marine Trust Company of Buffalo.**

"The name of the latter will be changed to the **Marine Trust Company of Western New York.** The other six banks will become branch offices of Marine Trust.

"Mr. Diefendorf stressed the increased facilities available to depositors of any of the 51 offices now operated by the seven banks. He pointed out that the combined capital, surplus and undivided profits on Feb. 28 were $35,970,237, deposits totaled $484,456,540 and the combined assets were $535,918,382.

"This deposit volume would rank the proposed Marine Trust Company of Western New York as one of the 40 largest among the more than 14,000 commercial banks in the U. S. It would be the largest in the state outside New York."

The plans are subject to the stockholders and the State and Federal regulatory bodies.

* * *

The Bank of Jamestown, at Jamestown, N. Y., now has a capital of $1,000,000, consisting of 150,000 shares of the par value of $6.66⅔ each. Before the enlargement, on Jan. 15, the capital was $660,000 consisting of 132,000 shares, par, $5 each.

* * *

The Houlton Trust Company of Houlton, Maine, now in its 46th year, has joined the Federal Reserve System, bringing to 326 the number of member banks in the First (Boston) District. Through this action the bank joins forces with the central banking organization of the nation and gains direct access to its strength, facilities and resources in serving the needs of Houlton customers, said Edward C. Joy, the Executive Vice-President of the institution. The Houlton bank is now eligible to receive the privileges made available to other banks in the First Federal Reserve District, which includes all of New England except Fairfield County, Conn.

* * *

Melvin H. Courter, President of the **Citizens National Bank & Trust Co. of Caldwell, N. J.,** died on March 11. He would have been 76 years of age in April. According to the Newark "Evening News" he had been President of the bank since Jan. 14, 1944 and had been Vice-President from 1929 to 1944. He had been a director of the institution since it was organized in 1909.

* * *

Under date of Feb. 13 the **Upper Darby National Bank, of Upper Darby, Pa.,** increased its capital to the extent of $62,500 by a stock dividend, raising it from $687,500 to $750,000.

* * *

Through a stock dividend of $125,000 the **Market Street National Bank of Shamoken, Pa.,** increased its capital as of Feb. 15 from $125,000 to $250,000.

At their annual meeting on March 14, stockholders of the **Fidelity and Deposit Company of Maryland, of Baltimore,** re-elected all present directors. The latter subsequently re-elected all of the company's present officers and in addition elected John C. Gardner and Millard A. Kelly Assistant Secretaries. Mr. Gardner has been connected with the F&D since 1930 and at present is an Assistant Manager of its agency department. Prior to his appointment to the latter position in July, 1950, he had been Manager of the company's branch office in Syracuse, N. Y. He also was associated with the company's branch in Detroit from 1945 to 1948. Mr. Kelly joined the F&D in November, 1934 and after completing the company's training course was appointed special agent in Omaha. He subsequently was transferred to Des Moines and in March, 1939 was named Assistant Manager of the Omaha Branch, serving in that capacity until January, 1948, when he was appointed to his present position as Director of Education for the F&D and its affiliate, the American Bonding Company of Baltimore.

* * *

As of Feb. 9 the **Union National Bank of Charlotte, N. C.,** increased its capital from $500,000 to $700,000, this resulting from the sale of $200,000 of new stock.

* * *

Through a stock dividend of $50,000, and the sale of a like amount ($50,000) of new stock, the **Union National Bank of Pasadena, Calif.,** has raised its capital from $300,000 to $400,000, the enlarged amount having been made effective Feb. 21.

With Investors Div.

(Special to The Financial Chronicle)

OAKLAND, Calif. — Fenwick Smith has joined the staff of Investors Diversified Services, Inc. He was formerly with Denault & Co. and Davies & Mejia.

Hill Richards Adds

(Special to The Financial Chronicle)

LOS ANGELES, Calif—Edward T. Cronin, Russell C. Crozier, Paul H. Desbrow, Raleigh F. Lewis, and Chas. M. Montgomery have been added to the staff of Hill, Richards & Co., 621 South Spring Street, members of the Los Angeles and San Francisco Stock Exchanges.

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Observations . . .

mill buyer and holder, a radical change to an atmosphere of uncertainty and confusion has replaced the confident reliance on a fixed price. **In summary, the accompanying uncertainty offsets the slightly higher yield advantage.**

The Status of E, F, and G Bonds

This offset should be particularly influential in discouraging switches by prospective Series E, F, and G Savings Bondholders. *Both* the new 2¾'s and the Savings Bonds presumably entail a penalty to pre-maturity cashers-in, but in the case of the Savings Bonds the discount is fixed and known at all times, while in the new 2¾'s it is uncertain (despite the now widely assumed loss of a constant and exact 2 points from the sale of the "in and out" 5-year notes). It is true that the F's and G's, unlike the E's, give a lower yield over their term (of 12 years) if the limitation to a 2-point penalty on the new 2¾'s is assumed. But this limitation to 2 points discount on the new "liquidating" short-term open-market issue is a wholly unreliable premise. Further discouraging abandonment of the Savings Bond issues are the many other imponderables entering into the comparison, surely involve complexities far outside the understanding of the 50-80 millions of Savings Bond buyers running the gamut from chiropodist to nurse girl.

To other holders or prospective buyers of fixed-interest investments, as savings bank accounts and corporation bonds, as well as preferred stocks, the removal of stability and liquidity at a fixed price through the unpegging, also offsets the advantage conferred by the new issue's higher yield, and leaves the competitive situation unchanged.

Impact on the Stock Market

On the question of possible impact on the market for common stocks, so many factors are more important than the competition from a rise in Government Bond yield of ¼% or so, as to render it wholly inconsequential. Surely such elements as expectations about taxes, earnings, inventories, war-and-peace prospects, inflation-and-deflation, and New York State's prospective eligibilizing of equities for life insurance companies, will far outweigh the competition from a bond-yield rise of ¼%-coupled-with-price-unstabilization, as the value and market price determinants of equity shares.

And the effect of the increased bond yield on other media competing with common stocks will likewise be negligible. A large mutual life insurance company has just reported its 1950 investment income at 2.87%. Even a pre-tax yield rise of ¼% down the line of all its investments, would result in little attraction to the saver-investor now enjoying a 6.42% from the leading stocks in the Dow Jones Industrial Average.

Our conclusion must be that if the Federal-Treasury "new policy," "truce," or "hard-money victory," as thus far evidenced, has any effect at all on competing media in the market, they will stem purely from psychological roots!

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Commercial Banking Problems Today

is due to the price level. The public — you and I and the other fellow—have done quite a job of buying since Korea.

It is when we look specifically at the price situation that some of us could have a twinge of conscience that we might have unwittingly played some part, no matter how small, in what has been going on. In June, the Wholesale Commodity Price Index stood at 157. The latest available information put this at a robust 183. This is a splurge of about 16½% in eight months. This is really moving rapidly in the wrong direction. Mention has already been made of the fact that our 1950 gross national product increased by some 7½% over 1949, if measured in constant dollars. When the annual rate for the fourth quarter of 1950 is put against the similar figure for 1949, the growth was about 18%, if measured in current dollars. This is another indication of the substantial disparity which has been developing between production and prices.

Let us sum up the ground covered before we proceed to the second of our four questions. That will concern itself with precisely what is meant when it is said that a bank is "loaned up." When commercial banks make loans or buy bonds, with unimportant exceptions, they create deposits. The recipients of these new deposits spend them. Since last June, commercial bank loans in the United States have increased over $9 billion—about 20%. Physical production has grown by around 10%. Wholesale prices have moved up by about 16½%. Each of us is at liberty to draw his own conclusions as to whether this $9 billion of added spending power has gone only into increased production or whether, in part, it has been one of the great many upward pressures on prices.

When Is a Bank "Loaned Up"?

Having disposed of our first question, let us now take up the second one. Precisely what is meant when it is said that a commercial bank is "loaned up"?

Technically it means, of course, that such a bank has no excess reserves. Furthermore, it means that management either cannot or, what is more likely, does not deem it judicious to generate fresh reserves. Under conditions today, the banking system is able to increase its reserves almost at its own will. For any institution to determine the wisdom of doing so under a given set of circumstances, is an entirely different matter. Without boring you with the detail, suffice it to say that the present position of the commercial banks and of the Federal Reserve Banks warrants the conclusion that about $40 billion of additional reserves could be brought into being. At present requirements, these reserves would support about $275 billion of increased bank deposits. The present volume is about $150 billion.

As practical bankers, you and I know that no such expansion in the field of private credit is apt to occur. If we did not exercise sufficient self-restraint, supervisory and/or central banking authorities would and should step in.

We can take it for granted that the ability of the System to multiply reserves is practically without limit at this time. Now let us consider the problem of the management of any specific institution when it is confronted with the necessity for a substantial adjustment in its reserve position. Management must keep three basic factors in mind:

(1) What will be the effect on earnings?

(2) The relation of loans to deposits?

(3) The relation of loans plus securities other than governments (so-called "risk" assets) to capital funds?

Since the picture of bank earnings is another story, we will not attempt to discuss it here.

Not only bank management but others outside of the bank are keenly interested in the loans-to-deposits and risk-asset-to-capital relationships. Corporate treasurers, to mention but one group, keep close tabs on banking figures —specific as well as general.

How do we look in these two respects?

On June 30, 1950, a little more than 30% of the commercial banks' total deposits were offset by loans. Today, this figure stands at close to 40%. The trend is still upwards. There is some point beyond which management will not go.

Developments in the risk-asset-to-capital ratio are of intense interest. On June 30, risk asests were just under five times capital —4.9 to be exact. Today the figure stands not far away from 6 to 1. The high point for this ratio over the last 50 years was 6.2 in 1920. In 1929 it was 5.6. The trend is on the upgrade here too.

It may be argued soundly that supervisory authorities and the public have come to attach too much significance to these two relationships. This may be true, for clearly it is the quality of the risk asset portfolio which is of prime importance. Since the public (that is, those who watch the figures) cannot have access to sufficient information to make up its own mind on this score, its judgment is influenced to some degree by the bank's published statements. Whatever bank management's own judgment may be, it must be cognizant of this public opinion.

There are two ways for a bank, in theory, to improve either of these ratios. In the first one, keep loans down and, at the same time, keep deposits up. This is a tough enough trick for any individual bank to perform. For the banking system as a whole, generally, it is impossible — that is, without deficit financing by the Federal government through the commercial banks. The latter, clearly, is one solution we do not want.

Question of Raising Additional Banking Capital

With respect to the risk-assets-to-capital ratio, this may be bettered either by reducing loans and/or securities, other than governments, or by selling more capital stock. For reasons not germane to our discussion here, today raising additional banking capital on an equitable basis is not always easy. Broadly, when management decides it wishes to decrease its risk-asset ratio, it has no recourse but to reduce its loans. Those of us "on the firing line" may not like this, particularly if we are responsible for departmental or branch earnings. On the other hand, what else is there for management to do?

Let's tie together the answers to our second question. A bank is "loaned up" when it is short of reserves. The position today of the commercial banks and of the Federal Reserve System is such that fresh reserves can be generated in almost limitless amounts. Practical limitations are put on such expansion by the loans-to-deposits and the risk-asset-to-capital ratios. Both of these have moved up sharply since last June and are at historically high levels. Substantially, the only feasible way for any institution to improve its ratios is to reduce its loans.

Influence of Volume of Credit

Our third and penultimate question is: why is it important that you and I discuss these subjects and keep abreast of them? If we have laid our foundation soundly, the answer should be clear. It is important that we discuss and keep abreast of these matters because the volume of credit which we create—you in your field and I in mine—is one of the significant factors in determining the amount and the nature of production and in determining the level of prices. Of course, there are many other strong influences in addition to the volume of bank credit. This truth must not blind us to the part which we play in the process.

The production and the price level attained in our country largely determine its business health. They are of utmost concern to every one in the United States and to our friends abroad. If our production is not high enough and if it is not strategically balanced, we and our allies could be in a precarious position. If the proper goals in this direction are achieved only at a grossly inflated price level, the ultimate consequences we know will be disastrous. As measured by 1939 prices, we now have about a 50-cent dollar. We do not want to see it cheapened further.

It is important that we discuss these questions and keep abreast of them because in order to play our part intelligently in operating the credit-creating mechanism, we must understand thoroughly how it works. We must think through to the probable end results of our day-by-day decisions. Since Korea, we have, between us, created some $9 billion of added spending power. Some of this has undoubtedly helped our country to increase vitally needed production. Some of it has undoubtedly hurt our country through price rises, which might not otherwise have taken place. How much of your loans and how much of mine have gone for the proper purposes? How much for the improper? Would our country have been better off if the increased production could have been obtained by shifting credit instead of increasing it? These questions we must answer to ourselves, if to no one else. In a country of free people, each man must live with his own conscience. The state exercises no custodianship over our thoughts.

A Bank's Obligations

Now for our fourth and final question. To whom do we owe obligations and what are they? Of course we owe our depositors the obligation to run a safe bank. Of course we owe our community the obligation to run a constructive bank. Of course we owe our personnel the obligation to run a fair bank. And, of course, we owe our stockholders the obligation to husband and enhance their capital. These thoughts are so ingrained in our minds that the mere mention of them suffices.

Today we have three other sets of obligations. The first of these is to the men and women who are now or who will be in the armed services. We owe it to them to do our part in providing them with what they need, where they need it, when they need it. Credit will be required as a part of this job. It is our responsibility to see to it that it is made available to those who can produce what is needed. Bank loans for war purposes during World War II reached a peak of $3½ billion. This includes loans made both in and out of the "V Loan" programs. There was, at the crest, an additional $4½ billion of credit commitments available. Whether or not we will be called on again to supply such amounts, it is too early to say.

That we will be called on to furnish substantial sums for defense is certain. Is it wise to superimpose an added volume of credit on top of the present $55 billion outstanding, or should we begin cutting down on civilian loans?

For my part, I am getting fed up with the assurances which many spokesmen seem to feel it necessary to voice. They tell us that we can achieve our defense goals with no substantial interference with our present standard of living. Since when do citizens of these United States need to be coddled when our country faces danger? Which is more important to us—that our standard of living be maintained at some arbitrary level, or that we prepare to defend our whole way of life? Which is more important to us—that you and I continue to get the particular cut of beef to which we have become accustomed, or that the people in service are fully and completely provided for? Their lives at best are being disrupted. At worst, many will be shattered or lost. What of it if our standard of living is reduced?

The second obligation we owe is to our civilian population. This responsibility is to see to it that we do everything within our power to maintain the value of the dollar. The arguments for this are too familiar to warrant repetition. What we tend to forget, at times, is that we play an important part in this endeavor daily. Let us also remember that some day the world tension will ease. The men and women in service will again be civilians. What kind of a dollar do we want them to come back to when those who can, again pick up their interrupted lives?

Lastly we owe the obligation of intellectual integrity to would-be borrowers. Our citizens, with few exceptions, want to do the right thing, especially when the country needs their help. You and I have been and will be asked to make many loans which are safe but which are not in the national interest. We can decline the loan, shrug our shoulders, and blame it on "another damned government regulation."

We can do it that way. I don't believe we will. I know we shouldn't. The average borrower cannot be expected to know the functioning of our banking and monetary systems. We can be. We have the obligation of understanding it so well that we can explain to a "layman" in nontechnical language the implications of what he proposes to do. If we tell them so that they understand, the vast majority of our citizens will want to cooperate with—not to impede —the nation. Let us resolve not to pass the responsibility in such situations to the government. Let us resolve to fulfill our obligation of intellectual integrity to the borrower. Let us resolve to tell him the truth, as we see it.

Before I am submitted to the cross fire of your questions—an experience which I will enjoy—may I present a terse summary of our discussion?

(1) Increases commercial bank loans create an increase in spending power.

(2) This additon tends to increase production and/or prices.

(3) During this emergency, increases in production in essential channels are constructive.

(4) Increased production in nonessential channels and/or an increased price level is harmful.

(5) Of the $9 billion of added loans since Korea, some appreciable part has undoubtedly increased other inflationary pressures.

(6) Wholly apart from the national welfare, sharply rising loans-to-deposits and risk-assets-to-capital ratios suggest the desirability of calling a halt to loan expansion.

(7) All of these facts point up three obligations which we have, in addition to our continuing ones:

(a) To make available the credit needed for defense production.

(b) To do our part in stabilizing the value of the dollar.

(c) To explain the situation honestly to nonessential borrowers.

Not so long ago, I saw a cartoon in one of our more literate magazines. There was a sextette singing on an obviously false note. One character in striped pants and morning coat was labeled "Financiers." A second wearing overalls was called "Labor." The third, with pitchfork in hand, carried the tag of "Farmers." The figure in the double-breasted, keenly pressed suit represented "Management." With traditional checked vest and long cigar, "Politicians" were in the picture. The final member of the group, market basket heaped to the brim, was "Housewives." None of us escaped the cartoonist's observation. Off in the corner was Uncle Sam shaking his head sadly at the performance of his nephews and nieces; and looking on, over his shoulder, was Uncle Joe smugly puffing on his underslung pipe. The captions:

My Country 'tis of Me
For Me I Sing.

Let us do our share in proving that picture to be untrue. Let us do our part regardless of whether or not we feel that the performance of others is what it should be. Let us by thought, by word, and by deed, live the hymn that has made our country truly great:

My Country 'tis of Thee
Sweet Land of Liberty
Of Thee I Sing.

Adams-Fastnow Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Waldo C. Little has been added to the staff of Adams-Fastnow Company, 215 West Seventh Street, members of the Los Angeles Stock Exchange.

With Barbour, Smith

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Donald H. Wilson is now affiliated with Barbour, Smith & Company, 621 South Flower Street, members of the Los Angeles Stock Exchange.

With Quincy Cass

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Noel G. LeMay has become connected with Quincy Cass Associates, 523 West Sixth Street, members of the Los Angeles Stock Exchange.

Edgerton, Wykoff Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Atherton F. Messmore and Patrick H. Sheedy are now associated with Edgerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Messmore was previously with Fewel & Co. Mr. Sheedy was with Dean Witter & Co.

Fewel Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—William D. Earle has been added to the staff of Fewel & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange.

Joins Oscar F. Kraft

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Charles A. Dager is with Oscar F. Kraft & Co., 530 West Sixth Street.

Public Utility Securities

By OWEN ELY

Middle South Utilities, Inc.

Middle South Utilities reported consolidated share earnings of $1.89 on the common stock for 1950, the first full year of operation, and $1.27 on a parent company basis. The revenues of slightly over $100 million were 73% electric, 16% natural gas, and 11% transit. The company has disposed of some transit properties, and now has only the one in New Orleans. The four operating subsidiaries, which form a well-integrated system, serve a population of nearly 4 million in some 1,690 communities and extensive rural areas in Mississippi, Arkansas and Louisiana.

Principal agricultural products in the area are cotton, sugar cane, rice, tung nuts, soy beans, fruits and vegetables. There are also livestock, poultry and dairy cattle, as well as timber lands. In addition to extensive natural gas and oil reserves, mineral resources include coal, lignite, sulphur, salt, bauxite, limestone, mercury, lead, zinc, manganese, marble, silica, dolomite and ceramic clays.

Among the principal industries served by the system are building materials, cold storage and packing plants, cotton gins, cotton oil milling and refining, pipe-lines, pulp and paper plants, food and food products, oil drilling, pumping and refining, textile mills, mining and alumina processing.

There are also important defense activities in the area. Middle South Utilities has a contract to sell up to 100,000 KW firm power to the TVA for use primarily by the Atomic Energy project at Oak Ridge, Tennessee. The system will also supply power to the flying schools, ordnance plants, and other defense establishments which are being reactivated in the area. Middle South has also joined with four other utility companies in the recent creation of Electric Energy, Inc., a privately financed company formed to provide for the cooperative building of a huge defense power plant to supply about half of the electric energy requirements of a new project of the Atomic Energy Commission near Paducah, Kentucky.

Growth of the companies now composing the Middle South System is indicated by the following pro forma figures in millions of dollars:

Year	Revenues	Net from Operations	Parent Co. Equity in Net Income
1950	$100.3	$18.5	$11.6
1949	96.4	17.5	10.7
1948	89.8	15.4	9.3
1947	78.6	13.1	7.5
1946	70.9	12.7	7.2

These gains reflected the industrial renaissance of the south. During the decade 1940-49 per capita income in the Middle South area increased 51% faster than for the United States as a whole, and effective buying income 66%. The gain in retail sales (over the U. S increase) ranged between 64 and 73%. Mineral output in the area was 168% greater (in rate of gain), forest products 27%, farm marketing 29%, etc. Electric energy output gained 203% vs. 100% for the U. S. and the gain in bank deposits was 92% greater than for the U. S.

Such statistics of growth, together with the aluminum load and requirements of the atomic energy establishments, explain why Middle South's current KWH sales are running about 34% over last year compared with about 16% for all utilities. They also explain the reason for the tremendous expansion program of Middle South facilities. According to present plans system capacity by the end of 1953 will have increased to 1,700,000 KW, of which only 28% was in service in 1946.

Based on the current outlook, President Dixon estimates that Middle South can make enough additional earnings in 1951 to offset the increase in the Federal tax rate from 42% to 47%. After adjustment for the increased number of shares this would mean consolidated earnings of about $1.75, and $1.30 for the parent company. However, the first two months have been running better than the budgeted estimates and if these gains continue, the company could probably absorb a 50% Federal tax rate without any reduction in the $1.75 forecast. Since every 1% change in the tax rate means about 4 cents on the stock, this would mean that the company's pre-tax earnings would be higher by an amount equivalent to 32c a share. Even if Congress should follow the Administration's recommendation and make the tax rate 55% for the full year 1951, President Dixon is confident that the $1.20 dividend rate could be maintained. The current stock offering, which may yield the company approximately $8 million, will furnish construction capital to Arkansas Power & Light. The system construction program will cost an estimated $48 million this year and $51 million in 1952. New money needs will approximate $25 million for this year, and next year may be somewhat larger. The remaining $17 million for 1951 will be raised by selling senior issues of the subsidiaries. The parent company might again issue some common stock next year, but the amount would probably not exceed the present moderate amount which represents an increase of only 8% in the number of shares.

Including estimated proceeds of the current sale of stock, the system capitalization would be approximately as follows:

	Millions	Percentage
Subsidiaries:		
Debt	$194	57%
Preferred Stocks	28	8
Minority Interest	2	1
Parent Company:		
Common Stock Equity, net of intangibles (6,050,000 shares)	116	34
	$340	100%

Including intangibles the common stock equity (pro forma) would be 35.3% as compared with 30% at the end of 1945. The ratio is higher than for most integrated holding companies, which is of interest from an investment angle.

Middle South recently raised its dividend rate from $1.10 to $1.20. Based on the new rate and the recent price on the Stock Exchange of 18¼, the yield is 6.6%. Using the pro forma share earnings of $1.75, the price-earnings ratio is 10.4 and the dividend payout 68%.

Continued from first page

Controls and Comparisons

bonuses are to be forthcoming to the 1,000,000 workers whose contracts include the escalator clause (remember General Motors' "industrial statesmanship"?) but not to the vast majority of employees. The cost of living is to be held down, but farm prices are supported if not actually boosted, though on the average they are well above parity levels.

Allocations and Mal-allocations

Machine tool plants are told to gear for defense production, but no orders to produce follow. Business and the public are admonished against inventory accumulation while recurrent announcements of forthcoming ceilings and rationing incite them to stockpile in a hurry. The artificial stimulus to fill the lockers is responsible for unnecessarily high prices for meat. Consumption of materials in scarce supply is cut back, partially at least, but no practical allocation procedure is developed. Contract renegotiation is imposed upon industry without precise definition of permissible profits. Imports are put under domestic ceilings—at which they cannot be bought. The railroads were induced by the Stabilizers to order 124,000 freight cars, but the equipment makers received steel allocations for 72,000 pieces only. Prices and mark-up regulations are often so abstruse that the government's own lawyers have difficulty in disentangling them. And the entire system of controls is subject to periodic reshuffling, generating uncertainty and more confusion.

The scapegoats are the banks whose credit expansion supposedly has brought about the inflationary wave and keeps it rising, so the story goes. The truth is that:

(a) the banks have to loan if they do not want to lose out to competitors such as insurance companies, savings and loan associations; and that:

(b) the financial institutions of every type merely act rationally by protecting their earning power in the face of unprecedented peace-time spending by the government and the consumer.

When the government spends wildly and promises to do more of it for a long time to come, and when it promises to create shortages—then business as well as the consumer **must** protect themselves by advance buying. The banks follow the clarion call of supply and demand, as they have to if they want to stay in business. But by doing so, they create new impetus and provide new means for spending. It's a vicious circle.

Paradoxically, the public is being assured that by June controls will "work"—when "security" supposedly will swallow 18% of the national output instead of the present less than 10%. As of late, the trend in Washington seems in two directions: to relax on allocations (priorities actually stymie industrial and municipal purchasers by bureaucratic requests for nonexistent statistics and by similar red tape); and to concentrate on profit regimentation—regulating the margin of wholesale and retail mark-ups, but with generous loopholes.

In other words, nothing much can be done about the prices of farm products, raw materials and labor in the face of pressure group power. All that may be expected on the direct control front is an "orderly inflation"—to be mollified, presumably, by subsidies which will feed the inflation.

Monetary Control

Monetary control—controlling the pocketbooks—is right not in the foreground of interest, which is as it should be if the root of the evil is to be attacked rather than its symptoms.

But new taxes are not urged any longer as they were only a few weeks ago. The budget deficit has lost for the moment much of its fearful impact on the political minds, the content of which seems to be subject to cyclical fluctuations. Instead, public discussion centers around the interest rate problem.

The battle royal between the Federal Reserve and the Treasury resulted—for the time being—in a compromise which saves both faces. The government offered a $19 billion new issue of non-marketable 2¾% long-term bonds to institutions (other than commercial banks) in exchange for the 2½% Victory bonds in their portfolios. Evidently, insurance companies and savings banks are offered an incentive to sit on that part of their holdings until maturity rather than to dump them in the lap of the Federal Reserve (which is what constitutes "debt-monetization").

That looked like a victory for the Federal Reserve: the interest rate is to be raised! But the Treasury won, too: the institutions may convert the new 2¾%s into 1½% 5-year paper. In other words, the raising of the rate, which is nominal anyway, is deflected into the short-term market where it does not matter.

True, the support was withdrawn from the bond market (for a few days). Nothing happened; transactions dwindled and the long-term Victory bonds slipped slightly below par (100). The fact that no one rushed to sell, fearing that they may fall further, shows that no one expects anything like that to happen. But if they do, all indications are that the support would come in force again, and bond prices would be pegged. Which is what the replacement of a businessman as Chairman of the Reserve Board by a Treasury representative means: the interest rate will be held; bond prices must stay virtually fixed.

The idea of the monetary authorities is, presumably, that it is better to do something nominal in the right direction than not to do anything. Maybe they hope for psychological effects: the banks may mistake the fireworks for sharp-shooting and might stop lending. We beg to remain skeptical. Anyhow, the Federal Reserve is to be congratulated for having fought courageously against the Big Boss and for having undertaken the first step, if only a very short one, toward the ultimate freedom of the capital market—toward restoring (perhaps unintentionally) the gold standard! Unfortunately, the prospects for further steps are practically nil. The Reserve Board missed the boat: as the "Chicago Tribune" has pointed out, it inflated recklessly in 1947-'48 which would have been the time to deflate instead of supporting Mr. Truman's re-election chances.

Credit Expansion

If credit expansion continues, as it now does contra-seasonally, raising the volume of bank deposits at the annual rate of $3 billion or more, the banks' tail will be twisted by new regulations. So far, "restrictions" imposed on mortgage loans have brought no visible result, and those on consumer credit moderate ones only. Homeopathic doses of monetary control merely irritate the patient.

The real difficulties go deeper. For one thing, credit expansion "must" go on for the benefit of enlarging the industrial apparatus for defense and for maintaining the consumer morale. Also, given the availability of huge liquid reserves in the consumers' and corporations' hands, credit restraints have to be very stringent to be effective. But they are lax, especially in the crucial housing construction field in which the boom continues unabated.

Crisis Within the Crisis

But all queries and tribulations may turn out to be academic in nature. It is all predicated on the international crisis. What if it turns out—as this writer, for one, has been emphasizing since last July—that Korea is not the opening shot of World War III? If, for example, China should be willing to accept the status quo on the 38th parallel? If the spring passes and Russia shows no desire for invading Europe, Yugoslavia, Iran, or anything else? Some real crisis, if a short one only, might take the place of the phony emergency.

Indeed, if Russia stays put, it will become increasingly difficult to sell Americans—and Europeans, even more so—on an alleged emergency that refuses to materialize. Even its shadow might begin fading out.

That explains the split personality, so to speak, displayed by the latest policy moves of Washington: the contradictory policies which vacillate between threatening with sharper controls and offering one "relief" after another from the existing ones. Of course, the brass hats keep crying Wolf, Wolf. But as of late, the signs of relaxation on the top policy-making level are unmistakable. Witness the slowing down of the vitally important stockpiling, the growing resistance of Congress against ever-fresh plans for armaments, and generally a sense of easing tension, of diminished urgency spreading through Washington. Consumer resistance against high prices for sugar, meat, and furniture is another straw in the wind.

Far be it from us to assume that Peace may break out. But it would take much less than that—a nominal improvement in East-West relations, such as at the Paris Conference, may suffice—to shake a price structure that is carried by excessive stockpiling, over-filled inventories, overbought households, and by speculative, war-like expectations. However, a more than temporary let-down of this whirling boom can scarcely be expected when the mounting military procurements run at an annual rate of $60 billion, and the government itself creates the basic scarcities which underlie the inflationary psychology.

Webb Richards Joins Wulff-Hansen & Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — Webb Richards has become associated with Wulff, Hansen & Co., Russ Building. Mr. Richards was formerly with Denault & Co. and prior thereto was a partner in Pearson-Richards & Co.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

For the past few weeks I've been away trying to get rid of some bugs the doctors called virus infections. The doctor's theory was that a rough sea voyage would be just the thing. Apparently heaving seas would make the virus so uncomfortable it, or they, would leave me, so I could once again become a normal growing boy. The next time such a treatment is prescribed I'll suggest the doctor take it himself.

* * *

In any event, last week's column didn't run, which was probably just as well. The market, as if you didn't know, gave a tired sigh, turned over on its side and then proceeded to fall out of bed. The more popular reasons current in the board rooms were, an imminent cease fire in Korea; a below par sale of U. S. Governments; a Russian peace offensive and a host of other "reasons."

* * *

Whether some, all or none of these were responsible for the break I don't know. And I don't care. The actual fact is that a break was indicated at least three weeks ago, a situation which wasn't exactly a secret to readers of these columns. In my column of March 8 I disclaimed any inside knowledge of any pending bear market or any bull market. At the same time, however, I wrote here that a reaction of about 10 points on the Dow averages was immediately ahead, though I didn't consider it the start of a bear market.

* * *

Well, you saw the reaction and with it the shrieks of alarm that the bear market was here.

* * *

Anticipating such a reaction I gave a list of stocks and where I thought they would react to, implying that such reaction points would be purchase levels. All in all, I mentioned 18 stocks and the ranges where I thought they would be attractive. Up to this writing only one stock, American Car and Foundry, got within the prescribed area—the figure was 31 to 33; the actual low during the week covered was 31¾.

* * *

This doesn't mean that the reaction potentials are now out of the market. It means that you'll have to bide your time and wait a little longer.

* * *

Some stocks escaped their support ranges by fractions; others were way above them. But by and large the list which appeared here in the March 8th issue, is still the one to be guided by.

* * *

I want to emphasize that I don't know what will happen from here. I suspect, however, that there'll be another burst of buying that'll take them up about five points, followed by another reaction that will carry them under last week's lows.

[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.]

With R. H. Johnson

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Robert A. Hill is now with R. H. Johnson & Co., 70 State Street.

With E. E. Mathews Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Angier A. Newcomb is with Edward E. Mathews Co., 53 State Street.

With Rockwell-Gould

ELMIRA, N. Y. — Samuel D. Garthwaite has become affiliated with Rockwell-Gould Co., Inc., 159-167 Lake Street.

With Townsend, Dabney

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — William L. Field is with Townsend, Dabney & Tyson, 30 State Street, members of the New York and Boston Stock Exchanges.

Joins Charles Parcells

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — John R. Naumes is with Charles A. Parcells & Co., Penobscot Building, members of the Detroit and Midwest Stock Exchanges.

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Is This a New Era?

to spend money and produce the necessary goods to discourage any attack from abroad. I believe that the total demand for goods (that is, military plus civilian) will keep our industrial plant as a whole operating at near-capacity for a long time. Any worries on this score, so far as investors are concerned, should be only temporary. **Over the foreseeable future, the total business volume is going to be robust**—in fact, it is going to be of boom or near-boom proportions.

Practically everything measured in dollars is going to get bigger. About the only exceptions are the prices of bonds and other fixed—income securities.

Outlook for Debt

As previously shown, the Federal debt is now slightly over one-quarter of a trillion dollars. In view of our defense program, and other budgetary requirements, we must be prepared for the possibility of a future rise in the debt to a level somewhere between one-third and one-half a trillion. As defense expenditures rise, there will be a gap between Treasury income and outgo, resulting in a boost in the debt. Unless we have all-out war and very stringent controls, including forced savings, a sizable part of any increase in the total debt will turn up in the banking structure as a broadened base for inflation. Basically, this is a strong reason for expecting a further decline in the value of money — a higher general price level.

Outlook for Prices

As you all know, a large volume of money and credit available is only part of the cause of rising prices. Another very important factor is the velocity of turnover of money—the speed with which it passes from hand to hand in the conduct of business or in the process of people trying to get themselves "hedged" against inflation. Since 1946, the total money supply has increased only about 12%. The vast bulk of the money supply is represented by demand deposits in banks. Since 1946, the velocity of these deposits, however, has jumjed from about 16 times a year to about 23 times, a rise of over 40%. This latter rise is a main cause of the resumption of inflation in recent years. Moreover, it is a force that is pretty much beyond the direct control of the money-managers.

The inventory situation is, I believe, much less important than is generally thought. Much of the rise of the past year or so has been a recovery from the 1949 liquidation. Holdings of manufacturers are only about 5% higher than two years ago. Stocks of wholesalers and retailers combined are up only 8%. These increases are surely moderate, in view of the rise in both prices and production rates in the same period. As civilian production shrinks in some lines, these inventories in distribution channels will come in very handy.

As to wage rates for labor, I find widespread agreement that they are going to stay up. High wage rates have been frozen into the economy. It is politically necessary to keep them high.

More and more people are coming to believe that high prices are here to stay. Much of the boost of recent years may turn out to be **permanent.** I am inclined to agree with that conclusion. **If correct, such a development would, of itself, constitute a new era.**

Since the early 1900s, Americans have studied business cycles, and have tried to fit current developments into patterns of the past. Always in past deflation has followed inflation. This time it looks like a double dose of inflation, and a very big double dose, at that. By all that was good and holy to the believers in cyclical patterns, a big deflation was bound to occur after the last World War. When the stock market underwent a drop of 20% or so in the Fall of 1946, the prophets were sure that it heralded a drastic deflation of our economy, with millions unemployed, corporate earnings evaporating and dividends cut or omitted. You all know now how erroneous such forecasts were proven to be by subsequent history.

Now we see inflation distorting or rather over-riding the business cycle itself.

All history shows that continued and persistent inflation leads to an undermining of society. Already in this country inflation is forcing the adoption of a system of controls. Such controls are a threat against our system of free enterprise. **Perhaps** the real cure for **inflation** is **deflation.** In the mind (if any) of the politician, however, that is much like saying that the cure for a sore throat is a be-heading. The politicians will continue to rant and rave about preventing or controlling inflation. Their real worry, however, is deflation. Deflation is what turned the Republicans out of office in 1932. Inflation has kept the Democrats in office ever since.

Dollar Volume of Business

Over the longer-term, my conviction is that both production ad prices are going to remain high. When you multiply high prices by high production you get a very high figure for total sales in dollars. Large dollar sales always mean large profits before taxes. But, you say, **how about taxes?**

Taxes

Tax rates on corporate earnings are very high, and may go somewhat higher, especially if we have all-out war. It should be noted, however, that in 1950 earnings after taxes, for all corporations combined, entered a new era, measured in cheaper dollars. We now have a tax ceiling of 62% on corporate earnings. How much higher can that ceiling be raised? Probably not very much. At this time it appears that nothing further will be done until July. Meanwhile, if all-out war is avoided (and it looks more like peace), higher taxes may be omitted or delayed.

Anyhow, the important things for investors to keep in mind are earnings after taxes, and the ability of companies to pay dividends. Then both earnings and dividends must be properly related to stock prices. And all three of these factors must be correlated in terms of dollars-without-distortion.

Where Is the Market Now?

Industrial stock prices this year reached the highest level since 1929, or more than 21 years ago. That statement is based on Standard & Poor's weekly index of 365 industrials. The high this year of 191.4 compares with the 1929 all-time peak of 197.7. (Base is 100 equals 1933-39 average.)

From these figures it is seen that a further rise of only 3½% would provide a new historical high in the industrials.

These statements, of course, are in terms of dollars. The current position is measured in terms of 1951 dollars and the 1929 level was measured in terms of 1929 dollars.

Standard & Poor's indexes represent the most nearly scientific measure we have of the position and trend of the stock market. As you know, Standard & Poor's weights each stock according to the number of shares outstanding. Followed since 1926, this method automatically adjusts for stock dividends and stock splits. The net result is that the indexes reflect changes in total market valuation of all the stock issues included. Hence, for investors as a whole we are justified in stating that their dollar fortunes are now very close to the highest on record.

Here I would like to digress a moment and refer to the indications given by the Dow-Jones industrial average. As you know, this average reached a 1951 high of only about 256, which is a long way below the 1929 peak of 381. Habitual followers of this average would naturally conclude that prices would need to rise back to 381, or an advance of 125 Dow points to reach their 1929 top. Percentagewise that works out at almost 50%. This is an outstanding example of the error in measuring the market by the Dow-Jones method. This is too large an error to be dismissed lightly. It is the sort of mistake that can cause a lot of trouble. In this case the error is due to the faulty method of Dow-Jones in adjusting to allow for stock splits and in failing to weight stocks in a sensible fashion. The Dow people use one share of each stock in computing their average. Standard & Poor's index includes each and every one of the Dow-Jones 30 industrials. The main source of the difficulty in net results lies in the statistics used in putting the figures together. Careful research shows that the Standard & Poor's method is vastly superior and gives much more accurate interpretations.

Now to get back to the position of the market as gauged by Standard & Poor's data. We have said that, on the basis of dollar valuations, industrials have returned to approximately their all-time high level. That might be somewhat scary and a cause for a stop-look-listen attitude.

But, before we can make a sound intepretation of such data, it is imperative, in this new era of inflation, to make allowance for the distortion caused by the decline in the dollar.

First, let's adjust stock prices for the change in the dollar. We can do this by using the government's official index of the purchasing-power of money. According to their data, the 1929 dollar is now worth about 67 cents. On this basis, industrial stock prices work out to be **really** far below their 1929 highs. **A rise of 43%** would be needed, in real value to equal those former highs.

Secondly, let's consider earnings, dividends and the yields available on stocks in relation to bond yields. Industrials are now priced at only about 7 times earnings, versus a multiple of 18 times earnings in 1929. Earnings will be lower this year, we know. But they would need to be cut in half before stocks would be selling at the same ratio as in 1929.

More important, dividend returns are now more than twice the yield of 3.1% provided when stocks reached their all-time 1929 high, in terms of 1929 dollars. A conservative estimate of dividends for 1951 is that they will be down not more than 10% or 15% in the aggregate. Already this year there have been a number of increases in regular rates.

The stock-bond yield relationship now is more like the situation prevailing in 1932 and 1942, than at the **top** of a bull market in stocks. This distorted relationship could be brought in line, of course, by either a rise in bond yields, or a fall in dividend yields, or a combination of the two.

Bond yields are now firming, but any **important** narrowing of the spread between stocks and bonds on that score seems out of the question. The government is committed to a virtually permanent policy of low interest rates to keep its debt-management program from collapsing.

The recent publicity about settling the squabble between the Federal Reserve and the Treasury over interest rates and the government bond market has not materially changed this long-term program. Inflation is too comfortable, politically. It postpones or covers up so many problems. It is the easy way.

Dividends, as we have said, may dip a little, but, by and large, they are going to be good for the foreseeable future, in my opinion. That leaves higher stock prices as the logical outcome. Of course, that is the **long-term outlook.** Time will be required for this new era distortion between stocks and bonds to be resolved. But, so long as the disparity of yields is widely in favor of stocks, investors need not worry very much about a bear market in stocks.

Another feature of the stock market's general position deserves attention here. I refer to the psychology of investors—particularly as related to the matter of investment security. In the years following the depression of the 1930s, confidence in common stocks as long-term investments was at a very low level. Investors thought they had learned a lesson as a result of the great bear market in stocks in 1929-32. They sold themselves on the idea that if they only had held bonds during this period they would have fared much better. Now, of course, we see that they learned a fallacious lesson. True, bonds are more secure under a gold standard, or when the value of the dollar is **appreciating.** However, we have been operating on a paper standard since the early Thirties, and the dollar has been **depreciating.** Investors are only beginning to unlearn the lesson that bonds are superior to stocks as **storers of value** under a paper-money regime.

If enough additional investors make the new discovery that stocks are really superior to bonds, we shall have a truly new era in the popularity of equities as long-term commitments. Already pension funds, insurance companies and other long-term investors are showing new interest in equities. Demand from these sources seems bound to grow, as well as from the general public.

1951 Versus 1916

Before I take up the near-term outlook for stocks, I want to suggest another avenue of approach which leads to the conclusion that equities are **reasonably priced if not downright cheap,** from the **long, long**-term point of view.

Consider the 35-year period from 1916 to 1951. In 1916, the World War I bull market was raging. American stock prices had more than doubled following the outbreak of hostilities in Europe in 1914. Measuring from the top of this bull market to date, a span of nearly 35 years, we find that industrial stocks as a group have advanced only 24%, after allowing for the shrinkage in the value of the dollar. (Before such adjustment, the rise was 174%.) That is less than 1% per year. In other words, practically the entire rise in dollar prices of stocks over this 35-year period can be explained as an error of measurement, due to the shrivelling dollar. That leaves only two-thirds of 1% per year to be attributable to such factors as:

(1) long-term growth and plant expansion.

(2) technological advances.

(3) increased productivity of labor.

(4) population growth and wider markets.

(5) all other influences.

This is a new era. But perhaps a greater new era lies before us, when some attention will be paid to these latter bullish factors.

Near-Term Outlook

There are several reasons for adopting a "trading" attitude toward stocks over the near future. In the **first** place, a reaction of fair proportions has been overdue since mid-January of this year. You will remember that the so-called "year-end" rally was of super-dimensions. An advance of about twice the average size had occurred between mid-December and mid-January.

Secondly, credit restrictions and the government's fight against inflation have gained headlines in the way of increased margin requirements, the imposition of so-called controls over wages and prices, and this week some government bonds have been permitted to sink below par.

Thirdly, railroad stocks which had sparked the whole advance since Korea, had climbed 60% and ran into trouble just under their 1946 highs. (This statement is based on Standard & Poor's index of railroads.) If you look at Dow-Jones railroad average you get the false impression that the railroads had hurdled their old 1946 barrier. (In fact, the D-J rails this year crossed 90 versus the 1946 high of 68.31, an apparent clearance of more than 30%.) The truth, however, is that the rails as a group had run into a rather difficult supply area, calling for a reaction or a period of "consolidation," as the experts term it.

And **finally,** rumblings of "peace" ahead in Korea began to influence the thinking of traders and others who had run up some rather fancy paper profits in a period of a few months.

Add these ingredients together and you get a satisfactory basis for the current reaction. I admit, however, that I can't explain why it didn't come sooner.

Looking a little further ahead, I can only give by present impression, which is subject to change as events unfold. I believe that this setback will be held to modest proportions—probably less than the Korean reaction of last year which amounted to about 15% in the typical stock. To date the decline has been about 5%. It looks like a technical readjustment, rather than the beginning of a major downtrend.

All bull markets are subject to corrective reactions on the way up. Some bull markets have had several reactions as large as 10% or more. So far in this bull market we have had only one reaction of that extent—the Korean drop of last Summer.

Earlier in this talk I referred to the possibility of a near-term squeeze on civilian production. That may be a factor in the present setback of stocks. Before many weeks, and probably by May or June, however, I feel that worries over the possibility of any important let-down in general business activity will have been pretty well eliminated. Barring all-out war, I look for the **broad advance in stocks to be resumed** in due course. It seems rather likely that the vast majority of stockholders will prefer to continue to keep their **paper profits** where they are rather than to cash them into **paper dollars.**

Favored Stock Groups

Several groups of stocks seem to be favored under present and prospective conditions. The **Steels** are an outstanding group, with promise of active demand for their products for a long period. Of course, most of the steel stocks are targets for excess profits taxes. Yet good dividends can apparently be earned in most cases with earnings at or below the EPT exemption. Several appealing issues in this category are shown in Table I.

Leading **Air Lines** offer attractive opportunities at current prices. Most of these are now available far below prices they commanded five years ago. Yet meanwhile the air transport business has grown substantially. These are, of course, speculations, but have appeal as long-term propositions. United Airlines (28), American (14) and Trans World Airlines (24) are well worth considering.

Utilities have considerable appeal for those who want income, but they will not provide much of a hedge against further inflation. Attractive for yield, those listed in Table II.

Rails and Oils—Both of these groups have run into supply in the market following some very extensive advances. After a period of readjustment, selected issues will offer new appeal.

In rails, these are favored examples: Rock Island, Seaboard, Chicago & Northwestern.

In oils: Texas Pacific Coal & Oil, Standard Oil of California and Standard Oil (N. J.).

Television issues (called electronics during wartime) represent about the best speculative hedge against peace-or-war. Pharmaceuticals and **synthetic fibres** remain outstanding candidates for long-term growth.

In the **Retail Trade** (Department Stores and Variety Chains) the following may be mentioned as attractive: Allied Stores; Federated Department Stores; Interstate Department Stores; Kress; and G. C. Murphy.

TABLE I

Price		—EPT Exemption— A	B	Dividend
36	Wheeling Steel	$7.60	$6.25	$3.00
50	Youngstown	7.80	6.65	3.50
49	National	4.90	4.15	3.00
53	Bethlehem	7.75	6.45	4.10

A—47% normal and surtax, as now.
B—55% normal and surtax, as proposed.

TABLE II

	Dividend	Price	% Yield
Commonwealth Edison	$1.60	$29	5.5
Cleveland Electric Illuminating	2.40	45¾	5.3
Niagara Mohawk Power	1.40	21¾	6.4

2 With Consolidated Inv.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Stephen A. Arnold and Clarence E. Shurtleff have become associated with Consolidated Investments, Inc., Russ Building.

With Marache Sims

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif — Richard L. Thompson is now affiliated with Marache Sims & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange.

With Pacific Coast Secs.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Allen E. Shaw has joined the staff of Pacific Coast Securities Co., 634 South Spring Street. He was formerly with Hill Richards & Co. and Maxwell, Marshall & Co.

Wagenseller & Durst Add

(Special to THE FINANCIAL CHRONICLE)

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

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The State of Trade and Industry

Mounting priorities, many needing clarification in relation to others, last week threw steelmakers into a dither as the deadline approached for setting up May rolling schedules, the magazine notes. Now that the deadline, March 15, has been passed, they are more perplexed than ever. They don't know where they stand as to available supplies. Neither do their customers, especially those seeking unrated tonnage.

One major cause for confusion, it adds, is the placing of most, if not all, allocation programs on a DO-rated basis. Set up under approval of the National Production Authority, these programs hitherto took precedence in mill scheduling second to DO-rated orders and an ever-increasing number of special directives. DO-ratings are on a first-come-first-served basis and are far extended in some cases. Consequently, producers are in a quandary as to whether they can live up to their original obligations on the directive programs for May under such ratings notwithstanding an increase in DO-rated minimum mill tonnage set-asides. Some mills are reported seeking legal advice as to how to proceed.

Notwithstanding all the problems confronting the steel industry, output of steel in February was the largest for that month on record despite difficulties attending the switchmen's strike. The total for the month was 7,762,000 net tons, according to the American Iron and Steel Institute.

There was a slight drop in output of cars and trucks last week, but according to "Ward's Automotive Reports," United States plants are currently showing a stability in operations not seen since well back into last year. The past week's volume represented the third consecutive week uniformity was maintained, the agency noted.

General Motors and Ford continued to match the independents for week-to-week stability in schedule, "Ward's" reported. Saturday work at Ford, which netted about 1,800 vehicles in the previous period, was a possibility again this week, and overtime was in prospect again at Nash and Kaiser-Frazer, it said.

However, Dodge operations were curtailed for two days and Packard lost several hours on Tuesday of last week because of parts shortages resulting from labor trouble at their principal suppliers, "Ward's" added.

Based upon estimated second-quarter forecasts, output during the first six months of 1951 is likely to reach 3,900,000 vehicles, surpassing the record January-June total of 3,766,470 cars and trucks produced last year, "Ward's" predicted. Year-to-date output by U. S. manufacturers totals 1,641,500 vehicles, 19% above the 1,377,000 units produced during the like period of 1950, it said.

Interim railroad freight rate advances ranging from 2% to 4% were authorized by the Interstate Commerce Commission, effective March 27, pending hearings on the roads' plea for a permanent 6% boost in freight rates to offset climbing costs. Eastern railroads will be allowed to raise their rates by 4%, while tariffs in the West and South will go up 2%. Freight moving between the three regions will be subject to a 2% hike, being the first freight rate advance granted the railroads since August, 1949. This increase will add about $205,000,000 to their yearly revenues.

Steel Output Scheduled This Week At Second Highest Level On Record

A healthy gray market is flourishing under government pricing regulations, according to "The Iron Age," national metalworking weekly. Fantastic steel prices (two to four times those charged by regular producers) never were illegal. But they were considered unethical, and were subject to scrutiny, investigation and remedial action by government and industry. Now these prices indirectly have official government sanction because the pricing regulations permit steel to be sold for prices received during the base period Dec. 19 to Jan. 25.

Regular mill steel is subject to a voluntary agreement signed by steel producers. But gray market operators are controlled only by the general pricing regulations. All the gray market operator has to do is prove that he hasn't raised his prices above what he charged during that base period. For those who printed price lists or kept records, this isn't hard at all.

In spite of this unexpected legal status the number of curbstone brokers is shrinking, but those remaining are as active as ever. Offerings and tonnage are increasing in heavy consuming areas checked by "The Iron Age." Just how big a factor the gray market is today depends on whom you talk to.

Steel producers think the amount of high-priced steel being offered is much less than six months ago. They cite (1) close control on steel shipped, (2) smaller amounts delivered to nondefense customers, and (3) customer commitments to let mills buy back excess tonnage. Complaints of their products showing up in the gray market are declining.

Steel consumers who have been buying gray market steel to keep their plants going, paint a different picture. They say (1) offerings and tonnage have increased during the past month, (2) minimum inventory regulations effective April 1 may add fuel to the fire, (3) foreign steel is a growing factor.

Consumers and producers agree on one noticeable development: Alleged connections with top steel company officials have just about vanished, this trade paper observes.

Here's how important foreign steel has become to some consumers, this trade authority points out: A large manufacturer of road building equipment is keeping output high by buying foreign carbon plate and semifinished steel. Over half their 40,000-ton monthly requirements come from England, Germany, Holland, France and Japan. Their imports range from mild steel to 4,550 carbon forging grades. They also get 400 tons of alloy plates monthly from France and 200 from England. They deal directly with foreign mills, foreign representatives making their contacts.

This week there are more indications that the government is pulling all the strings together in preparation for a controlled

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The State of Trade and Industry

materials plan. Allotment programs are now assigned DO numbers instead of the previous method of certifying. A meeting of the steel task force discussed new programs which will take a deeper bite out of June shipments, further reducing the free market, concludes "The Iron Age."

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 93% of the steel-making capacity for the entire industry will be 101.1% of capacity for the week beginning March 19, 1951, based on the industry's increased capacity of Jan. 1, compared to a rate of 100.1% a week ago, or an increase of 1 point.

Scheduled steel output the current week represents the second highest level on record. This week's operating rate is equivalent to 2,021,000 tons of steel ingots and castings for the entire industry, compared to 2,001,000 a week ago. A month ago the rate was 99.5% and production yielded 1,989,000 tons; a year ago it stood at 95.5% of the old capacity and amounted to 1,820,500 tons.

Electric Output Rises to Highest Level Since Week of February 17

The amount of electrical energy distributed by the electric light and power industry for the week ended March 17, 1951, was estimated at 6,903,264,000 kwh., according to the Edison Electric Institute.

The current total was 108,747,000 kwh. above that of the previous week, 887,937,000 kwh., or 14.8% above the total output for the week ended March 18, 1950, and 1,407,495,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Decline 4.6% Under Preceding Week

Loadings of revenue freight for the week ended March 10, 1951, totaled 749,627 cars, according to the Association of American Railroads, representing a decrease of 36,240 cars, or 4.6% below the preceding week.

The week's total represented an increase of 41,716 cars, or 5.9% above the corresponding week in 1950, and an increase of 40,301 cars, or 5.7% above the comparable period of 1949.

Auto Output Declines Slightly in Latest Week

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 178,303 units, compared with the previous week's total of 180,577 (revised) units and 134,453 units a year ago.

Total output for the current week was made up of 136,433 cars and 31,125 trucks built in the United States and a total of 8,045 cars and 2,700 trucks built in Canada.

For the United States alone, total output was 167,553 units, against last week's revised total of 169,852 units, and in the like week of last year 128,056. Canadian output in the week totaled 10,745 units, compared with 10,725 units a week ago and 6,397 units a year ago.

Business Failures Reach Highest Level in Five-Week Period

Commercial and industrial failures rose to 185 in the week ended March 15 from 153 in the preceding week, Dun & Bradstreet, Inc. notes. Although at the highest level in five weeks, casualties remained slightly below the comparable weeks of 1950 and 1949 when 208 and 210 occurred, respectively. Failures were down 38% from the 298 recorded in the similar week of pre-war 1939.

All of the week's increase took place among casualties with liabilities of $5,000 or more, which rose to 149 from 114 in the previous week but did not reach last year's total of 173. Small failures, those with liabilities under $5,000, dipped to 36 from 39 and exceeded by 1 their number a year ago.

Retail trade accounted principally for the rise in business mortality during the week. Meanwhile, slight increases appeared in manufacturing and commercial service, but wholesaling was unchanged, and construction declined. Both retailing and commercial service had more failures than a year ago; other industry and trade groups had fewer failures than in 1950.

Geographically, weekly increases occurred in seven of the nine major geographic regions; Middle Atlantic casualties rose to 60 from 55, those in the Pacific States climbed to 43 from 27, and in the New England States to 24 from 14. The only declines during the week occurred in the East North Central and South Atlantic States where failures were down to 30 and 11, respectively. More businesses succumbed than last year in both the New England and Middle Atlantic States, while East South Central and Mountain casualties held steady. Other regions reported drops from the 1950 levels; these declines were moderate except for a 36% drop in the Pacific States.

Food Price Index Levels Off

Ups and downs balanced each other last week and the wholesale food price index, compiled by Dun & Bradstreet, Inc., for March 13 held unchanged at the previous level of $7.27. This represents a rise of 22.0% over the pre-Korea figure of $5.96. It compares with $5.81 on the corresponding date a year ago, or a gain of 25.1%

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

Wholesale Commodity Price Index Extends Downward Movement

Trends were irregular in the principal commodity markets last week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., extended its downward movement to close at 323.65 on March 13. This was the lowest since late January, and compared with 324.00 a week ago, and with 249.45 on the corresponding date last year.

Grain prices fluctuated unevenly over a fairly wide range as a result of uncertainties and conflicting influences. Wheat and rye were higher for the week, while corn and oats finished moderately lower. Strength in wheat reflected the resumption of buying of cash wheat by the Commodity Credit Corporation, reports of increased flour exports and unfavorable weather conditions in some of the growing areas.

There was some liquidation at times due to continued favorable war news from Korea.

Although country offerings of corn remained on a limited basis, the market displayed a heavy undertone. Weakness in the yellow cereal was attributed to fears that ceilings might be imposed on hogs in the near future, expectations of a substantial increase in acreage this year, and the absence of any heavy shipping demand. Activity on the Chicago Board of Trade declined last week. Total sales of grain futures were 214,155,000 bushels, or a daily average of 35,700,000 bushels, the latter comparing with 45,700,000 the previous week, and 30,500,000 a year ago.

Export flour business showed some improvement last week. Domestic trade in flour was slow except for some scattered activity in bakery flours at mid-week. Cocoa futures were easier under sporadic liquidation; the actual market remained tight with prices holding at ceilings. Coffee developed a weaker tone in both the futures and spot markets. Prices in primary coffee markets continued firm.

Domestic raw sugar prices finished slightly higher than a week ago, reflecting strength in the world sugar market which has been advancing steadily in recent weeks.

Lard was under pressure and prices declined sharply on the announcement of a rollback in prices of shortening and salad oil and the expectation of a ceiling on hog prices soon. Hog values were down slightly for the week. Cattle were steady and strong, while wooled lambs again rose to new highs for all time.

Trading in domestic cotton markets was resumed last Thursday after a suspension lasting almost six weeks.

The spot quotation at New York closed firm at the ceiling level of 46.06¢ a pound, up 71 points over Jan. 26 picture of 45.35 cents. All futures were strong at the re-opening but the more distant months turned somewhat easier on the expectation of a large crop next season. In textile markets, a slight increase in first-hand trading was noted. Print cloths were in tight supply due to heavy demands by the armed forces. A moderate volume of second-hand sales occurred in print cloths and broadcloths.

Trade Volume Reflects Resistance to Upward Trend of Prices Despite Near Approach of Easter

Country-wide spending was almost unchanged in the period ended on Wednesday of the past week, despite the proximity of Easter; the aggregate retail dollar volume was noticeably above the level for the corresponding period in 1950, Dun & Bradstreet, Inc. reports in its latest summary of trade. While there were many pre-holiday promotions, the general failure to respond to them was attributed to consumer resistance to the upward price adjustments in some lines.

The buying of apparel rose very slightly last week; dollar sales were substantially above those of a year earlier.

Children's wear was uppermost in the interest of many shoppers, in keeping with traditional Easter buying patterns. There was a slight increase in the purchasing of dresses; the past week's sales total was very slightly above the low level of recent weeks. Coats and suits were in limited demand in scattered localities. Requests for footwear and accessories increased somewhat.

There was a slight decrease in the amount of food bought for consumption during the week; the over-all dollar volume of that purchased was moderately above the level of a year ago.

Many housewives continued to be disinclined to buy meat; there was also a slight lowering of the sales levels for fresh produce and some lines of canned goods.

The demand for macaroni products and dairy products rose somewhat.

Slightly less house-furnishings were bought last week than during the week before; over-all dollar volume, however, was noticeably above the level for the similar week in 1950. Especially popular with shoppers were some lines of furniture, draperies, and floor-coverings.

The interest in large appliances, electrical goods, radios, and television sets generally declined, except in isolated vicinities. The demand for housewares and gift-wear was nearly unchanged.

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, East, and Northwest +11 to +15; South +13 to +17; Midwest +14 to +18; Southwest and Pacific Coast +16 to +20.

There was a slight dip in order volume for the nation last week; the total dollar volume of wholesale orders was appreciably above the level for the comparable week a year ago. The slight decrease from the week before reflected price uncertainties for certain commodities as well as the over-stocked condition of many inventories. The number of buyers attending various wholesale centers was noticeably below that of last week and about half of that of a year ago.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended March 10, 1951, advanced 20% from the like period of last year. This compared with an increase of 18% in the previous week and 20% for the four weeks ended March 10, 1951. For the year to date department store sales registered an advance of 22%.

Retail buying for Easter the past week was brisk with department store sales registering a gain of 15 to 20% compared to the like week of last year.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period of March 10, 1951, advanced 21% from the like period of last year. In the preceding week an increase of 14% was registered above the similar week of 1950. For the four weeks ended March 10, 1951, an increase of 20% was recorded over that of a year ago, and for the year to date, volume advanced 21% from the like period of last year.

Lorillard Debentures Offered by Bankers—Stockholders Receive Rights for Add'l Shs.

A group of underwriters headed by Lehman Brothers and Smith Barney & Co., is offering today (March 22) $15,000,000 of 25-year 3% debentures, due March 1, 1976, of P. Lorillard Co., at a price of 99⅛% plus accrued interest. Simultaneously the company is offering to its common stockholders, 249,600 shares of its common stock for subscription at $20.50 per share. This offering also is being underwritten by the same group.

The net proceeds to be received by the company from the sale of the two issues are to be applied to the payment at maturity of the company's 5% gold bonds, due Aug. 1, 1951, outstanding in the amount of $6,195,450; also, to the reduction of short-term loans payable to banks, which aggregate $23,700,000.

The debentures have the benefit of a sinking fund sufficient to retire $350,000 of the debentures on each March 1 from 1954 to 1975. The sinking fund redemption price is 100%. The sinking fund will retire approximately 51% of the issue prior to maturity.

The additional common stock is being offered to stockholders of record at 3 p.m. on March 21, 1951 (Wednesday) at the rate of one share at $20.50 per share for each nine shares of common stock held of record. The rights expire at 3 p.m. on April 4, 1951.

COMING EVENTS

In Investment Field

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

May 18, 1951 (Baltimore, Md.)
Baltimore Security Traders Association annual Spring outing at the Country Club of Maryland.

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.

June 26, 1951 (Detroit, Mich.)
Securities Traders Association of Detroit and Michigan summer outing at the Plum Hollow Country Club.

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.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Mar. 25	101.1	100.1	99.5	95.5
Equivalent to— Steel ingots and castings (net tons)	Mar. 25	2,021,000	2,001,000	1,989,000	1,820,500
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Mar. 10	6,047,150	6,016,350	5,861,250	4,826,950
Crude runs to stills — daily average (bbls.)	Mar. 10	†6,366,000	6,596,000	6,338,000	5,314,000
Gasoline output (bbls.)	Mar. 10	20,368,000	20,489,000	20,069,000	17,608,000
Kerosene output (bbls.)	Mar. 10	2,730,000	3,043,000	2,559,000	2,429,000
Gas, oil, and distillate fuel oil output (bbls.)	Mar. 10	9,249,000	9,717,000	9,420,000	6,250,000
Residual fuel oil output (bbls.)	Mar. 10	9,499,000	9,630,000	9,714,000	8,210,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Mar. 10	139,056,000	138,209,000	133,134,000	135,284,000
Kerosene (bbls.) at	Mar. 10	12,802,000	12,794,000	14,693,000	14,407,000
Gas, oil, and distillate fuel oil (bbls.) at	Mar. 10	46,022,000	47,560,000	53,065,000	46,575,000
Residual fuel oil (bbls.) at	Mar. 10	38,224,000	*38,068,000	40,206,000	44,544,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 10	749,627	785,867	573,163	707,911
Revenue freight received from connections (number of cars)	Mar. 10	725,881	742,544	533,534	587,388
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Mar. 15	$220,851,000	$258,885,000	$256,465,000	$213,207,000
Private construction	Mar. 15	139,746,000	163,899,000	162,322,000	146,597,000
Public construction	Mar. 15	81,105,000	94,986,000	94,143,000	66,610,000
State and municipal	Mar. 15	69,065,000	57,393,000	60,772,000	58,394,000
Federal	Mar. 15	12,040,000	37,593,000	33,371,000	8,216,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 10	9,980,000	*11,145,000	8,445,000	13,482,000
Pennsylvania anthracite (tons)	Mar. 10	529,000	693,000	866,000	1,202,000
Beehive coke (tons)	Mar. 10	142,500	*148,500	137,100	19,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Mar. 10	304	*288	273	253
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 17	6,903,264	6,794,517	6,905,223	6,015,327
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Mar. 15	185	153	165	208
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 13	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Mar. 13	$52.69	$52.69	$52.69	$46.38
Scrap steel (per gross ton)	Mar. 13	$43.00	$43.00	$43.00	$27.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 14	24.200c	24.200c	24.200c	18.200c
Export refinery at	Mar. 14	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Mar. 14	134.000c	162.000c	183.000c	75.500c
Lead (New York) at	Mar. 14	17.000c	17.000c	17.000c	10.500c
Lead (St. Louis) at	Mar. 14	16.800c	16.800c	16.800c	10.300c
Zinc (East St. Louis) at	Mar. 14	17.500c	17.500c	17.500c	9.925c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Mar. 20	99.61	99.60	101.26	103.22
Average corporate	Mar. 20	113.50	114.08	116.02	116.22
Aaa	Mar. 20	117.00	117.60	119.82	121.25
Aa	Mar. 20	116.22	116.61	118.80	120.02
A	Mar. 20	112.56	113.50	115.43	115.82
Baa	Mar. 20	108.52	109.06	110.15	108.70
Railroad Group	Mar. 20	110.52	111.44	112.93	111.62
Public Utilities Group	Mar. 20	113.50	114.08	115.63	117.20
Industrials Group	Mar. 20	116.61	117.00	119.20	120.22
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Mar. 20	2.52	2.52	2.40	2.26
Average corporate	Mar. 20	2.98	2.95	2.85	2.84
Aaa	Mar. 20	2.80	2.77	2.66	2.59
Aa	Mar. 20	2.84	2.82	2.71	2.65
A	Mar. 20	3.03	2.98	2.88	2.86
Baa	Mar. 20	3.25	3.22	3.16	3.24
Railroad Group	Mar. 20	3.14	3.09	3.01	3.08
Public Utilities Group	Mar. 20	2.98	2.95	2.87	2.79
Industrials Group	Mar. 20	2.82	2.80	2.69	2.64
MOODY'S COMMODITY INDEX	Mar. 20	523.2	522.8	532.5	355.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 10	254,539	345,004	226,546	219,528
Production (tons)	Mar. 10	249,472	245,830	237,247	191,702
Percentage of activity	Mar. 10	106	105	104	89
Unfilled orders (tons) at	Mar. 10	759,490	758,562	748,012	395,211
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Mar. 16	154.7	154.1	152.9	121.9
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Mar. 3	33,069	31,129	48,568	27,345
Number of shares	Mar. 3	971,729	873,386	1,467,109	808,763
Dollar value	Mar. 3	$42,241,308	$37,903,344	$66,494,809	$32,879,477
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Mar. 3	31,448	29,026	43,360	27,718
Customers' short sales	Mar. 3	449	273	330	113
Customers' other sales	Mar. 3	30,999	28,753	43,030	27,605
Number of shares—Total sales	Mar. 3	863,406	814,516	1,258,027	782,446
Customers' short sales	Mar. 3	16,107	10,144	12,610	4,078
Customers' other sales	Mar. 3	847,299	804,372	1,245,417	778,368
Dollar value	Mar. 3	$35,253,907	$33,621,857	$51,166,009	$27,697,212
Round-lot sales by dealers—					
Number of shares—Total sales	Mar. 3	242,870	244,690	337,440	246,820
Short sales	Mar. 3	------	------	------	------
Other sales	Mar. 3	242,870	244,690	337,440	246,820
Round-lot purchases by dealers—					
Number of shares	Mar. 3	366,450	290,040	548,210	272,720
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Mar. 13	183.4	183.5	183.4	152.6
Farm products	Mar. 13	203.0	202.3	203.4	159.8
Grains	Mar. 13	189.1	187.5	195.5	165.5
Livestock	Mar. 13	268.4	266.9	271.1	201.0
Foods	Mar. 13	188.0	188.9	190.1	155.5
Meats	Mar. 13	272.0	273.8	277.5	213.5
All commodities other than farm and foods	Mar. 13	171.8	171.8	170.8	146.0
Textile products	Mar. 13	185.1	182.8	181.8	137.2
Fuel and lighting materials	Mar. 13	139.0	138.6	137.5	131.8
Metals and metal products	Mar. 13	189.3	190.7	188.7	168.3
Building materials	Mar. 13	227.2	226.9	226.7	194.3
Chemicals and allied products	Mar. 13	146.9	148.7	147.2	116.0

*Revised figure. †Includes 507,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION — For Month of January:			
Total gas (M therms)	5,134,336	4,654,058	4,327,383
Natural gas sales (M therms)	4,743,234	4,316,493	3,975,609
Manufactured gas sales (M therms)	234,838	202,375	230,897
Mixed gas sales (M therms)	156,264	135,190	120,877
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of February	7,762,000	*8,843,167	6,793,245
Shipments of steel products, including alloy and stainless (net tons)—Month of Jan.	6,904,688	6,432,776	5,482,691
AMERICAN PETROLEUM INSTITUTE—Month of December:			
Total domestic production (bbls. of 42 gallons each)	194,517,000	192,981,000	170,465,000
Domestic crude oil output (bbls.)	177,276,000	176,725,000	155,754,000
Natural gasoline output (bbls.)	17,236,000	16,251,000	14,681,000
Benzol output (bbls.)	5,000	5,000	30,000
Crude oil imports (bbls.)	16,438,000	13,992,000	15,041,000
Refined products imports (bbls.)	13,746,000	*12,736,000	10,642,000
Indicated consumption domestic and export (bbls.)	244,930,000	*214,936,000	215,453,000
Increase—all stocks (bbls.)	†20,229,000	*4,773,000	†19,305,000
AMERICAN ZINC INSTITUTE, INC.—Month of February:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	70,285	*80,937	69,948
Shipments (tons of 2,000 lbs.)	64,784	*72,068	69,020
Stocks at end of period (tons)	11,117	10,212	82,037
Unfilled orders at end of period (tons)	76,446	72,770	52,941
BUSINESS INCORPORATIONS (NEW) IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of February	8,503	6,780	9,070
COAL OUTPUT (BUREAU OF MINES)—Month of February:			
Bituminous coal and ignite (net tons)	39,032,000	50,950,000	*12,145,000
Pennsylvania anthracite (net tons)	3,532,000	*4,199,000	2,581,000
Beehive coke (net tons)	602,700	*703,100	38,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of Feb. 28 (000's omitted)	$369,000,000	$356,000,000	$257,000,000
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES—1935-1949=100 — Adjusted as of Jan. 15:			
All items	181.5	178.8	168.2
All foods	221.9	216.3	196.0
Cereals and bakery products	185.4	177.7	169.0
Meats	265.5	253.8	217.9
Dairy products	202.6	194.0	134.3
Eggs	191.5	249.4	152.3
Fruits and vegetables	214.1	203.9	204.3
Beverages	340.6	327.5	299.5
Fats and oils	171.5	158.5	135.3
Sugar and sweets	185.6	184.9	178.9
Clothing	158.5	195.5	185.0
Rent	133.2	132.9	129.4
Fuel, electricity and refrigerator	143.3	142.8	140.0
Gas and electricity	97.2	96.8	96.7
Other fuels	202.3	201.7	193.1
Ice	152.0	151.5	145.5
House furnishings	207.4	203.2	184.7
Miscellaneous	162.1	160.6	155.1
COPPER INSTITUTE—For month of February:			
Copper production in U. S. A.—			
Crude (tons of 2,000 pounds)	82,912	*86,961	80,756
Refined (tons of 2,000 pounds)	101,199	110,144	94,036
Deliveries to customers—			
In U. S. A. (tons of 2,000 pounds)	99,630	108,128	112,773
Refined copper stocks at end of period (tons of 2,000 pounds)	59,324	54,883	77,472
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100) Month of February:			
Adjusted for seasonal variation	326	*362	280
Without seasonl adjustment	261	277	224
EMPLOYMENT AND PAYROLLS—U. S. DEBT. OF LABOR—REVISED SERIES—Month of December:			
All manufacturing (production workers)	13,038,000	*13,029,000	11,504,000
Durable goods	7,241,000	*7,198,000	5,961,000
Nondurable goods	5,797,000	*5,831,000	5,543,000
Employment indexes— All manufacturing	159.2	159.0	140.4
Payroll indexes— All manufacturing	424.9	415.1	329.3
Estimated number of employees in manufacturing industries—			
All manufacturing	15,765,000	*15,758,000	14,031,000
Durable goods	8,701,000	*8,658,000	7,303,000
Nondurable goods	7,064,000	*7,100,000	6,728,000
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Feb	£9,923,000	£28,089,000	£9,690,000
NEW YORK STOCK EXCHANGE—As of Feb. 28 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,366,817	$1,411,125	$953,059
Credit extended to customers	97,397	114,104	47,269
Cash on hand and in banks in U. S.	411,646	404,297	306,130
Total of customers' free credit balances	952,827	947,966	669,089
Market value of listed shares	100,245,611	99,339,824	78,638,810
Market value of listed bonds	115,801,060	116,164,521	127,777,273
Member borrowings on U. S. Govt. issues	132,425	178,396	87,576
Member borrowings on other collateral	629,107	665,423	554,966
RAILROAD EARNINGS — CLASS I ROADS (ASSOCIATION OF AMERICAN RRS.) — Month of January:			
Total operating revenues	$848,728,726	$927,930,231	$657,044,949
Total operating expenses	645,246,272	645,421,522	546,660,531
Operating ratio-per cent	76.03%	69.55%	83.20%
Taxes	$109,414,627	$154,803,205	$64,077,602
Net railway operating income before charges	77,690,911	113,318,982	32,796,005
Net income after charges (est.)	56,000,000	121,000,000	13,500,000
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of February:			
Net sales	------	------	------
Net purchases	$261,227,500	$36,780,600	$13,481,200
ZINC OXIDE (BUREAU OF MINES) — Month of January:			
Production (short tons)	20,360	20,170	12,193
Shipments (short tons)	19,219	20,256	12,871
Stocks at end of month (short tons)	11,068	9,911	9,282

*Revised. †Decrease—All stocks (bbls.).

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.

• **Alhambra-Shumway Mines, Inc.**
March 7 (letter of notification) 300,000 shares of common stock (par 10 cents), to be offered to stockholders only. **Price**—5 cents per share. **Underwriter**—None. **Proceeds**—To pay corporate expenses and obligations. **Office**—681 Market St., San Francisco 5, Calif.

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. Statement effective March 9.

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 339,674 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**—To be received up to 11 a.m. (EST) on March 29, at company's office, 30 Church Street, New York 8, N. Y.

American Research & Development Corp., Boston, Mass.
Feb. 1 filed 106,420 shares of common stock (par $1). **Price**—$25 per share. **Underwriters**—Harriman Ripley & Co., Inc., and Estabrook & Co. as joint managers. **Proceeds**—To make investments in certain enterprises.

• **Arizona Cheese & Cattle Co., Yuma, Ariz.**
March 12 (letter of notification) 450 shares of class B common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For working capital.

Atlantic Oil Corp., Tulsa, Okla.
Nov. 13 (letter of notification) 48,046 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—Continental Corp., Tulsa, Okla. **Proceeds**—To purchase oil and gas properties.

B. & H. Incorporated, New Orleans, La.
Jan. 8 (letter of notification) 19,397 shares of 6% cumulative preferred stock (par $10) and 58,940 shares of common stock (par 50 cents) to be sold in units of one preferred and one common share. **Price**—$10.50 per unit and 50 cents per share for common stock. **Underwriter**—Woolfolk & Shober, Inc., New Orleans, La. **Proceeds**—For working capital. **Office**—513 Carondelet Bldg., New Orleans 12, La.

• **Black, Sivalls & Bryson, Inc., Kansas City, Mo.**
March 15 filed 120,000 shares of common stock (par $1), to be offered for subscription by common stockholders at rate of one share for each three shares held. **Price**—$12.50 per share. **Underwriter**—F. S. Yantis & Co., Inc., Chicago, Ill. **Proceeds**—To acquire stock of Zenite Metal Corp.

• **Bluhill Foods, Inc., Denver, Colo.**
March 8 (letter of notification) 450 shares of common stock (par $100), to be offered to stockholders only. **Price**—$50 per share. **Underwriter**—None. **Proceeds**—For general funds. **Office**—711 South Broadway, Denver 9, Colo.

Bristol Silver Mines Co., Salt Lake City, Utah
March 2 (letter of notification) 1,633,124 shares of common stock being offered for subscription by stockholders of record March 15, 1951, at rate of one share for each two shares held (with an oversubscription privilege); rights to expire on or about April 28. **Price**—At par (10 cents per share). **Underwriter**—None. **Proceeds**—For development of ore. **Office**—218 Felt Bldg., Salt Lake City 1, Utah.

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, 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; offer expires March 26 unless extended. Georgeson & Co. soliciting exchanges. Statement effective Feb. 21.

Burlington Mills Corp. (3/28)
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.

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."

California Eastern Airways, Inc., New York
March 5 (letter of notification) 123,640 shares of common stock (par 10¢) being offered to common stockholders of record March 5 on basis of 11 shares for each 100 shares held; rights to expire March 31. **Underwriter**—Sterling, Grace & Co., New York, up to an aggregate price of $150,000. **Proceeds**—For working capital.

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. Statement effective March 12.

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.

• **Chemical Fund, Inc., New York**
March 15 filed 1,088,195 shares of capital stock. **Price**—At the market. **Underwriter**—None. **Proceeds**—For investment.

• **Chevron Petroleums, Ltd., Toronto, Canada**
March 14 filed 900,000 shares of common stock (par $1) to be offered "as a speculation." **Price** — 50 cents per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. **Proceeds**—To take up option and develop properties.

• **Citizens Insurance Underwriters (Utah)**
March 13 (letter of notification) 10,000 shares of capital stock. **Price** — At par $10 (per share). **Underwriter**—None. **Proceeds** — For additional capital and surplus to qualify a stock insurance company owned by the company. **Office**—255 East Broadway, Salt Lake City, Utah.

Colorado Central Power Co.
Feb. 28 (letter of notification) 19,037 shares of common stock (par $5) offered to common stockholders of record March 1, 1951 at rate of one share for each 8.2 shares held with an oversubscription privilege; rights expire April 2. **Price**—$14 per share. **Underwriter**—None. **Proceeds**—For construction program. **Office**—3470 So. Broadway, Englewood, Calif.

Consolidated Cigar Corp., New York (4/4)
March 9 filed 50,000 shares of cumulative preferred stock, series of 1951 (no par). **Price**—To be supplied by amendment. **Underwriter**—Eastman, Dillon & Co., New York. **Proceeds** — To prepay short-term bank loans and for working capital.

• **Consolidated Engineering Corp., Pasadena, Cal.**
March 12 (letter of notification) 115 shares of common stock (par $1) to be issued upon exercise of stock option. **Price**—100/115ths of $5 per share. **Proceeds**—For working capital. Paul W. Heasley, the holder of the option, will sell 50 of the shares through Hopkins, Harbach & Co., Los Angeles, Calif., and retain the other 50 shares.

Consolidated Textile Co., Inc., New York
Dec. 27 filed 220,000 shares of capital stock (par 10 cents), offered in exchange for 200,000 shares of common stock of Bates Manufacturing Co. (Consolidated now owns 51,400 shares, or approximately 13% of the 391,500 outstanding Bates shares) on basis of 11 shares of Consolidated for 10 shares of Bates stock. Exchange offer to expire April 30. Statement effective March 2.

• **Consolidated Uranium Mines, Inc.**
March 7 (letter of notification) 1,000,000 shares of common stock (par 7½ cents). **Price**—15 cents per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For exploration and development of uranium and vanadium mining properties. **Office** — 522 Pelt Bldg., Salt Lake City, Utah. **Offering**—Made on March 15 and oversubscribed.

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. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Kuhn, Loeb & Co. and Union Securities Corp. (jointly); Harriman Ripley & Co., Inc. and The First Boston Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly); Morgan Stanley & Co.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly). **Proceeds**—To redeem $5,300,000 of first mortgage bonds, to repay $8,000,000 of bank loans and for 1951 construction program. **Bids**—To be opened at 11 a.m. (EST) on March 27, at office of Commonwealth Services, Inc., 20 Pine Street, New York 5, N. Y. Registration statement effective March 14.

Continental Car-Nar-Var Corp., Brazil, Ind.
March 5 (letter of notification) 150,000 shares of common (voting) stock (par $1). **Price**—$2 per share. **Underwriters**—Sills, Fairman & Harris, Inc., Chicago, and Gearhart, Kinnard & Otis, Inc., New York. **Proceeds**—For working capital and general corporate purposes.

Continental Electric Co., Geneva, Ill.
March 2 (letter of notification) $300,000 of 6% sinking fund debentures due Dec. 1, 1975 (to be issued in units of $100, $500 and $1,000 each). **Price**—91% of principal amount. **Underwriter**—Boettcher & Co., Chicago, Ill. **Proceeds**—To retire indebtedness and for working capital. **Office**—715 Hamilton St., Geneva, Ill.

• **Continental Royalty Co., Dallas, Tex.**
March 8 (letter of notification) 171,428 shares of common stock (par $1). **Price**—$1.75 per share. **Underwriter**—None. **Proceeds**—To purchase additional gas and oil royalties. **Office**—740 Wilson Bldg., Dallas, Tex.

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. (4/10)
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 and to public at about $6.75 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.

• **Deep Rock Oil Corp., Tulsa, Okla.**
March 19 filed a maximum of 7,000 shares of common stock (par $1) to be issued in connection with memberships in the stock purchase plan for employees involving anticipated contributions not to exceed $240,000.

Detroit Edison Co. (3/30)
March 1 filed 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.

• **Doman Helicopters, Inc.**
March 14 (letter of notification) 10,000 shares of capital stock. **Price**—$5 per share. **Underwriter**—None. **Proceeds**—For the design, construction, test and sale of helicopters, for research in the rotary wing field and for other corporate purposes. **Office**—545 Fifth Avenue, New Pork 17, N. C.

Duggan's Distillers Products Corp.
Oct. 27 (letter of notification) 340,000 shares of common stock (par 10c). **Price**—75 cents per share. **Underwriter**—Olds & Co., Jersey City, N. J. **Proceeds**—To pay balance of purchase price for building ($20,000) and for working capital.

• **Duncan Coffee Co., Houston, Tex.**
March 20 filed 150,000 shares of class A convertible common stock (par $2.50). **Price**—To be supplied by amendment. **Underwriters**—Neuhaus & Co., Houston, Tex., and Dewar, Robertson & Pancoast, San Antonio, Tex. **Proceeds**—To H. M. and C. W. Duncan, President and Vice-President, respectively, who are the two selling stockholders.

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.

Food Machinery & Chemical Corp. (4/10)
March 14 filed $25,000,000 of 25-year sinking fund debentures due March 15, 1976. **Price**—Plus coupon rate, to

be filed by amendment. **Underwriters**—Kidder, Peabody & Co., New York, and Mitchum, Tully & Co., San Francisco, Calif. **Proceeds**—For new construction and other general corporate purposes.

● **Forming Machine Co. of America, Inc.**
March 16 (letter of notification) 450 shares of common stock (par $1), to be offered to common stockholders of record about March 26 on a basis of one share for each five shares held (with an oversubscription privilege good to April 14); rights expire on April 4. **Price**—$100 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—18 Hamilton Street, Bound Brook, N. J.

● **Gas Light Co. of Columbus (Ga.)**
March 9 (letter of notification) $250,000 of 6% cumulative preferred stock to be offered for subscription by common stockholders. **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds**—From sale of stock, together wtih proceeds from private sale of $750,000 mortgage bonds to Northwestern Mutual Life Insurance Co., to expand natural gas distribution system. **Office**—107—13th St., Columbus, Ga.

● **General Appliance Corp., Springfield, Mass.**
March 9 (letter of notification) $50,000 of 6% convertible debentures due 1961 and 35,000 shares of common stock (par 10 cents) offered in uints of a $1,000 debenture and 700 shares of stock. **Price**—$1,000 per unit. **Underwriter**—Gearhart, Kinnard & Otis, Inc., Inc., New York. **Proceeds**—For working capital. Being placed privately.

● **General Investors Trust, Boston, Mass.**
March 19 filed 75,000 trust shares. **Price**—At the market. **Underwriter**—None. **Proceeds**—For investment.

General Shoe Corp., Nashville, Tenn.
March 5 (letter of notification) 7,500 shares of common stock (par $1) to be issued to The G. Edwin Smith Shoe Co. in exchange for capital stock of The Nisley Co. **Underwriter** — None, but it is expected that Smith, Barney & Co., New York, will make a secondary offering of aforementioned shares on behalf of the Smith Shoe firm. **Offering**—Expected latter part of this month or early in April.

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.

● **Gottscho (Adolph), Inc., Hillside, N. J.**
March 15 (letter of notification) 12,000 shares of common stock (no par). **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For new equipment and working capital.

● **Granite City Steel Co. (4/3)**
March 14 filed 248,600 shares of common stock (par $12.50) to be offered for subscription by common stockholders of record about April 3 on basis of one share for each four shares held; rights to expire on April 17. **Price**—To be supplied by amendment. **Underwriters** — The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane, both of New York. **Proceeds**—For expansion program.

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.

● **Gulf States Utilities Co.**
March 21 filed 200,000 shares of common stock (no par). **Underwriters**—To be determined by competitive bidding. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and Lehman Brothers (jointly); Stone & Webster Securities Corp. **Proceeds**—For new construction and general corporat purposes. **Offering**—Expected in April.

● **Gyrodyne Co. of America, Inc.**
March 14 (letter of notification) 34,320 shares of class A common stock (par $1). **Price**—$5 per share. **Underwriters**—Company itself in New York, and Jackson & Co., Boston, Mass. **Proceeds**—For partial financing of anticipated military contracts and for acquisition of new manufacturing facilities. **Office**—80 Wall Street, New York 5, N. Y.

Hamilton Fire Insurance Co., Philadelphia
Oct. 2 (letter of notification) 64,000 shares of capital stock (par $5). **Price**—$4.50 per share. **Underwriter**—Jenks, Kirkland & Grubbs, 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.

● **Indiana Associated Telephone Corp. (4/3)**
March 19 filed 20,000 shares of $2.50 cumulative preferred stock (no par). **Price**—To be suppiled by amendment. **Underwriter**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Proceeds**—For new construction, etc.

● **Inter-County Telephone & Telegraph Co.**
March 12 (letter of notification) 3,000 shares of 5% cumulative preferred stock, series B. **Price**—At par ($25 per share). **Underwriter** — Florida Securities Co., St. Petersburg, Fla., and H. W. Freeman & Co., Ft. Myers, Fla. **Proceeds**—For general corporate purposes.

● **Inter-Mountain Telephone Co., Bristol, Tenn.**
March 16 filed 142,500 shares of common stock (par $10) to be offered for subscription by common stockholders on basis of one share for each two shares held. **Price**—To be supplied by amendment. **Underwriter**—Courts & Co., Atlanta, Ga. **Proceeds**—To reduce Indebtedness.

NEW ISSUE CALENDAR

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 28, 1951

Burlington Mills Corp.	Preference
Great Northern Ry. noon (EST)	Equip. Tr. Ctfs.
Sinclair & Valentine Co.	Common
Washington Gas Light Co.	Common

March 29, 1951

American Gas & Electric Co. 11 a.m. (EST)	Com.

March 30, 1951

Detroit Edison Co.	Common
Mountain States Telephone & Telegraph Co.	Com.

April 2, 1951

North American Acceptance Corp.	Preferred
Lone Star Steel Co.	Common
Rapid Film Technique, Inc.	Common

April 3, 1951

Granite City Steel Co.	Common
Indiana Associated Telephone Corp.	Preferred
Potomac Edison Co. 11 a.m. (EST)	Bonds
Southern Co. 11:30 a.m. (EST)	Common
Southern Pacific Co. noon (EST)	Equip. Tr. Ctfs.
Tennessee Gas Transmission Co.	Preferred
Worcester County Electric Co. noon (EST)	Bonds

April 4, 1951

Consolidated Cigar Corp.	Preferred
Thompson Products, Inc.	Debs. & Common
Vanity Fair Mills, Inc.	Common

April 5, 1951

Oklahoma Gas & Electric Co.	Common

April 9, 1951

Plywood, Inc.	Debentures

April 10, 1951

Culver Corp.	Common
Food Machinery & Chemical Corp.	Debentures
Mountain States Power Co. 10:30 a.m. (CST)	Com.
Mountain States Power Co. 11 a.m. (CST)	Bonds

April 16, 1951

Public Service Co. of Oklahoma	Bonds

April 19, 1951

Illinois Central RR.	Equip. Trust Ctfs.

April 24, 1951

Monongahela Power Co.	Bonds

May 1, 1951

Telegift, Inc.	Common

June 5, 1951

Georgia Power Co.	Bonds

July 17, 1951

Mississippi Power Co.	Preferred

September 11, 1951

Alabama Power Co.	Bonds

● **Investment Co. of America, Los Angeles, Cal.**
March 15 filed 1,500,000 shares of common stock (par $1). **Price**—At the market. **Underwriter**—None. **Proceeds**—For investment.

● **Israel (State of)**
March 19 filed $500,000,000 of "Independence Issue" bonds, in two types, viz: 15-year 3½% dollar coupon bonds due May 1, 1966; and 12-year dollar savings bonds to be dated the first day of the month in which issued and to have a maturity value of 150% of par. **Price**—At 100% of principal amount. **Underwriter**—American Financial & Development Corp. for Israel. **Proceeds**—For economic development of the State of Israel. **Office**—Authorized agent is located at 11 East 70th St., New York, N. Y.

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.

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**—To be received by company at 67 Broad Street, New York, N. Y., until noon (EST) on March 27. Statement effective March 14.

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**—To be received until noon (EST) March 27. Statement effective March 14.

● **Johnston Mutual Fund, Inc., N. Y.**
March 12 filed 25,000 shares of capital stock (par $1). **Price**—At market (about $30.22 per share). **Underwriter**—None. **Proceeds**—For investment.

Jones & Laughlin Steel Corp. (3/26-31)
March 6 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.

● **Kanarado Mining & Development Co.**
March 9 (letter of notification) 200,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—500 Sumner St., Littleton, Colo.

● **Kingsburg (Calif.) Cotton Oil Co.**
March 8 (letter of notification) 42,187 shares of common stock (par $1), being offered to common stockholders of record March 10 on basis of one share for each 10 shares held; rights to expire on April 20. **Price**—$4.25 per share. **Underwriter**—None. **Proceeds**—To construct cotton gin. **Address**—P. O. Box 277, Kingsburg, Calif.

Kingsburg Cotton Oil Co., Kingsburg, Calif.
March 1 (letter of notification) 6,000 shares of capital stock (par $1). **Price**—$5.25 per share. **Underwriter**—Fewel & Co., Los Angeles, Calif. **Proceeds**—To Fewel Bros., Inc., the selling stockholder.

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.

● **Langendorf United Bakeries, Inc.**
March 8 (letter of notification) 1,500 shares of $1.80 cumulative preferred stock (par $25). **Price**—$30.62½ per share. **Underwriter**—Walston, Hoffman & Goodwin, San Francisco, Calif. **Proceeds**—To Stanley S. Langendorf, the selling stockholder.
March 9 (letter of notification) 1,053 shares of $1.80 cumulative preferred stock (par $25). **Price**—$30.62½ per share. **Underwriter**—First California Co., San Francisco, Calif. **Proceeds**—To Stanley S. Langendorf, the selling stockholder.
March 9 (letter of notification) 816 shares of common stock (par $1). **Price**—$25.25 per share. **Underwriter**—First California Co., San Francisco, Calif. **Proceeds**—To Stanley S. Langendorf, the selling stockholder.

● **Lewis (John H.) Fund, Inc., New York**
March 15 filed 100,000 shares of capital stock. **Price**—At market. **Underwriter**—Lewis Management Co., Inc., New York. **Proceeds**—For investment.

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.

Lone Star Steel Co., Dallas, Tex. (4/2)
March 8 filed an unspecified number of shares of common stock (par $1) to be offered to first common stockholders. **Price**—To be supplied by amendment. **Underwriters**—Dallas Rupe & Son, Dallas, Texas; Estabrook & Co., Boston, Mass.; and Straus & Blosser, Chicago, Ill. **Proceeds**—To amount to $6,000,000, to reimburse company for redemption of 4½% first mortgage bonds.

● **Lorain Telephone Co., Lorain, Ohio**
March 13 (letter of notification) 6,705 shares of common stock (no par), to be offered to common stockholders at the rate of one share for each 10 shares held. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—203 West Ninth St., Lorain, Ohio.

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Lorillard (P.) Co., New York
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 April 4. **Price**—$20.50 per share. **Underwriters**—Lehman Brothers and Smith, Barney & Co., New York. **Proceeds**—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.

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.

● **Midcontinent Chemical Co., Grove City, Ohio**
March 13 (letter of notification) $150,000 of 5½% secured debentures due March 15, 1963 (in denominations of $500 and $1,000 each). **Underwriter**—The Ohio Company, Columbus, Ohio. **Proceeds**—To retire notes and purchase equipment. **Office**—70 West Park St., Grove City, Ohio.

● **Moore-Handley Hardware Co., Inc.**
March 8 (letter of notification) 30,000 shares of common stock (par $1) to be offered to employees under employees' stock purchase plan. **Price**—At 85% of market value at time of issuance. **Proceeds** — For general corporate purposes. **Office**—27 South 20th St., Birmingham, Ala.

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. (4/10)
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.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To repay bank loans and for new construction. **Bids**—To be opened at 11 a.m. (CST) on April 10 at company's office in Chicago, Ill.

Mountain States Power Co. (4/10)
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, Finner & Beane; Lehman Brothers; A. C. Allyn & Co. and Bear, Stearns & Co. (jointly). **Proceeds**—To repay bank loans and for expansion program. **Bids**—To be received at company's office in Chicago, Ill., up to 10:30 a.m. (CST) on April 10.

Mountain States Telephone & Telegraph Co. (3/30)
March 9 filed 215,709 shares of capital stock to be offered to common stockholders of record March 30 in ratio of one share for each five shares held. **Price**—At par ($100 per share); rights expected to expire on April 30. **Underwriter**—None. **Proceeds**—To repay advances to American Telephone & Telegraph Co., the parent, and for general corporate purposes.

● **Murphy Ranch Mutual Water Co., Whittier, Cal.**
March 9 (letter of notification) 40 shares of common stock. **Price**—$9.18 per share. **Underwriter**—Perry-Monahand Realty Co., who sold the land. **Proceeds**—To Murphy Ranch Land & Development Co. **Address**—Box 31, Whittier, Calif.

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.

● **National Gypsum Co., Buffalo, N. Y.**
March 14 filed 68,652 shares of common stock (par $1) to be offered in exchange for 22,884 shares of National Mortar & Supply Co. stock in ratio of three shares of National for one share of Mortar. **Underwriters**—None.

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, 129,367 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. Statement effective March 6. **Bids**—No bids were received for either issue on March 20.

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.

● **North American Acceptance Corp. (4/2)**
March 20 (letter of notification) 15,000 shares of 60-cent cumulative convertible preferred stock (par $5). **Price**—$10 per share. **Underwriter**—Michael Investment Co., Inc., Providence, R. I. **Proceeds**—For working capital.

● **Oil Producers, Inc., Oklahoma City, Okla.**
March 13 (letter of notification) 100,000 shares of common stock. **Price**—At not exceeding 50 cents per share. **Underwrtier** — None. **Proceeds**—To Forrest Parrott, the selling stockholder. **Office**—Petroleum Bldg., Oklahoma City, Okla.

Oklahoma Gas & Electric Co. (4/5)
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, with an oversubscription privilege; rights are to expire on April 24. Standard Gas & Electric Co. is entitled to purchase 121,009 shares and plans to purchase any of the remaining 94,371 shares not subscribed for by other stockholders. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds**—For construction program.

Pacific Gas & Electric Co.
Feb. 21 filed 1,419,562 additional shares of common stock (par $25) being offered 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. **Price**—$31 per share. **Underwriter** — Blyth & Co., Inc., New York. **Proceeds**—To be applied toward new construction, estimated to cost $130,000,000 in 1951. Statement effective March 13.

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.

● **Palmer Stendel Oil Corp., Santa Barbara, Cal.**
March 5 (letter of notification) 1,212,200 shares of non-assessable stock (par $1) being offered to stockholders of record March 10 on a basis of five shares for each eight held; rights to expire on April 6. **Price**—20 cents per share. **Underwriter**—Burnham & Co., New York. **Proceeds**—For working capital, etc. **Office**—First National Bank Bldg., Santa Barbara, Calif.

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.

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.

Piedmont Natural Gas Co., Inc.
Feb. 20 filed 100,000 shares of common stock (par $1) to be offered to common stockholders of record March 19 at rate of one share for each 2½ shares held; rights to expire March 30. **Price**—$4.50 per share. **Underwriter**—White, Weld & Co., New York. **Proceeds**—To construct and operate six lateral pipe lines.

● **Pigeon Hole Parking, Inc., Spokane, Wash.**
Feb. 16 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds** — For working capital. **Office** — 718 Peyton Bldg., Spokane, Wash.

● **Plywood, Inc., Detroit, Mich. (4/9-14)**
March 15 filed $1,500,000 of 6% sinking fund debentures, series A, due April 1, 1963 (with 7-year warrants to purchase 150,000 shares of common stock attached). **Price**—To be supplied by amendment. **Underwriters**—H. M. Byllesby & Co., Inc., Chicago, Ill., and P. W. Brooks & Co., Inc., New York. **Proceeds**—To erect plant and install equipment. **Offering**—Expected week of April 9.

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 at 11 a.m. (EST) on April 3.

Public Service Co. of Oklahoma (4/16)
March 12 filed $10,000,000 of first mortgage bonds, series C, due April 1, 1981. **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. **Bids**—Tentatively expected to be received on April 16.

Rapid Film Technique, Inc., N. Y. (4/2)
March 8 (letter of notification) 60,000 shares of common stock (par 10¢). **Price**, $1 per share. **Underwriter**—Jacquin, Stanley & Co., New York. **Proceeds**—To reduce loans, for improvements, new equipment and working capital.

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.

Shenango Valley Water Co.
March 9 (letter of notification) 2,150 shares of 5% cumulative preferred stock (par $100). **Price**—$105 per share and accrued dividends. **Underwriter**—None. **Proceeds**—For repaying short-term debt and for construction program. **Office**—100 Shenango Avenue, Sharon, Pa.

Sherneth Corp., New York.
March 7 (letter of notification) 13,214 shares of common stock (par 10¢) being offered to common stockholders of record March 7 on basis of one share for each five held (with an oversubscription privilege); rights to expire on March 30. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For working capital and used for general corporate purposes. **Office**—781 Fifth Avenue, New York 22, N. Y.

● **Silver Buckle Mining Co., Wallace, Idaho**
March 9 (letter of notification) 161,875 shares of common stock. **Price**—60 cents per share. **Underwriter**—None. **Proceeds**—To six selling stockholders. **Address**—Box 469, Wallace, Idaho.

Sinclair & Valentine Co., New York (3/28)
March 12 (letter of notification) 16,599 shares of common stock (no par) to be offered to common stockholders of record March 28, 1951, at rate of one share for each ten shares held; rights to expire April 18, 1951. **Price**—$15 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—611 West 129th Street, New York 27, N. Y.

South Carolina Insurance Co., Columbia, S. C.
Feb. 28 (letter of notification) 5,000 shares of common stock (par $10) being offered to stockholders of record March 15 on basis of one share for each 10 shares held (with an oversubscription privilege); rights expire on April 15. **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 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.

● **Standard-Thomson Corp.**
March 12 (letter of notification) approximately 13,750 shares of common stock (par $1). **Price**—At the market (approximately $7 per share). **Underwriters**—Lee Higginson Corp., Carreau & Co. and Reich & Co., New York. **Proceeds**—To four selling stockholders.

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.

Superdraulic Corp., Detroit, Mich.
Feb. 23 (letter of notification) 100,000 shares of 6% non-cumulative convertible preferred stock (convertible into common stock (par $1) share-for share) now offered to common stockholders. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—14256 Wyoming Ave., Detroit, Mich.

● **Telegift, Inc., New York (5/1)**
March 20 (letter of notification) 60,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To establish and operate a "Gifts-by-Wire" service to be known as the Telegift Service, and for operating capital. **Office**—40 East 49th Street, New York 17, N. Y.

Tennessee Gas Transmission Co. (4/3)
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.

Thompson Products, Inc. (4/4)
March 14 filed $15,000,000 of 20-year debentures due April 1, 1971. **Price**—To be supplied by amendment. **Underwriters**—Smith, Barney & Co. and Shields & Co., both of New York, and McDonald & Co., Cleveland, O. **Proceeds**—To repay bank loans and for general corporate purposes.

Thompson Products, Inc. (4/4)
March 14 filed 131,190 shares of common stock (par $5) to be offered common stockholders of record about April 3 on basis of one new share for each eight held; rights to expire on April 17. **Price**—To be supplied by amendment. **Underwriters** — Smith, Barney & Co. and Shields & Co., New York, and McDonald & Co., Cleveland, O. **Proceeds**—For working capital and general corporate purposes.

● **Vandersee Engineering Co., Houston, Texas**
March 9 (letter of notification) 25,000 shares of 7% cumulative non-convertible preferred stock (par $10) and 25,000 shares of common stock (par $1) to be offered in units of one preferred and one common share. **Price**—$11 per unit. **Underwriter**—None. **Proceeds**—For working capital. **Office**—4101 San Jacinto, Houston, Tex.

Vanity Fair Mills, Inc., Reading, Pa. (4/4)
March 12 filed 200,000 shares of common stock (par $5). Price—To be supplied by amendment. **Underwriter**—Smith, Barney & Co., New York. **Proceeds**—To John E. Barney, President, the selling stockholder.

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 Gas Light Co. (3/28)
March 8 filed 122,400 shares of common stock (no par), to be offered to common stockholders of record March 27, 1951 on basis of one share for each five shares held; rights to expire April 11 will be mailed on March 28. **Price** — To be supplied by amendment. **Underwriters**—The First Boston Corp., New York, and Johnston, Lemon & Co., Washington, D. C. **Proceeds**—To repay short-term debt and for construction program.

● **Webster-Chicago Corp., Chicago, Ill.**
March 9 (letter of notification) 6,000 shares of common stock (par $1). **Price**—$16.25 per share. **Underwriters**—F. Eberstadt & Co., Inc., New York, and Shillinglaw, Bolger & Co., Chicago, Ill. — **Proceeds** — To Herman Biechele, the selling stockholder.

● **Welex Jet Services, Inc., Ft. Worth, Tex.**
March 13 (letter of notification) 2,000 shares of common stock (no par). **Price** — At the market (estimated at $24.50 per share). **Underwriter**—Barron McCulloch, Ft. Worth, Texas. **Proceeds** — To Willis H. Thompson, the selling stockholder.

West Penn Electric Co.
Jan. 31 filed 320,000 additional shares of common stock (no par) being offered to its stockholders for subscription on the basis of one additional share for each ten shares held 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 being 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. (4/3)
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 at noon (EST) on April 3.

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.

Algonquin Gas Transmission Co.
Feb. 27 FPC authorized company to construct a pipe line system in New England to supply certain markets in Massachusetts, Rhode Island, Connecticut and New Jersey, which, it is estimated, will cost $30,477,800. It is planned to finance the project through sale of 20-year bonds (with interest to be about 3½%, equal to 75% of its capital and sale of common stock in an amount equal to 25% to be offered first to stockholders. Traditional underwriter: Dillon, Read & Co. Inc., New York.

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.

Celanese Corp. of America
March 13 it was stated company plans to file with SEC on March 22 a registration covering $100,000,000 of new convertible preferred stock (par $100) and $100,000,000 of new debentures. The preferred would first be offered to common stockholders for subscription on basis of six preferred for each 35 common shares held and then probably in exchange for 7% second preferred noncallable stock (par $100). **Price**—To be supplied later. **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—To redeem and retire present preferred stocks and funded debt and for expansion program.

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 Edison Co. of New York, Inc.
March 13 applied to New York P. S. Commission for authority to issue and sell $25,000,000 of first and refunding mortgage bonds, series G, due, 1981. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; First Boston Corp. **Proceeds**—To redeem a like amount of Westchester Lighting Co. 3½% general mortgage bonds due 1967.

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 due April 1, 1981, 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. Expected in May.

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.

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. (3/28)
Bids will be received up to noon (EST) on March 28 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.

● **Greenwich Gas Co.**
March 13 it was announced that stockholders will on April 4 vote on authorizing the issuance and sale to common stockholders of 60,000 shares of common stock (no par). **Price**—$5 per share. **Underwriter**—F. L. Putnam & Co., Boston, Mass. **Proceeds**—To retire bank loans and for working capital.

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.

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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. (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 recent 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.

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.

● **Medusa Portland Cement Co.**
March 20 stockholders were to vote on increasing the authorized common stock (no par) from 250,000 to 500,-000 shares. Although no immediate issuance of the 277,583 unissued shares is planned, the company may need additional capital in connection with its expansion program, which, it is estimated, will cost $500,000.

Merritt-Chapman & Scott Corp.
March 13 it was announced stockholders will vote April 2 on increasing authorized common stock from 500,000 shares (no par) to 1,000,000 shares (par $12.50). The management says "no issuance of any additional shares is now contemplated."

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)
March 12 applied to SEC for authority to issue and sell $10,000,000 of first mortgage bonds due April 1, 1981. **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**—From sale of bonds together with proceeds ($4,000,000) from proposed sale of 615,400 common shares to West Penn Electric Co., parent, will be used for property additions and improvements by Monongahela and its subsidiaries. **Offering**—Tentatively expected on April 24, with SEC registration on March 23.

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.

National Utilities Co. of Michigan, Coldwater, Michigan
March 6 company sought FPC authority to construct about 76.7 miles of pipeline, at an estimated cost of $1,-500,000, to be financed by issuance and sale of first mortgage bonds.

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.

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.

● **Ohio Match Co.**
March 13 it was reported that stockholders will vote April 3 on authorizing an issue of 100,000 shares of preferred stock (par $10), in addition to splitting up the common stock on a 5-for-1 basis.

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.

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).

Sharon Steel Corp.
Jan. 29 it was announced that as a preliminary to financing some phases of the corporation's $49,000,000 expansion program, stockholders will be asked to vote at the annual meeting March 22 to increase the debt ilmit of the company to $30,000,000 and to increase authorized capital stock to 2,500,000 from 1,000,000 shares. At present, the company has 925,863 shares outstanding. The company's expansion plan, recently announced, will sharply increase ingot capacity, pig iron and coke output and finishing facilities. The additions and improvements are to be completed over the next five years.

● **Southern Pacific Co. (4/3)**
Bids will be received up to noon (EST) on April 3 for the purchase from the company, 165 Broadway, New York 6, N. Y., of $12,000,000 equipment trust certificates, series EE, to mature in 15 equal annual instalments. Probable bidders Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly).

Texas Eastern Transmission Corp.
Feb. 27 company was authorized to construct facilities which will increase the daily capacity of its system by 465,700,000 cubic feet to approximately 1,206,500,000 cubic feet. This project, it is estimated will cost $96,-305,118, and includes approximately 791 miles of pipeline extending from a connection with United Gas Corp.'s system near Kosciusko, Miss., through Alabama, Tennessee, Kentucky, and Ohio to a connection with Texas Eastern's existing system near Connellsville, Pa. The company's financing program includes the sale of $78,-000,000 first mortgage bonds (to be placed privately), the replacing of a $10,000,000 bank loan with a new bank loan of $20,000,000, and the sale of $45,000,000 of preferred stock, $20,000,000 of which already has been sold. Traditional underwriter for preferred stock: Dillon, Read & Co. Inc., New York.

United Gas Corp.
Feb. 27 it was announced company plans to issue $145,-000,000 debt securities and will loan the proceeds, together with other funds, to its subsidiary, United Gas Pipe Line Co. a total of $150,000,000 to be used for the latter's construction program. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Equitable Securities Corp.; Harriman Ripley & Co. Inc. and Goldman, Sachs & Co. (jointly); The First Boston Corp.

United Gas Pipe Line Co., Shreveport, La.
Feb. 27 FPC authorized company to carry out an expansion program, which will include construction of approximately 1,000 miles of pipeline, at a total estimated cost of $111,861,749. Company will finance construction by borrowing $150,000,000 from its parent, United Gas Corp. (which see above).

Utah Power & Light Co.
March 8 it was announced company during 1951 proposes to issue and sell 200,000 shares of common stock and estimated $10,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers, and Bear, Stearns & Co. (jointly); White, Weld & Co.; Salomon Bros. & Hutzler; First Boston Corp., and Blyth & Co., Inc. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); and (2) for stock: Blyth & Co. Inc.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); Lehman Bros. & Bear, Stearns & Co. (jointly); Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly). **Proceeds** — To repay bank loans and to provide additional construction funds.

Virginia Electric & Power Co.
March 6 directors announced tentative plans for the sale of approximately 450,000 shares 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.

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.

Washington Gas Light Co.
March 8 it was announced that company may issue approximately $9,000,000 of bonds or obtain bank loans (or some combination thereof) during 1951 and apply the proceeds toward its construction program. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Smith, Barney & Co. and White, Weld & Co. (jointly); W. C. Langley & Co. and The First Boston Corp. (jointly). (See also registration of 122,400 shares of common stock under "Securities in Registration" in a preceding column.)

Continued from page 8

Dealer-Broker Investment Recommendations and Literature

Bliss & Laughlin, Inc.—Analysis—Sincere and Company, 231 South La Salle Street, Chicago 4, Ill.

Boatmen's National Bank of St. Louis—Special Memorandum on capital stock available to insurance companies and investment trusts wishing to consider an investment in a mid-western bank stock—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

Buffalo-Eclipse Corp.—Memorandum—J. F. Reilly & Co., 61 Broadway, New York 6, N. Y.

Burroughs Adding Machine Co.—Circular—Kalb, Voorhis & Co., 25 Broad Street, New York 5, N. Y.

California Water Service Company—Analysis—Elworthy & Co., 111 Sutter Street, San Francisco 4, Calif.

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

Connecticut Light & Power—Memorandum—Chas. W. Scranton & Co., 209 Church Street, New Haven 7, Conn. Also available are descriptive data on **American Hardware, Connecticut Power, Landers, Frary & Clark, Hartford Electric Light** and **Veeder-Root.**

Corn Products Refining Company—Analysis—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Eastern Railroads—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Flintkote Co.—Memorandum—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

Foote Mineral Co.—Review—Schmidt, Poole & Co., 123 South Broad Street, Philadelphia 9, Pa.

Fresnillo Company—Report—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

General American Transportation Corp.—Memorandum—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

R. Hoe & Co. — Memorandum — Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Home Insurance Company—Analytical study—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y. Also available is an analytical study of the **Marine Midland Corp.**

Investment & Speculation in Convertible Bonds & Preferreds—Sidney Fried—R. H. M. Associates, Dept. C, 220 Fifth Avenue, New York 1, N. Y.—$2.00 (or free descriptive folder on request).

Lakeside Laboratories, Inc.—Analysis—Loewi & Co., 225 E. Mason Street, Milwaukee 2, Wis. Also available is a discussion of investment hedges for dollar erosion.

McGraw Electric Company—Analysis—William Blair & Company, 135 South La Salle Street, Chicago 3, Ill.

Middle South Utilities, Inc.—Record of first full year of operations in 1950 annual report—Harold F. Sanders, Secretary and Treasurer, Middle South Utilities, Inc., 2 Rector Street, New York 6, N. Y.

Monsanto Chemical Company—Analysis—Walston, Hoffman & Goodwin, 35 Wall Street, New York 5, N. Y. Also available is an analysis of **Chain Belt Company.**

National Company, Inc.—Analysis—J. B. Maguire & Co., Inc., 31 Milk Street, Boston 9, Mass.

National Railways of Mexico—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

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.

Radio Corporation of America—Bulletin—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

Richardson Co.—Memorandum—Harrison & Co., Union Trust Co. Bldg., Cincinnati 2, Ohio.

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.**

Rudolph Wurlitzer Co.—Analysis—Raymond & Co., 148 State Street, Boston 9, Mass. Also available are analyses of **Verney Corp., Simplex Paper, U. S. Thermo Control, Maine Central Railroad, Sanitary Products** and **Air Products.**

John B. Stetson Company—Analysis—H. M. Byllesby and Company, Inc., 1500 Chestnut Street, Philadelphia 2, Pa.

Stone & Webster—Memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Struthers Wells Corporation—Bulletin—Terry & Company, 44 Wall Street, New York 5, N. Y.

Union Bank of Commerce—Memorandum—Prescott & Co., Guardian Building, Cleveland 14, Ohio.

Walt Disney Productions—Analytical brochure—Butler, Moser & Co., 44 Wall Street, New York 5, N. Y.

Welex Jet Services, Inc.—Bulletin—Rotan, Mosle and Moreland, 806 Rusk Avenue, Houston 2, Texas.

Western Union—Comprehensive analysis of the stock as an investment—Lamont & Company, 89 State Street, Boston, Mass.

Worthington Pump & Machinery—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Our Reporter's Report

The investment market in all its phases is still engaged in the process of "shaking itself down" to the level required by the recent "adjustment" in the position of Treasury obligations.

Whether or not the task is near completion is not yet clearly apparent, but the fact remains that there is a good deal of nervousness in the air and a marked disposition to remain on the sidelines for the present.

As a measure of the current temper of things, it develops that while competition for new issues brought out this week was keen, by and large, at least one company, New England Gas & Electric Association, failed to bring out one bid for blocks of preferred and common stocks of one of its subsidiary companies which were put up for sale.

Meantime, the seasoned market continued in the grip of adjustment with top grade corporates inclined to be easier and seeking a yield basis that would make it appeal to investors under the new order of things.

Even though the selection of William McC. Martin, Assistant Secretary of the Treasury, as successor to Thomas B. McCabe who resigned as Chairman of the Federal Reserve Board, seemed to suggest a victory for the Treasury in the current struggle over interest rates, the market appeared inclined to take its cue from what has happened, rather than from what this appointment might foreshadow for the future.

Getting Out From Under

Underwriters still are inclined to get it over with quickly in the case of issues brought out in the midst of the adjustment in the Treasury market.

Banking groups "pulled the string" on three more recent offerings early this week and let the securities involved shift for themselves. All worked down appreciably from their original offering prices.

Borden Co.'s 2⅞s brought out at par and interest settled back around a 98½ bid 99 asked level, while Southern California 2⅞s, brought out at 101.34, to yield 2.80%, slipped back to 98⅛ bid 98½ offered or around a 2.95% basis. The small New England Power Co. issue, also 2⅞s, likewise backed off from the initial 102.129 price.

Consumers Power the Test

The banking fraternity is awaiting next Tuesday's sale of $40,000,000 of Consumers Power Co.'s first mortgage bonds, 30-year maturity, for a real idea of how thinking with regard to price and yield may have been revised.

The company has set a 2⅞% coupon "ceiling" on this one and has fixed the minimum maturity as set forth above. This issue went into registration on Feb. 23 last and the big change marketwise has come in the meantime.

Whether the company will see fit to revise its ideas as to terms remains to be seen, but marketing of this issue looms as the first real test under the changed conditions.

Equities to the Fore

The dearth of new debt issues has left the market wide open to companies financing via the equity route this week. And the results have been quite satisfactory, according to reports despite the poor behavior of the stock market itself.

Middle South Utilities Inc. drew five bids for its block of 450,000 shares of additional common stock with the winning group paying $17.545 a share. The other bids all were close, and on reoffering at 18⅛ it was understood that the stock was absorbed quickly.

Pennsylvania Power Co. received five bids for its 40,000 shares of new preferred stock, with the winners paying 100.279 for a $4.24 dividend rate, and reoffering at 102⅛ with satisfactory response reported.

Big Stock Deal Due

Jones & Laughlin Steel Corp.'s negotiated deal for a million shares of new common stock is due to reach market next week, probably on Tuesday.

Current market conditions may not be all that could be desired, but certainly the steel companies are turning every available wheel in an effort to get out production for defense and other requirements.

Proceeds from this offering will permit the company to pay off prior obligations in the form of $40,000,000 of serial notes incurred to finance expansion. Other corporate funds will be used as needed in the redemption.

Two With Waddell & Reed

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Andrew P. Hill and Ansley S. Terry have become affiliated with Waddell & Reed, Inc., 8943 Wilshire Boulevard.

With A. A. Tibbe & Co.

(Special to The Financial Chronicle)

ST. LOUIS, Mo.—Helen H. Jenkins has joined the staff of A. A. Tibbe & Co., 506 Olive Street.

Two With Waddell & Reed

(Special to The Financial Chronicle)

BOSTON, Mass.—C. Edwin Darnell and Ernest V. Talbot are with Waddell & Reed, Inc.

In Investment Business

(Special to The Financial Chronicle)

LONG BEACH, Calif.—Fred T. and Jennie L. Kelly are engaging in a securities business from offices at 5354 East Second Street.

With Pacific Co.

(Special to The Financial Chronicle)

LONG BEACH, Calif.—Rene S. Smith is with Pacific Company of California, 116 West Ocean Ave.

With Waddell & Reed

(Special to The Financial Chronicle)

LONG BEACH, Calif. — Floyd A. Robinson is associated with Waddell & Reed, Inc.,

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — There are rumblings of an undercover fight slowly working its way toward the surface between advocates of private credit and public credit as a means of financing a considerable segment of the industrial expansion program.

The basic objectives of the Administration remain unchanged that (1) production of war goods must go forward with utmost speed, that (2) capacity to produce war goods shall be expanded, and (3) that at the same time there shall be as rapid expansion as possible of industrial capacity to produce those products essential to the civilian economy.

When W. Stuart Symington, Chairman of the National Security Resources Board, was top dog in the mobilization program, there was reached all-around a definite determination that private financing should provide for the absolute maximum of this industrial expansion. Government financing would provide for only the minimum.

In particular it was determined that there should be no new "Defense Plant Corp" created in this war if it could be helped (and ultimately it probably couldn't be helped) and that bank and other institutional lenders should undertake the greatest possible share of the financing of both war and essential civilian production capacity expansion.

A part of this deal was that the tax amortization necessity certificates should be given liberally for defense and defense supporting production facilities. It was also agreed that the V-loan procedure under which the procurement agencies guarantee banks through the Federal Reserve System, should be utilized for facilities financing as well as for financing war production contracts.

There are now complaints that since Charles E. Wilson took over, the Defense Production Administration under his guidance is getting persnickety about necessity certificates. It is seeing less and less reason than under Symington for allowing "related" facilities to get much. It is looking more and more closely at the postwar utility of the prospective war or war-related facility and consequently allowing less and less of the cost of the facility to come under the advantage of accelerated amortization. It is even reported in responsible quarters that firms which already have got necessity certificates supposedly approved, are finding roadlocks put in their path by DPA.

It is anticipated in most quarters that part of the price for placating that ageing mistress of inflation, the Federal Reserve System, is that higher reserve requirements will be recommended to Congress by all Administration camps. This probably will take the form of a variation of the "Eccles plan" of 1945-47 for a special and additional secondary reserve of governments and/or vault cash.

This will, of course diminish the capacity of the banks to take part in financing the tremendous industrial expansion which the Administration is determined to put across, even if it promotes a tremendous monetary inflation, either via the government bond or the bank loan.

Finally, V-loans are dragging bottom because of the delay in getting approved the legislation spelling out in certain terms that banks as assignees under war contracts are not contingently liable for certain claims which the government itself might in later years make against those war contractors.

All of this seems to indicate that there is definitely shaping up a de-emphasis upon private lending and a new emphasis upon government lending and direct government construction. In even some sources in Congress and the Administration friendly to the White House, there is a worry that the inflation which would be "stopped" by the "Federal Reserve victory over the Treasury" will be promoted by direct government loans.

* * *

There is little inclination to quarrel with the appraisal that so far the House coalition of conservative Democrats and Republicans so far has chalked up a record far exceeding its leaders' expectations in the only purpose for which the so-called "coalition" is useful, namely in stopping radical Administration proposals.

Not even the opponents expected the House to throw down the modified defense housing program. This was the first time since the public housing program was temporarily stopped, that either House has even temporarily voted down a major housing bill. It is also the first time in known history that either House has refused to rub the Aladdin lamp of easier FHA financing.

At the outset the House restored the Rules Committee's authority to bottle up legislation, and this already has borne fruit in the pigeon-holing of the proposal to provide two million tons of wheat as a free gift for India.

The House restored the "peril point" provisions of the Reciprocal Trade Agreements Act. It also killed the President's project to get permission to reorganize government agencies subject to a 15- to 18-day Congressional "veto," too short a time for Congress effectively to stop this reorganization if allowed by law.

Finally, the House almost but not quite succeeded in blocking the plan to put RFC under a single administrator, as a prelude to later action intended to kill off RFC entirely.

* * *

Congress, which last year rushed to revive the World War II form of war damage insurance, is showing every disposition this year to go slow on the subject. The underlying reason is that it is percolating down into the minds of Congress that war damage insurance, IF there is a serious prospect of bombing of the U. S., particularly atomic bombing, is a very big subject indeed.

During the "lame duck" session of November-December, both the House and Senate Banking committees moved to revive the War Damage Corporation, an RFC agency. In the Senate, however, the effort to include re-insurance of workmen's compensation insurance liability gained considerable backing, and since there was not time to consider this added subject, the legislation was dropped, and was passed by neither House.

At the present time Chairman Brent Spence (D., Ky.) of the House Banking Committee is taking the attitude that he won't bring this subject up in his committee until after the Senate has acted. The Senate Committee, so far as can be learned, shows no eagerness to start going on this subject. So in its broadest aspects, war damage insurance for property generally will be left on ice a while, with action only on marine and aircraft war risk insurance.

During World War II the government collected more than $245 million in premiums on war damage insurance, and paid out under those policies only $1,274,000, according to one of the best studies on this subject, "War Damage Indemnity," published by the U. S. Chamber of Commerce.

However, as this report pointed out, this was only a part of the story. In the Philippines the U. S. undertook to make indemnities for war damage and in Manila alone the destruction amounted to more than 50% of the city. The report estimated that total damage in the Philippines amounts to about $1 billion, while Congress has appropriated only $400 million.

The move to revive the War Damage Corp., was based on the subconscious idea that a World War III might be as much of a picnic insurancewise as World War II. The first complication was suggested by the workmen's compensation liability insurers. If there develops atomic bombing with the killing or injuring of thousands of workers, these carriers might be bankrupt, so asked for re-insurance.

Actually if the U. S. were to be attacked in any extensive way there would arise a war damage indemnity problem of herculean proportions, with the value of real and personal property in the U. S. aggregating something like $400 to $500 billion.

"A study of the catastrophic potentialities of loss leads one to a quick conclusion that it simply is not feasible for even the Federal government to contract in advance to pay indemnity for war losses. The British experience, however, shows that, once the public becomes sufficiently alarmed, the question of feasibility is foreclosed and the conclusion follows that some kind of an indemnity plan must be established in advance. It then becomes a question of finding the best method to be used," the C of C report observed.

* * *

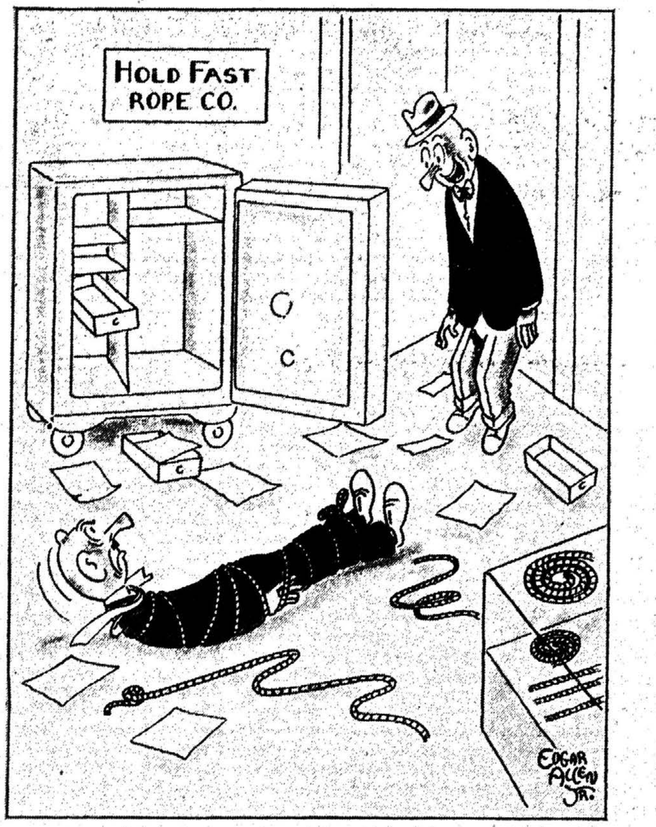
There will be two new wrinkles to the defense or savings bond drive of the Treasury this year.

First, the Treasury is going to try to organize some 2½ million small businesses with an aggregate of 15 million employees to join the payroll deduction plan. It is enlisting local organizations of the civic-minded to canvass all the small businesses to get them to sign up their employees.

Second, newsboy carriers are going this fall to distribute forms to their subscribers asking them to pledge to buy another bond at some local sales agency, such as a bank. The carrier boys will then pick up these pledges and they will be given to volunteer committees to follow up.

(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



"Twenty-four hours without moving, Boss? — Boy! What a testimonial for Hold Fast Ropes!"

With First California

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif—J. R. Kraus, Jr. has joined the staff of First California Company, 647 South Spring Street.

Two With Barrett Herrick

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Homer E. Corry and Eugene M. Strunk are with Barrett Herrick & Co., Inc., 418 Locust Street.