ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 173 Number 5004 New York, N. Y., Thursday, April 19, 1951 Price 35 Cents a Copy

EDITORIAL

As We See It

Seldom have the great rank and file of the people of the United States been so stirred as they have over the act of President Truman in relieving General MacArthur of his commands in the Far East. The General is unquestionably a military genius, and he has an equal flair for the dramatic (or is it the melodramatic?). In all the circumstances he could scarcely miss being a popular hero. We should fail in our duty, however, if we did not assert with perfect frankness, and the American people would not be dealing fairly with themselves if they did not recognize, that want of confidence in the Truman Administration in general, and in its foreign policy in particular, has fully as much to do with the acclaim the General is now getting as the personal popularity of the returning hero, or as anything in the nature of complete confidence in or agreement with the General's idea of what our foreign policy ought to be.

All of us would be the gainer if we could cease to argue the question as to whether the General or the President is right, and begin to ask ourselves whether either is right. Certainly, such an attitude would be non-partisan in a sense far more real than can be said of an Administration which rests its claim to non-partisanship upon the presence in its councils of certain individuals of the opposing party chosen because they were known in advance to hold certain views.

But regardless of such matters as this, the present controversy with all its color and froth will go on the debit side of the ledger of history unless it stimulates a careful review of our foreign policy from start to finish. The thoughtful man with the good of his country at heart certainly

Continued on page 46

Worldwide Shortcomings Of Wartime Planning

BY DR. FRIEDRICH A. HAYEK*

Professor of Social and Moral Science, University of Chicago; Formerly, Director Austrian Institute of Economic Research; Tooke Professor of Economic Science and Statistics, University of London; Author, "The Road to Serfdom," etc.

Eminent economist, former resident of Austria and England, stresses greater effectiveness of free market; and warns of difficulty of dispensing with controls, subsidies, and bureaucracy, once they have been adopted. Maintains price control prevents declines which are necessary to offset increases, and thus accentuates inflation.

I feel very strongly that our division between the immediate and the long-run problems almost makes it look as if the immediate may be the most important. There has been some mention of the fact that the problem of mobilization may be a problem not of the next year or two but of the next decade or two, and I think we ought to pay much more attention to the question than we have yet done as to what will be our war potential not in a year or two but in five or ten years, according as to whether we either change to a more or less planned economy now or whether we preserve the essentials of a freely working society over a long period.

Friedrich A. Hayek

Of course, one's views on this are inevitably colored by one's general beliefs, but I, personally, am very strongly convinced that the flexibility and adaptability of a market system is infinitely greater than that of a system which has been made rigid by central direction. There is at

Continued on page 54

*From transcript of statements by Professor Hayek before Conference on the Economics of Mobilization, held under the auspices of the Chicago University Law School, White Sulphur Springs, West Virginia, April 7-8, 1951.

The Business Outlook

By F. RAYMOND PETERSON*

Chairman, First National Bank & Trust Co.
Paterson, N. J.

Former ABA President, in commenting on current economic situation and business trends, predicts some confusion and readjustment as result of National Defense Program, but holds the business picture over the long run is sound, and no full-fledged business recession is in the making. Says, if national affairs are handled wisely, the economic expansion spurred by defense program can be turned to peacetime output. Foresees no difficulties in financing of business expansion, and blames government for much of inflation trend.

In recent weeks, we have been observing a great many not-too-optimistic facts about the general business picture. Many published figures show that inventories at both the wholesale and retail levels are too high. Late winter and early spring purchases by consumers were disappointing. Profit margins have declined, because of lower business volume and the higher cost of doing business. Most "soft goods" industries, such as textiles, are undergoing a period of moderate business readjustment, which also extends over into certain lines of durable goods, such as household and electrical goods. Thus far, the automobile industry is not living up to its spring expectations. Automobiles are readily available, some at discounts in the used car field. Television sales have fallen off sharply, and one manufacturer, at least, has reduced prices by 20%. A few days ago, the New York Central Railroad announced that it is temporarily laying off several thousand employees, due to a lack of freight. We all know that some industries are temporarily working on a short-week basis.

F. Raymond Peterson

The happier turn of events in the Korean War during

Continued on page 50

*An address by Mr. Peterson before the Junior Chamber of Commerce, Paterson, N. J., April 12, 1951.

SPECIAL SECTION TODAY ON STANY DINNER—Pictures taken at the Annual Dinner of the Security Traders Association of New York on April 13 at the Waldorf-Astoria, appear in the Special Section starting on page 25.

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

Vacuum Concrete Corporation — Curtis J. Straus, Partner, Heimerdinger & Straus, New York City (Page 2)

Suggested Low Priced Stock Portfolio — Bradbury K. Thurlow, Partner, Talmage & Co., New York City. (Page 2)

CURTIS J. STRAUS

Partner, Heimerdinger & Straus, New York City

Vacuum Concrete Corporation

Mr. K. P. Billner, President of Vacuum Concrete Corp., is a famous inventor. His patented process, owned by the corporation, includes the manufacture of denser, stronger and more durable concrete that materially reduces the time element in construction work. Company's process for removing excess mixing water at the time of pour, has found wide application and general acceptance where qualities of fast handling, high abrasive resistance, high freezing and thawing resistance and high bearing strength are required. The use of Vacuum processing not only gives these specific improved qualities in the resultant concrete, but also permits substantial saving in construction costs through quick stripping of forms which can be reused. Contractors utilizing this processing again and again, form a roster of the leading construction firms.

Curtis J. Straus

Of rapidly increasing importance is the use of the Vacuum Lifter or "Octopus Lifter," invented by Mr. Billner. The original objective was to facilitate quick removal of large concrete panels and beams from forms without subjecting them to the critical internal stresses which their great weight would set up if conventional lifting devices were used. However, the lifter has proven of such general usefulness in handling a variety of heavy construction pieces, not necessarily of Vacuum process construction, that income from the use of these lifters is assuming a steadily more important position in the company's operating statement. Preliminary studies indicate that the incorporation of the Vacuum lifter principle in fork-lift trucks and other cargo handling equipment may eliminate the necessity for pallets in an important number of cargo and freight classifications.

Vacuum Concrete patents in the exciting pre-stressed field may assume overshadowing importance. The promise of pre-stressing is particularly bright because of the structural steel shortage. Full utilization of Vacuum Concrete's Billner pre-stressing processes allow the architect to eliminate up to 80% of the heavy steel used in conventional construction.

In Europe, where steel has been in chronic short supply for years, the use of concrete has broadened tremendously in pre-cast and pre-stressed fields and the Billner processes are a major influence on design.

Current Business: A unique blanket contract with the U. S. Army, allowing all concrete contractors discretion to utilize a Vacuum process and *add* royalty costs to contract price; several contracts for pre-cast defense housing projects; Atomic Energy Commission contract (more under negotiation); Bureau of Reclamation, spillway construction; a variety of private builder contracts for work on houses, plants, foundations, warehouses, institutional buildings and dam faces.

The three patent families of Vacuum Concrete Corp. offer specific advantages to contractors, architects and ultimate buyers of construction work. These advantages may be classed as: (1) Material time and labor economies; (2) increased design freedom, and (3) added long-term qualitative values.

Nothing on today's economic horizon is tending to minimize the ultimate favorable impact of these facts on the future of Vacuum Concrete Corp. The company's common stock (no funded debt or preferred) is currently selling under $3 per share. In the 1946 bull market—before full development of either lifter or pre-stressed patent structures—it sold over $12 per share.

BRADBURY K. THURLOW

Partner, Talmage & Co.
Members New York Stock Exchange

Suggested Low Priced Stock Portfolio

When we were asked to discuss our Favorite Security in this forum a little over a year ago we chose the low priced stock, selecting for investment a group of ten issues and advising the buyer to spread his risk over the group. Since at present writing we see no reason for changing our original view we shall show how a hypothetical $10,000 account placing $1,000 in each of the ten issues at that time would have fared. (Copies of the original article available from the author on request).

B. K. Thurlow

The purpose of the exhibit (Table I) is not to show how well one or two selected stocks have performed in a bull market but how accurately the mechanical principle of low price itself can ensure greater profits over a given percentage advance. As indicated, the advance in the slow-moving industrial averages amounted to 27½%, while the low-priced group advanced 102%, almost four times as fast, with the worst of the ten low-priced stocks showing twice the percentage advance of the averages and a slightly better market performance than General Motors, the widely acknowledged "wonder stock" of 1950. The fact that the dividends on this portfolio aggregated just under 7% we may write off as accidental since the stocks were purchased primarily for appreciation.

This is the statistical record of a market performance not influenced by hindsight. There are a number of excellent Theoretical Treatises (R. D. Donchian's Jan. 1950 study and H. C. Ray's study made in Sept. 1949 for example) explaining why performance of low priced stocks will generally be better than high priced issues in rising markets. The principal theories can be summarized in the observation that the man in the street would rather own a hundred shares of stock at 10 than ten shares of stock at 100.

It is our opinion that the record in Table I by no means represent a complete bull market performance but something perhaps half way between the extreme pessimism of 1949 and the extreme optimism of a major bull market in the style of 1929, 1937, or even 1946. Hence we do not believe it is too late to begin a low-priced stock purchase program now (with a warning to the buyer that if the market is going to return to a 1949 basis of valuation, low priced stocks will in all probability do the same). Bearing the potential risks in mind we should try to choose issues which (a) have given evidence of showing earning power well in excess of that discounted by their present prices or (b) have so far escaped speculative exploitation. Such a portfolio might include:

	Recent Price
Atlantic Coast Fisheries	3¼
Calumet & Hecla	9⅜
Decca Records	10
Pepsi-Cola	10⅛
Shattuck Denn Mining	6
Standard Cap & Seal	9¾
Tonopah	1⅜
Tricontinental Warrants	2¾
United Cigar Whelan	4¼
Universal Pictures	9½

The proportion of one's assets to be committed to such a program should be based on the amount of loss (real or on paper) the buyer is willing to assume in the event his market judgment proves wrong. Many of these companies operate under a heavy cost or capital leverage which is precisely their attractive feature in prosperous times but which can become a severe threat to market values during periods of falling prices. Since, for investment as well as speculative reasons, we feel that equity prices will be very much higher before they are very much lower, it seems consistent to continue to choose low priced stocks as our favorite security.

TABLE I

	Cost 1-4-50	Value @ 1951 Highs	Value 4-10-51	Dividends Recd. in Period
200 Am. Hide & Leather	$1,000	$1,800	$1,425	$100
250 Calumet & Hecla	969	2,685	2,343	250
190 Eureka Williams	997	1,565	1,550	----
110 Int'l Tel. & Tel.	1,038	2,080	1,718	33
105 Niles Bem. Pond	997	1,350	1,733	126.50
120 Pepsi-Cola	990	1,530	1,215	----
366 Shattuck Denn	1,006	2,830	2,200	183
200 Twin Coach	1,000	2,400	2,275	----
333 United Cig. Whelan	999	1,625	1,500	----
140 Western Air Lines	998	2,070	2,065	----
	$9,994	$20,435	$18,024	$692.25
Dow-Jones Indust'ls	200	255	250	

Going Like Sixty

By IRA U. COBLEIGH

Author of
"How to Make a Killing in Wall Street and Keep It"

Outlining an unusual equity package, composed of four common stocks with diverse backgrounds and fascinating futures.

If you happen to have been born after 1910, quite possibly the impact and meaning of the title of this article will escape you. It referred, particularly from 1910 to around 1920, to fantastic speed — to wit, a motor car that could do 60 miles an hour! Today's equivalent would be "jet propelled." I exhumed this earlier American expression, however, not so much for historical purposes as because it happens to fit my current idea of playing four romantic stocks back-to-back. And all of them (the stocks, not the backs) sell in the 60's.

Ira U. Cobleigh

So here goes. You see 60 is quite a respectable number. If your age is that, it is alleged to denote wisdom, maturity of judgment, sagacity — all that sort of thing. You've been around; you know your way. If a stock sells at 60 it too has a certain aura, the respectability of having "made the grade." Cats and dogs don't sell at 60; trustees and speculators alike concede that once a share has moved convincingly past the 50 level it has attained that mystic, indefinable quality called, for want of more precise description, investment merit.

Well, let's get down to my four American beauties. First is Kern County Land Co. Sounds little, doesn't it? Only a county—but the name is misleading. Actually KCL owns in fee 1,898,000 acres of land of which 405,000 acres are in Kern County, Calif., and the rest made up of broad expanses of open country in New Mexico, Arizona and Oregon. There are 2,000,000 shares of KCL common stock — just about an acre a share. Current price on the Stock Exchange of about 60 means the land will stand you roughly $60 an acre. And what will all this terra firma do for you besides give you the privilege of paying taxes? A good question and the answer to it for years was "a lot of bull!" Because long before Hopalong Cassidy rode from rodeo to video, Kern County Land was one of the largest cattle raising enterprises in the United States. As many as 70,000 head of cattle a year have been seen grazing on these various acreages; usually winding up in the lush irrigated pastures of Kern County where they fattened up on alfalfa for the rich nearby market on the Pacific Coast. Then along in the 30's oil in volume was found on the California land, and the history of KCL since then has been a gradual switch from bull to drill. By 1949 oil royalty revenues amounted to 90% of net before taxes. Earnings per share have slowly climbed from $1.55 in 1940 to around $6.50 for 1950. Current dividends of $4.50 a share (paid in 1949 and 1950) offer, at 60, a current yield of 7½%.

Here then is a hunk of owned land bigger than Trinidad. If you want to buy a piece of a big romantic ranch, this is it. Yet only a small section of this particular earth is oozing oil right now. If more oil is found—and that's possible—if other minerals are located on this extensive land, earnings and dividends could expand pleasingly. If your favorite investment song is "Don't Fence Me In" you may some day get sentimental over KCL. Perhaps today!

My second nominee in the 60's is Allied Chemical & Dye. This lordly item has been a blue chip for years, one of the solid bricks making up the imposing edifice of the Dow-Jones Industrial Average. It's been for decades financially elegant, with a balance sheet the dream of every credit man. Why, today's working capital alone is over $16 a share, and there are 8,856,396 common shares —sole capitalization.

There was a while when ACD seemed more plushy than progressive. In the last five years, however, the management has appeared more dynamic as evidenced by a plant expansion (out of retained earnings) of over $100,000,000 in the last three years. Another clue to alert leadership topside was the common stock split, 4 for 1 in 1950 for a broader share market, and the acquisition of a wider list of stockholders. Per share earnings, on the split stock, have grown from $3 in 1946 to $4.65 in 1950.

What ACD makes is vital to big industries and indispensable in war—alkalies, sulphuric acid, ammonia, coal tar derivatives, etc. Textiles, soap, steel and fertilizer companies are among its best peacetime customers. By most conservative accounting methods book value is now $35 a share. Here indeed is a sweet industrial value yielding 5% at the current market price around 62. A distinguished history, a loaded balance sheet, an excellent dividend record, a highly intelligent management echelon and a vista of continued growth. Could be your investment ally!

The "Chronicle" in recent weeks has brought you some magnificent background material on the television industry. Big deal. 11,000,000 sets out now, 7,000,000 more this year. 12 channels now—70 O.K.'d for the future by FCC. A total of 2,000 stations outlined for the golden future plus TV approval recently given for Hawaii, Puerto Rico and Alaska. Gad, what growth! What prospects!

Sharing in same are some

Continued on page 47

INDEX

Articles and News Page

Regular Features

Published Twice Weekly
The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 7, N. Y.
REctor 2-9570 to 9576
HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager
Thursday, April 19, 1951
Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).
Other Offices: 135 South La Salle St., Chicago 3, Ill. (Telephone: STate 2-0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.
Subscription Rates
Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $45.00 per year; in Dominion of Canada, $48.00 per year. Other Countries, $52.00 per year.
Other Publications
Bank and Quotation Record — Monthly, $30.00 per year. (Foreign postage extra.)
Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Hedge Clauses

The opinion of General Counsel for the SEC on hedge clauses discussed. Substance characterized as belated surplusage. Unique effort to have brokers, dealers and investment advisers act as mind readers. Commission attempting to extend its control over sales literature.

The Securities and Exchange Commission has just issued a "Release" in which it gives the opinion of its General Counsel on the subject of "hedge clauses."

We quote from that "Release":

"My opinion has been requested concerning the legality of various types of 'hedge clauses' which are used in the literature of brokers, dealers, investment advisers and others. While the language of these clauses varies considerably, in substance they state generally that the information furnished is obtained from sources believed to be reliable but that no assurance can be given as to its accuracy. Occasionally language is added to the effect that no liability is assumed with respect to such information."

Here we come to a constant objection of ours aimed at SEC deviousness. Who requested that opinion?

The Securities Act has been in force for over 17 years, the Securities Exchange Act for over 16 years, the Investment Advisers Act for more than 10 years. Hedge clauses have been in use during all that time and for decades before. What is this sudden interest requiring now an opinion of General Counsel?

As we see it, the SEC is on another rampage for an extension of its already too broad powers, many of these usurped through rule making.

Getting back to the General Counsel's opinion, we again quote:

"All the statutes administered by the Commission provide that any condition, stipulation or provision which binds any person to waive compliance with their requirements shall be void."

True! But what specific matters in the statute dealing with hedge clauses does he point to? None whatever.

The use of this general clause is saying nothing more than that it is illegal to agree to violate a law. That's a pet quotation of the Commission to suggest such a violation when none in fact may exist. It is used to strike fear, a form of induced auto suggestion.

We continue to quote:

". . . the courts have repeatedly held that a hedge clause or legend disclaiming liability has little, if any, legal effect as protection against civil liability where a person makes a representation which he knows, or in the exercise of reasonable care could have discovered, is false or misleading." (Citing cases, some going back to 1926.)

It has always been clear, even under the common law, and before the passage of the Securities Acts, that a false representation, knowingly made, which is acted upon to the damage of another who relies upon it, constitutes fraud and is actionable. This is elementary, is well known to the Commission and certainly required no current expression of opinion from its General Counsel. As to this phase the opinion is mere surplusage.

However, notice these words: *"or in the exercise of reasonable care could have discovered"* the hedge clause or legend to be false or misleading.

To understand what the SEC is up to we must examine the issue as posed by General Counsel. He says:

"The question arises, therefore, whether the result, if not the purpose, of such a legend is to create in the mind of the investor a belief that he has given up legal rights and is foreclosed from a remedy which he might other-

Continued on page 55

1951 Construction to Be at High Level

Thomas S. Holden, President of F. W. Dodge Corporation, points out March contract figures this year is second highest on record, but is first month since July 1949 that failed to show increase over corresponding month of previous year.

According to a compilation of the F. W. Dodge Corporation the 37-states (East of the Rockies) construction contract award total for March was $1,267,450,000 or 11% higher than February but 3% lower than March 1950's $1,300,201,000 figure. Non-residential contracts at $469,254,000 were 9% ahead of February but 6% behind March a year ago. Public and private works and utilities were $223,627,000 or 25% more than February but 1% less than March 1950. This means that "the expected squeeze in construction has started." Thomas S. Holden, President of F. W. Dodge Corporation, stated in commenting upon the figures.

Thomas S. Holden

"It is likely to continue during the remainder of this year," he said, but pointed out that the tremendous surge of construction earlier in 1951 will help balance out any later squeeze. Although he has estimated a decline in 1951 from 1950, his estimate still stands that 1951 will be a high volume year in construction.

Citing the March construction figure as the "second highest March total on record," Mr. Holden said that despite this fact, "last month's volume of construction showed the restrictive effects of defense rules and regulations. March was the first month since July 1949 that failed to show a contract volume increase over the corresponding month of the preceding year."

Three-month totals for this year were running ahead of last year in dollar volume in all categories according to Dodge Corporation statistics. Construction awards of $3,451,225,000 were 23% higher than the 1950 three-month figure. Non-residential awards of $1,361,436,000 were 36% more than the similar total for 1950. Residential contracts at $1,526,633,000 were up 19%; public and private works and utilities amounting to $563,156,000 were 6% more than the corresponding 1950 total.

Recreational project starts ran behind last year all through the first quarter of 1951; commercial building projects fell off significantly in March. These trends resulted from NPA's M-4 order, according to Mr. Holden.

The State of Trade and Industry

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

Industrial production on a nation-wide basis again showed a slight decline for the past week, but aggregate output, notwithstanding this, was noticeably above the level for the like period a year ago. Total claims for unemployment in the latest reporting week continued to decline.

Unfilled jobs on the rolls of State employment offices now total 50,000, the Bureau of Employment Security reveals. As the defense program picked up speed, the biggest demand was for engineers of all kinds, the bureau added. The heaviest demand for skilled workers was in the category of machinists, tool and die makers, machine and tool operators, sheet metal workers, electricians and aircraft workers. The Pennsylvania State Employment Service also noted that between 6,000 to 8,000 more workers may be needed by Pittsburgh industries in the next four months.

Steel production last week decreased a fraction of a point, while automotive production advanced for the week.

For the current week the prospects are good for improved automotive production with additional frame deliveries likely to raise output of Chrysler's passenger car divisions, "Ward's Automotive Reports" state. Increased shipments from a second source of supply will help this company offset a lingering shortage of frames caused by the recent strike at Midland Steel Products Co.'s Detroit plant, it added.

Hudson, Nash and Packard are reported by this agency as the only producers having recorded output losses last week. All were attributed to deficiences of critical components.

It was learned on Wednesday of this week that Kaiser-Frazer Corp., effective on that day, has proceeded to cut its auto production in half by eliminating the second turn on its assembly line. This action will result in a reduction of the working force by 3,000 or 25%. The cutback was attributed by company officials chiefly to shortages of parts made of copper and steel. They at the same time denied that the decision to cut auto assemblies was influenced by the rate of car sales. Kaiser-Frazer dealers in the Detroit area, however, reported their current sales are 10% to 70% below early March levels.

The open-end controlled materials plan on steel, copper and aluminum, just announced to become operative July 1, will prove no cure-all for the steel supply difficulties of the over-all general metalworking industry, says "Steel," the weekly magazine of metalworking. Scramble among nonparticipating or unrated consumers for the leftover tonnage after defense needs are met is bound to be just about as hectic as it is under the present overloaded priority system. Many steel authorities believe complete control preferable; that in the absence of such the new method offers little more toward solving the over-all supply problem than that present unwieldy distribution system of priorities, directives and allocations.

Generally, states this magazine, even a limited CMP is seen as a forward step. Predictions are that before the plan becomes effective, revisions, possibly enlargement of the plan's scope, will be found advisable. Closer balancing of defense and defense-supporting requirements with available supplies is viewed as constructive.

Defense requirements for steel have taken another spurt. This is reflected in mill schedules for June. DO set-aside tonnages generally are larger on the various products and more tonnage is allocated for directive programs. It is estimated that close to 55% of the steel industry's production will go into defense and defense supporting lines of consumption during the month. A further reflection of the extent of emergency needs is seen in the forward edging of delivery promises on DO-rated work.

Despite the recent increases in minimum mill product set-asides, delivery promises on most defense tonnage are further extended than ever. This, in part, is due to the fact that much of the increase in mill quotas for June goes to meet the requirements of agricultural implement manufacturers.

Home building in the United States, the Department of Labor currently reports, increased less during March than usual at this time of year. The rise was the lowest February-March gain on record, except for the years 1942 and 1943. The depart-

Continued on page 51

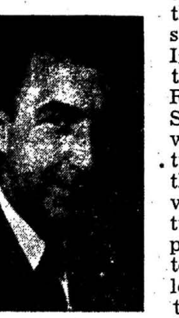
The "New Look" of Common Stocks

By L. B. SCHWINN*

L. B. Schwinn & Co., Member, Midwest Stock Exchange

Cleveland securities dealer traces improving investment status of common stocks, and contends, despite rise in stock market, current prices of stocks have not advanced in proportion to earnings and dividend possibilities. Reviews briefly investment position of various groups and types of common shares.

It grieves me greatly to confess at the very beginning of this discussion that I have no magic formula to forecast successfully the trend of the common stock market. If the best that John D. Rockefeller, Sr., could do was to venture the guess that shares would fluctuate, it seems presumptuous to me for less learned practitioners in the art of finance to be more specific. However, there have been important developments in the investment characteristics of equities during the past few years, and it is to the potentialities of these changes that I wish to bring your attention.



Leslie B. Schwinn

There was a time in our financial history when bonds were bought, not for patriotism or flight from high tax brackets, but for the income they produced. When interest rates hardened, the bonds in your portfolio receded in price. When interest rates softened, your bonds enjoyed a degree of enhancement. Professional students of the money market endeavored to take some advantage of these opportunities, but there was little disposition on the part of the average investor in bonds to trade actively.

Moreover, individual issues were appraised largely on their own merits. If an obscure interurban system defaulted on its indebtedness, there was no rush to liquidate the underlying liens of, say, the Union Pacific. Certainly there was no vogue for unloading all of one's holdings simply because "the whole market looks high to me." The basic investment philosophy sought a reasonable return on one's money, plus a reasonable stability in market price.

Since the decline in interest rates and the virtual disappearance of bonds, other than governments, from the typical investor's strongbox, common stocks have assumed an ever-increasing role in the search for income. Unfortunately, the philosophy which prevailed in the era of bonds has not carried over into the era of stocks. Today, the emphasis on market action is out of proportion to the other factors in the equation.

Regardless of the market's trend, the sword of anxiety seems to dangle over the stockholder's head. A stock selling below its cost poses the problem of accepting the loss rather than risk further depreciation. On the other hand, a stock showing a profit excites in its owner an uneasy desire to take a profit. There is an attitude of disturbed vigilance in either case.

It has been my observation that people who sell stocks at a loss, particularly if the purpose is to buy them back cheaper, not infrequently buy them back dearer. And, believe me, gentlemen, there is no bull like a sold-out bull. Never has a pig under the fence squealed like that raging snorting animal, the sold out bull. Any broker will tell you his most irate client is the one who accepted a small profit only to see a substantial rise ensue after the sale. Investors who nervously cut bait all too often have one or the other of these unhappy experiences.

My remarks are not intended to discourage the use of judgment. My intention is quite the contrary. But to make certain it is the brain, not the nervous system, that dictates the alterations in your list of common stocks. A saner regard for the investment merits of common stocks could well be a stabilizing influence in the formation of a policy. Endorsement of this type of policy has recently come from a number of authorities; namely, the persons charged with the responsibility of safeguarding the nation's savings.

Improving Investment Status of Common Stocks

For example, in Massachusetts savings banks are now permitted to invest in the shares of banks either within or without the borders of the state. There are restrictions, of course. Dividends, capital, deposits and similar items must meet certain minimum requirements. But what a tribute to one of the finest American equities: the bank stock. Typical institutions which qualify under this extension of the Massachusetts law, and their unbroken dividend records, are: Bank of Manhattan, 103 years; Philadelphia National Bank, 108 years, and National City Bank of New York, 138 years.

In New Hampshire there has been action of a similar nature. The laws of that state now permit savings banks to buy investment trust shares. To be eligible the trusts, among other things, must meet the following tests:

(1) Ten years' existence.

(2) $10 million net assets.

(3) The capital stock must not be junior to either indebtedness or any other class securities.

(4) The company must be the open-end variety and registered under the Federal Investment Company Act of 1940.

(5) Ten years' consecutive dividends paid from investment income.

These requirements are not a bad yardstick for the layman to employ in his own investment trust transactions. One objection to trust shares is eloquently refuted by the New Hampshire legislation. The criticism is often heard that investment trusts levy expensive charges upon their investors. Any traveler who has so much as vacationed in New England knows that when the natives of that area spend a dollar, they get value.

Continuing our roll call of the states, there have been two recent developments in New York which augur well for common stocks. First, life insurance companies have received legislative permission to buy equities. Second, the "prudent man rule" has become applicable in the case of many fiduciaries. For the purposes of this discussion, it means common stocks are now admitted into exclusive circles from which they were previously excluded.

Because of these notable advances in the common stock cause, one hears frequently quoted these days the words spoken by one Justice Putnam away back in 1830. In ruling on the case of Harvard College versus Amory, a test of the college's investment principles, the eminent Justice said: "Do what you will, the capital is at hazard." Using more familiar words, we might say, "There is nothing sure but death and taxes."

Common stocks are not an exception to this rule, but comparison with other securities reveals no need for apology. Granted they lack the fixed income and maturity of a bond, there are other compensating virtues. Their ability to adjust in market and income to conform with the rising price level of this difficult period has been demonstrated. Common stocks also offer only a beautifully engraved certificate instead of the brick and mortar upon which the investor in real estate may fondly gaze. When it comes to disposing of them, those pretty certificates reveal one of their prime advantages.

The liquidity of common stocks is nothing short of miraculous. Enormous holdings can be unloaded in the length of time consumed by a telephone call to your broker and a telegram to New York, Chicago, or wherever the issue is listed or traded. The stock exchanges are an auction market with exceedingly modest brokerage fees. Disposition of real property, by contrast, involves arms-length bargaining and the time consumed is usually appalling.

Pension Funds and Common Stocks

It is not likely the pension funds now being created across the country will overlook the improved position of equities in the changing panorama of the American investment scene. The drop below par by government bonds, and the uncertainty surrounding Federal Reserve and Treasury Department policies have destroyed the public's complacent confidence in the market immutability of Federal obligations. The narrow, synthetic fluctuations we are accustomed to in government bonds may be replaced with something approaching a free market. If the gap were to narrow between the yield on Treasury issues of World War I and World War II, there could be appreciable depreciation from present bond levels. In short, stocks are not the only things that can go down.

The pension funds are also likely to weigh carefully the long-term possibilities of inflation against those of deflation. So many people in so many places warn us about inflation we are apt to become immune to advice on the subject. Inflation sometimes appears to be a sales slogan for sticky merchandise. If you will just bear in mind we live in an age when governments of every hue and color promise their constituents ever greater comforts and luxuries, the true implications of inflation will be readily discernible. Rabid reformers are not usually gifted in cost analysis. Their forte runs more to suave propaganda than to dull presentation of facts and figures. They are more facile in

Continued on page 43

*An address by Mr. Schwinn before the East Cleveland Rotary Club, Cleveland, Ohio.

"How Can We Best Meet the Strain of National Defense?"

In which it is contended that the fundamentals of a constructive economic program must include a non-political pay-as-you-go tax policy resting on a major broadening of the personal income base and a sales tax; on radical curtailment of the Federal budget; and on a free market without price-wage controls.

Partial transcript of television broadcast of "Court of Current Issues," New York Dumont Network (Washington WTTG; Chicago WGN), April 10, 1951. "Expert witnesses" were Leon H. Keyserling, Chairman, President Truman's Council of Economic Advisers and A. Wilfred May, economist, Executive Editor "Commercial and Financial Chronicle." "Counsel" were A. A. Berle, Jr., lawyer, economist, former Assistant Secretary of State—acting for Mr. Keyserling; and John F. Forrest, Financial Editor New York "Times"—for Mr. May. The "presiding Judge" was J. Howard Carter. Irvin Paul Sulds was producer.*

John G. Forrest

A. Wilfred May

Question by "Counsel" Forrest. Mr. May, you have had extended experience in government service—with the SEC and the Treasury. So you seem qualified to answer the basic question whether it is up to the *government* to make the Defense effort a success.

Answer by Mr. May. It decidedly is *not* up to "the government" to be the solo ball carrier. Along with their government, responsibility must be shared by every class in the community, ranging all the way from the Wall Street speculator to the farmer. One trouble is many of us have a vested interest in inflation—in escalators of one kind or another. Too many of us are fighting for deflation-for-the-other-fellow while demanding subsidies for ourselves. This applies to the business man guarding his tariff subsidies at a time of scarcity, as well as to many organized labor interests—they are "fighting inflation" with lip service.

My fellow-economists should act constructively by refraining from their current proclivity to scare the wits out of government bond-holders and other savers in their persistent concentration on the depreciation of the dollar, and taking for granted its permanent debasement. And government officials—of Mr. Keyserling's family—should cease the over-advertising of inflation and their advance alarms over scarcities and rationing, which promote scare-buying and distort the economy.

Question—What specific anti-inflationary measures should the government adopt?

Answer—Under the premise that the definition of present-day inflation is the chasing of too few goods by too many dollars, the government must cut down the supply of loose dollars. Instead of doing this, its monetary policies have been causing inflation; for example, by reducing the interest rate to artificial levels via making of the Federal Reserve System an "engine of inflation" and "the doormat of the Treasury."

Question—What about taxes?

Answer—We must pay-as-we-go. In other words, even during rearmament time, government expenses should be financed from current taxes.

Question—What kind of taxes?

Answer—Let me say first that it would be fine if we could find the money by "soaking-the-rich." Realistically, however, that orange has been squeezed thoroughly dry. As Secretary Snyder has testified recently, even if the government garnishe-d

Continued on page 53

*Mr. Keyserling's participation is presently unavailable.

Responsibilities of Management Under the Excess Profits Tax

By BEARDSLEY RUML*

Former Chairman of Federal Reserve Bank of New York

Asserting new excess profits tax is producing a tax-oriented business management, prominent economist and taxation expert condemns levy as "an evil brew of inequity, exception, exemption, and privilege." Says excess profits tax will destroy moral compulsions needed to make any tax system acceptable and efficient, and points out motives created to avoid payment of the tax. Says excess profits tax leads to double standard of expense dollars or "two kinds of money," and this forces a new basis for managerial judgment affecting all phases of business. Concludes tax is "not a burden but a subsidy."

I

On Jan. 3, 1951, when President Truman signed the bill imposing an excess profits tax on American business, an important change in direction was forced on business management.

Beardsley Ruml

Whether this change in direction will be a turn to the left, to the right, or into the third dimension remains to be seen. What must be remembered, however, is that the change was made in spite of clear warnings of responsible business leadership, in a hurried gesture to satisfy political pressures and popular hysteria, with little discussion and with no debate on the floor of the House and only four hours in the Senate, and, at the time, with no revenue needs for a fiscal measure of any kind.

The circumstances under which the excess profits tax was passed are dramatic and disturbing.

Let us remember that prior to the Korean crisis in June, 1950, there were strong elements of public opinion which were reelected in the Congress, which believed in and which advocated an excess profits tax on business as a matter of principle.

Representative Helen Gahagan Douglas of California introduced as early as Dec. 15, 1947, a bill to impose an excess profits tax on business. Congressman Dingell of Michigan introduced an excess profits tax bill on Jan. 3, 1949, and Congressman Uberharter of Pennsylvania introduced a similar measure on April 24, 1950. After the Korean crisis occurred, Senator O'Mahoney on July 31, 1950, presented the first of his four amendments to the tax bill of 1950, the technical work for the preparation of such a tax presumably having gone on for some time.

The Korean crisis was the occasion for promoting a tax policy that had been developed in various quarters without reference to defense or emergency requirements.

The O'Mahoney resolution was presented to the Senate after public hearings on the tax bill of 1950 had been completed. It was presented without the concurrence of the Senate Committee on Finance, the proper committee to examine and to recommend tax legislation to the Senate. The O'Mahoney resolution was defeated only after assurances had been given that an excess profits tax would be introduced in Congress by the appropriate committee by the end of 1950, if it was at all possible to do so.

The Ways and Means Committee of the House, under Chairman Doughton's leadership, refused to hear testimony bearing on the question of whether there should be an excess profits tax, confining witnesses to "what kind of an excess profits tax" would be most acceptable. The Senate Committee on Finance did not make a similar mistake in denying the right of petition on a vital legislative proposal, but the rush to secure passage of a bill in the closing days of 1950 made reasonable opportunity for discussion and debate impossible.

There was no revenue need for an excess profits tax in 1950. There was no sufficient reason why the measure could not have been put over until 1951 and given the analysis and discussion which a basic change in the tax policy deserves.

The testimony of business executives, of tax lawyers and accountants, and of economists was overwhelmingly against the bill. Strong elements in agriculture opposed it. Generally speaking, only labor supported legislation calling for an excess profits tax, and the witnesses from the labor groups asked for more extreme measures than were finally enacted into law.

The opposition to the excess profits tax came from every segment of business—whether the tax would be for them a burden or a benefit.

Business did not object to higher general levels of taxes on business profits if such taxes were needed for revenue purposes.

But business leaders knew and they explained that the excess profits tax would create a tax-oriented business management which, in their opinion, would result inevitably in a drastic, and probably unwholesome, shift of emphasis in the carrying on of business enterprise.

II

This new excess profits tax of ours has already begun to produce a tax-oriented business management.

It is of course true that high corporate and personal tax rates, existing before the excess profits tax was imposed, affected business judgment and personal judgment in a thousand different ways. But the excess profits tax, for reasons which I shall presently discuss, is something different from merely a high or a higher rate of tax. The excess profits tax makes a change in the kind of business system we shall have in this country. Business management must learn this new kind of business system.

Let it be clear that I am only describing what has happened and what is happening. I am not arguing or criticizing, praising or blaming. My purpose is to analyze as objectively as I can the changes that have already taken place and to suggest some of the consequences that can be expected as a result of the tax-orientation of business management.

On one question there can be a sharp difference of opinion. That question is this: "Is it proper for business management so to conduct its affairs that within the law it will minimize the tax consequences of its operating decisions?" Or to put the question in another way, "Should business management carry on efficiently its task of producing, servicing and distributing its products without regard to tax consequences, and then let the taxes paid be an end result determined by accountants, auditors, and tax collectors on the basis of records after the fact?"

To many of you this may seem an unreal question, but I can assure you that it states an issue that is charged with high emotion. In the most unexpected quarters the opinion is held that tax avoidance, even within the law, is a bad practice and contrary to the public interest.

Let me state my position on this question. Briefly it is this, that it is not only proper, but that it is the duty of management to minimize by all lawful means the tax consequences of business decisions. It is a duty because business management is a trustee for all parties at interest in the health and growth of the business—stockholders, workers, vendors and customers. The taxing power is in the Congress. It is for Congress to determine in tax laws the rates and circumstances whereby individuals and businesses shall be taxed. The individual may, if he so desires, pay more than the law requires—the injury is to himself alone.

The management of a business is not a free person. It is acting for others who depend on the business for products, for services, for markets, and for income. The programs and the decisions of management must be responsibly geared to the welfare of those who are parties to the business.

Accordingly, the tax policy of management should be to pay such taxes as are legally imposed, —no less, and equally no more. As trustees for the parties at interest in a business, it is the duty of the management to conduct its affairs so that the burden of taxation on the business enterprise will be the minimum consistent with the requirements of law and with the health and development of the business. This answer to the question of how business management should think about its tax policy is, in my opinion, ethically correct and in the public interest.

III

Now that the excess profits tax is law, and that it is most likely to continue to be law until July 1, 1953 at least, let us explore the responsibilities of management under the excess profits system.

In my following remarks, I am leaning heavily on the research and deliberations of the Business Committee on Emergency Corporate Taxation. Many of you were members of that Committee, many more of you would have been members if there had been time to invite you.

In the testimony which I gave to the Senate Committee on Finance in behalf of the Business Committee on Emergency Corporate Taxation, three principal consequences of any excess profits tax were emphasized.

First, it was pointed out that the excess profits tax is conspicuously inequitable. This tax is an evil brew of inequity, exception, exemption and privilege. Even if an excess profits tax with all its other defects were needed, which clearly it was not, it should have been rejected in principle on this ground alone—that it will undermine the moral compulsions that are necessary to make any tax system work.

Second, it was contended that an excess profits tax would be harmful to investment, and therefore to the building up of fixed assets necessary to an expanding economy.

Third, it was shown that the excess profits tax created, for those companies subject to excess profits tax, a double standard of expense dollars, and that the existence of two kinds of money would force a new basis for managerial judgment affecting all phases of a business.

Tax-orientation of management is the consequence of high marginal excess profits tax rates. Under such rates, to the extent a business is subject to excess profits taxes, management has two kinds of dollars to work with. It has cheap earned dollars and expensive earned dollars.

Cheap earned dollars are those which, if not spent, will be taxed at high marginal rates; expensive dollars are those which are taxed at ordinary rates.

Under the present excess profits tax law, the marginal rate is 77%, so that the cheap earned dollar is worth 23c. The ordinary rate is 47%, so the expensive earned dollar is worth 53c—more than twice as much as the cheap dollar. If the marginal rate is increased still further, the cheap dollar will become cheaper still.

The possibility of carelessness and waste as a result of government-induced private spending is a matter of common knowledge. What is less well understood is the fact that the existence of cheap dollars makes prudent many business activities that would not be prudent except for the fact that the dollars expended are cheap.

The excess profits tax is therefore not a burden, but a subsidy. It provides cheap dollars to the profitable and established company, dollars which can and must be used by a responsible management to safeguard and to extend the position of such a company against competition. If a company is not in excess profits, if it is weak in earnings, or young, or with inadequate capital—in other words, if it has only expensive dollars in its arsenal—it is at a double disadvantage as against its entrenched rival with tax-created cheap dollars at its disposal.

The battle for markets, through better products, better coverage, better inventory stocks—yes, and through better advertising and promotion, too—will be a battle between the cheap expense dollars and expensive expense dollars, and the cheap dollars will win because they can extend farther and can take more risks.

By reason of the excess profits tax, the government has created a double standard of dollars with favors going to those who are already strong. The excess profits tax is a veritable engine of concentration, compelling prudent and aggressive business management to use wisely its cheap dollars to entrench and to expand. With government-excess-profits-tax-cheap dollars, the big will grow bigger and the small and weak will merge with them, or die.

If this is true, why then did even big business oppose the excess profits tax? The reason is that all business wants to avoid putting tax considerations before market considerations; because when this happens, competitive enterprise based on efficiency and ingenuity in serving the public's demands will have been distorted by artificial and irrelevant factors which have nothing to do with skill in making and distributing the things and services that people want.

The existence of cheap expense dollars does not justify waste, extravagance or carelessness in the administration of business expenditures. There has been such discussion of frivolous disbursements, based on observation of bad managerial practices under the excess profits tax of World War II. It is true that such practices did exist, but the amount of money wasted, though conspicuous, cannot have been important in the aggregate; and in any case, the wasteful use of cheap dollars is as blameworthy as the wasteful use of expensive dollars. With cheap dollars the temptation is greater and control is more difficult but there are many examples of companies which tightened rather than loosened their supervision of expense under the last excess profits tax. The same good faith on the part of management in the prudent direction of a company's affairs is to be insisted upon whether expense dollars are expensive or cheap.

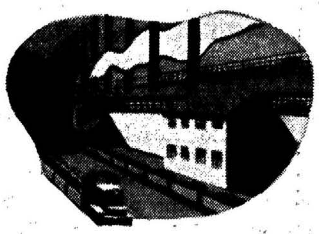
Good faith on the part of management is also required to refrain from actions harmful to the national interest but this requirement exists whether we have an excess profits tax or not. Once again, cheap dollars increase the temptation, and clearer vision and a stronger conscience are now necessary to avoid managerial abuse of discretion. One obvious case of abuse is the practice of hoarding skilled labor. But the clearly black cases shade off into uncertain grays, and there are no absolute standards to guide management in most instances of possible conflict between national and company welfare. Actions beneficial to the national interest are those which will result in new or better products and services or those which will increase the availability of products and services, old or new, to the consuming public.

Management under the excess profits tax is therefore under the obligation to use prudently and in good faith a double standard of expense dollars.

In essence, what has happened is that for some companies, cheap dollars have been created which make prudent the taking of risks that would be considered doubtful if all expense dollars had the same value. The fact that the present excess profits tax will either expire or be extensively and materially amended on July 1, 1953, makes it necessary for management to put its planning house in order at once, since the benefit to the company of cheap expense dollars must be gained principally in 1952. The year 1951 is too soon for most, and the first half of 1953 is for many a little too late. Generalizations are dangerous, and exceptions will always occur, but I think a broad rule may be stated that the payment of an excess profits tax by a company in 1952

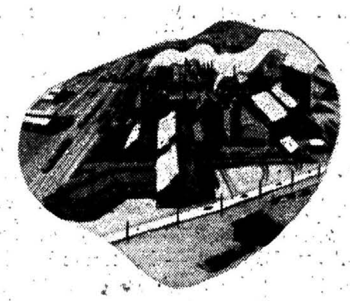
Continued on page 46

*An address by Mr. Ruml at the 16th Annual Meeting of the Gas Appliance Manufacturers Association, Chicago, Ill., April 17, 1951.



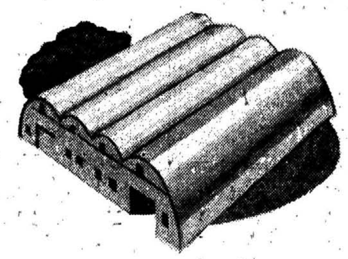
GREAT LAKES STEEL CORP.

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



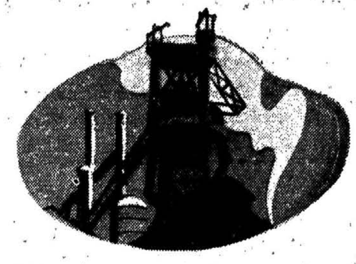
WEIRTON STEEL COMPANY

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



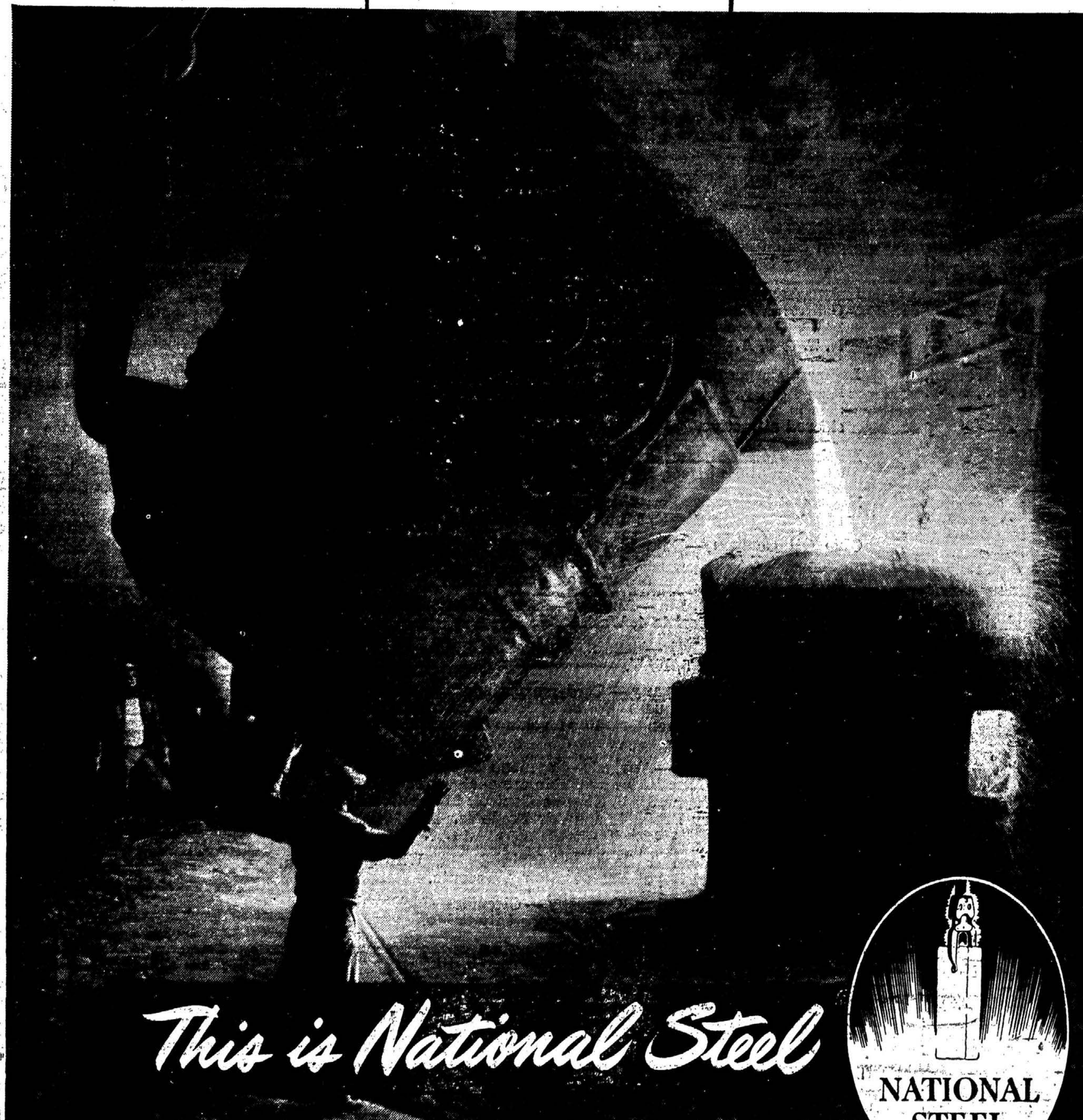
STRAN-STEEL DIVISION

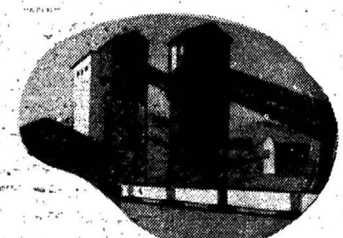
Unit of Great Lakes Steel Corporation. Plants at Ecorse, Michigan, and Terre Haute, Indiana. Exclusive manufacturer of world-famed Quonset buildings and Stran-Steel nailable framing.



THE HANNA FURNACE CORP.

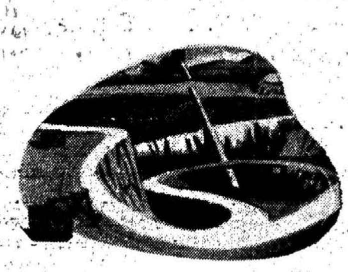
Buffalo, New York. Blast furnace division. A leading producer of various grades of merchant pig iron for foundry use.





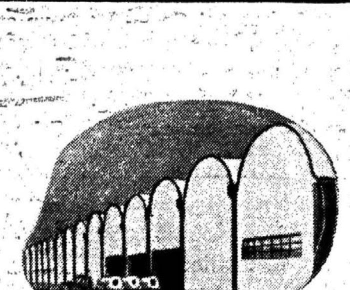
NATIONAL MINES CORP.

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



HANNA IRON ORE COMPANY

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



NATIONAL STEEL PRODUCTS CO.

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

National Steel is a progressive steel producer.

It is progressive in growth and in vision . . . in the development of new methods and the pioneering of new processes. Its record of accomplishment is the record of an important part of the modernization of the steel industry.

A National Steel division installed America's first fully continuous 4-high hot strip mill. It pioneered the electrolytic process of coating steel with protective metals.

Today National Steel operates the largest and fastest electrolytic plating lines in the world . . . is the largest independent producer of tin plate.

In one year, National Steel put into operation the world's three largest open hearth furnaces. It is now operating a huge 400-ton-per-day oxygen plant—another forward step in steel-producing efficiency.

This is National Steel . . . constantly improving, constantly expanding . . . one of America's largest and most progressive makers of steel.

NATIONAL STEEL CORPORATION
GRANT BUILDING PITTSBURGH, PA.

Serving America by Serving American Industry

Dealer-Broker Investment Recommendations and Literature

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

Connecticut Securities—Memoranda on **Connecticut Light & Power, United Illuminating, Connecticut Power, New Haven Gas Light, Hartford Electric Light,** and **Hartford Gas**—Chas W. Scranton & Co., 209 Church Street, New Haven 7, Conn.

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.

How I Made the Sale That Did the Most for Me—Book on salesmanship edited by J. M. Hickerson, President of Albert Frank Guenther Law, Inc., 131 Cedar Street, New York 6, N. Y.

How to Recognize the Major Trend of Stock Prices—Primary trend indexes computed weekly—Special $5.00 trial subscription offer including three-color graphs of primary indexes from 1943 to date, basic strength graphs for 1948, 1949, 1950 and 1951, weekly analysis reports for the next six weeks (airmail) and newly published booklet, "Planning for Profits in the Stock Market"—Dept. C-61, Investors Research Company, Santa Barbara, Calif.

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

"Let's Get Better Acquainted"—Booklet describing the firm, its organization and the diversified services provided to investment dealers throughout the country—for copies write to Alfred J. Stalker, manager Dealer Relations Department, Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

New York Banks and Trust Companies—76th quarterly comparison—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

New York City Bank Stocks—Comparative figures at March 31, 1951—The First Boston Corporation, 100 Broadway, New York 5, N. Y. Also available is an analysis of **Lincoln National Life Insurance Company.**

New York City Bank Stocks—Comparative values—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

New York City Bank Stocks—Comparison and analysis of 18 stocks as of March 1, 1951—Laird, Bissell & Meeds, 120 Broadway, New York 5, 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.

Public Utility Common Stocks—Tabulation—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

* * *

Argo Oil Corporation—Analysis—Barclay Investment Co., 39 South LaSalle Street, Chicago 3, Ill.

Atomic Instrument Co. — Write-up and prospectus — Coffin, Betz & Co., 123 South Broad Street, Philadelphia 9, Pa.

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

Cenco Corporation—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y. Also available is an analysis of **Foremost Dairies, Inc.** and a bulletin on **Orangeburg Manufacturing Co., Inc.**

Central Vermont Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y. Also available is a review of **Continental Can.**

City of Wood River, Ill.—$132,000 sewerage Revenue bonds (3% 1970-1978) to yield 2.50-2.70—descriptive circular—Allen & Company, 30 Broad Street, New York 4, N. Y.

Combustion Engineering-Superheater—Analysis—Bache & Co., 36 Wall Street, New York 5, N. Y. Also available is a bulletin on **Sonotone.**

L. A. Darling—Information—Moreland & Co., Penobscot Building, Detroit 26, Mich.

Davidson County, Tennessee Rural Elementary School Building Bonds—bulletin—Paul Frederick & Company, 70 Pine Street, New York 5, N. Y.

Detroit Hardware Manufacturing Co. — Report — DePasquale Co., 25 Broad Street, New York 4, N. Y.

Foremost Dairies — Annual Report — Foremost Dairies, Inc., 2903 College Street, Jacksonville, Fla.

Fruehauf Trailer Co.—Analysis—Walston, Hoffman & Goodwin, 35 Wall Street, New York 5, N. Y. Also available is an analysis of **Motorola, Inc.,** a bulletin on **Nicholson File Company,** and a memorandum on **Northern Pacific Railway.**

General Tin Investments, Ltd.—Study—Carl Marks & Co. Inc., 50 Broad Street, New York 4, N. Y.

Glass Fibers, Inc.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y. Also available are analyses of **Great Northern Railway** and **Northrop Aircraft, Inc.** and a discussion of the liberalization of the New York insurance law with a list of common stocks believed eligible for life insurance companies.

Great Northern Railway—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y. Also available is a comparative tabulation of **Railroad Income Bonds.**

Hanson-Van Winkle-Munning Company—Analysis—Grimm & Co., 44 Wall Street, New York 5, N. Y.

Jack Waite Mining Co.—Circular on producer of base metals in the Coeur d'Alene mining district, operated by the American Smelting & Refining Co.—Olds & Company, 35 Montgomery Street, Jersey City, N. J.

Kaiser Aluminum & Chemical Corporation—Late Study—First California Company, 300 Montgomery Street, San Francisco 20, Calif. Also available is an analysis of **Bank of America, N. T. & S. A.**

Lehman Corporation—Bulletin on changes in portfolio—Ira Haupt & Co., 111 Broadway, New York 6, N. Y. Also available is a list of stocks in favorite industries which are considered attractive.

Mexican Gulf Sulphur Co.—Brochure—George B. Wallace & Co., 15 William Street, New York 5, N. Y.

Northwest Bancorporation—Analysis—J. M. Dain & Company, 110 South Sixth Street, Minneapolis 2, Minn.

Ohio Oil Company—Data in current issue of "Gleanings"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y. Also in the same issue are data on **Rexall Drug.**

Placer Development, Ltd.—Analysis—John R. Lewis, Inc., 1006 Second Avenue, Seattle 4, Wash.

Pullman, Inc.—Analysis—Bendix, Luitweiler & Co., 52 Wall Street, New York 5, N. Y.

Riverside Cement Company — Card memorandum — Lerner & Co., 10 Post Office Square, Boston 9, Mass. Also available is a memorandum on **Gear Grinding Machine Co.** and on **Seneca Falls Machine Co.**

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.**

Shawinigan Water and Power Company—Analytical brochure—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canada and Royal Bank Building, Toronto.

Shenandoah-Dives Mining Company — Circular — McDonald, Evans & Co., Finance Building, Kansas City 6, Mo.

Wisconsin Power and Light Company—Analysis—Dayton & Gernon, 105 South La Salle Street, Chicago 3, Ill.

NYSE to Close for Two Hours on Friday In Honor of M'Arthur

Robert P. Boylan, Chairman of the Board of Governors, announced today that trading will be suspended for two hours, from 11 a.m. to 1 p.m., on Friday, April 20, in honor of General of the Army Douglas MacArthur. The Board of Governors made this decision at a special meeting.

A statement issued by the Board said: "Mayor Vincent R. Impellitteri has asked New York City's commerce and industry to release as many employees as possible from their duties in order that they may join in paying tribute to General MacArthur.

"The New York Stock Exchange is proud to add its voice to the City's welcome to a magnificent soldier."

Coffin, Betz Sells Atomic Instrum't Stk.

Coffin, Betz & Co., Philadelphia, Pa., has sold an issue of 47,700 shares of Atomic Instrument Co. common stock (par $1) at $3.87½ per share.

The net proceeds are to be used to expand the company's facilities and for working capital. Its plant is located in Cambridge, Mass.

Coburn & Middlebrook

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Monte Nelson has become affiliated with Coburn & Middlebrook, Inc., 75 State Street. He was previously with R. H. Johnson & Co.

Baker, Simonds Adds

(Special to THE FINANCIAL CHRONICLE)

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

COMING EVENTS

In Investment Field

May 9, 1951 (Toronto, Canada)
Toronto members of Investment Dealers Association of Canada dinner at the King Edward Hotel.

May 18, 1951 (Baltimore, Md.)
Baltimore Security Traders Association annual Spring outing at the Country Club of Maryland.

May 22, 1951 (Oklahoma City, Okla.)
Oklahoma Bond Club—Southwestern Group of Investment Bankers Association Spring outing at the Oklahoma City Golf and Country Club.

May 24-25, 1951 (Dallas, Tex.)
Texas Group Investment Bankers Association Annual Meeting.

May 25, 1951 (Cincinnati, Ohio)
Municipal Bond Dealers Group of Cincinnati annual spring party at the Maketewah Country Club (to be preceded by dinner and cocktail party for out-of-town guests, May 24).

May 30, 1951 (Dallas, Tex.)
Dallas Bond Club annual Memorial Day outing.

June 1, 1951 (Chicago, Ill.)
Bond Club of Chicago annual Field Day at Knollwood Club, Lake Forest, Ill.

June 8, 1951 (New York, N. Y.)
Bond Club of New York 27th annual Field Day at the Sleepy Hollow Country Club, Scarborough, N. Y.

June 11-14, 1951 (Jasper Park, Canada)
Investment Dealers Association of Canada Convention at Jasper Park Lodge.

June 14, 1951 (St. Paul Minn.)
Twin City Bond Club annual picnic and Golf tournament at the White Bear Yacht Club—to be preceded by the usual pre-picnic get together Wednesday evening, June 13.

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.

Joins Gibbs & Coe

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass.—Kenneth C. Willett has become affiliated with Gibbs & Coe, 507 Main Street. He was previously with Chas. A. Day & Co., Inc.

Canada's Progress Under Changed Economic Ideas

By W. T. G. HACKETT*
Economic Adviser, Bank of Montreal

Canadian economist reexamines new economic ideas that have prevailed since the 1930s and points out their inadequacies. Sees dangers in dependence on government action for economic well-being and expresses doubt full employment can be accompanied by a dependable dollar. Warns rising rate of capital expansion, unless accompanied by corresponding increase in saving, creates inflationary pressures and calls armament program "an inflation generator." Holds full employment must be tied in with increasing productivity, if dollar-value is to be preserved.

When you took the risk of inviting a business economist to speak to you today you probably felt you had at least a fifty-fifty chance of hearing something practical and timely. Let me confess quickly, therefore, that much of what I propose to say this morning has to do with economic theory.

W. T. G. Hackett

But before you begin to remember pressing engagements elsewhere, may I suggest that economic theories, which begin as abstruse formulae in the minds of technicians, can, and often do, end up as enormously powerful practical forces influencing public policy and popular belief. If any illustration is needed, I need only mention that we, in Canada, with other free nations are today facing up to the challenge of rearmament to protect ourselves against the threat of a militant communism, which in just over a hundred years has evolved from an economic theory originating in the mind of an obscure student called Marx. And the manner in which we organize our productive capacity to meet that threat, the nature of the stresses and strains to which the effort gives rise, and the resultant effects on our social fabric will be greatly influenced by the kind of economic thinking which underlies governmental action and public attitudes.

Most of us here today have, perhaps without fully realizing it, lived through a major revolution in economic thought. We were born into an environment which heavily accented the virtues of rugged individualism. If you grew up on this continent you probably drank deep, in your youth, of the philosophy expounded by Horatio Alger. After having read a dozen or so of his 120 works (with only one plot for the whole 120) the path of progress became very clear. If you worked hard and long, with no thought of a forty-hour week, if you carefully washed the back of your neck and avoided the wiles of the devil, you would, without any shadow of doubt, attain to the presidency of the firm, after having outsmarted the villain, paid off the mortgage on the old homestead, and married the former president's daughter.

When we came to man's estate, the chances were that the economic theories we had consciously or unconsciously picked up along the road were those of the school of Adam Smith. We accepted, without much question, the notion that the economic system was something that, by and large, ran itself in automatic response to market forces. A related belief was, of course, that the greatest material good for the greatest number was most likely to be achieved under conditions wherein each individual was vigorously striving to better his own position. Government was neither "big business" nor "in business." It might do something to temper the rigours of the competitive struggle but there was certainly no widespread view that, with the signal exception of tariff policy, government should be an active force influencing the course of economic events.

The New Theories of the 1930's

In the early 1930's something seemed to go radically and tragically wrong with the formula. The very world went out of joint. The philosophy of individualism stood indicted at the bar of public opinion. Whether the indictment was wholly deserved is of course another matter. A look at the "terrible thirties" in the light of history will, I think, convince any fair-minded observer that the worldwide dislocations of the time were as much due to interference, by governments, with the processes of international trade as to the shortcomings of business enterprise.

But whatever the causes of the great depression, out of its misery there emerged a new and welcome gospel for the times. This doctrine proclaimed the good news that depressions were not inevitable; they could be overcome and prevented by putting into practice new economic theories which highlighted purchasing power as the mainspring of business activity and employment. Purchasing power was no longer regarded as a derivative of the economic process but as the prime mover which kept the economy running. And if purchasing power were in danger of becoming deficient it was the government's duty to do something about it. "Doing something about it" involved spending programs of various kinds, action to redistribute income into channels where it was most likely to be spent, and measures to promote low and, preferably, declining rates of interest.

It was part and parcel of the new doctrine that saving, instead of a virtue to be encouraged, was really a social menace since it kept money out of the spending stream. The good citizen was the free spender. Thus, low interest rates, apart from their usefulness as an adjunct to deficit financing, and as a business stimulant, were also desirable as a deterrent to saving.

It followed from all this that economics was no longer a matter of analysis and forecasting. It became instead functional and dynamic. And as part of the pattern, the ultimate responsibility for seeing that purchasing power was at all times sufficient to provide full employment was laid on the doorstep of the state, where it was eagerly taken in and given a home.

Blood Transfusions via Government Spending

Now it was of course implicit in the theory of the thing that conditions could conceivably arise in which purchasing power would become excessive, and that the government's job would then be to take the restrictive and unpopular measures necessary to dampen down a boom. But in the thinking of the time that possibility was regarded more as a theoretical footnote than a matter of practical concern. Indeed it soon seemed to become axiomatic that the body economic was a chronic invalid permanently dependent on blood transfusions in the form of government spending. Never again, it was seriously argued, would there be frontiers of expansion for business enterprise broad enough to provide outlets for the savings which the incorrigibly thrifty would continue to accumulate.

The war changed the picture. Problems of unemployment and under-capacity soon gave way to the difficulties of superabundant demand. But this was seen as a temporary aberration from chronic tendencies to depression. The hypodermic needle was not thrown away. It was held in reserve for instant postwar use. And at the same time the emergencies of war were a forcing ground for other concepts which fitted rather neatly into the already established pattern. For example, it began to look as if it might be possible to rule out price as the dominant force in balancing supply and demand. Thus we had the price ceiling as applied to the domestic interchange of goods, and fixed exchange rates as applied to international trade. The price of capital—the rate of interest—was already well under control before the war started, and that control became intensified. With the desirability of these measures as emergency expedients, I am not for these purposes concerned. My point is simply the factual one that, by the end of the war, the area of action by government in the economic realm had in most countries become greatly broadened.

Now at this stage of my remarks, and lest I be branded as a hopeless reactionary, perhaps I had better say that in my opinion the great revolution in economic thought that dates from the early thirties has produced some results of lasting benefit. Its abiding contribution is the now accepted principle that mass unemployment is an unnecessary and demoralizing social waste and need not be supinely endured any more than the plagues of earlier generations are today regarded as inevitable by medical science. Another thing that I think we may put on the credit side of the ledger is a quickened sense of social responsibility on the part of business and the broadened realization that, for any firm, good public relations must start from a basis of fair dealing with its own employees.

Economic Well-Being and Governmental Action

But I think it must also be said that the postwar years have shown with compelling clarity that economic well-being cannot fully be underwritten by governmental action. For one thing the theory is basically weak on the side of international economics, an aspect which we have not time thoroughly to explore. Suffice it to say, on this point, that for a country like Canada, heavily dependent on external trade, the success of national policies is strongly conditioned by developments beyond our own borders. Perhaps more significant is the fact that anti-deflationary measures are politically easy, but that anti-inflationary measures are politically difficult. Moreover, governmental medicines for low purchasing power, being usually popular and palatable tend, like some other potions one can think of, to become habit-forming. The result has been, I suggest, that the depression-born emphasis on ever-abundant purchasing power as the touchstone of material well-being has left us some legacies of rather dubious value. We have perhaps been in danger of forgetting, at times, that what is not produced cannot be consumed. The link between effort and reward has been weakened. And the idea that government is the residual guarantor of welfare seems to have encouraged the tendency to run to government for protection against the ordinary as well as the extraordinary hazards of enterprise. You may not have to ponder overly long to recall examples of these attitudes in the course of your day-to-day experience.

Can We Have Full Employment and a Dependable Dollar?

And in addition there are a few perhaps more sharply defined lessons which may be drawn from wartime and postwar experience. One is that it is very difficult to achieve stability by fixing the symbols of stability. Another is that it is just as difficult for human beings in government as it is for their fellow creatures elsewhere, to formulate long-range plans for a future in which the apparently inevitable has an awkward habit of not happening and in which the unexpected frequently does. Finally, the theories of planned stability, while offering us a formula for full employment, have yet to come up, in practice, with a recipe for full employment plus a dependable dollar.

Now all of these points could be developed with copious reference to conditions in other countries. But we do not need to look beyond our own doorstep for some thought-provoking case material.

Let us recall, for a moment, the thinking prevalent in business and government circles as we approached the end of the last war. It seemed pretty generally agreed that the major problems of the postwar period would be deflation, depression and unemployment. In government, the accent was therefore on postwar measures of a "two-gunned" nature, the one being sighted on some specific objective desirable in itself, with the other trained in the general direction of the oncoming slump. For example, our program of postwar credits (amounting to $1.8 billions) for aid to the reconstruction of allied nations was regarded also as a means of maintaining demand for Canadian ex-

Continued on page 52

*An address by Mr. Hackett before the Toronto Personnel Association, Toronto, Canada, April 12, 1951.

Insufficiency of Monetary And Fiscal Controls

By ROY B. HARROD*
Professor of Economics, Oxford University, England
Author, "The Life of John Maynard Keynes."

Eminent British economist terming as inefficient and obstructive, price controls and materials allocation, pleads for their two-year limitation if they cannot be avoided here. To supplement monetary policy and interest rate anti-inflation instrument, suggests tax incentive to induce people to abstain from non-defense investment expenditures.

I shall try to state very briefly my general view on means to combat inflation, in which monetary control can play a part.

Roy F. Harrod

May I begin by saying that my background of thought is very much hostile to physical controls, on the ground, primarily, that they are so inefficient. By physical controls, I think in terms of price controls and the allocation of materials which may get ever more and more detailed. I believe those methods to be essentially inefficient and obstructive to the flexible working of the economy.

I think that perhaps we are here in this country, and everywhere, too much influenced by the fact that Britain had to adopt that method very quickly in 1939 to 1940 because Britain had to act in a very great hurry, in a rapid step-up, and there was no time to think out more elaborate plans for having an economy which would run rather more freely in time of war.

Britain's Wartime Needs Different

Also, in the British case, it is important to remember that there was from the very beginning the limiting factor of the shipping shortage, which made an import program absolutely essential, and from the import program all other controls over the flow of materials, components, and so on, sprang.

It may be that these physical controls will be necessary, nonetheless, and on that I should like to make this point:

A Time Limit

I think it would be very important in instituting physical controls to give them a time limit. I just throw out as an example of that a time limit of two years, because it seems to me that that is the time of maximum danger of the inflation gathering momentum. I am assuming, of course, we are not to be involved in total war. If that happens, then the whole picture changes.

Assuming no total war, but a maintenance of high defense expenditure, I submit that the crucial period is when you are stepping up the defense expenditure. Presumably, at the end of about two years, you reach a plateau, and it is mounting up toward the top of that plateau that imposes the great strain. Once you get to the top of the plateau, then you may maintain your high defense expenditure, but, with the increased flow of production, you will get successive easements made possible, and you may then relax in many directions.

So that if, at the worst, physical controls are found necessary, I think it would be a good thing to visualize them and to publicize them as a two-year affair during the ascent, and not as a system that is to be kept in being so long as very high defense expenditure is necessary.

In any event, I am against these physical controls if they can possibly be avoided.

Monetary Controls Inefective

The next thing I have to say is that I do not believe that monetary controls, in the sense that we have already begun to discuss them, can be very effective in preventing inflation. I don't believe that additional monetary controls as they could be managed by the Federal Reserve, and with cooperation from other great banks, are strong enough; and I don't believe that in history you can find an example of pure monetary control preventing an inflation of the sort with which we are threatened, because the forces are too strong.

I would suggest that monetary controls can always break inflation if the inflation is something of the nature of a bubble, if it is something that is due to undue speculative activity, and the like. You can then tighten your credit and put up your interest rates, and you can burst the bubble always.

But the kind of inflation with which we are faced isn't "bubble" inflation at all. It is due to a very real demand for defense and for capital outlay consequent to defense programs. In the face of those very real demands coming on top of a fully active economy, I believe that the monetary controls are not strong enough to be really effective.

Following my argument—you may ask—since I am against physical controls, and I say that monetary controls would be ineffective, do I recommend inflation? I answer, no, because that is the worst evil of all. Open inflation is worse than physical controls, bad as those physical controls may be.

Now, having presented that dilemma, I will just say a few words about my own line of approach.

I should say that if you were going to rely on fiscal methods, in the ordinary sense of taxation, for preventing inflation, you have got to do what we have been doing in Britain for three or four years. You have got to overbalance your budget, and overbalance it by quite a lot, and for two reasons. I suggest that it is not enough to say "pay as you go," meaning financing all the defense expenditures out of taxation, because you have got other inflationary forces at work.

Look at it in this way: If you look away from the budget to the balance of the whole economy, you have got two further things to think of. As you step up your taxes—and you have got to step them up mightily to cover this vast defense program—private and personal saving will undoubtedly be affected, and you will get less private and personal saving on the one side.

On the other side, the whole of this expansionary situation is going to lead to a good deal of additional investment outlay, all the different firms tooling up and getting ready to meet government orders which are going to flow out over the whole economy.

So that quite apart from the actual outlay of the government, which, on this heroic scheme one would seek to cover by taxation, you have got in addition twin factors making for inflation: the fact that high taxes are going to hit personal savings somewhat, and the fact that you have got private investment expenditure being stimulated, to meet the direct government expenditure.

So that I conclude that however heroic you are on the fiscal side, you will still not succeed in avoiding inflation by that method alone. That brings me to the hub of the matter.

The Hub of the Matter

The fiscal side of things, the high taxation, is designed to release resources for defense expenditures by making the consumers consume less than they otherwise would, and that you have got to do, of course. You can go a long way along that line. But I don't think with this step-up of expenditure at the pace we contemplate in these two years while we climb the plateau, that you can get it all out of consumer expenditure. You have also got to bring about a decline in non-defense investment expenditure.

Now you may say, "But that is precisely the object of monetary control and a tight credit policy; high rates are designed to reduce

Continued on page 56

*From transcript of a talk by Professor Harrod before Conference on the Economics of Mobilization, held under the auspices of the Chicago University Law School, White Sulphur Springs, West Virginia, April 6, 1951.

The World's Biggest Business

By MARTIN R. GAINSBRUGH*
Chief Economist, National Industrial Conference Board

Economist, urging long-range consideration of government spending trend, denies contention that over past half-century expanding national output has caught up with government's demands. States 20-25% of all personal income and gross national product now stems, from government, contrasted with 8% in 1929, with inevitable result—irrespective of Korean emergency—of moving to a controlled economy. Cites government's increasing financing difficulties, and vital dislocations resulting from ever more drastic tax burdens.

Our studies at The Conference Board, which span at least the past half century, reveal that the race between government and the private economy, or government and the growth of national income, has steadily been won by government.

Martin R. Gainsbrugh

Very frequently, we encounter the argument which might be labeled: let's grow up to the size of our government. It is true, so runs the argument, that government is costing us more than it has in the past. But give us a wee bit more time, and we will have so expanded our national output that we will then have the cost of government in reasonable balance with gross national product, or total national income.

Our studies for the past half century reveal the same pattern decade after decade, whether the period be one of war or peace or whether it be boom or depression.

When the Federal Government steps down its rate of spending, as in the Twenties, then the state and local governments move in, and accelerate their rate of spending. There is no evidence over the past half century that we have as yet caught up with the demands of government by expanding national output.

Permanent Debt-Income Pattern

That same pattern emerges when we look at the ratio of public debt and national income for the past five decades. I suspect it will also hold for the years ahead, keeping in mind the commitments we have already underwritten for the next quarter century, in terms not only of social security and related provisions, but even more in terms of pensions and other compensation for past services of veterans and their families.

I turn next from this sequence of comments on past trends to the question of what is foreboding about such a relationship? That question is frequently answered with another question: Isn't that what the people want? Isn't government thereby being responsive to the people's demand?

Put aside, for the moment, the influence upon the electorate and upon government itself of the political power that accrues as a result of the expansion of the state. My more immediate concern, if I may be permitted to use that phrase, is with some of the broader social and economic problems entailed in this growing reliance upon government, first as a source of employment, second as a source of markets, and third as a source of income.

Let me give you in statistical form—but I hope quite readily grasped nevertheless — the relationships that emerge quite clearly from an appraisal of our social accounts over time.

Government's Contribution to Income

From 1929 to 1949, the government's contribution to the national income has risen from about 5% in 1929 to 12% in 1939, and to 19% in 1944. (See Table on Government's Influence on National Accounts, p. 56.) I would put the figure at about 12.5% for the year immediately ahead. The use of national income as a base, however, understates the influence of government. The national income concept takes cognizance of government only as an employer. Government's contribution to national income is confined solely to wages and salary paid by government.

Far more revealing is the trend in government as a source of market influence. The government's rising take of goods and services is clearly evident in the ratio of its purchases to total gross national product. This has moved up from 8% in 1929 to 17% in 1949. We estimate a further rise to 22.5% of gross national product, including civilian as well as military outlays, for 1951. Here, as throughout, I use government in its broadest sense to embrace Federal, State, and local expenditures.

I come now to the most pronounced and disturbing trend of the three, government as a source of income to individuals. This may be paid for work performed for government, or as interest on government securities, or as pensions and transfer payments, such as social security. Only 8.4% of all personal income stemmed from government in 1929; 20% of all personal income stemmed from government in 1950.

How Far to Totalitarianism

The final question I would raise is, how far can or should we go in this process? An economy 5% government influenced and 95% voluntary would, I suppose, qualify as a free economy; an economy of 95% government and 5% voluntary would conversely qualify as a totalitarian or government-controlled economy.

Even if the employers were various different governmental units and had no collusion with each other, so long as the basic source of income—95% of it—was from government, I suggest we would have a government-controlled economy.

Within the last 10 years, our social accounts reveal that we have certainly moved in the direction of a mixed economy, with the government influencing 20 to 25% of total personal income, and total gross national product. I would suggest further that when we move up to 40% or more of government influence upon the total structure of the economy, we are already close to, if not at, a controlled economy.

The British Pattern

I would cite, in that connection, Britain's experience currently or our own World War II experience. That, however, is an aside. But somewhere between the 5% government and the 95% voluntary as one extreme and the 95% gov-

Continued on page 56

*Transcript of statement by Mr. Gainsbrugh before Conference on the Economics of Mobilization, held under the auspices of the Chicago University Law School, White Sulphur Springs, West Virginia, April 7-9, 1951.

Our Two Major National Problems

By JOHN M. HANCOCK*
Partner, Lehman Brothers,
Investment Bankers, New York City

Prominent investment banker lists as two major problems: (1) threat of war, combined with need for national preparedness; and (2) inflation and its continuation. Says first can be solved by greater production, which must come in large part from longer work hours and increased man-hour output. Criticizes labor union policies as endeavoring to seize power of the government. Contends solving inflation problem has made little progress, and cut in government wastefulness would be more help than increased taxation.

At the moment one would be safe in saying that the first major problem facing our country today is the threat of war combined with the need for national preparedness; the second problem being inflation and the threat of its continuation. Winston Churchill must have had some problems like these in mind when he said: "The truth is hard to come by."


John M. Hancock

For the purpose of narrowing down this topic I am going to assume that all of us are agreed on our absolute need for adequate preparedness. It is that assumption that carries me quickly over to the problem of inflation which stems, in part, from the absolute need for preparedness.

Too Much Taken for Granted

In our country we have been inclined to take our economic system for granted. Each of us has been concerned with developing his own business and professional success within the framework provided by our system, but without much specific regard for the system itself. Sometimes it has seemed as if we didn't have a system as such, though we did glorify individual rights and responsibilities. That was the framework in which we worked. It was the result of the evolutionary process through which our people had passed—retaining the best of our inheritance from our Founding Fathers.

The American Way of Life has prospered in the idea that "man is both too weak to wield unlimited power and, thank God, too strong to submit to it." No one has found "ringing words" for expressing the ideas wrapped up in the concept of The American Way of Life, but to me it certainly means all these ideas—equal opportunity for all, personal liberty consistent with full personal responsibility, no leaning on a beneficient or a bankrupt government (the only difference being one of time), no coercion by anyone, no favors or benefits by government to one class of its people because of political pressures or with the purpose of gaining votes, no interference with the economic life of the nation, except when clearly in keeping with the national interest—the interests of all the people—no robbing one group for giving to another, or, in even simpler terms, it means the Golden Rule and the Sermon on the Mount. Over recent years departures from these principles have been many, for class consciousness has grown and selfish interests are made to appear as national interests. I fear that if government attempts to underwrite the wishes of every group in our people, government will succeed only in destroying itself, for sad to say, many people are willing to have government undertake too much.

Must Increase Production

Laying aside for the moment this general concept, our immediate objective can be simply expressed and it is—*greater production*. In simplest terms, we must increase production or we will not meet the defense needs and the only alternative is to accept a lower standard of living until the increased production is attained. As yet we do not know what this increased demand is going to amount to but there should soon be a reasonably authoritative determination on this point. If we are to give top priority to defense production, we must know what the defense needs are, and we must proceed to cut out civilian production for the less essential needs, and we must at the same time reduce the buying power of our people so as to reduce their effective demand for goods. Until we can bring the total supply or entire production into balance with the needs for preparedness and the needs of our entire population, both civilian and military, we have a very explosive factor in the economy.

Inflation here at home can destroy our freedom and the rest of our material and spiritual well-being just as quickly and just as completely as being conquered by the Russians in a military war. The basic cause of rising prices in peace and war is creating—and leaving in people's hands—more money than there are goods to match. The *extra wartime inflation is caused by shooting away the military goods and leaving in circulation the extra money paid to produce those goods.* Further inflation can be prevented only by keeping the extra money—not matched by consumer goods—*from being available for consumer spending.* No amount of juggling of wages and prices can cure the fact that more of our production is going to war and that, therefore, for a time we are going to have less to consume out of what we produce. If money is available for spending, the actual demand for goods will exceed the available supply of goods, and rising prices are a certainty. We must, therefore, increase production of war goods and limit the operations of a free market until a balance is restored.

The over-all objective then of the mobilization effort is to prepare against getting licked on the field of battle by a foreign enemy and, meanwhile, to keep from getting licked here at home *by ourselves* through the inflation to which we are vulnerable because of our economic ignorance and bad policies. If we let ourselves get licked on the home front by inflation, we simplify Russia's problems immensely.

Longer Hours and More Man-Hour Output

One rather obvious way to increase production is to provide for longer hours of work and attain more output per man-hour, which ought to be attained with some comparative ease because of the improved facilities supplied by management and from the greater skill, care and effort supplied by willing workers. This step has been taken in some spots but there is not yet any sense of urgency in any part of our economy. We seem to be going along, with very few exceptions, at about the pace we follow customarily in peacetime. We may differ upon the degree of the urgency, but there is no excuse for the present general view that there is no urgency in our situation.

At the end of the prior war the argument was made that the weekly pay should be maintained when the workweek was cut to 40 hours. The argument doesn't work, however, when conditions are reversed.

The immediate tip-off on our situation lies in the attitude of union labor officials toward the defense organization in Washington and its officials. There is a great hue and cry about Wilson, Weinberg, Clay, Johnston and Harrison having come to their top posts in mobilization from top posts in large business organizations. In fact, they were chosen for their personal honor of course, but especially for their proven ability to attain and retain responsible posts in industry where the free market process insured their not being able to attain, and especially to retain, those posts unless they proved conclusively every day that they coordinated the activities of all concerned in a way that served the *balanced* best interests of consumers, workers, investors, government, and the public. Let these men know *you* have faith in them. They need your support in the face of all the attacks which can only disorganize and sabotage government at this critical time. Let us be fair and realize that they are the victims of all the funny, or phony, fiscal and economic ideas of the past two decades. One large problem, not in the immediate foreground, is the need to stop the drift to statism and a planned economy so far as is possible, while attaining the production of war goods.

Union Leaders' Opportunity

I think there is a great opportunity for our national union officials to meet this need for greater production. From what one can read in the press, one would seem warranted in assuming that this need is getting almost no attention. Every day we see efforts made to limit production, even going so far as to threaten to call strikes, and strikes do occur—with the inevitable result of interference with production. The threat of calling a strike is too powerful a weapon to be employed in this situation. Maybe this is a field to which disarmament ideas should be extended. The immediate problem seems to be broader than even this, for it seems to be a greater grab for political and economic power over employees, employers, government and the public.

Wartime inflation is given a shortsighted welcome by too many people—including too many businessmen—just as peacetime inflation has had such a welcome. Too many politicians have liked inflation. But, inflation through higher wages is popular with union officials most of all. This is because the rising cost of living over the past five years gives them the presumed justification for demanding pay increases to bring union workers' pay even with the new inflation, which unfortunately has been caused in the main by previous wage increases, though helped by other related bad economic policies of government. Union officials eagerly promote pay rises while decrying the resulting increased prices to their members. They seek to get the benefits of pay increases and be free of the inevitable results of their pay increases. They seek guarantees from all of us that their pay will rise as the cost of living rises. They ask this guarantee from all the rest of us who have no such guarantees.

One leader cannot do much to stop inflation. The competitive situation forces each group to struggle to get as much increase as any other group gets. As a result, one leader has the veto power over all others.

Aiming at Union Power

For some time it has seemed obvious that the top union group in Washington has had the one major objective of increasing greatly the union movement's power—and not just *economic* power at the level in bargaining for wages, hours, and working conditions for its members, but *national level political* power which brings along with it far greater economic power than can be attained at the local level.

Even the traditionally more conservative elements in national union leadership have in the last couple of years joined up with the others, not only in the effort to attain the collectivist political power at the national level, but in a willingness to stomach the use of the borrowing and spending and other debilitating means of weakening the free market and bringing on greater and greater substitution of centralized government direction—as compared with the decentralized decisions of the free, individual citizen.

A Counsel of Desperation

Accordingly, the counsel of desperation seems to have prevailed and the rather shortsighted decision to have been made for an all-out, last-stand try at *seizing* power over government, business, employees and the public. They would do this through the twin mediums of actual and threatened wartime strikes across the nation and political retaliation at the next elections. They could promise they would be far stronger as a result of the power they could gain meanwhile in bargaining politically with government instead of having to bargain on an economic basis with employers and employees.

That is a sketchy summary of the situation, as I view it, in the immediate inflationary problem affecting the wartime economy in which we are endeavoring to increase production to meet war needs and also to avoid reducing our standard of living.

The Inflation Problem

While some progress has been made on the inflation problem it has been far too little and it has come far too late. So far as my own observation is concerned I

Continued on page 48

*An address by Mr. Hancock before American Association of Industrial Editors, Philadelphia, Pa., March 30, 1951.

Missouri Brevities

Net income of the **St. Louis-San Francisco Ry.** in 1950 reached the highest level since the company was reorganized in 1947 because of a 7.3% gain in revenues and a decline of 2.1% in operating expenses, Clark Hungerford, President, stated in the annual report. **The Frisco** during the 12 months acquired 72 new diesel locomotives, bringing to 276 the total number in service at the close of the year. Total revenues were $121,383,409 and net profit, after taxes, totaled $11,244,619, equal to $6.57 per common share. This compared with revenues of $113,117,337 and net profit of $5,598,313, or $2.02 per share, for the year 1949.

* * *

Chemstrand Corp., owned jointly by **Monsanto Chemical Co.** and **American Viscose Corp.**, has made arrangements through Morgan Stanley & Co. and Dillon, Read & Co. Inc. to borrow $110,000,000 from institutional investors to finance construction of plants which will manufacture a new synthetic acrylic fibre and will process and manufacture nylon. The financing is subject to completion of arrangements between Chemstrand and E. I. du Pont de Nemours & Co. (Inc.) covering the manufacture of nylon. Decatur, Ala., is the site for the first Chemstrand plant.

* * *

Monsanto Chemical Co.'s net sales of $67,937,172 for the first quarter of 1951 reached a new all-time peak, and were 38% in excess of the comparable figure for 1950. Consolidated net income, after income taxes at current rates, amounted to $6,213,737, equivalent, after provision for preference dividends, to $1.25 per share on the 4,868,189 common shares outstanding on March 31. Earnings for the corresponding quarter of 1950, after income taxes at the lower rates applicable to that period, amounted to $5,521,857, or $1.12 a common share.

* * *

Donald L. Barnes, President of **American Investment Co. of Illinois** (St. Louis) states that the year 1950 was an eventful one from the company's standpoint. Net earnings reached an all-time high of $4,091,647, despite an increase of $1,452,720 in taxes over the previous year. This was equivalent to $1.96 per common share after dividend requirements on the preference stock, and compares with a net of $3,930,577 for the year 1949, which was equal to $2.28 per share on the common stock after adjusting for the 25% stock split in 1950. At the close of last year, the company had approximately 5,475 stockholders, an increase of about 375 over the total at Dec. 31, 1949. Loans made in 1950 totaled $129,598,161, compared with $106,103,875 in the preceding year.

* * *

The directors of the Missouri-**Kansas-Texas RR.**, on April 5 authorized the payment of one coupon (No. 51, dated April 1, 1948) of the adjustment bonds. It will become due and payable on May 1, 1951. D. V. Fraser, President, two days later announced the purchase by the Katy of a strip of land near Garland, Texas, consisting of approximately 108 acres. The area will be large enough to accommodate extended yard tracks and modern freight house facilities, designed to serve the Metropolitan Dallas area.

* * *

The stockholders of **Interstate Bakeries Corp.**, Kansas City, have voted to increase the authorized common stock from 400,000 shares to 800,000 shares in order to permit the directors to declare a 100% stock dividend. The stock split will be made on April 25 to holders of record April 11, 1951. This will increase the outstanding shares to 610,884. The stockholders also approved an increase in the stated value of the preferred stock from $10 to $100 per share, through the transfer of $6,750,000 from surplus account to capital account. Giving effect to the common stock distribution and the increase in the stated value of the preferred stock, the additional paid-in capital account will be eliminated and the earned surplus account will amount to $3,087,927.

* * *

Hussmann Refrigerator Co., St. Louis, reports that despite a 30-day strike at its Canadian plant, consolidated sales for the three months ended March 31, 1951 were the largest in its history and amounted to $6,116,427 as compared with $4,043,522 in the corresponding period last year. The Canadian strike has since been settled. Net income for the 1951 quarter totaled $492,226, or $1.19 per common share, as against $359,348, or 88 cents per share for the three months ended March 31, 1950. W. B. McMillan, President, stated that although bookings showed a tapering trend in the last few weeks of the 1951 quarter, operations for April, May and June should "about equal" the first three months. Net orders booked during the first quarter of this year exceeded shipments.

* * *

Gleaner Harvester Corp., Independence, for the six months ended March 31, 1951 reported net income, after taxes, of $428,302, equal to $1.07 per share on the outstanding 400,000 shares of common stock. This compared with earnings of $246,836, or 61 cents per share for the corresponding period ended March 31, 1950. Sales totaled $2,650,748, as against $1,777,179.

David R. Mitchell Is With Hill, Thompson

David R. Mitchell has become associated with Hill, Thompson & Co., Inc., 70 Wall Street, New York City, in their Trading Department, after eight years with Blair F. Claybaugh & Co. and prior thereto for 25 years conducting his own over-the-counter business.

David R. Mitchell

One of his chief outside interests is STANY, where he is at present Secretary of the Gratuity Fund and also is official photographer of STANY Bowlers.

Seligman, Lubetkin In New Quarters

Seligman, Lubetkin & Co., members of the New York Stock Exchange, announce the removal of their offices to larger quarters at 30 Pine Street, New York City, effective April 23. Telephone and teletype numbers remain unchanged.

Joins Varnedoe, Chisholm

(Special to THE FINANCIAL CHRONICLE)

SAVANNAH, Ga. — Jack H. Saunders is with Varnedoe, Chisholm & Co., Inc., Savannah Bank & Trust Building.

Cruttenden Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Leslie L. Cooke, Jr. has become affiliated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges. Mr. Cooke was previously with Ames, Emerich & Co.

Walston Hoffman Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Robert H. Dwyer is with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

With Stoetzer, Faulkner

(Special to THE FINANCIAL CHRONICLE)

SAGINAW, Mich. — Joseph D. Frost has become associated with Stoetzer, Faulkner & Co., members of the Detroit Stock Exchange. In the past he was head of the Peninsular State Co.

Three With Waddell-Reed

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb. — Ernest M. Bair, Velma H. Jackson and Edward Schwartzkopf are connected with Waddell & Reed, Inc., Barkley Building.

Connecticut Brevities

Hartford Electric Steel Corp. is planning to build a one-story brick and steel building adjacent to its present plant. The new addition, which will cost about $180,000, will be used to house the cleaning and finishing departments.

* * *

United Aircraft Corp. is planning to build new plants in Windsor Locks and North Haven, Conn., at a total cost of about $20,000,000. The Hamilton Standard Division will be transferred from East Hartford to Windsor Locks and the Pratt & Whitney Division will us the North Haven and former Hamilton Standard plants to produce parts for two new jet engines, the J-57, an advanced jet type whose performance is still a military secret, and the T-34, which is the most powerful propeller-turbine engine in production. All tools for the new plants will be supplied by the Government, but the plants will be built with private capital. About 10,000 workers will be added to the present 25,000 force.

* * *

Stockholders of **Acme Wire Co.** approved a stock dividend at their annual meeting. The number of authorized shares was increased from 120,000 to 300,000. Stockholders of record April 10 will receive a 50% stock dividend on or about April 24.

* * *

On March 28, stockholders of **Hartford Rayon** voted to increase the authorized number of common shares from 600,000 to 1,000,000 and to approve a plan whereby **Bigelow-Sanford Carpet Co.** will purchase 131,944 shares of common and 15,065 shares of preferred in return for $57,650 cash and surrender of $430,000 of Hartford Rayon's unpaid promissory notes. As a part of the agreement between the two companies, Hartford Rayon will borrow privately about $2,000,000 through term loans. Proceeds, together with other funds, will be used to modernize, expand and convert the facilities to production of carpet rayon at a total cost of about $3,300,000. The present capacity of 5,000,000 pounds will be expanded to 8,000,000 annually.

* * *

Through a refunding, **Bridgeport Brass Co.** has reduced its annual payments on principal from $600,000 to $500,000 and has eliminated the former debenture sinking fund requirement of 10% of earnings. The new debt structure consists of $2,334,000 of 2½% bank loans, payable $500,000 a year to 1955, and $4,660,000 of 3¾% serial debentures, due $500,000 a year from 1955 to 1964.

* * *

The annual report of **Electric Boat Company** reveals sales for 1950 of $41,754,339 and a net income of $1,395,941 or $1.52 a share of common. At the year end, unfilled orders amounted to $91,260,000.

* * *

On April 4, preferred stockholders of **U. S. Finishing Co.** voted to change provisions of the present 7% non-callable cumulative preferred so that it would be callable at $160 a share and convertible into three shares of $4 convertible preferred.

* * *

Aspinook Corp. has sold its Hampton Print Works, located at Easthampton, Mass., to Hampton Mills, Inc., a wholly-owned subsidiary of D. B. Fuller & Co., Inc. Several months earlier the company also sold its Pacific Print Works at Lawrence, Mass.

* * *

Remington Arms Co. is reactivating its Lake City, Mo., plant to produce small arms ammunition for the Army Ordnance Corps. The plant has been in partial operation since December. Present plans call for expenditure of over $4,250,000 to rehabilitate the plant, which is expected to employ between 8,000 and 10,000 workers.

* * *

During 1950, sales and earnings of **Associated Spring Corp.** were the largest in the company's history. Sales for the year amounted to $37.7 million and earnings to $4.58 a share. During the year the new cold-rolling mill to produce spring steel was completed, a new plant of 165,000 square feet has been started in Plymouth, Mich., and a new division established in Milwaukee to produce springs for that area.

Joins Prugh, Combest

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo.—Fernando J. Ledoux has been added to the staff of Prugh, Combest & Land, Inc., 1016 Baltimore Avenue.

Butt With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, Fla. Ernest Butt has become associated with Merrill Lynch, Pierce, Fenner & Beane, 116 West Forsyth Street. He was formerly an officer of Cantor, Fitzgerald & Co., Inc.

Estabrook Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Charles Stathopoulos has been added to the staff of Estabrook & Co., 15 State Street, members of the New York and Boston Stock Exchanges.

John Jordan Patrick

John Jordan Patrick, partner in H. T. Carey, Joost & Patrick, New York City, passed away suddenly on April 17th.

Wage-Price Control Unnecessary Under Wise Fiscal Policies

By DR. ALVIN H. HANSEN*
Professor, Graduate School of Public Administration, Harvard University

Professor Hansen maintains wage and price controls can be avoided, if we curtail capital investment and adopt wise budget and tax programs. Asserts, on basis of historical record, some price increase is necessary for substantial increase in output.

I should say that it is quite easy to become too rigorous about price stabilization. I think there is very much in the little book that D. H. Robertson wrote in the middle 'twenties, "Banking Policy and the Price Level," in which he called attention to, I tnink, a very important point: the difference between desirable price fluctuations and undesirable price fluctuations.

Alvin H. Hansen

I don't know of any period in history in which there has been a substantial increase in output without some price increase, and if we go back to World War II, we were then in an unusually favorable position to divert resources to the war effort because we had eight or nine million unemployed, but, even so, I do not believe we would have as successfully diverted resources quickly to war effort, as in fact we did, had we had rigorous price stabilization from 1940 to 1942.

We did not undertake fairly rigorous price stabilization until that transfer of resources had, in fact, taken place.

Now, however, I don't want to overstress that because I think that in the circumstances we are in now there is really no danger of excessive price stabilization, but I merely call attention to it.

Monetary Supply Does Not Determine Demand

Directing my attention to the first, I should like to say that I would not agree that you can determine the aggregate monetary demand from the monetary supply, the supply of money.

I am not going to talk a lot of theory, but just call attention to some experience that we had from 1946 to 1948. The year 1948—and I think we are often inclined to overlook it—was a year of price stability. There was, to be sure, an upward flurry of prices, fairly strong, in the middle of the summer of 1948, but prices were lower; both wholesale and consumer prices were lower at the and of 1948 than in January, 1948.

Now, what were the causes of this price stability? If one considers simply the money supply and what has in the past been a perfectly normal velocity of money, at least we had it for decades, if one were going to estimate on that basis, there is absolutely no reason in the world why prices should have ceased rising in January, 1948.

We had virtually no increase in the money supply. Demand deposits and currency stood at $103 billion before price controls were removed in June, 1946, and they stood at $108 billion as an average in 1948.

There was a small increase in velocity, sufficient to care for payments that were necessary with the increase of money income that occurred.

Estimating it on the income basis, the income velocity increased from 1.7 to 2. Now, there was, of course, no reason at all from a monetary standpoint why the income velocity should not have gone up to 3.3 where it has been over long decades in our history.

Why did prices stop rising? Well, I submit that it was fundamentally the result of nonmonetary factors. When wires from all over the world began to bring in reports in January of 1948 that agricultural and food supplies were on the increase, we had a sharp break in those prices, and that was a very important factor.

In the meantime, we had worked through very many of our shortages, the price lines were being filled with inventories all around. The strategic shortages being overcome, the supply situation was enormously different. These bottlenecks and the food shortage, in my judgment, were fundamental factors in causing the increase in prices that had occurred.

I submit that in both World War I and World War II, the essential causes of the increase in prices that occurred is not this business of suppressed inflation, which implies, to put it in more concrete terms, that the whole thing can be explained simply in terms of the money supply.

Shortages the Crux

After World War I, we had, because we had been fighting a war and all kinds of things could not be produced while we were fighting the war, tremendous shortages all around. Those shortages are the cause of the increase in prices that occurred and, similarly, after this war, when the war was over, these little shortages were allowed to enter into the play of the market when the price controls were removed.

In my judgment, if we had been able—I don't think we were able, because of the psychological situation in the country—to continue price control for another 12 months, I think we would have had very little price inflation, because the shortages would largely have been removed, and there is no reason, from the monetary situation, why prices should rise as much as they did, any more than they should have risen threefold. The monetary situation was there to justify an increase three times what they actually had.

It is a fact that after the price controls were removed under the impetus of the tremendous shortages that existed, that we had a substantial increase in prices for nine months.

There is another thing that I think has been overlooked. After nine months, the price level rapidly stabilized. By January, 1948, it stopped rising.

Now, the monetary situation, this alleged suppressed inflation, would have justified an increase in prices three times what we got. So I submit that there is no explanation in this suppressed inflation. The real explanation is the shortages that the war caused, and that accounts for the postwar inflation in World War I, as well as World War II.

There was a monetary basis for such expansion as occurred, but the point that I am calling attention to is that there was a monetary basis for an enormously greater expansion of price increases than in fact occurred.

Curtail Non-Defense Investment!

What is the relation of controls to the monetary situation; wage control, for example? I think it would be quite possible for us in this situation—I don't want to be dogmatic about it—to get by without price controls and wage controls provided we did certain other things vigorously; particularly provided we attacked vigorously the area of non-defense investment.

We have been having for some years a perfectly enormous volume of capital outlays. Very much of it is quite unnecessary from the standpoint of the present purpose in hand for this country. We could sharply reduce the non-defense investment by a number of measures, including some that are already in force, but not being used very vigorously, such as the real estate credit and the consumers' durables.

I am here at the moment including such things as automobiles in the investment category, as one may very well do. We have plenty of civilian automobiles in the country. We might very well cut them out altogether as we did in 1941-1942.

Real estate credit and consumers' credit, I also include, and capital issues' control, and a tax system which would curtail investment.

Now, if we rigorously controlled investment outlets, non-defense outlays, and backed it up in the next two years while we have this hump that has been mentioned beyond a two-year period, I think if we don't get into a general war, the situation will ease.

If, in addition to a drastic curtailment of investment, non-defense investment, and a moderately overbalanced budget through surplus in the Federal Budget, then I think we might on that basis get by without wage and price controls. I say it is possible we might get by without wage and price controls, but so long as you have a situation in which investment considerably exceeds saving, or put it on a little broader basis, that in private investment and governmental outlay exceeds savings and taxes, then you have a situation in which prices will rise, and when they rise you can be sure there will be very strong demand, and I think irresistible demands for wage increases. Then you have the price-wage spiral going.

The Price-Wage Spiral

I say "price-wage" because I think regularly in these situations it is prices that go up first and then wages go up. To be sure, if we now introduced wage control in that situation and rigorously held wages down, the inflation would very quickly run out.

Why? Because the excess of demand would raise prices, but consumption would not rise if you held wages down, and you would soon develop a sufficient volume of saving to balance the former excess investment, and your inflationary development would run out. But, if course, that is exactly what would not happen in the kind of society we live in.

If prices were allowed to rise, then you would have the powerful demand for wage increases.

So, in view of the fact that I do not think we are at all adequately attacking the investment field, and I doubt we are going to, it seems to me necessary to have wage control, and if you have wage control, you have got to have price control.

It is also true that you can go too far in the program of—going back to my original point of control of investment and an overbalanced budget — taxation, so that the very heavy taxes on the mass of people will lead to an irresistible demand for wage increases.

There is a nice balance there, and that is why I suggested it is one which one can't be dogmatic about; but it does seem to me that if we vigorously attacked the investment area and had a moderately overbalanced budget, with taxation that would be tolerated; then we perhaps would get by without wage and price control.

I do not believe we are having that situation, and for that reason I think that in these circumstances we do need wage and price control.

*From transcript of a talk by Professor Hansen before Conference on the Economics of Mobilization, held under the auspices of the Chicago University Law School, White Sulphur Springs, West Virginia, April 6, 1951.

Two With Republic Inv.

(Special to The Financial Chronicle)

CHICAGO, Ill.—Willis J. Meehan and David S. Miller have become connected with Republic Investment Company, 231 South La Salle Street.

Now Derbes & Co.

NEW ORLEANS, La.—The firm name of Couturier & Derbes has been changed to Derbes & Co. Offices are located in the Whitney Building.

Joins A. C. Allyn

(Special to The Financial Chronicle)

MADISON, Wis.—William M. Saxer is now with A. C. Allyn & Co., 3847 Nakoma Road.

First Boston Corp. Appoints Morrison

James C. Morrison

The First Boston Corporation, 100 Broadway, New York City, announces that James C. Morrison, Vice-President, has been placed in charge of sales in the New York territory, which embraces New York state, New Jersey, Connecticut and the southeastern states. Mr. Morrison joined The First Boston Corporation in 1931 and since 1945 has been a Vice-President in the Government bond department.

Joins Kidder Staff

(Special to The Financial Chronicle)

ST. PETERSBURG, Fla. — Arthur U. Mattson has joined the staff of A. M. Kidder & Co., 400 Beach Drive North.

S. C. Pilcher Opens

(Special to The Financial Chronicle)

WACO, Texas—Stuart C. Pilcher is engaging in a securities business from offices in the Raleigh Hotel Building.

Mutual Funds

By ROBERT R. RICH

"BUSINESS ACTIVITY will continue at a high rate during the remainder of the first half of this year and at an accelerated rate during the second half due to military defense expenditures reaching the production stage in large volume," was the conclusion of the Investment & Research Department of National Securities & Research Corporation at a recent staff meeting held to establish the Corporation's viewpoint as to the outlook for the remaining months of 1951. Other conclusions were:

"Continued high corporate earnings and liberal dividend disbursements will likely result in stock prices generally higher than those that have prevailed this year up to the present time—although intermediate reactions may be expected.

"Variations as to industries and issues will continue to be wide over the period ahead, therefore, careful selection is of vital importance.

"The year 1951 will," in the Fund's opinion, "be another good year for careful investors. Although a reasonable backlog of bonds and preferred stocks seems prudent, of genuine concern to the investor is the continuance of the decline in the purchasing power of the dollar. This indicates the advisability of having adequate investment representation in common stocks in order to benefit from the relatively high income available and at the same time have an opportunity to participate in the long-term secular growth of American industries."

"WHAT YOU SHOULD Know About Natural Resources, Natural Resources Stocks, and Natural Resources Fund" is the title of Natural Resources Fund's new nine-page presentation for prospective investors.

The Fund, whose shares now qualify for sale in 28 states, increased its net assets from $109,500 to $1,185,000 in the first 14 months of its operation from February, 1950, to April, 1951.

Investments are made by the Fund in established companies whose activities, in addition to the production, processing and manufacturing of raw materials, also include the exploration and development of new fields and sources of raw materials.

The presentation's sales story stresses, as the Fund's investment advantages, the ownership of vital tangible assets, the relatively low labor costs, the special tax allowance for producers of natural resources, the absence of a war or peacetime conversion problem, the protection against inflation, and the Fund's participation in the growth of Canada's raw materials industries, in which approximately 15% of its portfolio is invested.

At the present time, the Fund owns securities in 75 companies operating in a dozen different natural resources fields. Copies of this latest sales presentation are available without obligation from Natural Resources Fund, 52 Wall Street, New York 5, N. Y.

ONE OF THE unique characteristics of the present bull market, according to a report from Edward Rubin of Selected American Shares, is that stock yields have stayed liberal throughout the current rise which began in June, 1949.

Working from his own statistical imputations, Ed Rubin, in studying three bull markets, notes that the characteristic decline in Dow-Jones stock yields which usually accompanies a bull market has not been present in this current market rise.

1932-37 Bull Market

Date	Yield on Dow-Jones Industrials
July 1932	10.38%
July 1933	2.95%
July 1934	3.36%
July 1935	3.10%
July 1936	2.93%
March 1937	3.71%

1942-46 Bull Market

Date	Yield on Dow-Jones Industrials
July 1942	7.68%
July 1943	4.63%
July 1944	4.39%
July 1945	4.12%
June 1946	3.30%

1949 to Date Bull Market

Date	Yield on Dow-Jones Industrials
June 1949	6.84
June 1950	5.94
Dec. 1950	6.94
March 1951	6.42

Statistics are extracts from complete study which may be obtained without obligation from Ed Rubin, Selected American Shares, 135 So. LaSalle St., Chicago 3, Ill.

Mr. Rubin notes in his report that, "in approximately 1¾ years of the 1949-51 bull market, the DJI yield has dropped less than ½ of 1%, and is still around 6½%—a very good figure, whether judged by past standards or by comparison with yields available in other investments today.

"This is in distinct contrast with the experience in the other two major bull markets of the past 20 years. In the first 1¾ years of the 1932-37 rise, the DJI yield dropped about 7%—from 10.38% to 3.02%. The price rise from there on was very pronounced. On April 6, 1934, the DJI was 104; in 1937 it reached a temporary peak of 194.

"In the first 1¾ years of the 1942-46 price rise, the DJI yield dropped about 3%—from 7.68% to 4.61%. The price rise from there on was substantial. On Jan. 28, 1944, the Dow-Jones Industrial was 137; in 1946 it reached a temporary peak at 212.50.

"So far as one may judge, a major part of the 1932-37 bull market in industrial stocks took place with yields at 3%; a major part of the 1942-46 bull market took place with yields fractionally above and below 4%; so far, the present bull market has enjoyed yields of 6% or thereabouts on good grade industrial stocks."

THE VITAL ROLE which careful selection of securities plays in the success of a sound investment program is emphasized by the investment firm of Calvin Bullock in "Bulletin," the current issue of its monthly publication.

A case in point, the analysis states, is the experience of Dividend Shares, Inc., a fund with assets of approximately $83,500,000, and managed by the firm. The 10 largest common stock holdings of the fund as of Dec. 31, 1950 had a market value of $19,923,175 at the year-end compared with a cost of $10,729,210 on a tax basis, resulting in an unrealized appreciation of $9,193,965, or 86%. The total unrealized appreciation of all investments of Dividend Shares, Inc. at the same date amounted to approximately $20,000,000.

The 10 largest common stock holdings were International

Continued on page 56

Current Financial Comment

The outstanding fact is that civilian production has failed to show any of the expected cut-backs in non-essential products, and earnings for the first quarter make almost uniformly favorable comparisons with the first quarter of last year, despite higher tax allowances. It doesn't seem likely this will continue indefinitely, for a top-heavy inventory situation is appearing in many lines and bank loans are getting increasingly difficult to obtain. On the other side of the shield, defense production is rapidly gaining momentum, and by forced reduction of civilian output, may accomplish the same result as would under more normal circumstances be expected to be brought on by lower prices and deflating inventories.

D. Moreau Barringer
Chairman, Delaware Fund

Ben Franklin's Notebook

". . . It must be an act of kindness to inform the moneyless how they can reinforce their purses. I will acquaint all with the true secret of money catching, the certain way to fill empty purses and how to keep them always full.

"Two simple rules well observed will do the business: First, let honesty and labor be thy constant companions; Second, Spend one penny every day less than thy clear gains—then shall thy purses soon begin to thrive, thy creditors will never insult thee nor want oppress nor hunger bite, nor naked freeze them, the whole hemisphere will shine brighter, and pleasure spring up in every corner of thy heart. . . .

"Remember that money is of a prolific, generating nature. Money can beget more, and so on. The more there is of it the more it produces every turning, so that the profits rise quicker and quicker."

Contributed by Ed Hale,
of Vance Sanders.

Mobilization on the Home Front

By JAMES E. SHELTON*

President, American Bankers Association

President, Security-First National Bank, Los Angeles

Asserting inflation was brought about deliberately in this country two decades ago by government policies, ABA President maintains credit expansion has had little to do with it, aside from effects of an enforced easy-money policy. Advocates cut in non-essential Federal spending of from $7 to $9 billion, along with balanced budget. Stresses purpose and use of bank loans and not amount determines their inflationary effects.

I am going to talk to you today both as bankers and as American citizens. In both capacities we have a stake in this country of ours. The most precious heritage that we hold as American citizens, for two decades has been and now is being threatened from within and is now faced with the threat of destruction from without.

James E. Shelton

The American political and economic systems are based upon the proposition that the individual citizen not only has the right but the intelligence and the character to control his own conduct and manage his own affairs. These systems flower under the minimum of laws, restrictions, and controls imposed by government upon the individual. This is basically and fundamentally opposed to the socialistic philosophy that the individual is incompetent to manage his own affairs, and that he must, therefore, have his thinking and planning done for him and his life regulated and controlled for him by government.

The American system stands for freedom, independence, ambition, incentive, thrift, industry, intelligence, opportunity, and productive achievement by the individual citizen. It means solvency at all levels. It means spending less than you take in and thereby accumulating capital and savings. It means a nest egg for a rainy day. It means intelligent provision by your own efforts—not by government dole—for old age and for those dependent upon you. It means free and individual manhood, the kind with head high and chin and chest out.

Solvency and independence of the individual are anathema to the socialistic welfare state. That state makes the citizen the ward and the servant of the government. It measures the benefits to the individual not by what the individual produces but upon the political favors he may receive from the government in return for his political support. That sort of a philosophy inevitably debauches and corrupts both the citizen and the government.

On the international scene today the same basic principles are involved. They involve the preservation or the loss of the most precious heritage which men have striven for through the centuries. Civilization and humanity are at stake. The basic issues are simple, and the major lines are clearly drawn. The whole American system and way of life are predicated upon the recognition of the dignity and the freedom of the individual. The other philosophy is the antithesis of all that we hold dear in life. It would turn the hands of the clock of time back through the centuries and make the citizen the slave and pawn of the state, which means the slave and the pawn of the man or men who are in control of the state. Through the centuries, the Charlemagnes, the Napoleons, the Bismarcks, the Mussolinis, and the Hitlers have drenched the battlefields of the world with the blood of millions of men in their effort to extinguish the flame of freedom and impose their selfish wills upon their fellow men. Now once again in the same basic role mankind is faced by the hordes of Russia and her satellite nations, harnessed and chained to the chariot of Stalin and his ruthless gang.

It is at such a time in the history of our nation and of the world that we face this critical year of decision. Because of the continued aggression of Russia and her satellites, we have been plunged into a bloody war many thousands of miles from our shores. One of Stalin's pawns having been defeated, he has sent another of his pawns into the war; and the ruthless hordes of Communist China have swarmed like locusts into Korea. Whether we are in the opening rounds of the Third World War, we do not know. The decision lies with a few mad Russians in the Kremlin.

We are now engaged in a great military, industrial, and spiritual mobilization. The future of this country and its very salvation may well depend upon our strength—not alone our miltary strength, necessary as that is—but also our economic, financial, industrial, and spiritual strength on the home front. Only recognition of such strength will prevent another global war, and only such strength will assure our victory if such a war is forced upon us. But in spite of the dark clouds on the foreign horizon, I firmly believe that this country can never be destroyed from without unless we first disintegrate and deteriorate from within.

If our internal economic strength is so important—and it is—for it is the very foundation upon which our military productive effort is founded — let us take a look at some of the features of our economy.

In discussing the problems confronting us in these critical days in order to determine sound national policies, candor and a realistic consideration of the facts are vitally necessary. Freedom of discussion and debate are an inherent and necessary part of our American way of life. They promote understanding.

One of our great Presidents once said: "If we could first know where we are and whither we are tending, we could better judge what to do and how to do it." In that spirit and with that approach, let us discuss some of the vital problems affecting our economy today.

The Inflation Problem

We hear a great deal about inflation these days and how to remedy it. One might almost think from some statements on the subject that inflation was something that never existed in this country until the Korean war, and that the tightening of a few economic thumbscrews would eliminate it. Well, I don't think that either of these assumptions is correct. I know that if I were seriously ill—and I think you feel the same way—and I called in a doctor, the first thing I would want him to find out would be what was the matter with me, what was causing the illness, and remove the cause. A little aspirin to lower the temperature and even a little sedative to induce sleep I might be glad to have on the side. But if I thought the doctor either didn't know or wasn't treating the cause of the illness and was merely putting me to sleep with sedatives so I wouldn't know or care about my illness, then I would certainly demand a change of program.

Let us be realistic about this matter. Certainly we have some inflation—a lot of it. Our economists tell us that high prices are not inflation—that they are the evidence of it. Well, our dollar had lost more than 40% of its purchasing power before the Korean war, so all of our inflation didn't come just since the Korean war; and, therefore, it wasn't brought about by an increase in bank loans since the Korean war.

We should determine why and how inflation was brought about. We should do this candidly, factually, and realistically because it is logical to assume that if we could and would remove its causes, then we could arrest its progress if not entirely eliminate its effects.

Inflation was brought about in this country as a matter of deliberate government policy over a period of almost 20 years with World War II thrown in for good measure. Let us examine some of the things which brought it about. Inflation has been defined as an excess of money supply over the supply of goods and services available to be purchased. The bidding by the excess money for the short supply of goods or services raises the price of the goods and services; and, to the extent that the price is raised, the purchasing power of the dollar is decreased. That is an oversimple explanation. Now, of course, in a free economy the law of supply and demand acts as an automatic safety valve. If the supply of any commodity is less than the demand, then the price goes up. The higher prices create an inducement and incentive to produce more of that commodity. Under our free enterprise system, this is done until a supply equal to or in excess of the demand is produced—then the price goes down; and, it being less profitable, a lesser quantity of the commodity is produced. There are some hardships in the readjustments, but it is based upon actual human experience and upon basic human psychology.

Almost 20 years ago during a period of severe depression, those in charge of our government apparently decided that the fundamental law of supply and demand was too slow in functioning; and their economists wrote a prescription for a government-made, synthetic form of prosperity, really inflation, based upon a government-supplied excess of purchasing power and a government-created short supply of commodities. Such a program obviously required money, and lots of it. The government does not produce wealth—it consumes wealth. The only money which the government has is that which it takes from its citizens in the form of taxes, either direct or indirect, and what it borrows, usually from its own citizens. So the government embarked upon a policy of taking tax money from those who had something and piling up government indebtedness and spreading the money around in the form of doles, subsidies, parity payments, price support programs, and other such devices among people who would immediately spend it on the theory that this was the way to create "increased purchasing power." On the other hand, to make goods and services scarce and therefore more expensive, the government paid the farmer not to plant crops and to kill his little pigs, and then, both directly and indirectly, pressed for shorter hours and more pay for labor to thereby increase the cost of production. Thus there was created the doctrine that the way for people to get along in this world was to get more and more for doing less and less. This was man-made, synthetic, artificially inseminated inflation, manufactured to order and found for some years to be politically quite profitable. Of course, it was bound to undermine the strength of our economy and destroy individual incentive and unusual reward for unusual effort upon which our whole success as a nation was built.

In its early stages, inflation is as stimulating as alcoholic beverages; but after overindulgence, it is just as destructive and brings about as great a headache. The government itself, with its continued peacetime budget deficits, based in a large measure on bank credit, planned, created, and fostered inflation, and then, pointing to the false, unsound, and synthetic prosperity created thereby, boasted that "we planned it that way."

The inflation was, of course, greatly increased by World War II and the deficit government financing indulged in during the war. With production of civilian goods diverted to the war effort and with price and wage controls and rationing, tremendous and abnormal shortages in civilian goods developed. Economic controls of this kind, which we had then and are now getting again, do not cure inflation. They merely hide it by artificially damming up the demand and postponing its fulfillment. At the end of the war, with price and wage controls and rationing damming up the demand for civilian goods, the government was in a position to hold both wage and price controls steady until civilian goods production could get under way; and when the supply approximately equalled the demand, it could then turn loose a free economy again. If this had been done, the continuing round of price increases might have been avoided or minimized. But the leaders of organized labor did not want to wait for wage increases, and the government yielded to their political pressures. Although labor is the greatest element in the cost of most products, the government, with almost childish innocence—if it was innocence—announced that it would raise the wages of labor but still hold down the price of goods produced by labor. That statement, of course, was both ridiculous and impossible of fulfillment. Right then the dam holding back the flood of postwar inflation was deliberately breached by the government. Since the war, everything has been done to feed the fires of inflation. Price support programs, extravagant government spending, social welfare projects, all contributed to the inflation but shone briefly with a misleading glow of artificial and unreal prosperity. This program of domestic spending is still continuing under the name of defense.

When this government went off the gold standard and repudiated its contract to redeem its obligations in gold, it definitely struck a blow at the stability of the value of our currency and converted it into a government-managed currency with the many hazards incident thereto.

Credit Not Responsible for Inflation

We hear a great deal these days about the contribution made to inflation by credit policies. It is true, of course, that the government easy-money policy to aid in low-cost debt servicing has been a factor in permitting the growth of inflation. A flexible rate which would attract the purchase of government debt outside of the banking system would have helped and would now help to minimize the forces of inflation. I hope that this policy will now be pursued by the Treasury.

We cannot speak of the effect of government credit policies on the integrity of the dollar without commenting on the lending activities of the government and of governmental agencies in making, buying, and guaranteeing loans. Possibly the greatest sin-

Continued on page 44

*An address by Mr. Shelton before the Florida Bankers Association Convention, Palm Beach, Fla., April 3, 1951.

From Washington Ahead of the News

By CARLISLE BARGERON

The solidity with which the Democrats have gotten behind Truman in his dismissal of MacArthur has the Washington political dopesters confused. They seem, in fact, more united on this one thing than they have been in years. It is not exaggerating the situation, indeed, to say that many of them look forward to the forthcoming great showdown with relish. I can't explain it; all I am doing is reporting a fact, surprising as it may be. I have had some Democrats tell me that this may be the very thing that will unite the party and pull it out of a hole.

Carlisle Bargeron

The Republicans are not unaware of this situation and it has them perplexed, if it hasn't cooled some of their enthusiasm to go to town on the issue. This doesn't mean that we are not probably in for a lot of excitement but some of the Republicans are counselling caution. This is in the face of the fact that the overwhelming mail of the Congressmen, both Republicans and Democrats, is decidedly pro-MacArthur, a condition the White House admits.

There are many interesting angles involved. All the indications point to an intensive propaganda campaign by the Administration to make the Republicans the war party and MacArthur a man who wanted to "extend" the war to China. In another way, they are out to make the Republicans and MacArthur pro-Asia while they are pro-Europe. A whispering campaign already getting underway is that MacArthur has large investments in the Philippines and is selfishly interested in protecting them. This is, of course, a vicious slander but it is a mere token of what we may expect. With the propaganda machinery in the hands of the Administration and the seeming confusion among the Republicans, or their ineptitude in expresing themselves, I am not too hopeful about the outcome of the debate. I am of the belief that this explains the Democrats' optimism. If they are successful in getting over this picture to the American people, I think their optimism is justified. On the broad proposition of whether it is more important to wage the war against Communism in Asia or wage it in Europe I am quite sure the Administration would win. By this, I mean the broad proposition of where to place the emphasis, which involves, for the time being, where the money is to be spent, where the troops are to be landed to spend more money; in short, whose economy is to be helped. As I have pointed out before, regardless of the merits, regardless of whether Asia or Europe is more important to us, the Asiatics do not vote in this country while millions of our voters do have ties with Europe.

However, this is not the issue as I understand it and it is not the issue in the minds of the literally thousands of people who are deluging Congress with indignant letters and telegrams. The question is whether the Administration will be able to make it the issue.

What is involved is the simple proposition that MacArthur did not ask for the Korean war, it was dropped overnight in his lap. There is really no question about keeping the military under civil domination. There seems to be general agreement among those who have been close to the General that he fully expected to be removed from his command and that he welcomed it as a means of bringing what he considered an impossible situation to the attention of the American people.

This situation has been explained to me by one of his intimates as follows: Charged with running the Communists out of Korea, every time he advanced from a fixed position in South Korea he served only to shorten the enemy's supply line and make him stronger; in order to have room in which to bomb the enemy's supplies he had to let the enemy remain in Korea from which it was his mission to drive them. It is this intimate's contention that MacArthur never made the "retreats" which were ascribed to him; he had to effect withdrawals in order to bring the enemy to him where he could bomb his supplies. The General, according to this source, considered this advancing and backing up and down the peninsula indefinitely with its heavy loss of American lives a situation which he as a General could not tolerate. It was not a question at all of his wanting to "extend" the war; he simply wanted the freedom to end it, which he was confident he could do.

Now, put up to the people in this light, there is no doubt in my mind as to what the verdict would be. But I do doubt seriously that they will have any such clear picture as this. And I am afraid that the General will lend himself to the muddying of the waters which is exactly what the Administration wants to do.

For several years now, some of the leading Republicans have permitted themselves to be dubbed "China Firsters" by the Administration propagandists. They have come to be propagandized as being "isolationists" in Europe and "interventionists" in Asia. This is Truman's tactic.

This is far from an accurate description of these Republicans' attitude but their tactics do play into the hands of the clever Administration propagandists. For example, they have unmistakably been lukewarm, to say the least, to the pouring of billions of dollars into Europe and to the sending of additional division of troops. Yet, they are in the light of, long before Korea, wanting action in Asia. They wanted action to this extent: Assisting Chiang Kai-Shek to make trouble for the Chinese Communists and the protection of Formosa by our Navy. This latter involves no more than patrol of the water between Formosa and the mainland by a handful of warships. Assisting Chiang Kai-Shek to get back to the mainland would require, according to these so-called China Firsters, no more than some small naval protection to get the Generalissimo's troops landed, and equipping them. These so-called China Firsters have the additional argument that the Communists are on the move in Asia; in Europe they are only making faces. And certainly such a policy does not entail a remobilization of industry and of men, a preparedness for all-out war with the drafting of men and the spending of billions that is now going on.

In my opinion the American people, the rank and file of them, are not at present concerned in the relative merits of the two propositions: saving Asia from communism or saving Europe from Communists. They want to know how and when the war in Korea is to be brought to an end. On this one question I believe the attitude of the Republicans whom we've been discussing and General MacArthur would be overwhelmingly upheld.

But if the Administration succeeds in blanketing this by drawing these Republicans and the General into the broader proposition of Asia or Europe first, as it seems likely, they are quite cocky about the outcome, and I fear their cockiness is justified. I have written of a group of Republicans rather than the party, because on the broader proposition they are badly split, which lends additional weight to the argument that they should tie the debate to Korea and keep it there.

Should Margins in Futures Trading Be Regulated?

By T. A. HIERONYMUS
Assistant Professor of Agricultural Economics, University of Illinois

Prof. Hieronymus, commenting on legislation permitting Federal regulation of margin requirements in commodity futures trading, explains nature of margin requirements and functions of futures markets. Points out large volume of trading in relation to size of crop is essential for sound futures trading and any lessening of trading volume may affect relative price stability. Holds speculation cannot affect substantially prices in a liquid commodities futures market.

For some time the Commodity Exchange Authority of the United States Department of Agriculture has been promoting legislation to give it authority to regulate margin requirements on speculative transactions in commodity futures markets. The most recent attempt was with the Defense Production Act of 1950, which provided, among other things, for the regulation of margins. The margin control provisions of the Act were defeated. The 1950 Report of the Administrator of the CEA continues the campaign.

T. A. Hieronymus

The Commodity Exchange Authority takes the position that the low speculative margins required by the Exchanges encourage excessive speculation and speculation with insufficient capital. They note that upsurges of speculative activity are accompanied by rising prices, and cite the January 1948 price increases and rapid increase of soybean prices following the outbreak of the Korean war.[1] They suggest that higher margin requirements would curb such speculative booms.

Because of the importance of commodity markets and the significance attached to the margin question by both the CEA and the Exchanges, review of margin requirements seems desirable.

The following comments apply only to the broader aspects of the controversy; there is more merit to the CEA case in details.

Nature of the margin requirement — Commodity exchange clearing houses require that clearing members post margins to guarantee contract fulfillment. Trading members in turn must require their clients to post certain minimum margins. Commission houses may require larger than minimum margins. The historical purpose of the margin has been the prevention of contract default.

Although margin requirements of commodity and stock exchanges are frequently compared, differences in the transactions make such comparisons meaningless. Stocks purchased on margin are delivered and dividends accrue to the purchaser. A futures contract is an agreement to purchase at a future date. When delivery is made payment must be made in full. Commodity margins guarantee that contracts will be consummated or offset; the posting of margins does not entitle the purchaser to possession.

Functions of futures markets— Futures markets have two basic functions: (1) the registering of grain prices and (2) the shifting of risks. Grain prices should reflect both current and anticipated values. Buyers and sellers must make estimates of total supplies and the demand for them, and form expectations of the average prices that will prevail at future times. If current prices are above the average prices expected, the quantities offered for sale are increased, if they are below, quantities are decreased. This is a process of discounting the total supply-demand conditions into current prices. It is essential in regulating the flow of grains onto the market at a rate that will make supplies last the full year but at the same time have them all consumed. Current prices are functions of expectations of future prices. If the supply-demand conditions change so that expectations are changed, these changes should be immediately registered in current prices. The extent to which they are so registered depends upon the effectiveness of the discounting system, which in turn depends upon the level of speculative activity. The discounting process requires speculation. Futures markets with an extensive speculative interest are singularly good discounting markets and especially useful in rationing supplies over time periods.

Price risks in grain marketing are extensive. Crops are harvested during a few weeks of each year and are consumed at a fairly even rate. Part of the stocks must be owned for as long as 12 months. Speculators in futures markets assume much of the risk in marketing grain. Risk premiums must be paid to get risks assumed; anyone purchasing for deferred delivery must be able to buy cheaper than he expects to be able to sell later.

A good risk-shifting (hedging) market must: (1) provide a liquid market so that hedges can be placed and removed instantaneously without price penalty; and (2) get risks into the hands of those persons who require the smallest risk premiums.

Necessary volume of trading— The volume of trading necessary for a good hedging market is not known. We only know that the volume in some markets is at least large enough and in other markets not large enough. From a hedging point of view, too large a volume of trading is impossible. There seems to be no objective evidence that a given amount of trading is the minimum necessary. Whether the minimum is just equal to the size of the crop, 5, 10, or 15 times the size of the crop, is not known. Neither is it known that 10, 15, or 20 times the size of the crop is more than necessary. *Volume in relation to the size of the crop may or may not be the appropriate measure.*

Reports of potential hedgers[2] indicate that the volume of trading in mill feed and soybean meal futures is too small for effective hedging. The volume of trading at 40 million bushels in soybeans in 1947-48 was clearly too small for effective hedging. In 1948-49 the volume was 1.5 billion bushels. Illinois processors hedged only 13% of their inventories in soybean futures[3] in 1948-49. They shifted the bulk of their risks by forward sales of oil and meal. In December 1950 soybean processors shifted part of their risks by selling oil and meal for deferred delivery. Discounts on forward positions in oil and meal were as high as 30 cents per bushel of soybeans. At the same time soybean futures showed a carrying charge. Risk shifting for soybeans and soybean products needs improvements; the most important being more speculation in oil and meal.

A large volume of trading is essential to uncontrolled and sensitive price adjustment. A small volume of trading by a few people results in prices that are *infrequently* adjusted by relatively large amounts while a broad market with many traders results in prices that change more often and by smaller amounts. A broad market is less susceptible to influence by one or a few traders than a narrow market. How large a volume of trading is necessary to assure uncontrolled prices is not known. Volume cannot be too large for this purpose. Much speculation helps assure free prices.

Volume of trading and prices— Increases in the volume of trading and erratic price changes seem to occur at the same time. This does not mean that erratic price changes are caused by a large amount of speculative activity. A more logical line of reason is that erratic price changes cause a large volume of trading. There is no logic in speculating in prices that do not change.

Speculators buy when they think that prices are too low and sell when they think prices are too high. They differ in their opinions about what is too high and what is too low. The actions of individual speculators in buying and selling tend to force prices to the average expected by the market participants. Speculation tends to eliminate the reason for speculation. If the judgment of speculators were perfect, prices would change only when the underlying economic conditions changed.

Speculation cannot affect prices very much in a liquid market. Cash and futures prices are tied together by the delivery feature.

Continued on page 53

1 See Reports of the Administrator of the CEA, 1948, 1949, and 1950.

2 Irwin, H. S., and McDonald, E. M., "Inventory and Hedging Policies of Commercial Mixed-Feed Manufacturers in the United States," United States Department of Agriculture, Agricultural Information Bulletin No. 24.

3 Hieronymus, T. A., unpublished investigations of risk in marketing soybeans, University of Illinois.

Impact of Voluntary Credit Restraints on Investment Banking

By RUDOLF SMUTNY*

Senior Partner, Salomon Bros. & Hutzler
Members, New York Stock Exchange

Member of recently organized National Voluntary Credit Restraint Committee explains purposes and progress of credit control program and role of investment banking in its execution. Urges investment bankers, whether concerned with municipal or corporate securities, cooperate to combat inflation through curtailing all credits not in line with defense efforts.

Section 708 of the Defense Production Act of 1950 authorized the President of the United States to encourage financing institutions to enter into voluntary agreements and programs which will further the objectives of that act. By Executive Order the President delegated to the Board of Governors of the Federal Reserve System his authority with respect to financing under this section of the Act. A program for Voluntary Credit Restraint has been developed by representatives of financing institutions and has been approved by the appropriate government officials as required by the Act. This plan is entirely voluntary and as indicated, has the full approval of the Board of Governors of the Federal Reserve System, the Attorney General and the Federal Trade Commission.

Rudolf Smutny

The purpose of the program is to secure voluntary action by banks, insurance companies, investment bankers and other lenders to refrain from making loans for non-productive purposes with the objective of thereby helping to control existing inflationary pressures, and assisting defense production.

A National Voluntary Credit Restraint Committee was appointed March 9, 1951 by the Board of Governors of the Federal Reserve System. This committee, under the Chairmanship of Federal Reserve Governor Oliver S. Powell, consists of twelve men, four representing each of the following groups: Commercial Banks, Insurance Companies, and Investment Bankers. The Investment Bankers are represented by Mr. Lee M. Limbert, V.-P., Blyth & Co., Inc., N. Y.; Francis Kernan, Partner, White Weld & Co., N. Y.; William K. Barkley Jr., Partner, Stein Bros & Boyce, Philadelphia, Pa., and Rudolph Smutny, Partner, Salomon Bros & Hutzler.

It is most important that we realize that the purpose of the National Voluntary Credit Restraint Committee is to secure voluntary action by banks, insurance companies, investment bankers and other lenders to refrain from making loans for non-productive purposes with the objective thereby to control inflationary pressures. It is recognized that voluntary efforts have not been very successful on an individual basis in holding down non-productive loans, but with this new approach institutions in a community will be able to band together under legal sanction to halt "shopping around for loans." The primary purpose of the National Voluntary Credit Restraint Committee is to channel available credit into productive purposes for defense.

Regional subcommittees have been appointed to which lenders may submit questions as to the appropriateness of loans which are not readily classified as desirable or undesirable under the terms of the Voluntary Credit Restraint Committee program. Twelve regional subcommittees have been organized to deal with commercial banking problems, one located in each of the Federal Reserve Banking Districts. Four geographical regional committees for insurance companies and investment banking houses have been organized, one each being located in New York, Chicago, Dallas and San Francisco. Members of the Second District Commercial Banking Voluntary Credit Restraint Committee are George Whitney, Chairman, Chairman of the Board, J. P. Morgan & Co. Inc., New York; Charles H. Diefendorf, President, Marine Trust Company, Buffalo, N. Y.; George Champion, Senior Vice-President, The Chase National Bank of the City of N. Y.; R. E. McNeill, Jr., President, Central Hanover Bank & Trust Company, New York; David C. Barry, Senior Vice-President, Lincoln-Rochester Trust Company, Rochester, N. Y.; Horace K. Corbin, President, Fidelity Union Trust Company, Newark, N. J.; Arthur Phelan, V.-P. Federal Reserve Bank of New York.

Eastern Insurance Voluntary Credit Restraint Committee:

Frazer B. Wilde, Chairman, President, Connecticut General Life Ins. Co., Hartford, Conn.; Julian D. Anthony, President, Columbian National Life Insurance Co., Boston, Mass.; Frederick W. Ecker, Exec. V.-P. Metropolitan Life Insurance Company, New York; Robert E. Henley, President, Life Insurance Company of Virginia, Richmond, Virginia; E. A. Camp, Jr., V.-P. & Treas., Liberty National Life Insurance Co., Birmingham, Ala.; W. W. Bodine, Chairman of the Board, Penn Mutual Life Insurance Co., Phila., Pa.; William F. Treiber, V.-P., Federal Reserve Bank of New York.

Eastern Investment Banking Voluntary Credit Restraint Committee:

Percy M. Stewart, Chairman, Kuhn Loeb & Co.; T. Jerrold Bryce, Clark Dodge & Co.; Clarence E. Unterberg, C. E. Unterberg & Co.; Frank A. Willard, Reynolds & Company; A. Phelan, V.-P. Federal Reserve Bank of N. Y.

The National Voluntary Credit Restraint Committee being a policy committee recognizes that there are many inflationary influences at work. Inventories in the United States, particularly in wholesale and retail establishments, are at peak levels. An important part of this abnormal increase in inventory has been financed by borrowed money. Excess inventory accumulation has already contributed directly to the rise of wholesale and retail prices beyond any level justified by the supply situation. It obviously has created undue competition in scarce materials.

I would like it clearly understood that my serving on the National Committee does not imply a tacit endorsement of the inflationary policies of the government. I personally cannot see how you can successfully combat inflation by monetary controls, while the government maintains a floor under commodity prices, does not restrict wages and continues non-defense spending at an unprecedented rate. However, if the Skipper of the Ship of State asks you to help reef a sail while sailing in a stormy sea, you respond willingly and offer your services quickly even though you do not approve of how some of the sails are set.

It is evident that the National Voluntary Credit Restraint Committee believes, and I personally concur in this belief, that inventory loans are high, having been increased excessively due to fears of scarcity. Industry and individuals having large commodity loans find themselves in an untenable position due to the remarkable productivity of our country. Production in my opinion is the most virulent combative force against inflation. We have been able to produce vast quantities of consumer goods while at the same time starting our defense program. Thus production has caused a weakening of the price structure presaging a short period of declining prices, which should cause a reduction in loans. The elements of deflation are present. I personally feel that this may be of short duration prior to the inflationary impact of defense orders. I feel, and the committee may not concur in this opinion, that we should not use the yardstick of loan reduction as the only measure of success or failure of the Voluntary Credit Restraint program. It is rather the channeling of available credit into production for defense. We may witness a reshuffling of loans from excessive inventory to production.

During the last two weeks in New York, the commerical loans in the larger banks have slowed down to a trickle; you might say they have practically stopped.

During the same period non-defense loans, commodity, meat packers, etc., declined $45 million, while loans for defense, iron, steel, and aircraft, etc., increased $39 million—net, $6 million decrease.[1]

The Voluntary Credit Restraint Committee hopes that it can be credited for this action.

The alternative of a Voluntary Credit Restraint program, if unsuccessful, is Federal regulation, or a Capital Issues Committee. I would not care to serve on such a committee. We want to retain freedom of action for our industry. We do not wish to operate under the direction of a "tough first mate." Some people believe that the Voluntary Credit Restraint Committee program is doomed to failure due to the fact that this program is based on voluntary action. I assure you that the prominent members of the various committees who have offered their services to the Voluntary program have done so sincerely and are working earnestly for its success. I think the banks in New York have done an outstanding job in adhering to the Voluntary Credit Restraint program.

I wish to reiterate that in my opinion, the only alternative for this committee is either a Federal Credit Restraint Committee or a Capital Issues Committee.

Mr. Charles E. Wilson, Defense Mobilizer, stated in a letter to the Chairman of our Committee as follows: "I hope that you will impress upon industry leaders the deep interest of the government in the success of this effort (Voluntary Credit Restraint Committee), otherwise it will be necessary for my committee to consider what additional steps may be required in the private credit field." I am sure, gentlemen, that this statement requires no explanation, it is direct and to the point.

In dealing with corporate issues the lines are clearly drawn. The emphasis being on production for defense.

It is reasonable to say, in my opinion, that conversations will be held in the near future regarding the use of available credit by municipalities. I wish to emphasize that the following is my personal opinion as a member of the National Voluntary Credit Restraint Committee.

Municipalities are political entities, hard to control with political influences that may deviate us from our purpose and render the Voluntary Credit Restraint Committee program less effective. If production is the greatest combatant force against inflation, you are probably wondering how this can be made applicable to municipal financing. In my opinion, this is less difficult than appears on the surface. For example, a suburban community wishes to repair roads that lead only to a suburban area. I believe that financing a bond issue for this purpose should be held in abeyance in favor of repair work on roads in a defense area. I see no reason why scarce materials should be used by any State to construct speed highways to resort locations, and construction of this type should be deferred in favor of a connecting highway in areas of defense plants. The same rules are applicable to housing. At present, there is a state politician campaigning for reelection on a platform for the improvement of secondary roads in his state. It seems to me that this is an example of one of the things that definitely should be discouraged.

I wish to assure you that serious study will be made by this Committee and other groups in Washington where the problem of municipal financing is recognized. Scarce materials should not be denied to productive areas by building programs that are purely political or for suburban improvement. The rule of thumb applies equally to municipal financing, as it does to corporate financing. Combat inflation through production. Support defense production by making scarce materials and credit available.

It might help us to refer to the Capital Issues Committee of 1918. The legal jurisdiction of the Capital Issues Committee covered both privately issued and publicly issued securities. Under the title "New Investment Issues—Special Problems," we find:

"Roads

"The original draft of the first policy statement of the Capital Issues Committee stated that the Committee and the Department of Agriculture were in agreement that no roads should be built except in cases of military or economic necessity. At the request of the Secretary of Agriculture this statement was modified to extend only to roads to be financed out of bond issues.

"The Committee soon found itself in the awkward position of disapproving bond issues for roads while obviously less important roads were being constructed out of taxes, and with Federal grants-in-aid. This problem was met by the establishment on June 8, 1918 of the U. S. Highway Council, composed of representatives of the Departments of Agriculture and War, the War Industries Board and the Fuel Administration. The Council requested states and municipalities not to construct any roads without its approval, regardless of the source of the funds. Decisions of the Council were supported by the action of the Capital Issues Committee, the Fuel Administration and other government agencies."

Enforcement of the above was obtained as follows:

(1) The Investment Bankers Association agreed that none of its members would underwrite or distribute any unapproved issues.

(2) The New York Stock Exchange, and other exchanges, agreed not to list any unapproved issues.

(3) The public was urged not to purchase any unapproved issues.

(4) The cooperation of State officials—public utility commissioners, bank commissioners, and administrators of State blue-sky laws—was sought to prevent unapproved issues.

(5) The Committee attempted to secure the cooperation of government agencies which controlled the allocation of resources—War Industries Board, etc.—to deny resources to recalcitrant issuers.

The issuance of municipal securities, in my personal opinion as a member of the National Credit Restraint Committee, should be dependent on the availability of materials and credit for defense purposes. A scarcity of defense materials must not be augmented by unnecessary municipal or political use.

We have a wonderful Ship of State sailing in troubled waters. We have battened down some hatches, a sail has been assigned to us as our responsibility.

Let us do a good job voluntarily so we won't have a tough first mate called Capital Issues Committee put over us.

In my opinion, that is the way the wind is blowing.

*An address by Mr. Smutny at Meeting of the Municipal Forum, New York City, April 13, 1951.

1 Federal Reserve statement for the period ending April 11th shows a decline in commercial loans of $31 million plus the preceding decline of $6 million, making a total of $37 million in loan reductions.

With Francis I. duPont Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Alfred L. Wagner is now affiliated with Francis I. duPont & Co., 208 South La Salle Street.

With A. M. Kidder

(Special to THE FINANCIAL CHRONICLE)

TAMPA, Fla.—Schuyler B. Burdett is with A. M. Kidder & Co., 506 Florida Avenue.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

E. Chester Gersten, President of **The Public National Bank and Trust Company of New York**, has announced the promotion of the following at the Main Office of the bank: James F. O'Donnell, Assistant Vice-President to Vice-President and John J. Kubach, Manager of the Foreign Department to Vice-President in charge of that department. Other Main Office promotions announced are Henry E. Podsen, Assistant Cashier to Assistant Vice-President; Edward D. Tisch, Assistant Cashier to Assistant Vice-President; Henry C. Weisbecker, Assistant Manager to Manager of Foreign Department; Joseph H. Coyne, Chief Clerk to Assistant Manager of Foreign Department. Edward I. Davidson was advanced to Assistant Cashier at the Delancey Street Office.

* * *

Eduardo Grenas has been appointed Representative in Mexico of the **American Trust Company, of New York**, which has been closely identified with Mexican economic life. American Trust Company is a continuation of the **Pan American Trust Company, of New York**, which was organized by Mexican and New York bankers. Today, under the direction of Harvey L. Schwamm, President, it intensifies its banking services to the Latin American countries. Mr. Grenas, for several years Executive Secretary of the Pan American Trade Committee, has represented the Banco de Fomento de la Habitacion and lately the Banco Hipotecario Fiduciario y de Ahorros, S. A., in the United States.

* * *

In accordance with the terms of the scrip certificates issued by **Manufacturers Trust Company of New York** at the time of the payment of the stock dividend in October of last year, the company announces that it has sold the stock represented by the unsurrendered scrip certificates. The announcement states that the right to exchange the scrip for stock expired on April 1 and holders of outstanding scrip certificates are now entitled to receive $4.43 for each twelfth, which includes the pro rata portion of the dividends paid in January and April on the shares sold. The stock dividend was paid to those who were stockholders of Manufacturers Trust Company on Sept. 18, last, before the merger with Brooklyn Trust Company became effective. Details of the merger plans appeared in these columns Sept. 7, page 907, and Oct. 19, page 1506.

* * *

George Champion, Senior Vice-President of the **Chase National Bank of the City of New York**, has accepted the Chairmanship of the Finance and Insurance Section for **The Greater New York Fund's 1951 Campaign**, according to an announcement by Charles J. Stewart, President of the **New York Trust Company**, who is Chairman of the campaign's City-Wide Corporation Division. "Realizing the value of the Fund's aid to 423 voluntary health, welfare, family, and hospital agencies, my section will exert every effort to make the 1951 campaign for $9,000,000 outstandingly successful," Mr. Champion stated. He will also serve as Chairman of the Banks and Finance Houses Group in the Section. Frank A. Christensen, President and director of the Continental Insurance Co., was named Chairman of the Insurance and Real Estate Group. Charles L. Morse, Jr., of Hemphill, Noyes, Graham, Parsons & Co. will serve as Chairman of the Exchanges Group in the Section.

* * *

Robert E. Weis has been appointed Assistant Mortgage Officer of the **Kings County Savings Bank, of Brooklyn, N. Y.**, Charles D. Behrens, President, announced on April 12. Mr. Weis, who joined the bank in 1934, is a graduate of the American Institute of Banking and in the 1952 class of the Graduate School of Banking.

* * *

The First National Bank of Inwood, N. Y., increased its capital, as of April 2, from $200,000 to $250,000 as the result of the sale of $50,000 new stock.

* * *

The New York State Banking Department approved on April 6 a certificate whereby the capital of the **Bank of New Hyde Park at New Hyde Park, N. Y.**, will be increased from $200,000, consisting of 3,000 shares, par $66⅔ each, to $275,000 in shares of 5,500, par $50 each.

* * *

Kelley Graham, Chairman of the Board of the **First National Bank of Jersey City, N. J.**, announced on April 11 the appointment of Howard Webster Potts as Assistant Cashier of the bank. In his new capacity as an officer, Mr. Potts will supervise the operations of the Bergen Square office of the bank, succeeding C. Newell Hogan, who has resigned because of ill health. Prior to joining the First National organization in 1929, Mr. Potts was associated with the Alexander Hamilton Institute in New York.

* * *

The **First National Bank of Belleville, N. J.**, was placed in voluntary liquidation on March 30, following the taking over of its business by the **Fidelity Union Trust Company of Newark, N. J.** The proposed absorption of the bank by the trust company was referred to in our March 1 issue, page 923. The bank, which is now operated as a branch of the Fidelity Union, had a capital of $264,500, of which $189,500 was common stock and $75,000 preferred.

* * *

The acquisition of the **Fourteenth Street Bank of Pittsburgh** by the **Mellon National Bank and Trust Company of Pittsburgh** was approved on April 6 by the stockholders of the Fourteenth Street Bank, and on April 9 the latter became the Fourteenth Street Office of the Mellon National Bank & Trust. The Pittsburgh "Post Gazette" of April 9 reporting this said:

"A. J. Benz, formerly Cashier of the Fourteenth Street Bank, has been appointed Manager of the Office. William N. Foulis, Jr., is Assistant Manager. Mr. Foulis was formerly Secretary and Treasurer of the Armstrong County Trust Company at Kittanning.

"Frank R. Denton, Vice-Chairman of the Mellon National, said J. E. Roth, formerly President of the Fourteenth Street Bank, will serve on the Advisory Committee for the branch."

* * *

The sale of new stock to the amount of $100,000 by the **Suburban National Bank of Silver Spring, Md.**, has served to increase the capital of the bank from $700,000 to $800,000, effective April 5.

* * *

The District National Bank of Chicago, Ill., has enlarged its capital to the extent of $100,000 by the sale of new stock, increasing the capital, as of April 11, from $200,000 to $300,000.

* * *

As a result of a stock dividend of $150,000, the **Temple National Bank of Temple, Texas**, increased its capital as of March 21 from $150,000 to $300,000.

* * *

Plans for a $40,000,000 capital structure for the **Republic National Bank of Dallas, Texas**, were announced on April 10 by Fred F. Florence, President. At the regular monthly meeting of the directors held that day, a resolution was unanimously adopted, calling for a special meeting of the shareholders on April 23 for the purpose of voting upon the proposal to increase the capital stock from $16,000,000 to $18,000,000 and to increase the surplus from $16,500,000 to $18,500,000. This proposed increase will provide the bank with capital and surplus of $36,500,000 and capital, surplus and undivided profits in excess of $40,000,000. The issuance of 100,000 shares of additional stock is contemplated, increasing the number of outstanding shares from 800,000 to 900,000, with a par value of $20 each. The additional stock will be issued ratably to stockholders at $40 per share, thereby providing $4,000,000, of which $2,000,000 will be allocated to capital and $2,000,000 to surplus.

Subject to the approval by the stockholders of the capital increase, arrangements have been concluded with an underwriting group of investment bankers headed by Walker, Austin & Waggener, First Southwest Company, and Dallas Rupe & Son, to underwrite the proposed issue of new shares. Three months ago the capital account of the bank increased $5,000,000, at which time the capital was raised from $13,500,000 to $16,000,000 and the surplus from $14,000,000 to $16,500,000. Items bearing on the increase in capital at that time appeared in our issues of Jan. 11, page 176, and Feb. 8, page 647.

* * *

The Anglo California National Bank of San Francisco has concluded its financing of $7,500,000 in additional capital funds, it was announced on April 11 by Allard A. Calkins, President. The additional capital funds have been derived from the sale of 250,000 additional shares of common stock at $30 per share. Shareholders of record, at the close of business on March 9, received rights to purchase one-third of a share of the additional stock for each share of the bank's stock held on that date. From the proceeds, $5,000,000 will be added to capital stock, increasing it from $15,000,000 to $20,000,000, and the remaining $2,500,000 will be added to surplus, raising it from $12,000,000 to $14,500,000. These, together with the bank's undivided profits and unallocated reserves, estimated at more than $6,000,000, will bring Anglo's total capital funds to more than $40,500,000. The new stock issue was underwritten by a group of investment houses headed by Blyth & Co., Inc. All but 4,114 shares were subscribed to by the exercise of rights. The unsubscribed stock was taken up by the underwriters and has already been placed. Directors of the bank recently declared a dividend of 90 cents per share for the six-months' period from April 1, 1951, to Sept. 30, 1951, payable in two dividends of 45 cents per share each, on July 1 and Oct. 1, 1951, to shareholders of record (including holders of the new shares) as of the close of business on June 20 and Sept. 20, 1951, respectively. The plans to increase the capital were noted in our issue of March 8, page 1039.

* * *

Samuel B. Burnham was elected Trust Officer of **Union Bank & Trust Co. of Los Angeles, Cal.**, at the April meeting of the bank's board of directors, according to Herman F. Hahn, President. Mr. Burnham began his banking experience as a page boy during summer vacations for Commerce Trust Co., Kansas City. He subsequently spent two years with Bankers Trust Co., New York City, before going to Los Angeles. From 1927 to 1940 he was associated with Security-First National Bank of Los Angeles and its predecessor institutions. Later he engaged in bank system work for Burroughs Adding Machine Co. until 1942, when he resumed his trust career with First National Trust and Savings Bank of Santa Barbara as trust officer, subsequently being named Vice-President and Trust Officer in charge of the trust department. He became associated with the Union Bank & Trust Co. in 1950.

* * *

Recent promotions and official transfers at the **National Bank of Commerce of Seattle, Wash.**, have been announced by Andrew Price, Chairman of the Board, and Maxwell Carlson, President. Charles F. Greninger was transferred to the Columbia Valley branch in Wenatchee and promoted to Assistant Cashier. First employed by the National Bank of Commerce in 1937, he later left the bank to become an officer of the Citizens State Bank in Omak, Wash. He returned to the National Bank of Commerce in October of last year where he was assigned to credit administration at the Head Office, until he was transferred to Wenatchee. Wayne D. Deasy, Assistant Cashier at the Waterville branch, assumed the same position at the Kennewick branch. He was first employed by the Ellensburg branch in 1940 and after two years in the armed forces, returned to that branch in 1946. He moved to the Waterville branch in 1948, and was elected an Assistant Cashier last year. Myron J. Ellingson of the Kennewick branch was elected to Assistant Cashier, he was first employed as Assistant Auditor by the bank in 1948. He joined the Kennewick branch in 1949. Stanley P. Wagner of the Goldendale branch was elected to Assistant Cashier.

* * *

The Bank of Montreal (head office Montreal) announces that Charles E. Thessereault, Manager of its Longueuil branch since 1943, has been appointed to succeed Gilbert A. Rheaume as an Assistant Manager of its main branch in Montreal, according to the Montreal "Gazette" of April 5. Mr. Rheaume, it is added, is taking over the bank's Sherbrooke main office.

Three Added to Staff Of Hirsch & Co.

Robert D. Gibson, George Henry and Mathew Strauss have become associated with Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange. Mr. Gibson will be in the Bond Department; Mr. Henry will join the Foreign Department and Mr. Strauss will be located at the firm's 57th Street office.

First Boston Elects Woods and Linsley

The First Boston Corporation, 100 Broadway, New York City, announces the election of George D. Woods as Chairman of the board of directors and Duncan R. Linsley, formerly Senior Vice-President, as Chairman of the Executive Committee, effective May 1, 1951. Mr. Woods, formerly Chairman of the Executive Committee, succeeds Harry M. Addinsell, who will retire as Chairman of the board on May 1, 1951, in accordance with the company's retirement plan, but will continue with the corporation as a director and member of the Executive Committee. James Coggeshall, Jr., continues as President of the corporation.

George D. Woods   Duncan R. Linsley

In addition to the above-named officers the Executive Committee includes William H. Potter, Jr., and Nevil Ford, Senior Vice-Presidents, and Francis A. Cannon and R. Parker Kuhn, Vice-Presidents.

Mr. Woods started his career in the investment field in the old Harris, Forbes & Co. organization in 1918. He joined The First Boston Corporation in 1934.

Mr. Linsley started in business with Harris, Forbes & Co. in 1922, after his graduation from Massachusetts Institute of Technology, and was associated with the buying and underwriting department of the business. He has been a Vice-President and director of The First Boston Corporation since he joined that organization in 1934. He is a governor of the Investment Bankers Association. Mr. Linsley has served as a member of the Corporation of Massachusetts Institute of Technology and is presently Vice-Chairman of the MIT Development Program.

Walter G. Bernthal With Filor, Bullard & Smyth

Filor, Bullard & Smyth, 39 Broadway, New York City, members of the New York Stock Exchange, announce that Walter G. Bernthal has become associated with the firm as Manager of its Research Department. Mr. Bernthal in the past was head of the Statistical Division of Bendix, Luitweiler & Co., and prior thereto was a member of the Investment Committees of National Securities & Research Co. and Manufacturers Trust Co.

Conn. Inv. Bankers Elect New Officers

At the Annual Meeting of the Connecticut Investment Bankers' Association, the following officers were elected for the coming year:

President, Howard J. Bruemmer, Brainard-Judd & Co., Hartford, Connecticut; Vice-President, Earnest T. Andrews, Jr., E. T. Andrews & Co., Hartford, Connecticut; Secretary-Treasurer, William J. Falsey, Chas. W. Scranton & Co., New Haven, Connecticut.

NY Exchange Honors Schram at Dinner

Emil Schram, retiring President of the New York Stock Exchange, was guest of honor at a farewell dinner given April 12 by the Board of Governors of the Exchange. The dinner was held at the Links Club. Robert P. Boylan, Chairman, presented an illuminated Resolution to Mr. Schram on behalf of the board. The dinner was attended by the full membership of the board.

Emil Schram

The Resolution said in part:

"Emil Schram has contributed significantly to better relations between the Exchange and Government. He has interpreted the importance of the Exchange to the American people with forceful clarity. He has upheld, strictly and fairly, a high level of equitable principles of trade on the Exchange. He has emphasized the real value, to industry and to the nation, of public ownership of America's productive enterprises.

"Most important, Emil Schram has symbolized the integrity and sense of public responsibility of the Exchange as the nation's market place.

"BE IT THEREFORE RESOLVED, that the Board of Governors of the New York Stock Exchange register their high esteem and great affection for Emil Schram, who has guided the destinies of the Exchange so successfully over the past decade."

Kalb, Voorhis Admit Leonard P. Brauman

Leonard P. Brauman, Manager of the Research Department, will become a partner in Kalb, Voorhis & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, on May 1. On April 30, Caroline C. Towner will withdraw from limited partnership in the firm.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

A defensive government market continues to give ground under somewhat enlarged volume. It is not, however, the amount of pressure in the form of offerings that is causing the price declines, but the absence of buyers. Fear that quotations of Treasury obligations will continue to recede is keeping many prospective buyers of these securities on the sidelines. Nonetheless, there is a growing realization that the level of prices is making yields on government issues harder to resist. Some have already given way to this opinion because there has been a stepping up in some instances in the size of scale orders. This is encouraging, but limited scale purchases will not turn the tide. Likewise, there is not much likelihood of this procedure being changed immediately because the general feeling seems to be that quotations will work slightly lower before a bottoming out takes place. It is being remembered, however, that very few buyers get the bottom prices and a great deal of that can be charged up as pure luck.

The taps have been the hardest hit issues in the decline, with the Vics, the Junes and the near-eligible 1959/62s leading the parade on the down side. Volume has not been the ruling force but the lack of buyers. The bank-eligible 1967/72s, the longer partially exempts, the '56/58s and the '56/59s have followed the pattern of the restricted bonds. The short-term issues, which have been attracting buyers, have been on the firm side.

The financial community, that is, the money market segment, is in just about as low spirits and as confused as it has ever been particularly since the monetary authorities stepped into the breach and assumed a position of importance in the government market. This is one occasion, not to mention others, where there are more sellers than buyers, and it would seem, psychologically at least, as though there was no bottom as far as prices of long Treasuries are concerned. The advocates of lower prices for long governments, especially those that looked upon this action as a cure-all for the inflationary pressure and particularly the loan trend, are not so happy now. They are not wringing their hands, with the joy of a "Simon Legree," nor are there any broad smiles of glee, because the most distant Treasuries are well below the formerly sacred levels of 100. Theirs is a look of concern and amazement because the powers that be are letting prices find their own levels. The market is being cleaned up beyond a doubt, but it seems as though the house-cleaning has been a bit too thorough for many of those that were the staunchest supporters of the below-par idea.

There has not been and most likely will not be any really unusual development in the market because it will be protected in an "orderly" or "flexible" fashion. Nonetheless, this "flexible protection" is not to the liking of those that have sizable positions in Treasuries, and this goes for nearly all of the banks, insurance companies and other financial institutions. It should be realized one does not rest as well (as in the past when prices were steady to better) when the list continuously registers declines, especially when long governments are off more than ½ of a point in a single trading session.

Nevertheless, it is a well-known fact that there are refundings that must be taken care of in the near future and there are Treasury deficits which will have to be faced, before most operators in the money markets are very much older. This, it seems, does not mean that the government market is going to continue to get very much lower before a bottom is made. The easy availability or the easy access to reserve credit has been retarded, to say the least, but there are always a few stragglers that have to be convinced the hard way, and this is what is going on in the government market now. If this method does not work, and it is believed it will work by many of the shrewdest followers of the money markets, there will be more undesirable ones forthcoming in the form of involuntary controls. This would not be at the expense of lower prices.

The adjustment in the government market has been substantial and losses are now staring owners of most Treasury obligations in the face. There are not too many buyers in the market, except for a few scale purchasers, and they are not too sure of themselves because even recent purchases are now in the red. The principal supporter of the market, the Central Banks, have gone to the sidelines except in those few instances when they take on selected issues in order to keep the market "orderly." Nonetheless, there is the belief that the market as a whole has gone through or is about through its worst stages. It seems as though there are not a few yield buyers that are very much interested in governments, but they too are trying to pick a bottom before making important commitments. Present prices, it is believed, will bring in a different type of buyer than has been in the market in volume in the past, but pension funds should be among the desirable holders of longer Treasury obligations.

The recent decline in prices of governments has not been without some increase in volume, but the amount of securities coming into the market has not been large when compared with what has gone on in the not distant past. Most of the securities showing up are the tap bonds, although there have been a few more of the longer bank issues appearing because it seems as though some holders want to sell them while they are above the par level. A good part of the bank funds realized from the sale of the premium eligibles have gone into the shortest maturities. While there is considerable concern as to whether the 2s due 9/15/51-53 will be called (the deadline is May 15), there is nonetheless quite a bit of out-of-town bank buying in this obligation. The 1¼s of July, 1951, are also being well taken by banks as well as non-banking institutions with surplus funds. The 2¼s of 1959/62, while under pressure along with the other restricted, are being bought on a scale by institutions that liked them at higher levels. This is now being termed "protective averaging." The partially-exempts are still able to find homes, in spite of the trend of the Treasury market and the municipal market. According to reports, not too many of the longer tax-protected obligations have come in for sale. These bonds it seems now, have their best market among the larger out-of-town banks.

The Bond Market

By ROGER W. BABSON

Noting recent higher yield rates on new bond issues, Mr. Babson ascribes trend to developments in government bond market. Says experience proves persistent and drawn-out decline in bond prices is frequently followed by good-sized slump in stocks. Cautions against an investment reserve of long-maturity bonds.

New issues of corporate bonds bearing the highest interest rates since the late 1930's have just made the financial headlines. Business is paying more for its money, as well as for its wages and materials.

Roger W. Babson

Just as the old belled ram leads the rest of the flock, so does the government bond market point the way for corporate bond prices. About a month ago it was announced that the feud between the U. S. Treasury and the Federal Reserve had been ended. Both parties to the long disagreement had "reached full accord." Now, the thing upon which they had agreed was that a new issue of long-term government bonds should bear 2¾% interest instead of the 2½% figure that had been the going rate for similar issues.

Immediately a tremor ran through the financial world. As it became clear that the Federal Reserve had really "won the argument" over raising interest rates, government bond prices softened. At the same time, corporation bonds began a price decline that is still in progress. Commercial bankers became frightened and have since been casting an increasingly wary eye at all applications for loans. Even the stock market has lost its pep. A glance at the course of the popular stock "averages" will show you that, since early March, stocks have been reactionary. That is why I say: Watch government bond prices; they are the bellwether for finance in general and for the bond market in particular.

Possible Effects on Stocks

Going back through the years, you will find that a persistent and drawn-out decline in bond prices is frequently followed by a good-sized slump in stocks. Studies show that the time lag between the fall in bonds and the later descent in stock prices varies widely. Sometimes stocks follow bonds down only a few weeks later. At other times, close to two years have passed before stocks have taken a tumble. The reasons for this are not hard to find. As bond prices fall, the yield therefrom rises and narrows the gap between the return on bonds and the income from stocks. If the old relationship between the two is to be re-established, stock prices must decline. Only during periods of feverish speculative activity are buyers willing to overlook the need for getting a considerably bigger income from stocks, as compared to bonds, to "pay them back" for the greater risk that stocks carry.

"Different This Time"

However, some of my friends tell me that it is going to be "different this time"! They point out that the spread between stock and bond yields, even after the recent rise in the latter, is much greater than usually exists. Therefore, they say, the return on bonds could rise quite a bit higher without greatly disturbing stock prices. They also cite the fact that very few stocks are being carried on borrowed money and that higher interest rates will not cause any amount of selling on that score.

These objectors may, of course, be right. But, I should like to leave this thought with you: When storm signals are flying, wise skippers heed them. Likewise, when old-time financial warnings appear, wise investors will diversify their funds carefully among sound, well - selected common stocks, and hold a sizable reserve in cash and highgrade short-term bonds against an "unexpected" shift in the trend.

Advice on Bonds

My father told me years ago, "Never send a boy on a man's errand!" This advice fits today's bond buyer. Whatever you do, don't build an investment reserve of all long-maturity bonds, no matter how high the quality. A one-per-cent rise in interest rates can wipe out a number of years' income in the shape of a price fall in your long-term bonds. That is a risk you should avoid at all costs. In bond buying, stick to short-term governments, good convertible corporation bonds, and tax exempts that you can hold to maturity.

Morgan Stanley Group Offers $35,000,000 of Duke Pwr. 3¼% Bds.

Morgan Stanley & Co. and 22 investment banking firms yesterday (April 18) offered for public sale a new issue of $35,000,000 Duke Power Co. first and refunding mortgage bonds 3¼% series due 1981. The bonds are priced at 101.93% plus accrued interest to yield approximately 3.15% to maturity. The issue was awarded at competitive bidding on Tuesday.

Proceeds of the sale together with proceeds from the company's concurrent offering to stockholders of 126,255 shares of additional common stock will be applied to its construction program which for the years 1951 and 1953 is estimated to cost approximately $83,200,000 for the electric system and $2,000,000 for the transportation and water systems. During the five years 1946-1950 the company spent approximately $115,260,000 for construction.

The new bonds are subject to redemption at 104.93% during the year ended March 31, 1952 and thereafter at prices decreasing to the principal amount in the last year. They are also redeemable under the terms of a replacement fund at 101.93% during the year ended March 31, 1952 and thereafter at prices decreasing to the principal amount.

Duke Power Co. supplies electric service in the Piedmont sections of North and South Carolina. The principal communities receiving retail electric service include Charlotte, Winston-Salem, Greensboro and Durham (N. C.) and Greenville, Spartanburg and Anderson (S. C.) The service area has a population of around 3,000,000. The company reported for 1950 total operating revenues of $82,761,564 and gross income before income deductions of $12,421,516.

The Life Insurance Dollar and Inflation

By CLAUDE L. BENNER*
President, Continental American Life Insurance Company, Wilmington, Del.

Insurance executive, after defending life insurance in an inflationary era, blames "easy credit" policy of government for much of current inflationary pressure. Says basic problem in fighting inflation is to effect a reduced demand for peacetime goods. Lists as ways this can be done: (1) let prices go up; (2) rationing; (3) increased taxes; and (4) increase in consumers' saving. Concludes, if consumer buying can be curbed, inflation can be halted.

Today one hears a good deal of loose talk based upon specious reasoning that it is foolish to buy life insurance. Prices, it is said, are likely to increase so much that the value of the insurance dollar when it is paid to the beneficiary will not compensate for the sacrifices which the insured and his family must make to carry the insurance. Fortunate, indeed, is it that the large volume of insurance currently being sold proves that not too many are paying serious attention to this fallacious reasoning. But inasmuch as all of you in your day to day work frequently hear this excuse given, and as you are altogether likely to hear it even more frequently in the days ahead, I propose to examine this insurance dollar to see how it compares with other dollars that may be purchased or saved. In doing this, I propose to look at it from two points of view—first through the eyes of the insured who pays the premiums, and second, from the point of view of the beneficiary who receives the proceeds.

Claude L. Benner

As one who for many years has carried a goodly volume of life insurance and who has not been able to pay the premiums without some sacrifice, my own reactions, I think, may be taken as typical of those of the average insured. As I proceed, please check them with you own experience to see if they do not agree with yours.

First, I have never been able to see any conflict between any savings program which I tried to set up and the insurance which I was buying. It has always seemed crystal clear to me that I had no moral right to begin any savings program until I had first purchased enough insurance to take care of the obligations which I had assumed and created by getting married. Certainly no husband and father who cares anything for his wife and children can feel otherwise. It must never be forgotten, therefore, that the dollar for the purchase of insurance rightly comes first, immediately after the purchase of the necessities of life, certainly before the luxuries, and obviously ahead of any possible other savings and investment program.

This reasoning is just as valid whether prices go up or go down. As a matter of fact, the rise in prices such as has taken place during the last few years makes the purchase of insurance all the more imperative. Likewise, any price rise that we are likely to get in the immediate future, war or no war, will not call for any other action. Do not women and children need money just as much, even more, in order to buy the necessities of life when prices are high as they do when they are low?

Because the basic purpose of life insurance is to guarantee the continuance of the earning power of the insured in case of his demise, an increase in his earning power calls for more insurance, not less. This is particularly true if the increase has been due to a general rise in the price level. In this case, the situation is exactly the same with life insurance as it is with fire insurance. Everyone readily admits that additional fire insurance must be placed on a house when its cost of reproduction increases, otherwise there will not be sufficient money to rebuild the house should it be burned. Likewise, if an individual's income has been increased, how can its continuance be guaranteed except by purchasing more insurance?

The carrying of a proper amount of insurance and other investments are never competitive. In the priority of their importance, they are entirely on different levels and in different categories. It is only after the individual has completed his insurance program that he has a right to consider other forms of investments. I do not propose to discuss what those fortunate few should do with their money who are lucky enough to have some left over after paying their taxes, living expenses and insurance premiums. It is my belief that everyone should have a right to lose it in his own way and in a manner which will give him the most enjoyment, even including taking a few chances on numbers or betting on the horses. If your conscience doesn't permit that, there is always the stock market.

The Dollar and the Insurance Beneficiary

Now, for a moment, let us look at the life insurance dollar from the point of view of the beneficiary. We hear a good deal of talk today about the 60-cent dollar—that it takes over $3 today to buy what $2 would a few years ago. This is true and I am not one to minimize the seriousness of the recent rise in prices and the necessity for doing everything possible to stop it. But when you come to look at the heart of the insurance dollar from the viewpoint of the beneficiary, you get a different slant on its value. Here you frequently find that the life insurance dollar, instead of being a 60-cent dollar, is the only 100-cents dollar that I know of that has been frequently purchased for less than 50 cents.

This becomes clear when you think of the number of policies that you have settled where the the beneficiaries received twice as many dollars from the proceeds of the policy as the total amount of premiums which the insured paid throughout his life. Is not that purchasing 100-cent dollars for 50 cents? Where else can this be done? Can you take more money out of a bank that you deposit in it without going in debt? Can you buy a bond, building and loan shares or a home on the installment plan and get complete ownership before you have completed your payments? The answer obviously is, you cannot. But we all know it happens every day in life insurance. Most policies are settled long before they become fully paid up.

Looking at the life insurance dollar from this point of view, where is there another so valuable? In spite of the beating in purchasing power that all dollars have taken during the recent past, the life insurance dollar, when compared to all others, has nothing of which to be ashamed. It still remains, in a very real sense, the most needed, the most valuable and the most welcome of all dollars that any person ever receives. This is true now and will continue to be in the future whether we have more inflation or less. Never let your prospect forget it.

Tax Free Insurance Payments

The life insurance dollar also has a tax angle, the value of which cannot be overlooked. We all know that a dollar before taxes and a dollar after taxes are two different things. Not enough emphasis is placed upon the fact that dollars paid to beneficiaries from the proceeds of life insurance are tax-free to the beneficiary, even when they are taken in monthly payments under regular settlement options. No doubt the purchasing power of any dollar is less than it was some years ago, but I think you will have no difficulty in getting every prospect to agree to this—that our dollar is still the best monetary unit in the world and the most likely to retain its purchasing power in the future, and that when he comes to set aside some of his current income to buy future dollars, either for himself or his loved ones, there is no better kind of dollar to purchase than the insurance dollar which frequently is bought for less than 100 cents on the dollar and which is almost always, so far as the beneficiary is concerned, tax-free.

Nothing that I have said thus far in defense of the insurance dollar must be interpreted as condoning inflation. All kinds of dollars have recently been losing their purchasing power far too fast. And, as it is important not only to the institution of life insurance but to the welfare of the whole country that inflation be stopped, I now want to discuss some of its causes and what can be done to bring it to a halt.

Progress of Inflation

Before setting forth some of the principal causes for the rapid price rise since mid-summer of last year and the steps that must be taken to bring this increase under control, let me give you some figures to show the extent of the rise in prices since the start of the Korean war. Wholesale commodity prices have risen over 20%. Twenty-eight of these basic commodities, such as rubber, tin, non-ferrous materials, wool and cotton, have increased over 60%. The cost of living during this period of time has increased over 10%, 3% of which was in the first two months of this year. Never, either in peace or war, has this country had such a rapid price rise in such a short period of time. It is imperative that it be stopped promptly.

There is no mystery about the basic causes for this price rise. First may I say, in order to correct some erroneous conceptions now current, that deficit financing on the part of our Federal government was not one of these causes. To date, the Budget is not only in balance, but at the end of the fiscal year it will probably have a surplus of nearly $3 billion. On the cash basis, including Social Security Tax, the Treasury will probably take in somewhere between $6 and $8 billion more than it pays out. This is not inflationary. Neither has spending for the defense program been sufficiently large to date to be primarily responsible for this price increase. The actual orders have been slow in being placed and it probably will be mid-summer before actual work on war orders will be in large volume, and some time in 1952 before the peak level will be reached.

An old-fashioned speculative inventory boom, made possible by a huge expansion of credit of all kinds, particularly bank credit, has been taking place since last July. A tremendous increase in the demand for all kinds of goods has come into the market, as witness the increase in retail sales, the build-up of inventories and the growth of installment credit and commercial loans.

This buying boom was set off by the Korean war. Most of us contributed something to it. I am afraid that all classes of individuals, from the housewife up to the purchasing agents of our large corporations, thought that prices would go up and, to put the matter in a nutshell, they all tried to buy ahead of the expected price rise. Certainly all of you in your own experience have seen evidence of this both in the retail, wholesale as well as manufacturing fields. To make matters worse, governments themselves began to stock-pile goods, each nation bidding somewhat against the other for the world's limited supply of wool, rubber, tin and the other commodities needed in war. Production could not be increased sufficiently to meet this enlarged demand and a rapid price increase followed.

Federal "Synthetic" Inflation

Our Federal Government itself must share a grave responsibility for this price rise. At a time when credit should have been made somewhat more difficult and expensive to get, such governmental agencies as the Federal Housing Administration, the Veterans' Administration, the Board of Governors of the Federal Reserve System and the United States Treasury all worked to make credit cheaper and more abundant. Bank loans increased by nearly $10 billion in six months, and until recently no really effective steps were taken to restrict this expansion.

In no place are the evils of too much and too cheap credit better illustrated than in residential construction. Mortgage money during the last few years was made so cheap and offered on such easy terms that almost anyone who could sign his name could buy a house. When there were not private funds available to purchase the mortgages thus created, the Government itself, through the Reconstruction Finance Corporation furnished the money. The result was to create a demand for houses in excess of what it was possible to build on account of insufficient building materials and a scarcity of labor. In a situation like this, the price of houses last year reached an all-time high, until today the home-buyer gets less house for his money than ever before.

The basic fundamental problem facing this country today is how to reduce the demand for peacetime goods if the defense program is to be completed without disastrous inflation. One gets a clearer idea of the extent and the burden of what our defense effort will be by considering what percent of our total production of goods must go to the production of armaments than by merely thinking of the total number of dollars which will be spent for such goods. It is not improbable that we may be forced to turn more than 25% of our manufacturing plant capacity to the production of war goods in the next year or two. I believe that during the height of the last war about 40% of our plant capacity was used in the production of such goods. Is it not obvious, therefore, that unless we can increase our total production by the same amount that we increase our armament production that there must be fewer peacetime goods produced? The "$64 Question" is, "Can we increase our total output of goods by the same amount that we increase our output of war goods?" If we cannot, and I do not know any responsible economist who thinks we can, the demand for peacetime goods will have to be reduced.

Reducing Demand for Consumer Goods

There are four ways that this can be done. (1) Let prices go up. This will cut down demand. This is the road of inflation. (2) Goods can be rationed so that irrespective of how much money an individual has, he can only purchase a given amount. This method is hard and cumbersome to administer. It calls for price controls, another OPA and will be accompanied by the inevitable black markets. (3) Increase taxes so that people will not have enough left out of their incomes to buy more peacetime goods than are available. This is the pay-as-you-go plan, and I am in favor of it to the fullest extent possible. It calls, however, for a broad tax base that will reach down to take in practically everybody with an income above the very minimum necessary to decent living and would entail real sacrifices which will be difficult to get the people to accept. (4) Demand can be cut down through increased savings. All forms of savings must be encouraged to the fullest extent possible. Campaigns should be put on to teach people that it is patriotic to save and not to spend. The Federal Government should take the lead and set a good example in this respect. All peacetime expenditures not absolutely essential should be avoided. Every governmental unit should follow the same example—states, cities, counties, down to the smallest unit. This is no time to make expenditures for improvements that are not vitally necessary. The ultimate purpose to be kept in mind is always to reduce consumption so that scarce materials and labor will be available for the production of war goods and so that total demand for peacetime goods will be restricted to the smaller amount of such goods that will be available when the defense effort is once at its peak.

If savings can be encouraged sufficiently and if the tax base is broadened widely enough, we can finish our defense program with very little increase in prices. There is grave danger that this will not be done and that the public may be misled into believing that inflation can be prevented with price controls, priorities and rationing. I do not want to go on record as being opposed to all forms of these controls. Some, no doubt, will be necessary. I do want to state, however, with all the vigor of which I am capable, that controls alone will not prevent inflation. The best they can do under the wisest administration will be merely to postpone it.

Role of Life Insurance Salesmen

Life insurance salesmen have a vital role to play today to encourage savings, even as they did during the last war. Looking at it from the good of the whole country as well as for the welfare of the insured and his dependents, there is no better avenue to encourage savings today than through the medium of life insurance. If defense expenditures rise, as they no doubt will, to an amount greater than taxes will be able to pay, the funds of life insurance as in the past will be invested in Government bonds and, to the extent that the Treasury

*An address by Mr. Benner delivered before the Philadelphia Association of Life Underwriters, Philadelphia, Pa., April 10, 1951.

finances its deficit in this fashion, no inflationary results will follow. In a very real sense, so far as the Federal Treasury is concerned, it will make little difference whether the individual buys a war bond or purchases additional insurance. And, as I stated at the outset, an individual certainly is morally bound to continue to buy insurance until his program has been adequately completed, allowing for the recent price increases.

Inasmuch as expenditures for defense, after we have once become rearmed, are likely to continue at least twice if not three times what they were in 1948 and 1949, the question naturally rises, "Will this mean a permanent lowering in our standard of living?" I do not think so. I close, therefore, on an optimistic note. If an all-out war can be avoided and the Korean conflict brought to a close, the productive capacity of this nation is increasing so rapidly that in a few years we are going to be able not only to maintain expenditures for defense two or three times more than we did in '48 and '49, but at the same time we are going to produce an amount of peacetime goods sufficient to permit the standard of living of this country to again continue its upward progress. We won't be able to do it during the next two or three years, but we should be able to by 1955.

What are the limiting factors to the productive output of a nation? Are they not the amount of its basic raw commodities, its land and its minerals, together with an efficient technique of production and a sufficient industrious, able and energetic manpower to fabricate its commodities? When one considers the increase that has taken place in our plant capacity during the last five years and which is currently going on at an accelerated scale, certainly there is no cause for pessimism in this regard. We bid fair to increase our steel production in the next few years in an amount larger than the present total steel production of Soviet Russia. Our population is growing more rapidly than ever before, our schools and research institutions are flourishing, on fundamentals our people are becoming more united — given, therefore, a sufficient period of time to complete our rearmament, two things are certain: war will either be averted, or should it come, which God forbid, there will be no doubt about its outcome.

Conclusions

In conclusion, I wish to state that our defense program can be completed without necessarily bringing on further inflation, if we have the desire and the will to do so. The essence of the problem of preventing further inflation is to make the people understand that, to the extent total production cannot be increased to meet the enlarged outlays for armaments, the consumption of peacetime goods must be reduced. We cannot have both more arms and more "butter," too. For a year or two there must be some reduction in the total demand for consumer goods. The best way to cut down this demand is to go on a "pay-as-you-go" basis. If demand is not reduced by increased taxes and enlarged savings, it inevitably will be through higher prices and inflation. If, as is likely before we get over the hump of expenses for rearmament during the latter part of the year, it becomes necessary for the Treasury to do some borrowing, it must be from individuals and savings institutions. The borrowing must not be done from commercial banks in a way that inflates our money supply.

This rearmament program which we are undertaking is not something that is going to be completed in two or three years and then forgotten. We are likely to live in a "garrison state" for a good many years. No one can see the end of it and we are almost certain to be spending two or three times as much money for our armed services indefinitely in the future as we were accustomed to in the past. This means that we must rely just as little as possible upon arbitrary controls, unless we want such controls to stay with us indefinitely. We should put this increased expenditure for arms as a regular item in our Federal Budget, raise taxes sufficient to pay for it and take the burden in our stride. Then, after we are once fully prepared, Mr. Wilson should go back to General Electric, Mr Johnson to Hollywood, and DiSalle to Toledo. As a long-term proposition, the control, management and equipment of our armed services should be in the hands of the regular departments of government. We do not want emergency officers and arbitrary controls a permanent part of our life.

I also believe that over the long-term, after we have once caught up with our defense needs, we can quite indefinitely in the future shoulder this burden of maintaining adequate defense and still look ahead to a gradually rising standard of living for our people. At the rate which we are now expanding our total production, we should be able by 1955 to turn out more peacetime goods than we are now producing, and at the same time produce all the armaments the general staff now thinks will be necessary adequately to protect us. These are no doubt perilous times, no man knows what a day may bring forth. But of this we may be certain, come war or peace, there is little cause for us to lose faith in the production capacity of our nation, the ultimate value of its currency, or the need for life insurance for the maintenance of individual security. The life insurance dollar will continue in the future, as it always has in the past, to be one of the great bulwarks of security for the nation.

Correction

In the "Financial Chronicle" of April 12th it was reported that Stanley Pelz & Co., 40 Exchange Place, New York City, is now doing business as a corporation. We are now informed that the firm will continue as a partnership and the corporation will remain inactive in the interim. The partnership of Stanley Pelz & Co. consists of Stanley Pelz, Robert E. Zipp, general partners, and Jerome S. Kramer, limited partner.

A. M. Kidder Admits

Gordon Kay will become a partner in A. M. Kidder & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, on May 1.

Sartorius to Admit

Sartorius & Co., 39 Broadway, New York City, members of the New York Stock Exchange, will admit Margot D. Herzig to limited partnership on May 1. Irving D. Karpas will retire from limited partnership in the firm on April 30.

Joins A. G. Becker

(Special to The Financial Chronicle)

CHICAGO, Ill.—Walter L. Benson is now with A. G. Becker & Co., 120 South La Salle Street. He was previously with First Securities Company of Chicago.

With R. S. Hays Co.

(Special to The Financial Chronicle)

DURHAM, N. C. — Lansing T. Hall is associated with R. S. Hays & Company, Inc., 111 Corcoran St.

Canadian Securities

By WILLIAM J. McKAY

Now is not the time to indulge in petty politics, to create confusion in the public mind, to profit by such confusion to realize personal ambitions, and thereby unwittingly assist those who seek to divide and conquer. Profoundly disturbed by the current uncertainty concerning the manner in which the United States will discharge its responsibilities of world-leadership, Canada's Minister of External Affairs has courageously undertaken the unenviable task of criticizing a friend. Mr. Pearson emphasized, however, "that without the leadership of the United States there would be little chance of success in the common struggle against communism, and that there will be times when it will be more important to maintain a united front against the foe than to press a point of difference."

From the outside looking in on the domestic scene south of the border at a time when the very basis of civilization is immediately imperilled, it is not difficult to understand Canada's present misgivings. To the external observer, removed from the highly emotional political atmosphere now prevailing, it has been difficult to understand the apparently popular acceptance of developments that appear to be at least inopportune, if not opposed to main objectives.

In the field of foreign affairs for example it is now more than ever necessary to preserve single-minded unity of purpose both at home and abroad. Until recently when partisan politics have confused the main issues, U. S. foreign policies had achieved a truly remarkable measure of success. Through the operation of the Marshall Plan and U. S. willingness to meet resolutely the communist challenge whenever it was made, the economic situation of the Allies of this country has been effectively bolstered and their will to resist aggression immeasurably strengthened. These policies had hitherto received whole-hearted bipartisan support in this country and the method of their execution had met with general approval abroad. Unfortunately this desirable state of affairs no longer prevails. With the international situation never more perilous opinions here are sharply divided and domestic political considerations are tending to obscure the grim realities of external affairs.

Similarly with regard to financial policy, issues of fundamental importance have been raised at a time when the maintenance of confidence should have been the paramount consideration. Any change in the basic rate of interest should have been made in the immediately postwar period and not at a time when the country faces the possibility of another and even more critical world conflict. The bitter and extended struggle between the Treasury and the Federal Reserve Board has served further to confuse public opinion, and the apparent defeat of the supposedly ultimate authority in the domain of finance is a source of bewilderment at home and abroad.

In both instances the untimely opposition to previously accepted official policies has produced contradictory effects. In the foreign field those who now advocate the adoption of more aggressive measures which entail the risk of a third world war, are curiously enough, also those who have been prominent in opposing proposed measures for increased rearmament, the adoption of universal military service, and additional aid to potential allies. Similarly in the case of the battle of the interest rate, the purported objective of the Federal Reserve Board was the curbing of inflation. In effect, however, the undermining of confidence in the Treasury pattern of interest rates provoked a more violent phase of monetization of the public debt. Furthermore the loss of stability of the obligations of the U. S. Government has contributed to waning confidence in the standing of the U. S. dollar and the value of the vast total of publicly held savings bonds.

As the Dominion Minister of External Affairs also pointed out, "Canada's hopes (and those of all free nations) for world peace depend largely on the acceptance by the United States of responsibility for world-leadership and on how that responsibility is discharged." It is therefore all the more vital at this critical stage of world history, that personal and partisan objectives should be sacrificed for a united policy on both domestic and foreign issues.

During the week despite price mark-downs the external section of the bond continued in the doldrums. The internals were weaker in sympathy with the trend of the Canadian dollar, which reached another low point for the year at 5¾%. The Dominion bond market in Canada, however, was firm and appears to have reached a stabilizing point. Stocks after an initial strong advance that carried the industrials almost to their all-time high and Western oils to a 16-year peak level subsequently lost part of their gains. Less interest was shown in the base-metal and gold issues and prices showed little variation.

Oklahoma Bond Club Spring Outing

OKLAHOMA CITY, Okla.—The Oklahoma Bond Club and Southwestern Group of the Investment Bankers Association will hold their spring outing on Tuesday, May 22, at the Oklahoma City Golf and Country Club.

The program scheduled is 10:00 a.m.—Golf, tennis and cards; 12:00 noon—Luncheon for the men at the Country Club and for the ladies at the Beacon Club atop the First National Building. A special program is planned for the ladies in the afternoon. Golf, tennis, swimming (if weather permits), bridge, canasta and gin rummy at the country club. At 5:30 p.m. there will be a social hour at the Oklahoma City Golf and Country Club, to be followed by dinner and entertainment. Registration fee is $15; for the ladies, $6.

Members of the Committee in charge of the outing are Philip J. Rhoades, First National Bank & Trust Co., Oklahoma City, Chairman; Philip C. Honnold, care C. Edgar Honnold, Oklahoma City; William B. Cochran, Small-Milburn Co., Oklahoma City; C. B. Page, R. J. Edwards, Inc., Oklahoma City; Eval L. Davis, Tulsa; B. G. McCall (in charge of transportation), Harris, Upham & Co., Oklahoma City.

Ticket Committee—E. M. Clohessy, First Securities Company of Kansas, Inc., Oklahoma City.

Prize Committee—Herbert D. Canfield, Canfield & Canfield, Oklahoma City.

Golf — Ray Dusek, Merrill Lynch, Pierce, Fenner & Beane.

Officers of the Oklahoma Bond Club are John H. Edwards, R. J. Edwards, Inc., President; Tom G. Hilborne, First National Bank & Trust Co., Vice-President, and Charles B. Stuart, Secretary-Treasurer.

Basic Inflation Problem Is the National Debt!

By CARL F. DISTELHORST*
Vice-President and Educational Director
American Savings and Loan Institute

Pointing out basic problem in our economy is not self-liquidating debt of private industry but overwhelming Federal debt, which is permanent and which, unless Treasury is willing to pay high enough interest for investors to hold it, tends to become monetized, Mr. Distelhorst lauds new Treasury interest policy, but doubts recent rise of ¼% in interest rate is sufficient. Recommends further interest rate adjustments as required.

Before discussing with you the management of your government bond portfolios I should like to make some general observations on recent developments in the money market and some of the uncertainties of the immediate future.

C. F. Distelhorst

For many years the money market has been controlled largely to minimize the cost of servicing the Federal debt. The control has not been absolute, however, and natural forces in our economy have found a way of expressing themselves. More recently as conditions have suggested the wisdom of higher interest rates, controls have had to be exerted to maintain an "orderly market" and to support a pattern of interest rates which was apparently too artificial and too low.

You are all familiar with the struggle which has been going on for many months between the United States Treasury and the Federal Reserve because of their differences in views on how controls on credit expansion, interest rates and monetization of the Federal debt should be exercised. On the one hand the Federal Reserve was simply defending its statutory authority of 38 years' standing. Left to their judgment it was apparent that the "Fed" was more inclined to permit bond prices to decline and yields to rise, if necessary, than to support low yields by open-market purchases which monetized the Federal debt.

On the other hand, the Treasury, concerned more with financing the Federal deficit at the lowest possible cost, was at odds with this view, and was exerting heavy administrative pressure on the "Fed" to continue supporting its low-interest rate program. For all practical purposes, the Treasury was pressing its views to the point of usurping the Federal Reserve's statutory powers.

The controversy was climaxed in early March when an "accord" was reached. You know the results. The Treasury announced a new issue of 24 to 29 year 2¾s available by conversion to holders of the Victory 2½s. This was shortly followed by a supported decline in government bond prices with the Victory's going down to 99. On the surface, at least, it would appear that the Federal Reserve's viewpoint has prevailed. Whether partially or fully, time has yet to reveal.

To me this has been one of the more sensible and, accordingly, one of the more encouraging developments on the anti-inflationary front in recent years. The heartening thing is that having taken the first step, the Treasury (assuming it still has a strong voice in monetary policy) may agree to permit further increases in interest rates if such is necessary. The money market is still a controlled one, so whether this historic shift in policy will go down in history as "too little, too late" or be the turning point in financial freedom and fiscal sanity has yet to be determined. My sincere hope is that bond-holders, all of whom must see the wisdom of the free-play of interest rates as a natural brake on debt-monetization, will also have the courage to face lower bond prices and willingly make that sacrifice in defense of a sound monetary policy. From all that I can see the life insurance folks are willing to pay the price. I hope the same applies to the leaders of our business.

*An address by Mr. Distelhorst before the Southeastern Group Conference of the U. S. Savings & Loan League, Palm Beach, Fla., March 14, 1951.

Federal Debt Is Basic Problem

To explain my position further, the basic problem of inflation in our economy today is not the self-liquidating debt of private industries, but the overwhelming Federal debt which will never be paid. The Treasury must be willing to pay a high enough rate of interest on its obligations to induce investors to buy and hold them.

The alternatives are: (1) Complete control over all credit and interest rates, private and governmental or (2) the ultimate exchange of its obligations for printing press money. If a higher interest rate is the price for economic freedom or to prevent financial disaster it is worth the additional cost. If a higher rate of interest is a greater burden than the Treasury cares to assume, then such higher interest rate may serve as a very useful force in curbing excessive non-essential Federal expenditures.

Perhaps these alternatives need to be explained a little further. The primary reason that the Federal Reserve has been called upon to purchase billions of dollars of government bonds in the open market is that the owners of these bonds have been seeking a higher return on their funds. The six or seven billion dollar switch on the part of the life insurance companies from government obligations to residential mortgages was primarily to achieve higher earnings for their policyholders. It was a similar inducement that caused you savings association executives to do the same for your savings customers. Pension funds, trusts and the multiplicity of other funds have similarly been looking to other than the government bond market for higher yields. If our Federal Government cares or dares it could control switching to other types of securities by fixing all interest rates on all obligations, private or public. Short of full-scale war I can hardly visualize public acceptance of such complete control over credit and interest rates that switches out of government obligations could not be made to advantage.

Or, still insisting that low yields should prevail on government obligations, bonds sold by those seeking a higher return elsewhere could all be purchased by the Federal Reserve at a price reflecting low yields. This, of course, has been the policy of recent years against which the Federal Reserve rebelled. But this is essentially a program of exchanging bonds for money which is no different today than if Federal deficits had originally been covered by issuing money instead of interest bearing bonds. True, in supporting the market, the Federal Reserve has not issued paper money directly in exchange. Rather the exchange has been in the form of credits to bank deposits. The very fact, however, that such bank deposits may be expanded six-fold makes them even more dangerous than starting the money presses rolling. For the time being, one must hope that the general public really does not understand that rising bank deposits, so created, are as great or greater a danger than printing press money. So until they know better their confidence is more or less retained. There is a day of reckoning and whether the stream of money is inflated by rolling the printing presses or by inflating deposits in exchange for bonds, continued purchase of bonds by the Federal Reserve to support low interest rates is a direct process of monetizing the debt. It is a far more dangerous inflationary device than is the expansion of private credit which liquidates itself through production.

How High Must Interest Rates Go?

In the absence of absolute controls or an inflationary program of supporting bond prices to maintain uneconomic interest rates, the only sensible alternative is to permit interest rates to rise. How high? High enough to induce investors to continue to hold their bonds.

It is my own judgment that yields on government obligations have not yet risen to a natural level in our present economy. If this is true, then we must expect holders of government bonds to continue to offer them in the market in greater volume than other private investors will buy them at present low yields. Since I do not believe that a firm foundation has yet been reached in the bond market I expect further testing of what official policy will be, especially after the exchange period for the new 2¾s has ended. If offerings of bonds continue and the decision is to support the exchange-period prices, then the recent "accord" between the Treasury and the Federal Reserve will become but a gesture of the "too little, too late" variety. The realistic alternative remains, a more natural level of interest rate. Efforts to dodge realism can but postpone or aggravate the real problem of inflation, namely the ever-present danger that a large portion of our $250,000,000,000 Federal debt may yet be transferred to the stream of money in the form of additional bank deposits or printing press money.

The offering of series E, F, and G bonds and now the non-marketable but convertible 2¾s are devices that help to prolong the day of reckoning. Once purchased they lock the investor in in such a manner that he cannot move around and take advantage of higher possible yields. The design of these obligations is an ingenious one and yet they achieve little more than to defer the time when they too will be presented for redemption by dissatisfied investors.

While not absolutely pertinent to the topic assigned to me I would like to make one further observation. In expressing the view that higher interest rates are essential I am not thinking of it so much as a means of preventing the further expansion of private credit. Frankly, that is not the point. Insofar as inflation is concerned this nation is not struggling with the consequences of extra $5 billion or $10 billion of private credit expansion for production purposes. The real struggle on the front of monetary inflation is whether or not the $250 billion of Federal deficit will remain in private hands as interest bearing obligations or be monetized in an effort to support fictitiously low interest rates. I repeat, the greater function that interest rates can perform today and tomorrow is to keep that overwhelming Federal debt in private hands. That is a far more significant challenge than raising the rate to hold a few billion dollars of private credit expansion in check.

My feeling that a natural level of interest rates is higher than the most recent highs and my faith (perhaps blind faith) that the recent "accord" between the Treasury and the Federal means that yields will be permitted to rise in preference to open-market support purchases, governs my recommendations on how currently to arrange your government bond portfolio.

In the first place, how funds should be invested should be related to their future need. If you are accumulating temporary surplus funds which in a few months or in a year or in two years you may be able to invest in mortgage loans, then such funds should be invested in short-term securities where price fluctuations may be relatively minor. The danger of investing in long-term bonds is that price declines may wipe out all or a portion or the interest earned and leave a net return lower than available on short-term obligations.

Short-Term Funds

Alternatives for short-term funds are: (1) 91 day Treasury bills or notes and bonds up to three years; (2) time deposits or certificates of deposit in your Home Loan Banks at 1¼% or 1½% and (3) Federal Home Loan Bank Notes. Treasury bills now yield slightly more than 1½% and up to 1¾% is available on short-term Treasury notes and bonds. In connection with the latter, it must now be recognized that such issues as the 2s of 53/51 and 54/52 may not now be called in which event they may turn out to be longer investments than intended. To me the most attractive of the short-term securities are the Federal Home Bank notes. The newest issue, dated April 2, bears a 2% rate for the short term of 6½ months. There is now available a good variety of Federal Home Loan Bank notes maturing in May, June, August, October and November on which an even distribution of invested funds would yield 1⅞%. By reason of their short maturities the dangers of price decline are but a slight consideration.

Most of the bonds held by savings associations are to provide a secondary liquidity reserve. Because of the difficulty of judging in advance when withdrawals may exceed the inflow of savings it is not easy to say whether this liquidity reserve will, in the end, prove to be short-term or long-term funds. However, with the shifting attitude of savers seeking hedges against inflation and the rapid increase in the turnover of savings in recent months, now appears to be the time to shorten the average term of the investments in the liquidity reserve. Again, for this purpose, the Federal Home Loan bank notes are an attractive issue and I recommend them for consideration in every savings association bond portfolio. I definitely do not recommend conversion of any Victory 2½s into the new 2¾s for liquidity purposes. The 2¾s do not provide any great refuge from future rises in interest rates and, in fact, the full 2¾s will not be earned unless they are held 24 to 29 years, the call and maturity periods. If the ¼% higher coupon is offset against their under-par liquidation value (through the 1½% notes) they would have to be held at least five or six years (assuming conversion at 99) to yield 2½% if the yield pattern remains unchanged. If the yield pattern is a rising one the holding period may be extended to ten or fifteen years before a net yield of 2½% can be realized. For holding periods of five to fifteen years one can do better holding some of the shorter bank-ineligible 2½s. For such a holding period the 2½s of 1937/62 appear most attractive and they are in a maturity range where the passage of time is to their advantage. Their fixed coupon of 2½% affords some protection, in the passage of time against further rises in short-term and intermediate-term yields. Should these increases in yields not materialize then the 2½s of 1967/62 are in an even more favored position.

Of course, if one fears a further rise in yields in the next year or two then neither the bank-ineligible 2½s or the new 2¾s should be held. Aside from my personal belief that yields should rise further, the picture at the moment is too clouded to really know who is in control of the government bond market and what yields may be. In view of this uncertainty it seems wise to take some losses and shorten some of your holdings until the atmosphere clears.

Should Series F or G Bonds Be Purchased?

I no longer like to recommend the series F or G bonds for the investment of a secondary liquidity reserve. In view of the current attitude toward saving and the increased turnover in savings, 12 years is a long time. The probabilities are increasing that such bonds might have to be liquidated before maturity. In that event their redemption schedule and relatively low yield pattern for most of their life is quite unattractive. One could do better holding short or intermediate term issues for yield and, in addition, would be in a much better position to take advantage of rising interest rates, should that develop. In addition, the fact that 30 to nearly 60 days may be required to redeem the F or G bonds does not make them very attractive as an emergency source of funds. However, because of the peculiarities of the F and G bond redemption schedules which provide yields upward to 3¼% to 3½% to maturity, after they have been held several years, I do not recommend redeeming any of these bonds prior to maturity.

A few savings associations have surplus funds invested in securities above their secondary liquidity requirement and which have no other investment outlet. This occurs in areas where the associations have attracted savings somewhat in excess of local home financing available. By the very nature of these funds it is reasonable to invest them primarily for yield and under such circumstances the new 2¾s and the series F and G bonds can be recommended. As between the two, the liquidation provisions for the 2¾s make them a little more attractive than the F or G bonds for long-term investments.

Savings associations which are members of the Federal Home Loan Bank System are required to maintain a 6% liquidity reserve. There are some who feel that since such a reserve will always be required it is proper to invest a portion of that amount in the new 2¾s or series F and G bonds. I remind them that there may be times such as during a period of heavy construction financing activity that they may prefer to have that 6% liquidity reserve entirely uninvested. Accordingly, I do not classify any portion of that 6% reserve as permanent for investment purposes. I believe it would be the better part of wisdom to treat that minimum reserve requirement in the same manner as the remainder of the association's secondary liquidity reserve.

In conclusion, I wish it were possible to see the future of government bond prices and yields with a little more certainty. During the recent years of unqualified price support the management of a bond portfolio has been a relatively easy task. If one could be sure that the United States Treasury and the Federal Reserve "accord" really means that interest rates will be permitted to find their natural level under today's conditions then I feel we could anticipate a higher level of interest rates with reasonable certainty. But the "accord" may not be complete and open-market support purchases or other control devices may continue in use to provide continued support for an artificial interest rate pattern. Until the atmosphere clears a waiting policy in the form of shorter-term holdings is in order.

If, in a year from now, it becomes evident that my judgment was wrong, I hope that you were able to foresee what was right.

MacCoy Named V.-P. Of NY Stock Exch.

The New York Stock Exchange has announced the appointment of C. MacCoy as a Vice-President. The promotion was approved by the Board of Governors


C. MacCoy

Mr MacCoy has been with the Exchange since 1928 when he joined the public relations staff. Following the reorganization of the Exchange in 1938, he was made Assistant Director of the Public Relations Department. He was appointed Assistant Vice-President in July, 1950. His duties will continue to include direction of the Exchange's public relations activities.

NYSE Open Sats. Except in Summer

Recognizing that the volume of business done on Saturdays indicates that the public served by the New York Stock Exchange wishes the Exchange service to be available on Saturdays, the Board of Governors decided not to make any change at this time in the policy of the Exchange to remain open on Saturdays except during the four summer months.

Figures presented to the Board showed that over the last 11 years the volume of business done by the public with members firms on Saturday mornings has exceeded the average hourly volume of business on other days.

The view of the Board of Governors was that this indication of the public's interest in the market on Saturday mornings should be taken into account.

In the poll of membership opinion regarding Saturday closings taken by the Committee, opinions were received from 1,098 members. Of those voting, 447 members, who produced in the aggregate last year 58% of the non-member commission business done on the Exchange, favored continuation of the present policy of remaining open on Saturdays throughout the year except during the four summer months, and 651 members, who produced in the aggregate 42% of the business, favored closing on Saturdays during the entire year.

Inflationary Disinflation

By PAUL EINZIG

Dr. Einzig contends, despite measures taken or proposed to be taken, it is politically impossible under prevailing conditions to bring about disinflation. Says all parties are committed to "full employment" doctrine, and effective attempts at disinflation, which could reduce employment, would thus be avoided.

LONDON, ENG.—All the best brains in Britain as in other countries are preoccupied with the problem of how to deal with the growing menace of inflation. Various devices for mopping up the excessive volume of purchasing power have been urged upon the governments concerned. Some of these disinflationary measures have actually been put into practice. Timid efforts have been made to curtail government expenditure and capital investment programs. Money rates have been raised fractionally, or have been allowed to rise. Some degree of credit restrictions have been adopted. All these and other measures would have to go much further, however, before they could be expected to produce any worthwhile effect. At present inflationary forces easily outweigh disinflationary forces. Nor is any change to be expected in this respect so long as the rearmament race continues.


Dr. Paul Einzig

The truth is that under prevailing conditions it is politically impossible to disinflate effectively. Even before the beginning of rearmament during the second half of 1950, disinflation on an adequate scale would have been impracticable in Britain and in many other countries. For it would have conflicted with the all-powerful demand for the maintenance of full employment. Nowadays it would be political suicide for any political party to declare itself against full employment, or even to show itself lukewarm in its advocacy of full employment. This is the basic fact of the situation. It means that disinflation is only practicable to the extent to which it does not interfere with full employment.

Should a government succeed in mopping up a really large amount of purchasing power—whether by means of a budget surplus or credit restriction, or even by means of a highly successful savings campaign—a stage would be reached sooner or later at which the inadequacy of financial resources would begin to handicap production. The moment that stage is reached disinflation could proceed no further. If manufacturers were informed by their bankers that their loans must be curtailed, they would immediately inform their political friends that, unless the bankers can be induced to change their attitude, it would be necessary for them to dismiss a large number of their workers. The threat of unemployment would be sufficient for the government to decide to reverse its policy and to authorize and encourage the required degree of credit expansion.

As a result of the rearmament drive, the governments have now even more reason for reflating the moment disinflation threatens full employment than they had before the beginning of the Korean conflict. For full employment is now essential not only for the purpose of prosperity but also for the purpose of national security. It is simply inconceivable that the governments engaged in rearmament would now allow firms engaged in the execution of arms contracts, or even firms producing more or less essential civilian goods, to curtail their production for lack of adequate financial resources. Even the production of less essential civilian goods would be sought to be maintained, so long as it does not require raw materials which are in scarce supply. For the governments are anxious to avoid discontent that would arise from the closing down of any factories through lack of credit resources.

The paradoxical situation has thus arisen that any real success of the disinflationary efforts would compel the governments concerned to revert to inflation. No wonder they are not anxious to overdo disinflation, since it is obvious that even if it were to succeed it would defeat its object. So long as disinflation is applied in moderation is pursues a useful task, in that it checks the pace of its progress, or at any rate it moderates that pace. The moment a government would take really energetic disinflationary measures the reversal of its policy would be a mere question of time.

This is the answer to those who think it would be possible to solve the problem by means of financial control. They live in the past when full employment was not considered to be, rightly or wrongly, an economic, social, political and military necessity. Most people nowadays prefer inflation to invasion, or even to widespread unrest due to large-scale unemployment.

Although a certain degree of financial control is necessary and practicable, it has to be accompanied by a much higher degree of physical control. If purchasing power is mopped up, the government will have to ensure that the curtailing effect of disinflation should be directed solely to those branches of activity which are not essential to the rearmament drive or to civilian requirements. This can only be achieved through the application of controls capable of discriminating between the various types of financial requirements. Even in this direction the government could not proceed too far without causing discontent. But provided that the unemployment thus created is absorbed immediately by the increased requirements of essential industries in the same districts the discontent would not assume dangerous proportions.

What matters is that the governments embarking on disinflation should know what they are aiming at. The time when it was sufficient to put up the bank rate and let everything else take care of itself has gone. Disinflation must be planned with care. Otherwise it is bound to become the prelude for a new dose of inflation. To avoid such ups and downs it would be wiser to determine in advance how far and in what directions it is safe to disinflate.

Securities Salesman's Corner

By JOHN DUTTON

If you will stop to think about it for a moment you will possibly agree that the most important commodity that you can offer to your prospective customers is **understanding**. Place yourself in the investor's position and see how he feels about it. What does he want? Isn't it true that he desires some one that **he can trust** to lead him through the labyrinth and the haze which surrounds the investment of his money? Think of the people who will admit to you (if they were honest about it) that they know very little about investing and that they are doing it now with a prayer on their lips and a blind thrust in American Telephone & Telegraph. Think for a moment, too, that this money represents in many cases a lifetime of accumulations with very little opportunity to make it back if it is lost. Of course, I am not referring to the experienced speculator and trader. These people are in a class by themselves and must be treated in a manner entirely different than the investor. But there are so many more investors than traders and I believe they want to be led, **not pushed.**

Before You Can Teach You Must Know

Knowledge is something a man does not need to advertise in order that others may know he has it. But if you don't know what you are doing, you haven't a chance of hiding it. How can you expect others to follow you unless you do understand and appreciate the broad outlines of what constitutes a successful investment program. I am not talking about theory alone, but if you can show people what can be done to improve their safety, obtain better income, develop a sound plan for investment, and if you know enough about securities so that when you are asked a question you don't have to sit and stutter for the answer, you are going to gain confidence. You will gain confidence primarily because of your background of knowledge and your willingness to help. The greater the degree of both which you show to others the more accounts you will open and the better your business will become.

Study Is a Constant Thing

You can never stop learning in the securities business any more so than if you are a doctor. Every day new things are happening. Every hour there are changes of vital importance which affect the values of individual securities. You can't sit on your laurels if you are an investment man. If you do you will lose out. The securities business is a demanding business. Those who know the most **"first,"** collect the prizes.

The other day I called a customer's man with whom I have done some business in the past. He works for one of the nation's leading stock exchange members. They advertise constantly of how anxious they are to give service to their clients. When I asked for a quotation on a certain stock which has been on their board for as long as I can remember, and is right directly in front of this fellow's desk, he told me he was sorry that they didn't have it on the board. I finally persuaded him to look again, and after some controversy he told me the last sale.

On other occasions I have asked for little favors, but this firm's performance has never come up to the promises made in its advertising. There is a grudging attitude of do-it-yourself if you want some information—as a result, I have heard of several cases within the past few months of where customers have taken their accounts to a competing firm.

The salesman and the customer's representative to the public are **the firm.** The only man I know when I go in to talk stocks is the man who takes my order. It isn't the big boss in New York. It is **you.** If you have your hand out in willingness to help your customers and you know this business, it seems to me that your battle is 10% won. The other 90% is work.

Larry A. Higgins

Lawrence (Larry) A. Higgins, 55, of 1409 Lincoln Street, Evanston, died April 15 in a veteran's hospital at Bay Pines, Fla., after a month's illness. He was an ensign in World War I. He was widely known on La Salle Street and had been active in the National Security Traders Association for 26 years. He was a past President of the Chicago Bond Traders Club and since 1927 was Manager of the Trading Department of Hulburd, Warren & Chandler, members of the New York Stock Exchange and other Exchanges. Burial was in Chicago.


Larry A. Higgins

New York Stock Exchange Weekly Firm Changes

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

Proposed transfer of the Exchange membership of Arthur B. Behal to Joseph S. Gruss will be considered by the Exchange on April 26. Mr. Behal will retire from partnership in Gruss & Co. on April 30.

Interest of the late Charles F. Glore in Glore, Forgan & Co. ceased March 31. The Estate of Charles F. Glore was admitted as a limited partner on April 1.

Interest of the late Jose M. Covo in H. Hentz & Co. ceased March 30.

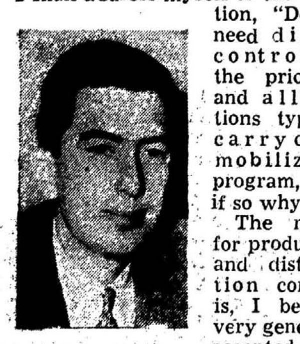
The Use of Production Controls For Mobilization

By HERBERT STEIN*

Economist, Committee for Economic Development

Economist asserts production and distribution controls would be needed even in absence of price controls because of sluggish response of price to an excess of demand. Suggests combination of distribution controls with price rises. Warns against using defense requirements as excuse for retaining controls long after they are justified.

My assignment as I understand it is quite a limited one and I shall try to dispose of it briefly. I shall address myself to the question, "Do we need direct controls of the priorities and allocations type to carry out a mobilization program, and if so why?"



Herbert Stein

The need for production and distribution controls is, I believe, very generally accepted, even by people who think that price-wage controls are unnecessary and undesirable. I believe this general opinion is correct. But asking why it is correct may be helpful in deciding how far we must go with such controls and under what conditions we can get rid of them.

Our economy is basically organized on the principle that anyone able and willing to pay the price can buy anything, and won't have to use compulsion to do so. In general, this principle works. Then why can't the government, if it wants ten million tons of steel badly next quarter, go out and buy it? Certainly the government has more money than anyone else. If the government and private purchasers want to buy more steel at the existing price than is available, the price will presumably rise, discouraging some of the purchasers. And since the government can afford to pay a higher price than anyone else, it won't be the government that is priced out of the market.

The Stickiness of Prices

The trouble with this picture, as I see it, is that in some markets and in some circumstances, prices don't rise fast enough and far enough to clear the market. Prices remain relatively stable despite an excess of demand, and a backlog of orders piles up. Of course, the available supply is parcelled out somehow. But it is not parcelled out on the basis of willingness to pay more than the quoted price, except for marginal accounts that flow through grey markets. It goes to the oldest or most valued customers, or to the orders longest on the books, or it may be allotted on a proration basis. That is, there is a private rationing system. And the fact that the government and its contractors are standing there with the longest purse does not assure them of delivery in this private rationing system. In fact, the munitions industry is likely to be an especially disfavored customer.

This kind of thing can happen whenever an industry is operating at capacity. It seems to have been true in the spring of 1950, before Korea, that defense expenditures were lagging because as private demand increased defense contractors had trouble getting deliveries. The occasional existence of such shortages in ordinary times does not necessarily require controls, even if they impinge to some extent on defense procurement. In ordinary times it is not a matter of crucial importance if tank deliveries lag three or four months behind schedule. But in an emergency, when schedules are for delivery as fast as possible, and adherence to schedule is considered vital, the government must supplement its buying power by direct controls to obtain supplies in cases where willingness to pay the highest price is not sufficient assurance.

*Transcript of a statement by Mr. Stein before Conference on The Economics of Mobilization, sponsored by the University of Chicago Law School, White Sulphur Springs, West Virginia, April 7, 1951.

Excess Demand the Crux

The fact of shortages, in the sense that prices do not rise sufficiently to eliminate an excess of demand, is, in my opinion, the basic reason why production controls are needed to carry out the defense program. The shortages would exist and the controls would be needed even if we had an ideal anti-inflationary monetary-fiscal program. Suppose that by taxes and general credit restraints we restricted private demand sufficiently to hold total demand constant while the military program rises. Still there would be a shift in the pattern of demand, and an increase of demand in those parts of the economy where the military demand is especially heavy. To avoid shortages in those areas, and to assure delivery to the government and everyone else willing to pay the price, the prices in those areas must rise. And where prices do not rise sufficiently, production and distribution controls will be needed.

Also, I think, the controls would be needed even if we didn't have government price control. That is, even if there are no government limitations on price increases, the voluntary practices of private business would in some cases result in a sluggish response of price to an excess of demand.

But of course inflationary pressure resulting from inadequate monetary-fiscal policy, combined with general price controls, will make the need for production controls more widespread and more persistent. The inflationary pressure will increase the number and size of the price increases needed to drive competing demands out of the market and permit the government to satisfy its military requirements. And the price controls will prevent those price increases from coming about, whether rapidly or slowly, as they would in an imperfect but free market.

Should Be Limited and Temporary

Given an adequate general anti-inflationary policy, without price controls, we should expect the need for production and distribution controls to be limited and temporary. That is, even where prices are sluggish they will tend to rise in the course of time to clear the market. In our present program, of course, the dominant factors in ending the need for controls will be the reduction of military requirements after a bulge in 1952 or 1953 and the increase in supplies of scarce materials. But there is no reason to think that we could or should increase supplies enough to satisfy all the demands that would exist for basic materials at present prices if we go on inflating money incomes at a rapid rate.

This point may be illustrated by a story that appeared recently in the "Wall Street Journal." This story reported that the responsible people in government expected that it would be possible to dispense with production controls in 1955. According to their calculations civilian supplies of basic materials would be back to pre-Korean levels by 1953. But civilian demand would have increased so much that shortages would persist into 1955. However, whether the shortages end in 1953 or 1955 or 1960 will depend in part upon how much we expand civilian money incomes and how much we hold down prices of the scarce materials.

I would like to raise two questions about this interpretation of controls as a means of supplementing the allocating function of price where prices do not rise enough to do the whole job. I am suggesting that we ought to have the controls and also ought to allow the prices to rise, if they will, to reduce or eliminate the need for the controls. It may be asked whether a distribution control system could work if prices were left free to rise. Would supplies leak out from under the control system, away from the rated orders, if non-essential users could be charged higher prices. The system might break down if suppliers could charge more on unrated orders than on rated orders. But I do not think the system would break down if suppliers were free to raise prices on rated orders and unrated orders alike. Some control might be needed to prevent discrimination, but not to prevent non-discriminatory price increases. Both in 1940-41 and in 1950 priorities controls operated without price controls.

A somewhat contrary question is whether prices would or could go up if we had allocation controls. For example, it is sometimes suggested in the case of meat that rationing would hold down the price without any direct price controls. I believe that is probably correct. But I do not believe that the kinds of allocations systems we use for materials would prevent their prices from rising. The most likely and desirable allocations systems in a program of the now projected size would be open ended. That is, the supply would not be exhaustively allocated. Deliveries against rated or allocated orders would be compulsory, but after that there would be a scramble area where deliveries could be freely made. Demand in the scramble area will exceed the supply, so sellers won't have to fear that they will be unable to sell their whole output if they raise the price.

Even if there is no scramble area and the supply is exhaustively allocated, I believe there will be a tendency for prices to rise, if it is the policy of the authorities to issue enough allocations to absorb the whole supply. If a price rise should curtail demand, allocations would be granted on requests that would have otherwise been rejected. As long as there is an unsatisfied margin of requests for allocations, the price can rise.

Warns of Control Extension

Although production and distribution controls are authorized and imposed to meet a real need of the defense program, once they are in existence there is very strong pressure to use them for a variety of other purposes. Thus we get production controls used to aid small business, to serve as a subsitute for credit controls, to undo the mess caused by price controls, or just to direct production in a way that someone thinks is better—tin for soup cans but not for beer cans. All this is rationalized in the name of defense. And it is obviously difficult to find anything that does not have something to do with defense, broadly interpreted. If these incidental uses of controls do not go on beyond the time when direct defense needs require controls anyway, possibly no great harm is done. However, the danger is that a broad interpretation of the requirements of defense will serve as justification for controls long after the need for them to assist the strictly military program has passed. The more definite and extensive our notions about the particular pattern of resource use that is necessary for national defense, aside from the resource use the government itself pays for, the more necessity there will be for controls to assure achievement of that pattern.

Railroad Securities

Gulf, Mobile & Ohio

As is to be expected throughout most of this year, favorable dividend actions continue to characterize the railroad list. The latest to join the parade was Gulf, Mobile & Ohio. Directors last week, for the first time since the inception of the present company, put the common on a regular dividend basis. Four quarterly dividends of $0.50 each were declared. This $2.00 annual rate, which incidentally is quite conservative in relation to current and anticipated earnings, compares with a total of $1.50 a share paid last year and $0.50 paid in each of the years 1949 and 1948.

One of the reasons why dividends have been kept to such low levels up to now has been the road's ambitious equipment program. The entire motive power fleet has been replaced in recent years with diesel locomotives—the road was the first of the major carriers to be 100% dieselized. Also, a large amount of new rolling stock has been purchased in recent years. Average age of Gulf's freight equipment is probably the lowest in the country. Moreover, the equipment program is still going on. Not only has the purchase of this new equipment required large cash outlays as down payments, but, also, a fairly heavy schedule of annual equipment obligation maturities was necessarily assumed. This condition was further aggravated by the fact that the company has serial bonds outstanding.

This cash situation is now to be alleviated to a considerable degree. Certain real estate in Chicago has been sold to the Government as a Post Office site. Proceeds, which the company will receive after July 1, will amount to roundly $6,700,000. These funds will be used to pay off the balance of $2,733,970 of temporary conditional sales contracts entered into last year and to pay the full purchase price of certain new equipment purchased this year. Thus, equipment maturities will be held to approximately $3,000,000 annually. Serial Collateral Trust bonds mature in the amount of $383,000 this year and next. In comparison with these annual maturity requirements of slightly more than $3,400,000, equipment amortization and depreciation last year amounted to $3,408,011 and there was an additional cushion of $804,684 represented by depreciation of Way and Structures.

Gulf, Mobile & Ohio's equipment modernization program, and particularly the dieselization, has paid off well in increased efficiency. Gross Ton Miles per Freight Train Mile is generally considered the best single measure of railroad operating efficiency. Among the major carriers Gulf, Mobile & Ohio has shown the greatest improvement in this important index in the interim since 1940. Moreover, actual Gross Ton Miles per Train Hour last year (59,690) were by a considerable margin the highest reported in the Southern Region and well up among the highest in the entire country. The uptrend has been continuing this year.

The improved operating efficiency has been reflected in a drastic cut in the transportation ratio, representing the actual cost of moving and handling the traffic. Last year the transportation costs absorbed only 30.1 cents out of every revenue dollar. This compared with 36.9 cents for the industry as a whole. Moreover, in the first two months of 1951 there was a further cut of 2.2 points in this important ratio, down to 31.2%. Almost certainly for the year as a whole the road will join that select group (five roads last year) able to show a transportation ratio below 30%.

Earnings on the common last year amounted to $7.20 a share and for the first two months of 1951 there was a year-to-year gain of about $0.40 a share. This is a highly gratifying performance in the face of the February railroad strikes. On the basis of the performance so far and the traffic outlook over the balance of the period, it seems possible that the company may earn as much as $9.00 or $10.00 in 1951, giving more than adequate protection to the recently instituted dividend.

Twin City Bond Club Announces Picnic

ST. PAUL, Minn.—The Twin City Bond Club announces its 30th Annual Twin City Bond Club Picnic and Golf Tournament, to be held on Thursday, June 14, 1951, at the White Bear Yacht Club.

The usual pre-picnic get-together is being scheduled for Wednesday evening, June 13, and formal announcements and invitations will be in the mail shortly.

James S. Graham, of Allison-Williams Co., St. Paul, Minn., is President of the Twin City Bond Club. Paul Maley, of the First National Bank of St. Paul, is Chairman of the Picnic Committee.

Baker, Watts to Admit C. G. Lord as Partners

BALTIMORE, Md. — Baker, Watts & Co., Calvert & Redwood Streets, members of the New York Stock Exchange, will admit Charles G. Lord to partnership on May 1.

MEMBERS OF

NATIONAL SECURITY TRADERS ASSOCIATION INC.

THE SECURITY TRADERS ASSOCIATION
OF NEW YORK, INC.

15th ANNUAL DINNER

AT WALDORF-ASTORIA
APRIL 13, 1951

President

Leslie Barbier
G. A. Saxton & Co., Inc.

First Vice-President

Harry L. Arnold
du Pont, Homsey & Company

Second Vice-President

John J. Meyers, Jr.
Gordon Graves & Co.

Treasurer

George V. Hunt
Starkweather & Co.

Secretary

Alfred F. Tisch
Fitzgerald & Co., Inc.

DIRECTORS

Joseph C. Eagan
Frank C. Masterson & Co.

James F. FitzGerald
W. L. Canady & Co., Inc.

John S. French
A. C. Allyn and Company, Inc.

Richard H. Goodman
Shields & Company

D. Raymond Kenney
D. Raymond Kenney & Co.

Nathan A. Krumholz
Siegel & Co.

T. Frank Mackessy
Abbott, Proctor & Paine

John M. Mayer
Merrill Lynch, Pierce, Fenner & Beane

John F. McLaughlin
McLaughlin, Reuss & Co.

John D. Ohlandt, Jr.
J. Arthur Warner & Co., Incorporated

Security Traders Association of New York

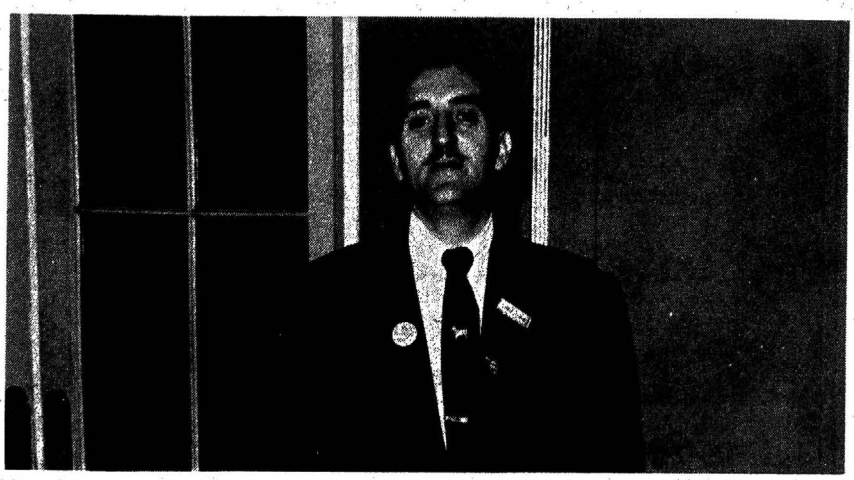
Everett R. Rubien, *Dean Witter & Co.;* Charles Bruggeman, *Dean Witter & Co.;* Louis B. Roth, *Chase National Bank of the City of New York;* Bertrand Foley, *Dean Witter & Co.;* Irvin Whitchill, *Dean Witter & Co.;* John D. Hines, *Dean Witter & Co.*

Leslie Barbier, *G. A. Saxton & Co., Inc.;* Peter Byrne, Regional Administrator, *Securities and Exchange Commission*

Clifton B. Smith, *Francis I. du Pont & Co.;* Herb Seijas, *J. F. Reilly & Co., Incorporated;* Edwin J. Markham, *Wertheim & Co.;* Ed Cohan, *Pershing & Co.;* Harold B. Smith, *Pershing & Co.*

John F. McLaughlin, *McLaughlin, Reuss & Co.;* Arnold J. Wechsler, *Ogden, Weschler & Co.;* Charles O'Brien Murphy III, *Merrill Lynch, Pierce, Fenner & Beane;* Joseph Eagan, *Frank C. Masterson & Co.*

Edwin L. Beck, *Commercial & Financial Chronicle;* Arthur Schwartz, *Bache & Co.*



D. Raymond Kenney, *D. Raymond Kenney & Co.*

Fifteenth Annual Dinner

Irwin R. Frumberg, *Securities and Exchange Commission,* New York City; Abraham M. Metz, New York City; Richard B. McEntire, Commissioner, *Securities and Exchange Commission,* Washington

Louis E. Walker, *National Quotation Bureau;* John M. Mayer, *Merrill Lynch, Pierce, Fenner & Beane;* Everett W. Snyder, *E. W. Snyder and Co.,* Syracuse, N. Y.; Daniel G. Mullin, *Tucker, Anthony & Co.*

Robert N. Kullman, *Carl M. Loeb, Rhoades & Co.;* Philip C. Kullman, Jr., *John J. O'Kane, Jr. & Co.;* H. Russell Hastings, *Crouse & Company,* Detroit, Mich.; Mort Cayne, *Cayne & Co.,* Cleveland, Secretary of the National Security Traders Association

Ben Van Keegan, *Frank C. Masterson & Co.;* George Elder, *George A. McDowell & Co.,* Detroit; Harry D. Casper, *John J. O'Kane, Jr. & Co.;* Hoy Meyer, *Gruntal & Co.;* Al Fenstermacher, *M. M. Freeman & Co., Inc.,* Philadelphia

John D. Ohlandt, Jr., *J. Arthur Warner & Co., Incorporated,* New York; Joseph M. Kelly, *J. Arthur Warner & Co., Incorporated,* New York; Robert N. Greene, *J. Arthur Warner & Co., Incorporated,* Philadelphia; John P. Germain, *J. Arthur Warner & Co., Incorporated,* New York; David R. Mitchell, *Hill, Thompson & Co., Inc.,* New York

Daniel J. Donovan, *J. G. White & Company, Inc.;* Wm. Patrick Neacy, *Kugel, Stone & Co., Inc.;* E. J. O'Connell, *C. F. Childs and Company;* John J. Carleton, *First National Bank of Chicago,* New York; Herbert B. Jones, *Blair, Rollins & Co., Incorporated;* Cornelius B. O'Keefe, *First National Bank of Chicago,* New York

Friday, April 13, 1951

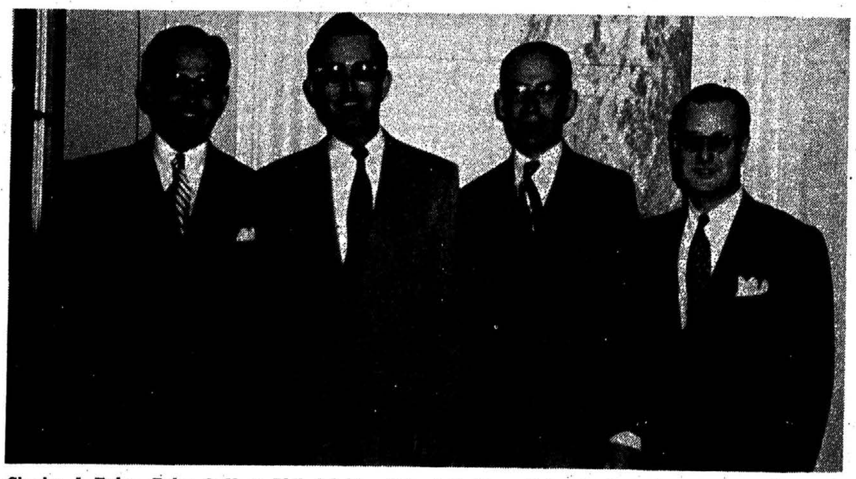
Irwin Mitchell, Norman Duval, George Seager, and Eric Moederle, all of *Walston, Hoffman & Goodwin*

Charles A. Bruggeman, and Joseph P. McGinley, both of *Sinclair Oil Co.*

I. Frank, *Frank & Company;* Bernie Weissman, *Siegel & Co.;* Abraham Strauss, *Strauss Bros., Inc.;* Hal Murphy, *"Commercial & Financial Chronicle"*

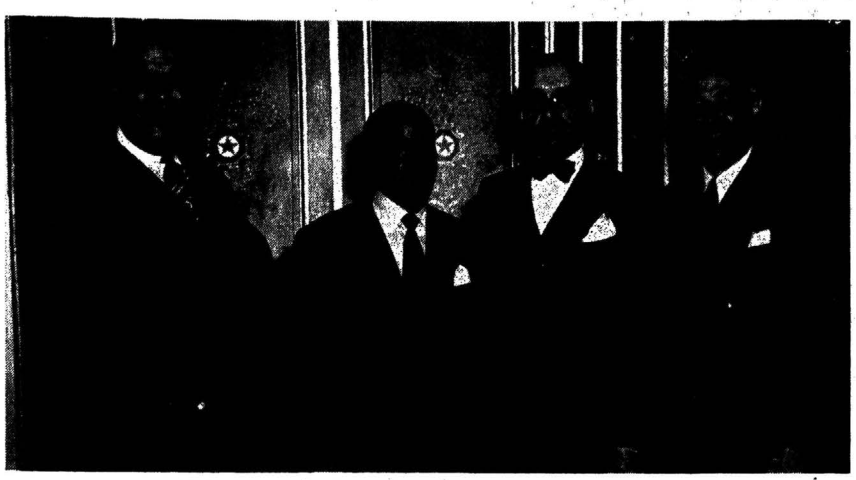
Shelly Pierce, *"New York Journal of Commerce";* W. D. O'Connor, *Fitzgerald & Company, Inc.;* C. S. Bates, *Draper, Sears & Co.,* Boston

Michael J. Heaney, *Michael J. Heaney & Co.;* Chester B. Keating, *Stern, Lauer & Co.;* John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.;* James V. Campbell, *H. C. Wainwright & Co.*



Charles J. Euler, *Euler & Hart,* Philadelphia; Robert F. Hart, *Euler & Hart,* Philadelphia; P. Judson Munn, *Jackson & Company, Inc.,* Boston; Ed Abele, *Reynolds & Co.,* Philadelphia

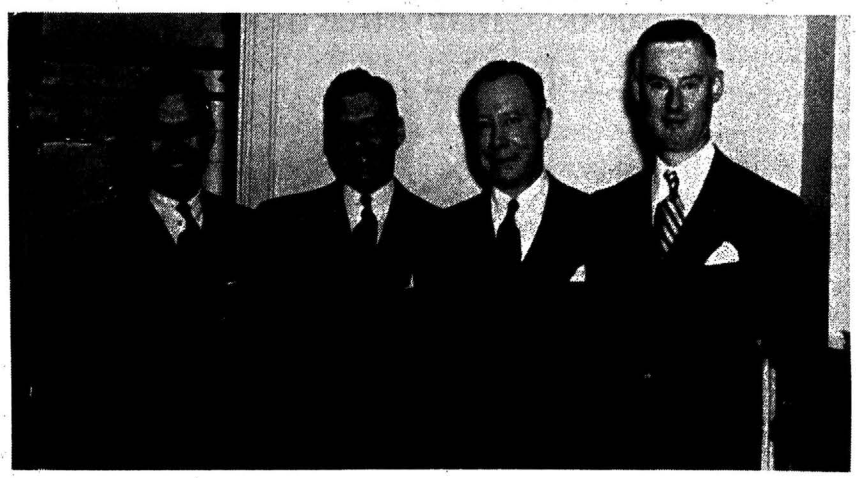
At the Waldorf-Astoria



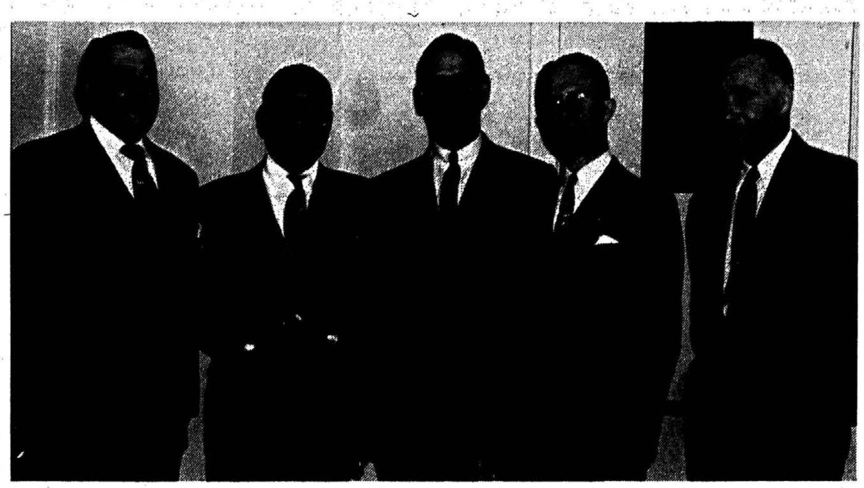
Alec Godfrey, *Seminole Oil Co.*, New York City; Irving A. Greene, *Greene and Company;* Jay L. Quigley, *Quigley & Co., Inc.*, Cleveland; David Morris, *David Morris & Co.*, President of the New York Security Dealers Association

Edward H. Welch, *Sincere and Company*, Chicago; T. M. Wakeley *A. C. Allyn and Company, Incorporated*, Chicago; Martin Key, *J. C. Bradford & Co.*, Nashville, Tenn.; H. Frank Burkholder, *Equitable Securities Corporation*, Nashville

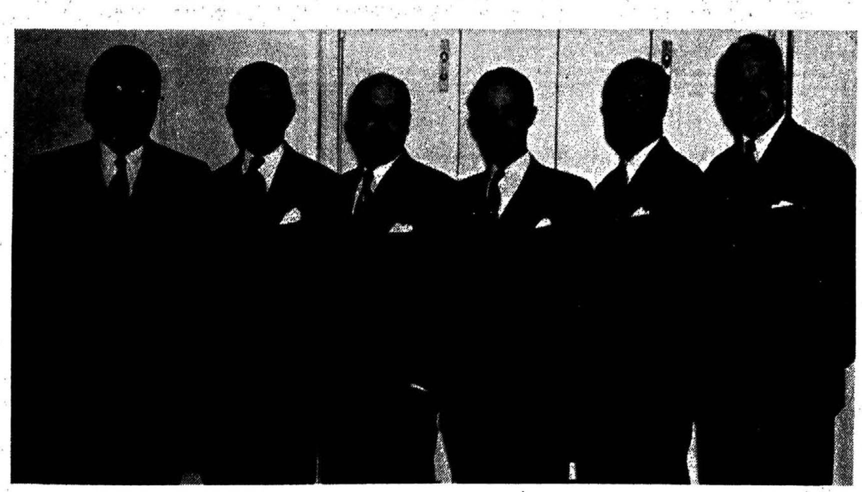
Ray Linn, *Lord, Abbett & Co.;* J. L. Schmitt, *Income Funds*, New Haven, Conn.; O. D. Griffin, *Griffin, Kuipers & Co.;* Thomas J. Hickey, *J. W. Sparks & Co.*



Kenneth L. Stanford, *F. S. Smithers & Co.;* Henry G. Kuipers, *Griffin, Kuipers & Co.;* James E. McConnell, *King Merritt & Co., Inc.;* Charles Jann, *Estabrook & Co.*



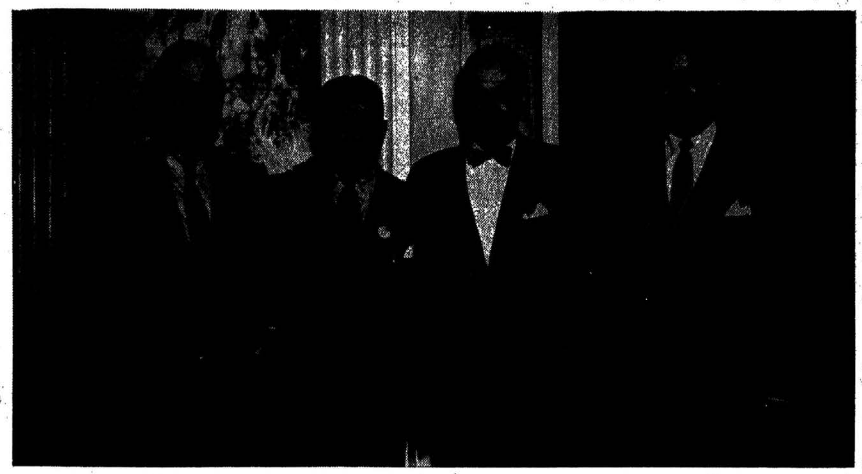
Alfred F. Tisch, *Fitzgerald & Company, Inc.;* John Wasserman, *Asiel & Co.;* Gus Levy, *Goldman, Sachs & Co.;* George A. Searight, *Eisele & King, Libaire, Stout & Co.;* Charles E. Shipman, *Halsey, Stuart & Co. Inc.*



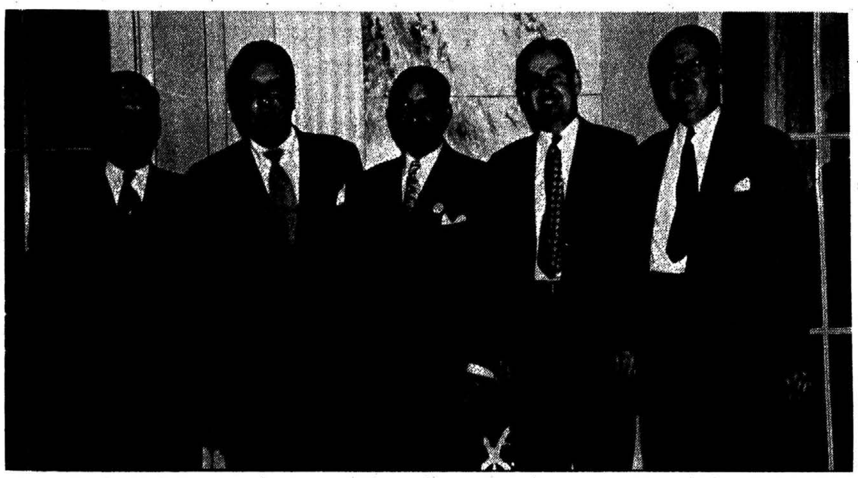
Stephen G. McKeon, *Chas. W. Scranton & Co.*, New Haven; George J. Dineen, *Coggeshall & Hicks;* Joseph P. Morrissey, *Richard J. Buck & Co.;* James P. McCabe, *Kugel, Stone & Co., Inc.;* Wm. F. Sweeney, *National City Bank of New York;* J. R. Garvin, *C. J. Devine & Co.*

Fifteen Hundred in Attendance

Murray L. Barysh, *Ernst & Co.;* Ted Young, *Theodore Young & Co.;* Max Barysh, *Ernst & Co.;* Michael Voccoli, *Charles King & Co.;* Jack Sullivan, *Merrill Lynch, Pierce, Fenner & Beane*

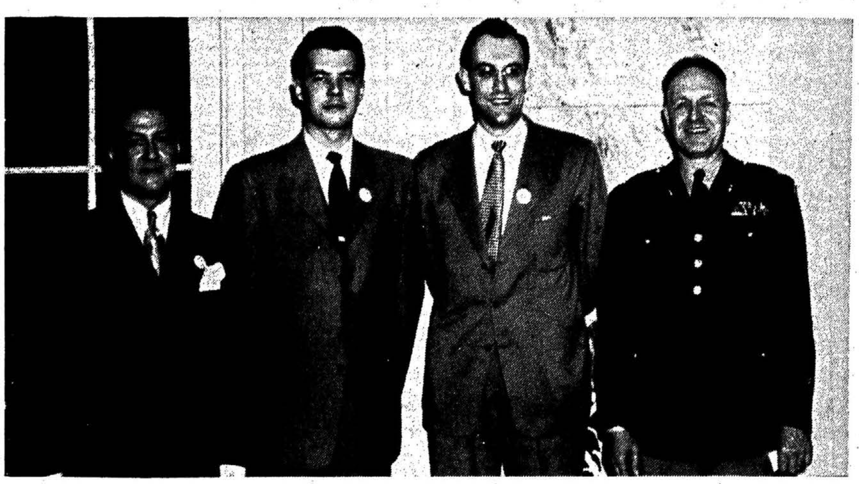


Charles King, *Charles King & Co.;* William Schmidt, *Laird, Bissell & Meeds;* Stanley Pelz, *Stanley Pelz & Co.;* Al Powell, *Alfred L. Powell Company*

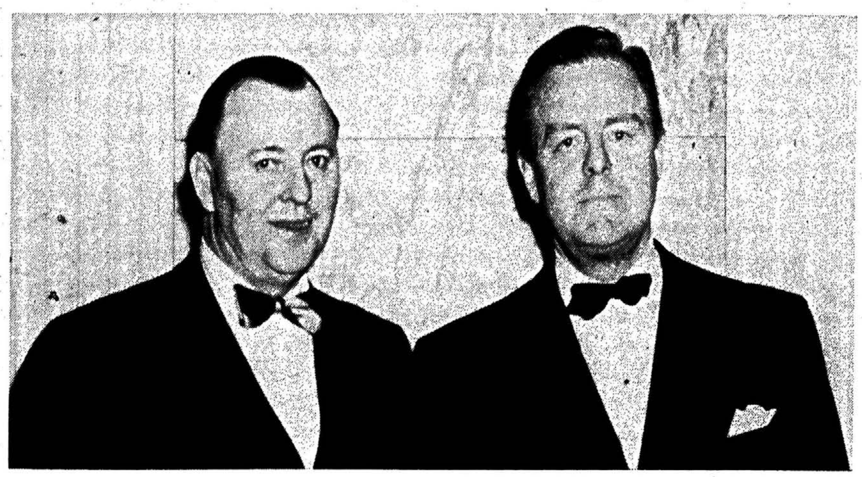


Larry Wren, *Allen & Company;* Edward M. Hallam, *Bonner & Gregory;* Gene Stark, *Merrill Lynch, Pierce, Fenner & Beane;* Maurits Johnson, *G. H. Walker & Co.,* Bridgeport, Conn.; Ed Gutberlet, *Paine, Webber, Jackson & Curtis*

Barney Clancy, *Troster, Singer & Co.;* Ernie Lienhard, *Troster, Singer & Co.;* Sam De Socio, *L. H. Ingraham & Co.;* Larry Ensor, *Stein Bros. & Boyce,* Baltimore; Morton Weiss, *J. Arthur Warner & Co., Inc.;* Don Daly, *Walston, Hoffman & Goodwin*



Martin King, *Sutro Bros. & Co.;* Frank Walters, *Paine, Webber, Jackson & Curtis;* Charlie Bodie, *Stein Bros. & Boyce,* Baltimore, Md.; Col. Oliver J. Troster, *Troster, Singer & Co.*



Walter F. Tellier, *Tellier & Co.;* Thomas L. Hume, *Thomas L. Hume Sons, Inc.,* Washington, D. C.

Joe Rinaldi, *Lerner & Co.,* Boston; Harry Zeeman, *Carl Marks & Co. Inc.;* Hans Jacobson, *Sutro Bros. & Co.*

Norris J. Roberts, *Englander & Co.;* Sam Englander, *Englander & Co.;* Larry J. Colfer, *Rufus Waples & Co.,* Philadelphia; Jack Weller, *Herbert H. Blizzard & Co.,* Philadelphia; Frank T. Harrington, *H. D. Knox & Co., Inc.,* Boston

Many Out of Town Guests

Bob Topol, *Greene and Company;* Walter F. Tellier, *Tellier & Co.*

Leslie B. Swan and Edward C. McNulty, *Chas. W. Scranton & Co.,* New Haven, Conn.

Soren D. Nielsen, *New York Hanseatic Corporation;* Hans E. Ben, *New York Hanseatic Corporation;* Bill Jones, *Chemical Bank & Trust Co.;* Lester Frenkel, *Gersten & Frenkel*

Nat Krumholz, *Siegel & Co.;* Bill McCullen, *Hendricks & Eastwood, Inc.,* Philadelphia; Norman C. Schmidt, c/o *Clarence A. Goodelle,* Syracuse, N. Y.

Maurice Hart, *New York Hanseatic Corporation;* Edward I. Becker, Robert D. Ogden, William McKeever, and Joseph Hayes, all of *Reynolds & Co.*

George Leone, *Leone & Pollack;* Sal Rappa, *F. S. Moseley & Co.;* John French, *A. C. Allyn and Company, Inc.;* B. W. Pizzini, *B. W. Pizzini & Co., Inc.*

John M. Hudson, *Thayer, Baker & Co.,* Philadelphia; John F. Egan, *First California Company,* San Francisco, President of the National Security Traders Association; Tony Lund, *Securities and Exchange Commission,* Washington, D. C.; Lex Jolley, *Johnson, Lane, Space & Co., Inc.,* Atlanta, Ga.; Harry L. Arnold, *du Pont, Homsey & Company,* New York

Richard B. McEntire, Commissioner, *Securities and Exchange Commission,* Washington, D. C.; Abner Goldstone, guest; Bill Moran, *Securities and Exchange Commission,* New York; Thomas J. Costello, New York *Herald Tribune*

Gala Program of Entertainment

Herman Frankel, *Singer, Bean & Mackie, Inc.*; Ely Batkin, *Batkin & Co.*; Frank Ginberg, *Frank Ginberg & Co.*; Robert Strauss, *Daniel F. Rice and Company*, Chicago; Frank Boyce, *Boyce & Co.*; P. Fred Fox, *P. F. Fox & Co.*

Peter Brochu, *Allen & Company*; James V. Torpie, *Torpie & Saltzman*; Mike Cappa, *Bendix, Luitweiler & Co.*; Tom Greenberg, *C. E. Unterberg & Co.*; Fred Gearhart, *Gearhart, Kinnard & Otis, Incorporated*; Jules Bean, *Singer, Bean & Mackie, Inc.*

Committee Chairmen

ADVERTISING

D. Raymond Kenney
D. Raymond Kenney & Co.

ARRANGEMENTS

Daniel G. Mullin
Tucker, Anthony & Co.

AUDITING

Berger Egenes
Merrill Lynch, Pierce, Fenner & Beane

BY-LAWS

S. L. Roggenburg
Roggenburg & Co.

EMPLOYMENT

Arnold J. Wechsler
Ogden, Wechsler & Co.

MEMBERSHIP

C. O'B. Murphy III
Merrill Lynch, Pierce, Fenner & Beane

MUNICIPAL

Paris S. Russell, Jr.
Glore, Forgan & Co.

NOMINATING RECEPTION

John M. Mayer
Merrill Lynch, Pierce, Fenner & Beane

PUBLICITY

W. D. O'Connor
Fitzgerald & Company, Inc.

SPORTS

Harry D. Casper
John J. O'Kane, Jr. & Co.

TAX & LEGISLATION

P. Fred Fox
P. F. Fox & Co.

TRANSPORTATION

Walter F. Saunders
Dominion Securities Corporation

VETERANS

Elmer E. Myers
George B. Wallace & Co.

Pronounced Huge Success

Gerard Burchard, *Charles King & Co.*; Gordon Taylor, *Milner, Ross & Co.*, Toronto; Herbert Hipkins, *Charles King & Co.*; Eddie Salthouse, *Greenshields & Co.*, Montreal; Bob King, *Charles King & Co.*; Bill Eiger, *Goodbody & Co.*

Bill Boggs, *Hill, Thompson & Co., Inc.*; H. H. Van Meter, *Hiscox, Van Meter & Co., Inc.*, Philadelphia; Samuel E. Magid, *Hill, Thompson & Co., Inc.*; Fred Harson, *Fraser, Phelps & Co.*, Providence, R. I.; A. G. Hiscox, *Hiscox, Van Meter & Co., Inc.*, Philadelphia

Tom McGowan, Andy Riggio, Al Purkiss, Joe Alberti, and Don Daly, all of *Walston, Hoffman & Goodwin*

John Latshaw, *Uhlmann & Latshaw*, Kansas City, Mo.; Henry Oetjen, *McGinnis & Company*; Barney Nieman, *Carl Marks & Co., Inc.*; Charles Zingraf, *Laurence M. Marks & Co.*; Bill McGovern, *Uhlmann & Latshaw*, New York City

The Effect of War on Real Estate

By MORRIS M. BLAIR*
Professor of Economics and Statistics,
The University of Tulsa

Professor Blair, pointing out war impinges on real estate activities through market channels of demand, supply, and price, analyzes effects of each of these factors. Holds building side of real estate economy finds itself in a squeeze between rapidly expanding demand and an equally rapidly contracting supply of materials, with resulting higher prices and declining housing volume. Predicts, if war becomes general, demand for all kinds of real estate will increase at a much more rapid rate than its supply.

War is the most stimulating social activity of man. Just as an individual caught in a fire, whirlpool or other great peril exerts every energy to save himself, so in war does the national group rise in its full might against national danger. War is not directly a creative activity. It is based on destruction. But its secondary results are always highly exciting and usually disruptive to the peacetime economy.


Dr. M. M. Blair

Psychologically, war drives men to mental activities, social judgments and moral standards which they would never experience in the peaceful pursuits of life. Physically it impells them to volumes of production, hours of labor and working and living conditions which they ordinarily consider unbearable. When most families have some member in the armed services, and casualty lists are mounting, the usual standards of behavior and effort are modified by more elemental and immediate considerations. These conditions affect every human activity from making love and quick marriages to appraising and exchanging real estate.

War impinges on real estate activities through the regular channels of the market—demand, supply and price—all stimulated by hurry and inflation. Its careless haste and rising prices cloud the judgment of the participants with lack of facts, distorted data and untenable premises. Temporary and unusual conditions are often considered to be permanent, and a passing fad or fancy accepted as a longtime or fundamental change. Since many of these changed conditions are new, they are either overlooked or misinterpreted as phases of peacetime principles with which they have little or no real similarity or connection.

*An address by Dr. Blair at the Regional Conference of the American Institute of Real Estate Appraisers in Kansas City, Mo., March 30, 1951.

Demand

War changes in demand are both quantitative and locational. If the war is as long as four to six years, there will be in the United States an increase of from six to ten millions in total population and with the more rapid marriage rate in war, from two to three millions of new families. This stimulation in population, families, births and dependents calls for more housing for the civilian population. Single family units, apartments, and hotels, all are required in larger numbers.

It is yet easy to recall how in World War II two and sometimes three families were crowded into space originally designed for one by improvising dining rooms as sleeping quarters and with multiple family use of a single bath room. Apartment houses built for four families were forced to accommodate six or more. Hotel rooms were booked for military and preferential guests so far in advance that they were almost closed to civilian use.

While the total nationwide demand increased rapidly, it was often accentuated locally by the large intra-national population movements. More than one-tenth of the civilian population changed their location during World War II. Add to this the military population movements and we have more than one-fifth of our people, or 25,000,000, changing their location in less than five years. The hurried demand of total national expansion was seriously aggravated by excessive local congestion.

These population movements were generally from the center to the periphery of the nation. A few examples of war production and mobilization centers will illustrate this point. (Table I.)

A large part of the total increase of the decade for these centers occurred during the five years of the War. More than 1,600,000 persons had to be supplied additional living quarters in these eleven cities alone. There were hundreds of other smaller centers of production which had smaller absolute increases, but as large or larger percentage changes. If the present conflict flares into a full World War III, similar or even greater congestions may take place.

TABLE I

Population Changes—1940 to 1950

*City—	Absolute Increase	% Change
Los Angeles	453,000	30.14
Detroit	215,000	13.25
Houston	210,000	54.56
San Antonio	153,000	60.20
San Diego	118,000	58.00
Fort Worth	100,000	56.00
Seattle	94,000	25.5
Baton Rouge	89,000	257.00
Long Beach	79,000	48.00
Wichita	51,000	44.70
Corpus Christi	51,000	88.60
	1,613,000	

*U. S. Decennial Census, 1950.

TABLE II

***Building Statistics: 1939-1945**

(Millions of Dollars)

	Total Building	Public Building— Total	Nonresidential	Military & Naval
1939	$10,900	$2,499	$859	$125
1940	11,600	2,652	556	385
1941	15,200	5,064	1,584	1,620
1942	17,800	10,405	3,653	5,016
1943	12,000	6,040	1,805	2,550
1944	8,600	2,313	638	837
1945	9,800	2,092	652	690

*U. S. Statistical Abstract, 1949, p. 802.

TABLE III

Increases in Purchasing Power and Production

	Factory Payrolls (Billions)	Corporation Profits After Taxes (Billions)	Compensation of Employees (Billions)	Rental Income (Billions)	Total Income (Billions)	Index of Production %
1940	$113.6	$6.4	$64.3	$4.3	$103.8	125
1945	293.5	8.5	117.1	6.6	180.3	203
1950	412.4	21.9	155.2	7.4	244.1	200

Business and production facilities for the nation as a whole, as well as the more congested areas, will be much overcrowded and will be expanded as much as available materials will permit.

War requirements for offices, factories, shipyards, munition plants, depots and other military installations will be perhaps as large as in the last war.

Agriculture

War is a glutton for resources. During World War I the acreage planted to corn rose 2.5%, that to wheat 12.0% and for oats 9.5%. In World War II the acreage did not expand as much as did the demand for commercial fertilizers which rose from 7.5 million tons in 1939 to 11.5 million tons in 1943 and 13.2 in 1945. The extent of the increase in the demand for agricultural products is somewhat indicated by the fact that gross farm income rose from 10,547 millions of dollars in 1939 to 25,434 millions of dollars in 1945. The index of the actual physical production of agriculture increased from 106 in 1939 to 136 in 1944 and 133 in 1945.

Minerals

War is even more demanding on minerals than on farm products. During World War I the production of aluminum rose 230.0%, copper 35.0%, iron 37.0%, lead 10.0%, zinc 48.0%, coke 30.0%, coal 18.0% and lumber 24.0%. So great was the demand for iron ore in World War II that the richer mines of the Mesabi Range, our largest single source of supply, were in four years reduced to a remaining life of less than ten years; and great impetus was given to opening foreign sources, especially in Canada and Venezuela.

Petroleum, natural gas, stone, fire clay, sulfuric acid, sulphur and all other basic resources were drawn upon even more than were the metals.

All these necessary products come from land which is limited in supply; and as war demand expands faster than supply, the margin of extraction is lowered, poorer grades are used, costs rise, prices rise and the demand for land increases still more. In any case the demand for real estate in war tends to increase much faster than supply. Part of the result of this is temporary and will pass with the end of the war; but part of it, and in some cases a large part of it, is permanent and will affect the price of real estate through all the future.

The exhaustion of our richest iron, copper, lead, zinc and bauxite mines will compel us to use inferior ores permanently at higher costs and prices. Land and mines which were formerly submarginal have now become profitable and are sought on the real estate market. This same principle applies to agricultural areas and urban sites as well as to mineral lands.

The effect of war on the real estate business arises not so much from the abnormal expansion of demand as it does from the greater limitations on supply. For those sections of the nation which are losing population, and even for those in which the population remains stationary, the problem can be passed temporarily by the compressing of present population into available units. For such areas this solution is not especially painful for periods of from four to six years. But for those areas in which population, due to war activities, is rapidly expanding, great inconvenience and even suffering result, which in turn reduce the efficiency of war production.

Restriction on the building of new housing, however, cannot be avoided during a major war especially in congested war production centers. The immediate need for munitions is imperative. Housing must wait whenever it can. The choices are alternative only, and the defeat of the enemy is a higher present utility than the comfort of the civilian population.

The limitations on supply come from two sources: (1) the scarcity of physical materials available for residential building and (2) the enforcement of governmental controls. The first of these could be overcome to some degree by raising prices if the controls were not present. But the raising of prices on building materials for residential construction would draw resources from the more important present military production and might endanger the success of the war effort, or at least prolong its duration. These two restrictions on housing in wartime will, therefore, always go together. Control of prices will always be associated with priorities and rationing of materials.

Residential construction declined from a total $10,274 million for the three year period, 1937-1939, to only $1,869 million for the three principal war years, 1943-1945. This is a drop of 82.0%. Even if one includes public housing for the war years, the decline still was 68.0%. Private nonresidential building was reduced by 40.0%.

The total construction in the United States for the four war years, 1949-1945 inclusive, was $53,594 million as compared with only $42,258 million for the four prewar years, 1937-1940 inclusive. This is an expansion of 27.0%. But during the four war years, 1941-1944 inclusive, public construction was $23,822 million as compared with only $9,358 million for the four prewar years, 1937-1940 inclusive. This is an increase of 155.0% in public building during the war. Of this expansion, $10,-023 million was for military and naval construction which is an increase of 1,870.0% over the prewar period. It is, of course, self-evident that with the physical limits on natural resources and building materials this vast military, naval and public building program could not have been completed without a like restriction and reduction on civilian construction. The present war, if and as it becomes general, will set similar limits on real estate building programs.

Already severe limitations have been placed on the use of steel, aluminum, copper, lead, zinc and other metals. Similar limitations will face lumber, stone, brick and tile as war production expands.

The building side of the real estate economy, therefore, finds itself at present moving into a squeeze between a rapidly expanding demand and an equally rapidly contracting supply of materials. The inevitable results of such pressure are (1) rising prices, and (2) declining volume of housing. Since, however, the nation is as yet only in the period of war preparations rather than in full war execution, prices are rising faster than volume declines. The Bureau of Labor Statistics Wholesale Index of Building Materials rose from 94.8 in 1940 to 117.8 in 1945. But since the beginning of the Korean War, on June 1950, it has risen from 193.1 to 223.0%. In other words the price index of building materials has risen more in the last nine months than it did during the five years of World War II. Inflation is on.

The Measure of Inflation

Inflation is a ratio. It is the quotient obtained for a given period by dividing total purchasing power by the total quantity of goods as compared with a similar quotient for a base period. Since it is impossible to expand quickly the physical quantity of goods produced, especially when existing plants are operating at full capacity as they are at present, it is possible to measure the degree of inflation from one period to another quite accurately by the increase of purchasing power alone. Since the denominator of the fraction is almost constant at present, the inflation quotient varies almost exactly in proportion to changes in the numerator, or purchasing power.

The actual extent to which dollar income has increased during the *past five years*, 1945-50, is indicated by the above data. The total national income during this brief period has increased about $64 billion or 35.4%. Rents have gone up 12.2%, corporation profits 157.0%, factory payrolls 40.5%. But in the face of this vast and widely distributed increase of purchasing power actual physical production has risen none till the beginning of the Korean War.

In the single year of 1950, the All Commodity Index rose from 151.2 to 176.0 or a 16.4% increase; the food index 16.5%; textiles 24.0% and building materials 16.5%. These spectacular price increases impinge on the real estate economy at every point.

New Construction

The number of new starts in residential building increased from the end of World War II to and through October, 1948. But from November, 1948, to October, 1949, they declined. Since that date they have increased. This variation conforms to the general cyclical movement of business during these years. 1949 was in general a depression year; not low as we usually consider depressions but a recession from the previous year. New starts in building followed this general movement. Nonresidential construction in the main followed the same cycle. For January, 1951, both residential and nonresidential new building in dollar volume are higher than a year ago, but the dollar volume is far higher than the number of new starts due to rapid inflation. As long as the war remains in its preparatory stage, these trends may continue; but as soon as full war begins, all nonmilitary and nonpublic building will decline rapidly.

Old Properties

The rapid rise in inflated reproduction costs ordinarily would cause a comparable rise in the price of present properties, but the large volume of new building temporarily retards this normal rise. As full war reduces the volume of new construction, the war demand will produce a further rise in the prices of present properties of many or most types.

Rentals

Rentals at the present time are passing through the same cycle as older housing. The large volume of new houses sold on small equities to new owners is in reality only a kind of long-time rental contract. This situation reduces temporarily the demand for genuine rental property. However, as the war becomes general and new starts decline, the demand for rental property will necessarily expand. This increase will be rapid in congested centers of military production and operation.

Under these conditions Federal rental controls will tend to increase in area and severity. Since these same principles apply to nonresidential properties there will likely be a further drive to bring many of these under some kind of control.

Real Estate in General

It does not require much observation or analysis to indicate that

Continued on page 42

Continued from page 41

The Effect of War on Real Estate

as the war becomes general the demand for all kinds of real estate will increase at a much more rapid rate than will its supply. Individual family houses, apartments, hotels, stores and other commercial buildings, factories, warehouses, depots, office buildings and farms will all tend to rise in current price and money income as inflation and demand do their double work. All these properties are priced lower today than they likely will be again until after the war is concluded and a more normal construction and use of real estate adjusts to a peacetime economy. At present, with Russian led communism rampant in the world, he would be a wild prophet indeed who would attempt to forecast *when* such a time of peace and normalcy may come.

Permanent Peace Time Inflation

A large part of the total effect of the present war on the real estate economy is due to the fact that for the first time in our national history we have created by Federal law and enthusiastically maintain a powerful engine of peacetime inflation. A few factual comparisons will clearly indicate how different World War III is from its predecessors in its effects on all phases of our national life and economy.

War is a powerful inflationary force. This is especially true of long general wars. But in all our previous major wars, we as a nation had the advantage of beginning with a low price level and a small debt. At the beginning of the present conflict, however, our price level is higher than it was at the end of any previous war, and our national debt is as high as it was at the end of World War II, ten times as high as it was at the end of World War I and one hundred times as high as it was at the end of the Civil War.

We began our other major wars in a valley or trough and finished at a mountain peak from which we succeeded, after the Civil War, and to a considerable extent after World War I, in climbing down to a safe and normal level of operations for many years. After World War II, however, we have not succeeded in reducing either our high inflation or debt levels.

When one breaks down the totals into the principal industries which compose it, the picture is even more alarming and dangerous.

Structure of Peace Time Engine of Inflation

During the past quarter of a century, by propaganda from political pressure groups and by Federal legislation, we in the United States have created an inflation machine which is largely responsible for our present national economic problems. Although it has developed in a world climate favorable for such movements it is based largely on three factors. These factors are (1) The Federal support of farm prices and limitations on production; (2) the strengthening of labor leaders' controls and the tying of wages to prices, and (3) the price-cost-profit relationships of production and merchandising. The statement of these factors in no way implies an attack on them or a defense of them. The effort is toward a factual analysis.

Agriculture

In 1800, 90% of the American people were on farms and over 95% lived from agriculture. The Federal Government, therefore, from the time of Jefferson sought its majorities among farmers and attempted to support their interests. But like all political policies this scheme had many secondary results which were not foreseen. In contrast with Washington and Hamilton, who wanted to sell the public lands to the highest bidder to pay the public debts, Jefferson insisted that the lands be given to actual settlers or sold only to actual settlers at a very low price. This plan was followed for a hundred years with the unforeseen result that American agriculture was greatly over-expanded, and farm prices forced to unusually low levels. Agriculture drew laborers from industry through the free land policy and raised the costs of non-farm products. This policy retarded industrial development and compelled America to remain a lopsided overdeveloped rural nation for over a century.

Not understanding the cause of the difficulty and believing that Federal legislation can cure all economic ills, a long and largely fruitless experimentation in tariffs, cheap money and other cure-alls still found agriculture in the United States much overdeveloped in comparison with lagging industrial expansion in 1920. World War I had further overexpanded agriculture by plowing up pastures and meadows and left a million marginal farmers in a precarious condition.

Monopoly controls over production and prices finally emerged as the solution. It was originated, fostered and enforced by Federal legislation, controls, doles and the power of the farm pressure group in the United States Senate. These controls involve two monopoly devices: (1) restricting output and (2) underwriting or insuring price. Since agriculture is so varied and widely scattered, farmers could not enforce these two monopoly controls without special, nationwide, favorable legislation and a large expenditure of Federal money through a strong bureaucracy.

The first of these control devices was the "Triple A," or A. A. A. (Agricultural Adjustment Administration) of 1933. When this device was declared to be unconstitutional in 1936, it was superseded by the 1938 A. A. A., or the "Ever Normal Granary" law which permits: (1) the reduction of acreages and (2) the support of prices. As a result of these two controls, farm prices have remained above "parity" since 1941. The amount of advantage which agriculture has enjoyed is:

During the business decline of 1949 and the first six months of 1950, the ratio fell to 100, or a little below, but since July, 1950, it has risen to the farmers' advantage again.

Labor and Wages

The Wagner Act gave to labor strong advantages in organization and bargaining which have greatly increased the number of union members and the monopoly power of their leaders. The Taft-Hartley Act continued most of these powers. The major labor unions today include approximately one-fourth of all persons employed on wages and salaries. Through strikes these unions are at present able to close down the railroads, coal mines and all heavy industry besides the majority of plants in the lighter industries. Their monopoly power has been vastly expanded by Federal legislation, just as has that of the farmers.

These large gains in wages and wage rates were gained by labor largely because of continual pressure on employers in collective bargaining and threats of strikes or actual strikes. The total number of strikes, or work stoppages, in the seven years, 1941-1947, was 29,392 involving 17,540,000 workers with a loss of 238,000,000 man days. During this period there have been from three to six rounds of wage increases in many industries. In fact there have been from three to five since 1946.

The primary cause given for the strikes and wage rises was increased costs of living. The causal relationships among (1) restricted agricultural output and supported prices, (2) rising wages, and (3) increased costs which forced up general prices, are as follows:

With the aid of the Federal Government the quantity of agricultural production is limited and its prices sustained at high artificial levels which the open market would not support. This Federal created agricultural monopoly forces the cost of living up. This raises the cost of living to labor. The unions then strike for an increase in wages. Since two-thirds of all costs are wage costs, these increased wages compel manufacturers and merchants to raise prices in order to cover costs of operation and to maintain the profit margins and reserves required to cover expansion of business and rising prices.

This successive raising of (1) parity prices; (2) wages; and (3) industrial prices has continued in a vicious rising spiral for a decade until at present the people of the United States are paying the highest prices in history, and prices are still rising at an increasing rate with no prospect of stopping. As soon as industrial prices rise, due to the rise in farm prices on food which labor must buy and on cotton, wool, flax, tobacco and other raw materials, the farmers ask to have parity payments raised again. This increase again forces wages up and the costs of manufacturing up, and so the cycle goes round and round. Since wages are now being tied by contract to cost of living indexes the rise of parity payments automatically causes inflation.

TABLE IV

Price Levels at Beginning and End of Wars

	Price Level at Beginning	Price Level at End	Debt at Beginning (in Millions)	Debt at End (in Millions)
Civil War	61.0%	132.0%	$65	$2,678
World War I	68.1	154.4	1,188	25,482
World War II	77.1	105.8	40,440	258,682
World War III	176.0	?	256,731	?

TABLE V

Industrial Production

	World War II			World War III	
	1939	1943	1945	1950	1955
Industrial production	109	239	203	216	?
Durable goods	109	360	274	268	?
Nondurable goods	109	176	166	195	?
Minerals	106	132	137	158	?

The detailed comparison of prices is presented below in Table X.

TABLE VII

Increase in Production Workers' Wages in Manufacturing 1936-1948*

	Average Hourly Earnings	Average Weekly Earnings
1936	$0.556	$21.78
1938	.627	22.30
1940	.661	25.20
1942	.853	36.65
1944	1.019	46.08
1946	1.084	43.74
1948	1.327	53.15

*U. S. Statistical Abstract, 1949, p. 215.

TABLE VIII

Increase in Wages of Production Workers Specific Manufacturing Industries 1939-1947*

	Hourly Rate		Weekly Earnings	
	1939	1947	1939	1947
Blast furnaces— Steel mills	$0.845	$1.439	$29.88	$55.95
Electrical equipment	.722	1.315	27.95	52.99
Machine tools	.752	1.369	32.25	57.69
Smelting and refining	.699	1.296	26.67	53.13
Aluminum	.699	1.257	27.49	49.60
Cottons	.389	.982	14.26	38.83
Woolens	.528	1.156	19.21	45.90
Printing	.804	1.403	30.30	56.90

*U. S. Statistical Abstract, 1949, p. 216.

TABLE IX

	Farm Prices	Rise of Food Prices	Cost of Living, All Items	Rise in in Wages	Rise in Industrial Prices
1940	67.7	96.6	100.2	.644	81.6
1942	105.9	123.9	116.5	.762	98.6
1944	123.3	136.1	125.5	.931	100.8
1946	148.9	159.6	139.3	.966	116.1
1948	188.3	210.2	171.2	1.333	159.4
1950	184.0	210.	175.6	1.510	164.9

TABLE X

Prices Following Two Wars

	After World War I			After World War II		
	1921	1926	1929	1946	1948	1950
All commodities	97.6	100.0	95.3	121.1	162.2	176.8
Farm	88.4	100.0	104.9	148.9	177.3	190.6
Foods	90.6	100.0	99.9	130.7	170.2	181.4
Textiles	94.5	100.0	90.4	116.3	145.3	171.3
Metals	117.5	100.0	100.5	115.5	173.8	184.1
Building	97.5	100.0	95.5	132.6	202.0	222.0
Chemicals	115.0	100.0	94.0	101.4	130.5	139.8

Comparison of Two Postwar Periods

These conditions did not exist at the end of World War I. As a result, at the end of that war, farm prices fell to their normal competitive market level, wages remained stationary and for eight years, 1921-1929, industrial prices remained constant or declined.

TABLE VI

	*Ratio (%) of Prices Received to Prices Paid by Farmers
1940-44	101
1943	115
1944	111
1945	112
1946	115
1947	113
1948	108

*Statistical Abstract of U. S., 1949, p. 661.

Without an artificial Federal monopoly in agricultural production and prices after World War I, farm prices adjusted to the competitive world market level. They rose more than other prices but only moderately. But since World War II, with Federal farm monopolies operating in full force, farm prices have risen from 148.9 to 190.6 in five years or an average of 8.0% a year. As a result, labor unions have during the same period forced hourly wages from $.966 to $1.510 or 56.0%. Since wages on the national average compose over two-thirds (about 68.0%) of all costs, the all commodity index has risen by about the same percent. This round and round and round of inflation rises in automatic stair steps from (1) farm prices—costs of foods and raw materials forced up to the second step (2) wages forced up to cover the increase in cost of living to the third step (3) general rise in all manufacturing and merchandise prices. It is such a powerful engine of automatic inflation that no President or Congress has dared to oppose it, although its record is clear.

The measurements of this peacetime artificially induced inflation are clearly revealed in the tables. The United States now stands at the highest level of inflation in its entire history. As we enter the earlier stages of World War III, the nation stands on an inflation peak higher than that experienced at the end of any previous war. These facts are the reasons why it is so difficult to forecast what will happen to prices and industry at the present time. We are already beyond the limits of all previously used measuring sticks. All tape lines are too short. No calipers will encompass the broad expansion of our present swollen prices. Our previously dependable instruments no longer function accurately at this stratispheric elevation. We are really flying blind.

There is one phase of this rapid inflation which concerns real estate appraisers. Since appraisals are dated, that is made for a specific point of time, their value for investment purposes depends on the stability of the price level. If a farm is appraised at $30,000 as of March 1951 and the price level is constant, it will continue to be worth about $30,000 in 1952 or even in 1955. But if inflation is rampant, it may be worth $35,000 in June 1951, and $40,000 or more in March 1952. Under such conditions an appraisal soon becomes merely a historical fact, having little relation to future conditions. Under such conditions they serve speculation more than investment.

The present inflation in real estate is based on three factors, two or them are peacetime forces and one is war. The first one is the rapid natural growth of the population of the United States. The prices of real estate will rise simply because more people want it. The man-land ratio is increasing. There were only 25 persons per square mile in 1900, but there were 44 in 1940 and 50 now; at the present rate of increase there will be 57 per square mile in 1960. More people, more demand for land.

The second factor of inflation is the artificial engine of (1) parity control; (2) labor union power tied to living costs; and (3) the cost-price relationship in manufacturing and merchandising. This is an artificial creation of pressure groups operating through control of government, but it seems to have become a fully accepted part of our national philosophy. If pushed too far it could lead to national disaster through a national boom and bust beyond anything Americans have known. Only greatly increased moderation in its use can divert serious results.

On top of these two peacetime factors of inflation, war of an unusual type is precipitated. Most of our wars have come upon us suddenly by some type of a Pearl Harbor. But in this struggle our principal foe seems to be deliberately postponing an overt act because they can injure us more by extreme inflation arising from a long continued preparation for deferred war. Such a delay prevents effective controls at the same time that it increases credits and spending, and it costs the Russians very little. As they use expandible catspaws on us, our economy suffers far more than theirs.

Each one of these factors by itself would bring higher prices; but as all three converge on us at once, we have no effective escape from inflation. Under these conditions we can expect all real estate prices to rise for a considerable period.

Continued from page 5

The "New Look" of Common Stocks

inflating currencies than in deflating budgets. Modern political technique calls for taxation by the right hand to pay for what the left hand has just doled out in social bounties.

There is no better illustration of all this than our own Social Security System. Although by the end of last year the "take" via Social Security taxes had amounted to over $15½ billion, only about half a billion in cash was left to satisfy monthly payments to pensioners. As a matter of fact, the monthly requirements are not much over $112 million, so you may well ask what particular drain absorbed all that money.

In replying to that question let me quote from the Cleveland "Plain Dealer": "The argument of social security officials is that they not only have the bulk of this multi-billion dollar kitty practically intact, but actually have made money on it. They say the earnings are in the form of dividends which the Social Security Administration has received by investing nearly $12,900,000,000 of the social security fund in government bonds and securities."

A different interpretation from the bureaucrats' is expressed in the Guaranty Trust of New York's October, 1950, "Monthly Survey," which stated:

". . . . The Treasury has taken the proceeds of payroll taxes and spent them for general governmental purposes, issuing to the trust fund interest-bearing securities of the same amount. But the interest on these securities, which, together with current payroll taxes, is supposed to meet the pension payments, can come only from the very taxes that would supply the payments without any trust fund at all. The trust fund now amounts to about $13 billion, which simply means that the Treasury has collected and spent that amount from payroll taxes during the nearly 14 years since the Social Security Act became effective."

If your insurance company collected its premiums, gave the money away or bought a new office building, and then dunned you for additional contributions in order to fulfill the responsibilities of the contract, you would cancel your policy with alacrity. In the case of social security you have no choice except to pay and then pay again for the privilege of having paid once before. The experience is at least educational. One learns how to predict the trend of the national debt and its step-child, the dollar.

The rise in our Federal debt and the decline in the purchasing power of the dollar threaten to be serious enough under present conditions. Should World War III ever become a reality we would probably run out of zeros trying to keep account of how much we owed. Before deciding inflation is not a menace and need not be considered in evaluating securities, compare the present value of the franc, one-third of a cent, with its pre-inflation value of 19 cents.

The improbability of a third World War is frequently mentioned by those who either dispute the improved status of common stocks or think it imprudent to acquire them at this particular time. In facetious terms this opinion contends if we don't soon find somebody to fight us our economy is going to be in an awful mess. Until the Kremlin is occupied by a tenant with more faith in the good-neighbor policy, our rearmament program is almost certain to continue. Whatever strength the market derives from props based on defense contracts is not likely to be dissipated at an early date.

What About Stock Prices?

Then there are those who fear taxes will deplete earnings whether we have rearmament, unrestricted warfare, or just a little limited war, as the politicians call their adventure in Korea. The obstinacy with which stocks have refused in the postwar period to sell at normal ratios of market to earnings, or market to dividends, is reassuring. Judged by historical standards, stocks have not advanced in proportion to earnings. Many stocks are selling for less than 10 times their earnings, whereas they sold at a 14-to-1 ratio during World War II. A list of typical stocks, recently brought to my attention, paid dividends at a rate of 7% compared to 4% in 1939. Current prices of stocks, high though they may seem, actually have been providing a cushion against a possible decline in earnings.

The severest critics of common stocks are those pessimists who have already relegated capitalism to the scrap heap. They have been weeping ever since the New Deal first appeared on the stage, and with the appearance of the Fair Deal they know the twilight of the gods is at hand. Their moaning voices would drown out a chorus from Gotterdammerung. What some of these people need is a psychiatrist, not a broker. A little reading in history might not hurt them, either.

Perfect sailing weather has never prevailed on the sea of finance. Pharaohs, czars, kings and even queens have all played the role of the meddler over the centuries. If our pessimists would only read how King Charles I of England swindled London merchants in 1640, and how his successor, King Charles II, took care of the goldsmiths in 1672, they would realize contemporary American businessmen and bankers have served a relatively easy sentence. The counter-attack to the fallacies and hypocrisies of our contemporary politicians and demagogues is not with sobs and inertia. It is with full employment of the facilities of the free enterprise system, the system which is still unequalled in conferring the most benefits on the most people.

A quotation attributed to a Greek orator who lived four centuries before Christ strikingly reveals that free enterprise has survived in the past and should inspire us to see that it survives again:

"When I was a boy it was considered not only safe, but honorable to create an estate, so that almost all men of standing wished to add to their possessions and felt a certain dignified honor in prospering; but now we must apologize for any success in business as if it were utter violation of the moral law, so that today it is worse to seem to prosper than to be an open criminal."

Having established that the purchase of common stocks is not only profitable but patriotic, the next question to resolve is "Which ones shall we buy?" The answer to that problem depends on who is doing the buying. Investors too busy or inexperienced to devote the time and effort required for analysis of individual issues, might well follow the example of the New England bankers and buy mutual fund shares or bank stocks. A third choice for them lies in the insurance stocks. Here they are offered a portfolio of securities in addition to the opportunities for profit in the company's regular business operations.

Utility stocks at the present time carry exceedingly generous dividend yields. A number of highly regarded utilities on the New York Stock Exchange, currently paying $2 a share, are selling between $30 and $35. Among them are Consolidated Edison of New York, Consumers Power Co. and Ohio Edison Co.

Occasionally the question is raised, "What if there is war and an atom bomb hits your favorite utility?" Engineers will tell you transmission lines are so interchangeable service might not even be seriously interupted. It may give you peace of mind to select a stock like Ohio Edison which serves not one city, but more than a dozen, or Southern Company, whose customers dwell in four states. Another solution emphasizes one of the cardinal principles of investment: diversification. Why not spread your utility purchases over a wide area of the nation and let the bombs fall where they will?

Rails and industrials require greater discrimination. With the former, investors are often prone to generalize and look upon all the issues as coming from the same cut of cloth. There is little similarity between the Atchison, Topeka and Santa Fe and the Delaware, Lackawanna and Western. In the case of industrials, there is a tendency to drive looking out the rear window. What a company, or even an industry, did last year may not help you much this year. The automotive industry exemplifies this fact. Some of the leaders may not enjoy in defense work the profit margin they were able to command while openly competing for the favor of the public. Some of the independents may fare better executing defense orders than they did in selling their automobiles. If your tastes run to rails and industrials, see your broker at least twice a year.

In the Sept. 15, 1950, edition of The Cleveland Trust Co. "Business Bulletin," there are the following statistics:

"Many American corporations have a long record of continuous dividends. An analysis of 1,008 common stocks listed on the New York Stock Exchange shows that for 551 stocks, some dividends have been paid each year for at least 10 years. In the case of 253 stocks, the continuous dividend record covers 20 years or more, and for 95 stocks, it goes back for at least 40 years."

With all this historical background, it is not surprising common stocks have ceased to be the playtoy of Wall Street and have taken up residence in the less glamorous but steadier environment of Main Street.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

First quarter operating earnings of the principal New York City banks were generally higher than for the corresponding period of 1950.

Although there was some decline in results from those reported in the final period of last year primarily because of higher taxes and increases in operating expenses, earnings were favorable compared with those of the first quarter of 1950. Among those banks which report operating results, all but one were successful in showing a gain in earnings.

Profits from securities were adversely affected as a result of the firming of interest rates during the past few months. A number of the institutions actually showed deficits for the period while others reported earnings considerably below those of a year ago. Total earnings while generally higher showed mixed results.

Those banks where indicated earnings are the only reflection of results, showed trends which were similar to the other institutions.

The earnings on a per share basis for the first quarter of the last two years are shown below for seventeen New York banks. Figures have been adjusted to present capitalizations.

	Oper. Earns. 1951	Oper. Earns. 1950	Secur. Profs. 1951	Secur. Profs. 1950	Total Earns. 1951	Total Earns. 1950
Bank of Manhattan	———	Not Reported	———		$.53*	$.52*
Bank of New York	$6.19	$5.70	---	---	---	---
Bankers Trust	.80	.69	‡$.05	$.04	.75	.73
Central Hanover	———	Not Reported	———		1.40*	1.31*
Chase National	.60	.60	.06	.11	.66	.71
Chemical Bank	.81	.71	.05	.24	.86	.95
Commercial National	.82	72	---	---	---	---
Corn Exchange	1.26	1.32	---	---	---	---
First National	———	Not Reported	———		18.24*	17.72*
Guaranty Trust	4.48	4.31	‡.04	.11	4.44	4.42
Irving Trust	.37	.35	---	---	.37	.35
Manufacturers Trust	1.18	1.12	---	---	---	---
Morgan, J. P.	4.72	3.26	‡.52	.18	4.20	3.44
National City†	.92	.81	.03	.12	.95	.93
New York Trust	1.95	1.70	---	---	1.95	1.70
Public National	1.13	1.06	.02	.02	1.15	1.08
U. S. Trust	———	Not Reported	———		3.90	3.92

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

The improvement in earnings during the past year is attributable, in large part, to the large increase in outstanding loans and the higher interest rates which have prevailed. As can be seen in the following comparison of outstanding loans between the two periods, the expansion in volume has been substantial. The firming of interest rates has accompanied the rise in loans with the prime rate for commercial credits in New York now at 2½% as against 2% a year ago. Other rates have moved up in a similar manner.

	000's — Loans & Discounts March 31 1951	Loans & Discounts March 31 1950	Loans & Discounts % Change	U. S. Government Securities March 31 1951	U. S. Government Securities March 31 1950	U. S. Government Securities % Change
Bank of Manhattan	$525,736	$430,004	+22	$320,646	$323,594	—1
Bank of New York	151,654	113,850	+33	135,570	165,861	—18
Bankers Trust	793,767	567,712	+40	413,473	512,254	—19
Central Hanover	551,403	444,507	+24	530,777	530,961	----
Chase National	1,869,667	1,379,485	+36	1,419,840	1,655,932	—14
Chemical Bank	722,499	468,285	+50	398,059	528,922	—25
Commercial National	63,458	41,361	+54	78,425	92,880	—16
Corn Exchange	106,126	76,078	+40	415,503	468,004	—11
First National	149,467	136,495	+10	290,689	315,801	—8
Guaranty Trust	1,294,961	964,941	+34	782,194	938,423	—17
Irving Trust	554,710	371,414	+49	311,479	420,134	—26
*Manufacturers Trust	746,667	581,789	+28	973,559	1,186,317	—18
Morgan, J. P.	244,443	191,584	+28	168,798	221,441	—24
†National City	1,871,260	1,379,939	+36	1,599,174	1,898,480	—16
New York Trust	295,957	244,609	+21	260,786	253,899	+3
Public National	258,207	175,543	+47	66,232	189,246	—65
U. S. Trust	53,004	55,639	—5	68,672	57,859	+19

*Figures for 1950 adjusted to give effect to Brooklyn Trust merger.
†Includes figures of City Bank Farmers Trust Company.

Holdings of U. S. Government securities were reduced to provide funds for the increase in loans and higher reserve requirements. These developments, however, were offset to some extent by the higher interest rates prevailing on Governments.

This change in the composition of earning assets was beneficial and enabled the banks to offset higher operating expenses. Federal taxes were considerably higher and several banks had to provide for an excess profits tax levy. Nevertheless, there was a general improvement in operating results.

These same factors will continue to exert an important influence on operations for the second quarter and earnings are expected to show a further gain.

Public Utility Securities

By OWEN ELY

New England Electric System

New England Electric System, with annual revenues of over $100 million, is the largest electric utility system in New England. Revenues were formerly about 82% electric, 10% gas, and 8% transit, but the bus properties were sold last year and the gas properties are now up for sale. Operations are conducted through 34 subsidiaries serving a population of 2,150,000; principal cities include Providence, Worcester, Lowell, Lawrence, Quincy, etc. Major industries served are paper, textiles, chemicals, metals and rubber goods. Electric revenues are about 35% residential and rural, 21% commercial, 29% industrial and 11% wholesale, and about 4% miscellaneous.

While the system received general clearance from the SEC under the Holding Company Act at the time of the broad reorganization in June, 1947, a program is under way to weld it into a modern, streamlined system. The interest in Fall River Electric has been sold to Eastern Utilities Association (which already had some interest in that company). Another recent move was to merge eight small companies into Worcester County Electric. After the gas properties are sold, the management favors further mergers so as to reduce the number of subsidiaries and effect economies.

Cash realized from the various sales in 1950-51 is being devoted to building up the electric properties, thus deferring the necessity of equity financing. Last year's sales yielded over $12 million, and the proposed sale of the gas properties might yield in the neighborhood of $30 million or more, it is estimated. The aggregate book value is around $22.5 million, and "normal future" earnings (after natural gas is received) have been estimated at $1.5 million; since the purchase could perhaps be financed partially with senior money, a rather low earnings-price ratio might be warranted in fixing the sale price. The company has asked the SEC for exemption from competitive bidding, and there are said to be a number of potential buyers. There would probably be no capital gains tax on the sale.

NEES is partly a hydro company, and hence earnings have been somewhat irregular. Pro forma earnings of $1.48 in 1946 declined to $1.08 in 1948, when water conditions were unfavorable, and the $1 dividend rate which had been initiated on the new common stock late in 1947 was dropped to 80c early in 1949. While with better water conditions the share earnings have now recovered almost to the 1946 level, the management has decided to move cautiously in restoring the $1 rate, and it now looks as though there will be no increase until late this year or early next year even if water conditions continue favorable.

By the end of this year the management will feel less dependent on the vagaries of the weather. The new 33,000 kw. Worcester steam plant came on the line Dec. 1, also the Wilder hydro-electric plant of similar capacity a few days later. A new 75,000 kw. steam unit at Salem will come in, in the fall of 1951, and a similar unit a year later. In 1955 the company expects to complete the Littleton hydro project with 150,000 kw. which, including firm purchased power, should bring total capacity to 1.4 million kw. or double the 1945 amount. The new steam units will have very high efficiency, using only two-thirds of a pound of coal per kwh., due to the very cold water available in New England for cooling purposes.

The 1950 construction program cost about $34 million, and this year's program will be slightly more—unless the gas properties are sold and this portion of the program, amounting to $5 or $6 million for the full year, is cancelled. The company has already this year sold $25 million bonds, including one sale just completed. If they realize a reasonable amount from sale of the gas properties, this cash should take care of 1951 construction needs, so that no further financing would be required this year except for $6 million New England Power bonds. Bank loans have now been reduced to $3 million and will probably remain around that amount at the end of the year if the gas sale is completed. In any event, no equity financing appears necessary until early next year, and later than that if the gas properties are sold.

Consolidated earnings for 1950 were $1.42 compared with $1.30 in the previous year. 1951 earnings should benefit by lower fuel costs due to operation of the Worcester and Salem units. There will also be some gain due to elimination of the transit properties. However, wage costs will be up because of the 5% increase made late in 1950, and taxes will be higher.

The company paid about $50,000 EPT in 1950 and estimates about $100,000 for 1951. Every 1% increase in the regular income tax rate means a reduction of 2½c a share on the common stock. The company is accruing at a 50% income tax rate for 1951, and as a result first quarter earnings will probably be 6c or 7c lower than a year ago, when the rate was 40%.

The 1950 balance sheet is not yet available but at the end of 1949 the common stock equity was 42% based on the holding company balance sheet, and 29% after eliminating holding company mark-ups and other reported intangibles. The corresponding book value figures would be $21 and $12. The company will not have to begin writing off its $62 million excess-value item until 1953, it is understood; how the amortization will be handled is not yet clear, but as the parent company has combined surplus items of about $150 million possibly some adjustment can be worked out which will avoid a charge against income.

Regarding the recent campaign at Washington by the National Water Resources Commission, headed by Leland Olds, favoring Federal development of water-power in the Connecticut River Valley, plans for the development of two important sites have already been made by private utilities—NEES and Connecticut Light & Power. New England might, of course, get some of the St. Lawrence power, when it is developed. But President Moore of NEES is not worried over the attempts of public power proponents to "move into" New England, since he feels that the possibilities there have already been pretty well developed by the private utilities. Moreover, conservative New Englanders haven't shown much interest in the Federal program, in his opinion.

THEN and NOW...

Guess Who?

If You Can't Turn to Page 47

(A)

(B)

Continued from page 15

Mobilization on the Home Front

gle inflationary factor based upon private credit in the whole picture has been the tremendous housing boom devised and promoted by the Federal Government. In this program, leaning on the political crutch of housing for veterans, terms of credit were established, backed by guaranties of the government, which were unsound both in their amount and terms. They will, in a large percentage of the cases, prove to have been a disservice to the veterans themselves. It helped to boost the cost of both the labor and materials which went into the houses, and resulted in prices all out of line with sound values and predicated upon credit terms under government guaranties which no sound credit man would have thought of countenancing. Billions of dollars of government bonds were bought by Federal agencies to provide mortgage lenders with added funds to feed the flames of this inflationary fire. Many banks refused to participate in this program because of its unsoundness. Others went along for the ride and sold the mortgages to the Federal National Mortgage Association. I do not want to ignore the bank participation in this program, but certainly the overwhelming responsibility for this program and its effects upon the economy lies upon the government and its agencies and other lenders, and not upon the banks.

As a result of all these and other factors in the postwar years, the government went on and aided, abetted and encouraged its citizens to go on a reckless spending spree which developed a frenzied business activity which was mistakenly called prosperity. With high taxes bringing in tremendous revenues to the government, we continued to live beyond our means, allowed our tremendous debt to remain outstanding, and sought ways and means to dole out billions of dollars to millions of people. At the same time, with war clouds hanging low over our horizon, we allowed our military strength and equipment to disappear.

Must Rectify Mistakes

I have tried to summarize some of the facts leading to our present economic situation not because I want to indulge in needless criticism at this time. I have done so because we must now choose the road which we shall take from here on out. This is a critical year when important policy decisions must be made. The same mistakes must not be repeated. If we want to build for permanent stability, we must get down to fundamentals and lay a firm foundation. We must clearly see, know, and eliminate our weaknesses and our mistakes.

I shall not at this time discuss our foreign policies. I hope that we are not now embarked upon a long war. I do not know. We all know, however, that we are embarked upon a tremendous program to prepare for full-scale war and that this program may be of long duration. We must gear our economy to both the size and the duration of the program.

Our problem is to divert the requisite manpower and productive effort into the military program without needlessly disrupting our essential domestic economy. It will call for sacrifice; it will call for readjustments. Yes, and it will bring about many inequities and even injustices. These must be minimized or eliminated as they become apparent. But the big thing is we must get the job done.

In helping to do this job, the bankers both individually and collectively in their associations want to do and to play their full part. We want to do it voluntarily and wholeheartedly and in the fullest cooperation with the agencies charged with the responsibilities in the various fields.

In dealing with these problems, first things should come first. The war in Korea and the preparedness program are calling for a large increase in government military expenditures. This seriously aggravates an already serious situation. Under these conditions, what should we do first? Obviously the most direct way to offset in part increased governmental expenditures for war purposes is to decrease, by cutting to the bone, government nonmilitary expenditures. I am not talking now just about attempting to get more efficiency and less extravagance and waste in government operations, important as it is. I am talking now about not only stopping cold the further expansion of so-called social welfare programs, socialized medicine, Brannan plans, etc., but also at least postponing and deferring, if not abandoning, many proposed expenditures which some people might consider desirable in more normal times. In this category would come, among others, many subsidies, price support programs, public works, river and harbor improvements, public housing, socialized medicine, reclamation projects, and buying of mortgages—yes, and even the extension of veteran benefits to physically sound veterans. I do not wish to argue about any particular one of these things. There are many others which could be added to this list. I do not know how much we could in this way eliminate from the proposed budget which is now before the Congress. It has been stated by some members of the Congress who are well informed on this subject that a minimum of $7 to $9 billion could be eliminated.

This kind of action would strike at the very heart of the inflation problem by helping to offset increased war spending. It would also minimize the amount of new taxes to be levied. My Washington friends tell me that they agree that the greatest thing that could be done at this time to preserve our economy would be such a great governmental cutback in domestic expenditures, but that it is politically unrealistic to hope that the Administration or the Congress will do it. It would be bad politics, they say, because it would disappoint so many people who profit by these expenditures. That strips the question down to a very simple question. At a time when our sons are dying on foreign shores and our whole way of life is at stake, is it politically unrealistic to expect our representatives in Washington to put patriotism above politics? I do not think it is. Some one has said: "The mills of the gods grind slowly, but they grind exceeding fine." The same thing is true of the mills of a representative government like ours. I think the hour is fast approaching when the people of this great country, shocked and grieved by the sacrifices of its young manhood, will rise almost en masse and demand that political expediency and extravagance be put aside and that first things come first. These so-called social welfare spending programs are still to be found in the current requests for appropriations. Public housing is asked for under the new name of defense housing. The recent report of the Federal Security Administrator urges upon the President and the Congress the extension and expansion of the cradle-to-the-grave government-aid program, even including the Federal Health Insurance Program, the cost of which can only be wildly conjectured. Programs of this kind were bleeding the taxpayers white even in peacetime. The continuance and enlargement of them in wartime is nothing but sheer economic suicide. In 1924 Nikolay Lenin stated: "Some day we shall force the United States to spend itself into destruction." Are we going to stand by and permit our government to fulfill his prediction? Our representatives in the Congress will act when enough of their constituents make their wants known.

Must Have Balanced Budget

The fact that the Federal budget has been unbalanced for 18 of the last 20 years is a major factor in the present situation. The great Federal deficits of the last World War and government borrowings from the banks to help finance was the great credit inflationary factor in the last World War. Bank lending to bank customers was no material factor. Bank loans actually declined in spite of the defense loan program.

If we are to avoid the same great mistake again, then we must gauge our expenditures to what we can raise by taxes and pay for. If new deficit borrowing is required, it should be held down to the minimum and raised from nonbank investors, even if the interest rate has to be raised to accomplish it. High taxes in this period must be levied for two purposes: (1) to raise the necessary money, and (2) to reduce the purchasing power which exerts an added inflationary pressure. During the fiscal year of 1947, out of the total of $150,295,000,000 "adjusted gross income" in this country, $118,000,000,000 was received by people in the income group of less than $6,000 per year. It is perfectly obvious that if large amounts of taxes must be raised, it must come largely from this group, because that is where the income is. It is also perfectly obvious that if the inflationary effect of the mobilization program is to be offset, the taxes—to use a phrase which I dislike—to drain off the purchasing power must be levied upon those who receive the increased purchasing power. That includes the wage earner who, by full employment and overtime, receives the bulk of this increased purchasing power. I have heard many proposals coming out of Washington to tax corporations and individuals in the high-income brackets, but I have not seen any realistic program to tax the only source from which enough money can be secured to pay the cost of the armament program and save the country from inflation. Why? The answer is obvious. It is not good politics to tax the mass of the voters. I am not opposed in these times to high taxes on high incomes, but the time has come when that kind of taxation alone simply will not do the job and hold the line. The most wholesome thing for the welfare of our country would be for the citizens of modest means to learn through taxation what the costs of their government really are. Here again it is a question of putting patriotism above politics. Recently an important official in Washington said: "Let each of us put our country ahead of our party." In this connection, I should like to add that actions speak louder than words.

I say to you that unless and until we meet frankly and honestly these fundamental and underlying factors, the puttering around with economic thumbscrews is largely just so much shadowboxing. Alone they cannot and will not do the job.

Bank Loans and Inflation

Now let us discuss for a little while bank credit and inflation, about which we are hearing so much these days. There are a few statements which I should like to make as a basis for this discussion:

(1) Bank credit to bank customers did not bring about the present inflation and was not even a major contributing factor to it.

(2) The arbitrary limitation of bank credit will not stop inflation and might well have serious consequences upon the productivity of the economy in the support of the defense program and in the support of the normal domestic economy.

(3) It is the purpose of the loan and the use made of its proceeds which determines whether it increases or retards inflationary pressures. Figures merely showing dollar amounts of loans do not alone provide a basis for intelligent understanding or action.

(4) Loans for productive purposes in support of the defense program or in the maintenance of the essential domestic economy are not inflationary in their end result. They should be made by the banks because they serve these functions, and the production and distribution of necessary goods and services resulting from such loans actually retard inflation.

(5) Loans for unproductive and speculative purposes, to the extent that they augment purchasing power which is used, are an inflationary factor, as are all payments of money whether by the government or others which increase a purchasing power which is used.

Private banking and the credit furnished by it are a vital and constructive part of our economy. The banks of this country have a big, a necessary, and a vital job to do in financing the preparedness program and in supporting a sound domestic economy. The banks are ready, able, and willing to do the job. They were never in a better position to do it, and they have the "know how" based upon their splendid performance in that field during the last war. Their usefulness in this vital function must not be impaired or stymied by any unwarranted curtailment or impairment of their ability to so function.

The fact is that a large volume of bank credit will be required to finance the essential production program. With the greatly increased cost of labor and materials entering into the production of commodities, a very much larger loan volume is required to finance the essential goods and services needed for the defense program and for the maintenance of a strong domestic economy. This is true both in industry and in agriculture. Figures which merely show the dollar volume of loans without an analysis of the purpose for which the loan was made and the disposition of the proceeds of the loan are not a sound or proper basis upon which to reach sound conclusions as to the effect of bank loans upon the economy or as to the extent of their contribution to inflationary pressures.

This brings me to the Voluntary Credit Restraint Program which has been launched by the Federal Reserve Board with the support and cooperation of the American Bankers Association, the Life Insurance Association of America, and the Investment Bankers Association. It is an attempt to enlist all lenders under this leadership to engage in a voluntary program of screening their loans and for the emergency refraining from making loans for unproductive purposes even though the credit is good, which contribute to inflationary pressures by unnecessarily and unwisely increasing purchasing power.

You have received a statement of the program and a request from the Federal Reserve Board to comply with the provisions of the Statement of Principles, which is the heart of the program. It is a good Statement of Principles and should be used by banks and other lenders as a measuring stick in the extension of credit. A representative committee of bankers participated in the preparation of the program, and the banking representatives on the overall credit restraint committee are men who merit our confidence and support. The American Bankers Association is vigorously supporting this voluntary effort, and I sincerely hope and believe that the bankers of this country will do their part in the banking field to comply with the Statement of Principles and thereby help to make the effort a success. The lender is in a position to analyze a loan application as to the purpose of the loan and the disposition to be made of the proceeds; and he can, therefore, intelligently exercise a restraint which will retard inflation and at the same time not impair the production of the goods and services essential to and needed by the defense effort and the maintenance of a sound domestic economy. We are called upon to assist in rendering a patriotic service in this emergency. Let us meet the challenge in this spirit and put aside any petty thought of securing any competitive advantage. By so doing we shall make a patriotic contribution as bankers and as citizens.

As I have pointed out, there are many other things of greater significance in this picture which must also be done. As bankers, we should do our part in our own field and at the same time, as citizens, see that our government, at the local, state, and national levels, does the things necessary to make possible the restoration of a sound domestic economy.

There are some people in high places who appear to want a government controlled and managed economy. They wanted increased powers and controls over the economy even before the present emergency. We must as American citizens believing in and devoted to our American economic system and way of life resist all attempts to use the present emergency as a means of fastening a government-managed and controlled economy upon our country. Eternal vigilance is the price of freedom, and we must in these trying times renew our determination and vigilance to preserve for our children the constitutional freedoms and opportunities which we have enjoyed. Only those persons who sincerely believe in the freedom and independence of the individual citizen and who basically abhor a regimented economy can safely be trusted with control powers even during an acute emergency.

Let us each do our part in helping to make this Voluntary Credit Restraint Program work. It will materially help to prevent those who want to "hamstring and hogtie" the private banking system from achieving their purpose. Recent developments as to how some governmental credit agencies can and sometimes do extend credit on a political basis have only confirmed in the minds of the American people the absolute necessity of the maintenance in this country of a sound, free, privately owned, and independent dual banking system as a vital part of our free American economy.

Bankers Greatly Concerned About Inflation

We bankers are deeply interested in the preservation of the integrity and purchasing power of the American dollar. We are the custodians of other people's money and property. That money is not impersonal. It is human money. It represents the "blood, sweat, and tears" of millions of people. It is the product of their brain and their brawn, their thrift and their labor, their economy and their industry, and their intelligence. It represents their protection against want in their declining years; it represents the support and education of their children, the care of the family when they are ill, and their comfort and happiness in a thousand ways.

We cannot stand by and see these funds dissipated by inflation, devaluation, and deficit financing which reduce the purchasing power of the dollar and thereby confiscate this accumulated capital.

We know that you cannot borrow and spend your way to sound prosperity. If you borrow and spend more than you take in, you are mortgaging your future; and if you keep it up long enough, you will become bankrupt. The same is true of a nation.

We know by experience that neither men nor nations can violate the simple but very fundamental facts of business and economic life without paying a staggering price in terms of human misery.

As citizens of this country, we must see that sound fiscal policies are adopted by our governments, both local and national. As bankers we will do our part in so conducting the business of banking in this country that we contribute the maximum amount to the national defense program and the domestic economy by financing essential production and at the same time refrain from making loans for unproductive purposes which needlessly lead to further credit expansion.

Inflation cannot be eliminated merely by the imposition of government credit and other controls. The job can be done only if all elements of our economy — the government, labor, business, and the population at large — settle down to and live by sound business principles.

This country has within it all the elements necessary to meet the challenge which we face today. We have great wealth (as well as a great debt). We have a great industrial plant with tremendous productive capacity. We have great agricultural production capable, with improved techniques, of greatly increased production. We have a people who have the productive "know how" at the management, research, and skilled-workmen levels. If we tighten our belts and get to work, we can lick this or any other job. It was our productive capacity which was the deciding factor in the winning of two world wars in this century.

But at this time let us not forget that the great progress of our country was made under the life-giving air of personal freedom and individual opportunity. Productivity of the individual is the key to the American high standard of living. This productivity grew and flowered and bore fruit under the American system of private initiative, incentive, and opportunity. It was not built under any socialistic system of either a government-owned or a government-controlled economy.

The story of the growth of this great country from its small and modest beginning to its present stature is a thrilling and unparalleled chapter in the history of mankind. It embodies the spanning of the continent from the Atlantic to the Pacific, with the sturdy pioneers crossing barren plains, parched deserts, and towering snow-clad mountains with dogged determination and unbounded courage. It tells of the inventive ingenuity of the American people who, because of their ambition, their initiative, their industry, and their thrift, developed a productive capacity and thereby secured a standard of living never before equaled or even dreamed of in the history of this old world.

The American system is based upon free individualism and freedom of opportunity. If you want more than you have and are willing to pay the price in brain and brawn and thrift and intelligence and industry, there is no limit to what you can produce and what you can have. That kind of life and opportunity came to be known as the American way of life. It has opened new frontiers, both geographically and scientifically. The opportunity in this great country of ours for every man, woman, and child to set his goal and then have the right, in his own way and by the use and development of his own talents and abilities, to achieve his ambition is the fundamental reason for our success, both as individuals and as a nation. This freedom and these opportunities of the individual are what made this nation great. They must be preserved as a priceless heritage because the same things that made this nation great are the only things that can keep us great.

We are now engaged in a great war mobilization program, which involves huge military expenditures. The Congress has granted large emergency powers over our economy to the government to enable it to make quick decisions and take quick action. The liberty-loving, self-governing citizens of this country are for patriotic reasons suffering their liberties to be restricted and their already heavy burdens to be increased. Now is the time, if ever in the history of this nation, for an alert citizenry to stand by as minute men solemnly resolved that wartime controls over the economy and the wartime regimentation of the people shall not become a permanent part of our economy and of our life.

We must not allow the present emergency to become the occasion for losing our American heritage of a free political and economic life. We must not lose at home the very freedoms which we are fighting to preserve abroad.

Jacquin, Stanley Admits Mrs. Parsons as Partner

Jacquin, Stanley & Co., 44 Wall Street, New York City, members of the New York Stock Exchange announce that Barbara Joiner Parsons, who became associated with the firm in 1949, has been admitted to general partnership.

Mrs. Parsons, wife of George Kingdon Parsons, well known industrial engineer now in Formosa, is one of the few women brokers to become a general partner in a Stock Exchange firm. She was for a number of years registered as an investment adviser with the SEC and is the originator of the Joiner Theory of timing stock market moves—a method of market performance diagnosis.

A native of Belton, Texas, she is the daughter of the late Judge Adonirum Judson Joiner. Mrs. Parsons attended Baylor College and later studied at the Conservatory of Music, Cincinnati, Ohio during World War I. For a year she was with the Ziegfeld Follies, after which she took an extension course in corporation and trust law at Chicago University.

She has done extensive social service work and did child welfare work at Sarah Lawrence College under a Red Cross program at the nursery school there. She inaugurated a radio series for young artists and has appeared on radio programs speaking on the stock market and women in finance.

With Jackson & Smith

(Special to The Financial Chronicle)

GASTONIA, N. C.—Davis T. Smith is affiliated with Jackson & Smith, Commercial Building.

Joins Joe McAlister

(Special to The Financial Chronicle)

NEW BERN, N. C.—Henry B. Duffy is now connected with Joe McAlister Co. of Greenville, S .C.

A. F. Wadley Resumes

(Special to The Financial Chronicle)

TEXARKANA, Tex. — A. F. Wadley is resuming his investment business from offices in the Texarkana National Bank Bldg. He has recently been with Slayton & Co.

Continued from first page

As We See It

cannot without deep anxiety leave our foreign policy wholly to a party and to an Administration which for so long had a so completely unrealistic idea of the position and intentions of the Kremlin; which for so long was so vacillating about Korea and related Oriental questions only to reverse itself at the eleventh and a half hour when we were able to avoid military disaster only by the skin of our teeth; and which has continuously revealed itself as unready for any such role of "world leadership" as it imposes upon itself.

But Is He Right, Either?

Most of us, we believe, will be about equally hesitant about accepting without question the admonitions of a military man who has raised many questions in many minds of late months as to whether he has the understanding of things Oriental which is commonly attributed to him. When he now tells us that we could knock Communist China out in a round or two, and that Russia would not intervene, etc., etc., we find it difficult to forget his cock-sureness only a few months ago that he could march to the Yalu River without danger of Chinese intervention, and his rather melodramatic (and we suspect somewhat antiquated) notion that Orientals (including the Russian indoctrinated Chinese) would respect and accept a show of strength and vigor on the part of the West without opposition. The Chinese Communists seem to be a new breed of cat—at least so far as China is concerned—and we hesitate to accept the theory that they would readily knuckle under to the Occidental powers, some of which have long been engaged in exploiting China as truly if not as systematically as the Kremlin appears to be doing now.

If we accept the premises of the Administration, the old, old question of the relative importance or urgency of Asia vs. Europe as a battleground in a war on communism or in defense of "freedom" again confronts us. This is a question which plagued us during World War II when, of course, General MacArthur (and some of the leading Republicans, incidentally) disagreed with President Roosevelt and his successor in the White House. At that time the question was a real one. We were engaged in a fighting war with Germany in Europe and Japan in Asia, and there was no way of ducking the question. If we must now regard ourselves as engaged in even a cold war with China in the East, several Russian satellites in Europe, and Russia in both the East and the West, somewhat the same issue is still with us.

But the situation by which we are now confronted is not nearly so clear cut as was our position during World War II, and the complexity and the vagueness of the position we have now assumed present real hazards. Current confusion of communism with Kremlinism does not help. In Asia (and in vague talk everywhere) we are engaged in battle against communism or totalitarianism and the like. Yet Communist Yugoslavia in Europe is an ally. We proceed cheek by jowl with Socialist Britain. We do not like Peronism in Argentina, but do not regard it as our sacred duty to unseat it. About the same is true of Francoism in Spain. Many other peoples in many other countries fall far short of our ideals of democratic rule.

Beaten Before We Start

If we are to undertake to root out authoritarianism throughout the world and impose upon all other peoples something like our own idea of democracy, we are beaten before we begin, and it makes little difference whether we "concentrate our forces" in Europe or Asia. It is essentially the same blunder we made during the war, and which led to the present impasse vis-a-vis Russia and her satellites. Such a position is not only untenable, practically speaking; it is quite contrary to American tradition, which has regularly accorded other countries and other people the full right to determine for themselves the form of government and the type of social and economic order they prefer, and today we are according such rights without question to such countries as Great Britain and Yugoslavia, to say nothing of Argentina and a number of other Latin American countries, which are hardly democratic in our sense of the term.

The meaning we assign to the term aggression is likewise unrealistic at times. It often seems to be regarded as connoting any tampering with the status quo. But we can conceive of cases, indeed we know of cases (as does everyone else), where the status quo has a long and unsavory history and must be regarded as anything but sacrosanct. Nowhere are there more such situations than in Asia, where colonialism has flourished for centuries. Certainly, we should be unrealistic were we to shut our eyes to such facts as these. It is at such points as these that it often appears to us that neither Washington nor General MacArthur are always realistic.

Slogans, Slogans!

It is precisely in trying to reach sensible conclusions with regard to such questions as these that some of the slogan thinking of the day plagues us most. One recognizes the right of Britain, Argentina, Yugoslavia, Spain, France or even China to choose this type of government or that only at the risk of being cited as pro this or that, or, possibly still worse, dubbed an appeaser. We shall lose heavily if we do not find a way to free our thinking of much of the dead wood which now encumbers it. If only the current controversy over General MacArthur could be counted on to promote the process!

Continued from page 6

Responsibilities of Management Under the Excess Profits Tax

gives a presumption of managerial inadequacy—not proof necessarily, but certainly a symptom, that the planning and control of a company's affairs leaves something to be desired.

The year 1951 will be the year of planning and of decision. The year 1952 will be the year of activity and progress.

IV

My discussion from this point on will touch on five different aspects of managerial discretion affected by the excess profits tax, as follows:

(1) Accounting and Control.
(2) Production.
(3) Marketing.
(4) Personnel.
(5) Capital Structure and Investment.

Obviously the first problem for management is to know whether it is in the excess profits tax bracket and for how much.

If the company is not in excess profits, then every effort should be made to get in there, because only then will there be cheap dollars available to meet competitive aggression.

If a company will be in excess profits, then the management must know this fact as soon as possible, and for how much. The ability to forecast will differ with different companies and with different comptrollers. The accuracy of the forecast will become progressively greater as the months of the fiscal year go by, so it becomes necessary to have in readiness optional programs that can be quickly put into operation.

Bear in mind that over-spending will give you a carry-back or carry-forward to the preceding or next fiscal year. Also that such a carry-back or carry-forward is of no value unless the company can exceed its excess profits ceiling. Also remember that comptrollers are constitutionally conservative and that their habit is to under-estimate rather than to over-estimate year-end profits. Formerly, this was a good practice, but under the excess profits tax, it may turn out to be extremely expensive. This is one of the number one danger points for management.

If your company is in the excess profits range, you have two kinds of money to account for and to control. They are as different as the currencies of two different countries. They must be separated on budget estimates and accounts and, in my opinion, it would be wise to have a separate name for the new money. I suggest the letters "OE," standing for Optional Expense. Thus we can have OE dollars, OE accounts, OE controls, and OE programs.

For a company that is clearly going to be in excess profits, amount uncertain, the management of the OE program should be assigned to some general officer, not in the account division of the business. Even though the amount of OE dollars be only in the low six figures, the stakes are too great for casual or committee supervision of OE planning. Bear in mind that an under-expenditure of as little as $100,000 will cost you $77,000 in taxes—and the amount may be even greater if corporation taxes are increased.

Particular care must be taken not to let OE dollars become identified with regular expense dollars. The control of regular expense is a separate and an ancient problem. It is the OE dollars that are new. The administration of OE programs should never be confused with regular programs. Particularly, OE dollars should not be used to get a department manager off the hook by transferring his regular expense to the OE account.

Needless to say, OE programs should be those that can be quickly started, quickly terminated, and should create no precedents—except, and this is important, it will be possible to experiment with new developments with the idea that the new might perhaps justify itself on a regular expense basis.

Production opportunities under the excess profits tax include everything but those which require new capital investment not subject to accelerated depreciation. Research on new products and new designs, tooling up for new markets, reorganization of production flow, testing of old and new products under problematical conditions, importation of experimental skills, materials, and machines are now in order. In fact any current expense for economy or improvement of product that seems to be too speculative under ordinary tax circumstances may prove to be prudent for a management with cheap dollars at its disposal.

The absence of OE dollars should not be used as an excuse for delay or unwise restrictions on normal production developments. The existence of OE dollars merely increases the area of managerial movement and forces prompt decisions if competitive advantage is to be fully realized.

When people think of marketing in connection with the excess profits tax, they generally think of advertising and of prodigal advertising at that. Advertising may well offer some opportunities, but management knows that marketing goes far beyond getting a brand name on a billboard. There is the extension of branch offices and warehouses to uncertain areas, more intensive cultivation of customers, new developments in packaging, greater knowledge of consumer response to your product as against competition, and a dozen other risky ventures that every restless sales manager has listed in a folder in his top desk drawer marked, "Maybe some day we can try it!"

Public relations is a hazardous field, where we can expect full advantage to be taken for legally allowable deductions for community, regional, and national educational and welfare projects. This money need not be scattered in well-intentioned but unproductive areas; the distribution can be so organized as to produce lasting benefits to any company. The goodwill value of a soundly conceived contribution increases geometrically with its size, a point which management sometimes overlooks.

Many worthwhile projects can be undertaken in the area of personnel without getting into the business of labor hoarding to which I have already referred. OE dollars will permit adequate staffing at the managerial level, thereby lengthening training periods in anticipation of retirements of executives approaching retirement age. Apart from retirements, many companies have been understaffed at the top executive level for years as evidenced by lack of time to participate in the discussion and formulation of national policy of vital importance to business.

Useful experiments in training, especially of executives and supervisors, can be devised, and the successful programs can be carried on even if the cheap dollars vanish.

Measures likely to be taken affecting capital structure and capital items generally are difficult to foresee, partly because of the short time of possible benefit, and partly because of legal concern relating to valid business reasons for capital changes. It is apparent however that many companies are not suitably capitalized for efficient operations under an excess profits tax, and much study will be given to the overhauling of capital structures if it seems likely that the tax will be continued beyond 1953.

All possible charge-offs for bad debts, obsolescence and depreciation will of course be made. Dividend payments may be made partially in cash and partially in stock. Assets subject to mortgage will be more readily acquired. The taking of capital gains and capital losses will be timed with excess profits tax considerations in mind. The holding of State and municipal bonds will be examined with a jaundiced eye.

Buildings and machinery will be repaired and maintained at great advantage over competition with no OE dollars to plan with. Long-term commitments involving annual amortization will be avoided; leases, for short-terms and even at high rates, will be preferred.

It is apparent that even those simple and obvious questions dealing with capital items will give management under excess profits tax plenty of scope for imaginative planning.

What about the stockholders? How do they benefit through the entrenchment of their company by the expenditure of OE dollars? It is true that a ceiling is placed on earnings at the level at which excess profits begin. The benefit to the stockholder arises from an increasing coefficient of certainty on the leveled off earnings of the company. This increase of certainty of earnings will be reflected in relatively higher prices for the company's shares, with the possibility of long-term capital gains. In some cases the management will feel able to recommend a larger percentage of earnings for distribution as dividends than would have been the case except for the added certainty of basic earnings given by the existence of OE dollars at management disposal.

VI

There is one great area open to management in which cheap dollars can be ventured in a way that will support strongly national policy and the general welfare. This great area is that embraced by possible Point IV enterprises.

Here is the opportunity in 1952 to take risks in foreign undertakings that would not be prudent if we did not have a double standard of dollars. True, the time available to pian and to execute a one-company OE program on the international front is extremely limited. But preliminary explorations can be made for raw materials, designs and markets that in few or many cases can be profitably developed even should OE dollars disappear. The greatest risks will have been taken when it is least expensive to do so.

And curiously, this support by private business of the Point IV policy will fall to the companies strong enough and competent enough to follow through on promising opportunities, since these are the very companies that now will have cheap dollars at their disposal.

VII

What is likely to happen to the excess profits tax after July 1, 1953? Even if the defense crisis lessens, which is not likely, and even if the revenue from the tax is on its way toward the vanishing point, it is by no means certain that the excess profits tax will be allowed to lapse. Although in 1950 business was almost unanimous against the tax, by 1953 many business managers will have found their competitive position substantially improved by reason of the cheap dollars at their disposal. They cannot reasonably oppose a revenue measure that is helpful to their companies.

On the other hand, certain elements on the liberal-labor front who have in the past advocated an excess profits tax may decide they were mistaken, because of the unequal and unpredictable consequences of having a double standard of dollars at the disposal of business managers. But there will be those in the labor group representing workers in the more powerful and profitable companies and industries who will appreciate the value of cheap dollars for the welfare of their constituents. They can be expected to support the continuance of the tax.

It is not unlikely that a case for the excess profits tax will be made by some students of public affairs on the grounds that the benefits of the tax go to the business managements which are most imaginative, alert and aggressive, and that this type of indirect subsidy thereby strengthens our American competitive system of production and distribution.

In spite of the controversy that we are likely to have in the latter part of 1952 and early 1953, my guess is that the tax will be permitted to lapse. The reasons are simply that the tax will prove to be in practice extremely complicated to administer, that it will produce grotesque and conspicuous inequities, and that the revenue from the tax will become progressively and proportionately less, even within the short period ahead.

The excess profits tax had few friends among those in Congress or in the Executive Branch who were knowledgeable about tax matters. In the absence of public hysteria and in the presence of a legislative failure, it seems to me unlikely that sufficient strength can be mustered by the friends, old and new, of excess profits taxation to reenact such a measure in 1953.

VIII

The existence of cheap OE dollars in the economy, even if every one of them is prudently used, is unquestionably in some measure an inflationary influence. But if these dollars are used wisely, as I believe most of them will be, this inflationary influence will be offset by social gains in terms of newer and better products, wider availability of the more acceptable consumers goods, more efficiency in the maintenance and more economy in the replacement of capital goods.

Management under the excess profits tax will have a great chance and a great test to show its ability to associate in one package the public interest with aggressive competitive enterprise.

Did You GUESS?

Here's the 1951 version of the two angels appearing on page 44.


Homer J. Bateman Henry Christman, Jr.

(A) Homer J. Bateman, Pacific Northwest Company, Exchange Building, Seattle 14, Wash.—President of Seattle Security Traders Association.

(B) Henry Christman, Jr., O'Neal, Alden & Co., 421 West Market Street, Louisville 2, Ky. —Former President of Bond Club of Louisville.

Globus Director

Morton Globus has been elected to the board of directors of The Seagrave Corporation of Columbus, Ohio, one of the oldest and largest manufacturers of fire fighting equipment. Mr. Globus is associated with the New York Stock Exchange firm of Bruns, Nordeman & Co.

Monetary Economists to Hold Confer. in Wash.

Monetary, Fiscal and Credit Policies of United States in Present World Crisis, will be discussed at a Conference to be held under the auspices of the Economists' National Committee on Monetary Policy at the Hotel Willard, Washington, D. C., May 10.

The date of the Conference will coincide with the birthday of one-time Secretary of the Treasury, John Sherman, who was born on May 10, 1823, in Lancaster, Ohio, and whose experience in bringing about reestablishment of the gold standard after the Civil War contains valuable lessons applicable to the present time.

The program for the Luncheon Conference will be as follows: "The Causes of Inflation and its Effects on Mobilization Costs, Business Earnings, Labor's Stake, and the People's Savings."

Speakers will include Hon. Howard H. Buffett, U. S. Representative from Nebraska; A. Wilfred May, Executive Editor, "The Commercial and Financial Chronicle"; Philip M. McKenna, President of Kennametal, Inc., and National Chairman, Gold Standard League; and E. C. Harwood, Director, American Institute for Economic Research; J. H. Frost, Chairman of Frost National Bank of San Antonio; and Walter E. Spahr and Leland Rex Robinson of the Economists' National Committee on Monetary Policy.

James Washington Bell, Acting President of the Committee, will serve as Chairman.

Nat'l City Appoints

The National City Bank of New York has announced the appointment of Walter W. Bittner as assistant cashier. He was also appointed assistant trust officer of City Bank Farmers Trust Company. He will be attached to the pension trust division of the bank and company.

With J. A. Warner Co.

J. Arthur Warner & Co., Inc. 120 Broadway, New York City, announces that Kenneth F. Springer and John D. Bonnin have joined the firm's sales staff. Mr. Springer was formerly with H. M. Byllesby & Co., Inc.

Yes, and Other Questions, Too

"The controversy over General of the Army Douglas MacArthur has had at least one beneficial result; it has served to dramatize and define one of the basic problems we now face in the Orient—how to end the Korean war.

"This problem is bound to become more acute as the weeks pass, as the American toll of casualties becomes bigger and bigger, and as no clear end to the fighting appears. Americans are an impatient people, as Lieut. Gen. Matthew B. Ridgway, General MacArthur's successor, has noted. They can 'take' casualties when there is a clear and stated objective, but if no such objective is apparent their national impatience is certain to manifest itself.

"Yet it is clear that, as of today, we have no clear-cut objective in Korea; there does not appear to be any quick political or military end in sight to the fighting.

* * *

"General MacArthur's sudden replacement . . . is certain to dramatize the need for some definite answers to pressing questions.

"Are we getting anywhere in Korea, or are we becoming more deeply mired in a strategic 'morass'?

"How can the Korean war be ended?

"What should our foreign policy be in Asia?"—Hanson W. Baldwin in the New York "Times."

Yes, and we hope it may "dramatize the need" for answers to a number of other and still broader and still more vital questions.

Something New Has Been Added: A Trio of Proud Papas



John H. Kugel John F. McLaughlin Elmer E. Myers

A baby girl, Candice Ann, to Mr. and Mrs. John H. Kugel (Kugel, Stone & Co., New York City). The arrival of the Kugels' third child prevented Mr. Kugel from attending his own cocktail party at the Waldorf on Friday, April 13, the night of the STANY dinner.

A boy, James Hugh, to Mr. and Mrs. John H. McLaughlin (McLaughlin, Reuss & Co., New York City) weighing seven lbs. 15 ozs. on April 11 at Mercy Hospital, Rockville Center, N. Y. This makes the sixth child for the McLaughlins—and all their names begin with "J."

A baby girl, Barbara Elise, to Mr. and Mrs. Elmer E. Myers (George B. Wallace & Co., New York City) on April 14.

Continued from page 3

Going Like Sixty

beautiful companies like Radio, Motorola, Admiral, Philco, Dumont—but my nominee for the speculative Oscar here is Zenith. This outfit has been expert with electronics from the start and has been dealing in tone for a very long while—radios, hearing aids, then television and now its new dreamboat, phonevision. Only this past week Zenith was talking up phonevision for Canada. Here's a "hep" management that's never cluttered up its forward motion, in its chosen field, by excursions into appliances such as ice boxes and ironers.

Operating results have been truly impressive, with 1950 some 30% above 1949 in total sales, to $132,000,000. Zenith has changed its fiscal year to end Dec. 31 instead of April 30. Even for the last eight months of 1950, however, earnings were close to $11 a share and now they're running along somewhere near $1.50 a month. What else? A working capital around $33 a share, and year-end book value roughly $47. 492,464 shares of common plus $2,400,000 in notes is the capitalization. Zenith common has been a spectacular performer this year, being the only TV to top its 1950 high. There's talk of a split-up which, as you know, is always market marijuana! Reference to its alphabetical position on the Stock Exchange listings may well suggest to you that Zenith is the last word in TV! It sold, as this was written, at 64 and perhaps it's the answer to your $64 question. Paid $3.50 last year but current earnings could support a lot fancier moulting.

The last of my quartette today is the Denver & Rio Grande Western. Only 351,677 shares of common represent an equity geared up, for market purposes, by the powerful leverage of $92,800,000 of funded debt and $32,531,300 face amount of preferred stock (convertible into common) ahead of it.

DGR runs some 2,400 miles of road from Denver and Pueblo, Colorado, west to Salt Lake City and Ogden, Utah. Its location is a strategic bridge with Missouri Pacific, Rock Island and Burlington feeding it on the east, and Southern Pacific and Western Pacific interchanging the box and gondola cars at the western end. Prewar days were not fat earningswise but the burgeoning growth of the Pacific Coast, the zooming operations of Geneva and Provo Steel, larger coal production, and since last June heavy traffic in Korea-bound military hardware have brought new dimensions to the profitability of DGR. Per share earnings blossomed from $6.33 in 1949 to $12.50 in 1950. Continuing excellent traffic plus lowered costs through dieselization, suggest a bigger net in 1951, and something more than the mousey $2 dividend vouchsafed in 1950. Another thing, debt refunding now in progress should add to net earnings the savings derived from lower interest charges. You may never climb the Rockies yourself but DGR does that every day in the week, and profitably. It's possible that DGR common might make mountain music in your speculative list, with an obligato of mountin' dividends!

So I conclude my lineup for today's game with only one discordant note. While I was beating all this out, DGR went and slipped below 60 to a meek 57½. How inconsiderate! I still like my package, however—a four-way deal that lines up like this:

	Cost About	1950 Dividend
1 share DGR	$60	$2
1 share ACD	61	3
1 share Zenith	64	3.50
1 share KCL	61	4.50
Total	$246	$13.00

Yield about 5.28%.

All four of these in 1951 might, with a little luck, increase in (1) earnings; (2) dividends, and (3) market price. If they do they will in truth be "going like sixty." Meanwhile you have had the rare fun of seeing a bizarre stock grouping of a ranch-oil, a chemical, a rail, and a video. How diverse can you get?

Bache Open House

Bache & Co., members of the New York Stock Exchange, will hold open house at Suite 589, Hotel Waldorf Astoria on April 23 and April 24 for editors or publishers attending the ANPA Convention in New York. The company, which currently is advertising in newspapers throughout the country, will have on exhibit a display of its recent advertising and sales literature.

Continued from page 11

Our Two Major National Problems

have not heard of any one in this country, in Washington or outside of it, who does not believe that government is profligate in its wastefulness. Every one seems to agree that current operating expenses of government could be drastically curtailed, and yet nothing is being done about it. We seem suddenly to have gotten the idea of a balanced budget and even that is a gain. But the plan proposed for attaining this balanced budget gives no consideration to reduction of current operating expenses of government. The cure proposed is higher and still higher taxes, even at the grave risk of destroying the incentive for production which is the first over-all need in this situation.

With taxes at the level which they have now reached, there is already grave concern on this point and I doubt that anyone in calm judgment can justify an increase in taxation rates until after every reasonable action has been taken to cut current operating expenses of government and a new appraisal made of revenues from present tax laws.

Along with this cut in operating expenses could equally well come a large cut in the public works budget. In addition to reducing the demand for supplies more urgently needed for defense, a curtailment or postponement would leave the public works available for undertaking when the more urgent needs for war production shall have been met, and when new projects will be needed. On either or both of these points a material reduction in the demand for goods could be effected with comparative ease.

We seem to have dawdled in every step we have taken. Even when we seem to agree on what has to be done we seem unnecessarily slow in bringing the plans to completion. There isn't any reason to blame any particular group or party for our failure, for there is plenty of blame to be assessed to all concerned in government.

From June to November we argued the comparative merits of direct versus indirect controls. Instead of arguing about the comparative merits of these two plans, we should have introduced both —the indirect as far as possible, and price and wage freezes accompanied by only the necessary controls, and we should have provided effective management over both much earlier than we tackled either plan of control.

We started a few little indirect controls that we never had any right to assume would be effective in materially slowing down inflation, let alone stopping it. We did limit credits on installment sales. We did require more down-payments on purchases of homes. We did limit credit on stock exchange transactions. But all combined have had very little measurable effect on the whole economy up to this time.

We did argue at length about which branch of government was correct — the Federal Reserve Board or the Treasury—regarding the excess reserves of the banks. We did talk of slightly higher money rates on government securities with their collateral effect upon all money rates. We did not talk much about the effect this change in money rates would have upon the value of government securities. We did talk a little about the need of instituting a savings campaign on the part of our people. We did not seem inclined to recognize the difficulty in selling increased quantities of government bonds to our people when they were showing willingness to sell their holdings of such government bonds. Not only did we have to reverse the trend of public thinking in this regard, but to be at all effective we had to increase the sales of new bonds to the public at the same time that the public was recognizing the currently reducing prices of the old bonds.

Governmental Tug of War

It seems like a typical governmental tug of war, as we look back on it. It arose, I believe, from two decades of funny—or phony if you wish—economics. The simple fact was that we had become slaves of our own previous policies, and that alone imposes a tremendous additional obligation upon these men who are trying to meet our current needs and not increase the adverse effects of the past two decades of curious policies. These policies of the prior years had made us slaves and we were no longer free agents to do what reasonably should have been possible.

We did not recognize that large reserves were potentially inflationary but not necessarily so. We had had previous periods, and not too far back, when these reserves did not have an inflationary effect. We had seen the period when the government for years tried to produce an inflation in this country, but inflation did not take in spite of large reserves. We had likewise seen inflationary situations which arose in spite of having no excess reserves. We seemed to overlook that it was not the existence of excess funds that was important—for the only inflationary danger could come from their being utilized for the purchase of goods for war, or by business or individuals in fear of greatly increased demands by government.

We did not tackle the problem of reducing the buying power at the spots where the buying power existed. That buying power had to be drained off, either by an increase in the savings or by an increase in income taxes. The tax programs so far enacted have been helpful but they have not tackled the real problem of avoiding inflation. They will help balance the budget, but they don't reduce the buying power where the large body of income now exists.

Credit's Utilization the Crux

I cannot emphasize too much that it is the *utilization of credit* and not its mere existence that creates an inflationary situation.

After we seem to have settled the controversy between the Treasury and the Federal Reserve Board, we are now tackling the problem of curtailing borrowing by voluntary action of banks who are endeavoring to limit borrowing to the essential purposes of preparedness. I have a belief that this plan will be reasonably effective. How effective it is will depend entirely upon its administration, but the plan itself does not differ, in essence, from the work undertaken through a capital issues committee as previously applied in other similar situations. While this debate was going on as to inflationary dangers it should have been comparatively easy to prevent this credit from being used. Nothing was gained by delaying action so long.

These are only a few illustrations which I am sure are within the field of observation of every one here. They could easily lead one to the conclusion that for years—starting in the early thirties—Washington tried every device it could in order to create an inflation and that inflation came only as a result of war.

Now in the past five years we kept preaching that we are trying to stop an inflation, whereas practically every act we perform, or every policy we adopt, is inflationary and obviously so. Even though we try to keep objective in appraising our acts, we find it either difficult, or impossible to understand our failures. The simple, cold fact seems to be that inflation is very attractive in the field of politics and that it is likely the most effective vote-getter known. We seem to be thinking only of the short-range aspects of the situation and to be overlooking the continuous piling up of obligations, provided only we can keep indulging the hope that we can defer them into a sufficiently indefinite future.

One wouldn't have to be too cynical to understand the difficulty of cutting Federal employment. If you realize that each member of Congress would be subject to thousands of pressures to keep jobs alive, it isn't too hard to understand why the situation is as it is. There isn't any excuse for its continuance but it does help one to understand why it exists.

We can also understand why government endeavors to let the people know how active it is, and is to become, in ordering supplies for defense. When Washington talks about the large demands upon the economy and when it doesn't take a hard-bitten attitude toward inflation, it practically says to every citizen that his pocketbook will be served by buying early those goods which he might want over the emergency period. It practically says to every producer and distributor of goods for this country or abroad, that they would be well advised to buy in advance of requirements. The very indefiniteness of these demands creates inflationary pressures which are bound to be felt through the whole economy.

We talk about the increased amount of industrial borrowing. We don't attempt to measure it in quantities of goods. We think only of the amount being larger than a year ago, or at some other time in our history. We don't recognize the inflationary situation which has continued so strongly over the past year. The increases in prices alone since a year ago would justify a very substantial increase in such borrowings. We don't try to get at all the facts and lay them bare for public understanding in this situation. We don't attempt to find out what part of these industrial borrowings are not put to use but are kept by corporations so as to have funds available to meet inventory needs should further inflation occur.

Motley Views of the Deficit

Let us look back two years ago when it became apparent that there would be a large Federal deficit. A great motley of views were presented. Some were by selfish interests who merely wanted more for themselves, some resorted to fanciful arguments based upon unproven ideas, some minimized the importance of a deficit in the neighborhood of 7 billion dollars per year, some argued only for full employment, some argued for the need of increased public buying power—and nobody favored the hard path of living within the national income—then at a peak compared to all previous history. Very few were thinking of the long-range effect of our program.

On top of this 7 billion dollar deficit, we were urged to spend still more for further social advances in the field of medicine. If anything was to be done in this field, consideration had to be given to the sources of the funds. Here we were with the highest national income in history, with the highest peacetime tax rates, with the highest national debt—and we were operating at a current loss—and yet we proposed to pay out still more. Seemingly little attention, if any, was given to the long-range effect of this kind of confused thinking. Washington still thinks the cure for inflation is more taxes, and nothing of any moment is being done broadly on the expense side of the budget.

A part of our problem arises from the vagaries in our national policies over late years. If we could come to a clarity of view on some of these problems, we could find a far better basis for knowing how to proceed on our immediate problems. Let me try to sketch a few of these tugs of war which have been going on for a long time.

For example, we are subsidizing the silver mining companies. We don't need silver for money. In a time like this we don't need to support the price of silver by direction or indirection so far as world markets are concerned. We don't recognize the fact that we were the major contributor to destroying the monetary system of China through the original Act. But over and above all this matter of buying something we neither want nor need, there is no justification for paying more for it than we need to pay.

We talk very glibly about aid to the world. We talk of free trade among nations. We argue for its benefits. We establish it as thoroughly sound on a theoretical basis. But on the other hand, we won't grant import permits which will increase our domestic supply of things we badly need, even though our own domestic market is one far above parity or any other formula. We seem willing in those fields to allow export permits and even to finance the purchases by other nations from our own short supply here. It would be very helpful if we could get some understandable policy in this field. In this aspect our economists don't differ half so much as our political leaders do. The economists seem to find it harder to go in two directions at once. When politics enters economics it appears that no government is able to say "no" to any economic pressure group that is insistent enough in its arguments or strong enough in its voting power.

One of our most difficult problems is the matter of a fair basis for prices of farm products. I think our people will be entirely willing to take such action as would eliminate the extreme risks of farming. They are not ready by direct action, or by establishing a formula, to put prices of farm products so high as in turn to guarantee high production—production far beyond our needs—and then, in turn, having created the excess production, be forced to destroy the excess rather than put it on the market and bring the prices down reasonably to our consuming public.

Some of us concerned about shortages of critical materials and their imperative need in this country in the event of war, were very strong in arguing for plans for buying up large quantities of critical material years ago. It is true that the Congressional appropriations were not adequate but, on the other hand, the Administration did not present its needs nor stress the importance of an expanded policy.

When many parts of the world were in such great need of dollars, we might very well have made long-term contracts for the things they already produced. They might have been bought at very favorable prices to the producing nations, and then we would not have been at the mercy of commodity markets in a situation such as was caused by Korea. The policy we followed exposed us obviously to just exactly the situation which we did encounter when the threat of war arose. Our failure to buy when world demand was not at the top only resulted in greater pressure to buy when the Korean incident occurred. Not only did we jump into the market but our demands helped create an inflationary situation all over the world. We lessened the capacity of European nations to rearm by raising the prices in world markets.

In February of 1946 the government stepped out to raise hourly wage rates, starting off with the steel industry, though it was perfectly apparent then that this would be the start of a merry whirl of inflation. It was certain that there was no warrant in granting wage increases to one part of the population unless all parts were to be similarly treated.

Of course there was a fantastic economic justification for it in the unsound argument that the need was to increase public buying power. At that time the government feared an unemployment by April of 8 million workers. The pent-up demands from the war had not made themselves felt and it seemed entirely clear then that we could have an adventure in prosperity and keep everyone employed. There never was any official attempt to justify the first big wage increase on any basis of economics, so the natural inference is that it was good politics—and this seems to have been demonstrated over the succeeding years.

The merry whirl of inflation did follow this course and we have had succeeding rounds of wage increases each year since. We seem to have overlooked the fact that the biggest factor in increased prices lies in increased wage costs. They certainly make up 80 per cent, or more, of the costs in our entire economy. Some of our unsound leaders tried to argue that industrial efficiency would improve so fast as to offset this increased labor cost. The idea never had any validity, though it did gain acceptance from those who thought only of the higher pay they would receive. The result of the across-the-board sweep was easily foreseen. By the time all other groups had negotiated similar wage increases, costs generally were up enough to absorb in its entirety the wage increase granted in the prior year. Then the argument was advanced that wages should be increased to cover the increase in the cost of living. The argument has great plausibility but it is inherently unsound.

Wage Increases Uneven

These wage increases did not spread evenly throughout the economy. In general terms, the white collar workers did not make gains proportionate to those of the highly unionized industries. And now we hear the fantastic argument that union labor represents all labor. If this argument is seriously advanced by proponents of the cause of labor, I think the facts warrant the charge of breach of trustee relationship. It is true that many of these other groups did make some dollar gains, but it is also equally true that they suffered far more in true buying power from the increased costs imposed upon them. They had a reduced buying power, even though some increases had been made to the great body of public servants — school teachers, firemen, policemen, city and municipal employees, and many white collar workers. Their effective buying power has not been increased as a result of the merry whirl of inflation started away back in February of 1946.

No one can claim in the face of this record that union labor has represented the other workers. The drain of increased local taxes —to cover the increased costs of state, county and local governments—that followed these successive rounds of wage increases for union labor does not get much attention, but the taxpayers are all aware of it in general terms, if not knowing specifically what started their troubles.

Despite all the pious protestations of the advocates of higher wages that prices would not increase as a result of wage increases—*they did.* Once more we are hearing the siren song that wages can be raised substantially without a corresponding rise in our cost and price structure. Are we to learn nothing from the past?

Don't we recognize that this practice did not create any more production and did reduce buying power of money? These merry whirls of successive rounds of wage increases also decreased the buying power of all income not in the form of wages. It proportionately reduced the value of all savings, of all rental income, of all interest and dividends, of all insurance policies and, sad to say, of all the annuities and pensions over which labor has struggled so hard in late years. Here were the groups—the forgotten men of our economy.

If all people had received the same increase as the steel workers in 1946—and nothing less than this should have been countenanced by government—then all workers would have been in the same position so far as current income is concerned, and we would merely have had a redistribution of wealth which would have been painful to many parts of the population, but would not have been half so ruinous as the policy we have followed. Public opinion generally seems to have failed to recognize that these increases in wage rates were certain to result in a reduction in future buying power of the pensions, annuities and savings plans.

A Fair Adjustment

If we are to talk about equality of sacrifice, we might seemingly talk of letting the underprivileged people catch up in wage rates with those who have received so much, either at the hands of government or in keeping with political pressures created by government. Cynically I have no hope that anything like this will occur, but it would seem to be inherently fair. However, in a period of war, I can see no reason to continue progressively to magnify the present inequalities, and particularly can I see no logic in threats of strikes and slowdowns in order to gain a selfish advantage. This does not sound at all to me like equality of sacrifice—or equality—or sacrifice either.

This controversy may readily degenerate into class warfare unless there is a realization that both parties are interdependent to a great degree. This factor of interdependence relates not only to management and workers but to those who are not specifically joined in this issue—the consumers, the stockholders and the general interests of the whole country.

Guaranteeing an Explosive Inflation

This whole situation makes one wonder whether our present national policy for full employment, regardless of its costs to the nation, is not a guarantee of a continuing explosive inflation—a guarantee that in the end we will have utter devaluation of our currency. As long as we have these sharply competitive situations among union labor leaders, no one of them can retain his position without gaining as much for his members as any other one does. Even if all others were to agree upon the soundness of my position in this regard, one member would be able to wreck the structure even more effectively than Russia has been able to handicap the United Nations through the use of its veto power.

Now please don't assume that I am against all so-called social advances. I am in favor of every desirable social advance which the economy can pay for. We have already gone so far that we have strained our taxing capacity and we have proven that we had no reserves for meeting the present situation. Still less have we any reserve for meeting the demands should war develop. While I don't expect a war to come, I would make no pretense of being able to read the mind of the governmental authorities in Russia. On the other hand, I think they are realists and that fact ought to be an adequate deterrent against their starting a war. No one knows just how much taxing the economy can stand, but until there is a greater equality in the levying of income taxes, there will not be enough people sufficiently concerned to stop this gradual assumption by government of an increased field of activity and increased Federal expenditures.

Somewhere along the line, and I believe we have already reached the point, we are certain to reduce production and then we will have a naturally induced inflation—not one created politically, but naturally. If that comes I can partly meet my own problem by getting a fishing rod and a gun and a hunting dog, but I don't want my grandchildren to have to live in the situation resulting from our lack of hard common sense.

It is a whimsical thought but let us think of the men who revalued gold some years ago in the hope they would create an inflation. People who like to monkey with money are now asking for an upward revaluation of gold for the purpose of stopping an inflation. There would be some excuse for a man taking either view, but there would be no excuse for the nations accepting both.

We seem to be overlooking the fact that in all this discussion about foreign trade, in which we naturally have to walk a tightrope in order to avoid giving offense to other nations, we are guaranteeing that we cannot export goods to foreign markets for we will have priced ourselves out of those markets. Never mind all the other difficulties involved, just think of the social problems that will arise through unemployment in our own country when we start importing the products of foreign labor in larger volume, forgetting that at the same time we are really taking work from our own people. We may have all the friendliness possible in our desire to improve conditions in the less-privileged portions of the world, but when we get unemployment we will revise our thinking.

Another tug of war lies in the efforts of the Administration over the years to lower interest rates at the same time that we were trying to increase the sales of government bonds and while we were decreasing the buying power of the funds so invested. We had better do some thinking about being fair to all of our people, for that will bring us around to thinking of them all as consumers and forgetting about all of the classes seeking selfish advantages for themselves as producers. If we can just change our thinking around to that end, we will solve a lot of the problems arising out of our group selfishness and group economic pressures.

Further Maladjustments Ahead

With all the maladjustments in the economy—the aftermath of the war and its shortages—the government has shown it cannot force adjustments downward in any part of the economy, and it seldom steps aside to permit the natural processes to bring about such adjustments. For the same reason it cannot stop further and greater maladjustments. The result is definite pressure strongly favoring inflation—though the planners are far from admitting the fact.

When we were youngsters in high school we first heard the idea that perpetual motion was a physical impossibility. That may be true in the field of science, but if this successive series of wage increases operates a little longer, we ought to be willing to accept the belief that perpetual motion has been attained.

More care needs to be used by all concerned in the use of the word "labor." The union officials have all too successfully preempted the word as referring to themselves, whereas they represent a little less than one quarter of the 60 million work force. Furthermore, it is not as if the other three quarters had never had the opportunity to join up with the unions, for the 45 million now out of unions have not only had constantly to reject the offers of voluntary union membership, but they have had to resist almost as constantly the rugged efforts to *force* membership on them.

Management Must Coordinate

Management's job is one of contributing to, stimulating, coordinating, and judging the contributions and rewards in the specialized, and therefore interdependent, activities of the participants in the breadwinning process of our economy—and doing so in a way that serves the balanced best interests of these participants who are the customers, workers, investors or owners, government and the whole public. Management succeeds—and even holds its job—only by successfully serving those balanced best interests.

Fortunately, under our free system, when management is doing its job in a way that serves these balanced best interests, it is also serving both the short and long-term best interests of each of the claimants for a piece of the pie—*i.e.,* again the customers, workers, owners, government and whole public.

Thus labor constitutes one of the elements or claimants in this interdependent group coordinated or "managed" by management. If workers move up to sit with management, they become management and are no longer workers—and they certainly must no longer represent workers but rather must represent the balanced best interests of *all* the participants and be concerned with the *whole* pie.

To the degree that the present union campaign succeeds, the American public will have been led to believe that rising prices are caused by the failure of the free market to curb the greed and power of businessmen. In fact, the rise in prices will have actually been due to improper or at least unwise actions by businessmen, farmers, government, and—more importantly—by the very union leaders who are now professing to be trying to stop rising prices in the public interest, right while they are promoting the very measures that mean putting more and more inflation in the costs which must soon get down the pipeline to us all in increased prices.

It is sad after all the discussion over several years that there is no standard for what constitutes fair wages, and for that matter there isn't one either as to fair profits. Wages come out of the economy first and if anything is left over, industry shares in the form of profits—after the government takes a half. No recognition is seemingly given to the fact that profits are a secondary charge—a by-product if you will—whereas labor has the first mortgage on all production.

If corporate profits are high, then the argument based on capacity to pay is presented, quite regardless of the character of the industry involved—whether it is a stable industry with relatively stable profits, or whether it is a cyclical industry with recurring depressions. If the cost of living is rising, labor argues for compensating increases in wages and seldom takes into account the amount of the fringe benefits, pensions, and so forth, which have mounted far beyond the public's realization. If the country is facing some unemployment, then the demand is to raise pay in order to create purchasing power. If that argument does not work, then it is presented in the form of maintaining take-home pay. Whenever principles or policies are to be recognized, they should work both ways and, for an example—the demands for rising wages to compensate for increased cost of living should take into account a reduction in wage rates when the cost of living goes down.

Plenty of the fault lies in the end with the plain citizen who—*if* he is to be *free*—must know what is the right thing to do, insist on himself and his representatives doing the right thing, and be impervious against the misrepresentations and other wiles of the demagogue.

But, the greatest fault of all lies with the businessman in general for not having realized that he was failing his leadership assignment by not learning and teaching sound economics, and not becoming forthright and effective as a leader in performing his political duties.

We are going to get out of Washington in this crisis just the actions and the regulations the public as a whole thinks are about right.

Politics Must Match Economic Realism

So, if we want to be saved—against even *ourselves,* much less Stalin—businessmen, educators, editors, and other conscientious citizens simply must get busy raising the *realism of politics* quickly up to match the *realism of economics.*

Not as a duty to themselves, but as the duty of leading citizens to the whole country—businessmen in particular have got to gain the fairly simple economic facts of inflation, regain their courage to become vocal, and then *make a habit* of temperate but informative free speech on the currently troublesome and controversial matters of public interest—such as the misunderstanding of the causes and effects of inflation and the short-sighted view of any country which tolerates it.

If free speech is neglected as just an unused right, it will wither and disappear—and our freedom and the rest of our material and spiritual well-being will disappear with it. Dictators *get* to power mainly through talking louder and longer than their opposition. Dictators *stay* in power through then forcefully denying any opposition the right to talk—if not denying any opposition the right to live.

May I invite your attention to a parallel from the lines of Lowell, who said there is no place ten miles square on this globe where a man can live in decency, comfort and security unless the Gospel has gone there first and cleared the way and laid the foundation which made decency and security possible.

Just as we have taken for granted the benefits of the Gospel, so we have taken for granted the benefits of The American Way of Life which has provided a standard of living so high that there is no place ten miles square on this globe where a centralized government, either Fascist or Socialist, has been able to do as much for all the people. Our present system needs no justification, for it has produced results matched nowhere else in the world in its entire history.

An old philosopher once said: "God grant me the serenity to accept those things I cannot change, the courage to change those which I can, and the wisdom to know the difference." That's a brief of the job, or at least the approach to it.

Neither knowledge nor wisdom will be taken from you by the process of an inflation — but everything else you have will go down in the crash.

In a period in world history when a strong America is essential to the continuity of our way of life, to risk undermining the entire business structure, and even the national security, for transitory gains to a small portion of the total population is indefensible national policy.

Bond Club of Chicago Annual Field Day

CHICAGO, Ill.—The Annual Field Day of the Bond Club of Chicago this year will again be held at Knollwood Club, Lake Forest, on Friday, June 1. The following General Committee has been appointed:

Chairman: John W. Clarke, John W. Clarke & Co.

Vice-Chairmen: Edwin A. Stephenson, Chase National Bank; Rowland H. Murray, Ketcham & Nongard; David J. Harris, Sills, Fairman & Harris.

The General Chairman has appointed the following Committee Chairmen:

Arrangements—Robert B. Whittaker, F. S. Moseley & Co. Entertainment—Robert A. Podesta, Cruttenden & Co. Refreshment—John W. Newey, Newey & Ayers Inc. Dinner—Myron F. Ratcliffe, Bache & Co. Golf—Robert L. Holt, Blair, Rollins & Co. Baseball—Francis R. Schanck, Jr., Bacon, Whipple & Co. Tennis—Art H. Oehl, Paine, Webber, Jackson & Curtis. Investment—Ralph S. Longstaff, Rogers & Tracy, Inc. Dividends—Hobart E. Smith, Stifel, Nicolaus & Co. Trophies—Robert Mason, Merrill Lynch, Pierce, Fenner & Beane. Special Event—Charles K. Morris, F. S. Yantis & Co. Indoor Sports—Jules F. Cann, Lehman Brothers.

Further details on the Field Day will be issued later.

C. E. Abbett Joins Staff of Douglass & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Cecil E. Abbett has become associated with Douglass & Co., 133 North Robertson Boulevard. Mr. Abbett has recently been with Harris, Upham & Co. Prior thereto he conducted his own investment business in Los Angeles and was an officer of Slayton & Company, Inc.

Marache Sims Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Michael M. Foydl has been added to the staff of Marache Sims & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange.

Joins Blyth Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Bruce E. Van Alstyne has joined the staff of Blyth & Co., Inc., Russ Building.

With Consolidated Inv.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Kenneth E. Gwin is with Consolidated Investments Incorporated, Russ Building.

Two With E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Nathaniel S. Chadwick and James C. Fallon are now affiliated with E. F. Hutton & Company, 160 Montgomery Street.

Continued from first page

The Business Outlook

the last few months has dulled our awareness of the fact that this country is nevertheless still at war. Up to the present time, in just nine months of fighting, nearly 10,000 American men have been killed in that war and almost four times that number are missing in action or wounded. In spite of the fact that the country as a whole has become complacent about the war, and our fears of all-out fighting this year with Russia have been definitely eased, the fact remains that our military preparedness program is only beginning to gather momentum. It will, during the rest of this year, increasingly affect our business and economic situation unless there should be an abrupt about-face by the military and production planners in Washington. General MacArthur's abrupt dismissal, and the possibility of a Spring offensive by the Korean Reds, however, are again centering public attention on the war and help assure that there will be no let-down in the rearmament program.

There are four separate things I thought you might like for me to discuss today. To a large extent, what I have to say deals with the future, and it is essentially opinion. But the conclusions we shall draw today seem to me to be reasonable. The four phases of our economic picture I felt would interest you, deal with what's ahead in production and raw materials, the availability of capital and credit, a look at the present inflation problem, and finally, some comments on business trends throughout the country as a whole during the rest of this year.

Raw Materials

The acute shortages of raw materials most businesses and industries experienced until about a month ago, and some are still experiencing, are common to the whole world. Some of these shortages were temporary inconveniences. Others were so severe that some businesses were faced with a shut-down. Until recent weeks, the general shortage of raw materials had been the most serious single worry in the entire business picture. As a result of the shortages, commodity prices—as we all know—moved up sharply. A few weeks ago, however, they seemed to have reached their peak. Some have declined rather sharply from their highs. The average rise of the wholesale price of most commodities since the outbreak of the war in Korea was 60%. For example, wool advanced 105%, silk 115%, shellac 60%, lead 50%, rubber 150%. More recently there has been great instability in some prices. This uncertainty itself has created a lot of trouble for producers who use some of these items. A month ago, tin was selling for 140% more than its pre-war price. During the last few weeks, the Government withdrew its bid, and tin has declined sharply. But it is still 75% more than its pre-Korea price.

The raw materials I have already mentioned are by and large among the most extreme examples of price rises. All commodities, including agricultural, mining, forestry, and other products, rose by an average of about one-fifth above their level last June. Consumers' prices, which always move upward a little slower than prices of raw materials, advanced about 10% on the average. There are, of course, many notable and dramatic exceptions. Clothing and meat prices, for example, rose far more swiftly.

The sharp rise in business volume and prices until recent weeks was due to three things. These were first, "fear" or scarcity buying by manufacturers, wholesalers, retailers and consumers; second, the Government's stockpiling program for raw materials; and third, the fact that the nation was suddenly called upon to produce more than its plant and equipment would permit. And there is no denying that some inventory speculation took place in almost every line of business.

Supplies of materials for civilian use now are far more plentiful than was expected last Fall. So the adjustment that we are going through at the present time is essentially one which began on the consumer level. It will not, I believe, be severe or prolonged. This adjustment has its roots in two things; first, the public's fear of shortages has been almost eliminated by the fact that month after month, plenty of consumers' goods have continued to be on the shelves and available for sale, and second, many of the very sharp price rises were artificial, in the sense that they developed out of panic-buying, or buying for the future in the face of the fact that production of consumers' goods has not been cut back sharply by the defense program.

Underlying this period of readjustment is an essentially sound business picture and over the long run, I think we shall look back on it as being a rather healthy business development, in the same sense that the anti-inflation effects of the business readjustment during 1949 were a good thing for the country as a whole. I point this out because during the past nine months prices have risen too sharply, and inflation, with all of its economic and political dangers, has again been spreading across the country. It is far better for the economy to pause now and catch its breath by making necessary price and supply readjustments, than to go on rocking and swaying upward with the uncomfortable certainty that eventually a severe explosion would take place. There has never in all history been a period of inflation which did not end in collapse, or in drastic economic and social changes, if inflation went far enough. So I personally believe that in spite of the temporary business adjustments we may be undergoing, they are preferable to the dangers which always accompany a prolonged, run-away business boom.

Three Factors of Underlying Strength

A moment ago I mentioned that there are underlying factors of strength in the current business picture. There are three of these factors. First, thus far, a large part of our defense production has merely been in the "planning" stage, but it will soon begin to roll off the production lines and the volume will become increasingly large as the months go by. The defense program has required only about 8% of our total national production during each of the past there months. This government purchasing for the most part has been in the "supplies" category. The real "hardware" of war is just beginning to be produced. By the end of the year, unless there is an abrupt reversal of the rearmament program, about 20% of our industrial production will be for national defense and world rearmament. As the next few months go along, the inventories and stockpiles of raw materials which have been accumulated thus far by the government will be cut down, as the guns, the planes, and the tanks actually begin to roll off the production lines.

The second underlying factor of strength is that the capital goods industries — the creation of new plants and equipment for industrial production — has begun to grow by leaps and bounds. For example, the machine-tool industry today has a backlog of orders that cannot be filled within the next year and a half. I shall say more about this in just a few minutes. Third, in spite of very spotty, temporary unemployment in certain sections of the country, consumer purchasing power is still at the highest level in history and it will probably continue to grow throughout the rest of the year. It will very likely be about $15 billion higher by the end of this year than it was last year. This purchasing power in the hands of the public will enable consumers to sustain a high level of retail business. But the public will not buy foolishly, so long as goods appear to be available, or at exorbitant prices, regardless of how much purchasing power is available. In spite of the temporary readjustment period we are going through, I do not believe we are in for a recession or a depression, or that the present situation will continue very many more months.

Capital and Credit Outlook

Now with respect to capital and credit: The investment of business concerns and industries in new plant and equipment, which I mentioned a moment ago, will reach new highs during this year. Business and industry are expanding their capacity to produce and distribute. Two huge new steel mills, for example, are being built within 75 miles of Paterson. As a matter of fact, some business concerns will not be able to do all the expanding they want to do, because of the demands of the defense program for machinery, construction materials, and certain raw materials. We shall see the principal expansion of capital in industries that contribute directly to the defense program, or which produce very basic items of civilian necessity.

Basic to this expansion, of course, is the question of whether or not industry will have the financial resources to carry out this expansion. The answer to this question is an unqualified "yes." Higher costs of doing business, heavier taxes, slightly lower profit margins, and government policies all must be considered, however. For one thing, direct government control or allocation of certain construction and capital goods will tend to direct capital itself into the places where it is most needed. And in many instances, although it is something to be deplored, the government will finance business in several indirect ways, including government contracts to purchase all the output of a new plant, government guarantees of loans, and prepayments on government contracts.

Established corporations will be able to finance much of their own capital requirements from the large surpluses of funds they have on hand. This includes undistributed profits and depreciation accounts. Last year, corporations spent about $28 billion to cover their outlays for new plant and equipment. They used $20 billion of their own money to do the job, and borrowed, or raised through sales of new stock, $8 billion. It isn't possible to estimate exactly how much will be spent for new plants and equipment during 1951. But we do know that it will be substantially more than was spent last year.

At least two-thirds of the needed money again this year will be provided by industry itself. There is certainly an adequate supply of money available from individual investors, long-term institutional investors such as insurance companies, and from the banks, to take care of every legitimate need for short- and long-term capital.

A great deal has been printed in the newspapers in recent weeks about a new Voluntary Credit Control Program by the banks. Let me emphasize that this program is designed primarily to eliminate loans that would be used by borrowers for speculation, or to acquire inventories they obviously do not need.

A great deal has been said about the expansion of bank credit and inflation since the war in Korea began. Bank loans have expanded, it is true, by more than $7 billion, to a total of about $53 billion of loans by the commercial banks. However, as you know, the actual production and distribution of goods and services in this country has also expanded tremendously since last June. To be exact, at the time the Korean War began, we were producing at the rate of about $270 billion of goods and services for the year. But during the last half of 1950, the rate of production increased tremendously. By the end of the year, we were producing at the rate of $300 billion annually. You can't produce anything without the use of capital and credit. So the need of business and industry for bank loans expanded, and it is still expanding, although at a slower pace.

But in spite of the growth of bank credit outstanding during the five years since the end of World War II, there is a smaller amount of bank credit outstanding today, in relation to total production, than there was in 1939, or even in 1941, before World War II began. In 1939, for example, bank credit outstanding amounted to 24% of total national production. Today, it is only about 20%. More "bank credit" dollars are working harder.

Businessmen who have read or heard a great deal about the expansion of credit in recent months naturally have become somewhat apprehensive. They are afraid that they may be faced with shortages of credit when they go to a bank to borrow money. I can assure you that adequate credit for every real, justifiable business need will be available from the banks. However, as an anti-inflation measure, the banks are voluntarily screening applications for bank loans. Those who merely want to speculate with the money, or to acquire unneeded inventories, are being turned down, and I believe you will agree with me that they should be turned down.

The Inflation Problem

Let's review briefly the real nature of the inflation problem. In spite of the present period of business and price adjustments, prices are still above their levels of last June. Almost everyone is ready with an explanation as to why we have had a long-term trend toward inflation ever since the end of World War II. I'd like to present to you what I believe are the ten basic causes of inflation, in just a simple listing here today. These are—(1) the great growth in the national debt during World War II, which gave individuals and businesses tremendously greater liquid assets at the start of the peace-time period than they had ever had before; (2) then, business began a tremendous post-war expansion program; (3) this was intended to enable consumers to satisfy their great, pent-up demand for automobiles, clothing, houses, and all the other things they went without during the war; (4) on top of this, the Government undertook some very foolish programs to support agricultural prices at very high levels; (5) the Government also began foreign-aid programs, starting with UNRRA, which took billions of dollars of scarce materials and products out of the country; (6) it also launched a housing program backed by Government guarantees and subsidies, and expanded public works generally; (7) at the same time, the Government began several rounds of bonus and insurance payments to veterans, some of which were justifiable; (8) as the cost of living mounted, the unions came in for five rounds of wage increases, which in turn increased the cost of production and wholesale and retail prices; (9) state and local governments began spending in excess of their tax revenues, and borrowed money with which to do it, and (10) at the same time, business and individuals borrowed money from the banks, insurance companies, and other private lenders, which in turn expanded the available purchasing power. All of these factors, working together, created a sort of "chain reaction," and by viewing them as a complete process, you can get a good picture of exactly how and why the stage was set for further price rises when the Korean war and the rearmament program were placed on top of the pile.

You have heard in recent months a great deal of nonsense that inflation could have been stopped dead in its tracks had the banks simply refused to lend money. Nothing could be farther from the truth. Not only would prices have risen anyway during the whole period of time, because all the other factors were at work, but also they might have risen a great deal further if the banks had not been lending money to enable business and industry to produce increased quantities of goods and services. Shortages of supply, coupled with huge demand, always mean higher prices. Now that demand and supply are more evenly balanced, prices have begun to readjust themselves. There is no way that any government can legislate itself out of this simple, basic, economic truth. The next time you hear some Government spokesman say that lending by the banks is the cause of inflation, I hope you will discount his statement, because it is 99 and 44/100% pure applesauce.

We in business, industry and banking know that the rest of this year will not be easy because there is going to be a great deal of confusion. In some lines there will be still further sharp and sudden changes. We will be wondering whether the decisions we make, day-by-day, are the right ones.

No Serious Business Recession In Making

But in spite of the business uncertainties we feel that we face today, we have no reason to fear that the economy is in for really rough sledding, or that a full-fledged business recession is in the making. So long as capital goods industries continue to expand, and I believe they will throughout the balance of the year—so long as consumer purchasing power continues to increase or even holds its present level—and so long as there are no abrupt or drastic reversals in the current national defense and world rearmament program—there is no reason to believe that the temporary readjustment that many lines of business and industry are going through today will develop into a recession of sizable proportions.

The events of the past year have demonstrated that this country has an enormous capacity for growth, if we handle our prospects soundly and wisely. I, for one, sincerely hope that the economic expansion which was spurred by the beginning of the war in Korea may eventually be turned into the pathways of peace. Only ten years ago, the technical skills and the industrial capacity we have in this country today would have staggered the imagination. I hope that another ten years from now, we may be privileged to look back upon this year as one of stress and strain, but one which sent this country faster along the road toward progress. If we are spared the catastrophe of all-out war with Russia, and if we use our energy, our industriousness and good judgment, we have nothing to fear for the future.

Columbus & Southern Ohio Common Offered By Dillon, Read Group

Dillon, Read & Co. Inc. heads an investment banking group which released an offering to the public at the close of the market yesterday (April 18) of a new issue of 200,000 common shares $5 par value, of Columbus and Southern Ohio Electric Co., at $20.75 per share. The new shares have been authorized for listing on the New York Stock Exchange.

Proceeds of the sale will be added to the general funds of the company and will be available for construction or to repay in part bank loans obtained for that purpose. The company's construction program for the years 1951 to 1953, inclusive, contemplates additions and improvements to electric properties estimated to cost approximately $55,000,000. The program includes construction, already started, on a third generating unit of 60,000 kilowatts capacity which is scheduled to be placed in service at the E. M. Poston generating station, near Athens, Ohio in March, 1952. A fourth unit, also of 60,000 kilowatts, is on order for this station and is scheduled for service in 1953.

The company is an operating public utility engaged principally in the generation and distribution of electric energy in a territory in Ohio comprising portions of 23 counties and having a population of approximately 745,000. About 78% of the company's electric operating revenues are derived from the Columbus area. For 1950 consolidated operating revenues were $27,896,341 and net income, after preferred dividends, was $3,448,022.

The company has paid cash dividends on the common shares in every year since 1926. Payments have been at the annual rate of $1.40 per share since 1947.

Emanuel, Deetjen Partner

Carl Deetjen will become a partner in Emanuel, Deetjen & Co., 120 Broadway, New York City, members of the New York Stock Exchange, on May 1.

Hernon, Pearsall Partner

Hernon, Pearsall & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit Gerald D. Cross to partnership on May 1.

Owens Invest. Service

(Special to THE FINANCIAL CHRONICLE)

KLAMATH FALLS, Ore.—William Owens has formed the Owens Investment Service with offices in the Medical Dental Building, to engage in the securities business. Mr. Owens was formerly with M. N. Hogan & Co. of Medford.

With Foster & Marshall

(Special to THE FINANCIAL CHRONICLE)

EUGENE, Ore.—Earle C. May has joined the staff of Foster & Marshall, 89 West Broadway.

Two With Courts Co.

(Special to THE FINANCIAL CHRONICLE)

FAYETTEVILLE, N. C.—John N. Hauser and Thurman William, Jr., are now connected with Courts & Co., First Citizens Bank & Trust Co. Building.

Continued from page 4

The State of Trade and Industry

ment added that real estate credit curbs "apparently have begun to affect housing activity." However, the preliminary figure of 93,000 non-farm dwellings started in March was the largest for any March on record except for the 1950 month.

Steel Operations to Rise 0.6 of a Point This Week

Those who expect the new Controlled Materials Plan to bring about an improvement in steel supply are doomed to disappointment, according to "The Iron Age," national metalworking weekly, the current week. CMP will mean more steel only to those who get their tonnage requests approved by proving themselves essential to reviewing officials. The impact on non-essential parts of the economy will be terrific.

Manufacturers of consumer durables, especially autos and appliances, will be hard hit. The speed and impact of CMP depends on two things, the magazine points out: (1) The amount of "water" officials are able to wring out of material requests, and (2) the speed with which forms are processed.

Consumers' CMP forms will not all be processed at once. Military and supporting requests will be processed first, then special programs, and others in the order of their importance. Some consumers who fill out forms may not receive CMP steel for many months; others may never receive tonnage under the program.

The strain on the economy will be such that there are bound to be some cracks. Economic unbalance, labor crisis, and casualties among the small plants which have not gotten defense orders, will have to be worked out. Meanwhile, there will be a steadily vanishing supply of free market steel.

This week the larger steel firms find their order-deck already stacked to the tune of 50% for defense and essential programs. Some middle-sized firms show bookings about 40% for these programs. Even smaller mills, which had not expected to get hit so hard and fast, find steel bookings to these users as high as 35%. These figures are only good for this week. They will become steadily higher, as more consumers are included under CMP, this trade authority assets.

Compared with the headaches of processing consumers' CMP forms, the transition will be smooth for producers. CMP will restore order to mill scheduling which has been kept in a state of confusion because of constant changes in DO set asides, special NPA directives, and new government programs.

The open-end feature of the new program, concludes "The Iron Age," is an effort to keep controls at a minimum. It is questionable that this half-slave, half-free market can survive. For one thing, controls breed controls. Also, competition among consumers for the 25% or less of "free" steel will be indescribably intense.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 93% of the steelmaking capacity for the entire industry will be 102.9% of capacity for the week beginning April 16, 1951, based on the industry's increased capacity of Jan. 1, compared to a rate of 102.4% a week ago, or an increase of 0.6 point.

This week's operating rate is equivalent to 2,057,000 tons of steel ingots and castings for the entire industry, compared to 2,045,000 a week ago. A month ago the rate was 101.1% and production yielded 2,021,000 tons. A year ago it stood at 100% of the old capacity and amounted to 1,906,300 tons.

Electric Output Lifted Moderately in Latest Week

The amount of electrical energy distributed by the electric light and power industry for the week ended April 14, 1951, was estimated at 6,746,975,000 kwh., according to the Edison Electric Institute.

The current total was 11,131,000 kwh. above that of the previous week, 883,728,000 kwh., or 15.1% above the total output for the week ended April 15, 1950, and 1,404,244,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Turn Lower

Loadings of revenue freight for the week ended April 7, 1951, totaled 739,523 cars, according to the Association of American Railroads, representing a decrease of 15,912 cars or 2.1% below the preceding week.

The week's total represented an increase of 39,474 cars, or 5.6% above the corresponding week in 1950, but a decrease of 18,261 cars, or 2.4% below the comparable period of 1949.

Auto Output Moves Upward in Latest Week

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 163,876 units, compared with the previous week's total of 158,076 (revised) units and 147,240 units a year ago.

For the United States alone, total output was 153,801 units against last week's revised total of 148,284 units, and in the like week of last year 140,762 Canadian output in the week totaled 10,075 units, compared with 9,792 units a week ago and 6,478 units for the like week of 1950.

The current output rate is being held at about 12% under late March levels by parts shortages and government restrictions on materials, this agency reports.

Total output for the current week was made up of 122,714 cars and 31,087 trucks built in the United States and a total of 7,545 cars and 2,530 trucks built in Canada.

Business Failures Record a Decline

Commercial and industrial failures declined to 172 in the week ended April 12 from 195 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties declined moderately from 1950 and 1949 when 201 and 184 concerns failed respectively, and were down sharply, 45%, from the 313 in the similar week of prewar 1939.

Food Price Index at $7.15 Touches Lowest Level Since January 23, Last

The wholesale food price index, compiled by Dun & Bradstreet, Inc., leveled off the past week following three successive declines. The April 10 figure remained at $7.15, the lowest since January 23 when it was $7.08, but still 20.0% above the pre-Korea index of $5.96 on June 20, 1950, and 24.3% higher than the comparative 1950 level of $5.75.

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 Ends Week Higher Following Earlier Declines

An upward movement in the closing days of the past week failed to wipe out earlier declines in the Dun & Bradstreet daily wholesale commodity price index. The index closed at 323.01 on April 10, comparing with 324.76 a week previous. On the corresponding date a year ago, the index stood at 252.22.

Most grains, except corn, finished moderately lower in fairly active trading last week.

Export demand for wheat was slow and mill demand was only moderate. Some selling of wheat was induced by reports of beneficial rains over the major part of the Winter wheat belt. Marketings of spring wheat increased materially as more box cars became available. Market receipts of corn were smaller, being hampered by a continued scarcity of box cars. The corn market developed a stronger tone, aided by an improvement in export demand and a lack of hedging pressure.

Trading volume in grain futures showed little change from last week. Daily average sales on the Chicago Board of Trade totaled 27,300,000 bushels, comparing with 27,000,000 the previous week and 26,000,000 in the same week last year.

Prices for cotton in domestic spot markets remained generally at ceiling levels during the past week. Futures, except for the May delivery, registered further losses despite a late rally.

Bearish influences in early trading were continued slow demand for cotton textiles, favorable weather in most parts of the cotton belt, and the growing belief that the 1951 cotton crop may approach or exceed the government's goal of 16,000,000 bales.

Spot market activity continued to fall off with sales in the ten spot markets totaling 72,600 bales for the week. This contrasted with 84,200 bales the previous week and 104,900 in the corresponding week a year ago. Domestic mill buying decreased and foreign demand slackened. Excessive rains continued to delay crop preparation and planting in eastern and central areas of the belt.

There was very little trading in the Boston raw wool market last week as prices showed an appreciable decline for the first time in many months. Small lots of scoured woolen wools were sold for government account at prices well below previous high levels. In the first day's trading on Monday, April 9, in wool and wool tops futures since the general price freeze of Jan. 29, prices dropped sharply as the result of heavy liquidation induced by the recent decline in wool prices on the world market. Values in Australian wool auctions continued to work lower in the absence of United States buying.

Trade Volume Reflects Little Change for Past Week

Despite widespread promotions, consumer spending throughout the nation in the period ended on Wednesday of last week was virtually unchanged; while there was a slight rise in the interest in some lines of soft goods, shoppers generally bought less durables than during the prior week, according to Dun & Bradstreet, Inc., in its current summary of trade. The total dollar volume of retail purchases was slightly above the level for the comparable period in 1950.

There was a mild increase in the retail buying of apparel last week; total dollar sales were about steady with a year ago. The consumer demand for suits and coats increased, as did requests for men's shirts and small articles of haberdashery. The call for dresses continued to be limited, in spite of vigorous promotions of this item in many communities; some lines of formal dresses were in increased demand, however.

Housewives purchased slightly less food in the week than during the previous week; both unit volume and dollar volume dipped very slightly.

Over-all dollar sales were moderately above those of a year before.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from unchanged to 4% above the level of a year ago. Regional estimates varied from a year ago by these percentages:

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

Wholesale ordering declined very slightly in the week with total order volume moderately above the level for the like week a year ago. Heavy inventories for some retail lines continued to be a factor in the limited buying. The number of buyers attending various wholesale markets was slightly below both last week and the similar 1950 period.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended April 7, 1951, declined 9% from the like period of last year. This compared with a decrease of 14% in the previous week and 1% for the four weeks ended April 7, 1951. For the year to date department store sales registered an advance of 14%.

Retail trade in New York last week responded to improved weather conditions and intensified sales promotions by rising an estimated 10% or more above the like 1950 period.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period of April 7, 1951, declined 5% from the like period of last year. In the preceding week a decrease of 16% (revised) was registered below the similar week of 1950. For the four weeks ended April 7, 1951, a decrease of 1% was recorded under that of a year ago, and for the year to date, volume advanced 14% from the like period of last year.

Continued from page 9

Canada's Progress Under Changed Economic Ideas

ports. Then again, the much-discussed "baby bonus" was, I think it may fairly be said, just as much a measure to maintain domestic purchasing power as it was a step in the direction of social security. And in addition there was the pervasive fear that Canada's postwar business expansion would not be great enough to absorb the volume of saving available. One recalls, as an illustration of the then-prevalent view, an article written in 1944 by a prominent Canadian economist. This article pointed to then-current estimates that, postwar, the aggregate saving of Canadian individuals and corporations would, under full employment, approximate $1.5 billions annually and concluded that "there does not seem the slightest chance that private capital expenditure alone will be large enough, year after year, to offset the saving which would be produced by full employment." The inference was that because of this disparity full employment was highly unlikely unless remedial measures were applied. And one of the necessary measures, in this economist's view at that time, was to provide a wider range of basic social security measures so that, and I quote, "assurance to everyone of a basic minimum would increase the tendency to spend, among those who because they lack facilities for pooling of risks, are at present saving too much."

The actual course of Canadian events since the end of World War II is a rather vivid commentary on the limitations of human foresight. Indeed, if someone can be found who can truthfully claim to have called all the turns, his place I suggest is in a circus along with the other oddities of nature. Instead of the expected slump we have had almost uninterrupted business expansion. We have had as near to a condition of full employment as is practically possible in an imperfect world. And we have certainly not been troubled with deflation. Even before the Korean crisis the Canadian wholesale price level was 55% higher than at the close of World War II. To take a longer range look, this time in terms of the cost of living index, a 1939 dollar was worth 84 cents at the end of August 1945, 62 cents in May 1950, and at latest report registered 56 cents.

The history of Canada's postwar external trade is replete with examples of the unforeseen. At the outset we found that our credits to overseas countries were being drawn down much more rapidly than expected, which in turn was a reflection of a rate of overseas recovery much slower than expected. Later on our exports to England and Europe were supported to an important extent by offshore purchases under ERP. Throughout the whole period, however, by far the major factor maintaining our over-all export totals has been buoyant demand from the United States, and even in the face of the U. S. recession of 1949 the value of our shipments to that market did not decline. Only a year ago, the problem of our large adverse trade balance with the United States and our equally awkward surplus in trade with the sterling area seemed well nigh insoluble. Actually, within the year, both those contrary trade balances diminished spectacularly, and the inevitable declines in overseas exports were offset by increased demand from our neighbour to the south. Throughout it all, actuality has perversely eluded prediction.

Moreover, our experience with fixed exchange rates illustrates, again rather clearly, the difficulties encountered in attempts to fix prices when underlying conditions refuse to stay fixed. I don't think that up to September 1949 our experiments in rate fixing had really very much effect on the actual course of our merchandise trade, although our action in only getting down one third of the way with sterling at that time was undoubtedly advantageous since it helped us to increase our purchases from the sterling area. The several abrupt alterations in our exchange rate did, however, have a very powerful effect on the movement of outside capital into Canada and therefore did much to accentuate the recurrent rags to riches pattern of our holdings of gold and U. S. dollars. Our return to parity in 1946 cut off abruptly a flow of U. S. portfolio capital into Canada which, in the circumstances of the time, we could ill afford to lose. Lack of that capital hastened us on our way to the emergency measures of late 1947. The retreat from parity in September 1949 brought problems of a completely opposite nature. In less than a year we were confronted with what was for us a veritable tidal wave of incoming U. S. money which, under the conditions then existing, intensified Canadian inflationary pressures and greatly complicated our problem of dealing with them. In the final analysis therefore, it was the unplanned and unpredictable movement of capital which was the immediate influence dislodging the Canadian dollar from its lowly perch and which precipitated, perhaps belatedly, the sensible decision, in September 1950, to break out of the strait-jacket of fixed rates.

Developments in Canada

Let us look next at some highlights of the domestic business picture. I mentioned the earlier fears that postwar expansion of capital projects would be at a low ebb and would be insufficient to absorb the volume of saving. What we have had, in fact, is a situation of precisely the reverse nature. Indeed the buoyant upward trend of capital investment in new industrial plant and equipment, in development of natural resources, in housing, in schools, hospitals and other institutional and public facilities has been the most striking feature of Canada's postwar story. Last year these capital outlays added up to a total of $3,800 millions. That figure means more when we are told that it represents not only a new peak in absolute terms, but a record proportion (22%) of the nation's production devoted to the provision of capital facilities. A recent official survey shows that comparable outlays planned for 1951 total $4,300 millions.

We haven't time, nor do we need, to go into the underlying causes of this buoyant trend. Some of it, of course, represents a process of catching up. But some of it is also a product of rather exciting developments in the field of natural resources, and more yet reflects a broad trend towards expansion of Canadian industry generally, based not on easy optimism but on a sober appraisal of this country's long-run potentialities. The net result is that Canada, postwar, has been adding to her over-all capital facilities at probably a more rapid rate than any other country in the world.

This process has had some very important economic implications which we shall do well to examine. The significant point is that, under conditions of full employment, a high and rising rate of capital expansion, unaccompanied by a corresponding increase in the rate of saving, tends to create a condition of sustained inflationary pressure. A moment's reflection will make this rather abstruse principle very clear. The people employed in building, for example, a highway, a power plant or a manufacturing plant, all obtain incomes as a result of this activity. But they are not engaged in producing the things on which that income will be spent. The men working on these jobs don't want a piece of the highway, a dynamo, or a punch press. They want automobiles, refrigerators or new clothes for themselves and their families. Of course some, but certainly not all, of the capital expansion means that more consumer goods will ultimately be available. But the inevitable result of a capital program involving a high and increasing proportion of the nation's resources is that wages and salaries available for spending, unless offset by saving, tend to increase more rapidly than the supply of consumer goods available.

An Armament Program Is An Inflationary Generator

We can see at once, therefore, that an armament program is an inflationary generator "par excellence." No one working on a tank wants to buy one. And casting our minds back, we can readily recognize the fundamental cause of the inflationary pressures that built up during World War II. The war production program was in an economic sense a vast capital project which pushed incomes up far out of line with consumer goods which were available only in very restricted volume. Taxation and saving drained off some of this purchasing power, but not all of it, and the result was inevitably a huge addition to the supply of money. In the six years to the end of 1945 the public's liquid assets in the form of currency and bank deposits more than doubled, an increase considerably greater than the concurrent expansion in civilian production. The price ceiling masked this major disparity between money and goods but in the early postwar years the inherent and pent-up inflationary pressures worked themselves out.

And, as I have already indicated, the postwar situation in which capital expansion has each year been crowding more into the forefront has, super-imposed new and additional pressures, differing only in intensity.

A question that must be in your minds at this point is "Well, the capital expansion has been accomplished, hasn't it? How has it actually been financed?" The fact is that the lion's share of the industrial growth of recent years has been financed out of the retained profits of industry itself. From an anti-inflationary standpoint, it is an excellent thing that industry has itself been able to do some saving through the retention of profits. For without these, the gap between the supply of and the demand for capital funds would undoubtedly have been widened and inflationary pressures intensified correspondingly. At the same time, the rather limited amount of corporate public financing that has been done has been greatly facilitated by the fact that since the end of 1945 the government has had cash surpluses permitting a reduction of some $1,500 million in the Federal direct and guaranteed debt. That has, as it were, made way in financial markets for private and other non-Federal investment. An economist talking to other economists would point out as this juncture that the public by paying more taxes than have been needed to finance the outlays of government, and therefore making a reduction of Federal debt possible, have been involuntarily helping to finance private capital expansion. In other words, fiscal policy has, on balance, been on the anti-inflationary side of the scale.

The Easy-Money Policy

Monetary policy, on the other hand, as manifest in official influence on the basic level of interest rates has, until very recently, done relatively little to curb inlationary pressure. We have, up to a few months ago, been operating in an officially-influenced environment of easy money. Thus the rate of interest has been largely prevented from exercising, through gradual increases, its traditional effects as a brake on the rate of capital expansion and as a stimulant to the saving process. That picture has now changed to a significant extent. Official monetary policy is now an active anti-inflationary force. But had it been more fully operative earlier on, the inflationary pressures with which we are now contending could conceivably have been eased. It is I think not unfair to suggest that we have in the realm of interest rates, as we had in the field of exchange rates, an illustration of the tendency of government to distrust the forces of the market place and therefore to dam up underlying pressures, perhaps in the hope that their consequences may in some way or another be avoided. The lesson seems to be, however, that the adjustments are forced in due course, and are the more drastic in their impact for being delayed.

The Effect of Rising Wages and Inflation

It is not surprising that against a buoyant postwar background we should have witnessed throughout a leapfrog process going on with wages and living costs as participants. Now no one would argue that there should not, in common justice, be a relationship between wages and living costs. But there is also a much broader point which poses a question still unanswered. I suggest in all seriousness that under conditions of full employment (which is of course a desirable objective) the annual demand for higher wages tends, regardless of living costs, to become about as routine an affair as the annual report or the annual meeting. If I am right in this, we have, regardless of what may happen in other areas of economic influence, one very potent force pressing upward on production costs and on prices. From a long-run standpoint therefore, we seem to be in for a continual race between wage rates and the ability to reduce costs by technological improvement. It may well be that in consequence the prewar concept of the distribution of the fruits of economic progress through more goods at lower prices, may have given place to a new dispensation with the accent on distribution at rising prices, through rising incomes. Things certainly seem to be tending that way, and I don't think that anyone has really faced up to the implications of life with a dollar gradually declining in terms of purchasing power. Thus I leave with you, in passing, the great unsolved problem of full employment economics. How can we maintain full employment and at the same time evolve wage policies which by their tie-in with productivity, will help to maintain the value of the wage-earner's dollar? And just to underline one aspect of the problem, let us remember that in recent years the wage-earner's stake in the long-run stability of his dollar has been steadily increasing with the widespread growth of pension plans.

To sum up, to this point, it seems pretty clear that, as a nation, we have under-estimated the postwar demands on our productive facilities. It is also beginning to be equally apparent that we have over-estimated our ability to meet those demands on the basis of our present patterns of productivity. In this respect there is a danger that we may be fascinated and misled by statistics. We have all seen estimates of the growth of Canada's gross national production. These compilations show that our gross national product was valued at something like $5½ billion in 1939, $12 billion in 1945 and $17½ billion in 1950. This year there is a good chance that the corresponding figure will be something like $20 billion. Now that looks very impressive but it is much less so when we eliminate the amount of air that has gotten into these figures as a result of the concurrent blow-up in prices. It then comes as perhaps something of a shock when we discover that, after eliminating price changes, the actual physical volume of the total flow of Canadian goods and services increased in the years 1947, 1948 and 1949 by only about 2% per annum — in other words, by no more than the net increase in our population. By contrast, between 1939 and 1946 we were chalking up gains in real production at the rate of 7% per annum.

In 1950 we attained an expansion in output of close to 4% in real terms. But this was achieved by a speed-up of operations to virtual full capacity in many directions, and it would appear that what little leeway there was early in 1950 for increasing output by drawing upon immediately available reserves of manpower and productive facilities has by now pretty well vanished.

Taking Dividend of Added Productivity in More Leisure

The question which of course leaps to the mind is why in the face of such a rapid trend towards greater industrialization have our postwar annual gains in real output been so markedly low. The answer is certainly not insufficient purchasing power. That we have had in abundance. And at the same time, as far as one can tell from the rather crude over-all statistical measurements available, there have been significant gains in man-hour productivity.

The answer is, I think, to be found in a different direction. With the trend to a shorter work week we have, as it were, chosen to take a good part of the dividend of economic progress in the form of additional leisure rather than in greater output. The inevitable corollary is that, as a nation, or for that matter as a continent, doing less for a dollar has meant getting less for a dollar.

We are now back in a situation where the demands upon our productive capacity are sharply expanded by the preparedness program and where at the same time the demands on that same capacity for civilian purposes are at an all-time high. Everybody wants more of the productive cake. If that cake could be enlarged so that everyone could have more, well and good. But without boring you with the statistical details of calculation, I might as well say right now that as far as I can see the physical quantity of total national production is not likely to be further enlarged in 1951 by a much greater extent than 4% or 5%, this on the assumption that no very major changes take place in the composition of the working force and in the present pattern of working hours.

If this premise is correct, it will not be possible to fit into the economy the demands of rearmament, the supporting capital expansion on the part of private industry and at the same time provide us civilians with the flow of goods and services to which we have become accustomed.

To strike a balance under present conditions, between civilian wants and the goods available to supply them, three forces can come into play. Higher taxes will reduce civilian spending power—but only to the extent these taxes are not offset by additional wage increases. Secondly, individuals and business entities can exercise restraint in their buying for civilian purposes and, by saving, reduce the impact of demand. And thirdly, if the gap is not closed by these forces, the remaining adjustment will take place automatically through upward pressure on prices. The price level itself can, of course, conceivably be frozen although this involves great practical difficulties. But we might as well realize that freezing a price level, even if it were possible, does not freeze inflation. The pressure is there and must work itself out in some way or another and at some time or another.

Price movements, of course, are often anticipatory. And it may well be that a good part of the price pressures inherent in the present situation have already been discounted, and perhaps in some specific instances, over-discounted. At this juncture there are a number of influences now operative which can have a direct, and also a psychological, effect in dampening down the inflationary fires. There is the budget of two days ago. There are the strong curbs on instalment buying. There is the voluntary program of credit restriction which the chartered banks have undertaken in cooperation with the Bank of Canada. And there is the likelihood that in some lines inventories are by now high enough to induce a healthy element of caution, while the consumer himself is probably pretty well stocked up on durables and in many cases has mortgaged his future income in the process. All this may take some of the steam out of the short-run inflationary curve and dampen speculative enthusiasm.

But to admit the possibility of a breathing-spell from a price standpoint is one thing. To suggest that we are likely in the foreseeable future to go back to a significantly lower level of either business activity or prices is quite another. We have all had the feeling that postwar conditions thus far have been "abnormal." For Canada, however, "normal" bids fair to be totally unlike anything we have ever designated as such in the past. The demands of the defense program are likely to be with us for some years to come. And taking a broader view, I suggest that, for as far ahead as we can see, the overall demands on this country's material resources are likely to continue to put something of a strain on the productive capacity of a relatively small population. Indeed it may be that our only hope of coping effectively with these strains lies in a much greater inflow of immigration than we have thus far been able to achieve even in the postwar years.

Some Conclusions

Now, having spent good deal of time today emphasizing the limitations of forecasting, I had better tread warily. Nevertheless there are certain conclusions that are at least suggested by the march of world events. We are in this country caught in the grip of economic destiny. For we have, I think, a situation unique in the world today. We possess resources, greater than we had dreamed, and which are daily becoming more important to the life of this continent, as some of the basic natural resources of our neighbor to the south begin to show signs of exhaustion. And along with these gifts of nature we have the priceless advantage of well-developed industry and agriculture and the institutions of political and social stability. Where else in the world today can one find a similar combination of long-range growth factors?

Moreover, one of the lessons of the past and present is that world peace, if and when attainable, must be much more than mere absence of war. Behind the headlines of conflict and of diplomatic maneuvering there is a story of vast populations stirred into an awareness of, and a desire for, something approaching the living standards we enjoy in this fortunate quarter of the globe. Realism tells us that there is, after all, very little that Canada can do, by herself, to raise the living standards of, for example, the 570 million people included in those nations which are on the "receiving end" of the Colombo Plan. But the demand will be there, it will be intense, and we, along with other relatively wealthy nations, will be impelled to do something about it.

In short, I cannot bring myself to believe, that for the rest of our working lifetime we shall need in this thinly-populated country to be worrying about a dearth of investment outlets, or to be cudgelling our brains to think up ways of keeping ourselves employed and of diminishing the incentive to save. The long-run struggle will be, I think, rather to meet the demands upon us, and to do so while maintaining some kind of stability in the purchasing power of our currency. To accomplish that objective may well call for a great re-thinking of the relationship between effort and remuneration. We shall certainly need a reawakened awareness of the function of saving and its incentives. And while we are about it, some revision of our approach to the problem of social security would perhaps not come amiss. It is natural and desirable that an enlightened nation should seek to extend the area of social benefits. But let us, in our approach to such programs, regard them as what they are—namely, benefits provided by those who produce to those who for one reason or another do not or cannot produce for themselves — and evaluate their merits a c c o r d i n g l y on social grounds. Let us look more than twice and with great caution at any suggestion that social security benefits must be extended simply to keep the rest of the nation busy.

I am not arguing that we can commit ourselves to the prospect of an "ever-normal boom." Nor am I arguing that government has no part to play in the economic process. What I do suggest is, first, that governmental action is subject to definite limitations, political and psychological as well as economic, and, secondly, that for many years to come we shall have little need of philosophies and practices born of the dismal thirties.

In the final analysis, the vast struggle going on in the world today between two ways of life is not going to be settled by tanks and bazookas but by the energy, imagination and realism of the peoples involved. All this may seem rather far removed from a discussion of current business problems. I hope you will agree with me that it is not. The Korean crisis has suddenly confronted us with the need for a national stocktaking in material terms. It confronts us at the same time with equal need for a re-examination of popular economic beliefs.

Continued from page 5

"How Can We Best Meet the Strain of National Defense?"

every dollar of income of those individuals in the $26,000-and-above categories, only three-quarters of a billion of the needed $10-20 billion gap would be secured. Instead, we must broaden the base and capture some of the $140 billion of personal incomes now left completely untaxed, by lowering exemptions—no matter how politically unpalatable that might be. The same applies to corporation taxes, where, as in England, any further hikes would confiscate capital and prevent needed capital formation.

Also, I maintain that the logic of a national retail sales tax, under present needs, is undeniable. By cutting consumers' demand to fit the reduced available supply of goods, it would serve an economic purpose; and also it would add much needed revenue—to the tune of say $7 billion. Food should be exempted; and $100 of tax-paying coupons per individual could be supplied, to mitigate hardship.

Question—How about the government's spending?

Answer—The budget, can, and must, be balanced. This must be done to prevent further inflationary pumping-out of purchasing power to the people—a money printing-press and price-raising operation. Deficits increase the national debt—a sure instrument for socialization.

Question—How can this be done?

Answer—Apart from the sacrosanctity of the military budget, there surely is no excuse for *non*-military outlays for pet social welfare projects and the like being one-third more than they were two years ago.

Question—How about price and wage controls, Mr. May?

Answer—They should *not* be used, although I realize temporary use of some strategic materials' allocation is necessary. Rising prices are merely symptoms, not causes, of inflation. If inflation is stopped at the source through monetary, budgetary and tax measures, no general price rise will take place. And if it is not so stopped, then the inflationary effects are merely postponed.

In practice, controls can never be limited to the duration of a so-called emergency. Look at rent controls in Europe, kept on since World War I. Controls are a cumulative process, one set leading to ever more via chain-reaction, entailing permanent destruction of the free market. Regimentation cannot be partial. If we imagine otherwise, we will surely lose the victory at home while preparing to win it in a Hot War abroad.

* * *

"Cross-Examination" By Mr. A. A. Berle, Jr.

Question by Mr. Berle—You said, Mr. May, that the budget can be reduced. In what specific items; in social security, for example?

Answer—Unfortunately, as you appreciate, Mr. Berle, the time at our disposal here doesn't permit a "line-by-line" examination of the President's voluminous budget, even if I were qualified to do it. What I can do to answer your question, is to offer you the result of others' expert and disinterested studies. I have here [displaying book] a study issued by the Committee on Tax Policy, conducted under the chairmanship of Roswell Magill, Under-Secretary of the Treasury in the New Deal Administration of the 1930s—showing exactly how $8½ billion can be cut from proposed civilian expenditures.

Adolph A. Berle, Jr.

Similarly, Senator George, Democratic Chairman of the Senate Finance Committee, and experts of the Committee for Economic Development; have shown how from $6 to $9 billion can be eliminated from non-military expenditures.

Question—Suppose it is possible to make those cuts in the non-military; wouldn't that be just "a drop in the bucket" in proportion to the $70 or $80 billion of our spending total?

Answer—That does not seem to me the way to look at it. Besides the specific amount that is being unnecessarily spent there, it is an indication of a *general* spirit of extravagance. I remind you of President Truman's recent defiant throwing-out of a "dare" to any Congressman to cut the budget. And I don't think we should blandly assume the Pentagon's military bill to be so sacrosanct. Do you know that the military asked for $110 billion from the new budget; that figure being quickly cut by over 45% by Under-Secretary of Defense Lovatt's committee?

In any event, I can't see how you can get away from the cold fact that the non-defense budget should not be inflated over its liberal amount of two years ago. That fact to me seems both relevant and vital.

Budget efficiency together with a non-political tax program, in the setting of a free market, would go far toward "meeting the strain of national defense."

Continued from page 16

Should Margins in Futures Trading Be Regulated?

Grains must move onto the market for what the market can afford to pay. They cannot be held above or below that level.

A large volume of trading does not mean futures prices are above real commercial values. In December 1950 the volume of trading in soybean futures was about 10 to 12 million bushels per day, an annual rate of 8 to 10 times the size of the crop. Oil and meal values reflected an unusually wide processing margin. East-Central Illinois cash prices were not as much below Chicago prices as the freight cost to Chicago. If anything, Chicago prices were deflated in terms of cash soybean, oil, and meal prices.

In the summer and fall of 1950 profits from long positions in soybeans were much greater than the margins required. The Commodity Exchange Authority states that the summer market was 67 to 75% speculative. For every purchase there is a sale, for every long a short. Losses from short positions must equal profits from long positions and vice versa. Was trading itself inflationary or did price increases stem from underlying economic conditions?

Margins and the cost of speculation—The principle of buying at the lowest price is to shop in the broadest market possible. The principle of shifting risks is to get them in the hands of those people who will carry them for the smallest premiums. Low margin requirements broaden the market for risk and reduce its cost; efficiency of marketing is increased. Such savings result in higher farm prices, and lower consumer prices.

Speculators perform an essential marketing function. Successful speculators must operate on the basis of a rather modest return. If a speculator were willing to take market risks for a 10% return on his risked capital and margins were doubled he would be getting only 5%. Fewer people would be willing to speculate and the market for risk would be narrowed. Further, if a 10% return on risked capital is the reservation price for risk bearing, an increase in margin requirements would result in a corresponding increase in the cost of getting risks assumed.

Control of prices — The argument for Federal control of margin requirements is that excessive price changes are caused by excessive speculation and that the volume of speculation can be controlled by adjusting margins requirements. Principal criticisms have been leveled against price increases and the low margins required by the exchanges. The implication is that if margins and the volume of trading can be controlled excessive price changes can be prevented. As it would be judged that prices were too high, margins would be increased, and as prices were too low margins would be decreased. That is, to control margins is to control prices. Some of the statements above cast considerable doubt on the practicability of such control. Whether or not it would work is beside the issue. The use of margins for any purpose other than the guarantee of contracts is a violation of the principle of competitive pricing of commodities and would tend to take pricing out of the hands of economic forces and submit it to more administrative decision.

With Slayton & Co.

(Special to The Financial Chronicle)

QUINCY, Ill.—Wayne L. Earls is now with Slayton & Company, Illinois National Bank Building.

With Glore, Forgan

(Special to The Financial Chronicle)

BOSTON, Mass. — Francis H. Cummings is associated with Glore, Forgan & Co., New York City.

Coburn & Middlebrook

(Special to The Financial Chronicle)

PORTLAND, Maine—George C. Weeks has become associated with Coburn & Middlebrook, Incorporated, 465 Congress Street. He was formerly with R. H. Johnson & Co. and Boardman, Freeman & Co.

Joins J. M. Dain

(Special to The Financial Chronicle)

MINNEAPOLIS, Minn. — William H. Smoch has joined the staff of J. M. Dain & Co., 110 South Sixth Street, members of the Midwest Stock Exchange. He was formerly with Paine, Webber, Jackson & Curtis.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

I've just finished reading the reprinted speeches of various statisticians and market technicians. They all agree that the market will eventually go higher but first it will have to go lower.

* * *

Such unanimity must be very cozy. No arguments, no complaints. Just follow a blue print and you're bound to come out ahead. Having been of the same opinion as my worthy contemporaries, I now find myself jammed in tight with company that is a little stifling. I too felt that stocks would go higher after a further break. The trouble was would the break be general or would it be limited to individual stocks.

* * *

Under circumstances that are entirely human, I would ordinarily welcome wholesale agreement. Not only would it be comfortable but it would give me a set of arguments, technical as well as financial, that I could cull from my contemporaries and pass it on to you as bulwarks for my theories.

* * *

Having watched markets for a lot of years, I now find myself in disagreement with the majority. As a matter of fact, I now feel that instead of more down than up, the market will do just the opposite. In short, I think what we'll see is more up than down—perhaps a lot more down than I anticipate.

* * *

The reasons for this are entirely within the market. For the past few weeks individual stocks have shown upcoming moves. Here and there these have confirmed their indications through what is technically called a "ten week deferred move." Latter is based on market habits that perform in cycles of ten. I could describe this in better detail but it would only confuse you and probably wouldn't convince you anyway.

* * *

A specific example is the oil group. If you'll go way back in this market you'll see that the oils were first to step out. About nine weeks ago they stopped advancing and other groups went to the fore. Last week the oils again moved out. It might be argued that this oil strength could be the beginning of a general move of some magnitude, using the past as a yardstick.

* * *

I think such a move will be seen. But I don't think it will be long or sustained. To borrow a biblical phrase, "The first shall be the last . . ."

* * *

What should you do from here? Do what you've been doing for the past two weeks. Sit tight and watch them. If you're long and worried, use coming strength to lighten.

[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 Investment Research

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Elliott S. Walsh is with Investment Research Corporation, 53 State St. He was previously with J. Arthur Warner & Co., Inc.

Joins H. L. Robbins

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass. — Vincent J. Kaczyk is now associated with H. L. Robbins & Co., Inc., 390 Main Street. He was formerly with Trusteed Funds and Edward E. Mathews Co.

Two With W. R. Olson

(Special to THE FINANCIAL CHRONICLE)

FERGUS FALLS, Minn.—James L. Boucher and Thomas P. Hannaher are now with W. R. Olson & Co., 112 Mill Street.

With J. W. Goldsbury

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Robert L. Pitz has become affiliated with J. S. Goldsbury & Co., Twin City Federal Building.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

MANKATO, Minn. — Otto E. Roxin is with Waddell & Reed, Inc., of Kansas City.

Business Man's Bookshelf

Defense Without Inflation—Albert G. Hart—Twentieth Century Fund, 330 West 42nd Street, New York 18, N. Y.—cloth—$2.00.

Economics of the Money Supply, The—Chamber of Commerce of the United States, Washington 6, D. C.—paper—50c (lower prices on quantity orders).

Effects of Taxation on Corporate Mergers — J. Keith Butters, John Lintner, and William L. Cary, assisted by Powell Niland—Harvard Business School, Division of Research, Soldiers Field, Boston 63, Mass.—cloth—$4.25.

Theory of Investment of the Firm—Friedrich and Vera Lutz—Princeton University Press, Princeton, N. J.—cloth—$4.00.

Welfare State, The — A mortgage on America's Future—Jules Abels — Duell, Sloan & Pearce, Inc., 270 Madison Avenue, New York 16, N. Y.—cloth—$3.00.

What's Ahead for American Business — Sumner H. Slichter — Little, Brown & Co., 60 East 42nd Street, New York City.

Henry F. Jordan Joins Prescott & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Henry F. Jordan has become associated with Prescott & Co., National City Bank Building, members of the New York and Midwest Stock Exchanges. He was formerly with Fulton, Reid & Co. and Maynard H. Murch & Co. In the past he was with Jackson & Curtis and was an officer of Shields & Co., Inc.

With Saunders, Stiver

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—E. Fred Macks has been added to the staff of Saunders, Stiver & Co., Terminal Tower Building, members of the Midwest Stock Exchange.

Vercoe & Co. Add

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio—Sidney S. Allen, Jr., has been added to the staff of Vercoe & Co., Huntington Bank Building, members of the New York and Pittsburgh Stock Exchanges.

With Courts & Co.

(Special to THE FINANCIAL CHRONICLE)

ATHENS, Ga.—Albert V. Butler has joined the staff of Courts & Co., 298 East Washington Street.

Continued from first page

Worldwide Shortcomings Of Wartime Planning

least a possibility that our military leaders may do again what generals have been supposed to do always in the past, to plan for the last war rather than the next, and then as soon as war starts we may find that the main purpose or main problem is completely to readjust all the things we have been preparing to entirely new objectives.

If that situation should arise, I am convinced that we shall be in a very much stronger position if we had not relied on directing our economy through general controls but had preserved the ability for readjustment which free enterprice on the whole constitutes.

I merely raise this issue. It would take far too long if I tried to elaborate it, but I think it ought to be one of our main considerations.

In the sort of attitude with which people entered the war in 1914 and perhaps still in 1939 or 1941, it was possible to argue, and it was very frequently argued, that the sort of temporary rise in prices which people imagined an inflation would mean was an evil which one might well take into the bargain.

Differences From Previous Wars

Now the situation is different in two respects. First, we know beforehand that if war comes we shall have to mobilize as much as we can possibly spare from civilian purposes for war purposes, and we have a fairly clear idea of what magnitude this involves.

There is no longer that excuse for resorting to inflation, that you had no other plans ready; but you can deliberately choose what to do.

The other consideration is that we know that a rise of prices which has once occurred is going to be a permanent rise of prices. I think anything which is certain as a result of development of opinion in the last ten years is that no major general fall in prices will in fact be permitted.

Now, that surely ought completely to alter our attitudes or at least profoundly affect our attitudes about the danger of inflation.

Again, the conclusion will depend on whether one seriously believes that once one starts on the inflationary path you might get away with a minor inflation, or whether there are not forces inherent in the mechanism which make it almost inevitably progressive.

There, again, I only want to put on record what is rather an elementary consideration which, however, has not been mentioned, and that is that inflation achieves what it is meant to achieve only so long as it is greater than it has been expected, and for that reason anyone who wants to bring about by inflation what he means to accomplish, has to resort to progressive inflation.

There is, basically, no limit which you will not sooner or later reach, once you have to decide to use inflation as one of the instruments of finance; once people expect a given degree of inflation, it ceases to be effective for the purposes. You have to inflate a little more.

After a while people get used to that degree of inflation, and so on, indefinitely.

From a long-run point of view, an appraisal of the consequences of this would, of course, have to be based on a fairly detailed analysis of all those redistribution effects and changes in the stratification of population, which inflation brings about. Therefore we can't generalize too much about it, because it depends to some extent on the structure of population, on the investment habits of the people, on their ability to shift or change their habits, and so on.

Elimination of Middle Class

But I don't think anyone who has seen the effects not only of the catastrophic inflations of the central European type or of the major inflation of the French type, but even the degree of inflation in Great Britain in the last 20 years, can doubt that elimination of the middle class, basing its position on some supplementary income from property, is probably one of the most serious shocks to the stability of the type of society we live in which could be conceived.

The issue I want to raise as fundamental has been something which I thought was really to be taken for granted; namely, that if as a result of war economy you abandon the free market and permanently retain the more or less planned system, then your other liberties are doomed.

I want to take this for granted and merely to ask the question, what chances are there of getting rid again of your economic controls once you have them?

Why Permanent?

Why is it, rather, that most countries have in the past found it exceedingly difficult to get rid of the system of controls once they come in? Everywhere in the world undoubtedly the two wars have greatly accelerated a tendency away from the market system toward permanent government control far beyond anything which the majority of people who advocated controls in the first instance had ever anticipated.

I think perhaps this is in a way the fundamental issue which this program raises, namely, can we adopt all these measures which may or may not be expedient for wartime purposes in the expectation and the hope that as soon as they are no longer required by the emergency, by the monetary emergency, they can be swept away and got rid of?

That again would be a very long story to discuss in detail; the reasons why certain types of controls, once adopted, are extremely difficult if not practically impossible to get rid of.

Now, one reason, and I believe one of the major reasons, is that in fact as soon as you get an economy no longer subject to the market as the guiding consideration, efficiency and productivity are reduced.

We are then faced at once with that basic issue between alternative economic systems. At once people that have control of what incomes will be, will insist that people should not be remunerated according to the actual value of their services to the rest of the community, which is not a matter of merit but sometimes very different from individual merit; but that an attempt should be made to remunerate the various classes of people according to what the majority view is about what the merit of these classes is.

Such a remuneration, according to imagined merit, is inevitably very different from the relative value of these services, and results inevitably in a system of remuneration which no longer provides incentives and makes people produce just what is wanted.

The result is that you get this equation in which the position of many classes is determined to a much greater extent even than in our present economy by more or less direct subsidies, and that the perpetuation of the position of the class depends on the maintenance of your system.

There is one outstanding illustration of this which I think has much wider application in its meaning but which is worth considering.

Europe's Rent Experience

Perhaps the most permanent effect of all economic controls in Europe on the economic systems have been rent controls. So far as I know, no country which was a belligerent in Europe in 1914-18 has ever since then got rid completely of the system of rent controls put into use at that time. Those countries in which rent controls were then introduced had major inflations following. It meant that housing in general was transformed from a private industry into a kind of public service where additional housing could be provided only by the government or by government subsidy, where the direction of the new building was no longer determined in any way by a market for rents.

Rent control was entirely haphazard. In consequence, the whole field of building for housing purposes was taken out of the market completely and a whole large section of economic activity was permanently removed from the market mechanism.

I think this is probably an extreme instance but it is a very general problem which exists. I doubt very much whether, once you have as a result of war planning achieved a price and income structure which is very different from that which would exist under a free market system, and which is also in its recognizable aspects much more clearly dependent on the deliberate will of the community than any result of the enterprise, you are likely ever to get completely rid of it. This is the one part of the problem, one of the aspects, which I want to mention.

There was one other aspect which I thought I must not pass over. However, it is extremely difficult to put convincingly in a short exposition. It is the sort of psychological aspect of wartime controls on the future leaders of business.

I can only give you an impression in the short time at my disposal and not give a full supporting argument, but I might just from memory quote something which I said nearly 10 years ago on that particular matter when it wasn't an immediate problem.

German Authoritarianism

When I wrote the book, "The Road to Serfdom," I put in somewhere a footnote saying that when I had come to England in the early 30s, on the whole, what was regarded as a typically German view—that is, the government determining the whole aspect of economic life—was still very foreign to British thinking, but I have once or twice experienced a feeling of being suddenly returned to what I regarded as the German attitude, and that was when I came into the company of the ex-planners of World War I who were thinking entirely in the identical terms in which my German friends had been thinking.

I don't think there can be any doubt that the movement for planning in Great Britain in the postwar period has been led and advanced very largely by men who had been in charge of war planning during World War I, had tasted the pleasures of the job, and had been so persuaded by their success that they thought it ought to be preserved for peacetime.

I think the most remarkable thing was that the most ambitious planners among them were not the academic people who had gone into planning, but rather the business leaders who had been called into planning activity. They had found that in directing a whole industry they were saved so many of the troubles they had as individual entrepreneurs that, instead of the idea of returning to competitive industry, they greatly cherished the idea of affairs returning in the direction of a whole monopolized industry.

I think I should at once add that the experience of this war has in some respect been slightly different. The reaction with which, so far as I can judge, the war planners returned from their jobs very largely depended on their previous background.

The non economists among them, I think, have shown very much the same reactions as the planners of World War I. They were fascinated by the delectable task of running a big thing, and if they had the planning desire beforehand, they had only become more convinced planners by their experience.

It was very different, I ought to add, with the economists who went into wartime planning. It was not surprising that those of them who beforehand were believers in free enterprise were confirmed in their experience.

Cured

What was more remarkable was that a great many of our friends who before their experience in a war planning agency were rather favorable toward a centrally planned system, came back on the whole thoroughly cured from this particular ambition.

I am not sure what the reaction has been in this country. I rather fear that in this respect you have been more like Great Britain in World War I, where, to a large extent, in spite of the great number of economists that could be drawn upon, they relied to fill their leading posts on people from the business community.

You have gone through the same experience as the planners in England in World War I, of these people finding it delightful not to be constrained any longer by the trammels of competition, having the power of ordering about a whole industry; but who have now returned to some extent to industrial life with the ambition of finding similar attractive occupations outside the government rather than inside.

Again I am discussing a particular aspect as an illustration of a very much wider question of how far the experiences of a planned economy are likely to affect attitudes of the people who will guide affairs and shape opinion after the war.

* * *

About Price Declines

While there seems to be a lot of discussion about using relative prices to bring about the redistribution of resources, the possibility of price decline seems to have been abandoned, and the idea that we might bring about the fall of some prices, if we wanted to avoid (a) inflation, and (b) have a change in relative prices, does not seem to be mentioned.

Now, I think we ought to pursue this question a little further. Is it really assumed that any hope that any price might be reduced under the circumstances is entirely utopian? Then I think we will have to go a step further and say that any hope of avoiding not only minor inflation, but major inflation, is utopian.

Compensating Price Declines Needed

If we are not willing to admit this, I think we have to face a problem. What kind of policy will also bring about the compensating price declines which are required to offset the increase in the amount elsewhere?

Now that, of course, forces us to face the doctrine that it is now believed that no price or no wage must ever be allowed to decline; and if that is so, of course we are again up against a problem—that any change in relative prices must mean so much extra inflation.

But is it really true that under the mobilization circumstances, the friction which a price decline inevitably meets and causes is an undesirable thing? Is it even necessarily true that under these conditions, a bringing about of some local and temporary unemployment is a loss of efficiency; or is it not, on the contrary, perhaps, an inevitable part of the process of speeding up the transfers?

What I really want to drive at is that I believe that the main reliance on direct controls not only does nothing in assisting this crisis, but makes it very much less likely that any prices will be reduced.

Any system of price fixing not only sanctions the existing price structure and gives a sort of moral justification for continuing with the prices which exist, but it generally flouts the principle that in wartime efficiency should be the main consideration.

In another respect, direct price controls are probably likely to prevent or make unlikely this necessary price reduction which would offset the price increases elsewhere. Insofar as the direct control of prices prevents the rising of some prices, they do so by preventing these people from spending as much on those commodities as they would like, with the result of leaving money over to be spent on the commodities, the production of which and the price of which ought to decline. So that in a way, the whole system of price control tends to perpetuate the state of distribution of resources in which we find ourselves in these situations.

It is frequently mentioned that mobilization changes the relationship of prices, and then this statement is considered on the assumption that this is something bad. We should have remembered that the main argument against price controls and in favor of using the market system is essentially that these changes in the relationship of price are highly desirable to bring about the necessary changes at every point where the Government cannot bring them about without possessing itself all the knowledge which the individual entrepreneur has to use when it is a question of economizing on this material, or that.

Effective Price Changes

What we are now concerned with is, of course, a large-scale shift in demand which undoubtedly makes it desirable that in many industries production should be curtailed, or at least the use of certain materials should be stopped or discontinued. This should, as far as possible, be brought about in a manner which results in a saving to the economy as a whole.

I cannot see that there should be any doubt that in the nonessential industries, the industries from which demand turns away, prices should fall actually below cost; that production should be discouraged; and so that whatever the available amount should be spread over a long period during the war; and that this would be a more effective means of bringing about a rapid transfer of resources from the nonessential industry than any other means conceivable.

Tibert With Mathews Co.

(Special to The Financial Chronicle)

BOSTON, Mass — Frank J. Tibert has become associated with Edward E. Mathews Co., 53 State Street. He has recently been with Joseph Jordan & Co. Prior thereto he was an officer of Trusteed Funds, Inc.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

Security Traders Association of New York (STANY) Bowling League Standing as of April 13, 1951 are as follows:

TEAM	Won	Lost
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	19	11
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	18	12
Donadio (Capt.), DeMaye, O'Connor, Whiting, Workmeister	18	12
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	18	12
Goodman (Capt.), Lax, Valentine, M. Meyer, H. Frankel	17	13
Mewing (Capt.), Klein, Cohen, Manney, Chegan	15	15
Burian (Capt.), Manson, King, Voccoli, G. Montanyne	13	17
Serlen (Capt.), Gersten, Gold, Krumholz, Young	13	17
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	13	17
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	13	17
H. Meyer (Capt.), Smith, Farrell, A. Frankel, Lapato	12	18
Krisem (Capt.), Bradley, Montanyne, Weissman, Gannon	10	20

High game of the evening went to Vin Lytle (Shields & Co.). He bowled a 212.

Continued from page 4

Hedge Clauses

wise have either at common law or under the SEC statutes.

"In my opinion, the anti-fraud provisions of the SEC statutes are violated by the employment of any legend, hedge clause or other provision which is likely to lead an investor to believe that he has in any way waived any right of action he may have, assuming, of course, that the mails or other jurisdictional elements are involved."

Now securities dealers and brokers are assigned the wholly new function of being mind readers. The Commission would have them determine what their customers will or will not believe on reading a particular legend. Isn't it possible that different customers may have different beliefs concerning the same hedge clause?

Who is to be the ultimate judge, the SEC? Does it intend to prepare sample clauses meeting with its approval? Is it their intention finally to have all hedge clauses submitted to them in advance for an O.K.?

Is every brokerage firm expected to maintain a statistical bureau? If so, aren't the sources of information common to all? Certainly it can't be expected that each dealer, broker and investment adviser will audit the books of every company whose securities he handles, or concerning which securities he gives advice.

Such a requirement would be completely unworkable and utterly absurd; no more so, however, than the Commission's implied suggestion that those in the securities field become mind readers.

That the opinion serves no useful purpose is shown by the following part:

"A legend in common use states in effect that the information is obtained from specified sources and is believed to be reliable but that its accuracy is not guaranteed. Assuming the truth of the representations as to the source of the *information* and the belief that it is reliable, it is my opinion that the mere use of this legend in connection with a communication supplying information is not objectionable."

Well, what's all the bother about?

How about information which is not readily and easily available, which places one in a favored position? Must he disclose the source? Are the rights, duties and obligations of brokers, dealers and investment advisers identical in this regard?

The instant release was issued as No. 3411 under the Securities Act of 1933, as No. 4593 under the Securities Act of 1934, and as No. 58 under the Investment Advisers Act of 1940.

No discussion of hedge clauses, nor any opinion concerning them would be complete without taking in the relative, and in some instances the contrasting, duties as between the broker, the dealer, the investment adviser and his customer.

This the opinion of General Counsel fails to do.

We haven't heard the last of this. The Commission has something concealed in its sleeves. We hope to tag it when it shows.

In our judgment this is another arbitrary effort to extend SEC control over sales literature.

The term "hedge clause" is unfortunate. It sounds accusatory. There must be other nomenclature.

Continued from page 14

Mutual Funds

Paper, Sears, Roebuck, Gulf Oil, General Motors, Union Carbide, Standard Oil (N. J.), Kennecott, Texas Company, Philip Morris, and Standard Oil (California).

"Looking back a year to Dec. 31, 1949, it is of interest to note that eight of the stocks then on the list of the 10 largest common stock holdings are also on the list at the 1950 year-end," the study said.

"The two new arrivals to the '10 largest' group in 1950, as compared with 1949, are Philip Morris and Standard Oil of California."

Unrealized appreciation was substantial for eight of the 10 shares listed, with the remaining two—Philip Morris and Standard Oil of California—showing nominal appreciation as might be expected in view of the fact that shares of these companies were purchased comparatively recently.

"AN INVESTMENT Portfolio Designed for War or Peace" is the title of Hare's latest sales pamphlet for its Stock & Bond Group Shares. In side by side comparisons, the pamphlet relates specifically the prospects for each of the Fund's holdings under war or less-than-war conditions. Each of 16 industries in which the Fund has holdings is analyzed and a list of "portfolio stocks" for each industry is given. The pamphlet reports to the investor that, "Stock & Bond Group Shares is confining its investments to the stocks of companies which, in the opinion of its management, should be able to maintain satisfactory earnings and dividend payments either under a semi-war, war or peacetime economy."

Copies of this excellent sales pamphlet are available without obligation from Hare's, Ltd., 19 Rector Street, New York, 6, N. Y.

DEALERS HAVE asked Broad Street Sales Corp. whether the quantity discounts for National Investors apply to commitments made by a single investor to buy shares in an aggregate amount falling within one of these discount brackets, **but with individual purchases spread over a period of 12 months or less**, each purchase being at the offering price at the time in effect.

According to the latest National Investors prospectus, these discounts are now made applicable to such purchases, provided advance arrangements are made by the dealer with Broad Street Sales.

The new prospectus states, "A single sale to a single investor is considered to include separate sales, aggregating $25,000 or more within a period of 12 months, under arrangements satisfactory to the distributor; and sales to an individual or corporate trustee, guardian or other fiduciary or custodian for his fiduciary or custodian accounts (including accounts in which he has co-fiduciaries) and sales to an individual for his immediate family are considered as sales to a single investor."

AFFILIATED FUND reports net assets of $120,246,864 as of March 31, 1951, equivalent to $4.79 per share. This compares with $103,699,973, or $4.23 a share, on March 31, 1950.

The portfolio, as of March 31, 1951 shows 27.72% in oils; 24.11% in utilities; 8.30% in retail trade; 5.63% in rails and rail equipment; 5.10% in chemical; 4.08% in non-ferrous metals; 7.23% in miscellaneous and smaller amounts in other groups. Cash and receivables were 3.18%.

BROAD STREET Investing Corp.'s reports total net assets of $19,196,581 on March 31, 1951, 45.2% higher than March 31, 1950.

COMMONWEALTH Investment Company reports total net assets of $30,429,949 on March 31, 1951, compared with $25,954,758 on Jan. 1, 1951.

EATON & HOWARD stock fund shows assets increased from $6,826,865 on Dec. 31, 1950 to $8,211,223 on March 31, 1951.

EATON & HOWARD balanced fund shows assets at a new high of $67,296,299, an increase of $4,372,505 since the beginning of the year.

NATIONAL INVESTORS Corp. reports total net assets of $23,702,173 on March 31, 1951, compared with $19,889,546 a year ago.

VALUE LINE Fund reports net assets as of Feb. 28, 1951, at $3,764,251, an increase of $3,264,360 since March 1, 1950.

WALL STREET Investing Corp. reports as of March 31 net assets of $2,432,503 compared with $1,729,533 a year ago.

Continued from page 10

The World's Biggest Business

ernment and the 5% voluntary as the second extreme must lie the point of no return in terms of a historic change in the structure of our economy and in the role of government.

How close are we to that breaking point? My own feeling is that even without the Korean emergency, we were already moving into that twilight zone.

The Tax Situation

As the government's role in the national economy rises, it finds its financing more difficult. It is relatively easy to gain acceptance of a tax program, at least at the ballot boxes, when a small percentage of the population is asked to bear a heavy percentage of the total tax burden. But as we move on in the growth of government, we reach a point at which it is no longer easy to pull taxes from a small percentage of the population. We must rely, increasingly, upon a larger and larger percentage of the population.

At that point taxes begin to hurt, and hurt increasingly. They hurt the politician in the sense that he can no longer promise high benefits without a growing degree of cost to the bulk of the population. They hurt other sectors of the population in just about the same way through their contribution toward higher prices.

They steadily change the character of our way of life, too. We are witnessing that change from year to year. An increasing number of individuals shift from one job to another, primarily because of tax considerations.

A popular topic of conversation increasingly is the minimization of taxes. I refer not to tax evasion but to tax minimization. There has been created a whole new fraternity whose primary job it is to educate taxpayers in this respect.

There is a challenge to the professional within government to see how rapidly an area of minimization can be closed, and to the professional outside government to see how quickly a new avenue can be found.

Pay-As-We-Go Implications

In closing, I would like to stress what is now implied in a pay-as-we-go policy. Twenty percent of the national output for defense purposes would mean, in terms of gross national product in 1951, about 60 to 65 billion dollars for defense purposes alone to be spent by the Federal government. An additional $15 billion-$20 billion for non-military purposes, yields about $80 billion for all Federal outlays, with the state and local units still to be counted.

We move, therefore, into the zone of 30 to 35% of our national output used for governmental purposes. As I indicated earlier, that no longer lies in the voluntary zone, nor even in the mixed economy zone, but close to the zone of controlled economy.

This is a long-pull program to which we are asked to subscribe. We mobilize not for a year, not for two years, but conceivably for a decade or more. Should we not give serious consideration to how far we can go in terms of long-run commitments for defense and other government spending before we do undermine the strength of the voluntary system we are fighting to preserve?

It is pertinent to note in closing that Senator O'Mahoney's Joint Committee on the Economic Report unanimously agreed on the following statement about the peril-point of taxation: "At some point taxation itself becomes inflationary, even though the budget is balanced. If tax burdens are so great as to shock the sense of justice or equality, some way is found to avoid them or to pass them on into higher prices. Just where the limit is, is difficult to judge, but it is to be hoped that the total defense expenditures may be held to 20% of the national income, the balance of Federal expenditures, including veterans' benefits and interest on the public debt, to 8%, and the State and local expenses to 8% of the national income. Such general limits are the more necessary the more closely the burden of additional taxes approaches the limits of taxable capacity."

GOVERNMENT'S INFLUENCE ON NATIONAL ACCOUNTS

(Actual figures in billions of dollars)

Calendar Year—	(1) Government Contribution to Nat'l Income (Employee Compensation)	(2) Total National Income	(3) Nat'l Income Originating in Private Industry	(4) Gov't Contribution to —Nat'l Income as % of:— Total National Income (Col. 1 as % Col. 2)	(5) Nat'l Income Originating in Private Industry (Col. 1 as % Col. 3)
1929	$5.1	$87.4	$82.2	5.8	6.2
1932	5.2	41.7	36.5	12.5	14.2
1939	8.6	72.5	64.0	11.9	13.4
1944	34.2	183.8	149.6	18.6	22.9
1949	21.8	216.8	195.0	10.1	11.2
1950	23.9	236.0	212.1	10.1	11.3
1951				‡12.2	

‡Estimated.

Calendar Year—	(6) Gov't Purchases of Goods & Services	(7) Gross National Product	(8) Private Gross National Product	(9) Government Purchases of Goods & Services as % of: Gross National Product (Col. 6 as % Col. 7)	(10) Private Gross National Product (Col. 6 as % Col. 8)
1929	$8.5	$103.8	$95.4	8.2	8.9
1932	8.1	58.3	50.3	13.9	16.1
1939	13.1	91.3	78.3	14.3	16.7
1944	96.5	213.7	117.2	45.2	82.3
1949	43.3	255.6	212.3	16.9	20.4
1950	42.1	279.8	237.7	15.0	17.7
1951				‡22.5	

‡Estimated.

Calendar Year—	(11) Government Payments to Individuals*	(12) Total Personal Income	(13) Private Personal Income	(14) Government Payments to Individuals as % of: Total Personal Income (Col. 11 as % Col. 12)	(15) Private Personal Income (Col. 11 as % Col. 13)
1929	$7.0	$85.1	$78.1	8.2	9.0
1932	7.7	49.3	41.6	15.6	18.5
1939	12.3	72.6	60.3	16.9	20.4
1944	40.1	165.9	125.8	24.2	31.9
1949	38.1	206.1	168.0	18.5	22.7
1950	43.0	223.2	180.2	19.3	23.9
†1951				‡20.6	‡25.9

*Compensation of employees, interest and transfer payments paid by Federal, State and local governments.

†Middle estimate of the Joint Committee on the Economic Report.

‡Estimated.

Source: Compiled from "National Income Supplement," United States Department of Commerce, by the Conference Board: 1950 data from *SCB*, February, 1951; 1951 data based upon estimates of the Joint Committee on the Economic Report *in terms of Jan. 25, 1951, prices.*

Continued from page 10

Insufficiency of Monetary And Fiscal Controls

investment expenditure. Investment projects have to be stood off, because the banks are not making sufficient credit available."

The Interest Rate

Great stress, in certain parts of the room, has been laid on a high rate of interest. I am sympathetic to this, but not beyond a certain point. It seems to me that what we are fundamentally trying to do with a high rate of interest is to stop off investment expenditure in the order of $10 billion in this country.

If you really put through a very high rate of interest — 12% has been mentioned—you are disturbing values throughout the whole economy. You are disturbing the relation between capital values and annual values. I don't know what the total capital of the United States is, but it is in the order of a thousand billion dollars. By a very drastic interest rate policy you would be disturbing the relation of that capital, a thousand billion dollars, to its income yield in order to check expenditure of $10 billion. It is altogether out of proportion. It is doing a gigantic thing in order to produce a relatively small result.

I have given my reasons for supposing that a tight credit policy of the normal kind will not be strong enough to stem the flow of investment expenditure; this brings me to the essential point that I should like to put: I think there is something we have still got to think out, namely, a new method of reducing investment expenditure while relying on taxes, to reduce consumer expenditure.

We put up the taxes to reduce consumer expenditure, and how are we doing to reduce investment expenditure? By banking control, some say, and I say it is not strong enough. I believe there is a constructive task here that we can achieve.

I am going to make a constructive proposal. It is very daring for a stranger to do this. Perhaps I could arouse a little interest in it.

A Tax Incentive

My suggestion is that we should amplify, or reinforce, the monetary policy of a strict credit by some kind of tax incentive to people not to make investment expenditures during the next two years; not to make investment expenditures, at least, for purposes that are not directly connected with the arms effort.

I should say that through your corporate tax, income tax, and so on, an adjustment could be made on the side of depreciation allowances by which firms undertaking investment expenditures would not get back for two years their normal depreciation allowances on the tax; that new capital outlay undertaken here and now for the next two years, except in relation to the arms effort, would not qualify in the way of normal law for depreciation allowances.

I believe that people in these days are tremendously influenced in their conduct by anything that affects the tax assessments. Tax assessment is a far more vital factor than interest rates in influencing decisions of people as to what they are going to do. I have the impression that the present tax setup rather encourages people to make investment expenditures that aren't strictly necessary.

I want the taxes to do the opposite, anyhow for the next two years. I stress my two years, because I think otherwise people would say, "This is hopeless from the point of view of American business, which is, essentially expansionary. People will never stand for that sort of thing."

If you say, "This is for two years only that we are going to make a severe tax deterrent to capital expenditure, which will be something stronger than a high interest rate" and if you combine that with heavy taxation on the consumer, I believe that you could, for the next two years, get away with a system that allows the essentials of a free economy to remain without having any excessive amount of inflation.

Robert L. DeMuth

Robert L. DeMuth fell to his death from his suite in the Hotel Carlyle on April 15. Mr. DeMuth, who had been under treatment for a nervous conditions, was associated with Bear, Stearns & Co.

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)	Apr. 22	102.9	102.3	101.1	100
Equivalent to—					
Steel ingots and castings (net tons)	Apr. 22	2,057,000	2,045,000	2,021,000	1,906,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Apr. 7	6,126,800	6,041,400	6,042,750	4,997,600
Crude runs to stills — daily average (bbls.)	Apr. 7	6,092,000	¶6,381,000	6,372,000	5,170,000
Gasoline output (bbls.)	Apr. 7	19,306,000	20,398,000	20,341,000	17,792,000
Kerosene output (bbls.)	Apr. 7	2,301,000	2,828,000	2,628,000	2,156,000
Gas, oil, and distillate fuel oil output (bbls.)	Apr. 7	8,988,000	*9,365,000	8,792,000	6,648,000
Residual fuel oil output (bbls.)	Apr. 7	8,877,000	9,147,000	9,499,000	7,783,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Apr. 7	139,728,000	*142,433,000	140,671,000	135,116,000
Kerosene (bbls.) at	Apr. 7	13,533,000	13,285,000	13,084,000	12,784,000
Gas, oil, and distillate fuel oil (bbls.) at	Apr. 7	42,354,000	43,170,000	44,966,000	38,288,000
Residual fuel oil (bbls.) at	Apr. 7	36,532,000	37,282,000	37,753,000	40,494,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Apr. 7	739,523	755,435	725,534	778,997
Revenue freight received from connections (number of cars)	Apr. 7	699,053	703,308	708,312	654,929
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Apr. 12	$311,168,000	$236,778,000	$220,851,000	$177,669,000
Private construction	Apr. 12	188,188,000	142,501,000	139,746,000	105,101,000
Public construction	Apr. 12	122,980,000	94,277,000	81,105,000	72,468,000
State and municipal	Apr. 12	69,562,000	63,891,000	69,065,000	57,698,000
Federal	Apr. 12	53,418,000	39,386,000	12,040,000	14,770,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Apr. 7	9,110,000	*10,190,000	*10,020,000	11,725,000
Pennsylvania anthracite (tons)	Apr. 7	465,000	539,000	529,000	816,000
Beehive coke (tons)	Apr. 7	120,200	*138,500	143,000	94,800
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Apr. 7	293	258	292	320
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Apr. 14	6,746,975	6,735,844	6,903,264	5,863,247
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Apr. 12	172	195	170	201
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Apr. 10	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Apr. 10	$52.69	$52.69	$52.69	$46.38
Scrap steel (per gross ton)	Apr. 10	$43.00	$43.00	$43.00	$28.83
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Apr. 11	24.200c	24.200c	24.200c	18.200c
Export refinery at	Apr. 11	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Apr. 11	150.500c	134.000c	134.000c	76.250c
Lead (New York) at	Apr. 11	17.000c	17.000c	17.000c	10.500c
Lead (St. Louis) at	Apr. 11	16.800c	16.800c	16.800c	10.300c
Zinc (East St. Louis) at	Apr. 11	17.500c	17.500c	17.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Apr. 17	98.21	99.34	99.64	102.88
Average corporate	Apr. 17	111.81	112.19	113.70	116.41
Aaa	Apr. 17	115.63	115.82	117.20	121.25
Aa	Apr. 17	114.27	114.85	116.41	119.82
A	Apr. 17	110.88	111.25	113.12	115.82
Baa	Apr. 17	106.92	107.44	108.52	109.06
Railroad Group	Apr. 17	108.70	109.24	110.88	111.81
Public Utilities Group	Apr. 17	111.62	112.19	113.70	117.20
Industrials Group	Apr. 17	115.24	115.24	116.80	120.22
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Apr. 17	2.62	2.54	2.52	2.29
Average corporate	Apr. 17	3.07	3.05	2.97	2.83
Aaa	Apr. 17	2.87	2.86	2.79	2.59
Aa	Apr. 17	2.94	2.91	2.83	2.66
A	Apr. 17	3.12	3.10	3.00	2.86
Baa	Apr. 17	3.34	3.31	3.25	3.22
Railroad Group	Apr. 17	3.24	3.21	3.12	3.07
Public Utilities Group	Apr. 17	3.08	3.05	2.97	2.79
Industrials Group	Apr. 17	2.89	2.89	2.81	2.64
MOODY'S COMMODITY INDEX	Apr. 17	519.5	518.8	524.0	358.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Apr. 7	328,233	257,563	254,539	219,528
Production (tons)	Apr. 7	253,702	236,532	249,472	191,702
Percentage of activity	Apr. 7	106	98	106	103
Unfilled orders (tons) at	Apr. 7	*778,034	704,936	*751,036	*395,211
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Apr. 13	152.2	154.3	154.7	121.0
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. 31	28,514	23,117	33,069	32,787
Number of shares	Mar. 31	821,113	662,756	971,729	1,006,804
Dollar value	Mar. 31	$34,246,152	$27,536,790	$42,241,308	$37,426,708
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Mar. 31	24,846	20,737	31,448	34,841
Customers' short sales	Mar. 31	447	317	449	383
Customers' other sales	Mar. 31	24,399	20,420	30,999	34,458
Number of shares—Total sales	Mar. 31	691,592	564,133	863,406	1,016,329
Customers' short sales	Mar. 31	16,981	12,087	16,107	13,682
Customers' other sales	Mar. 31	674,611	552,046	847,299	1,002,647
Dollar value	Mar. 31	$27,765,049	$23,049,104	$35,253,907	$35,008,940
Round-lot sales by dealers—					
Number of shares—Total sales	Mar. 31	203,710	155,870	242,870	345,560
Short sales	Mar. 31	------	------	------	------
Other sales	Mar. 31	203,710	155,870	242,870	345,560
Round-lot purchases by dealers—					
Number of shares	Mar. 31	239,090	279,640	366,450	300,160
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Apr. 10	183.1	183.3	183.4	152.5
Farm products	Apr. 10	201.6	201.8	203.3	159.3
Grains	Apr. 10	188.5	188.5	189.1	170.1
Livestock	Apr. 10	268.7	269.0	268.4	198.6
Foods	Apr. 10	185.7	186.1	187.7	154.4
Meats	Apr. 10	272.0	274.4	272.0	211.8
All commodities other than farm and foods	Apr. 10	171.7	172.1	171.7	148.0
Textile products	Apr. 10	184.3	184.5	185.1	138.4
Fuel and lighting materials	Apr. 10	138.9	139.0	139.0	130.7
Metals and metal products	Apr. 10	189.9	189.8	189.3	168.5
Building materials	Apr. 10	227.6	227.5	227.7	194.2
Lumber	Apr. 10	358.9	358.9	358.9	‡
Chemicals and allied products	Apr. 10	144.8	145.3	146.9	117.3

*Revised figure. ‡Not available. ¶Includes 511,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of March (in millions):			
Total new construction	$2,122	$1,933	$1,750
Private construction	1,578	1,501	1,313
Residential building (nonfarm)	848	820	741
New dwelling units	775	750	675
Additions and alterations	57	53	55
Nonhousekeeping	16	17	11
Nonresidential building (nonfarm)	396	383	249
Industrial	142	135	69
Commercial	126	121	77
Warehouses, office and loft buildings	44	46	25
Stores, restaurants, and garages	82	75	52
Other nonresidential building	128	127	103
Religious	35	36	28
Educational	26	27	21
Social and recreational	16	17	17
Hospital and institutional	32	31	27
Miscellaneous	19	16	10
Farm construction	83	74	79
Public utilities	246	219	235
Railroad	20	15	21
Telephone and telegraph	36	31	38
Other public utilities	190	173	176
All other private	5	5	9
Public construction	544	432	437
Residential building	35	29	28
Nonresidential building	229	198	170
Industrial	39	30	11
Educational	115	108	84
Hospital and institutional	39	31	40
Other nonresidential building	36	29	35
Military and naval facilities	34	29	8
Highways	115	65	100
Sewer and water	53	49	49
Miscellaneous public-service enterprises	13	8	11
Conservation and development	58	49	62
All other public	7	5	9
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of February:			
Cotton Seed—			
Received at mills (tons)	56,343	147,650	261,577
Crushed (tons)	318,824	448,183	533,085
Stocks (tons) Feb. 28	575,329	837,810	1,137,095
Crude Oil—			
Stocks (pounds) Feb. 28	87,973,000	105,049,000	146,885,000
Produced (pounds)	103,897,000	144,222,000	173,826,000
Shipped (pounds)	121,061,000	138,139,000	189,962,000
Refined Oil—			
Stocks (pounds) Feb. 28	204,544,000	180,709,000	273,525,000
Produced (pounds)	110,864,000	126,329,000	174,054,000
Consumption (pounds)	92,265,000	119,877,000	158,713,000
Cake and Meal—			
Stocks (tons) Feb. 28	165,276	199,134	196,406
Produced (tons)	144,994	198,130	235,130
Shipped (tons)	178,852	189,871	214,448
Hulls—			
Stocks (tons) Feb. 28	67,211	87,516	101,052
Produced (tons)	74,261	101,211	125,503
Shipped (tons)	94,566	96,887	131,061
Linters (running bales)—			
Stocks Feb. 28	82,573	120,640	172,073
Produced	104,707	151,289	157,860
Shipped	142,774	133,352	202,634
Hull Fiber (1,000-lb. bales)—			
Stocks Feb. 28	369	564	1,660
Produced	519	768	1,085
Shipped	714	681	1,033
Motes, grabbots, etc. (1,000 pounds)—			
Stocks Feb. 28	5,180	5,720	6,625
Produced	2,367	2,999	3,036
Shipped	2,907	2,087	3,170
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of January:			
All manufacturing (production workers)	13,017,000	*13,058,000	11,449,000
Durable goods	7,256,000	*7,256,000	6,000,000
Nondurable goods	5,761,000	*5,802,000	8,449,000
Employment indexes—			
All manufacturing	158.9	*159.4	139.8
Payroll indexes—			
All manufacturing	423.3	*425.8	329.2
Estimated number of employees in manufacturing industries—			
All manufacturing	15,768,000	*15,785,000	13,980,000
Durable goods	8,734,000	*8,716,000	7,342,000
Nondurable goods	7,034,000	*7,069,000	6,638,000
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of January:			
Death benefits	$157,309,000	$137,352,000	$132,259,000
Matured endowments	50,869,000	39,566,000	46,643,000
Disability payments	9,487,000	8,222,000	8,969,000
Annuity payments	27,999,000	18,131,000	25,323,000
Surrender values	59,391,000	54,309,000	53,463,000
Policy dividends	66,004,000	87,922,000	60,422,000
Total	$371,059,000	$345,502,000	$327,029,000
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of March:			
Industrials (125)	6.29	5.94	6.74
Railroad (25)	5.85	5.64	5.30
¶¶Utilities (24)	4.61	4.48	4.42
Banks (15)	3.45	3.52	3.30
Insurance (10)	6.40	6.27	6.16
Average (200)	6.06	6.53	6.40
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of March	£22,618,000	£9,923,000	£8,073,000
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of March:			
Net sales	------	------	------
Net purchases	$482,674,850	$261,227,500	$6,316,900
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of March 31	$255,017,643	$255,958,195	$255,747,183
General fund balance	8,569,161	5,382,150	6,120,649
Net debt	$246,448,482	$250,576,045	$249,626,534
Computed annual rate	2.227%	2.224%	2.199%
WINTER WHEAT AND RYE—U. S. DEPT. OF AGRICULTURE—As of April 1, 1950:			
Winter wheat—Production	726,512,000	------	750,666,000
Rye—Condition	83%	------	85%

*Revised figure.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alhambra Gold Mines Corp., Hollywood, Calif.
Nov. 1 filed 80,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For further development of mine and for working capital.

American Dairy Products Corp., N. Y.
Feb. 16 filed 300,000 shares of preferred stock (par $4) and 390,000 shares of common stock (par 10 cents) to be offered in units of one share of preferred and 1.3 shares 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. **Offering**—Expected before end of April.

● **American Rock Wool Corp., Wabash, Ind.**
April 13 (letter of notification) 3,000 shares of common stock (par $5). **Price**—$10.25 per share. **Underwriter**—Bacon, Whipple & Co., Inc., Chicago, Ill. **Proceeds**—To James R. Addington, of Chicago, the selling stockholder.

American Television & Radio Co. (4/26)
March 30 (letter of notification) 200,000 shares of common stock (par 50 cents). **Price**—$1.50 per share. **Underwriter**—George F. Breen of New York. **Proceeds**—For working capital. **Office**—300 E. Fourth Street, St. Paul 1, Minn.

Artloom Carpet Co., Inc. (4/25)
March 27 filed 73,556 shares of common stock (no par), to be offered to common stockholders of record April 25 on basis of one share for each four shares held, with oversubscription privileges. **Price**—$10 per share. **Underwriter**—None. **Porceeds**—For working capital.

● **Atlantic City Electric Co. (5/8)**
April 15 filed 117,200 shares of common stock (par $10) to be offered to common stockholders of record May 8 at rate of one share for each 10 shares held; rights to expire May 28. Unsubscribed shares to be offered up to May 25, 1951, to employees and to stockholders on an oversubscription privilege. **Price** — To be supplied by amendment. **Underwriters**—Union Securities Corp. and Smith, Barney & Co., New York. **Proceeds** — For construction program.

Atomic Instrument Co.
April 11 (letter of notification) 47,700 shares of common stock (par $1). **Price**—$3.87½ per share. **Underwriter**—Coffin, Betz & Co., Philadelphia, Pa. **Proceeds**—To expand facilities and for working capital. **Office** — 84 Massachusetts Ave., Cambridge 39, Mass. Offering completed.

● **Automatic Laundries, Inc., Olympia, Wash.**
March 30 (letter of notification) 990 shares of 6% non-cumulative preferred stock (par $100) and 990 shares of common stock (no par) to be offered in units of one share of each class of stock. **Price**—$101 per unit. **Underwriter** — None. **Proceeds** — For installation costs and working capital. **Office**—321 Security Bldg., Olympia, Wash.

● **Bonanza Central Mining Co., Wenden, Ariz.**
April 2 (letter of notification) 78,835 shares of capital stock (par $1) to be offered to persons who have signed the offer to become promoters of company. **Underwriter**—None. **Proceeds**—For promotional expenses. **Address**—c/o Roy R. MacDonald, Wenden, Ariz.

● **Bonanza Central Mining Co., Phoenix, Ariz.**
April 13 (letter of notification) 168,525 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—Roy R. Macdonald of Wenden, Ariz. **Proceeds**—For mineral rights and equipment. **Address**—Care Yale McFate, 16 Arcade, Phoenix, Ariz.

● **Brander Meat Co., Portland, Ore.**
April 11 (letter of notification) 1,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—915 N. Columbia Blvd., Portland, Ore.

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 extended from March 26 to April 30. Georgeson & Co. soliciting exchanges. Statement effective Feb. 21.

Burlington Mills Corp.
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. Offering date postponed.

Calby Chemical Corp., Baker, Ore.
March 19 (letter of notification) 300,000 shares of common stock. **Price** — $1 per share. **Underwriter** — None. **Proceeds**—To construct and operate a liquid and dry ice plant. **Address**—Box 12, Baker, Ore.

Carr-Consolidated Biscuit Co.
March 30 filed 434,604 shares of common stock (par $1), of which 384,604 shares are to be offered for subscription by common stockholders of record (for a 21-day standby) at rate of one share for each two shares held (with a right of oversubscription). The remaining 50,000 shares are to be sold to certain employees. **Price**—To be supplied by amendment. **Underwriters**—Lee Higginson Corp. and P. W. Brooks & Co., Inc., New York. **Proceeds**—For general corporate purposes.

Celanese Corp. of America
March 22 filed $100,000,000 of sinking fund debentures due April 1, 1976. **Price**—Plus other details, are to be supplied by amendment. **Underwriter** — Dillon, Read & Co. Inc., New York. **Proceeds** — To refund $75,908,750 funded debt, for capital and additions to plants and facilities and for general corporate purposes. Statement withdrawn April 4.

Celanese Corp. of America
March 22 filed 1,000,000 shares of 4½% cumulative convertible preferred stock, series A (par $100), being offered to common stockholders of record April 11, 1951, at rate of six shares for each 35 shares held; rights to expire on April 25. Each share of 7% second preferred stock also is exchangeable for 1½ shares of the new preferred stock given to existing holders. **Price**—$100 per share. **Underwriter** — Dillon, Read & Co., New York. **Proceeds**—To retire $44,100,000 of first preferred stock, and for capital additions to plants and facilities.

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 being 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 held as of record March 13. This offer will expire on May 1. 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.

Chester Telephone Co., Chester, S. C.
March 15 (letter of notification) 360 shares of common stock. **Price**—$100 per share. **Underwriter**—None. **Proceeds** — For plant improvements. **Office** — 109 Wylie Street, Chester, S. C.

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.

● **Classroom Filmstrip & Projector Corp.**
April 16 (letter of notification) 10,000 shares of 6% cumulative preferred stock (par $10) and 10,000 shares of common stock (par 10 cents) to be offered in units of one share of each. **Price**—$10.10 per unit. **Underwriter** — None. **Proceeds** — To manufacture projectors and filmstrips and for working capital. **Office**—321 East 44th St., New York.

● **Columbia Edgewater Country Club, Portland, Ore.**
April 6 (letter of notification) 350 shares of capital stock to be offered to persons meeting the requirements established by the Board at $250 per share (for qualified non-members) or $150 per share (for members who have already paid $100 membership fee). **Underwriter**—None. **Proceeds**—To improve golf course and club house. **Office**—2137 N. E. Marine Drive, Portland, Ore.

● **Columbine Development Co.**
April 9 (letter of notification) 1,000 shares of common stock (par $10) to be directly purchased by "some five individuals." **Price** — $12.50 per share. **Underwriter** — None. **Proceeds**—For working capital and construction. **Office**—614 Rood Ave., Grand Junction, Colo.

Consolidated Cigar Corp., New York
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. Offering date postponed.

Consolidated Edison Co. of New York, Inc. (5/1)
March 30 filed $40,000,000 of first and refunding mortgage bonds, series G, due May 1, 1981. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp. **Proceeds**—To repay Bank loans and for additions and improvements to property. **Bids**—Expected to be opened at noon (EDT) on May 1.

Consolidated Natural Gas Co. (5/14)
April 4 filed $50,000,000 of sinking fund debentures due 1976. **Underwriters** — To be determined by competitive bidding. Probable bidders Halsey, Stuart & Co.; White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly); Dillon, Read & Co. Inc., Morgan Stanley & Co. and First Boston Corp. (jointly). **Proceeds**—To purchase securities of operating companies, which will use the funds for their construction program. **Bids**—To be received at office of company, 30 Rockefeller Plaza, New York 20, N. Y., up to 11:30 a.m. (EDST) on May 14.

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.

● **Consumer Finance Corp., Charlotte, N. C.**
April 3 (letter of notification) 25,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds** — For working capital. **Office** — 221½ West Trade St., Charlotte, N. C. **Offering**—Now being made.

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.

Cosmopolitan Hotel Co. of Dallas, Tex.
Dec. 13 filed $1,500,000 of 2% debentures due 1965. **Price**—At face value. **Underwriter**—None. **Proceeds**—To purchase debentures of Statler Dallas Co., Inc., which company will construct Dallas hotel. **Business**—A non-profit corporation under sponsorship of Dallas Chamber of Commerce to secure construction of hotel.

● **Crater Rock Products Co., Las Vegas, Nev.**
April 11 (letter of notification) 2,500 shares of class A stock (no par). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—To develop water irrigation systems of Calico Valley. **Office**—223 Fremont St., Las Vegas, Nev.

● **Crossett Lumber Co., Crossett, Ark.**
April 13 (letter of notification) 8,350 shares of common stock (par $5). **Price**—$23 per share. **Underwriter**—Equitable Securities Corp. of Nashville, Tenn. **Proceeds**—For general corporate purposes.

Cuban-Venezuelan Oil Voting Trust
March 29 filed 1,500,000 units of voting trust certificates representing one share of one and two cent par common stock in 24 companies. **Price**—$2 per unit. **Underwriter**—None. **Proceeds**—For drilling and exploration expenses and working capital.

Cudahy Packing Co.
March 23 filed $10,000,000 sinking fund debentures due April 1, 1966. **Price** — To be supplied by amendment. **Underwriter**—Halsey, Stuart & Co. Inc. **Proceeds**—To reduce bank loans by $9,000,000, and the balance added to working capital. **Offering**—Date postponed.

Culver Corp., Chicago, Ill. (4/28)
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 $6.77 per share. **Underwriter**—None. **Proceeds**—For investments.

● **Dealers Cooperative Supply, Inc.**
April 2 (letter of notification) 500 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For operating capital and equipment. **Office**—5705 So. Central Ave., Los Angeles 11, Calif.

● **Deep Rock Oil Corp., Tulsa, Okla.**
April 5 (letter of notification) covering not exceeding $240,000 employee and company contributions to Employees' Stock Purchase Plan.

Deere & Co. (4/24)
April 5 filed 120,000 shares of common stock (no par). **Price**—To be based upon the market immediately prior to the offering. **Underwriter**—Harriman Ripley & Co., Inc., New York. **Proceeds**—To two selling stockholders (Charles Deere Wiman, President, and Mr. Wiman and John F. Wharton, as executors under the will of Dwight Deere Wiman, deceased).

Detroit Edison Co.
March 1 filed 850,000 shares of common stock being 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. Statement effective March 26.

Dixie Fire & Casualty Co., Greer, S. C.
March 26 (letter of notification) 6,000 shares of capital stock (par $10), to be offered to stockholders of record March 14, 1951 (residents of South Carolina only), on basis of one share for each five shares held; rights to expire on May 5, 1951. **Price**—$20 per share. **Underwriter**—None. Proceeds for working capital.

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.

Duke Power Co.
March 22 filed 126,255 shares of common stock (no par) being offered to common stockholders for subscription on basis of one share for each 10 shares held as of April 6, 1951, with an oversubscription privilege; rights to expire on May 1. **Price**—$75 per share. **Underwriter**—None. **Proceeds**—For construction program. Statement effective April 6.

● **Dumont Electric Corp.**
April 12 (letter of notification) 32,500 shares of common stock (par 10 cents). **Price**—$2.87½ per share. **Underwriter**—Aetna Securities Corp., New York. **Proceeds**—To selling stockholders.

Eastern Corp., Bangor, Me.
April 5 (letter of notification) 2,500 shares of common stock (par $10). **Price**—At market (approximately $19.75 per share). **Underwriter**—None. **Proceeds**—To Central National Corp., New York.

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.

Electronic Devices, Inc., Brooklyn, N. Y. (4/23)
April 9 (letter of notification) 1,998,000 shares of common stock (par 1¢). **Price**—15¢ per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For additional equipment and working capital.

● **Fairchild Camera & Instrument Corp.**
April 13 filed 69,406 shares of common stock (par $1) to be offered to common stockholders at rate of one share for each five shares held. **Price**—To be supplied by amendment. **Underwriter**—Glore, Forgan & Co., New York. **Proceeds**—For expansion program.

● **Florio Winery, Inc., Fresno, Calif.**
April 11 (letter of notification) 500 shares of capital stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—1012-1020 Helm Bldg., Fresno, Calif.

Foote Mineral Co. (4/27)
March 30 filed 23,206 shares of common stock (par $2.50) to be offered to common stockholders of record April 27, 1951, for subscription at rate of one share for each ten shares held. **Price**—To be supplied by amendment. **Underwriter**—Estabrook & Co., New York. **Proceeds**—For expansion program.

Fosgate Citrus Concentrate Cooperative, Forest City, Fla.
March 2 filed 476 shares of class A membership stock (par $100); 801 shares of class B preferred stock (par $100); 8,000 shares of class C stock (par $100); 2,000 shares of class C stock (par $50); and 4,000 shares of class C stock (par $25). **Price**—At par. **Underwriter**—None. **Proceeds**—To construct and equip plant. **Business**—To process citrus fruit juices to a frozen concentrate form.

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 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.

Globe & Rutgers Fire Insurance Co. (4/25)
March 30 filed 30,000 shares of prior preferred stock (par $15). **Price**—To be supplied by amendment. **Underwriters**—Union Securities Corp.; Geyer & Co., and Shelby Cullom Davis & Co. **Proceeds**—Together with other funds, to retire presently outstanding preferred stocks.

Globe & Rutgers Fire Insurance Co. (4/25)
March 30 filed 10,000 shares of convertible second preferred stock (par $15) to be offered to common stockholders for subscription on basis of one preferred share for each 24 common shares held, with oversubscription privileges. Tri-Continental Corp., owner of 53.4% of common stock, has agreed to subscribe to its pro rata share and to purchase any shares not subscribed for by other stockholders. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds**—Together with other funds, to retire presently outstanding preferred stocks.

Golconda Mines Ltd., Montreal, Canada
April 9 filed 750,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—George F. Breen, New York. **Proceeds**—For drilling expenses, repayment of advances and working capital.

NEW ISSUE CALENDAR

April 19, 1951
Illinois Central RR., noon (CST)—Equip. Tr. Ctfs.

April 20, 1951
Minneapolis Gas Co.—Common
Monongahela Power Co., 11 a.m. (EST)—Bonds
Vat-Craft Corp.—Common

April 23, 1951
Electronic Devices, Inc.—Common

April 24, 1951
Deere & Co.—Common
Gulf States Utilities Co., 11 a.m. (EST)—Common
Lynn Gas & Electric Co., noon (EST)—Notes
Pacific Lighting Corp.—Common
Public Service Co. of Oklahoma 11:30 a.m. (CST)—Bonds

April 25, 1951
Artloom Carpet Co., Inc.—Common
Globe & Rutgers Fire Insurance Co.—Preferred

April 26, 1951
American Television & Radio Co.—Common
Wheeling Steel Corp.—Debentures

April 27, 1951
Foote Mineral Co.—Common

April 28, 1951
Culver Corp.—Common

May 1, 1951
Consolidated Edison Co. of New York, Inc. Noon (EDT)—Bonds
Israel (State of)—Bonds
Telegift, Inc.—Common

May 2, 1951
Montana-Dakota Utilities Co.—Bonds
Ohio Edison Co., 11:30 a.m. (EDT)—Pfd. & Com.

May 8, 1951
Atlantic City Electric Co.—Common

May 14, 1951
Consolidated Natural Gas Co. 11:30 a.m. (EDT)—Debentures

May 17, 1951
Thorer & Hollender, Inc., 11 a.m. (EDT)—Common

June 5, 1951
Georgia Power Co.—Bonds

July 17, 1951
Mississippi Power Co.—Preferred

September 11, 1951
Alabama Power Co.—Bonds

Grayson-Robinson Stores, Inc.
March 29 filed 100,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Emanuel, Deetjen & Co., New York. **Proceeds**—To reduce bank loan.

Greenwich Gas Co.
April 10 (letter of notification) 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 capital additions.

Gulf States Utilities Co. (4/24)
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 corporate purposes. **Bids**—To be received at 11 a.m. (EST) on April 24 for an aggregate number of whole shares for an aggregate purchase price of $3,500,000.

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.

Hilton Hotels Corp., Chicago, Ill.
March 30 filed 153,252 shares of common stock (par $5) to be offered to holders of common stock of Hotel Waldorf-Astoria Corp. in exchange for their holdings of such stock on a share-for-share basis. **Dealer-Manager**—Carl M. Loeb, Rhoades & Co., New York.

Idaho Maryland Mines Corp.
March 27 (letter of notification) 6,500 shares of common stock (par $1). **Price**—At market (estimated at $2 per share). **Underwriter**—E. F. Hutton & Co., San Francisco, Calif. **Proceeds**—To Siegfried Bechhold, the selling stockholder.

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 Corp., St. Petersburg, Fla., and H. W. Freeman & Co., Ft. Myers Fla.—**Proceeds**—For general corporate purposes.

Inter-Mountain Telephone Co.
March 16 filed 142,500 shares of common stock (par $10) being offered for subscription by common stockholders on basis of one share for each two shares held on March 26, 1951; rights to expire on April 19, 1951. Of the total, 64,164 shares will be purchased by two principal stockholders, to wit: Southern Bell Telephone Co. and Chesapeake & Potomac Telephone Co. of Virginia. **Price**—$10 per share. **Underwriter**—Courts & Co., Atlanta, Ga. **Proceeds**—To reduce indebtedness. Statement effective April 3.

International Life Insurance Co., Austin, Tex.
March 30 filed $1,200,000 special stock debentures to be sold in units of $500 each by regular licensed insurance agents of the company. **Price**—At par. **Proceeds**—To increase capital and surplus.

Israel (State of) (5/1)
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. Statement effective March 28.

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.

● **Jerry O'Mahony, Inc.**
April 10 (letter of notification) a sufficient number of shares to net $100,000. **Price**—At market (about $3.87½ per share). **Underwriter**—None, but Bache & Co., New York, will act as broker. **Proceeds**—To Louis Wasserstein, the selling stockholder.

Jersey Central Power & Light Co.
Feb. 21 filed $1,500,000 first mortgage bonds due in 1981. **Proceeds**—For expansion program. **Bids**—Only one bid was received by company on March 27, from Halsey, Stuart & Co. Inc., which was returned unopened. **Offering**—Postponed indefinitely. Statement effective March 14.

Jersey Central Power & Light Co.
Feb. 21 filed 40,000 shares of cumulative preferred stock (par $100). **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**—Only one bid, from Union Securities Corp. and Salomon Bros. & Hutzler (jointly), was received March 27, which was returned unopened. **Offering**—Postponed indefinitely. Statement effective March 14.

Kee Zipper Corp., New York
April 9 (letter of notification) $250,000 of 15-year income notes, due May 1, 1966, and 30,000 shares of common stock (par 1¢) to be offered in units of a $100 note and 12 shares of stock. **Price**—$119.92 per unit. **Underwriter**—None. **Proceeds**—To repay loans, for equipment and working capital.

Kerr-McGee Oil Industries, Inc.
March 22 (letter of notification) 10,000 shares of common stock (par $1) to be sold to Lehman Brothers, New York, for investment. **Price**—$19 per share. **Proceeds**—To T. M. and Geraldine H. Kerr, two selling stockholders.

Kingfisher Water Co., Kingfisher, Okla.
Dec. 27 (letter of notification) 250 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For new construction. Offering has been deferred.

● **Lee Oil & Natural Co.**
April 11 filed voting trust certificates for 1,042,609 shares of common stock (par 25 cents). Voting trustees are F. W. Lee and M. D. Hyman.

Long Island Lighting Co.
April 6 filed 574,949 shares of new common stock of which 524,949 shares are to be offered common stockholders in the ratio of one share for each six shares held, with an oversubscription privilege. Unsubscribed shares first to be offered to employees up to a maximum of 200 shares each. **Price**—To be decided later. **Underwriter**—None. Blyth & Co., Inc., has been engaged as Dealer-Manager to obtain subscriptions. **Proceeds**—For additions and improvement to property. **Offering**—Expected early part of May for a two-week subscription period.

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 March 10; rights to expire on July 1. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—203 West Ninth St., Lorain, Ohio.

Continued on page 60

Continued from page 59

● **Loyalta Oils, Ltd., Edmonton, Canada**
April 16 filed 750,000 shares of capital stock (par $1). **Price**—$50 per share. **Underwriter**—James T. Chiles of Denver, Colo., who will conduct offering to public by means of a mail campaign directed from Edmonton, Canada. **Proceeds**—To carry on drilling program.

● **Ludman Corp., Opa-Locka, Fla.**
April 16 filed 250,000 shares of common stock (par $1), of which 25,000 shares will be offered to employees. Any unsubscribed shares, plus the remaining 225,000 shares, are to be offered to public. **Price**—$3.50 per share (with an underwriting commission of 35 cents) to employees; $3.75 per share (with an underwriting commission of 60 cents) to public. **Underwriter**—Floyd D. Cerf, Jr. Co., Chicago, Ill. **Proceeds**—To redeem 1,873 shares of 5% preferred stock and $75,000 of 3% debentures and for general corporate purposes.

Lynn Gas & Electric Co. (4/24)
March 27 filed $4,100,000 20-year notes, series A, due April 1, 1971. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co. **Proceeds** — To repay $3,800,000 2½% promissory notes due June 1, 1951, and the balance for new construction. **Bids**—To be received at office of Herrick, Smith, Donald, Farley & Ketchum, Room 1101, 1 Federal St., Boston, Mass., up to noon (EST) on April 25.

M. J. and M. and M. Consolidated, San Francisco, Calif.
March 19 (letter of notification) 399,923 shares of capital stock (par 10 cents) offered to stockholders of record March 31, 1951 at rate of one share for each five shares held; rights expired April 14. **Price**—60 cents per share. **Underwriter** — None. **Proceeds** — For working capital. **Office**—1715 Mills Tower, San Francisco, Calif.

● **Magma King Mining Co., Phoenix, Ariz.**
April 3 (letter of notification) 60,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds** — For exploration and development of ore bodies. **Office**—Room 806, Security Bldg., Phoenix, Ariz.

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.

Minneapolis Gas Co. (4/20)
March 30 filed 119,452 shares of common stock (par $1) to be offered for subscription by stockholders of record April 19 in ratio of one new share for each ten shares held; with rights to expire on May 2. **Price**—$15.50 per share. **Underwriter**—Kalman & Co., Inc., St. Paul, Minn. **Proceeds**—For cost of additions to property.

Monongahela Power Co. (4/24)
March 23 filed $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.; Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co.; Harriman Ripley & Co., Inc. **Proceeds**—From sale of bonds together with proceeds ($4,000,100) 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. **Bids**—To be received at 50 Broad St., New York up to 11 a.m. (EST) on April 24. Statement effective April 17.

Montana-Dakota Utilities Co.
March 30 filed 230,000 shares of common stock (par $5) to be offered for subscription to common stockholders of record April 19 on basis of one share for each 4½ shares held; rights to expire on May 3. **Price**—To be supplied by amendment. **Underwriters**—Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—To reduce bank loans and for construction program.

● **Montana-Dakota Utilities Co. (5/2)**
April 12 filed $3,000,000 of first mortgage bonds due April 1, 1976, and $2,000,000 of first mortgage serial bonds to mature $100,000 each April 1 from 1952 to 1971, inclusive. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kidder, Peabody & Co. **Proceeds**—To reduce bank loans and for construction program.

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 Telephone & Telegraph Co.
March 9 filed 215,709 shares of capital stock being offered to stockholders of record March 30 in ratio of one share for each five shares held; rights to expire on April 30. **Price** — At par ($100 per share). **Underwriter** — None. **Proceeds**—To repay advances to American Telephone & Telegraph Co., the parent, which owns 900,801 shares, or 83.52% of outstanding stock, and for general corporate purposes. Statement effective March 28.

● **Nash Finch Co., Minneapolis, Minn.**
April 13 (letter of notification) 1,000 shares of common stock (par $10). **Price**—At $18 or $20 per share. **Underwriter**—J. M. Dain & Co., Minneapolis, Minn. **Proceeds**—To Willis King Nash, the selling stockholder.

National Gypsum Co., Buffalo, N. Y.
March 14 filed 68,652 shares of common stock (par $1) being 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. Statement effective April 3.

National Plumbing Pipe Corp., Columbus, Ohio
April 4 (letter of notification) $250,000 of 15-year 5% income debentures due April 1, 1966. **Price**—At par (in denominations of $500 each). **Underwriter**—None. **Proceeds**—To purchase or lease plant. **Office**—305 North Front St., Columbus, O.

● **Normandy Construction Service, Inc., Normandy, Ill.**
April 13 (letter of notification) 1,470 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital.

● **Norris Oil Co., Bakersfield, Calif.**
April 12 (letter of notification) 500 shares of capital stock (par $1). **Price**—$4.12½ per share. **Underwriter**—Walston, Hoffman & Goodwin, San Francisco, Calif. **Proceeds**—To Arthur W. Scott, the selling stockholder.

North American Acceptance Corp.
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. **Offering**—Postponed temporarily.

● **Northeast Finance Corp., Boston, Mass.**
April 12 (letter of notification) $100,000 of 5% Treasury Certificates (in denominations of $50 each) and 30,000 shares of preferred stock (par $1) to be offered at $5 per share. **Underwriter**—None. **Proceeds**—For expansion of loan and financing business. **Office**—1601 Blue Hills Ave., Mattapan, Boston, Mass.

Ohio Edison Co. (5/2)
March 30 filed 150,000 shares of preferred stock (par $100) and 436,224 shares of common stock (par $8). The latter issue will be offered for subscription by common stockholders May 2, 1951, on the basis of one share for each ten shares held, with an oversubscription privilege; rights to expire on May 18. **Price**—To be named by the company. **Underwriters**—To be determined by competitive bidding. 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 construction program. **Bids**—To be received at 11:30 a.m. (EDST) on May 2.

Oklahoma Gas & Electric Co.
March 5 filed 215,380 shares of common stock (par $10) being 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**—$19.75 per share. **Underwriter**—None. **Proceeds**—For construction program. Statement effective April 4.

Pacific Lighting Corp. (4/24)
April 3 filed 369,643 shares of common stock (no par). **Price**—To be supplied by amendment. **Underwriter**—Blyth & Co., Inc. **Proceeds**—For additions and improvements to property.

● **Pacific Northwest Gas & Oil Corp.**
April 12 (letter of notification) 400,000 shares of common stock. **Price**—At par (25 cents per share). **Underwriter**—None. **Proceeds**—To drill for oil and gas. **Office**—326 Vance Bldg., Seattle 1, Wash.

Pacific Refiners, Ltd., Honolulu, Hawaii
March 30 filed 750,000 shares of common stock to be offered for subscription by common stockholders of record April 6, 1951, at rate of one share for each share held. **Price**—At par ($1 per share). **Underwriter**—None. Unsubscribed shares to be sold at public auction in Honolulu. **Proceeds**—To retire short term promissory notes and for construction program.

Pact Gas Co., Cushing, Okla.
Jan. 8 (letter of notification) $50,000 of first mortgage serial 6% bonds due 1961-1971. **Price**—At 100%. **Underwriter**—R. J. Edwards, Inc., Oklahoma City, Okla. **Proceeds**—To retire certain capital stock and for construction. **Office**—212 East Broadway, Cushing, Okla.

Pan American Milling Co., 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.

Peabody Coal Co.
March 26 filed $6,000,000 sinking fund debentures due April 1, 1966. **Price** — To be supplied by amendment. **Underwriter**—Halsey, Stuart & Co. Inc., Chicago, Ill. **Proceeds**—For new construction.

Peabody Coal Co.
March 26 filed 160,000 shares of 5½% prior preferred stock (par $25). **Price**—To be supplied by amendment. **Underwriter**—A. C. Allyn & Co., Inc., Chicago, Ill. **Proceeds**—For construction program. **Offering**—Tentatively postponed.

Plywood, Inc., Detroit, Mich.
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**—Expected at par. **Underwriters**—H. M. Byllesby & Co., Inc., Chicago, Ill., and P. W. Brooks & Co., Inc., New York. **Proceeds**—To redeem 5% debentures, to erect plant and install equipment.

● **Potomac Cooperative, Inc., Baltimore, Md.**
March 29 (letter of notification) $66,000 of 4% debenture bonds dated July 1, 1951 (in denominations of $25 each) and 2,200 shares of class A preferred stock (par $25) to be offered in exchange for bonds and notes of Eastern Cooperatives, Inc., of equal face value. **Purpose**—To effect a reorganization and decentralization of latter company. **Office**—238 No. Ranklintown Road, Baltimore, Md.

Public Service Co. of Oklahoma (4/24)
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**—To be opened on April 24 at 11:30 a. m. (CST) at 20 North Wacker Drive, Room 2154, Chicago 6, Ill. Statement effective April 17.

● **Rochdale Cooperative of Virginia, Inc.**
April 11 (letter of notification) 5,000 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—None, but The Potomac Cooperative Federation, Inc. will assist in effort to sell securities. **Proceeds** — To air-condition supermarket and for equipment. **Office**—1545 Seminary Road, Alexandria, Va.

Sattler's, Inc., Buffalo, N. Y.
March 22 filed 200,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Hornblower & Weeks, New York. **Proceeds**—To Charles Hahn, Jr., President, who is the selling stockholder. **Offering**—Indefinitely postponed.

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.

Seal-Peel, Inc., Van Dyke, Mich.
March 19 (letter of notification) 225,000 shares of common stock (par $1). **Price**—$1.25 per share. **Underwriter**—None. **Proceeds**—For working capital and to retire indebtedness. **Office**—11400 East Nine Mile Road, Van Dyke, Mich., or 103 Park Avenue, New York, N. Y. Placed privately with a few individuals.

Securities Acceptance Corp., Omaha, Neb.
April 2 (letter of notification) 10,000 shares of 5% cumulative preferred stock (par $25). **Price**—$26.25 per share. **Underwriters**—Cruttenden & Co., Chicago, Ill., and The First Trust Co. of Lincoln, Neb. **Proceeds**—For working capital.

● **Seminole Oil & Gas Corp., Dallas, Tex.**
April 9 (letter of notification) 2,300 shares of common stock (par $1) to be issued to Hays, St. John, Abramson & Schulman of New York in cancellation of an indebtedness. **Price** — $1.74 per share. **Underwriter** — J. W. Gould & Co., New York, who will reoffer shares to public.

● **Sheldon Factors, Inc., Chicago, Ill.**
April 10 (letter of notification) 16,000 shares of class A preferred stock (par $5) and 97,180 shares of class B common stock (par $1). **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital. **Office**—105 W Adams St., Chicago, Ill.

● **Skyline Broadcasting Corp., Dayton, O.**
April 13 (letter of notification) 250 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—Ball, Burge & Kraus, Cleveland, O. **Proceeds**—For working capital. **Office**—5 So. Jefferson St., Dayton 5, Ohio.

Smart & Final Co., Ltd., Los Angeles, Calif.
March 22 (letter of notification) 12,561 shares of common stock (no par). **Price**—$7.25 per share. **Underwriter**—Pacific Coast Securities Co., San Francisco, Calif. **Proceeds** — To selling stockholders. **Office** — 4510 Colorado Blvd., Los Angeles 53, Calif.

South State Uranium Mines Ltd. (Canada)
Nov. 30 filed 560,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter-Optionee**—Robert Irwin Martin of Toronto. **Proceeds**—For commissions, exploration and development expenses, and working capital.

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. No general public offering planned.

Steak'n Shake, Inc., Bloomington, Ill.
April 4 (letter of notification) 18,180 shares of common stock (par 50 cents). **Price**—$5.50 per share. **Underwriter**—None. **Proceeds**—To three selling stockholders. **Office**—1700 West Washington St., Bloomington, Ill.

Strategic Materials Corp., Buffalo, N. Y.
April 3 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—Hamilton & Lunt, Buffalo, N. Y. **Proceeds** — For working capital for general corporate purposes. **Office** — 1331 Marine Trust Bldg., Buffalo 3, N. Y.

• Sunny Hills Mutual Water Co.
April 2 (letter of notification) 5,416 shares of capital stock (par $1). **Price**—$15.95 per share. **Underwriter**—None. **Proceeds**—To Sunny Hills Ranch, Inc., the selling stockholder. **Address**—Box 31, Fullerton, Calif.

Super Electric Products Corp.
April 2 (letter of notification) $300,000 of unsecured 6% non-cumulative convertible 10-year debentures. **Price**—At par (in denominations of $100 each). **Underwriter**—Hugh J. Devlin, New York. **Proceeds**—To retire debt and for working capital. **Office**—46 Oliver St., Newark, N. J.

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.

• Tabernacle Corp., Miami, Fla.
April 9 (letter of notification) 750 shares of 7% cumulative preferred stock. **Price** — At par ($100 per share). **Underwriter**—None. **Proceeds**—To construct and erect tabernacle. **Office**—2147 S. W. 11th St., Miami, Fla.

• Talisman Mining & Leasing Co., Spokane, Wash.
April 9 (letter of notification) 250,000 shares of non-assessable common stock (par 10 cents), coupled with a bonus of fully participating capital refunding certificates based on production in an amount equivalent to sum invested in common stock. No subscriptions accepted for less than 500 shares. **Price**—21 cents per share. **Underwriter**—None. **Proceeds**—For development and rehabilitation of mill. **Office**—730 Peyton Bldg., Spokane, Wash.

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.
March 7 filed 100,000 shares of cumulative preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriter**—Stone & Webster Securities Corp. and White, Weld & Co., New York. **Proceeds**—To repay bank loans and for expansion of pipeline. **Offering**—Temporarily postponed.

Texas Farmers Telephone Co., Inc., Belton, Tex.
March 26 (letter of notification) 13,000 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To rehabilitate rural telephone exchanges and system.

Ultra-Mechanisms, Inc., Cambridge, Mass.
March 22 (letter of notification) 57,500 shares of common stock. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To develop engineering in the electro-mechanical field. **Office**—31 Carleton St., Cambridge, Mass.

• U. S. Gold Corp., Seattle, Wash.
April 6 (letter of notification) 150,000 shares of common stock (par 10 cents), of which 75,000 shares are to be donated to the company's treasury by a stockholder. **Price**—50 cents per unit (each unit consisting of two shares). **Underwriter**—None. **Proceeds**—For machinery and mining operations. **Office**—405 Cedar St., Seattle, Wash.

• Value Line Fund, Inc., New York
April 18 filed 2,500,000 shares of capital stock (par $1). **Price**—At the market. **Underwriter**—Value Line Fund Distributors, Inc., New York. **Proceeds**—For investment.

Van Lake Uranium Co., Van Dyke, Mich.
March 23 filed 500,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None, but company has negotiated with Titus-Miller & Co., Detroit, Mich., which "is seeking other dealers to cooperate with it in the deal." **Proceeds**—To develop uranium deposits in the Montreal River area in Algoma, Ontario, Canada.

• Vat-Craft Corp. (4/20)
April 13 (letter of notification) 1,000 shares of common stock (par $1). **Price**—$80 per share. **Underwriter**—None. **Proceeds**—For working capital and for operating expenses. **Office**—547 West 110th St., New York, N. Y.

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.

Warren (Ohio) Telephone Co.
March 23 (letter of notification) 3,000 shares of $5 dividend preferred stock (no par) to be offered for subscription by present stockholders in ratio of 0.27695 of a share for each share held. **Price**—$100 per share. **Underwriter**—None. **Proceeds**—To reimburse the company's construction costs.

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.

Wheeling Steel Corp. (4/26)
April 11 filed $14,238,900 of 14-year debentures due May 1, 1965 (convertible for a 10-year period), to be offered to common stockholders of record about April 26 on basis of $100 of debentures for each 10 shares of common stock held; rights expected to expire on May 10. **Price**—To be supplied by amendment. **Underwriter**—Kuhn, Loeb & Co., New York. **Proceeds**—For improvement program.

Wisconsin Power & Light Co.
March 23 filed 10,000 shares of cumulative preferred stock (par $100), being offered for subscription by preferred stockholders of record April 2, subject to allotment in case of oversubscription; rights expire on April 23. **Price**—At par. **Underwriters**—Smith, Barney & Co. and Robert W. Baird & Co., Inc. **Proceeds**—For property additions and improvements. Statement effective April 6.

Wisconsin Power & Light Co.
March 23 filed 96,069 shares of common stock (par $10), being offered for subscription by common stockholders of record April 2, 1951, on basis of one share for each 20 shares held, with rights to expire on April 23. Unsubscribed shares to be offered to employees. **Price**—$16.30 per share. **Underwriters**—Smith, Barney & Co. and Robert W. Baird & Co., Inc. **Proceeds**—For property additions and improvements. Statement effective April 6.

• Wrightman Music, Inc., Hollywood, Calif.
April 12 (letter of notification) 2,090 shares of common stock, of which 1,000 shares to be offered to public, 1,000 shares to Neale Wrightman in consideration of assets of Neale Wrightman Publishers, and 10 shares each to nine note holders. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For advertising and expansion. **Address**—Care George Stoddard, 1540 No. Highland Ave., Hollywood 28, Calif.

• Wyoming-Gulf Sulphur Corp., Dallas, Tex.
April 9 (letter of notification) 260,000 shares of common stock (par $1). **Price**—$1.15 per share. **Underwriter**—Beer & Co., Dallas, Tex. **Proceeds**—For equipment and construction program. **Office** — 1013 Praetorian Bldg., Dallas, Tex.

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.

American Natural Gas Co.
March 30, William G. Woolfolk, Chairman, said it is expected company will make an additional offering of common shares to its stockholders during the year to provide subsidiaries with necessary equity funds for their expansion programs. No underwriting likely to be involved.

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.
March 20 company applied to SEC for approval of plan to split into two companies, viz: Arkansas Natural Gas Corp. (into which Arkansas Fuel Co. will be merged); and Arkansas Louisiana Gas Co. For each share of 6% preferred stock there will be issued in exchange $10.60 par value of 3¾% preferred stock. Unexchanged 6% preferred stock will be redeemed at $10.60 per share, and any of the unissued 3¾% preferred stock may be offered 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.

Baldwin Securities Corp.
April 4 company announced it will sell 14,025 shares of Midvale Co. stock and 89,900 shares of common stock of General Steel Castings Corp.

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.

California Water Service Co.
March 21 stockholders approved proposals to increase the authorized preferred stock to 971,743 shares from 471,743 shares and the authorized common stock from 500,000 shares to 1,000,000 shares. Probable underwriter—Dean Witter & Co., San Francisco, Calif.

Calvan Consolidated Oil & Gas Co., Ltd. (Canada)
April 3 it was stated registration may be made of 1,000,000 shares of capital stock. **Price**—About $5 per share. **Underwriters**—Hemphill, Noyes, Graham, Parsons & Co., New York, and Gardiner, Watson & Co., Toronto, Canada.

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.

Central Maine Power Co.
April 3 company estimated that outside cash requirements for 1951 for construction and other purposes will be about $10,000,000. No definite plans for permanent financing have yet been formulated, and in the interim company plans to obtain necessary funds through short-term bank borrowings.

• Central & South West Corp.
April 10 it was announced company plans to issue and sell approximately 400,000 shares of common stock (par $5) late in 1951 or early in 1952. **Underwriters**—May be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Smith, Barney & Co. and Harriman Ripley & Co., Inc. (jointly); Lehman Brothers and Lazard Freres & Co. (jointly); Kuhn, Loeb & Co.; Carl M. Loeb, Rhoades & Co.; Ladenburg, Thalmann & Co. and Wertheim & Co. (jointly). **Proceeds**—To be used to assist subsidiaries to finance a part of their construction program. Stockholders will on May 15 vote to increase authorized common stock from 8,000,000 to 10,000,000 shares.

• Chicago & Western Indiana RR.
April 16 reported company will probably issue in the near future some bonds to refund the $49,988,000 4% non-callable consolidated first mortgage bonds due July 1, 1952. Refunding of the $14,662,000 first and refunding mortgage 4¼% bonds, series D, due Sept. 1, 1962, is also said to be a possibility. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Lee Higginson Corp.; Harris, Hall & Co. (Inc.); Drexel & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Harriman, Ripley & Co., Inc.; First Boston Corp.; Lehman Brothers; Paine, Webber, Jackson & Curtis; Kidder, Peabody & Co.

Cincinnati Gas & Electric Co.
April 7 it was reported company expects to market late this year or early in 1952 between $25,000,000 and $30,000,000 of new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc., and The First Boston Corp. (jointly); Union Securities Corp.; Glore, Forgan & Co. and White, Weld & Co. (jointly); Lehman Brothers; Harriman Ripley & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane. Proceeds will be used for construction program.

Cleveland Electric Illuminating Co.
April 4 it was reported company may in the fourth quarter of 1951 issue new preferred stock or first mortgage bonds, or obtain short-term bank credit to finance its construction and improvement program. Preferred stock sale, if negotiated, may be handled by Dillon, Read & Co., Inc. Probable bidders for any bond financing are: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co.; The First Boston Corp.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly).

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); Mer-

• *Continued on page 62*

Continued from page 61

rill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Shields & Co. and R. W. Pressprich & Co. (jointly). Proceeds will be used for expansion program.

Commonwealth Edison Co.
Jan. 10 it was announced the company contemplates $181,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Morgan Stanley & Co. Proceeds are to be used for construction program.

Consolidated Edison Co. of New York, Inc.
March 23 company applied to New York P. S. Commission for authority to issue and sell $25,000,000 of first and refunding mortgage bonds, series H, due May 1, 1981 (in addition to $40,000,000 series G bonds filed with the SEC on March 30). **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly). **Proceeds**—To redeem a like amount of Westchester Lighting Co. 3½% general mortgage bonds due 1967. **Offering**—Postponed.

● **Denver & Rio Grande Western RR.**
April 12, Wilson McCarthy, President, stated that due to prevailing market conditions, the company has postponed to an undetermined date the taking of bids for the purchase of $40,000,000 first mortgage bonds to be dated May 1, 1951, and to mature on May 1, 1981. They must be made to the company, in care of Messrs. Sidley, Austin, Burgess & Smith, special counsel, 11 So. La Salle St., Chicago 3, Ill. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Bear, Stearns & Co. (jointly). **Proceeds**—Together with treasury funds, to redeem on June 1, 1951, $35,062,200 outstanding first mortgage 3%-4% bonds, series A, and $8,666,900 of Denver & Salt Lake income mortgage 3%-4% bonds, both due Jan. 1, 1993.

Detroit Edison Co.
March 19 it was announced company plans to sell approximately $35,000,000 of first mortgage bonds early this Fall. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc., and Spencer Trask & Co. (jointly); Morgan Stanley & Co.; The First Boston Corp.; Dillon, Read & Co. Inc. **Proceeds**—For construction program.

Dow Chemical Co.
April 5, Leland I. Doan, President, stated that the company plans to spend $65,000,000 on plant expansion in the current fiscal year ending May 31, 1951, and expects to spend somewhat more in the following fiscal year. He added, however, that no decision has been reached on any possible financing in this connection. Traditional underwriter: Smith, Barney & Co., New York.

Eastern Edison Co.
March 21 an amended plan of reorganization of Eastern Utilities Associates was filed with SEC which provides for the acquisition by this company (organized on Feb. 16, 1951, as Eastern Edison Electric Co.) of the properties and business of Brockton Edison Co., Fall River Electric Light Co. and Montaup Electric Co. and all the securities of Blackstone Valley Gas & Electric Co. The surviving corporation will issue and sell to the public $28,000,000 of bonds and $12,500,000 of preferred stock and obtain a $3,500,000 bank loan (for construction purposes). Probable bidders: Halsey, Stuart & Co. Inc. (for bonds only); Lehman Brothers; Estabrook & Co. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and Harriman Ripley & Co., Inc. (jointly). Proceeds would be used to retire bonds, preferred stock and bank debt of subsidiaries and the remainder used for construction program.

Eastern Utilities Associates
See Eastern Edison Co. above.

Florida Power Corp.
March 29 the authorized common stock (par $7.50) was increased from 1,600,000 shares 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.

Florida Power Corp.
March 29 it was stated company expected to sell $8,000,000 to $10,000,000 of new bonds this summer. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Smith, Barney & Co.; The First Boston Corp.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly). **Proceeds**—For expansion program. **Offering**—Expected in June or July.

General Steel Castings Corp.
See Baldwin Securities Corp. above.

Georgia Power Co. (6/5)
April 12 company sought SEC authority to issue and sell $20,000,000 of 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.

● **Glass Fibres, Inc.**
April 16 it was reported that company may do some common stock financing later this year. Traditional underwriter—McCormick & Co., Chicago, Ill.

Green Mountain Power Corp., Montpelier, Vt.
Feb. 23 amendment to plan for reorganization was filed. This plan, among other things, provides for sale of 104,094 shares of new common stock (par $10) through underwriters, subject to the right of present preferred stockholders to subscribe for the new shares.

Gulf Power Co.
Feb. 6, it was reported that this company may sell securities "for new money" this year. In event of preferred stock issue, probable bidders may be Kidder, Peabody & Co. and White, Weld & Co. (jointly); Equitable Securities Corp.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Harriman Ripley & Co., Inc. But definite plans have not as yet been formulated.

Harrisburg Gas Co.
April 9 company filed an application with SEC for authority to issue and sell $1,000,000 of 3.15% first mortgage bonds due 1976. This issue may be placed privately.

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)
Bids will be received up to noon (CST) on April 19 at the office of the company, Room 30, 135 East 11th Place, Chicago 5, Ill., for the purchase from it of $6,800,000 equipment trust certificates, series EE, to be dated April 1, 1951, and to mature in 20 equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; The First Boston Corp.

Illinois Power Co.
April 4, Allen Van Wyck, President, reports that company plans to raise $35,000,000 of "new money" ($12,000,000 in 1951 and $23,000,000 in 1952) to cover part of the cost of new construction in the next two years. It was stated that some common stock will have to be sold to cover the 1951-1952 total. Probable underwriters for equity financing: The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane.

Indianapolis Power & Light Co.
March 26 it was announced stockholders on April 17 will vote on increasing authorized preferred stock (par $100) from 150,000 to 250,000 shares and authorized common stock (no par) from 1,500,000 to 2,000,000 shares. No imminent financing planned. Probable underwriters for common stock issue: Lehman Brothers; Goldman, Sachs & Co. and The First Boston Corp.

Iowa Public Service Co.
March 23 the company's report revealed it is anticipated it will be necessary to provide about $4,000,000 new money to finance its 1951 construction program.

I-T-E Circuit Breaker Co.
March 30 it was announced stockholders on May 5 will vote on increasing the authorized indebtedness of the company to $3,500,000 from $1,500,000, and the authorized but unissued preferred stock from 15,000 shares to 30,000 shares, par $100.

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.

Kansas Power & Light Co.
April 4 it was announced stockholders will vote May 5 on proposals to increase the authorized preferred stock from 200,000 shares to 400,000 shares and the authorized amount of unsecured indebtedness from $9,000,000 to $14,000,000. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co.; The First Boston Corp.; Glore, Forgan & Co.; Equitable Securities Corp.; Harriman Ripley & Co., Inc.

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.

Midvale Co.
See Baldwin Securities Corp. above.

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.

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. 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 State Electric & Gas Co.
April 4 it was reported company is considering issue and sale of $10,000,000 to $12,500,000 of first mortgage bonds or a common stock issue. If bonds, they may be placed privately. Traditional underwriter: The First Boston Corp., New York. Proceeds would be used for additions and improvements to property.

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.

Panhandle Eastern Pipe Line Co.
April 4 it was reported that the company may issue and sell additional securities to provide funds for its expansion program. Traditional underwriter: Kidder, Peabody & Co.

Panhandle Producing & Refining Co.
April 3 it was announced arrangements have been made to sell 202,500 shares of Panhandle stock held by Atlas Corp. to a group headed by White, Weld & Co. It is understood that part of this stock is being purchased for investment and the major portion will be publicly offered after the filing of a registration statement.

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.

Peoples Gas Light & Coke Co.
April 6 it was reported that company may sell $20,000,000 of new bonds this Spring to provide funds for expansion

program. If market conditions are favorable, it is also planned to sell an additional $15,000,000 of bonds to refund a like amount of 3% bonds due 1956. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and White, Weld & Co. (jointly); The First Boston Corp.

Pitney-Bowes, Inc.
March 29 it was announced company plans to sell additional convertible preferred stock from time to time for "new money."

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).

Republic Steel Corp.
April 2 company announced it has started on a $75,000,000 expansion program in Cleveland, O. Other plans for expansion, together with the company's participation in ore mine developments will result in additional expenditures of over $150,000,000.

Rochester Gas & Electric Co.
March 21 company applied to the New York P. S. Commission for authority to issue $5,000,000 of first mortgage bonds and 150,000 additional shares of common stock (the latter for subscription by common stockholders on a basis of one new share for each seven shares held). Bonds may be placed privately, with the common stock issue underwritten by The First Boston Corp. **Proceeds**—For new construction.

Sharon Steel Corp.
March 27 stockholders voted to increase the debt limit of the company to $30,000,000 from $15,000,000 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.

Sharon Tube Co.
March 29 it was stated company may issue $1,800,000 additional capital stock (par $10) to finance its new continuous buttweld mill expansion.

Southern California Gas Co.
April 4, the company indicated that it would soon be in the market with $18,000,000 of senior securities. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and Harris, Hall & Co. (Inc.) (jointly).

Sylvania Electric Products, Inc.
March 31 it was announced stockholders on April 25 will vote on increasing the authorized common stock to 2,500,000 shares from 1,500,000 shares. Company expects to sell between 250,000 and 500,000 additional shares "at the first favorable opportunity" through a public offering through underwriters. The proceeds are to be used for new plant and equipment and for working capital. Traditional underwriter—Paine, Webber, Jackson & Curtis. Offering expected about mid-May.

Tennessee Gas Transmission Co.
March 6 it was reported company plans to issue and sell about $45,000,000 of new bonds late this year (see previous columns for preferred and common stocks now in registration). **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. and White, Weld & Co. (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.

Textron Incorporated
March 30 it was stated stockholders will on May 23 vote on increasing authorized common stock to 3,000,000 from 2,000,000 shares. Traditional underwriter: Blair, Rollins & Co., New York.

● Thorer & Hollender, Inc., New York City (5/17)
Bids will be received at the Office of Alien Property, Department of Justice, 120 Broadway, New York 5, N. Y., on or before 11 a.m. (EDT) on May 17 for the purchase of 6,445 shares of capital stock (being 100% of the outstanding stock). The sale does not represent new financing. **Business**—Imports and sells furs, mainly Persian Lamb, in the United States.

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).

United Stores Corp.
April 4 it was stated stockholders will vote April 24 on increasing authorized $4.20 non-cumulative preferred stock to 1,200,000 from 1,031,856 shares and the common stock to 1,808,144 from 1,640,000 shares.

● United Utilities, Inc.
April 11 it was said company plans issuance and sale of between $2,000,000 and $3,000,000 additional debentures or bonds this year. Kidder, Peabody & Co. handled private placement of an issue of $2,500,000 debentures in March, 1950.

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.

Victor Chemical Works
March 30 it was announced company plans to issue and sell 100,000 shares of new convertible second preferred stock (par $50). **Underwriter**—F. Eberstadt & Co., Inc., New York. **Proceeds**—Together with funds from private sale of $4,000,000 of 20-year sinking fund notes, to be used toward expansion program.

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.

Wagner Electric Corp.
March 19 stockholders increased authorized common stock from 600,000 shares (499,016 shares outstanding) to 1,000,000 shares in order to make available additional stock for issuance "when, as and if it should be considered advisable."

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).

● Wilton Woolen Co.
April 6 it was reported company expects to file with the SEC about April 20 a registration statement covering an undetermined amount of common stock. **Underwriter**—A. C. Allyn & Co., Inc.

Our Reporter's Report

Underwriters of new securities groaned on Monday of this week when the Treasury market underwent another sinking spell. But shortly the bankers and distributing dealers found reason for jubilation when the Duke Power Co.'s substantial financing went off with a "bang."

The first really successful undertaking in weeks, this one was snapped up in a manner that told its own story, to wit, that good-name paper, priced right, can be marketed satisfactorily even though the so-called "Big Five" remain aloof.

Duke Power's $35,000,000 of first and refunding bonds, of 30-years' maturity, rated AAA, drew a total of four bids, the highest being 101.35 for a 3¼% coupon rate. The runners up bid 101.0499 for the same coupon, while the lowest was almost ¾ a point under the top.

The successful group fixed a reoffering price of 101.93 for an indicated yield of 3.15% the best offered on a security of this type in many moons. Well, here was a case where realism in bidding and in repricing paid off in full.

Even as the formal award was announced, it was indicated by preliminary inquiry on the part of out-of-town insurance companies, and local savings banks, that the issue would be the first in a long while to carry the "out-the-window" tag.

Help to Laggards

The Duke Power Issue formally offered yesterday, moved out quickly and was bid for at the issue price with some reports of premiums being offered.

But the effect of this successful flotation was decidedly more widespread since it tended to breath new life into some recent issues which had been having hard-sleding.

Dealers noted a pickup in inquiry for several of the recent emissions that have been laggard, notably Consumers Power Co.'s 3⅛s which had slipped several points from the initial offering price of 101.467.

The same held true in the case of Southern California Edison Co.'s 2⅞s which had slipped down around 97 from an initial figure of 101%. Both issues moved up sizable fractions on the bid side.

Lift to Confidence

The celerity with which the big Duke issue moved out to investors tended to strengthen the conviction of bond men that the current phase of adjustment in the money market is definitely running its course.

In this particular instance the spectacle of a corporate undertaking going through without a hitch despite the none-too-reassuring behavior of the Treasury list was stimulating to say the least.

It raised the hope that large-scale investors, who have been standing unbendingly on the sidelines, may find that the time has arrived for a reappraisal of the general situation, now that top-grade corporate yields have topped the 3% mark.

Several Issues Ahead

Investment bankers still are on a sparse diet as far as new debt securities are concerned, but they will have the opportunity of bidding for three "street-sized" offerings next week, plus a block of common stock.

On Tuesday Monongahela Power Co., is slated to open bids for an issue of $10,000,000 of new first mortgage bonds, which with proceeds from the sale of 625,000 shares of common to West Penn Electric Co., (parent), will provide it with funds for new construction.

On the same day, Public Service Co. of Oklahoma is slated to sell $10,000,000 first mortgage bonds to obtain funds for expansion purposes. In both instances, it is indicated that the bidding will be lively.

Gulf States Utilities also will receive bids for 200,000 shares of its common stock to finance its building program, and on the following day Lynn Gas & Electric is slated to sell $4,000,000 of series A notes for the same purpose.

With C. G. McDonald

(Special to The Financial Chronicle)

DETROIT, Mich. — Gordon L. Smith is now connected with C. G. McDonald & Co., Penobscot Building, members of the Detroit Stock Exchange.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — From the standpoint of business and industry, a deep blanket of fog has been thrown around the entire outlook for the defense program in all its important phases—materials and inflation controls, prices, production, manpower, taxes, and so on—as a direct result of the MacArthur affair.

Some one of the hurricane-like forces now loose in the international political atmosphere may move in. Say, for instance, that the Reds really break out in force in Korea, or that they launch a new and dangerous venture somewhere else, anywhere else, in southeast Asia, in the Middle East, or in Europe itself.

If one of those hurricanes moves in, it will fast blow away the fog, and the U. S. A. inevitably will find itself moving in a definite direction, probably a new direction.

On the other hand, it could well be a long spell of fog. Then the situation is analogous to that of the days of wooden sailing ships without electronic navigational instruments. After the fog finally lifted, many positions would be found to have shifted a very great deal.

In any case, what has been counted upon, with whatever relative certainty of prediction was possible in this era, for "inflation control," the employment of manpower, the burden of taxation, and the production and pricing programs of industry, is potentially subject to violent change hereafter, and perhaps without notice.

* * *

Gen. Douglas MacArthur may turn out to be a slam-bang public antagonist of Mr. Truman and his foreign policy. In that case the great foreign policy debate, which seemed to have passed its public climax in the approval of the four divisions for Europe, is now wound up again for another two or three months. Even if Mr. Truman doesn't make another foreign policy move without calling Acheson, and Acheson doesn't choose to make a move, MacArthur's opposition would portend an infusion of new life into the foreign policy debate. There would seem to be a good prospect of another couple of months of sharp and bitter debate.

In the process the current legislative undertakings, already paralyzed in part by the debate on foreign policy, would for the most part once more have to be laid aside while the argument went on.

On the other hand, Gen. MacArthur may prove to be a bust as a public opponent of Mr. Truman. That is what some of the Administration boys and girls are fondly hoping. They are thinking that if the General doesn't have his ghost writers at hand, his admiring journalistic clique, and can not take plenty of time to retire into his cave and think it over before trying to deflect an oral curve pitched at him, then he will prove to be a flop in the rough and tumble argument.

* * *

Gen. MacArthur's personal charm and/or scorn, however, are probably of far less significance to the long run picture than either his Democratic foes or Republican friends currently believe.

That is because, as the President made all too plain in his apology over the radio for firing the General, his purpose in throwing MacArthur out was to pave the way for "peace" in Korea. This business of "making peace" is, however, a far ghastlier problem than the original intervention in that peninsula seemed to be last June, with its blithe assumption that a show of force at the supposedly psychological moment would finally resolve the show-down and Russia would back down.

Mr. Truman faces the awful possibility that the Russians may be in no mood whatever to make peace, except on the terms the British and the Chinese Reds propose. The State Department already has indicated that this is not the right smelling tobacco for its peace pipe. Certainly acceptance of the Chinese Reds into the UN, their participation in the Japanese peace treaty, handing Formosa over to the Reds, or probably any one of them, is much more than Mr. Truman, even if he wanted to accept them, could put across without a terrific split within the Congress and country.

So Mr. Truman might even find that he cannot make peace, and the stalemate in Korea will be twice confounded. Certainly, it is admitted, the U. S. bargaining position is infinitely inferior to what it would have been, now that Mr. Truman has asked the Reds for peace pleas, had the President seemed to back MacArthur's ill-fated stand, and made believe that the U. S. would knock the blazes out of the Reds if they didn't want to talk peace.

So whatever happens as a result of the situation culminating in MacArthur's dismissal, the whole production program and legislation relating thereto is now on the block.

* * *

In announcing the Controlled Materials Plan, the materials controllers have in fact indicated that there will be a plan and that it will operate roughly in such and such a way.

However, the controllers have left unanswered the most basic questions: (1) how much of a commodity shall be put under control, and (2) what end products shall be given primary or secondary call on materials, other than items of military equipment.

It is indicated that it will take six to nine months to eliminate the "priorities inflation" or excess of priorities orders over supplies. Military authorities have been encouraging their contractors to stock up on all the scarce materials they can get. All manufacturers are anxious to get all the raw materials they can. The government itself is stockpiling materials.

Hence CMP will be a long time in working smoothly. The "DO" or priority program will be overlapping with the CMP program for months.

This confusion, one reliable source said, is so severe that in the next six months there probably will be more severely chaotic conditions in the steel market than have ever been seen in the U. S.

* * *

Inspired errors: Last week the stories carried the word that the industry members of the Wage Stabilization Board were willing to go along on the organized labor-Eric Johnston solution of the labor participation program—that the WSB adjudicate disputes over working conditions, already covered by the Taft-Hartley Act, as well as disputes over pay. The industry members definitely opposed. Hence if by today there is an "agreement" to set up WSB as labor wants it, this will be an imposed agreement, not a free one.

Second, virtually all of the stories about the cut from $97.5 million to $9.7 million proposed by the House Appropriations committee and ratified by the House in an appropriation for the State Department's Squawk of America program, carried the impression that the program was cut to about one-tenth.

That was literally true, but what was cut was a supplemental estimate for construction of radio transmission facilities. The appropriation for personnel was not affected. The House action, if ratified by the Senate, would not force the separation from the payroll of one of the "Voice's" many efficient workers, and not a one of its very many incompetents.

* * *

Why haven't the meat packing, textile, railroad, and shipbuilding workers kicked up their heels because the government has done nothing yet about ratifying their wage increases breaching the wage stabilization formula? Because, say insiders, they believe that the Administration eventually will ratify these increases even though they breach the alleged wage stabilization formula, and the higher wages allowed will be made retroactive.

* * *

Labor circles may take the President's new "Defense Mobilization Board" seriously for its own sake, but not many others do. It was called a "board" instead of a "committee," which it is in fact, the better to make it look more important to organized labor leaders.

Actually, the "board" was created for the sole purpose of providing a bridge across which the labor leaders could cross the chasm which they created when they walked out on the defense program. If intended to be an enduring activity, it would have more widely represented railroad and independent labor.

It will be only a matter of time before the "Defense Mobilization Board" collapses, either from inanition, or from failure to get along after labor has been wooed back into the Truman camp.

* * *

Believe it or not, Eric Johnston does take seriously the idea that industry should absorb higher costs until the time when its profits before taxes fall below 85% of the average of the three best years from 1946 to 1949, inclusive. Johnston, it is reported, talks this enthusiastically with all who will listen to him.

Already industry has the following profits controls:

(1) Negotiated contracts, wherein the price is fixed to provide an intended profit limitation.

(2) Price redetermination every three months, to cut down on contractors' profits when, as, and if they begin to threaten to make a profit higher than the procurement officials desire.

(3) A contracts renegotiation law permitting a renegotiation of a contract after its completion to recapture profits for the government, even if the contractor has managed to do better than expected despite the operations of Points (1) and (2).

(4) The regular but higher corporation income tax, to skim profits.

(5) An excess profits tax.

(6) Mr. Johnston's scheme—if approved.

It might be added that even if Mr. Johnston sells his beautiful scheme to the White House, he is most unlikely to sell it to the Congress.

(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

"I know it says to list bills on this deposit slip, Miss Perkins, but it doesn't mean the ones from the telephone and electric companies!"