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EDITORIAL

As We See It

Basic inflationary forces are still at work in this country. An arresting reminder of this simple fact appears desirable at this time for the reason that for the time being at least it is more or less hidden from the casual observer—and all too many of those who manage the affairs of the nation are either definitely casual observers or else are governed largely by the whims and the demands of the multitude of casual observers always with us.

For a considerable period after the outbreak in Korea, buying on the part of consumer, distributor and producer bordering on the panicky was in evidence. Inventories everywhere have grown to rather more than substantial size. Defense expenditures lag. They have not yet assumed proportions which immediately and directly limit production for civilian use. Many have begun to wonder if former judgments as to the extent of pressure to be expected when rearmament finally does reach maximum are not to be called seriously into question. One result is that buyers rather generally have begun to adopt more of a waiting attitude.

On the monetary or credit side, too, there have been developments which have tended to quiet nerves taut with visions of uncontrolled inflation. A number of weeks ago the Treasury and the Federal Reserve authorities reached "complete accord" as to money market management—an accord the precise nature of which has never been made public, but which evidently involved removal of the "pegs" on which the price of Federal obligations had been suspended for a long while. The notion that the Federal Reserve, in the circumstances then existing, had become

Continued on page 30

Inflation: An Unworkable Fiscal Policy!

By LUDWIG von MISES*
Professor of Economics, New York University
Formerly Professor of Economics at University of Vienna, and at Graduate Institute of International Studies in Geneva
Author "Human Action," etc.

Noted economist maintains if authorities do not soon abandon further increases of money in circulation and credit expansion, we face flight into real values and "the knell of the currency system." Declares those in power are misusing inflation to divert people's resentment against rising prices from government to "the profiteers." Asserts direct controls are absolutely useless as means to prevent and fight inflation.

In dealing with problems concerned with the economics of mobilization, it is first of all necessary to realize that fiscal policies have reached a turning point.

In the last decades all nations looked upon the income and the wealth of the more prosperous citizens as an inexhaustible reserve which can be freely tapped. Whenever there was need for additional funds, one tried to collect them by raising the taxes to be paid by the upper income brackets. There seemed to be enough money for any suggested expenditure because there seemed to be no harm in "soaking the rich" a bit more. As the votes of these rich do not count much in elections, the members of the legislative bodies were always ready to increase public spending at their expense. There is a French dictum: *Les affaires, c'est l'argent des autres.* Business is other people's money. In these last 60 years political and fiscal affairs were virtu-

Ludwig von Mises

Continued on page 31

*Transcript of statements by Professor von Mises before a Conference on the Economics of Mobilization, held under the auspices of the Chicago University Law School, White Sulphur Springs, West Virginia, April 6-8, 1951.

The Bull Market Can Continue

By BRADBURY K. THURLOW*
Partner, Talmage & Co.
Members, New York Stock Exchange

Mr. Thurlow, contending behavior of security markets in recent years must be measured by new standards, points out earnings and stock prices have not moved in same direction, and despite expected decline in earnings, there are grounds for maintaining present and even higher levels of market. Says postwar market situation has been saved by government device of inflation. Concludes, barring any further inflation, Dow-Jones Industrials may be given fair investment value around 300.

When I was asked to address this gathering some five weeks ago, my bullish position represented such a minority view that I was almost ashamed to admit holding such unfashionable opinions. The argument for lower stock prices was all persuasive. Some of the wisest heads in the Street were predicting imminent collapse. And yet, as it often will, the market began to rise. At present the reasons for the rise are beginning to show themselves, or rather, if my view is correct, the reasons for the long rise which started in the months following Mr. Truman's re-election in 1948 are beginning to reassert themselves. These reasons, in my opinion, go deeply into the minds and psychoses of the entire nation and it is these which I should like to discuss briefly.

B. K. Thurlow

Since almost all of you are professionals, you don't have to be told that the performance of the securities markets since 1938 has been altogether abnormal when measured by the standards of earlier years. One of the statistical services about a year and a half ago

Continued on page 25

*An address by Mr. Thurlow before the Association of Customers Brokers, New York City, April 24, 1951.

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(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

Canadian Government Short-Term Internal Bonds—James K. Miller, The Dominion Securities Corp., N. Y. City. (Page 2)

Island Creek Coal Company—Frederick H. Rosenstiel, Arnold & S. Bleichroeder, Inc., New York City. (Page 2)

Diamond Alkali Co. common—L. B. Schwinn, L. B. Schwinn & Co., Cleveland, Ohio. (P. 30)

JAMES K. MILLER

The Dominion Securities Corp., New York, N. Y.

Canadian Government Short-Term Internal Bonds

Government of Canada bonds, payable both as to principal and interest in Canadian dollars only, may be purchased, at the present time, at attractive prices in terms of United States dollars. An investment in the 1¾% issue due November 1, 1951, now selling in Canada at 99.65, is particularly attractive because its relatively short maturity provides the investor with a 6 month investment in Canadian dollars without exposing him to current bond market risks. If such bonds are purchased in the United States as a "recorded transaction" with Canadian Foreign Exchange Control Board Form 106 attached, the net cost in terms of United States dollars, at the discount of 4¾% prevailing as this is written would be 95 and accrued interest. This is the security I like best of those available either in the Canadian or domestic field.

James K. Miller

A "recorded transaction" is one where the actual purchase is made in Canada with Canadian dollars which a non-resident has on deposit in a Canadian bank or which he purchases at the time in the foreign exchange market. The above-mentioned F.E.C.B. Form 106 will then be granted. Bonds purchased with Form 106 attached may subsequently be sold in Canada and the Canadian dollar proceeds transferred into U. S. dollars without restrictions. Of course in such an investment a certain foreign exchange risk is incurred.

In determining the yield based upon the net price in U. S. dollars on any Canadian bond, payable solely in Canadian currency, it is necessary to assume the rate at which Canadian dollars may be converted into U. S. dollars at the time of the payment of each coupon and of the principal at maturity. In the case of the issue I am suggesting, the cost, at the present time, is approximately 95 in U. S. currency. Thus the total cost per $1,000 bond would be $950 plus accrued interest of $7.29 or a total of $957.29. Assuming that all coupons and the principal will be converted into U. S. dollars at 5% discount, the net return to the purchaser would be $8.31 for interest on May 1 and $958.31 as principal and interest on November 1, or a total of $966.62. The net interest, therefore, would be $9.33 for 7 months, which is at the rate of approximately 1.67% per annum.

Any improvement in the Canadian dollar would have a material effect upon this yield. For instance, if the cost was 95 but the May 1 coupon and the November 1 coupon and principal were converted into U. S. dollars at par, the yield to the investor would be 10.78% per annum. At conversion prices between 95 and par the rates of return would fall between these two limits.

Based upon facts which will be set out briefly in subsequent paragraphs, I believe the Canadian dollar is tending in value towards parity with the U. S. dollar. When this will occur it is, of course, impossible to predict but I wish to point out that even if the Canadian dollar on November 1, 1951 is at a greater discount than at the present time the holder of 1¾% bonds due on that date may reinvest the proceeds of this issue in 1¾% bonds due November 1, 1952 and thereby preserve his position in anticipation of the ultimate improvement in the exchange rate.

Prior to Sept. 30, 1950 the Canadian Foreign Exchange Control Board maintained an official buying and selling rate for the United States dollar of $1.10-$1.10½ Canadian. However, on Oct. 1, 1950, these official rates were removed, and within certain prescribed limitations with respect to capital movement the Board permitted free trading in Canadian dollars in Canada. As a result the discount in the United States decreased materially to as low as 3¼%.

The immediate cause of the action to free the Canadian dollar was the unprecedented increase in Canada's holding of U. S. dollars and gold, from $1,182 million in May 1950 to $1,790 million in September 1950. This increase was brought about to a very considerable extent by open market purchases of Canadian securities by residents of the United States, but also reflected the general improvement in Canada's trade balance with this country and the influx of private American capital for Canadian industrial and mining developments. In the three months following the "freeing" of the Canadian dollar there was a decline of but $48 million, thereby indicating that a substantial portion of the purchases of Canadian bonds and stocks was for investment rather than speculative purposes.

The long-term outlook for Canadian exchange is probably more favorable today than at any other period in the country's history. The national income is many times the pre-war level, manufacturing is at its highest peak, unemployment practically unknown and agriculture, mining and lumbering in exceedingly strong positions.

Since the end of the war the development of the oil industry in Alberta and of the titanium and iron ore deposits in Quebec and Labrador have opened up entirely new sources of national wealth, which in the not distant future should assure Canada of a normally favorable balance of trade with the United States. Such a development would in my opinion fully justify parity between the Canadian and U. S. dollars.

The financial affairs of the Canadian Government have been wisely administered through both the war and post-war periods. Between 1945 and 1950 Canada reported five successive annual budget surpluses and five successive annual reductions in its national debt. Recently, in order to combat inflationary tendencies, the Bank of Canada has taken steps to impose credit restrictions and to increase interest rates. As a result, long-term Government bonds, at this writing, are selling in Canada at prices some 5 or 6 points lower than six months ago and there appears to be no indication of a return to easy money conditions. In brief it seems to me that the immediate outlook for Canadian economy is at least as good as, if not better than, that of this country.

On the basis of this reasoning I believe that an investment today in short-term Government of Canada bonds is attractive both from the standpoint of income and possible moderate appreciation.

FREDERICK H. ROSENSTIEL

Arnhold & S. Bleichroeder, Inc. New York 4, N. Y.

Island Creek Coal

The greatest bargains are usually to be found amongst the securities of industries which are unpopular for one reason or another. Such an industry is the bituminous coal industry, which is considered by many people a dying industry as it has lost some ground to oil and natural gas, partly because these competitive fuels had price advantages in certain territories and partly because frequent strikes have induced many consumers to switch from coal to another fuel to overcome uncertainties of supply. The participation of bituminous coal in the total supply of fuel has declined percentagewise but it has remained the most important fuel and actual production is well above prewar. In the years 1947, 1948 and 1950 (leaving out the entirely abnormal year 1949) bituminous coal production averaged 578 million tons against an annual average of 396 million tons in 1937-39. Even more important is that there are coal companies which have been consistently prosperous. Just as conditions in the railroad industry vary so much from system to system that one is hardly justified in speaking of one single industry, there are in the coal industry many strong, well financed and well managed companies which are consistently making good money while others are just breaking even or are losing money.

F. H. Rosenstiel

Island Creek Coal has had an unbroken dividend record since 1912. Even in 1932, Island Creek paid a dividend of $2.50 per share which is equal to $1.25 on the presently outstanding shares (there was a two-for-one split in 1948). The company produces a high quality coal which is largely sold on long-term contracts to public utilities and industrial users and which is always in strong demand. Heavy and continuous expenditures maintain the plants at the highest grade of efficiency and have enabled the company to absorb a good part of the rising wage costs. It seems that the average output per worker at Island Creek is among the highest in the industry. In 1950, Island Creek produced 7,400,000 tons (including 1,200,000 tons from leased mines), equal to about 1½% of total national production of 506 million

Continued on page 30

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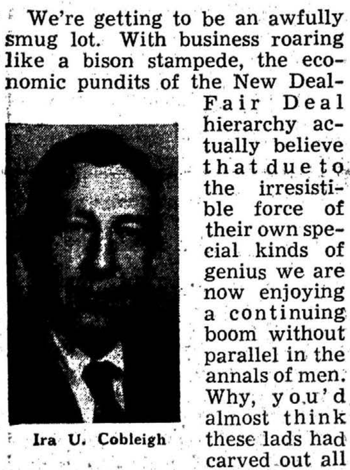
Saved by the Bell

By IRA U. COBLEIGH

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

Giving some analysis of the force of military decisions in our economy, and the impact of "Cossack cussedness" on our future stability.

We're getting to be an awfully smug lot. With business roaring like a bison stampede, the economic pundits of the New Deal-Fair Deal hierarchy actually believe that due to the irresistible force of their own special kinds of genius we are now enjoying a continuing boom without parallel in the annals of men. Why, you'd almost think these lads had carved out all this opulence with their own hands; and an old-style depression seems, to some of these self-assured individuals, as remote and incredible as a portrait of MacArthur in Blair House!



Ira U. Cobleigh

Well, brethren, I have news for you! Twice in the last decade we've been saved by the bell—a bell rung in each case by a bellicose, battle-minded bully — Hitler in 1940, and Stalin in 1950. Twice, I say, since 1939 has this marvellous, mink-lined, mass-production and transportation marvel of American private enterprise been spared the incidence of a major depression by the necessity of preparing for war. Two dictators (one a Martian, and the other a Marxian) set the pace for the most fantastic expansion in across-the-board industrial production since the invention of the steam engine.

Let's cast a backward glance. In the 1939-40 period we were really bogging down — 8,000,000 unemployed, at least 20% of available production capacity idle and empty railroad cars rattling around like dice in a bird cage. Came England (with money then —before she had cashed in her oversea empire chips) and ordered military hardware. That reversed our economic backspin and, with our own entry into the war, led to a prodigy of manufacture whereby, in 1944, 45% of our gross national product went for defense!

At the war's end the planning prophets and Yalta egos of the Potomac had their innings. A depression loomed — there'd been one after every other war! So, what to do? Ah, yes—green-light labor increases to bubble up buying power, and offset the loss of time-and-a-half. Well, the transfer from mortar to motor car, from tank to tractor, from rocket to ranch-house, was too swift for the slide-rule Yogis of the Fair Deal. No depression ensued. Instead, pent-up buying demands of an unrationed populace, and the free play of American private enterprise brought forth more comforts and luxuries for more people than ever before in history. But by 1949 there grew signs of satiety. Why, motor-car salesmen actually called on prospects again —a thing unheard of for a decade! Highly touted appliances and TVs could be had at a discount, and you, the buyer, were back in the saddle again. 9,000,000 motor cars and trucks, 1,200,000 new homes in 1949! Our boom looked like it had just passed the peak, when the North Koreans got land-hungry. On June 25, 1950, Stalin burped an order. The malicious Muscovites told the Commie Chinese agrarian reformers to switch from plow to tank; and quicker than you could say Andrei Gromyko, once again we had regiments in the field, and regimentation at home.

My, that ten years went quickly, didn't it? Well, what did we learn from it? Can we truthfully say that, without the blow-torch of war, our economy is now able to escape a dismal depression? Have we ironed out the peaks and valleys of incentive capitalism?

Probably not, but we have made important gains in technique toward that end. Deposit insurance effectively eliminates the spectre of bank failure. Longer term, and amortizing home and farm mortgages should prevent wholesale foreclosures; personal debt is less, and personal savings higher than in the '20s; corporations, by and large, have never been so solvent. Unemployment insurance and relief are there to cushion any fall in the labor force. On the other side of the picture, however, we have a staggering public debt—so vast that Federal financiers have given up the idea of ever paying it off—all they worry about is keeping the interest on it at tolerable levels. And you must admit that wide unemployment would be accepted with far less fortitude today than in 1932. With such a large portion of our people living high on the hog, return to a subsistence, or apple-selling level, would be met by prompt and powerful political action.

There is one other element, a fascinating and distinguishing one in our economic way fo life, which operates as a dynamic factor for stability, as well as growth—addition to the plant and equipment of business. You perceive this as the big difference between British and European prewar capitalism, and our own. Over there, management was more hoggish and short-sighted. They took out a far higher percentage in dividends year after year. Whether or not the profits were there, chateaus and "shooting boxes" were elegantly maintained. Plowed-back earnings, the yeast of every great American enterprise, was less used; and even when a new or more efficient plant was built, across the water, the savings were

Continued on page 27

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INDEX

Articles and News Page

The Bull Market Can Continue—Bradbury K. Thurlow ... Cover

Inflation: An Unworkable Fiscal Policy —Ludwig von Mises ... Cover

Saved by the Bell—Ira U. Cobleigh ... 3

Unfavorable vs. Favorable Factors in Stock Market —William Kurtz ... 4

The Outlook for Electric Utilities—P. P. Stathas ... 6

"Permanent Prosperity"—Roger W. Babson ... 9

The Economic Unsoundness of Price Controls—Alan Valentine ... 10

The Banks Must Finance Defense Without Inflation —W. Randolph Burgess ... 10

Stock Market Implications of Bottled-Up Inflation —J. C. Luitweiler ... 12

What Next, Mr. Business Man?—Sumner H. Slichter ... 12

Impact of Flexible Interest Rate Policy on Bond Prices —Roy L. Reierson ... 14

Credit Controls and Fiscal Policy—J. Fred Weston ... 15

Managing an Investment Portfolio—Kennard Woodworth ... 17

Investment Bankers' Role in the Voluntary Credit Restraint Program—Oliver S. Powell ... 19

A Remedy for Administrative Abuse of Anti-Trust Laws —Col. H. A. Toulmin, Jr. ... 22

* * *

Investment Banking Seminar to Be Held June 18-23 in Philadelphia ... 5

An Official Protest and a Reply on TVA Operations ... 20

Forecasts Good Shoe Business ... 20

Cites Impact of Federal Taxes on Utilities ... 21

Deposits of Mutual Savings Banks Up $56 Million in March ... 25

Regular Features

As We See It (Editorial) ... Cover

Bank and Insurance Stocks ... 18

Canadian Securities ... 20

Dealer-Broker Investment Recommendation ... 8

Did You Guess? ... 29

Einzig—Britain's "Over-Full" Employment ... 18

From Washington Ahead of the News—Carlisle Bargeron ... 8

Indications of Business Activity ... 37

Mutual Funds ... 16

NSTA Notes ... 23

News About Banks and Bankers ... 22

Observations—A. Wilfred May ... 5

Our Reporter's Report ... 8

Our Reporter on Governments ... 28

Prospective Security Offerings ... 41

Public Utility Securities ... 21

Railroad Securities ... 24

Securities Salesman's Corner ... 25

Securities Now in Registration ... 38

The Security I Like Best ... 2

The State of Trade and Industry ... 5

Then and Now—Guess Who? ... 27

Tomorrow's Markets (Walter Whyte Says) ... 34

Washington and You ... 44

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Unfavorable vs. Favorable Factors in Stock Market

By WILLIAM KURTZ*
E. F. Hutton & Company
Members, New York Stock Exchange

After pointing out unfavorable fundamental market factors, Mr. Kurtz contends strong stock market internal position is an opposing force. Cites growing investment demand and available generous stock yields as bullish incentives, but warns any sharp advance in stock prices will weaken statistical position of market and bring about a shift in sentiment. Holds material change in foreign situation would call for entirely new appraisal of market outlook. Explains "Timing Factor."

At this juncture in the market, it appears just as easy to present plausible reasons for being bullish as it is to find sound arguments for the bearish case. As a result there have been rather sharp divisions of opinions among market analysts during the last three months concerning both the short-term and long-term prospects for stock prices. With several major favorable and unfavorable factors affecting the market at about the same time, it is not surprising to find a considerable amount of uncertainty regarding prospects for equity values from this point on.

William Kurtz

From the bearish point of view, several classic and reportedly time tested fundamental factors have signalled a major reversal in the market's trend. Among these are included the slump in bond prices, the deflationary effects of stringent credit controls, which are now seriously beginning to affect certain segments of economy, the downward trend in the commodity futures index, acceleration of bank loans in recent months, increased bank reserve and stock margin requirements, prospects for higher taxes under controlled prices, etc. On the other hand, adherents to the bullish side point towards the low price earnings ratios now available and the high yields still obtainable despite the historically high level of stock prices. Furthermore, prospects for over-all increases in the rate of business activity over the next two years appear bright. In addition, attention is called to the growing equity demand from institutional investors and the expected excellent earnings reports for the first quarter of this year. Thus the unfavorable trends of several major fundamental economic and financial forces are arrayed against the favorable statistical position of the market represented by current high yields and low price-earnings ratios. This is a rather abnormal experience for the market since in the past, fundamental conditions generally have displayed signs of deterioration at stock price levels which offered low yields and high valuations of earnings.

*A talk by Mr. Kurtz before the Association of Customers' Brokers, New York City, April 24, 1951.

Appraising Opposing Forces

In appraising the ultimate effects of these two sets of opposing forces on market prices, one consisting of a package of important fundamental factors showing declining tendencies and the other representing the strong statistical position of the market backed by growing investment demand, it is not illogical to conclude that the final outcome will be determined largely by technical factors over the next few months. This latter force is not always easily measured, but must be reckoned with in appraising the likely course of common share values in the current period of uncertainty. At this time, I believe it will generally be conceded that there is not the excessive optimism usually found at important market tops. In this connection, it is interesting to note that the short interest figures recently reported, indicate the presence of a considerable amount of pessimism regarding the future of stock prices. In the past, the opposite has generally been true before major uptrend reversals. Furthermore, reports of large credit balances in brokerage accounts and the relatively unimpressive performance of low-priced marginal issues since this bull market began is added evidence that the psychological state of mind in the market leans more to the cautious side rather than to the recklessly bullish point of view. Thus, it appears to me that the market may receive a powerful stimulant when and if it becomes apparent that technical factors may swing sentiment towards a more general bullish point of view, possibly leading to speculative excesses at the height of public optimism.

In the past, a swing towards almost unanimous bullish sentiment has generally occurred under the influence of some popular belief at the time such as the "new era" philosophy of 1929, the 1937 faith in a continuing business recovery from the depression depths and the "postwar deferred demand" psychology prevalent in late 1945 and early 1946. In this period it would not be surprising if stock prices were bid up sharply on a renewed fear of inflation, particularly as defense production rolls into high gear in the next few months. With government spending on the upgrade, consumer income rising and civilian production falling, a new wave of inflationary psychology could create an intensified demand for stocks, especially since yields are still exceptionally liberal. Recent softness in some segments of the economy brought about by credit controls and over-buying has probably been largely discounted by the February-March correction in stock prices. Thus the psychological state of the market appears due for a shift in the other direction with the available generous yields offering added incentive to those purchasing stocks on the basis of a desire to protect the purchasing power of their savings.

Dangers in Sharp Market Advance

The dangers inherent in a sharp market advance based chiefly on the above set of conditions is clearly evident. If the stock market reaches substantially higher levels, its statistical position will be weakened at the same time that fundamental conditions may be getting progressively worse. This set of circumstances accompanied by general over-optimism usually indicates a reversal in the major bullish trend. Thus, the indiscriminate purchase of common stocks as an inflation hedge several months from now in a contagious atmosphere of bullishness may prove to be a self-defeating venture, although commitments during the current period of uncertainty should turn in a relatively good performance, provided that warning signals are heeded when they arise. There is no question but that attempting to realize capital appreciation during the last phase of a market advance, when share values are apt to be rising on psychological rather than fundamental grounds, entails considerably more risk than would normally arise during the market's earlier stages.

Having outlined some general observations of current market influences we turn next to a somewhat more detailed consideration of these forces. With regard to the statistical position of the market, yields on the Dow-Jones Industrials are about 6.3% accompanied by a price-earnings ratio of around 8.5 based on last year's results. Preliminary indications of first quarter earnings this year suggest rate approximately equal to that of last year. Earnings of the Dow-Jones Industrial Average were almost $30.50 last year while dividends totaled a little more than $16. Based on the prospects for higher taxes, increased costs and narrower profit margins on defense work, earnings estimates for this year run about 20% below 1950's level or approximately $24 per share for the Dow-Jones Industrial Average with dividends anticipated to drop 15% or to $14 per share. It is plainly evident that with stock prices going up and earnings and dividends heading down, the market's internal position would rapidly deteriorate. For example, assuming that a renewed fear of inflation drives the Dow-Jones Industrials up to the 300 level, yields would drop to 4.7% and the price-earnings ratio would rise to 12.5. While these statistics are not unduly out of line with long-term average relationships between market prices and earnings and dividends, it should be remembered that if fundamental forces are still pointing downward at that time, further declines in earnings power might be expected. In addition, the general over-enthusiastic bullish sentiment that might prevail at the 300 Dow Industrial level would put the market in a precarious psychological position, making it vulnerable to any sudden adverse news developments. Furthermore, the currently wide gap between common stock and bond yields would narrow rapidly with stock yields headed down and bond yields headed up. Therefore, while it is evident that the market's current strong statistical position could lead to substantially higher stock prices, the rise would rapidly consume the market's reserve power and at some not-too-distant point make it exceedingly vulnerable to the unfavorable trend in fundamental factors.

Measuring the Opposing Forces

As a composite measure of the trend of fundamental forces, the "timing factor," published by the Analyst Institute, an investment advisory service, graphically outlines the relationship between fundamental factors and stock prices over the last 30 years. On an operating basis since 1948, the "timing factor" indicated a buy signal in January, 1949, almost three years after the sell signal calculated for February, 1943. In the chart below it is interesting to note that a sell signal was given in March, 1951, after the timing index had risen for more than two years. The month in which the "timing factor" trend is reversed is denoted as the "buy" or "sell" point. A more detailed description of the components used in the "timing factor" is included in the exhibit at the end of this article.

Among the components in the index are bond prices which have recently experienced a slump in sympathy with the decline in the government bond market. The drop in bond prices has, in turn, affected the price structure of preferred stock issues and some observers feel that it is only a question of time before common shares feel the impact of higher interest rates. Others point to the wide gap between stock yields and interest rates, thereby suggesting that the decline in bond prices will have little effect on stock prices unless a severe slump occurs in the former. However, this gap would narrow rapidly under conditions of rising stock prices and increasing bond yields.

Recent easing tendencies in sensitive commodity prices, another component in the "timing factor," have acted as warning signs of an impending financial storm to some observers who remember a similar downturn in 1928 and in 1937. In addition, the acceleration of the rise in bank loans during recent months has been noted as having a particular significance at this time in view of the softening trend in sensitive prices. It is generally argued that while an increase in bank loans is stimulating to business activity, an over-stimulant is dangerous, leading to subsequent liquidation of speculative loans. It is interesting to note that before the 1929 crash, bank loans increased at an accelerated pace while in 1937, the stock price decline was preceded by an increasing rate of gain in bank loans. The accelerated rise of the latter in recent months is designated as a danger sign at this time, particularly since demand deposits have recently lagged behind bank loans, indicating that business debts are tending to grow at a faster rate than assets.

The decline in residential construction contracts is another important fundamental factor now in evidence. In past instances there have been surprisingly good correlations between stock market fluctuations and trends in residential construction contracts awarded. For example, before

Continued on page 28

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The State of Trade and Industry

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

As many factories expanded their output to meet defense needs, overall industrial production displayed a perceptible advance for the week and it continued to be noticeably higher than that of a year ago and about 10% below the all-time peak reached during World War II.

With regard to employment, new claims for unemployment insurance benefits rose during the latest week, that of March 31; the decline in continued claims about made up for the increase.

The steel mills are surmounting serious raw material problems, maintaining production at record-breaking pace. National ingot operation rose ½-point last week to about 103% of capacity, equivalent to output of 2,057,000 net tons. This compares with average weekly output of 1,281,210 tons in 1940, best prewar steel production year.

Despite the fact that weekly automotive operations have improved, Ward's Automotive Reports warned that the industry faces a battery shortage "of crisis proportions" unless present government restrictions on lead are modified soon. Scare-buying and unnecessary hoarding of replacement batteries, now in their low production period, are cleaning out dealers' shelves almost as fast as they are replenished, the agency added.

Production changes last week centered on the independents, with Hudson lowering its rate from about 800 to 640 cars a day, and Kaiser-Frazer dropping its second assembly shift, Ward's said. May schedules indicate that Kaiser-Frazer's output may be reduced to less than 10,000 units, compared with 19,000 in March, with Hudson output also reaching lower levels, the agency stated. However, Ward's added, as a group the independents should continue to remain the "surprise of the industry."

Production and sales of major household appliances in 1951 will be about 30% less than in 1950, but will exceed the 1949 volume, a recent survey by "Steel," the weekly metalworking magazine, reveals.

The survey results, this trade weekly adds, refute rumors that demand for appliances has fallen off sharply. Manufacturers report demand is holding up well, although it is below the frenzied demand occasioned by the outbreak of war in Korea last summer.

Only in large television sets is demand off substantially. Calls for gas and electric ranges, refrigerators and other appliances are well above 1949 levels.

The major problem of appliance manufacturers is obtaining of necessary materials. Many are using imported and conversion steel.

The steel and metalworking industries are going about their supply and procurement jobs as heretofore, pending further details and interpretations of the Controlled Materials Plan, which becomes effective July 1. DO-rated orders are being issued and entered by the mills. Other current regulations are being observed as usual.

On some steel products, states this trade paper, the mills are accepting DO orders for delivery into the second half of the year. On a certain few specialties shipments are still further extended. It is notable, however, that on some major products, sheets in particular, delivery promises are not jumping ahead as rapidly on DO-rated orders as they had been in recent weeks. Even on plates, which are in heavy demand for defense work, some tonnage still can be had for July shipments against DO ratings. Promises on hot-rolled carbon bars, another actively sought defense item, vary considerably, depending upon specifications.

June defense requirements, according to "Steel," will show a definite tonnage increase over May volume. Approximately 1.4 million tons will be made available in the month for 24 special programs. In May, approximately 1.2 million tons will be provided for 19 programs. Eleven formal directives administered by the NPA Steel Task Committee, including freight cars, locomotives, ship construction, barges and tows, will get about 515,400 tons in June. Overall increase for these programs will run to possibly 40,000 tons. Freight cars, which will take 310,000 tons in the month, will get about 22,000 more than in May.

Living costs rose 0.4% to a new record high between Feb. 15 and March 15. At mid-March the Bureau of Labor Statistics consumer price index stood at 184.5% of the 1935-1939 average. On this basis some 70,000 General Electric Co. workers will get

Continued on page 32

Investment Banking Seminar to Be Held June 18-23 in Phila.

Approximately 100 investment banking executives, representing as many member firms, are expected to attend the first Investment Banking Seminar, in Philadelphia, June 18-23, sponsored by the Investment Bankers Association of America in cooperation with the Wharton School of Finance and Commerce, University of Pennsylvania, it was announced by Laurence M. Marks, Laurence M. Marks & Co., New York, President of the I. B. A.

This one-week refresher course for officers and partners was initiated by Norman Smith, Partner, Merrill Lynch, Pierce, Fenner & Beane, New York, and Chairman of the I. B. A. Education Committee, according to Mr. Marks; and the project is being carried out by Mr. Smith and his Committee, together with representatives of the Wharton School.

The program will cover six major groups of topics:

(1) Current analyses and reviews of specific industries—railroad, public utility, and oil and gas; specialized phases of investment—municipal general obligations and revenue bonds; pension funds.

(2) Economic topics of current significance—aggregative tools of analyses; taxation and expenditures; debt management and interest rates; the money market; and economic and investment outlook.

(3) Public relations in the securities business; securities advertising.

(4) The organized exchanges and the demonstration of the execution of an order on an exchange by a cast of members of the Association of Stock Exchange Firms.

(5) A review of progress being being made in financial research projects under way at various institutions.

(6) Dinner addresses on three respective evenings by President Harold E. Stassen, University of Pennsylvania; Dr. Simeon E. Leland, Dean, College of Liberal Arts, Northwestern University; and A. S. G. Hoar, Loan Director, International Bank for Reconstruction and Development.

All sessions will be held at the University, and registrants will live on the campus. Enrollments will be limited to approximately 100. Present indications are that applications for registration will substantially exceed the quota, the Planning Committee reports, and it may be necessary to allot registrations.

Announcement brochures are being mailed to all I. B. A. member firm offices. For information, address Erwin W. Boehmler, Educational Director, Investment Bankers Association of America, 33 South Clark Street, Chicago 3, Illinois.

NY Security Analysts To Hear Harris

Alexander Harris, President of Ronson Art Metal Works, Inc., will address the Luncheon Meeting of The New York Society of Security Analysts on Friday, April 27.

Ronson's operations are devoted exclusively to the manufacture of cigarette lighters and sales have increased 1600% over prewar levels.

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DENVER, Colo. — Marcel J. Fischer has been added to the staff of Investment Service Corporation, 550 Seventeenth Street.

Observations . . .

By A. WILFRED MAY

Further Muddying of the Price Waters

Despite its unworkability, Economic Stabilizer Johnston's week-end pronouncement of the government's new fantastic twist to its policies on prices merits the public's serious attention. It offers a *reductio ad absurdum* demonstration of the ridiculous extreme to which politically-conscious government officials go—without any regard for the serviceability of the free market. It demonstrates anew the results of planning in a democracy, of tampering with the forces of supply-and-demand through an unending plethora of disjointed and uncoordinated ideas and measures.

A. Wilfred May

While this new scheme, maintaining an unchanged price ceiling on any company in an industry whose profits amount to 85% of its average profits for any three of the four years, 1946-1949, was apparently not concocted affirmatively to subsidzie any particular political nor pressure group interest; it does fill our Administration controllers' need to find another measure which serves the function of lessening the consuming public's clamor against the rising cost-of-living, without giving offense to the strongest voting groups.

Apart from its many and serious administrative difficulties and obscurities, and its absurd *industry*-wide application by the "stabilizers"; this latest formula-ized tinkering with the price mechanism harbors several far-reaching and fundamental flaws. Like the excess profits tax principle, it arbitrarily and illogically assumes the yardstick of a prior base period. And with the excess profits tax, it really penalizes efficiency. Those industries will be favored which registered high earnings (perhaps due to "profiteering") during the postwar years. An industry that now does not offset its higher costs—from labor or raw materials—with greater efficiency, can ask for price increases; but an industry which does manage to offset its higher costs with frugality and other manifestations of good management, will be penalized with frozen prices. This compounds the felony of the politically nice-sounding, and pleasing-to-escalatored labor, excess profits tax, which penalizes improved management and thrift, but rewards corporate extravagance—thus actually stimulating inflation.

Another Squeeze

Also apart from the question of its workability, this new formula adds another to the succession of squeezes on the businessman, and accentuates the "heads-you-win-tails-I-lose" prospect facing the enterpriser. The other inoculations against the profit motive include: tri-monthly price re-determination, the contracts *renegotiation* law capturing profits ensuing from a better-than-anticipated performance by the contractor, the rises in the corporate income tax, and the excess profits tax.

How either a former business leader (as President of the U. S. Chamber of Commerce) as Mr. Johnston, or a commonsense public official as Mr. DiSalle, can have any enthusiasm for adding this additional obstruction to the determination of price by supply-and-demand in a free market, is difficult to understand. It must be remembered that without the "benefit" of such a governmentally-imposed price lid on "inflationary" forces, prices *fell* from 1920 to 1940, and it was not until a year ago that they recovered to their post-World War One peak.

That Catch-All Profit Concept

In addition to maladjustments and inequities of a major nature—as the intra-industry situation—and of the evident host of minor administrative difficulties to be resolved, there remains the renewed misconception of the basic form and nature of *corporate profit*. It will be impossible, even if it be attempted, to make a hard-and-fast distinction between inventory profits of irregular occurrence (counterbalanced by subsequent inventory *depreciation*), and those earnings from which the inventory element is excluded. And in practice no allowance can be made for those companies or industries where the ploughing-back into equipment and plant of gross dollar earnings is needed and done.

Surely the well-meaning Mr. DiSalle cannot relish the prospect of taking on the herculean task of resolving the plethora of huge administrative difficulties, such as defining and delimiting industries; "half-an-industry" (part of Mr. Johnston's pronouncement was that the earnings of "half-an-industry" must fall below the 85% point before it is eligible to raise prices); and ruling on individual cases involving possible hardship through squeezes

Continued on page 33

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The Outlook for Electric Utilities

By P. P. STATHAS
Senior Partner, Duff and Phelps, Chicago, Ill.

Utilities analyst reviews progress in recent years of electric power companies, and, on basis of current defense program and other developments, predicts high level operations under continued profitable conditions. Estimates in next three years $7 billions will be expended in new construction, compared with $8 billions in previous five years, and holds, despite post-war inflationary trend, utilities in general will be able to absorb rise in operation costs. Looks for improved market in all classes of utilities securities.

The present national defense program and inflationary economy has given rise to a number of questions in the minds of investors as to how the utility industry will come out under such conditions. The subject is too broad to cover in all of its ramifications in a meeting of this kind. Therefore, we must necessarily narrow ourselves down to the electric utility industry and attempt only to hit the high spots.

P. P. Stathas

With respect to the electric utilities, some of the important questions in the minds of investors may be summarized as follows:

(1) Will the industry be able to meet the expanded demands upon it arising from the defense or war production program as well as from the unsatiated demands of the civilian economy?

(2) What will happen to the utility earnings under such conditions, particularly in view of the higher Federal income and excess profits tax burden?

(3) Are utility securities, and particularly common stocks, desirable investments under such conditions?

It has been well said that the best prophet for the future is the past. When the Korean situation came into play, the electric utility industry had gone through a 10-year period which included the World War II economy as well as the subsequent postwar inflationary era, and this was a very comparable period as far as the future outlook of the utility industry is concerned. Therefore, before looking into the future, it is important to review the record of the utilities during these past 10 years, as this is a very practical way of approaching the problem.

*An address by Mr. Stathas before the Financial Analysts of Philadelphia, Philadelphia, Pa., April 19, 1951.

Let us first examine the kilowatt capacity of the industry and its ability to meet the demands upon it. The electric utility industry, including government power projects and all other sources contributing to the public supply, at the beginning of 1940 had a total capacity of about 39 million kilowatts. At that time, many people, and particularly the public ownership advocates, predicted a dire power shortage in this country. We did not subscribe to this and we so advised our clients. While there were a few tight spots during the last war where minor curtailments and brownouts had to be resorted to, the proof was that there was sufficient power to go around. By way of contrast, the industry at the beginning of 1950 had available about 63 million kilowatts, and another 5 million kilowatts were added during last year, with the result that the available capacity now is about three-fourths greater than in 1940.

The excess of generating capacity over peak load was about 8 million kilowatts at the end of 1950, as compared with 9 million kilowatts in 1940. During World War II, net additions to generating capacity were at the rate of less than 2 million kilowatts per year for a total of about 7,700,000 kilowatts, whereas in 1950 alone the utilities added 5 million kilowatts. The additions scheduled by the industry for the three-year period 1951-1953 will range between 5 million and 6 million kilowatts per year, which is considerably more than the capacity added during the last war. Another important point to keep in mind is that almost a third of the present generating capacity is less than five years old, as compared with only 14% in 1940. This means that the utilities are entering the present picture with a tremendous amount of new and more efficient generating capacity and this will enable them to effect substantial economies in fuel costs. In addition, the new units can safely handle greater overloads for longer periods without undue risk to continuity of service. The utilities during the last war learned many new tricks in operating their facilities, and as a result they found that they can work them much harder than they previously thought would be possible.

Interconnections Extended

On top of this, interconnections between neighboring systems have been expanded greatly in the last 10 years so that each kilowatt of capacity is now more effective over a much wider area, both from the standpoint of pooling emergency reserves between neighboring systems and safeguarding the continuity of service on a more economical basis.

The electric utility industry will be able to obtain its generating equipment in a much larger volume at this time in comparison with conditions existing during World War II. At that time, the manufacturers of generating equipment in this country had an annual production capacity of about 3,200,000 kilowatts. The manufacturing capacity since that time has been stepped up substantially. They are now able to produce at the annual rate of about 8¼ million kilowatts, and this manufacturing capacity will be stepped up to 11 million kilowatts by 1952. I am cognizant, of course, that there will be materials shortages. Under the present Washington set-up, the so-called DOs or Defense Orders issued to all essential industry, including utilities, are merely hunting licenses, but the utilities are getting well organized and by September of this year a materials allocation plan will undoubtedly be adopted along WPB lines, and this, in general, should help the utilities to get not only priorities but the materials required for their expansion program.

The utilities have no war conversion or peacetime reconversion problems, and a kilowatt-hour can be used readily and without any change for both war and peace purposes. The utilities have no inventory problems. Their product is consumed as soon as it is produced, and the only inventory problem is that involving operating materials and supplies, and appliances, but this is a minor factor in the total picture.

High Level Operations Predicted

As the defense program gains momentum on the production line, the utilities will undoubtedly operate at a very high level. They will work their facilities at a high load around the clock, and this will improve their load factor and have a beneficial effect on the pre-tax earnings.

tions, the load building possibilities of the electric utility industry are tremendous. For example, television and home freezers, two relatively new appliances, are adding considerably to kilowatt-hour sales. Television sets, particularly, connected to the utility systems during the past two years have proved to be substantial load builders. The average annual kilowatt-hour consumption per television set has been found by test to range between 180 and 200 kilowatt-hours. In the New York area, for example, more than 2,000,000 television sets were added during the past two years. The consumption of the average residential customer of Consolidated Edison Company of New York in 1949, when very few TV sets were in operation, was 958 kilowatt-hours. Therefore, the addition of these 2,000,000 television sets in the New York area was equivalent to having added about 400,000 new residential customers on Consolidated Edison's system during the past two years. The corresponding figures in the case of other companies in various parts of the country are equivalent to about 100,000 new customers for Commonwealth Edison of Chicago; 85,000 new customers for Philadelphia Electric; 100,000 new customers for Boston Edison; 40,000 new customers for Consolidated Gas of Baltimore; 27,000 new customers for Cincinnati Gas & Electric Co.

This is a good illustration of the intensive development of utility load brought about by television sets and other appliances, and this type of load is extremely profitable, as it is served with little additional investment in facilities and at the higher brackets of the rate schedule. Television is certainly changing the living habits of the people and has proved to be a new substantial and profitable source of revenue for the utilities.

The potentialities of new load building appliances is obvious. The heat pump, which is now beyond the experimental stage, for electric home heating in the winter and electric cooling in the summer, is another appliance to watch under peacetime conditions. For example, if the heat pump were to find its way into only 5% of the homes of this country, the residential kilowatt-hour sales of the industry would go up 40% and the residential revenues would increase 25%.

$8 Billion of Construction in Five Years

The electric utility industry has spent about $8,000,000,000 for new construction during the past 5 years and has been able to finance this readily. The construction budget projected for the 3-year period 1951-1953 will amount to about $7,000,000,000. We estimate that this 3-year program will require the sale of about $2,750,000,000 of bonds and debentures, about $800,000,000 of preferred stock, and about $1,250,000,000 of common stock. The balance of about $2,200,000,000 will be provided from internal sources, such as depreciation and amortization cash and retained earnings, and still allow for ample dividend payments by the industry as a whole. The industry should have no difficulty in financing this construction program and still keep its capital structure in good balance. Under the present unsettled corporate bond market conditions, it appears that utilities will pay a somewhat higher cost for the new money, but the tax cushion should still provide good leverage for common stock earnings. The unsettled conditions of the corporate bond market will probably stabilize some months from now, but even an increase in interest rates from the level existing a month or so ago will still provide the utilities with relatively low cost of money for a substantial portion of their capital structure, net of tax deductions, and give the institutional investors who have been holding the short end of the line a well deserved break.

The present facilities and the contemplated construction program, together with the other factors which I have just discussed, point to the conclusion that the utilities will take care of the power requirements of the nation in good shape. The kilowatt-hour output is now running some 15% or more ahead of last year, and with the new facilities, such output could well increase by more than 30% above the present levels in the not far distant future.

Question of Utilities' Earnings

Let us now examine what would happen to the earnings of the utilities under the war and inflationary conditions which lie ahead. At the beginning of the last war, many people took a pessimistic view of the same question, but the actual performance of the industry proved to be favorable. For example, during the last war period, 1940-1945, the performance was as follows

Kilowatt-hour sales went up 47%.
Revenues increased 32%.
Net before taxes increased 23%.
Taxes went up 61%.

But in spite of this, the balance for common stocks showed only a nominal decline of 0.4% and common stock dividends showed a decline of only 9%.

The important thing to observe is that in spite of a $242,000,000 or 61% increase in taxes between 1940 and 1945, the utilities were able to maintain their net earnings in good shape. This attests to the resiliency of the industry and is good evidence of the favorable incremental profit characteristics inherent to the utilities' operations.

In the pessimism which then prevailed, utility common stock prices showed a drop of over 50% between their 1940 high and their 1942 low, whereas the decline in net income available for common stocks proved to be negligible as time went on. In retrospect, utility common stocks in 1942 were a good buy rather than a sale, and this fact should be kept in mind during the present period, which is very comparable. Furthermore, at that time utilities were in disfavor because of the impact of the Holding Company Act and other regulatory problems. These problems are practically behind us and the regulatory climate is now more favorable than in the early 1940's.

Even during the post-war inflationary period, utility earnings were well maintained. Between 1946 and 1950 the picture was as follows

Kilowatt-hour sales went up 41%.
Revenues went up 45%.
Net before taxes went up 36%.
Taxes went up 49%.
Balance for common stocks went up 34%.
Common stock dividends went up 44%, in dollar amounts.

It is true, of course, that during this post-war period, the utilities' investment in property and plant had increased almost by a third, but the earnings were still adequate to support the additional securities in good shape, including dividends on common stocks. Common stock dividends in nu-

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merous cases were even increased on a per share basis in spite of the shares that were added to the industry's capital structure. The upward trend in kilowatt-hour sales and net earnings continued during 1950, and the balance for commons showed an increase of 9% and the dividend pay-out increased about 13%. The conclusion here is inescapable that in spite of the post-war inflationary trend, the industry was able to absorb this terrific rise in the cost of doing business and end up in a better position earningswise.

The Rate Situation

A number of companies had to go in for modest rate increases during the past several years, and some 200 cases were acted upon favorably and promptly by regulatory commissions in all parts of the country. Even with these rate increases, electric service on a kilowatt-hour basis is now still about 3% cheaper than in 1940, as compared with a 32% increase in the Bureau of Labor Statistics Consumers Price Index. This leaves more room for rate increases, if it becomes necessary, without disturbance to the utilities' public relations. The rate history during the past several years gives ample evidence that regulatory commissions throughout the country will be sympathetic whenever additional rate increases are necessary. The increases already granted show conclusively that regulation is not a one-way street, and, as a practical matter, utilities are not a fixed-price industry.

From the standpoint of future earnings, the utilities are now in much better position than they were during the last war and post-war inflation. During World War II the utilities were subject to the same onerous excess profits tax as other industries. Under the old EPT it would have been necessary to obtain a revenue increase of $7.00 in order to bring $1.00 additional through to net. Under those conditions, it would have been unwise both for managements to ask and for regulatory commissions to grant the required rate increases.

Last year the utilities made a well organized presentation to the Congress, with the backing of the National Association of Railroad and Utilities Commissioners, and convinced Congress that there are no excess profits in a well regulated industry. The result was a special EPT provision for the utilities with which you are all familiar and which, in effect, gears the utilities' excess profits tax exemption to a 6% return on invested capital per books. Under the present law utilities are practically exempt from excess profits taxes, except a few individual companies which have been earning an excessive rate of return. Even the few companies now subject to excess profits tax will be relieved when their capital structure is increased to meet their construction budgets. At least the cost of money to such companies, after allowing for the tax saving, will be negligible. For example, if a utility now subject to excess profits tax were to raise additional capital of say $100,000 through the sale of 3% bonds, the net interest cost, after tax savings, would be only 0.2% on this additional capital. If the capital is raised by 4% preferred stock, the net cost, after tax savings, will amount to only 2.2%.

The more equitable EPT treatment to the utilities under the existing tax law is therefore obvious. The normal and surtax rates will probably go higher, but even at a 55% composite tax rate, it will take only a little more than a $2.00 rate increase in order to bring $1.00 additional through to net. This would be much more practical and palatable than the condition confronting the utilities under the EPT law in effect during the last war.

Stable Operating Costs

In spite of the tremendous increase in the various components of the costs of doing business during the inflationary period 1946-1950, the percentage of revenue consumed by each one of these components remained relatively stable, as follows:

	—— Per Cent of Operating Revenue ——				
	1950	1949	1948	1947	1946
Salaries and wages	18.7	19.0	19.0	19.1	18.3
Fuel	15.5	15.5	18.0	15.5	12.2
Other operating expenses	15.7	16.9	17.3	16.6	15.8
Depreciation	8.8	8.5	8.4	8.7	9.3
Fixed charges	5.7	5.9	5.6	6.3	7.4
Taxes	18.9	17.4	16.4	17.0	18.3
Dividends and surplus	16.7	16.8	15.3	16.8	18.7
	100.0	100.0	100.0	100.0	100.0

The two major items of cost outside of taxes are wages paid to operating labor, and fuel. These two items even showed improvement as a percentage of revenue since 1948. In 1948, for example, salaries and wages consumed 19c out of the revenue dollar, while fuel consumed 18c. The corresponding figures for 1950 are 18.7c and 15.5c respectively. In other words, the increase in revenue was more than sufficient to offset the substantial increases paid for fuel and high wage rates. Even if we were to assume further substantial increases in fuel costs, about 70% of the increase will be absorbed by fuel adjustment clauses which are now more prevalent in the utilities' rate structure than they were during the last war. In addition, the utilities now have a much larger proportion of modern and more efficient generating capacity, and this reduces the fuel consumption per kilowatt hour, thereby improving the operating ratio. These modern stations also require much less labor and therefore the wage expense, both per kilowatt and kilowatt-hour, is considerably reduced. Wage rates in the industry during the past several years have generally been going up at an annual rate of about 5% to 6%, but this increase has been absorbed handily by proportionately larger increases in revenues as well as by income tax savings. It would seem that, as time goes on, the government wage and price stabilization program will take effect and protect the utilities against increases of any consequence in the cost of doing business.

Earnings Outlook Favorable

Considering all factors, we believe that the earnings outlook for the electric utility industry is favorable. There will, of course, be variations as to individual companies, and investors must therefore be selective. It has been the long established practice of our firm not to make market prognostications. Experience shows, however, that when the underlying value in there, the market is likely to recognize it sooner or later. I have no hesitancy in stating that sound utility stocks at the existing generous yields merit investment consideration, and in that connection I should like to stress particularly the defensive position of utility common stocks. The fears in the minds of some people that utility earnings will be squeezed under a war or inflationary economy are not well founded. This has been proved by the past record of the industry, and the utilities are now in a fundamentally sounder position than during the last war. Many investment trusts reduced their utility holdings since Korea and this selling has, of course, affected the market on utility common stocks. I see no reason why these investment trusts should not be back into these securities in the near future. In addition, other sources of capital, particularly pension funds and trust investors, are likely to become substantial buyers of utility common stocks, especially from the defensive position standpoint. Recent legislation making the "prudent investment" rule more flexible and also allowing insurance companies in the State of New York to invest 3% of their assets in common stocks will provide additional substantial buyers of utility shares. These stocks at present yields amply protect the stockholders' purchasing power in this inflationary period.

I have followed the practice of classifying utility stocks into various lists numbered in accordance with our conception of quality, with List No. 1 representing the highest grade issues. The yields on the various lists are now approximately as follows:

List No. 1 — about 5.7%
List No. 2 — about 6.0%
List No. 3 — about 6.7%
List No. 4 — about 7.0%

The electric utility common stocks in Lists No. 2 and No. 3 particularly afford yields which seem to us to be attractive for most investors, especially when the stability of earnings and fundamental quality are taken into account. Generally we give preference to the common stocks of companies where the present dividend pay-out is amply protected by available earnings, other factors being equal. In this we have in mind a probable increase in normal and surtax rates. In other words, to be on the safe side, pick out companies where the present pay-out is no more than say 70% of the available earnings. This, however, should not be taken as dogmatic, because in the case of a number of companies now paying a higher percentage, the dividends will still be safe. The sale of additional stock by various companies is likely to put temporary pressure on the market action of their existing common stock, and this will afford opportunity to purchase such stocks at a somewhat lower price. In other words, new issues may present more favorable buying opportunities.

Type of Company Should Be Considered

It may be of interest to consider the type of company we favor. In our analysis of utilities, we give particular weight to the territory served as well as the management and public relations. A utility cannot pick up and move to a new service area. Other factors being equal, it can do no better than its territory will permit. Territories, however, do change. For example, owing to the decentralization of industry and other factors, the large metropolitan areas have not done as well as the so-called outlying areas. As a result, the country-type companies have shown greater population growth, and the variety of industries which have been attracted to their territories has given them desirable industrial diversification to a greater degree than that found in metropolitan areas. These new industrial plants are more efficient, each in its own line, both from the production and transportation rate standpoint. They bring new people and new wealth to the area and so raise the whole economic level. All of these result in a highly desirable combination of growth in utility customers and in purchasing power. Utilities in outlying areas thus have shown a greater growth in business and earnings, but on the other hand, they of course have been confronted with higher investment requirements for additional facilities. This general trend in economic development is likely to continue. In addition, companies operating in outlying areas enjoy more favorable labor costs than those prevailing in metropolitan sections. What is more important, the regulatory commissions must allow higher rates of return for the rapidly growing country-type companies in order for them to attract the necessary capital, than the rates of return usually allowed to companies operating in metropolitan areas.

Another thing to remember is that the country-type companies started some years ago from a lower cost level and the vast improvement which has gradually occurred during the past ten years, both in territorial aspects and capital structure, brought such companies closer in quality to the metropolitan type. Here again one should not be too dogmatic, and each particular company must be continually watched for fundamental changes. For example, a number of companies in the Southwest, in addition to growth, are now enjoying low fuel costs by using natural gas contracted years ago at low prices. As these contracts expire, the cost of natural gas will undoubtedly go up substantially, and this in turn could affect their operating results. At that time such companies may well be confronted with the necessity for substantial rate increases to a point of bringing about serious rate controversies and possibly adverse public relations. On the other hand, metropolitan type companies during the past five years particularly have weathered a number of adverse factors, including substantial increases in coal prices and coal transportation rates and higher wage rates. While the country type companies still have quite a way to go before the factors I just mentioned come into play, the situation should be watched closely. It may well develop that, relatively speaking, the "shoe may be on the other foot" some years from now.

Utility Stock Offer Underwritten by Blyth & Co. Group

The Montana-Dakota Utilities Co. is offering to its common stockholders of record April 19 the right to subscribe on or before May 3 for 236,755 additional shares of common stock (par $5) at $14.50 per share. The offering is underwritten by a group of underwriters headed by Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane.

The net proceeds will be applied toward payment of $5,100,000 of notes payable to The National City Bank of New York which were issued to provide temporary financing of additions to the company's natural gas and electric utility properties. The balance of the notes are proposed to be paid from a part of the proceeds from the sale of $5,000,000 of first mortgage bonds to be issued in May, 1951.

Montana-Dakota Utilities Co., incorporated in Delaware on March 14, 1924, is a public utility operating company carrying on a natural gas and electric public utility business in Montana, North Dakota, South Dakota and Wyoming. The company has five subsidiary companies, namely, Knife River Coal Mining Co. and four small subsidiary companies, two of which hold various interests in certain gas lands and wells, one of which is the operator under a unit plan for the cooperative development of certain gas acreage, and one of which operates a small strip coal mine.

N. Y. Bond Club to Hear Ralph Damon

Ralph S. Damon, President of Trans-World Air Lines, will address the Bond Club of New York at a luncheon meeting to be held at the Bankers Club on Thursday, May 3, it was announced by Clarence W. Bartow, President of the Bond Club.

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Dealer-Broker Investment Recommendations and Literature

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

Dividend Trends—Bulletin—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Domestic Airlines—Re-appraisal and analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Fire & Casualty Insurance Stocks—Comparison and analysis of 1950 earnings of 50 stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Graphic Stocks—January issue contains large, clear reproductions of 1,001 charts complete with dividend records for the full year of 1950, showing monthly highs, lows, earnings, capitalizations, volume on virtually every active stock on the New York Stock and Curb Exchanges—single copy $10.00; yearly (6 revised issues) $50.00—special offer of three editions of Graphic Stocks, 1924 through 1935; 1936 through 1947 and up-to-date current edition, all for $25.00—F. W. Stephens, 15 William Street, New York 5, N. Y.

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.

Insurance Stocks—Analysis—A. M. Kidder & Co., 1 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.

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.

"Purchasing Power" Bonds—Review of **General Petroleums of Canada Limited** and **Traders Finance Corporation Limited**—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada. Also available is a list of Class "A" and common stocks yielding 5% or more.

Speculative Merits of Common Stock Warrants—Sidney Fried—Discusses warrants in their different phases, the avenue of their profitable purchase and sale and current opportunities in warrants—Dept. C, R. H. M. Associates, 220 Fifth Avenue, New York 1, N. Y.—$2.00 (or send for free descriptive folder)

Stock Market Timing—Explanatory pamphlet and samples of bulletins—$1.00—Analyst Institute, 126 Lexington Avenue, New York 16, N. Y.

Utility Equipment—Manufacturers — Discussion—Abraham & Co., 120 Broadway, New York 5, N. Y.

* * *

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.

Brown & Sharpe Manufacturing Co.—Progress report—Walston, Hoffman & Goodwin, 35 Wall Street, New York 5, N. Y. Also available are analyses of **Detroit Harvester Company** and **McColl-Frontenac Coil Company.**

Central Illinois Electric & Gas Co.—Bulletin—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Central Louisiana Electric Co. — Memorandum — Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Texas.

Central National Bank of Cleveland—Analysis—Gottron, Russell & Co., Union Commerce Building, Cleveland 14, Ohio.

Central Public Utility Corporation—Report—H. G. Bruns & Co., 20 Pine Street, New York 5, N. Y.

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

Columbia Broadcasting—Circular—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Continued on page 43

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Our Reporter's Report

The investment situation, though by no means entirely out of the woods, as most people see it, is showing definite signs of improvement. Treasury obligations, the key to the whole structure, have been giving indications of being able to stand on their own, without sustained Reserve support.

Presumably the real cue to the intermediate term outlook is the view of the Federal Reserve Board as to where it plans to definitely stabilize the market. But with the Treasury facing substantial refunding operations, and the Reserve committed to maintaining the market for governments, perhaps that level is within definite sight.

At any rate the feeling in underwriting circles is definitely better than it has been in several months, and basis for this turn of events is supported by the good reception accorded recent new issues.

Moreover, there has been a veritable "rash" of secondary operations, most of them in equities. These have been snapped up with a celerity that bespeaks ample supply of funds for investment plus keen investor interest in situations that they feel offer the right opportunities.

One thing is certain. That is, that "Street-size" bond deals, such as those which came to market this week and last, are destined to become increasingly popular with underwriters. They permit a more compact operation, require less effort in bringing people together on price ideas, since groups are smaller, and they certainly seem to move out more readily.

As They Like 'Em

The two $10,000,000 bond issues sold by public utility companies this week really brought out the competition. For example, Monongahela Power Co.'s issue of 30-year first mortgage bonds drew a total of nine separate bids.

There was almost a point difference between the highest bid, 101.085 and the lowest, 100.174 for a 3⅜% coupon. And two bids were made for a 3½% rate. But this proved no hinderance to a quick resale.

Meanwhile Public Service Co. of Oklahoma's 30-year bonds drew seven bids in all, six for a 3⅛% rate and the other for 3¼s.

Although the latter issue was not slated for public offering, at 99.709 to yield 3.14%, until tomorrow, it was indicated in dealer circles that pre-offering demand assured quick movement to investors.

The same held true in the case of the Monongahela issue, priced at 101⅝ to yield 3.29% after a brief lull in interest.

What Does It Mean?

Close observers of the market are intrigued, to say the least, by the flood of "secondaries" which has been going through in the last fortnight.

The dimensions and the frequency of these deals make it plain that they reflect the operations of institutional interests, presumably large investment trusts.

What the average observer is interested in, however, is what these sales reflect in the way of thought and conviction of the sellers with regard to the outlook for the market.

They cannot determine to their satisfaction, at the moment,

Continued on page 43

From Washington Ahead of the News

By CARLISLE BARGERON

In this country it is, for the present, MacArthur, pro and con. The politicians are moving in for the battle, gladiatorial, with their breast-plates and their flailing swords. Over in Europe is the first political casualty. General Eisenhower must be a very unhappy and wondering man, indeed. A seemingly fair haired boy of destiny he is learning about the vicissitudes of American politics.

Carlisle Bargeron

For more than two years it has been no secret that he would like to be President of these United States, a very laudable ambition, indeed. He was quite interested in 1948 but the opportunity did not present itself for a man who had to be "drafted," who would have been seriously hurt had he openly sought the office. This was not the way the great and lovable Ike could do it; for him it was the game of letting the office seek him. It had to be that way.

And it would seem that it must be that way in 1952. There must be that apparency of the people just not wanting to let him retire, of their insistency upon wanting him to lead them out of the morass. In this light, it is no secret in political Washington that he has been running like mad. Those who are behind him, the influential ones—not those vocal fellows who think they see the handwriting on the wall and want to get in on the bandwagon—have been working like eager beavers on their architecture. They have placed this brick and mortar of their structure here and they have placed it there.

The gentlemen I have in mind are Republicans and it is with the Republicans that Ike wants to run. He is of the better element, his whole build-up has been on this line. To see him trying to rescue what is very probably the most sordid gang ever to overlord the American people, a gang that has reduced them to the worst moral squalor, would be something to behold. Yet it is becoming apparent that if he expects to be President he has got to run on what is called the Democratic ticket. It has been proven abundantly clear in the past 18 years that the only way this crowd can remain in office is through a holding together of the heterogenuity of captive Southerners, Eastern gangsters—the Mafia as Senator Kefauver would call them—ambitious and even crooked labor bosses, frustrated pinko and reddish intellectuals.

They seem to be inescapably on the way out. Only an Eisenhower can save them. Will he do it? He is ambitious to be President; of that there is not the slightest doubt.

He has never seriously, from what I can learn, envisaged taking this route. He wants to be the Republican nominee and those men who are architecturing his candidacy are Republicans and are certainly fashioning him as the Republican nominee.

But after MacArthur, and the manner in which the Republicans have embraced his cause, for better or worse, how can Eisenhower possibly be their candidate? In the propaganda, in the picture that is to unfold before the American people, not a true picture, but the one which is likely to become fixed in their mind, MacArthur and the Republicans are pro Asia; Eisenhower is inescapably tied in with the Administration, with Truman and Acheson as pro Europe. I have said before that in the long run, on that single proposition of pro Europe and pro Asia, pro Europe would win. But it won't win in the Republican party; therefore Eisenhower won't win in the Republican party. In my opinion events are sounding his political death knell there.

Mark my word, in the forthcoming months we are going to hear less and less talk about Eisenhower as the Republican Presidential nominee; on the contrary we are going to hear more and more about him as the Democratic nominee. Indeed, the hapless and lowly driven Democrats have been increasingly yearning for him in recent months. It is a fact, too, that he can probably get this nomination without a fight. It is this writer's conviction, based upon considerable information, that Truman would gladly turn the office over to him. He would look upon Eisenhower as his contribution, as his boy. He would get sort of a consolation as "Well, I didn't do so well myself, but look what I've given you."

Frankly, this come about would seem fitting to me. I have always thought it would be one of the worst shows of ingratitude I have ever known for Eisenhower to run as a Republican, as a man trying to kick out of office his benefactors. Yet there is no mistaking he would be tremendously unhappy, if not nauseated, by running as the standard bearer of the motley group which constitutes the so-called Democratic party. He is not one of them.

However, the scroll of destiny reads this way for him, as I see it. I think that if I were in his position I would take my $18,700 retired pay and let the world roll by, contenting my public activities with fighting against inflation.

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Jack H. Alexander With Pacific Co.

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Jack H. Alexander has become associated with Pacific Company of California, 623 South Hope Street, members of the Los Angeles Stock Exchange. Mr. Alexander was manager of the order department for the Los Angeles office of Walston, Hoffman & Goodwin and prior thereto was with Bourbeau & Douglass and Pledger & Co., Inc.

Jack H. Alexander

Parker, Martin to Join Ames, Emerich

CHICAGO, Ill. — E. Cummings Parker, formerly a partner of Glore, Forgan & Co. in Chicago, and James L. Martin, also associated with the same firm, will become associated with Ames, Emerich & Co., Inc., 105 South LaSalle Street, members of the Midwest Stock Exchange, in Chicago, on May 1, according to an announcement by the company.

Both Mr. Parker and Mr. Martin have long been prominent in LaSalle Street. Mr. Parker began as a salesman with Glore, Forgan & Co., later was syndicate manager and for the past two years sales manager. He has been a partner since 1928. He attended Dartmouth College and has served as Secretary and Treasurer of the Chicago Bond Club. He is a member of the Attic and Saddle and Cycle Clubs.

Mr. Martin began his investment career in Boston and was with Estabrook & Co. there for 21 years. He opened a Chicago office for the firm and later organized his own company here. For the past eight years he has been with Glore, Forgan & Co. He is a senior member of the Chicago Bond Club and Exmoor Country Club. He is director and Chairman of the Executive Committee of Ashland Oil and Refining and a director of Birtman Electric Co., North Shore Gas Company and Ashland Oil and Transportation Company.

Joins Shields Staff

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Jack F. Clarke has joined the staff of Shields & Company, 510 West Sixth Street. He was formerly with Edgerton, Wykoff & Co. and J. A. Hogle & Co.

With Pasadena Corp.

(Special to The Financial Chronicle)

PASADENA, Calif.—Harold M. Bugher is with the Pasadena Corportion, 234 East Colorado Street.

R. H. Johnson Adds Shevlin to Staff

(Special to The Financial Chronicle)

BOSTON, Mass. — Conrad B. Shevlin is with R. H. Johnson & Co., 70 State Street. Mr. Shevlin was formerly with Hunnewell & Co.

James D. Ahearn has also been added to the firm's staff.

"Permanent Prosperity"

By ROGER W. BABSON

Mr. Babson, commenting on cycles of business expansion produced by war and peace scares, foresees, through a constant war preparation program, conditions becoming stable and constant, thus benefiting business, employment and investment. Says such a program of constant defense production could postpone severe labor conflicts for many years.

I continue to believe in the Cycle Theory. This means that we will have Peace Scares, War Scares and Labor Scares. But none of us may live to see another 1929-32.

Roger W. Babson

Heretofore the preparation for war has been a haphazard affair. We have frantically prepared for war when we saw it coming. After the war was over, we demobilized and our war preparations were stopped. Hence, each generation saw a sudden radical change from producing peace goods to producing military supplies. Then they later saw an abrupt change back again to peace goods. It may be that this "on-again off-again" process is over. The war industries business may become stable and constant like most other businesses. Let me illustrate:

We could have a constant flow of new tanks, jeeps, airplanes, bombs, etc., each year, whether or not war is expected. Tanks, for instance, have a five-year "life," due to obsolescence. Then each year all the tanks over five years old would be ground up for scrap, or else sold to foreign countries in exchange for much needed raw materials. This would always give us a supply of the latest modern tanks, the same as we now have improved automobiles, washing machines and radios each year.

Effect Upon Business and Employment

This program could be a great stabilizer for business, employment and investments. It would provide an incentive to colleges to train personnel to run war industries. It would assure permanent jobs for those now in such war industries. The entire present picture would change. Instead of the war industry being wastefully prosperous at one time, and then dead at other times, it would always be normally prosperous. Each year we would use new blue prints and old war materials to make a new stock of tanks, guns, jeeps, planes, bombs, etc. Then, at the end of five years, we would break these up for scrap; after which new ones would be built according to new models. After five more years these new models would become obsolete and be reconverted into raw materials, and so on indefinitely.

This probable program is something for every investor to consider. Instead of the steel industry being a feast or famine business, this program could make it fairly stable. It could stabilize railroad stocks, which otherwise will have a big slump when peace comes again. Under this Cycle Theory a railroad, operating between Detroit and Pittsburgh, would have constant loads—hauling the steel to Detroit; then hauling the scrap back to Pittsburgh, and—after it is made into steel—hauling the steel again to Detroit—and so on forever!

Investors and Labor

I am fearful what labor leaders will do when the next depression comes. Putting the armament business on a permanent basis, however, could postpone a severe labor conflict for many years. The program would keep money flowing into the stores to buy consumer goods and thus help both merchandising and manufacturing stocks and the rails. In fact, such a new industry could prevent a stock market collapse for many years. Earnings could be stabilized and fair dividends assured.

Labor's real gripe is that the government wants to put a "ceiling" on wages, but not on profits. If investors had a "floor" on profits, the same as union labor and the farmers have a floor on wages, a ceiling on profits would be feasible. But to do so would mean socialism. A far better system would be to insist on the compulsory reconversion of all obsolete machinery into raw materials, according to a prearranged depreciation charge.

Law of Action and Reaction

Such a long era of prosperity would not upset Sir Isaac Newton's Law of Action and Reaction, upon which the famous Babson-chart is based. This great law simply means that for an area of abnormal prosperity, there must be a corresponding area of abnormal depression. If all obsolete machinery when fully depreciated is "ground up" for reconversion, there need be neither abnormal booms nor abnormal panics, except from accident or speculation. This is one reason why I advise careers in Accounting.

Joins Staff of Oakes

MIAMI BEACH, Fla.—Frank E. Wood has joined the staff of Oakes & Company, 605 Lincoln Road.

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$205,000	1952	1.00%	$ 770,000	1957	1.30%	$1,340,000	1963-65	1.50%
305,000	1953	1.10	780,000	1958	1.35	610,000	1966-67	1.55
720,000	1954	1.15	1,560,000	1959-60	1.40	990,000	1968-70	1.60
720,000	1955	1.20	1,625,000	1961-62	1.45	1,080,000	1971-73	1.625
725,000	1956	1.25				1,170,000	1974-76	1.65

(accrued interest to be added)

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The Economic Unsoundness Of Price Controls

By ALAN VALENTINE*

Former Director of Economic Stabilization

Calling price controls "merely a skirmish around the edges of inflation," former Director of Economic Stabilization asserts, as presently operated, such controls will not only not keep prices down, but will hamper production and be expensive in terms of dollar cost. Urges higher taxes and more production to defeat inflation, and concludes 1951 price controls are not justified on economic grounds.

My assignment is to discuss economic stabilization in relation to the Federal Government. That is an economic subject, and I would like to treat it here solely in economic terms. That is what I tried to do as Administrator. It did not work there and it will not work here, for the present government has made stabilization more political than economic. Some comments on the political aspects of our current stabilization efforts are unavoidable. They will not be made without prejudice—the prejudice of first-hand experience.

Dr. Alan Valentine

One could not expect any democratic government to rise wholly above political considerations in any part of its program, including the economic. Indeed, it should not do so. Hence the present Administration is not to be condemned for thinking politically, even about stabilization. The question is, what kind of politics has the Administration been thinking and acting in its economic program, and with what effect on that program? I regret that I cannot give you an encouraging answer. The political aspects have been more those of Machiavelli than Plato, and more like a midwestern city hall than either.

Price Controls

But, first let us consider the economics of Federal Government stabilization. You will expect me, under this title, to talk chiefly about price controls. It is unfortunate that when most Americans think of fighting inflation, they think primarily of price controls. This is natural, especially since the government has said or done little to educate them to the contrary. That misconception has distorted and hampered any serious efforts at real economic stabilization. So long as the Administration (which knows better) goes on acting as though stabilization can be achieved by price control; so long as the public (which, alas, knows no better) goes on accepting that fallacy—just that long there will be no real economic stabilization and no real price control.

To control prices—or to try to control them—is not to make a fundamental attack upon inflation, not its cause. To stop inflation more basic attacks must be made upon the center of inflation. Until that is realized and acted upon, price and wage controls will continue to be a temporary and dangerous expedient, and—in their present chameleon form—a futile, expensive and even tragic venture.

Price control as presently operated is futile because it will not hold down prices. It is expensive not only in terms of its dollar cost, but in terms of hampering production by regimentation and paper work, of irritation and uncertainty to producers, of black markets and shortages to consumers, of expanded bureaucracy and rampant political patronage. This kind of price control will prove even more costly as it increasingly saps our free enterprise and our confidence in the intelligence and integrity of our government. This kind of price control is tragic because it weakens our nation when it must be strong.

This has been said often enough, and its truth becomes more apparent every day, but both government and public still seem to expect more of price control than even serious price control could possibly deliver.

Cannot Hold Lid Down

For inflation is like the steam in a tea kettle over a hot flame. You cannot long contain inflation by holding down the lid on the kettle, and you'll burn your fingers in the attempt. The only real control is to remove the kettle or turn down the flame. Yet, except for some effective moves by the Federal Reserve Board, all the King's horses and all the King's men have achieved no appropriate measures to turn down the flame. Indeed some cabinet officers, heads of agencies, senators, and even top price and stabilization officers have encouraged inflation by their public prophecies, ever since last December, of higher prices and of price controls about to be imposed. The price rises of last December and January were not primarily the results of any economic factors. They were psychological inflation—fear of inflation which created inflation. When a leading senator announced, wholly without knowledge or authority, that there would be general price controls in two weeks, thousands of merchants increased their own prices immediately, to get ahead of the freeze, and most of organized labor sought wage increases to get in under the wire. When a high officer in one department, in a public address, congratulated merchants who had laid in abnormally high inventories, he encouraged others to do likewise, pushing up prices. Cabinet officers irresponsibly predicted shortages in consumer goods (which, incidentally, have not occurred), and of course that augmented the immediate purchase of everything from pepper to refrigerators. When the proposal of a thirty-day price freeze was made known to the press from the Office of the Price Director several days before he submitted the idea to the Stabilizer for approval, the cost-of-living index promptly mounted. Then when the plan was not approved, as economically unsound and unenforceable, the sacre buying it created had done its worst. When Controllers of Prices and Wages announce their opinions that the indices will mount another 5% by June, they make such an increase almost inevitable, unless the workings of natural economic laws bring some deflation in spite of them. More by ignorance and disorganization than by intent, our Federal government has in recent months been one of our most effective inflationary forces, undoing with its right hand whatever stabilization it attempted with its left.

Drastic Steps Are Politically Unpopular

Government has failed to take the obvious fundamental steps because those steps are politically unpopular. Rather than achieve real government economy, or a sound program of increased tax revenue that would draw off excessive spending power from small and moderate incomes (where most spending power lies) as well as large incomes; rather than to apply further controls of credit, or more intelligent policies on government interest rates; rather than urgent sponsoring of national campaigns to forego luxuries; to live more simply; to increase personal savings and invest them in government bonds—rather than apply these real attacks on inflation and risk failure at the next election, it was easier to talk about price control; to demand it; to feature it as though it alone could do the job. Some of this passing of the buck was due to ignorance, but some of it to cynical self-interest.

This attitude was not limited to the executive branch or to the Democratic members of Congress, which never more than in recent months has looked like "a democratic device for postponing the inevitable." Meanwhile the ship of state drifts with the conflicting pressure-currents and stabilizers flounder.

In recent weeks it has looked as though the upward trend of prices has been stopped. I wish I could believe it; I fear the appearance

Continued on page 27

*Remarks by Dr. Valentine before the 11th Annual Forum on Current Social and Economic Trends of New York Chapter, Chartered Life Underwriters, New York City, April 19, 1951.

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The Banks Must Finance Defense Without Inflation

By W. RANDOLPH BURGESS*

Chairman of the Executive Committee, Nat'l City Bank of N. Y.
Former President, American Bankers Association

Noting exceptionally inclusive controls established over the banking system, Dr. Burgess notes voluntary steps for credit curtailment that are being undertaken by banks with insurance companies and houses of issue. Asserts people must be educated on their responsibilities while they are being "pushed around." As to use of direct controls, he concludes long-term effectiveness in dealing with inflation is essentially a problem of investment, and advocates firm measures to achieve cutbacks in non-defense expansion.

If there is one industry which is completely controlled, or more controlled than any other business in the country, it is the banking business. We are examined twice a year by the government. Men come in and go through us with a fine-tooth comb; 40 or 50 people who stay there for several months. We can't move without a lawyer advising us over our elbow. The prices of our products and of what we pay are fixed by government agencies, not in emergencies, but all the time.

W. R. Burgess

The law gives the Federal Reserve the power to say what we shall pay on deposits, or the maximum rate we shall pay on deposits, and the Reserve System and the Treasury together fix the range of rates that we can charge for our product within a pretty close range.

What we are talking about in direct controls is the prices at which people do business—we already have our business fixed in that way.

Reserve Powers and Voluntary Controls

I might say that the program of voluntary credit control originated with the bankers, although in the form it appeared to come from the Federal Reserve Board, because that's the way the Attorney General wanted it to come. But it was at our initiation.

I believe it will be reasonably effective. Generally speaking, these conservative bankers do have consciences. I think it may be as successful as the program of voluntary restraint from pressure of wage increases that the British labor unions have exercised over a recent period, which I think has been one of the outstanding achievements since the devaluation of the pound. British labor has been willing to stand without any substantial wage increases in spite of rising prices.

I think the bankers may be as effective with their voluntary controls as that. As to a vigorous use of Federal Reserve powers, in season and out of season, I have advocated a much more vigorous use of Federal Reserve powers than has actually taken place. So that as far as the banks being sacrosanct in the matter of controls, they aren't and will not be and they can't desire to be.

Voluntary control in the banking business deals with quite a different field from fixing prices. It goes far beyond what we are talking about doing with prices and what Mr. DiSalle and his associates have to do with wages and with prices. It goes into the field of the allocation of your product.

If you want a comparison, it would be if the government were to tell the General Motors Corporation to whom it should sell motor cars, and when you begin to do those things with regulatory agencies you get into a very difficult field, as I am sure all would agree.

Now, already in the field of bank credit you have had the Federal Reserve System given certain powers which we agree to entirely and are sympathetic with, in their laying down of rules under which loans can be made. These regulations, at present, apply to approximately half of the lending which has been done and perhaps the most inflationary areas, including instalment credit, credit on real estate and on security loans.

Reserve Not Tough Enough

If I had a personal position on that, it would be that the Reserve System was not tough enough and didn't lay down rigorous enough rules when they started that sort of regulation. It remains to be seen what the result will be in the long run.

Now, when you come into another area, the general loans to business, there have been various suggestions for laying down rules in that area. It may be that somebody will think up ways of doing it, but in the meantime and as another method of approach, we have thought that we ought to go to work at it ourselves, and "ourselves" being not the banks alone, but the insurance companies and the houses of issue, to see if we couldn't cut back some of the marginal business that is least essential at this time.

Now, I agree that this is an area that offers very great difficulties and that if you simply make a speech and say, "Won't everybody please cooperate?", of course you don't get anywhere at all.

I don't call that a plan of voluntary control. It doesn't become a plan until you formulate definite rules and until you have an agency for carrying them through and require definite commitments from your institutions. That is the plan that is being worked on under a clause of the Defense Production Act that the Congress wisely put in.

I may say that the group that are working on that, are working with the representatives of the Federal Reserve System. We hold no meetings of our group which are not presided over and records made by representatives of the Federal Reserve System.

The various groups have all agreed to go ahead with the program. Aside from a general committee which has met in Washington, there are local committees being appointed which are headed by some of the finest and some of the best people we know of in the country, and what they are trying to do is to work out as far

Continued on page 33

*From transcript of statements by Dr. Burgess at Conference on the Economics of Mobilization, held under the auspices of the Chicago University Law School, White Sulphur Springs, West Virginia, April 6 and 7, 1951.

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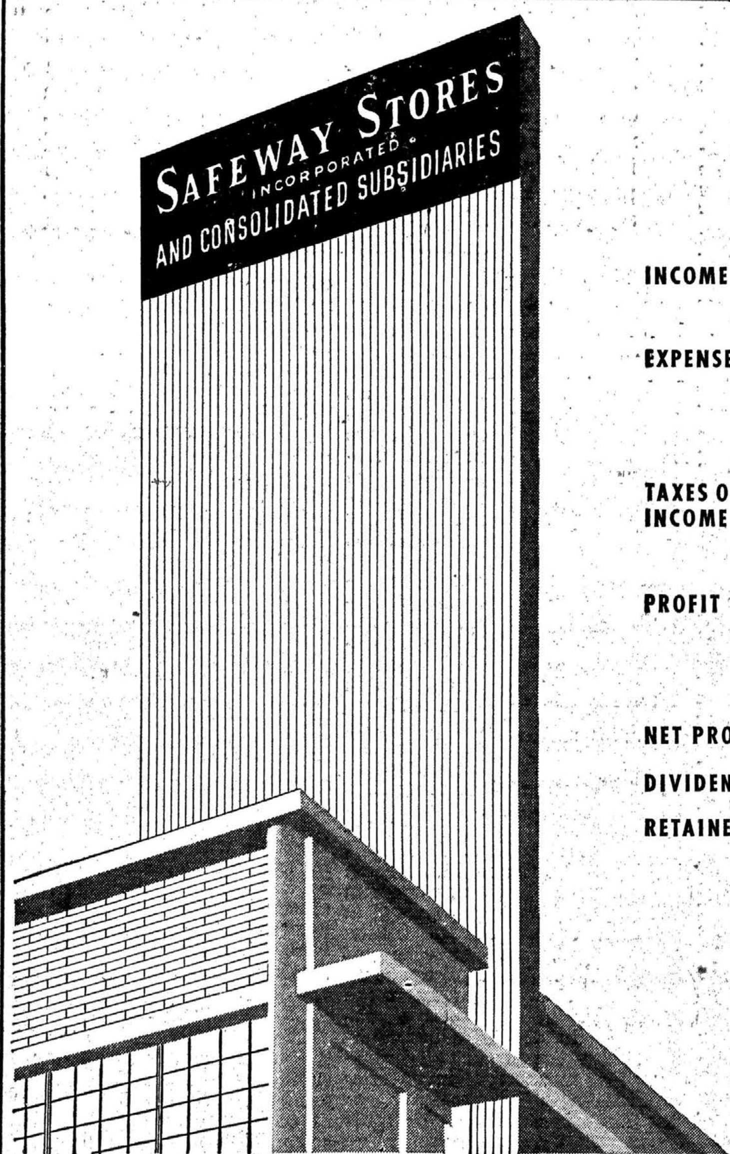

1950 Financial Facts

		Year ended December 31 1950	1949
INCOME	Sales	$1,100,852,265	$1,095,063,621
	Dividends, Interest and other sources	3,129,345	2,160,807
	Total	$1,103,981,610	$1,097,224,428
EXPENSES	Purchases from Farmers and Suppliers, including Cost of Processing and Warehousing	942,983,137	947,514,299
		160,998,473	149,710,129
	Operating, Administrative and other charges	134,538,607	127,175,425
		26,459,866	22,534,704
TAXES ON INCOME	Federal Income Taxes	10,218,000	7,888,900
	Federal Excess Profits Tax	1,157,000	—
	State Income Taxes	479,522	276,680
		11,854,522	8,165,580
PROFIT	(1949—before exchange devaluation adjustment)	14,605,344	14,369,124
	Deduct provisions for decline in conversion value of assets in Canada	—	765,240
	Net Profit for year	14,605,344	13,603,884
	Preferred dividends paid	1,036,733	951,520
NET PROFIT	Applicable to Common Stock ($5.16 per share in 1950, $5.22 per share in 1949)	13,568,611	12,652,364
DIVIDENDS	To Common Stockholders ($2.40 per share in 1950, $1.25 per share in 1949)	6,400,897	3,213,306
RETAINED FOR USE IN BUSINESS		$ 7,167,714	$ 9,439,058

BOOK VALUE . . . PER SHARE OF COMMON STOCK

December 31, 1950—based on 2,827,703 shares $29.57
December 31, 1949—based on 2,570,644 shares $28.06

Recomputed Excess Profits Tax Credit Benefits Safeway's Earnings

Upward revision of the Company's Federal Excess Profits Tax Credit Base from $17,642,744 to $18,284,393* will result in a more favorable 1951 earnings bracket for Safeway Stores. The new tax base permits the Company to earn $10,993,883 after Federal Income Taxes and preferred stock dividends, before being required to pay an Excess Profits Tax. This tax credit is equivalent to $3.89 a share on the 2,827,703 outstanding shares of common stock.

Each additional $1,000,000 over the $10,993,883 base and up to $36,568,786 falls in the 77% tax bracket. After the 77% tax, the Company's income will total $230,000 per million dollars pre-tax income, approximately 8¢ a share on the outstanding common stock.

When pre-tax earnings pass the $36,568,786 figure, the tax rate drops to 62% permitting the Company to retain $380,000 per each additional million dollars income or approximately 13½¢ a common share on each additional pre-tax million dollars income.

If the higher 1951 rates for Income and Excess Profits Tax are applied to the Company's 1950 results, the net after tax earnings on the increased number of shares (2,827,703) would be $4.27 per common share. This compares with reported 1950 earnings of $5.16 per share on the 2,629,760 shares then outstanding.

In 1950 Safeway paid an Excess Profits Tax of $1,157,000, which is the equivalent of 44¢ per share on common stock. The 1950 per share earnings (based on 2,629,760 common shares, the average number outstanding during the year) were:

	Per Share before Excess Profits Tax	Per Share after Excess Profits Tax
United States Income	$4.68	$4.24
Canadian Dividends	.92	.92
Total	$5.60	$5.16

Condensed Financial Statement

	December 31, 1950	December 31, 1949
Current Assets	$158,949,726	$104,942,235
Current Liabilities	88,889,490	35,551,092
Working Capital	70,060,236	69,391,143
Fixed Assets, Investments and other non-current assets	44,640,172	41,442,937
Total working capital and other assets	114,700,408	110,834,080
Long term bank notes	—	20,000,000
Total Stockholders' Interest	114,700,408	90,834,080
Preferred Stockholders' Equity	31,076,500	18,696,500
Total Common Stockholders' Interest	$ 83,623,908	$ 72,137,580

BREAKDOWN OF COMMON STOCKHOLDERS' INTEREST

Common Stock	$ 14,138,517	$ 12,853,221
Additional Paid in Capital	15,160,174	9,945,363
Net Income Retained in Business	54,325,217	49,338,996
Total Common Stockholders' Interest	$ 83,623,908	$72,137,580

*The Revised Excess Profits Tax Credit of $18,284,393 is computed as follows:

Base Period Net Income

1946	1947	1948	1949
$19,744,628	$11,735,913	$11,937,119	$19,677,847

Average 3 highest years $17,119,865

85% of average	$14,551,885
Capital additions—Base Period	395,328
Capital additions—Estimated 1951	3,337,180
Total Excess Profits Credit for 1951	$18,284,393

Lingan A. Warren
President

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Stock Market Implications Of Bottled-Up Inflation

By J. C. LUITWEILER
Partner, Bendix, Luitweiler & Co.
Members, New York Stock Exchange

Mr. Luitweiler, discussing strong cross currents in present stock market, points to bottled-up inflation as dominant factor, and advises investment in good sound equities. Says, barring a full fledged war, stocks will continue to hold level and may even rise.

The past few months have been a time of great confusion—political, economical, financial. The MacArthur incident high-lights the political and enough has been said and written lately on this score. In the business realm, we find the entire country engrossed with the change-over from a peace to a war (or defense) economy. It will take some months more before this picture clarifies. And on the financial side we see equally great differences of views. Developments as they occur are pointed to first by one side, and then by the other, as justification for their opinions. It is with this latter phase that Stock Exchange houses are chiefly concerned.

James C. Luitweiler

Some able writers and leading Stock Exchange firms have been forecasting a change of market trend from a bull to a bear market. They point with considerable weight to a number of factors in support of their views. Thus, in times past students of the business cycle have found that a reversal of stock market trend is frequently preceded by some six months by rising interest rates and a declining market for high grade bonds. This has been with us now for some months, led by the decline in Governments and the wide-open break in the price of municipals from their high levels reached early this year. However, the significance of this indicator may be doubted, since until lately the price of Government bonds was wholly artificial. Now for the first time in years it is being allowed to find its true level. Chartists call our attention to the "triple top" which the market has made in the last six months, another danger signal of an imminent change of trend; they also minimize the rise of the price of industrial shares to new high levels, since the prices of railroad stocks have lagged behind and are considerably under the highs of earlier in the year.

In every period there are strong cross currents. Markets do not move like the ebb and flow of the tides governed by the unchanging laws of gravity. In gauging values and endeavoring to forecast trends it seems that one must consider what is the dominant factor or factors, in the firm belief that sooner or later these will be the determinant of a market's course.

Lately the writer has had the privilege of hearing a number of statesmen and bankers from other countries outline what has transpired in their respective countries since the end of World War II. They all strike a rather optimistic note, pointing with pride to the marvelous recoveries that have been wrought in overcoming the effects of war and bringing their economies back to levels exceeding in many cases prewar, both in volume and amount. But they invariably end with the observation, or apology, that unfortunately their governments have not been able successfully to combat inflation and their currencies are correspondingly reduced in value, in terms of gold, and the trend continues.

In short, the factor of inflation, or depreciation of currencies, is world-wide and our own situation is no exception. It stems from the same cause everywhere—government expenditures exceeding revenues, heavy borrowings by business entities to finance change-overs from war to peace, repairing war damage, or expansion, and the outpouring of currency and credit in greater volume than the current output of goods.

Many countries, like our own, have been engaging in a "war against rising prices" by price controls, rationing, allocation of scarce materials, and what-not. But history teaches that this is simply *bottling-up inflation.* The evil genie may be thus confined for a time, but eventually the bottle is unstoppered and the genie escapes and assumes his true stature. Witness the aftermath of every great war in history, including the two recent World Wars.

It is not popular for us to recognize that we are in fact now engaged in another war. True it is not a world war, and we all hope it will not become one. But with a quarter of a million of our soldiers engaged in Korea and the building up of a new army in this country, to say nothing of sending troops to Europe, and the consequent heavy government expenditures this involves, we are in fact at war, and the effects of a war economy are inevitable.

England lately has been experiencing a fall of Government bonds and a rising stock market, and market followers there are expressing the same surprise as are some of our market analysts here. But in the opinion of the writer this is logical and a trend that properly evaluates the factors in our situation. Investment in good sound equities are continuing and should continue. We are told on every hand that one of the safeguards against inflation is desisting from buying unnecessarily the scarce goods and using excess earnings for investment in government bonds, insurance, savings bank deposits, etc. Such advice is sound. But equally sound is the advice to invest such excess earnings in good equity securities that are not over-valued in terms of intrinsic worth, earning power and future prospects. To the extent that the investing public acts upon such advice our securities markets will continue to hold their own, or rise depending upon the extent to which money flows into them. This is a psychological, rather than an economic question. Witness what happened after the first shock of the Korean invasion had spent itself and again after the support of the Chinese Communists last fall gave us a new shock. We are now facing a similar shock brought about largely through the MacArthur incident and the disclosure that the Asian difficulties are not a mere isolated question of the 38th Korean parallel. This shock will doubtless be weathered in similar fashion.

Of course, the opinion herein expressed does not attempt to evaluate what would happen to our securities markets in the event of a full-fledged war with Russia. If one chooses to desist from investing money until that picture is clear, he may have to wait a long time!

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What Next, Mr. Business Man?

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

Pointing out present inflationary lull marks transition from a phase in which increased buying came principally from business concerns to one in which increased buying will come from government and consumers, Professor Slichter urges restriction of bank credit and severe cuts in non-defense spending. Recommends also corporations cut down dividends to reduce personal incomes, but foresees little likelihood of holding down wage payments, so suggests use of income tax to curb this inflationary pressure. Advocates increased investment by public in attractive securities as inflation curb.

I

The present lull in business will be of brief duration and is not likely to involve a drop in employment. Inventories cannot be regarded as large. The increase in the physical volume of inventories during 1950 was about 7%. It was just about sufficient to offset the drop in the physical volume of inventories in 1949. Hence the year 1951 started with inventories of about the same physical volume as two years before.

Prof. S. H. Slichter

Employment and personal incomes are very high. In March, employment was about 2.6 million above March 1950, and wage and salary payments were running at an annual rate of $25 billion above 1950, an increase of roughly 20%. Retail prices are up about 10%. Consequently, there has been a considerable increase in the ability of the country to buy the product of industry. This means that inventories are likely to be promptly reduced. It is significant that the index of industrial production has remained virtually unchanged since last September. This strongly suggests that the slack in the economy has been eliminated, and that further increases in production will come only slowly, as new productive capacity is constructed and as the efficiency of labor is raised.

II

The crux of the problem of controlling inflation will soon be the problem of bringing about a large increase in the rate of personal saving. During the next year personal income will rise rapidly, but there will be little change in the supply of consumer goods. The next most difficult aspect of the problem of inflation will be to assure that the defense outlays of the government are financed by non-inflationary methods.

The present lull in inflationary pressures marks the transition of the economy from one phase of inflation to another—from a phase in which the increase in buying came principally from business concerns to a phase in which the increase in demand will come in the main from the government and from consumers. Of the $47 billion rise in the annual rate of expenditures between the last quarter of 1949 and the last quarter of 1950, more than three-fifths represented larger outlays of business concerns. Less than one-tenth of the growth in expenditures between the last quarter of 1949 and the last quarter of 1951 represented a rise in government spending.

In the months immediately ahead, the most important sources of inflation will be the defense outlays of the Federal government and the expenditures of individuals. The defense outlays of the government will rise by at least $25 billion a year between the end of 1951 and the end of 1952 — over four times the rise during the last half of 1951. Personal incomes will continue to grow rapidly, and by the end of the year will be running more than $20 billion as an annual rate above the rate at the end of 1950. The supply of goods available for consumption, however, which increased about 5% between the end of 1949 and the end of 1950, will not increase at all. In fact, it may decrease. Business expenditures, of course, will continue to be important, but shortages of materials, inventory controls, and possibly restrictions on credit will prevent business spending from growing as rapidly as during the last quarter of 1950.

My comments on the problem of inflation will be devoted in the main to a discussion of what can be done to limit the inflationary effect of government expenditures and consumer buying, but I wish to say a few words on the problem of limiting business spending.

III

The most effective way in which the government can limit the inflationary effects of business spending is by restricting the use of bank credit by business concerns. This is the aspect of controlling inflation that encounters least opposition from pressure groups **outside** the government. But opposition **within** the government has prevented effective control of bank credit. It is not necessary that I discuss this well-worn subject. I wish to point out, however, that the only reliable way to limit the expansion of bank credit is to make bank reserves scarce. There is a chance that the present program of voluntary restraint in lending by the banks will be tolerably successful, but there is also a good chance that it will not.

IV

What can be done to offset the inflationary effect of expanding defense expenditures? To a limited extent the increase in defense outlays might be offset by cuts in non-defense spending. If the Administration and Congress were to cooperate to find ways of cutting non-defense outlays, these expenditures might be cut by $3 billion to $5 billion a year. Such a cut would be most helpful, but it would not prevent a net rise of about $20 billion or more a year in the outlays of the Federal, state, and local governments. Unfortunately the public demand for economy in government does not seem to be strong enough to produce much effect in Washington.

Since cuts in non-defense spending are uncertain and at the best can offset only a small part of the rise in defense expenditures, limiting the inflationary effect of defense outlays is mainly a matter of assuring that they are financed by non-inflationary methods. To many people this simply means paying as we go. But some taxes are inflationary, especially in a sellers' market. Hence, even a balanced budget

*An address by Dr. Slichter before the Executives' Club of Chicago, Chicago, Ill., April 13, 1951.

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may be inflationary. This fact has been too frequently overlooked.

Recently, several organizations have proposed that the Federal budget be balanced in large measure by increases in the corporate income tax and by various forms of sales taxes. An increase in taxes on corporate incomes may be poltically necessary in order to induce some groups in the community to submit to controls, but such an increase would be inflationary. Even if price controls prevent an advance in the corporate income tax from being passed on, the advance would encourage corporations to finance their expenditures on plant and equipment by inflationary methods, such as borrowing from banks, paying off bank loans more slowly, or selling government securities. Sales taxes, which may be deflationary in a buyers' market, have mixed inflationary and deflationary effects in a sellers' market. They produce higher prices but the price increases do not raise private incomes.

To the extent that it is not politically possible to finance defense expenditures by anti-inflationary taxation, such as increases in the personal income tax, they should be financed by anti-inflationary borrowing—that is, by the sale of government securities to individuals. Indeed, the sale of government securities to individuals would limit consumption among many people on whom Congress is not willing to levy much of an income tax. In short, whether or not government spending is inflationary depends, not on whether the budget is balanced but on whether expenditures are financed by inflationary or anti-inflationary methods — whether these methods be inflationary taxes or inflationary borrowing, or whether they be anti-inflationary taxes or anti-inflationary borrowing.

V

The tendency for personal incomes to outrun the supply of consumer goods represents the most difficult aspect of the problem of inflation. I have said that the flow of goods available for personal consumption ought to be about as large at the end of 1951 as at the end of 1950. This may strike you as pretty optimistic, and it is. It is based partly upon the belief that the rate of gross private investment can be reduced from an annual rate of $60.2 billion in the last quarter of 1950 to about $49 billion (in terms of 1950 dollars) in the last quarter of 1951. This large cut in the rate of investment can be accomplished without reducing the rate of expansion of physical plant and equipment provided the accumulation of inventories is eliminated. But such a cut means that enterprises will not be able to increase the rate of expansion of physical plant and equipment, as many of them intend to do. My estimate of the supply of consumer goods also assumes that new crises this summer will not require acceleration of production — a somewhat daring assumption. Possibly a small increase in the total supply of consumer goods can be achieved, but this seems to me to be quite unlikely. Hence, the problem of the gap between personal incomes and the supply of consumer goods must be attacked either by limiting the increase in personal incomes or by limiting the proportion of personal incomes that are spent for consumer goods.

VI

How can the rise in personal incomes be limited? Corporations can help by deferring dividend increases or by paying part of dividends in stock instead of cash. But dividends represent only a small part of all personal incomes —less than 5%. About two-thirds of personal incomes consist of wage and salary payments. These payments, as I have pointed out, increased by an annual rate of over $25 billion during the last 12 months and they will continue to rise rapidly during 1951. Can anything be done to limit their growth? A considerable expansion in payrolls will result from the increase of employment and from a longer work week. These are badly needed, and, in estimating the prospective supply of consumer goods, I have assumed that employment would rise by about 2.2 million and the work week would increase by 3%. The result would be a rise of nearly $12 billion a year in payrolls.

But payrolls will also be increased by advances in wage rates. Where a large part of the employees are organized into powerful trade unions, as in the United States, the ability of the community to limit the advance in wage rates during a sellers' market depends upon what wage controls the unions are willing to accept. If unions do not accept a wage policy, they will make bargains that violate it and will strike or threaten to strike unless these bargains are treated as exceptions or

Continued on page 26

This is National Steel

as of January 1, 1951

One of America's largest and most progressive steel producers reports to the public and to customers, employees and stockholders on its activities in 1950

PRODUCTION, SHIPMENT AND SALES SET NEW RECORDS IN '50 . . .

National Steel did more than its share to meet the unprecedented demand for steel products by producing and delivering a record-breaking tonnage of steel to its customers while carrying on, without interruption, its large program of expansion.

AS DID NET EARNINGS, EMPLOYMENT, WAGE PAYMENTS AND STOCK DIVIDENDS.

National's net earnings for the year 1950 reached a new high of $57,814,974. Record total payrolls for a record 29,679 employees amounted to $124,135,529, exclusive of substantial company payments for employee benefits. Total dividends of $20,917,690—or $2.85 per share when converted to the new basis established by a three-for-one stock split after May—were paid to stockholders.

PRODUCTION FACILITIES WERE ADDED AND EXPANDED . . .

In 1950, National's continuous program of expansion and improvement included further development of blast furnace and open hearth facilities, a sintering plant, coke ovens, land purchases, the new Weirton Coal Mine at Morgantown, West Virginia, a fourth electrolytic line (largest and fastest in the world), final work on the oxygen plant now in operation, extensive new electrical finishing equipment. Ingot capacity was increased by 250,000 tons, bringing total capacity to 4,750,000 tons as of January 1, 1951.

AND NATIONAL CONTINUES TO PLAN, CONTINUES TO BUILD FOR THE FUTURE.

The program now underway, and scheduled approximately for completion by the end of 1952, will further increase National's total capacity to *6,000,000 tons*—more than 50% greater than National's capacity at the close of World War II, and, in proportion to size, the largest expansion program for the same period so far announced by any major steel company.

1950 IN REVIEW

	1950	1949
Net sales	$537,024,673	$424,892,845
Net earnings	57,814,974	39,311,269
Net earnings per share*	7.85	5.34
Total payrolls	124,135,529	107,843,848
Total dividends paid	20,917,690	13,481,585
Total taxes	68,546,069	43,571,827

*computed on basis established by the three-for-one stock split

Total taxes paid by National in 1950 were more than $10,000,000 greater than net earnings . . . more than 12% of sales . . . more than $9.30 per share of stock . . . more than $2,300 per employee—a forceful illustration of the terrific impact of the cost of government on the American economy.

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Impact of Flexible Interest Rate Policy on Bond Prices

By ROY L. REIERSON*
Vice-President, Bankers Trust Company, New York

Answering question, whether new flexible interest rate policy of Federal Reserve means protracted upswing in interest rates, Dr. Reierson contends, despite heavy demand for investment funds by defense program, the Federal Reserve is not likely to permit continuous erosion in government bond prices. Says significant decline in new capital requirement may not develop until 1952 but trend of yields on municipal bonds is difficult to forecast because of uncertainties regarding new tax legislation.

The events of the past month constitute a distinct milestone in the history of our credit policy. On March 12, the Federal Reserve unpegged the government bond market and adopted a policy of flexible interest rates. For the first time in more than a decade, we see government bonds selling below par.

Roy L. Reierson

The consequences of this move have extended beyond the market for government obligations to corporate and municipal securities and, even further, to the entire field of financing. Outstanding bonds have dropped considerably in price, and for new issues the repercussions have been even more pronounced. Short-term interest rates have also responded. In commercial banking, in mortgage financing, and throughout the credit structure as a whole, funds are becoming less readily available and a general air of tightening has begun to spread.

These developments confront the members of the financial community with many obvious but vexing questions centering around this new phase of credit policy. Do these events signal the end of the low interest rate era and the beginning of a protracted upswing? What effects are likely upon investment demands and new financing?

In view of the requirements of the defense economy into which we are moving, it is difficult to visualize a credit policy involving a sustained and substantial rise in the level of interest rates. However, the trend of interest rates under current and prospective conditions is likely to be affected by many forces, not all of which will be operating in the same direction. In order to arrive at a reasonable appraisal of the outlook, it is necessary to consider some of the basic influences which may determine credit conditions and the behavior of interest rates.

*An address by Dr. Reierson before the Municipal Forum of New York, New York City, April 13, 1951.

Current Credit Policy and Inflationary Spending

The recent strong inflationary surge in the American economy reflects the large increase in total spending which began to take hold in the spring of 1950 and accelerated rapidly after the outbreak of war in Korea. The recent action of the monetary authorities represents a move to restrain the expansion of private credit as a means of checking this inflationary demand for goods and services. The extent to which major sectors of gross national expenditure have increased since the end of 1949 is shown in the accompanying table:

Gross National Expenditure
(Seasonally adjusted annual rates in billions of dollars)

	Amounts 4th Q. 1949	Changes from 4th Q. 1949 — 1950 — 1st Q.	2nd Q.	3rd Q.	4th Q.	1951 1st Q. (est.)
Gross national expenditure	253.8	+ 9.5	+17.8	+30.1	+46.5	+52.2
Federal Government	24.3	— 2.2	— 2.9	— 3.2	+ 2.8	+ 8.4
State and local governments	18.5	+ 0.2	+ 0.3	+ 1.0	+ 2.3	+ 2.3
Personal consumption	180.6	+ 2.0	+ 5.2	+18.3	+15.2	+25.4
Gross private domestic invest.	31.2	+10.6	+16.5	+16.6	+29.0	+29.3

However, the importance and efficacy of higher interest rates as a device to limit inflationary demands varies according to the type of expenditure. Federal Government disbursements, which are in the forefront of discussion, actually showed a declining trend throughout most of 1950 and did not begin to rise until recently. Although the Government's stockpiling activities, the "official" predictions of shortages, and the expectation of growing Government outlays contributed a good deal to the current inflation, the direct effects of increased Government spending have not yet become substantial. Furthermore, under present conditions, interest rate policy is of no importance in determining the level of Federal spending.

State and local government outlays have continued to rise steadily but their increase is a minor factor in the current picture.

Consumer spending has contributed substantially to the increased demands and has been of major significance in recent price rises. After the outbreak of war in Korea, the public went on two great buying sprees: one in the summer and early fall of 1950, the other at the start of this year. However, general credit restraints once again are of doubtful value in checking consumer buying. Certainly, when buying is motivated by fears of higher prices and talk of impending shortages, and is backed by a huge volume of liquid assets, it is difficult to conceive interest rate policy as a restraining factor. Selective credit controls are much more appropriate and effective in this field, and have been employed with noticeable results.

That area of our economy which has contributed most to the higher levels of spending is the sector of investment outlays, i.e., outlays for inventories, for business plant and equipment, and other private construction. At the same time, this area is to some extent amenable to restraint by way of credit policy because a portion is financed by borrowed funds. Consequently, investment spending has been the main target of credit policy in the past few months; the monetary authorities have been motivated largely by the desire to curb investment spending by restraining real estate mortgage credit, new security issues and bank loans. Higher long-term rates are the most recent instrument employed to this end.

Consequently, the course of investment spending is of great importance for the prospective behavior of interest rates. If investment remains high, it will bring continuing large demands for funds and a further expansion of private credit. In that case the monetary authorities may be confronted with the problem of permitting interest rates to continue to rise or to resume the support of Government obligations and resort to other devices to control the expansion of private credit. On the other hand, if the volume of private investment should show a significant decline, the monetary authorities would find their problems eased substantially. It is thus necessary to consider the prospects for investment spending and their bearing upon the outlook for interest rates.

The Demands for Investment Funds

The demands for investment funds that are likely to be most important in affecting interest rate policies are the requirements of business and the requirements for private construction.

Business Financing—In the business sector, demands for funds are of two kinds. One is the demand for increased working capital as a result chiefly of higher inventories. The other is the demand for fixed capital to cover plant and equipment programs. Prospects for 1951 indicate that both demands will be at high levels.

Working capital requirements of business have increased very rapidly since the middle of 1950 as the result of higher costs of raw materials and labor, and higher levels of production and sales. The price trend appears to have leveled off for the moment, and if the public's appraisal of the international situation should continue to grow more optimistic, there might well be a pause or hesitation in the march of inflation. Against this possibility, however, must be set the growth of the defense program, which will require increased financing of inventories and receivables. On balance, therefore, it appears that working capital requirements will show an increase for the year, and this probably means some further expansion in bank loans.

Business spending on plant and equipment is expected to set new records this year. This will mean a level of corporate security issues substantially above 1950, perhaps as much as $1 or $2 billion higher. Some of the current spending has been stimulated by the Government's liberal policy in granting certificates of necessity which permit accelerated amortization of facilities for income tax purposes. Over time, this policy is likely to be tightened. Furthermore, plant expansion programs will be progressively hampered by shortages and controls over critical materials and equipment. Also, the Government will probably construct more special-purpose plants, thereby reducing the requirements for private financing. However, some time will pass before these limiting factors make themselves felt significantly. Consequently, it would not be surprising for a high level of business plant and equipment spending to prevail beyond 1951 and into next year.

Although the area of corporate financing is not insensitive to interest rate changes, the restrictive influence of higher rates should not be overestimated. One limiting factor is that the current high levels of business activity permit much expansion to be financed from undistributed profits, depreciation charges, and other internal sources. Furthermore, business corporations today are in a relatively good position to obtain funds by offering attractive returns, and have a flexibility in their financing policies which is not as readily available to other classes of borrowers. Finally, in view of the present high levels of corporate taxes, an increase in interest costs, unless drastic, is not likely to prove a major deterrent.

Mortgage Financing — The outlook in the residential housing field is that demands for funds are likely to remain high for several months, but will decline later in the year, in consequence of a lower volume of private construction. The present level of new starts of residential housing is high; together with the large volume of building carried over from 1950 for completion this year, it presages a continued high level of new mortgage financing throughout most of 1951.

In the course of the year, however, the restraining effects of Regulation X will become progressively more important. Nonresidential construction, furthermore, is also expected to decline in 1951, reflecting government restrictions. Growing shortages of building materials are expected to be an additional restraining factor throughout the field of construction.

The volume of new mortgages is not likely to decline as rapidly as the level of new construction since they reflect, in addition to mortgages on new construction, the refinancing of existing buildings at peak prices. On balance, present indications support the guess that new mortgages in 1951 may be between $1½ and $2½ billion lower than in 1950.

State and Municipal Issues — The amount of new issues of State and local governments has increased steadily in the postwar

Continued on page 29

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Credit Controls and Fiscal Policy

By J. FRED WESTON*
Associate Professor of Finance,
University of California, Los Angeles

Prof. Weston, after defining inflation and its effects, and after reviewing legislative and other moves to check its rise, particularly monetary and credit controls along with increased taxation, offers as a minimal program: (1) restoration of Federal Reserve control over money supply; (2) retention of selected controls over credit expansion; (3) increases in personal income tax rates to yield $8 billion; (4) issue of a new "purchasing power bond" for small investors; (5) reform in corporate income tax; and (6) increases in selected excise levies to yield $3 billion.

For over a month the wholesale price index has remained relatively stable at 183.4 (1926=100). The 28-commodity sensitive price index has been falling since near the end of February. The prices of some consumer durable goods have declined, notably prices of television sets. Recently we have observed startling price concessions in advertised sales of department stores. Do these portents signify the reversal of the upward movement in prices which began in early 1950?

Dr. J. Fred Weston

A longer view of the present situation suggests that recent price behavior represents some temporary adjustments which will be followed by a resumption of an upward movement in the absence of effective counter-action. The reasons for this judgment may be cited. **First,** we have noted a seasonal dip following March tax payments for the past two years. **Second,** an appreciable portion of price rises in the latter half of 1950 and early 1951 were due to anticipatory buying and pricing by consumers, wholesalers and retailers. To some extent these represent purchases which otherwise would have been made in recent months. **Third,** some firms have sought to pare down inventories because they represented heavy financial commitments, requiring in many cases renewals of loans from banks and finance companies. **Fourth,** we have somehow become more accustomed to the international situation, although basically the tenseness of world affairs has not been appreciably altered. **Fifth,** it follows, therefore, that there is need and likelihood of continued expenditures for military preparedness which will have an increasing impact upon the economy in the future.

On the basis of longer range considerations, it appears that for calendar 1951 the total of personal consumption demand will approximate $205 billion. The total indicated supply of consumers' goods at 1950 prices is about $195 billion. There is thus an indicated inflationary gap for calendar 1951 of $10 billion. This is likely to result in a price rise of 7 to 9% for 1951 when secondary spiralling effects are taken into account. This may be translated into a rise of 15 to 18 points in the consumers' price index from its end of 1950 level. For fiscal 1952, which overlaps the last half of calendar 1951, a gap of the magnitude of $20 billion is indicated. This is predicated upon a level of government expenditures of some $75 billion with cash receipts of about $61 billion. This would result in a price rise of about 14% for fiscal 1952. After a temporary readjustment for two or three months, therefore, the basic problem of controlling inflation will be once again to the forefront.

We generally proceed on the basis that we are trying to prevent inflation and it is generally regarded that inflation is undesirable and something to be avoided. It is worth while to pause briefly to define "inflation" and to indicate explicitly why it is important to avoid it. Without taking the time to consider alternative technical definitions of inflation, a useful approach may be to regard inflation as an excess of aggregate effective demand over available supplies of goods and services, resulting in a substantial rise in the general level of prices. The harmful effects of inflation are the following:

(1) It arbitrarily redistributes the income and wealth of society in a manner unrelated to desirable economic incentives. Fixed income recipients and the relatively fixed income recipients obviously suffer. The relatively uncontrolled and the organized benefit differentially. As a consequence intergroup conflicts and suspicions are aggravated. The benefits of becoming a pressure group under such circumstances appear to increase and there is a tendency for the national product to be distributed according to political and economic power rather than on productivity principles.

(2) Inflation impairs the monetary unit as a measuring rod of accounting. Apparent costs, revenues and profits may become meaningless for practical use in operating businesses. Business decisions which must be based upon accurate factual information may become seriously in error because they are based on quantitative data whose unit of measurement is shifting and fluctuating.

(3) Inflation paralyzes incentives to earn in order to save. To save in a period of inflation is to observe the capital value of one's funds be eroded by a decline in the purchasing power of the principal invested. This is especially true for the small and medium sized income receiver for whom investment outlets which will preserve the purchasing power of his funds are difficult to utilize.

(4) Inflation makes it advantageous to hoard real goods. A striking characteristic of inflations abroad has been that the physical quantity of goods has actually dried up. People are unwilling to exchange goods whose value in monetary terms is rising for money whose value in terms of real goods is continuously diminishing.

(5) Inflation results in a structure of prices and business operations which rests upon a temporary and artificial basis. Characteristically and historically, the maladjustments induced by inflation have brought on a subsequent deflation with its accompanying unemployment of resources and a substantial decline in the real income available for distribution by the economic system.

The objections to inflation, therefore, are that the real income of society is diminished because the basis for accurate decisions is impaired, because incentives to produce and sell are stifled. The arbitrary redistribution of income and wealth undermines the very stability of the social and political institutions, since our society depends upon mutual confidence and trust.

Although this analysis is oriented primarily to the need for achieving stability in the price level, other objectives of economic policy should also be furthered by measures adopted. The correlative objectives may be briefly enumerated: (1) Preparedness for national defense; (2) maximization of consumers' real income; (3) equitable distribution of a high level of real income; (4) stable utilization of resources; (5) preservation and development of political and economic freedom. Immediate concerns which require high priority, as selections between alternative control devices are made, in addition to price level stability, are preparedness and preservation of political and economic freedom.

The purpose of this paper is to review the monetary and fiscal measures which have been adopted since Korea and to examine pending proposals. Evaluation is made on the basis of the objectives enumerated.

Monetary and Credit Controls

Our attention is first centered upon the role of monetary and credit policy in the anti-inflation program. In the past year, bank loans have increased by approximately 10 billion dollars and bank deposits have increased by approximately 6 billion dollars. These figures both exaggerate and understate the role which banking and credit policy have played in the recent price rises. The subsequent analysis will bear this out. In addition to an increase in the money supply, there has been an increase in its rate of use. The annual rate of turnover of demand deposits, except interbank and government, in the weekly reporting member banks in the leading cities of the country increased from 18.9 times to 23.0 times per annum from January 1950 to December 1950. The annual rate of turnover of demand deposits, except interbank and government deposits in New York City, increased from 28.6 times per annum in January 1950 to 37.2 times in December 1950. Thus not only has the quantity of money supply increased but its rate of use has risen as well.

The major categories of commercial bank credit are: (1) business loans; (2) real estate loans; (3) security loans; and (4) other loans—consisting mainly of consumer credit. Using data of weekly reporting member banks, for which more current information can be secured, it is of interest to examine the extent to which each of these categories has increased during 1950. Business loans increased by 28.1%, real estate loans by 23.3%, security loans by 13.6% and other loans—mainly consumer credit — increased by 34.1%. Over this period the total commercial bank credit of weekly reporting member banks increased by 27%. This represents a substantial increase in the money supply which was, of course, certain to have some impact upon prices. The increases in each of these categories has caused public concern for their consequences and has called for regulatory programs to control the increases.

Each of these areas of bank lending presents its own individual characteristics and problems and the control efforts therefore have been characteristically different for each of the categories. It is therefore of interest to examine policies in each of these areas to view the problems and possibilities of effective control.

Consumer Credit Controls

The Defense Production Act effective Sept. 8, 1950, provided increased authority to regulate activities in two of these areas and hence will be discussed first. Title 6, Section 601 authorized the President to reimpose consumer installment credit control. Accordingly, Regulation W of the Federal Reserve System was reenacted effective Sept. 18, 1950, and amended Oct. 13, 1950. The Regulation is the same as that which expired June 30, 1949, except that home improvements were brought into the coverage

Continued on page 34

*An address by Professor Weston before the Institute on Emergency Government Controls sponsored by the Institute of Industrial Relations, University of California, in cooperation with The Conference of Junior Bar Members, March 27, 1951.

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Mutual Funds

By ROBERT R. RICH

EVIDENCE OF a trend toward more cautious investment is revealed in a survey of the shareholder accounts and purchases of one of the large mutual investment companies.

The underwriter for the 10 Keystone Funds — representative of four grades or classes of bonds, two of preferred and four of common stocks with total assets of $220,000,000—reported today that the proportion invested in the five more conservative Funds had increased from 62% on Jan. 1, 1950 to 65% by Jan. 1, 1951. By the end of the first quarter of this year on April 1, the proportion had increased to 69%.

Purchases of shares in the same 15-month period also indicated a decided trend toward a more conservative balance in shareholder accounts. Approximately 71% of total sales went into the five more conservative Funds in 1950 and 88% in the first three months of 1951.

While the increased interest in the more conservative Funds is partly attributed to rebalancing of shareholder accounts operating under fomula planning, it appears evident that many of Keystone's approximately 50,000 shareholders and the investment company's dealers are taking a more conservative view of current conditions.

NEW HIGH records in total assets and sales of shares of mutual funds were attained during the first quarter of 1951, the National Association of Investment Companies announced. Total assets have increased in every year since 1941.

Total net assets of 100 mutual funds on March 31, 1951, were $2,663,755,000, an increase of $133,192,000 over Dec. 31, 1950, and $544,300,000 over March 31, 1950, according to a compilation by the Association.

Sales of new shares during the first quarter of 1951 amounted to $177,696,000, compared with $135,372,000 during the last quarter of 1950 and $140,356,000 during the March quarter a year ago. Net sales, after redemptions, were $73,227,000 during the March, 1951, quarter compared with $52,606,000 for the previous quarter and $84,325,000 for the first quarter last year.

The report covers all the open-end or mutual fund members of the Association, but does not include the closed-end members.

WELLINGTON FUND reports that it had taken advantage of the stock market's advance to a new peak in February to reduce common stock holdings slightly.

As the market declined from its February peak some cash reserves were gradually invested in common stocks which the Fund, in its current quarterly report stated, "appeared unduly depressed or as good long-term values." These included finance, container, electrical equipment, insurance and merchandising groups as well as several growth stocks in the chemical and office equipment industries.

The report also disclosed that the Fund had sold a substantial amount of the longest term government issues before removal of support in anticipation of a possible change in government bond policy. Most of the proceeds, it was stated, were placed in shorter term Treasury issues and some equipment trust certificates for temporary investment.

The report listed the principal common stock reductions in the more volatile issues and in war beneficiary issues. These included the oil, metal and mining, railroad, railroad equipment and steel stocks.

HANDLING economic, financial, and business developments in simple language calculated to hold investor interest, the revamped new shareholder publications of three mutual funds managed by Investors Diversified Services, Inc. cover a wide range of topics in a terse, chatty style.

Talking to shareholders in an easy conversational prose, this month's issue of "The Mutual Investor," for example, touches upon such diverse topics as the disappearance of some commodity shortages; discusses thrift as a basis for freedom; asks Investors Mutual Fund shareholders to help combat communist smears against capitalism; suggests how experienced investment management can best determine the type and kind of investment.

Shareholders are also brought up to date on Investors Mutual's portfolio. Highlight of the current issue is a charted comparative study of income from "two different dollars" invested in fixed income securities and mutual fund shares during the past 10 years.

CONCORD FUND reports net assets of $857,754 on March 31, 1951 compared to $425,218 on March 31, 1950. Net asset value per share increased from $10.21 to $12.53 and the number of shares outstanding rose from 41,658 to 68,483 during the same period.

DELAWARE FUND reports a $1,234,855 increase in net assets in the first quarter of 1951. The increase boosted total net assets to $8,747,174 on March 31, last. Net asset value per share increased in the three months' period to $16.47 and the number of shares outstanding to 531,169 from $15.99 and 469,884 respectively at the year-end.

HUDSON FUND, Inc. reports net asset value equal to $21.70 per share on March 31, 1951, compared with $21.09 three months earlier and $20.42 a year earlier. Net assets totaled $2,283,074 at March 31, a gain of 27% from $1,804,477 three months earlier, and comparing with $1,275,798 a year earlier. There were 105,217 shares outstanding at March 31, against 85,560 three months earlier and 62,470 a year earlier.

KEYSTONE CUSTODIAN Funds filed, April 23, a registration statement with the Securities and Exchange Commission covering 750,000 shares. No underwriter.

KNICKERBOCKER FUND reports net assets of $15,595,000 on April 18, last, compared with $11,102,000 on March 31, 1950; net asset value per share increased to $6.43 from $4.94 for the same period.

NEW ENGLAND Fund's Trustees, in the 78th Consecutive Report made public today, reported total net assets of the Fund at $4,050,000 on March 31, 1951—a gain of more than 25% over the $3,200,000 figure a year ago. The gain since the 1950 year-end was nearly 5%.

Although market value in the portfolio increased in both periods, the largest part of the gain derived from the investment of new money in the Fund. The 227,517 shares outstanding on March 31, 1951, compared with 220,279 three months earlier and 200,404 shares a year earlier.

New England Fund's defensive position was about the same on March 31, 1951, as at the 1950 year-end. Some 32% of assets was in cash and high-grade bonds—most of the latter were short-term U. S. Government obligations; preferred stocks accounted for 7.8%; and common stocks for 60.2%, compared with 73.7% a year ago.

WELLINGTON FUND recorded an $11,595,544 increase in net assets in the first quarter to a total of $166,082,157 on March 31, 1951. Net asset value was equal to $19.37 a share on March 31, 1951, last, as compared with $19.03 a share on Dec. 31, 1950. In the three month period the number of shares outstanding increased to 8,575,675 from 8,120,162.

MUTUAL FUNDS' earnings reports, dividend announcements, price quotations, registration notices, and other comprehensive statistical data regularly appear in the Monday Issue of The Commercial and Financial Chronicle.

Men do not realize how great a revenue economy is. — Cicero

Plywood Debentures Offered With Warrants

Offering of $1,500,000 Plywood Inc. 6% sinking fund debentures, series A, due April 1, 1963, with 7-year warrants to purchase 150,000 shares of common stock attached, was made on April 23 by a group headed by H. M. Byllesby & Co. Inc., and P. W. Brooks & Co. Inc. The debentures are priced at 100% and accrued interest. The offering was oversubscribed and the books closed.

Of the net proceeds to be received from the sale of the debentures approximately $535,000 will be used to redeem outstanding 5% sinking fund debentures due Aug. 1, 1967; approximately $160,000 will be used to complete the erection of a plant and the installation of machinery and equipment therein; and the balance of approximately $680,000 will be used for additional working capital to finance inventories and operation of the company's expanding business and for other general corporate purposes. A portion of these funds may be used to reimburse the company for advances made to subsidiaries in the amount of approximately $140,000 for plant construction or to reduce existing bank loans. Any proceeds received from the exercise of warrants will be added to the company's general funds.

Redemption prices of the debentures range from 104% to par. Sinking fund redemptions may be made at prices from 101% to par.

Each $1,000 and $500 debenture will carry a detachable common stock purchase warrant for 100 shares and 50 shares, respectively, of $1 par value common stock. These warrants will entitle the holder to purchase the common at $4 per share through March 31, 1952 and at prices running to $8 per share through March 31, 1958.

Plywoood Inc. and its subsidiaries are engaged in the manufacture and sale of plywood and related items. It is the fifth largest company in the industry maintaining both warehousing and manufacturing facilities, according to management estimates.

Current Financial Comment

"A few small savers may be led by the prospect of rising prices to buy shares of corporations. American corporations need to increase greatly the number of their stockholders. but common stocks are not suitable investments for most small savers.

"Far more suitable for most small investors are the shares of conservatively run investment trusts. As it becomes more apparent that the trend of prices is upward, the investment trust will grow, relative to the savings bank and the government savings bonds, as an outlet for the money of millions of small savers."

Sumner H. Slichter
Lamont University Professor
Harvard University

James P. Gallagher With David A. Noyes

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—James P. Gallagher has become associated with David A. Noyes & Co., 208 South

James P. Gallagher

La Salle Street, members of the New York and Midwest Stock Exchanges. Mr. Gallagher was formerly vice-president of Thomas E. King & Co., and prior thereto was manager of the trading department for Dempsey & Company.

F. M. Roberts Pres. Of Minot, Kendall

BOSTON, Mass.—Minot, Kendall & Co., Inc., 15 Congress Street, members of the Boston Stock Exchange, announce the election of Waldo S. Kendall as honorary President and director, and Frederick M. Roberts as President and director.

With Kidder, Peabody

PHILADELPHIA, Pa. — Kidder, Peabody & Co., 123 South Broad Street, member of the New York Stock Exchange, announce that James G. Lamb, Jr., has become associated with them as a registered representative.

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Managing an Investment Portfolio

By KENNARD WOODWORTH*
Vice-President, Eaton and Howard, Incorporated

Mr. Woodworth rates as necessary investment management qualities: intellectual curiosity, judgment, initiative, patience, courage, flexibility, hard work, and contacts. Concludes fund managers should guard against over-optimism or excessive pessimism; and always deal in terms of investment values in lieu of purely speculative risks.

We are all interested in how management operates. It would be a very happy circumstance if I could come before you this afternoon and present some simple method or some magic formula or even some devious route which could and would insure success in the management of the investment fund portfolio. I am not aware, however, of any magic means or of any simple rule that can insure success. All I can do is describe some of the difficulties, problems, and frustrations that go with investing and then tell you how we try to meet these problems. We all talk about appraising management—but what are those qualities that make for good management? The psychology research laboratories at the Harvard Business School that consider behavior patterns and all of the other factors in connection with human beings are probably more qualified to answer that question than I am.

Kennard Woodworth

I intend to examine the methods and techniques of managing the portfolio. I am going to go behind the scene of operations and observe the qualities, the thinking, and the reactions of the investment manager. There we shall see how management administers its responsibilities. Very simply, this means, what does it take and how do they do it?

History Reveals Changes in Investment Management

It is illuminating to look briefly back into history and see some of the methods and techniques practiced and recall some of the philosophies that have governed investment portfolio management. The changes that have occurred over the short span of this century are truly significant and remarkable both in scope and magnitude. Let me cite a few examples.

I was in London in 1931 studying the management of investment trusts. I visited several of the trusts and found that one man comprised the total management. That one individual operated on a very simple philosophy—maximum diversification—highest obtainable yield. Buy a little of everything that yielded more than 7% and hold on to it. We today would hardly dignify this method of investing by the name management.

An investment trust that was well known at that time chose a different approach to investment management. I remember visiting their research department in New York and being ushered into a large room and being told by my guide that in this room there were 40 investment experts speaking 36 different languages, reading the newspapers, and studying economic and financial reports from every land from Siberia to Patagonia and from Alaska to Australia. It no doubt is a wonderful thing to have 40 people capable of speaking 36 languages, but the problems of communication between each other were apparently so great that all of their reading never produced any solutions of investment problems. I think that it must have been a sort of United Nations debating society.

New Approach in 1931

A different approach to investment fund management appeared in 1931. This can be characterized as the "no management at all" approach. Investment sentiment after 1929 swung violently away from management. There appeared at that time a phenomenon called fixed investment trusts. As you all recall, in those cases the investor was offered an opportunity to buy a participation in a selected list of companies, and only under exceptional circumstances was the list of holdings to be changed. Investment management was considered a liability and the spirit of the period was that the investor at all costs must be protected against the hazards of management. The interest in fixed trusts waned after 1932.

Other philosophies of management of investment funds have appeared from time to time during the years. Some have enjoyed a period of popularity and disappeared promptly. Others have continued to have their devotees. I understand even the Townsend Plan still has its advocates. I remember attending a very interesting luncheon sponsored by the Boston Security Analysts several years ago. The speakers at that time portrayed three different approaches to management. The first speaker was interested in the Dow Theory, and he talked learnedly of resistance levels, breakaways, open gaps, and the rest of the jargon that is common shop talk of Dow Theory devotees. The speaker to his own satisfaction proved conclusively that this was the only tool necessary for managers of investment funds.

Another speaker, appearing on the same program, maintained that he could achieve equally remarkable results in handling investments, forecasting the market's course through his interpretation of the velocity of money and credit. He, too, made a very convincing case based on what had happened in the past.

The third speaker on the program was without a doubt unique. He got the celestial observations from the Naval Observatory at Arlington and read the future in the stars.

More recently we have heard a lot of people discuss formula plans as a method of investing or in fact as a substitute for investment judgment. There are certain features about formula planning that are very attractive. If any of you care to talk to the managers of some of the college funds who reportedly have adopted formula plans but set their sights at a very low figure, you may learn something of the other side of the story, and why a formula plan in itself is not the answer.

As we see over the years, there have been many methods and techniques of investing and many more that we have not mentioned. In the last analysis, almost all of these techniques have a common bond between them. That is, a feeling on the part of the investors that investment management has not proved infallible, as some people hoped that it might, and therefore an attempt has been made to reduce management planning and judgment to a mechanical basis that will eliminate the human element. As you will have observed, most of these methods are more concerned with stock market analysis than they are with security analysis.

Some years ago investors, with their appetites whetted by the spectacular winnings of a few successful speculators, believed that every investment trust would do for them what they had been unable to do for themselves; that is, run a small capital stake up to a fortune. Over a period of years, a truer and more sober realization of the difficulties of investment management has tempered the extravagant expectations of the early investment trust enthusiasts. I would like to add one word of advice—don't oversell management but don't underrate its ability.

Defining the Investment Objective

If we define our investment objectives, it will probably be simpler to comprehend the guiding management philosophies and qualities, and the administrative procedures that will permit us to reach this objective. You first have to know what your target looks like before you can shoot at it. Inasmuch as all investment objectives may not necessarily be the same, it is very important that we define the particular objective we are discussing. For this purpose I am selecting the objectives of a mutual investment fund with which I am particularly familiar. The objectives of this fund are to produce a regular and dependable income at the highest level consistent with a prudent investment program. The objective also calls for a reasonable growth of both principal and income. We, the managers, call this an investment account because from its very beginning it was conceived as a method of giving shareholders a complete investment program. This concept was and is the reason for following an investment policy which incorporates balance between different types of securities—bonds, preferred stocks, and common stocks—as well as broad diversification between investments of different industries and individual companies. It is a concept which allows for relative flexibility and freedom of choice.

Such policy takes into account not only participation in the profitable development of new products, processes and services, but also the profit opportunities in certain older industries which are growing and expanding the markets for their goods and services. It also seeks opportunities for profitable investment in cyclical industries, when their securities appear to be undervalued in price. Such an investment policy permits holding of securities of better known companies where the prospects appear particularly attractive. The policy requires an open-minded approach rather than one based upon a preconceived idea. The principal guiding feature is that the managers of such a fund are free to apply their best judgment to the attainment of the fund's objectives.

There are other funds with different objectives—some that are limited to certain industries—others that concentrate on limited geographical areas. Some feel that a high rate of portfolio activity is evidence of alert management—others favor a long-term approach and disregard short-term market fluctuations. Some people concentrate their efforts on timing. They study the economic hills and valleys, even though sometimes the hills and valleys turn out to be mirages. The organization with which I am connected devotes its major research efforts to the study of industries and individual companies. While recognizing the necessity for accurate timing of investments, we feel that concentration on timing is like the Lorelei, beautiful to look at but dangerous in practice. I cite these differences in investment objectives not because I have any quarrels with objectives and methods other than our own but merely to emphasize that there are differences.

Massachusetts Prudent Man Rule

Coming from Boston, I could not lose an opportunity to call attention to one of our guiding philosophies with which you are all familiar; that is, the so-called Prudent Man Rule which was set forth by Massachusetts Supreme Court in 1830 in the celebrated case of Harvard College versus Amory. The Court said in part: "A trustee shall conduct himself faithfully and exercise sound discretion. He is to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the safety of the capital to be invested." This court decision was one of wise and far-seeing implications. Its precepts have been followed for many years by those managing investment programs for individuals as well as for large aggregations of both public and private capital such as endowment funds, universities and institutions. The application of these precepts has proved sound and constructive over the years.

Now, let us consider some of the qualities that I would consider essential to success in portfolio management.

Essential Management Qualities

I would rate very highly among the qualities of management—*intellectual curiosity*—a thirst for knowledge, and an ability to distinguish fact from fiction, truth from belief, and accomplishment from hope. A management that is not interested in scientific progress, in engineering development, in changes in economic thinking, in fact in the whole gamut of scientific, industrial and economic developments that are unfolding before our eyes every day, is dull and its results will be mediocre or worse. Investment managers must adjust their thinking to the world in which we live and not spend their time wishing for a return of the days of Calvin Coolidge and Herbert Hoover "normalcy."

Judgment involves not only measuring the quality of an individual security, but also involves judgment as to the attractiveness of the price at which a security is available. A basic philosophy behind any investment policy should be a never-ending search for value. What do we mean by value as applied to securities? Reduced to the simplest terms—it

Continued on page 24

*A talk by Mr. Woodworth before the Eastern Pennsylvania Group of the Investment Bankers Association of America, April [illegible], 1951.

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus.

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Deere & Company

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Price $64 per share

Copies of the Prospectus are obtainable from only such of the undersigned and other dealers as may lawfully offer these securities in the respective States.

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April 25, 1951.

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Bankers Offer Brad Foote Gear Works Stk.

Offering of 150,000 shares of common stock (par 20 cents) of Brad Foote Gear Works, Inc. "as a speculation" was made on April 24 by Gearhart, Kinnard & Otis and White Co. at $2 per share.

Proceeds of the sale of these shares will be used for additional working capital.

The prospectus states that "In July of 1950, Gunnar E. Gunderson (President), together with a group of associates, purchased control of the company. At the time the control of the company was acquired, its financial condition had become precarious and its backlog of orders amounted to only $400,000. Since Mr. Gunderson and his associates have taken control of the company, it has received large orders directly from the Government and from Cadillac Motor Car Co., American Locomotive Co., Cleveland Diesel Engine Co., Highway Trailer Co., Continental Motor Co., Bell Aircraft Co., Beech Aircraft Co., and others, in excess of $20,000,000."

Brad Foote Gear Works, Inc. claims to be the most diversified gear manufacturer in the country.

REPORT OF CONDITION OF

Underwriters Trust Company

of 50 Broadway, New York 4, N. Y., at the close of business on April 9, 1951, published in accordance with a call made by the Superintendent of Banks pursuant to the provisions of the Banking Law of the State of New York.

ASSETS

Cash, balances with other banking institutions, including reserve balances, and cash items in process of collection	$7,704,354.36
United States Government obligations, direct and guaranteed	12,012,523.47
Obligations of States and political subdivisions	882,548.88
Other bonds, notes, and debentures	159,150.00
Loans and discounts (including $1,057.07 overdrafts)	15,351,939.24
Furniture and fixtures and vaults	88,137.68
Other assets	80,289.03
TOTAL ASSETS	$36,278,942.66

LIABILITIES

Demand deposits of individuals, partnerships, and corporations	$20,765,666.71
Time deposits of individuals, partnerships, and corporations	5,095,354.35
Deposits of United States Government	431,478.57
Deposits of States and political subdivisions	5,963,022.34
Deposits of banking institutions	304,305.94
Other deposits (certified and officers' checks, etc.)	601,265.57
TOTAL DEPOSITS $33,161,093.48	
Other liabilities	143,773.80
TOTAL LIABILITIES (not including subordinated obligations shown below)	$33,304,867.28

CAPITAL ACCOUNTS

Capital †	$1,000,000.00
Surplus fund	750,000.00
Undivided profits	1,224,075.38
TOTAL CAPITAL ACCOUNTS	$2,974,075.38
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$36,278,942.66

†This institution's capital consists of common stock with total par value of $1,000,000.00.

MEMORANDA

Assets pledged or assigned to secure liabilities and for other purposes	$3,105,858.12
(a) Loans as shown above are after deduction of reserves of	46,288.75
(b) Securities as shown above are after deduction of reserves of	165,907.76

I, Kenneth W. Landfare, Assistant Treasurer of the above-named institution, hereby certify that the above statement is true to the best of my knowledge and belief.

KENNETH W. LANDFARE
Assistant Treasurer

Correct—Attest:

C. W. KORELL
J. B. V. TAMNEY } Directors
SUMNER FORD

Britain's "Over-Full" Employment

By PAUL EINZIG

Asserting over-full employment effectively prevents Britain from working out a satisfactory solution to the economic and financial aspects of her rearmament problem, Dr. Einzig maintains this policy is bound to lead to further inflation. Sees new British budget fostering price rises and excessive taxation.

LONDON, Eng.—The policy aiming at full employment is not a Socialist invention. It is the invention of Lord Keynes. When during 1929-31 a Socialist Government was in office in Britain, it refused to adopt the policy recommended by Lord Keynes. During the war the Coalition Government with a Conservative majority declared itself in favor of aiming at full employment after the war. These facts do not prevent Socialists from claiming today that they alone stand for full employment. Unfortunately they stand for more—they stand for over-full employment, which is not the same thing. If Keynes knew to what use his proposals have been turned he would turn in his grave.

Dr. Paul Einzig

Over-full employment effectively prevents Britain from working out a satisfactory solution to the economic and financial aspects of her rearmament problem. Whatever remedy is decided upon, in the circumstances prevailing in Britain today it is bound to lead to a further increase of prices. The basic fact of the situation is that the economic balance of power has shifted strongly in favor of the industrial workers, and that it is bound to remain in their favor so long as over-full employment continues to prevail.

It is an elementary matter of common sense that, in order to be able to rearm and to maintain a reasonable volume of export trade, Britain must reduce the volume of civilian consumption. It is, or should be, equally obvious that this can only be achieved if the purchasing power of the great masses of consumers with limited means is reduced. Even if all the wealthy and well-to-do people were to be reduced by confiscatory taxation to starvation level the reduction of civilian consumption thus achieved would not be nearly enough. It is not the consumption of the thousands of rich people that matters, nor even that of the hundreds of thousands of people with medium-sized incomes, but the consumption of the millions with small incomes. From a humane point of view this is deplorable. But facts are facts, and they must be faced.

So long as the standard of living of the industrial workers, which has been raised since before the war, is considered sacrosanct, there can be no solution for the economic problem. Unless their purchasing power is reduced—whether by means of taxation or an increase of prices unaccompanied by a corresponding increase of wages—the existing stocks for essential civilian consumption would continue to be depleted until a stage is reached at which productive capacity needed for rearmament would have to be diverted to ensure their replacement.

As things are there seems to be no hope to expect a solution. Mr. Gaitskell's Budget for 1951-52 imposed most of the additional taxation on the larger incomes, and the effect of such taxes as have been imposed on the smaller incomes has been cancelled out by concessions made in other directions. But even if he imposed all the additional taxes of some £170 million on the lower-paid workers it would not have solved the problem. For the workers are in a position to claim corresponding wage increases to compensate them for the higher taxes, and to enforce their claims. Likewise, if the cost of living had been raised through the abolition of food subsidies, amounting to some £400 million, the result would have been corresponding wage demands. Consumption could only have been reduced during the time-lag between the rise in taxation revenue or prices and the rise in wages.

If there existed only full employment instead of over-full employment the industrial balance of power would not be so overwhelmingly in favor of the workers, and they might be induced to agree to some lowering of their standards of living for the sake of national security through rearmament. As it is, they hold all the trumps and they know it. Any industrial worker who would lose his employment today would have the choice between a number of alternative employments. Indeed the reason why the present situation can be regarded as one of over-full employment is precisely because the number of vacancies far exceeds the number of those looking for jobs. Under mere full employment—when the number of vacancies equals to that of unemployed—it would be possible to settle wage disputes by means of compromises. As it is, "settlements" of wage disputes these days simply amount to conceding practically everything demanded by the workers for the sake of avoiding loss of production through strikes. This is what has happened again and again during recent months, and will continue to happen so long as over-full employment prevails.

There are two ways in which over-full employment could be brought to an end—by means of drastic disinflation or by means of equally drastic controls. Demand for labor must be reduced one way or other. Indiscriminate disinflation might curtail production in the wrong direction, unless accompanied by a certain degree of discriminatory control. It is for the Government to decide in which direction to apply pressure to cut down production and employment, in order to release a sufficient number of workers for more essential purposes. Whether this end is achieved by the discriminatory allocation of raw materials or by a discriminatory curtailment of credit is a matter of detail. It would be a mistake to be dogmatic in opposing such controls, without which there is no hope in existing circumstances to bring to an end the present state of over-full employment.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The "Spectator" Chestnut and 56th Sts., Philadelphia, Pennsylvania has recently published its 1951 Fire Index, the eighty-third annual issue.

Recognized as an insurance authority since 1868, the "Spectator" in the current issue contains detailed information on the underwriting operations of over 370 stock companies as well as similar data on certain mutual, reinsurance and United States branches of foreign companies. In addition, information on premiums and losses by lines for the past two years and underwriting results by groups is shown.

Much of the information in the Fire Index is presented from the standpoint of insurance underwriting operations and not from that of the stockholder who is usually more interested in the financial results. However, because of the comparisons made and the breakdowns shown by groups and insurance lines, the information is very helpful in evaluating the broad results of the fire insurance industry or those of a particular company.

One of these comparisons that is particularly interesting is the aggregates of 372 stock insurance companies (fire and marine) for the past three years. Also shown in the compilation presented below as taken from the "1951 Spectator Fire Index" are the loss, expense and underwriting ratios for the respective periods.

Comparative Aggregates—1950, 1949 and 1948

Totals of 372 Stock Insurance Companies (Fire and Marine)

	1950	1949	1948
	000's		
	$	$	$
Total admitted assets, Dec. 31	6,222,312	5,489,378	4,728,161
Total liabilities, Dec. 31	3,451,663	3,069,153	2,756,101
Unearned prem. reserves Dec. 31	2,465,689	2,211,750	1,973,354
Surplus to policyholders, Dec. 31	2,770,649	2,420,225	1,972,060
Net premiums written	2,677,271	2,463,474	2,230,748
Premiums earned	2,412,052	2,236,811	2,017,493
Losses incurred, including adjustment expenses	1,242,555	1,006,750	1,019,423
Underwriting expenses incurred	1,040,382	955,357	885,234
Statutory underwriting profit	129,115	274,704	112,836
RATIOS—			
Losses incurred to premiums earned	51.5%	45.0%	50.5%
Expenses incurred to premiums earned	43.1%	42.7%	43.9%
Underwriting profit to premiums earned	5.4%	12.3%	5.6%
Expenses incurred to net prems. written	38.9%	38.8%	39.6%

The above figures show an overall increase in net premiums written for the year of 8.7%. Premiums earned were higher by 7.8%. The largest and most important change in the figures was the sharp increase in losses and loss adjustment expenses. This item gained by over 23% and was the primary reason for the decline in statutory underwriting results.

Had it not been for the severe losses sustained by insurance companies in the windstorms of last November, a much better result would have been made in the statutory figures of 1950. However, there was a general increase in the relationship between losses and premiums among most of the insurance lines. As it was the underwriting profit declined from $274,703,594 in 1949 for the 372 companies to $129,115,178 in 1950. Nevertheless, the total underwriting profit was still above the $112,835,658 of 1948.

These figures also show up in the ratios. The ratio of losses to premiums earned increased by 6.5 percentage points, an amount which exceeded the improvement in the same ratio of the previous year. The ratio of expenses incurred to premiums earned was slightly higher.

The ratio of underwriting profit to premiums earned for 1950 was only 5.4% as compared with the favorable margin of 12.3% for 1949 and the 5.6% of the previous period. Overall profits however were larger in 1950 than in 1948 primarily as a result of the largest volume of business handled.

Among the 372 stock insurance companies for which figures were compiled by the "Spectator," the fire lines are by far the most important single underwriting line accounting for over 4.3% of the total premium writings. Other lines in order of importance are auto physical damage, extended coverage, inland marine and ocean marine.

The ratio of losses paid (excluding adjustment expenses) to net premiums written for 1950 and 1949 for these lines were respectively fire 35.9% and 38.6%, auto physical damage 36.7% and 32.4%, extended coverage 41.0% and 28.1%, inland marine 38.9% and 40.9% and ocean marine 49.8% and 48.8%.

OUR COMPARISON & ANALYSIS OF THE 1950 EARNINGS OF
50 Fire & Casualty Insurance Stocks
Will be sent on request
Laird, Bissell & Meeds
Members New York Stock Exchange
Members New York Curb Exchange
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Investment Bankers' Role in the Voluntary Credit Restraint Program

By OLIVER S. POWELL*
Member, Board of Governors, Federal Reserve System

After describing inflationary background of current economy, Governor Powell outlines motives and procedures of the Voluntary Credit Restraint Program, set up under the Defense Production Act. Says investment bankers should join with commercial banks in screening loans and advances, inasmuch as $24 billion of new capital issues are overhanging market and threatening to boost inflation further.

The title of this talk might have been labeled, "Learning to Live With National Defense." Outside of actual war-time conditions, the United States for generations has found it possible almost to forget defense against outside enemies and to devote its energies completely to developing a higher standard of living at home. Now we find ourselves the most powerful non-communist country in the World, able to depend on other countries for protection only in very limited ways and faced with the problem of rebuilding a strong national defense.

Oliver S. Powell

The problem resolves itself into one of increasing the production of defense items while maintaining the supply of civilian goods at as high a level as possible.

If the total demand for goods exceeds the supply, prices go up. This is inflation. It hurts the civilian economy and increases the cost of the defense program. A considerable amount of price increase has already occurred since the Korean War began.

The restraints against inflationary price advances must cover a broad front. First of all is an adequate tax program. Then, people should be encouraged to increase their savings. Abnormal profit margins should be discouraged.

If commodity prices can be held in check, further rounds of wage increases should be avoided. Above all, individuals and businesses should be encouraged not to buy more than their normal requirements.

The Inflationary Background

This address deals with one particular phase of inflation control.

As a beginning, I want to take you back to some elementary economics. Since we are dealing with inflation, we should recall that an increase in prices occurs when the money supply increases more rapidly than the volume of business or when the rate of turnover of money increases to a point where the monetary work done by the money supply is greater than needed for the Nation's business. This story really starts back in 1934 with the devaluation of the dollar. That event immediately created an enormous increase in gold reserves which are the base of the bank credit pyramid. In the next few years after devaluation, world events caused a tremendous inflow of gold into the United States, adding further to the basic gold reserves. From that time on, the problem of monetary authorities has centered largely around the management of these large gold reserves in such a way as to prevent undue manufacture of credit and an inflation in commodity prices. This holds true today in spite of the gold exports in the last year and a half.

There was a respite in the problem during World War II. In fact we were very thankful to have such large gold reserves for these reserves made it possible for the banks of the United States to purchase Government securities in huge quantities to provide for money for war over and above the amount provided out of national savings and taxes. However, at the close of the war the Nation found itself with bank investments and bank deposits greatly increased and as these bank deposits went to work for the purchase of civilian goods, price advances occurred as soon as controls were removed. These price advances would have been much greater except for a little-understood phenomenon in the behavior of bank deposits. This was the fact that the turnover of bank deposits had declined steadily from the 1920s until 1945. In the 1920s an annual turnover of demand deposits from 31 to 37 times was considered normal for leading cities. By 1945, this turnover had been reduced to 16 so that a dollar of deposits was doing only half of the monetary work that it did in the 1920s. There has been some increase in deposit turnover during the postwar years, but even the sharp increase since the Korean War started has not brought the turnover rate above 23 turns a year. If the owners of bank deposits were to use these deposits with the efficiency shown in the 1920s, prices could increase substantially from present levels without any further increase in bank loans or investments.

Difficult Factors in Money Supply

Thus, we have two difficult factors in the money supply to deal with: first, large basic reserves which make it possible to increase the amount of bank credit and bank deposits, and second, a rate of turnover of deposits which it has been demonstrated in former years can grow substantially above today's levels. Both bank credit and the turnover of bank deposits increased sharply in 1950 and in the early months of 1951.

The monetary authorities have made important moves in their field of action to contract the inflationary effects of these increases. Last August, the discount rates of the Federal Reserve Banks were raised somewhat. The consumer credit regulation was reestablished. A new regulation dealing with real estate credit was imposed. Reserve requirements of member banks were raised to substantially their upper legal limits.

One of the most important tools of inflation restraint was practically unusable for several months. This was the employment of open market operations which were devoted almost solely to maintaining a pegged price for long-term government securities. The pegging of the government bond market had deep-seated and pernicious effects. Holders of long-term bonds instead of treating those securities as true investments came to consider them equal to cash in liquidity. In fact, they were the equivalent of cash so long as they could be sold to the market at a fixed rate and the market could be sure that it could sell them to the Federal Reserve Banks at the same price. This caused the Federal Reserve Banks to manufacture bank reserves at the whim of the holders of government securities. Recently, it became possible for the Federal Reserve authorities to cease their operations in a pegged bond market and to change to support of an orderly government security market. The recent reduction in prices of long-term government bonds has had far-reaching effects in the control of inflation. Holders of those securities have been reluctant to dump them on the market and as a result supplies of funds for mortgage loans and for many other types of credit have been reduced.

Voluntary Credit Restraint

To complete the picture of moves toward inflation control in the monetary and credit field, there is the Voluntary Credit Restraint Program. This program has been inaugurated under the provisions of Section 708 of the Defense Production Act. The authority to set up the program was delegated to the Federal Reserve Board, which body must consult with the Federal Trade Commission and the Attorney General of the United States and the program must have the approval of the latter. A tentative program was drafted by a group of investment bankers, commercial bankers and insurance company executives at the request of the Federal Reserve Board. This program, with certain changes, was approved by the Attorney General on March 9, 1951. The organization of the program has been proceeding rapidly since that date.

The first step was for the Federal Reserve Board to request all lenders in the United States to take part in the Voluntary Program. For this purpose a letter was sent to some 90,000 lenders, the broadest list available to the Federal Reserve Banks. The next step was the appointment of a national committee by the Federal Reserve Board. In its original form, it consisted of four investment bankers, four commercial bankers and four insurance company representatives, with your speaker as Chairman. Further additions to the national committee can be made if it seems desirable to include spokesmen for other types of lenders on this committee. No additions to the national committee have been made up to the present time since many types of lending are already under various government regulations and thus are excluded from the Voluntary Program.

The national committee has set up regional committees to deal with problems in three major lending fields. There are four regional committees for investment banking problems, four for life insurance and twelve for commercial banking. Investment banking regional committees have their headquarters at New York, Chicago, Dallas and San Francisco. The national committee feels that it has been extremely fortunate to obtain as regional committee members a group of outstanding men representing large, medium and small institutions and widely distributed geographically.

Considerable progress has been made in other directions. The national committee has issued the first of a series of bulletins on credit problems in relation to the Voluntary Credit Restraint Program. The first bulletin dealt with the subject of inventory loans. In view of the rapid increase in inventories, particularly at the retail and wholesale level, the committee decided that this was its number one problem. Progress has also been made in collecting better statistics to measure the developments in the credit field. The largest banks in the United States have already begun reporting weekly to the Federal Reserve Banks a detailed breakdown of their loans so that the national committee can ascertain periodically whether the volume of bank credit is rising or falling and the cross currents due to the rising volume of defense lending and the desired decrease in other types of loans.

Excellent figures are already available from New York City commercial banks. For the three weeks ending April 11, New York City commercial and industrial loans decreased $41 million. This is not a large decrease compared with the $2 billion increase in commercial and industrial loans at these banks during the past year. However, it is a move in the right direction. Furthermore, a detailed analysis of these loans showed that loans to heavy industry presumably for defense in large measure increased $43 million during the three weeks ending April 11, whereas loans to commodity dealers, retail trade and light industry decreased $84 million.

Within the next two or three weeks similar information will be available for the larger banks across the country. The national committee has also asked the Federal Reserve Board to obtain similar improved statistics on the credit operations of insurance companies and on the issues entering the capital markets. Thus, we will know where the trouble spots are and will be able to measure currently the progress of the program.

Task of Investment Bankers

While the development of the Voluntary Credit Restraint Program up to date has revolved principally around the commercial banking aspects, investment bankers have an important task to do which will grow in relation to other parts of the program until the peak of the defense effort is passed. The estimates of plant expansion by American industries for the year 1951 total up to the staggering sum of $24 billion. A portion of this capital outlay will come from internal savings of business, but with higher taxes and higher costs of operation, it seems likely that internal savings will be less in 1951 than in 1950. Thus, the capital market will be called on for a large amount of

Continued on page 32

*An address by Governor Powell before the Eastern Pennsylvania Group of the Investment Bankers Association of America, Philadelphia, Pa., April 13, 1951.

NEW ISSUE April 24, 1951

151,250 Shares

The Public National Bank and Trust Company of New York

Capital Stock

Holders of the Bank's outstanding Capital Stock are being offered the right to subscribe at $40 per share for the above shares at the rate of one share for each four shares of Capital Stock held of record on April 20, 1951. Subscription Warrants will expire at 3:00 P.M., Eastern Daylight Saving Time, on May 9, 1951.

The several Underwriters have agreed, subject to certain conditions, to purchase any unsubscribed shares and, both during and following the subscription period, may offer shares of Capital Stock as set forth in the Offering Circular.

Copies of the Offering Circular may be obtained from any of the several underwriters only in States in which such underwriters are qualified to act as dealers in securities and in which the Offering Circular may legally be distributed.

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Nat'l City Club Dinner

The 15th annual banquet of the Quarter Century Club of the National City Bank of New York and City Bank Farmers Trust Co. was held April 19, in the Grand Ball Room of the Hotel Astor. Eleven hundred domestic members of a world total of 1,870 were guests of hosts Wm. Gage Brady, Jr., Chairman of the Board; W. Randolph Burgess, Chairman of the Executive Committee of the Bank and Chairman of the Board of the Trust Company; Howard C. Sheperd, President of National City, and Lindsay Bradford, President of the Trust Company. Edward F. Mitchell was Committee Chairman of this year's affair, assisted by Harry P. Wehr and Randolph S. Merrill.

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Canadian Securities

By WILLIAM J. McKAY

Canada will watch with anxious interest what appears to be the climactic stage of Britain's long protracted political crisis. Although it could never be expressed, the fall of the Labor Government could only bring hopes of a brighter era for Anglo-Canadian relations. This would similarly apply to other British Dominions where the political trend has recently swung to the right, and also to this country. It can not be denied that the narrow doctrinaire principles of the Labor administration have in recent years retarded a natural movement in the democratic world toward greater economic freedom.

In spite of the generous Canadian gestures toward the Mother Country both during and after the war, the representatives of the Labor Government have apparently eschewed all sentiment in their dealings with the senior Dominion. During the visits to Canada of former Chancellor Cripps and the recently retired President of the Board of Trade Wilson, it was clearly demonstrated that the respective viewpoints of Canada and socialistic Britain were poles apart. Blinded by narrow doctrinaire prejudices, the British representatives failed completely to envisage the tremendous possibilities of broad imaginative collaboration with the most promising member of the British Commonwealth.

Although impeded by onerous restrictions and the narrow official outlook British private enterprise has done its best to take advantage of the opportunities offered for profitable establishment in the Dominion. As a result leading British industrial firms of world-wide repute have migrated to Canada in recent years and have made a valuable contribution to the Dominion's economic strength. A notable example is the new airplane manufacturing industry founded in Canada by the Hawker-Siddely group. Already the products of their vast plant at Malton, Ont., the Avro jet airliners and fighter planes, have given Canada worldwide recognition as a leader in this field.

In the event of the probable fall of the Labor Government and its replacement by a Conservative administration, British economic cooperation with Canada would receive strong encouragement. This was clearly demonstrated during a debate last year in the House of Commons on Anglo-Canadian trade. It had been expected that the discussions would have been of somewhat of a perfunctory nature. On the contrary there was an animated debate that terminated with numerous Conservative M. P.'s still trying to catch the Speaker's eye. During the discussions President Harold Wilson of the Board of Trade was severely criticized by opposition members for his lamentable failure either to promote Anglo-Canadian trade or to preserve the customary cordial relations with the Dominion. At the same time the Conservative members indicated that they were of the general opinion that Canada was the land of promise of the coming decades.

In addition to new outlook on Anglo-Canadian trade, a Conservative administration in Britain would bring about a welcome change of policy with regard to the question of British emigration to Canada. Under the existing regime the financial restrictions imposed on would-be emigrants to Canada demonstrate the unwillingness of the Socialist Government to encourage a population movement in this direction. In view of the known Conservative views on this subject it is highly probable that one of the first measures to be introduced by a Conservative Government would be the promotion of emigration to Canada. Such a step would not only contribute toward the solution of Britain's problem of maintaining a population far beyond the economic capacity of the British Isles, but it would also help to meet Canada's crying need to populate the Dominion's vast empty spaces.

One striking suggestion made by a Conservative member of Parliament was for the establishment in Canada of satellite towns, whereby certain industrial cities in Britain would be reproduced in the Dominion. It was of course not to be expected that the British Labor Government would look too kindly on a scheme that would place a strong segment of British industry out of reach of bureaucratic control. Instead, state enterprises of the order of the ill-fated African peanut and chicken ventures have, at the expense of the tax payer, received the blessing of the inexperienced Socialist administrators. The passing from the scene of a government that no longer has the support of the long-suffering British people will at least give greater scope to private enterprise and individual industrial and financial genius that has so long been stifled by Socialistic regimentation.

During the week there was little activity in either the external or internal sections of the bond market but the internals were marked down on the continued and somewhat surprising weakness of the Canadian dollar. Stocks were mainly firm, with interest principally centered on the paper issues led by Great Lakes, Eddy, Price Bros., Brown, and Fraser which reached new high points for the year. The base-metals and golds were also steady but the Western oils with a few exceptions showed a tendency to decline.

Oliver Seibert Treas. Of Harriman Ripley

At a meeting of the board of directors of Harriman Ripley & Co., Incorporated, 63 Wall Street, New York City, Oliver E. Seibert was elected Treasurer of the Company to succeed the late William R. Eppel.

Oliver E. Seibert

Mr. Seibert entered the banking business with the former National Bank of Commerce of New York and later joined the staff of The Chase National Bank of the City of New York. He became associated with the National City Company of New York in February, 1929, and joined the staff of Harriman Ripley & Co., Incorporated at its organization in 1934. He was appointed Assistant Treasurer in March, 1946.

With H. A. Riecke

PHILADELPHIA, Pa. — Mrs. Margaret Lawrence has joined H. A. Riecke & Co., Inc., 1528 Walnut Street, members of the Philadelphia-Baltimore Stock Exchange, as a Registered Representative and assistant statistician.

LETTERS TO THE EDITOR:

An Official Protest and a Reply on TVA Operations

W. L. Sturdevant, Director of Information of Tennessee Valley Authority, takes exception to conclusions made by Cornelius W. Wickersham, Jr., concerning operation costs of Wilson hydro-plant in article in "Chronicle" of March 29. Mr. Wickersham offers a rejoinder.

Editor, Commercial and Financial Chronicle:

We have just seen the article "Roadblocks to Progress" by Cornelius W. Wickersham, Jr., page 13 of your March 29, 1951, issue, in which he suggests comparison of "the operation of the TVA's 60,000 kw. hydro-electric plant at Wilson Dam, which to operate requires 200 men, with the new 60,000 kw. steam electric generating plant of the Central Hudson Gas and Electric Corporation which will require only 41 persons."

We're sorry to spoil the neatness of Mr. Wickersham's example by correcting his error, but the Wilson hydro plant has an installed capacity of 436,000 kilowatts and its supervisory, operating, and maintenance personnel totals 92.

* * *

We are glad to know that Central Hudson is proud of its new steam plant and the smallness of the staff it will require. However, if comparisons are to be drawn, they should be made with one of TVA's modern plants—say Johnsonville, which when completed will have an installed capacity of 675,000 kw. and employ about 330 persons.

We believe you will agree that the error in Mr. Wickersham's story should be corrected in your columns.

Very truly yours,
W. L. STURDEVANT
Director of Information,
Tennessee Valley Authority,
Knoxville, Tenn.
April 12, 1951.

Mr. Wickersham's Rejoinder

Editor, Commercial and Financial Chronicle:

In my article "Roadbacks to Progress," I made the point that government operation being removed from the "discipline of the profit motive" is less efficient than private operation. Mr. Sturdevant of the TVA has corrected certain details of my article but has failed to impair the major premise I endeavored to prove.

The TVA is perhaps the showpiece of our American socialism, yet the Comptroller General of the United States criticized its 1949 report for failure to charge interest costs in a proper amount on its books and it fails to pay a sum anywhere near comparable to taxes on a private utility. It has been alleged by Mr. C. J. Green, a professional engineer accountant, that if TVA had to compete on an equal basis with private power companies, it would have to double its rates and then its rates would be higher than rates of private power companies in the same region. Instead of this the government is enlarging its power facilities, extending the area of its sales and thereby limiting the field for private enterprise contrary to the assurances originally given to Congress that sale of power would be merely a by-product of the improvement of navigation.

Sincerely yours,
C. W. WICKERSHAM, Jr.
14 Wall St.,
New York City,
April 23, 1951.

Forecasts Good Shoe Business

International Shoe Company executives at salesmen's conference predict heavy consumer demand will raise sales, despite talk about heavy inventories and rising production.

Forecast for good shoe business in the months ahead, but with the possibility of price increases unless leather costs are brought under control or themselves fall into line, came from top executives of International Shoe Company that addressed salesmen in St. Louis, Mo., on April 19.

"The surge of consumer buying which took place in January and February included some scare buying of shoes, but not to the extent of other consumer goods," Byron A. Gray, chairman of the Board of International Shoe Company, said. "Evidently people did not feel that shoes were going to be as short as many other things, particularly items made of metal, electrical appliances and so on."

Referring to the condition of shoe inventories at retail, Mr. Gray went on to say: "Probably the greatest danger is the possibility that retailers, finding themselves short of capital, may go to extremes in cut-price liquidation sales in order to reduce their inventories and to pay their bills.

"We are inclined to agree with those who take the view that good merchandise today is like money in the bank to the retailer who can afford to hold on during a period of low sales.

"A little later on the cut in output of durable goods and the accumulated demand resulting from the consumer postponing his purchase of shoes should cause shoes to move quite freely. There is every reason to feel that the shoe business should be good this fall," Mr. Gray said.

Following Mr. Gray's remarks, Edgar E. Rand, President of the company, said: "National income is high and will be higher, thereby causing heavy consumer demand for goods of all kinds. In spite of talk about heavy inventories of shoes," the company president said, "we do not believe that shoe production in 1950 of 490,000,000 pair — only 3½% above the slow year of 1949—was excessive. Our reports do not show a seriously overstocked condition for this time of year. We are confident that the coming season will be a good one."

"Unless a price regulation is issued which brings leather into line with the hide prices established under Ceiling Price Regulation 2, or unless the leather market itself moves lower, we will be compelled to raise our prices subject, of course, to our price ceilings. If leather prices are revised downward by further action of the OPS, our shoe prices are not likely to be reduced because the cost figures set up for these new lines are based on anticipation of a much lower price on leather," the company president concluded.

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Public Utility Securities

By OWEN ELY

International Hydro-Electric System

International Hydro-Electric System was organized during the 1929 "hey-days" of holding companies, with a typical inflated capital structure resulting from the high prices paid for its utility holdings. For some years it was controlled by International Paper & Power Company, which owned the entire class B and common stocks. These stocks were later transferred to liquidating trustees and in 1941 were declared worthless and cancelled. The remaining capital structure consisted of debentures, preferred stock (on the Curb) and class A shares (Stock Exchange).

In 1944 the U. S. District Court appointed Bartholomew A. Brickley of Boston as Trustee, and after many false starts a definite move toward liquidation was initiated through payments against the debentures, which had become due in 1944. The balance of face value was finally paid off last year. This step ended the former three-cornered fight between the holders of three kinds of securities, and concentrated it among holders of the preferred, and the class A stockholders.

Various plans have been filed with the SEC over the past decade, only to lapse with the turn of events. Some time ago Trustee Brickley filed a simple plan to issue Liquidating Certificates, to be distributed to all shareholders in the ratio of eight to each share of preferred stock, and one to each class A. This plan has been before the SEC for some time, but recent events seem to be thrusting it into the background.

Both the preferred and class A stocks have been strong in the past year, but the A stock has outstripped the preferred, with the result that they have been selling recently in a ratio of only about 5½-to-1 (89 and 16¼, respectively). The gain in the class A from the 1951 low of 10⅜ seems due to three factors: (1) the increase in price of Gatineau Power (principal holding) from the old level around 15 to 18⅝ (now 17¼); (2) reports that the company may be able to sell its 100% equity interest in Eastern New York Power Corp. for a substantially larger amount than would seem indicated by the earning-power; and (3) recognition of the potential value of the parent company's big tax loss on its holdings of New England Electric.

As a result of these developments a new plan seems to be gradually evolving. Last year the company retired the balance of its debentures through sale of part of its holdings of Gatineau Power and through a $9.5 million bank loan (now reduced to about $8.5 million). This loan must of course be paid off as a first step in any new plan, and this could be done through sale of Eastern New York Power. Conversations have been held with Niagara Mohawk Power officials regarding possible sale to that company of Eastern's hydro-electric generating plants, together with various water rights, most of which would fit into the Niagara System. Eastern also owns and leases to International Paper Co. nine water power properties in New York and Maine. According to the grapevine, a plan might be evolved to sell these properties to a large insurance company, which would then renew the lease with International Paper on a long-term basis (the present rental from these properties constitutes about 40% of the company's revenues). Eastern's earning-power for common stock in recent years (after adjustment of taxes to a separate return basis) would not seem to warrant a valuation of more than $8-10 million. But it has been reported that, under the sale plans now under discussion, a larger amount might be realized.

Assuming that Eastern New York can be sold and bank loan retired, the next step would be to retire the preferred stock through an exchange for Gatineau stock. It was rumored recently that representatives of the preferred stockholders might be satisfied by an offer of six shares of Gatineau for one preferred, assuming that the stock were underwritten at 17. This would give the preferred $102 a share (or more) against their claim for par and arrears totalling $108. Such an underwriting seems impracticable, for the time being at least. Possibly the offer might be "sweetened" to make up for the slightly lower level at which underwriting might be feasible.

Assuming that the preferred could be retired in some such fashion (with the approval of the SEC and a Federal Court) only the class A stock would remain. The next problem would be to persuade the SEC to permit the company to become an investment trust, thereby taking advantage of the huge tax loss on the investment in New England Electric System. Since it currently owns about 8% of New England Electric it is conjectured that the SEC would require sale or distribution of sufficient NEES to reduce the holdings to less than 5%—the maximum percentage which the SEC will usually consider in granting exemption from the Holding Company Act.

There seems to be some precedent for ultimate conversion into an investment trust. Central States Electric Corp. is currently being converted into an open-end investment trust, and United Corp. hopes to achieve the status of a fixed (managed) trust within a few months. Electric Bond & Share also expects to remain alive after disposing of many of its holdings.

While it is difficult to estimate liquidating value of the A stock based on the completion and consummation of such a plan, it appears likely that if a substantial price were received from the sale of Eastern New York Power the break-up value might work out at around $18-$20 a share. The estimate would be bolstered by an improved price for New England Electric in the event that that company restores its $1 dividend rate, which seems a possibility within the next 12 months if water conditions remain favorable and the company disposes of its gas interests for a good price.

It is conjectured, based on the above assumptions, that International Hydro-Electric might, after retiring its bank loan and the preferred stock, be able to earn over $1 for the class A stock and possibly pay $1 dividends on a tax-free basis. (This assumes that net cash generated in the program outlined above were reinvested to yield 6%.) United Corp. is currently paying 20¢ tax-free dividends and sells around a 4½% yield basis. On a similar yield basis Hydro A might be worth about 22½ if it could afford to pay $1. Dividend payments could probably be continued for many years on a tax-free basis, since the New England Electric stock was purchased in the old days at about 7 or 8 times the current price.

Cites Impact of Federal Taxes on Utilities

Charles P. Crane, President of Consolidated Gas Electric Light & Power Co. of Baltimore, tells Baltimore Bond Club, higher taxes along with swollen construction costs threaten to affect utilities securities' favor with investing public.

Addressing the Bond Club of Baltimore on March 28, Charles P. Crane, President of the Consolidated Gas Electric Light and Power Company of Baltimore warned the threat of higher Federal taxes along with swollen construction costs poses serious problems for the utilities industry in gaining investors' favor for their securities.

Charles P. Crane

"The burden of Federal taxes poses a serious problem for utility companies," Mr. Crane stated: "There have already been very substantial increases in Federal income tax rates and further increases are hanging over our heads like the sword of Damocles. Utilities which are not allowed to earn over 5½ to 6% on their net rate bases do not have a sufficient margin of earnings to withstand these continued tax rate increases. It was only by the effective aid of the National Association of Railway and Utility Commissioners that utility industry spokesmen before Congressional tax committees were able to avert a threatened excess profits tax which might have cut utility earnings to less than 4% on their rate bases. This would of course, have seriously impaired the credit position of the utilities and militated against the securing of new capital to finance expansion necessary to meet the public's demands. Had such a law been enacted, our Company and other utilities would have been obliged to seek staggering rate increases. As I have said, that particular danger has been avoided at least for the time being, but we may yet have to seek higher rates to compensate for further inordinate increases in the normal and surtax rates. I can assure you that every one of us in the Consolidated's management devoutly hopes that such action may not be necessary.

"Our large customer growth and customer usage together with swollen construction costs have brought about the great increase in our yearly expenditures for additional facilities. In the 1920's the Consolidated Gas Electric Light and Power Co. of Baltimore was spending on the average $6,500,000 per year for capital expansion of all kinds; in the 1930's we averaged $5,200,000 per year; during the first half of the 1940's the average was again $6,500,000 per year whereas from 1946 to the end of 1950 we were obliged to finance a capital budget of approximately $18,500,000 per year. In 1950 alone we expended $25,537,000 for new plant and facilities. Our capital budget for 1951 is a little over $29,000,000.

"The managements of rapidly expanding utility companies realize that they must generate not only electricity and gas which will meet the standards set by the regulatory agencies, but they must also produce securities in large volume which will find favor in the eyes of the investing public. Only a relatively small portion of the necessary new capital of a utility company can be obtained from internal sources. For instance, of a $30,000,000 capital requirement, we would expect to obtain only $7,000,000 or $8,000,000 from our depreciation accruals and retained earnings. The rest of it must be secured from external sources. I know of only one key which will unlock the public's security boxes on advantageous terms and that is the key of good financial credit. Any company which does not enjoy good financial standing must pay a premium in varying degree for its new capital. The more costly the new money, the higher the rates to the public for utility service supplied. Therefore the public has a direct interest in seeing that its utility companies are kept in sound financial condition, not only because of the rates which the public pays, but also because of the type of service which the utility company is able to render.

"It is the policy of our Management to keep the Company's capital structure in proper balance. At the end of 1950 our total mortgage bonds outstanding aggregated 42.9% of our securities and surplus. Debentures formed 2.7%; preferred stock 13.9%; and common stock and surplus combined represented 40.5%. Preferred stock, common stock and surplus formed 54.4% of the total. As most of you know, we sold $25,000,000 of bonds in the latter part of January, 1951, on a 2.74 cost of money basis. Even after this bond issue, our preferred stock, common stock and surplus aggregated 50% of our total capitalization. We are hopeful that these funds will satisfy our capital requirements until the end of 1951, but we may be obliged to go into the market again before the year is over. I am sure most of you would like to know whether we expect our next issue to be bonds or stock. Of course, we are governed to a large extent by market conditions at the time of issue and by the Company's ability to support from its earnings the higher cost of equity money. I could not tell you at this time what form our next financing will take, but I will repeat that our management is definitely interested in preserving a sound and well balanced capital structure and by that I mean the issuance of equity securities whenever feasible."

Frank Follett Joins Walston, Hoffman Co.

FRESNO, Calif.—Frank C. Follett has joined the Fresno office of Walston, Hoffman & Goodwin, Bank of America Building, members of the New York Stock Exchange and other principal stock and commodity exchanges. For the past 24 years Mr. Follett has been in Wall Street with the New York Stock Exchange member firm of Hardy & Co.

Katzenberg, Sour & Co. Being Formed in N. Y.

Katzenberg, Sour & Co., members of the New York Stock Exchange, is being formed as of May 4 with offices at 15 Broad Street, New York City. Partners are Milton R. Katzenberg, George B. Sour, who will hold the firm's Exchange membership, which he will acquire from Harold P. Murphy; and Lucien Katzenberg, limited partner.

This advertisement is under no circumstances to be considered as an offering of these securities for sale, or as a solicitation of an offer to buy any of such securities. The offering is made only by the Prospectus.

NEW ISSUE

$1,500,000

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Price 100% plus accrued interest

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April 23, 1951

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

A. C. Simmonds, Jr., President of the **Bank of New York and Fifth Avenue Bank, at 14 Wall Street, New York** announced on April 24 the following appointments: in the main office, John U. Grissinger, Trust Officer; Joseph A. Hannan, Jr., Assistant Vice-President; Grover C. Jensen, Assistant Trust Officer; Ralph H. Nay, Assistant Treasurer; in the Fifth Avenue Office: H. E. Muecke, Trust Officer and John B. Dunning, Assistant Trust Officer.

* * *

William A. Lyon, **New York State Superintendent of Banks**, was chosen President of the **National Association of Supervisors of State Banks** on April 20, it was stated in Associated Press advices from Albany on April 20, which also said:

"Mr. Lyon was selected by the Executive Committee of the Association at the close of a two-day meeting. Other officers chosen were: First Vice-President, Alexander Chmielewski, Rhode Island Bank Commissioner; Second Vice-President, Ben A. Welch, Kansas Bank Commissioner; Third Vice-President, Benjamin O. Cooper, Illinois Auditor of Public Accounts; Secretary, Edward H. Leete, New York Deputy Supervisor of Banks; Treasurer, Homer B. Clarke, Tennessee Superintendent of Banks."

* * *

Appointment of John M. Keyes as a Second Vice-President of **Guaranty Trust Company of New York**, is announced. Associated with the bank since 1929, he continues as an officer in the Organization Division, where he is now in charge of personnel. During World War II he served three years with the Navy in the Pacific, attaining the rank of Lieutenant.

* * *

Henry C. Von Elm, President of **Manufacturers Trust Company of New York**, announces that Sidney A. Trundle of the bank's office at Fifth Avenue and 43rd Street, has been named a Vice-President. Mr. Trundle entered the service of the trust company following his graduation from Georgetown University in 1930. He was made an Assistant Secretary in 1939 and Assistant Vice-President in 1949. He recently completed the course at the Graduate School of Banking at Rutgers University and his thesis, "The Import-Export Bank of Washington," was one of those chosen for the ABA Library. Mr. Trundle is a member of the American Bar Association, New York State Bar Association and Robert Morris Associates.

* * *

A merger of **The Commercial National Bank and Trust Company** with **Bankers Trust Company**, both of **New York City**, was approved on April 19 by the directors of both institutions, and the merger proposal will be submitted to the stockholders of both institutions on May 23, according to a joint announcement made by officials of the two banks. Following the merger, which is subject to approval by the stockholders of each institution and by State and Federal supervisory authorities, it is planned to conduct the business of the merged institutions under the name Bankers Trust Company beginning May 28. Stockholders of The Commercial National Bank will receive $75.58 per share, this figure being based on an appraisal as of April 17. A statement of condition of The Commercial National Bank as of March 31, 1951, shows deposits of $192,129,776 and loans of $63,458,013.

In making the announcement, officials of both institutions indicated that all of the officers and employees of The Commercial National have been invited to become members of the staff of Bankers Trust. It was also announced that John M. Budinger, President, and William T. Taylor, Vice-Chairman of the board of The Commercial National, will become Vice-Presidents and members of the board of directors of Bankers Trust Company, and B. Earl Puckett, presently a director of Commercial National, will also join the board of the combined institution. Bankers Trust Company will acquire the lease on The Commercial National's banking quarters at 46 Wall Street, which S. Sloan Colt, President of Bankers Trust Company, termed as "being of considerable importance in view of the expanded requirements of our main office departments and facilities."

Bankers Trust Company last year opened a new office at 1002 Madison Avenue (July 3), acquired the banking business of Title Guarantee and Trust Company (Aug. 7) and merged with Lawyers Trust Company (Sept. 18) and with Flushing National Bank (Dec. 18). Following these combinations, Bankers Trust operated a total of 13 offices throughout Greater New York, emerging for the first time in Brooklyn, Bronx and Queens. The Commercial National office will be the 14th in the city and the 9th in Manhattan.

* * *

At a special meeting of stockholders of **The Public National Bank and Trust Company of New York**, held on April 19, approval was given to the proposed increase in the capital funds of the bank by the issuance and sale of 151,250 additional shares of stock. The stockholders approved the offering of the stock, at $40 per share, to all stockholders pro rata, on the basis of one new share for each four shares held of record at the close of business April 20. The stock may be subscribed for until May 9. As indicated in our April 12 issue, page 1556, the sale of the new stock will increase the bank's capital stock from $10,587,500 to $13,234,375 and surplus from $13,412,500 to $16,815,625. With undivided profits of about $9,000,000, total capital funds will be about $39,050,000, compared with $32,993,000 at present. Warrants evidencing rights to purchase the new shares, at $40 per share, are being mailed to stockholders on the basis mentioned. The subscription rights will terminate on May 9. The First Boston Corporation heads a group of 11 underwriters who have agreed severally to purchase at the subscription price all shares not subscribed for by stockholders.

E. Chester Gersten, President of the Public National Bank and Trust Company, announced on April 23 the following promotional appointments at the main office of the bank: Joseph Moss, an Assistant Cashier, appointed an Assistant Vice-President, and Harry Jacobs of the Comptroller's Department, appointed an Assistant Cashier.

* * *

Simon Bolivar is the subject of a 15-window display unveiled on April 19 in the Rockefeller Center office at Avenue of the Americas and 48th Street, of **Colonial Trust Company of New York.** Timed to coincide with ceremonies marking rededication of the statue of The Liberator at Simon Bolivar Plaza, 59th Street and Avenue of the Americas, the exhibit features original portraits of Bolivar by such noted artists as Sir Thomas Lawrence, Arturo Michelena and Tito Salas. Also included are selected original miniatures from "Simon Bolivar and His Contemporaries," by Arthur Szyk. Arthur S. Kleeman, President of Colonial Trust Company, stated that "the passing of time serves to enhance the accomplishments of Simon Bolivar and to give us an ever deeper appreciation of their importance." The display, which will remain until early May, also includes material indicating the economic and strategic significance of Bolivar's native Venezuela, as a source of oil and high-grade iron ore. Exhibitors include U. S. Steel Corp., Bethlehem Steel Corp., Gulf Oil Co. and Creole Petroleum Corp.

* * *

The merger of the **Power City Trust Company of Niagara Falls, N. Y.**, with the **Marine Trust Company of Buffalo** became effective Apr. 21. Stockholders of both institutions ratified the terms of the merger agreement at meetings earlier in the week. Concurrently, the name of the bank was changed from the Marine Trust Company of Buffalo to the **Marine Trust Company of Western New York.** The four Niagara Falls offices of the Power City Trust Company will now be operated as offices of the Marine Trust Company of Western New York. These will be known as the Power City Trust Office at 225 Falls Street, the Power City Peoples Office, 1631 Main Street, the Power City Pine Office at 1901 Pine Avenue, and the Power City LaSalle Office at 8676 Buffalo Avenue. Bank officials announced that no personnel changes would result from the merger. The former board of directors will continue to serve as an Advisory Board for the Niagara Falls offices. This merger, in addition to those of five other banks which will be completed soon, will make available in Niagara Falls the facilities of a bank with resources of over $500,000,000 and capital funds in excess of $36,000,000. These five banks are the **Marine Midland Trust Company of Albion**, the **Medina Trust Company**, the **Niagara County National Bank and Trust Company, Lockport, N. Y.**, the **First Trust Company of Tonawanda** and the **State Trust Company of North Tonawanda.** When these mergers have been accomplished, The Marine Trust Company of Western New York will operate 51 offices in 19 communities. An item bearing on the mergers appeared in our issue of March 22, page 1255.

* * *

The First National Bank & Trust Co. of New Canaan, Conn., has increased its capital from $100,000 to $500,000, the enlarged capital (which became effective April 11) having been brought about by a stock dividend of $100,000, and the sale of $300,000 of new stock.

* * *

Announcement was made on April 16 of the appointment of E. Michael Donnelly as Assistant Vice-President at **The Bank of Commerce, of Newark, N. J.**, according to the "Evening News" of Newark, which stated that Mr. Donnelly had been Cashier the last three years at Union National Bank, and before that was 14 years with Federal Deposit Insurance Corp. as an Examiner.

* * *

Through the sale of $450,000 of new stock, the **First National Bank of Erie, Pa.**, has increased its capital from $1,050,000 to $1,500,000 effective March 27.

* * *

According to the Pittsburgh "Gazette" of April 10, George D. Lippert, Assistant Secretary of the **Colonial Trust Co. of Pittsburgh** until last month, has been elected Assistant Vice-President of the **First National Bank, Palm Beach, Fla.** He was in charge of Colonial's credit department.

* * *

The Greeley National Bank of Greeley, Colo., increased its capital, effective April 6, from $200,000 to $300,000 by a stock dividend of $100,000.

* * *

Vern C. Richards and George Solari, executives in the corporation and bank relations department of the **Bank of America National Trust & Savings Association of San Francisco** were promoted to the rank of Vice-President, L. M. Giannini, President of the bank, announced on April 18. Mr. Richards represents his department for the Bank of America in eastern states, with his base in New York City, and Mr. Solari heads the department's Italian section. Former manager of the Haight-Clayton branch of the bank in San Francisco, he held the post of Director of Staff Training in recent years. He was transferred to his present duties a year ago. Mr. Solari is the bank's consultant for patrons with Italian financial interests, a job which he too over in 1936. He was first employed by the bank in 1912, and served from 1921 to 1926 as Assistant Manager of the Banca d'America e d'Italia in Genoa, Italy.

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A Remedy for Administrative Abuse of Anti-Trust Laws

By COL. H. A. TOULMIN, JR.*
Attorney, Dayton, Ohio and Washington, D. C.

Asserting Justice Department's administration of anti-trust laws is whittling away freedom of enterprise and is fostering social regimentation, Col. Toulmin proposes creation of an "anti-trust authority," composed of representatives of business, labor and the public, to replace Justice Department as a policy-making agency in connection with anti-trust activities.

In this talk today, I want to review briefly what our anti-trust laws are doing to business, and secondly, I want to outline a suggested remedy for the chaotic situation which now exists.

H. A. Toulmin, Jr.

Business in America today is fighting two wars. On the one hand it is fighting the war against aggression from without, by performing production miracles for our country.

On the other hand, it is fighting a war of an entirely different type — a legal war from within against the harassments of the Department of Justice in its administration and enforcement of our Anti-Trust laws.

The Department of Justice, with its nearly $4,000,000 appropriation for its Anti-Trust Division, is a law, unto itself—a completely independent bureaucratic power until it reaches the upper courts, when it is too late for the helpless litigant. It is sole judge of its own actions: who it should sue, how business should be run, according to the social ideas of its men—and if businesses do not agree with it, the Department of Justice, without review of its actions, can sue, indict, expose all corporate private affairs and hurl terrible accusations—all without liability; and, if it loses, without recourse for the loss to business of money and reputation.

That is not fair play.

Besides, in 30% of its criminal cases, the Department of Justice has been wrong—it lost its cases.

A strange and unfortunate situation exists. American business is hailed as the greatest productive force in the world. When our American way of life is threatened by foreign aggression, everybody—the government as well as the public—turns to it, relies on it to save us from disaster. The one thing that makes us stronger than other nations is the productive capacity of American business, and its genius for research and new developments.

Yet, the voluminous records of anti-trust proceedings show that the Anti-Trust Division of the Department of Justice has carried on a continuous campaign during the past decade to destroy our successful organization and methods of operation which have lifted American business to world supremacy in production and invention.

The major portion of this litigation campaign was not for the purpose of protecting the public, the individual, who could not protect himself—it was for the purpose of protecting one class of competitors from another, for the purpose of giving unearned advantages to the less successful, and penalizing the successful, even though the consumer suffered. In my judgment, it has resulted in a complete defeat of the purpose of the Anti-Trust laws.

The whole basis of our merchandising and manufacturing success is attacked by destroying our American methods of doing business, such as exclusive dealerships, building plants in advance of demand in order to serve the public, conducting research, and cross-licensing competitors, giving uniform patent licenses to even competition, the acquisition of non-competing but supplementing companies to effect economies, etc.

The government now seeks decrees compelling you to cancel your supply contracts with customers beyond one year, to give your competitors your technical know-how and to give your patents to your competitors free of charge—in short, appropriates your property without compensation. There is nothing in the law

*An address by Col. Toulmin before the Controllers Institute of America, Eastern Conference, Baltimore, Md., April 20, 1951.

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to justify it—good morals condemn it.

The Anti-Trust laws *were meant* to *regulate methods* of business to insure fair play—*not to change methods of business or destroy business organization.*

Since 1938, more anti-trust suits have been filed in the United States than in all the prior history of our anti-trust laws—that is, from 1890, when the Sherman Act was passed, to 1938. Three hundred and forty-two suits were filed by the Government in one five-year period. Every type of business has been subjected to threats of litigation.

This complex situation has the most serious implications, and especially since we are now engaged in another gigantic defense effort. The announced policy of the Department of Justice is that it will continue its relentless prosecution of American business—war or no war. This policy was made clear by Assistant Attorney General H. Graham Morison, on January 24, 1951, shortly after he became Chief of the Anti-Trust Division, when he declared, in an address before the New York State Bar Association, that "the litigation program of the Anti-Trust Divison will not abate."

He condemned the system prevailing in World War II, whereby applications for the suspension or postponement of anti-trust actions were made directly to war agencies, because the defense of such proceedings would interfere seriously with the performance of war contracts.

But now, "under existing arrangements," he declared, all requests for postponements of anti-trust actions must be made directly to the Deparment of Justice.

He also asserted that any request for suspension of anti- trust action, could only be considered "if it is factual and demonstrates a direct and *substantial* interference with the defense program."

And he said further: "We simply cannot deal with 'pleas to the general issues.' A request for suspension, based upon the undeniable inconvenience of an anti-trust case, clearly is not enough."

The whole philosophy expressed in the address of Mr. Morison, as I have interpreted it, and as many others have also interpreted it, is that war or no war, business must conform to the economic and social philosophy which the Department of Justice may lay down today, and which, of course, it might change tomorrow if it so wishes—even if the productive machinery of American business is thereby dangerously disrupted.

It is a fair question also to ask, what will the lawyers in the Department of Justice consider "*substantial* interference with the defence program"? Are their opinions likely to coincide with the view of business, which is weighed down with the problem of doing the production job, or of our armed forces in the front lines whose lives depend on business keeping the armaments flowing to them?

The record of the Anti-Trust Division of the Department of Justice, in its administration of the anti-trust laws in recent years, does not arouse in us assurance that the productive machinery of our country will not be disrupted or weakened. Many students of anti-trust proceedings have become convinced that the Department of Justice in recent years has given an interpretation to the anti-trust laws which is not specifically justified by the language of the statutes and which was never intended by the Congress in the enactment of the statutes.

When we analyze the course of the administration of the anti-trust laws, the increasing tempo of the pressure upon business and commerce, the imposition of social philosophy of individuals through the medium of these laws, and the whittling away of freedom of enterprise and its constant conversion to narrower and narrower channels of activity, are apparent.

Social regimentation and individual regimentation are going on in our midst. American business is in a state of complete uncertainty. Corporations must now be organized for a legal war, as well as for production, because Federal litigation is so great.

It is well to bear in mind that our anti-trust laws, with their thirty supplementary and collateral statutes, are more dangerous to our democracy than any other laws enacted in all the history of our country. This is so because they are a broad charter for business control, are so general in character and so sweeping in conception that the regimentation of business, industry and commerce into almost any economic pattern that the Department of Justice and the Supreme Court may decree is possible.

While the Supreme Court in recent years has been increasingly rejecting the views of the Department of Justice, the damage to business by unwarranted litigation is tremendous. Reversal by the Supreme Court is often too late to remedy the injury. It is imperative that a better check than exists today be placed on the Department of Justice so that it cannot plunge headlong into a campaign to change the entire aspect of our society and convert it from a democracy into a form of completely regimented state.

I cannot believe that all the various companies and talented executives and able lawyers and the great institutions they represent can be so evil and so wrong as they are painted in the many actions instituted by the Department of Justice. I cannot believe that American business in general has not operated for the public good. I cannot believe that America could have risen to its heights of greatness, if the pattern of American business, which has made this nation supreme as a productive force, had not been developed.

We shall certainly rue the day when the initiative, the ingenuity and the strength of American business are so throttled that its productive progress cannot continue.

Now what can be done to relieve business of the uncertainty which prevails and to remove the fear of harassment and of endless, time-consuming litigation?

It seems to me that the jealous efforts of the Anti-Trust Division of the Department of Justice to preserve its bureaucratic status, irrespective of national defense, emphasize the necessity for an impartial organization to deal with anti-trust problems by *adjustment.*

Business needs to know specifically what it can and cannot do—certainty is the foundation of its operations. There is no place that business can go today to find out. It cannot find out with certainty if its operations are in technical violation of the anti-trust laws even by consulting the Department of Justice. The Department of Justice may change the rules tmorrow.

As a matter of fact, no agency of government really has any specific power, in war-time or in peace-time, to suspend the operation of the anti-trust laws. That is a major weakness of the present set-up. We need to establish an entirely new approach—if the anti-trust laws are to be administered and enforced in a practical and economical manner, without needless litigation, and so as to keep American business strong.

Here, I believe, is a constructive plan which will prevent much litigation and at the same time will be in the public interest:

(1) I recommend that the power of administering the anti-trust laws — the policy-making be taken out of the hands of the Department of Justice. The Department of Justice should act as an enforcement agency and nothing more.

(2) I recommend that an "ANTI-TRUST AUTHORITY" should be established. This "Authority" should be an impartial, non-partisan board, and should include representatives of business, labor and the public.

(3) This impartial "Authority" should be the administrative and policy-making agency. To this "Authority" should be delegated the responsibility of interpreting the anti-trust laws, and of deciding what are and what are not violations of these laws. It should serve as an advisory agency to which business might go to find out whether its activities or contemplated activities are in violation of the statutes. It should serve as a forum for business-like *adjustment* and *arbitration* of anti-trust disputes, and its primary objective should be to prevent needless litigation and to settle anti-trust problems by adjustment.

(4) Only after this "Anti-Trust Authority" acts, and only in cases where a settlement cannot be effected by adjustment and arbitration, should the Department of Justice be empowered to bring an anti-trust suit.

These are the four fundamental features of the plan. This plan of operation is traditional with us in many other agencies of government. We have such protection in the Federal Reserve Board for Banks, the Interstate Commerce Commission for Carriers, the Civil Aeronautics Authority for Aviation, and for Labor and Agriculture—why not business generally? In short, Justice must justify its litigation to an impartial Public Board.

In World War II, many businesses were encouraged by government war agencies to do things to further the production program that were technically in violation of the anti-trust laws. Immediately after the war, many businesses were surprised to find themselves confronted with anti-trust suits, filed by the Department of Justice, for doing those very things the government had requested them to do.

Congress can enact legislation authorizing the establishment of an "Anti-Trust Authority," and define the powers and scope of activity of the "Authority." It can limit the powers of the Department of Justice, so that it will act merely as a law enforcement agency and can only file suits after the "Anti-Trust Authority" has acted and has failed in its efforts of adjustment or arbitration of questions that may arise. When a group of lawyers in the Department of Justice average loss of 30% of their cases, it is time a body of laymen control their actions—that is what any board of directors would do.

Six months ago the Department of Justice would criminally indict you if you agreed on a fixed price. Today it has been breaking its neck to get control of the present system of price regulation as the only salvation of our economy—a thing business men long ago discovered is often essential. Consistency is the jewel that is absent from the Department crown.

THE BOND TRADERS CLUB OF CHICAGO

The Bond Traders Club of Chicago announces that the following members were appointed to serve as directors for the current year:

George F. King, White, Weld & Co.; Hallock B. Oldershaw, Blyth & Co., Inc., and Fred E. Ungeher, Rogers & Tracy, Inc.

The officers and directors listed below will serve as Chairmen of the various committees:

Fred J. Casey, Doyle, O'Connor & Co., Inc.—Finance.
Arthur W. Fenton, Ames, Emerich & Co.—Program.
George F. King, White, Weld & Co.—Bowling.
Hallock B. Oldershaw, Blyth & Co., Inc.—Membership.
Fred E. Ungeher, Rogers & Tracy, Inc.—Publicity.

The first event of the season will be their regular June golf outing to be held at the Nordic Hills Country Club on June 30.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Security Traders Association of New York (STANY) Bowling League Standings as of April 20, 1951 are as follows:

TEAM	Won	Lost
Donadio (Capt.), DeMaye, O'Connor, Whiting, Workmeister	21	12
Hunter (Capt.), Lytle, Reid, Kruge, Swenson	21	12
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	19	14
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	19	14
Goodman Capt.), Lax, Valentine, M. Meyer, H. Frankel	19	14
Mewing (Capt.), Klein, Cohen, Manney, Ghegan	16	17
Leone (Capt.), Krasowich, Nieman, Pollack, Gavin	16	17
Burian (Capt.), Manson, King, Voccoli, G. Montanyne	15	18
Serlen (Capt.), Gersten, Gold, Krumholz, Young	15	18
Bean (Capt.), Kaiser, Growney, Gronick, Rappa	13	20
H. Meyer (Capt.), Smith, Farrell, A. Frankel, LaPato	13	20
Krisem (Capt.), Bradley, Montanyne, Weissman, Gannon	10	23

Duke Hunter (Hunter & Co.) and Joe Donadio (J. F. Reilly & Co.) won three games to place themselves in a tie for First Place.

SAN FRANCISCO SECURITY TRADERS ASSOCIATION

The San Francisco Security Traders Association will hold their annual spring party June 8, 9 and 10 at the Diablo Country Club, Diablo, Calif.

This advertisement appears as a matter of record only and is neither an offer to sell nor a solicitation of offers to buy any of these securities. The offering is made only by the Prospectus.

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Railroad Securities

Western Pacific and Nickel Plate

Probably the outstanding feature in the railroad group in the past week has been the common stock of Western Pacific. Successively, day by day in the closing part of last week and the opening session of the current week, the stock moved further in the face of laggard, or reactionary, trends in the rail market generally. In at least one of those days the stock was among the most active on the New York Stock Exchange (a notable performance when the size of the issue is considered) and on Monday it moved ahead to a new high for the year. It is the opinion of many rail analysts that even with the recent move the stock is still among the most attractive in the field.

An article on this road appeared in this column about a month and a half ago—March 8. It has mentioned that the Convertible Income 4½s (convertible into the common on the basis of two shares for each $100 of bonds) had been called for redemption on May 1, 1951. Funds for the redemption were provided for in the sale of a new issue of new First Mortgage 3⅛s. With the stock now selling well above the conversion price there will apparently be little question but that the entire amount ($6,287,000 as of the end of last year) of income bonds will be converted. Thus, the feeling has spread that the money that would have been used for the retirement of the incomes could now be diverted to the reduction in the amount of 5% participating preferred outstanding.

Whether or not the funds will be so used is a moot question inasmuch as the management still has in mind the expenditure of large additional sums on property improvements. Obviously, however, whichever the released funds may be used for this development will eventually redound to the long-term benefit of the common stock holders. Meantime, the road's earnings continue to soar and the operating performance continues to show marked improvement. Net income of $1,296,450 for the first two months of 1951 was more than 100% above the level of a year ago.

Nickel Plate

In contrast with the recent action of Western Pacific common another one of the long time speculative favorites has been notably lackadaisical. That is the common stock of New York, Chicago & St. Louis or, as it is commonly referred to, Nickel Plate. This stock, which is still selling above $200 a share and is for this reason alone an oddity in the rail group, attracted quite a following a short time ago when the last part of the dividend arrears on the preferred stock were paid off and when stock holders voted overwhelmingly in favor of a proposal to split the common five-for-one.

Generally speaking stocks selling as high as 200, or more, have a minimum appeal to the speculating public. Also, Nickel Plate common has admittedly had a particularly sharp percentage advance in the past year or so. Finally, it is still not on a dividend basis so that it is lacking in appeal to large groups of potential investors, particularly in the institutional field. These handicaps, however, are generally considered as merely of a temporary nature. As they are eliminated it is the feeling of many analysts that the fundamental strength of the whole picture will again assert itself and the stock again attract a large following. Even at recent high dollar levels the stock is selling little more than four times 1950 earnings.

Probably there has been some disappointment over the delay in the start of trading even on a when-issued basis of the split stock following approval of the split by stock holders. In a railroad case, however, it is necessary also to get Interstate Commerce Commission permission for a split. While there appears to be no question but that the Commission will approve, there is necessarily a time lag for the mechanics. The best guess at the present time is that the ICC will come out with its decision around the end of the month or the beginning of May. The question of the ending of the long dividend drought, on the other hand, will probably be longer delayed. Those close to the situation look for action some time late in the summer or early in the fall. The general expectation is that a regular $3.00 rate may be established on the new stock, affording a liberal return of over 7% on the basis of recent prices for the old, unsplit, stock.

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Continued from page 17

Managing an Investment Portfolio

is the price at which a security sells in relation to its intrinsic worth. Value and market popularity rarely go hand in hand. Price tags are often more important than name tags. Good investment management as we try to practice it, with the emphasis on the word investment, has very little to do with guessing the short-term fluctuations in the stock market. The fact, however, remains that markets go up and sometimes down, making for difficulty and opportunity even for those of us who question our ability to foresee its exact pattern, except in retrospect. The daily ebb and flow of security prices reflects the hopes and fears of investors and speculators. We do not measure the value of an investment on the basis of the popularity or the size and importance of the company alone.

A further trait that the investment manager must possess is the *ability to decide* and to translate the decision into *action*. Information and knowledge in a file drawer, or in your desk, or even in your own mind, is worth absolutely nothing unless it is translated into action. The action may be to buy a security or it may be to sell a security. Decision by default is no decision by management. The essence of management is decisive action. Investment committee meetings must be more than debating societies and educational forums. In the management of investment funds, the managers must possess the power of decision. I would also add somewhat parenthetically at this point that their organization setup must facilitate decision and action.

Two other factors that I would consider important and should be a part of the equipment of the investment manager are *initiative* and *courage*. Initiative means to me that the investment manager should be able to foresee possibilities in industries and individual companies before they are generally recognized, and then having taken the initiative he must have the courage to make the investment. The initiative and the courage will be well buttressed if they are based upon sound knowledge. A good investment manager must be prepared to make unpopular decisions and stick with them. The successful investment manager must rule his prejudices and not be overruled by them. Having made the decision to invest in a particular security, he must have the courage to stay with it or the intestinal fortitude to withstand unfavorable popular opinion. It is primarily when general opinion is bearish on some company or industry that its securities are likely to be available at attractive levels.

On the other hand, pigheadedness or stubborness should never be substituted for courage. Conditions do change, new circumstances arise that probably could not be foreseen, and under the new set of circumstances and conditions the industry or the company must be reappraised and compared with all other available industries and companies. That is why I reiterate that knowledge and judgment must be the platform on which the investment program is erected.

Administration

Now let us turn finally to the administrative organization that conducts investment management. No one man today can hope to be abreast of all developments along the political and economic front as well as developments and changes occurring in industry. The advances of science—management and labor problems—legislation—and the ebb and flow of business prosperity—contribute to the problem of evaluating the worth and future of securities. The investment manager's use of the facts, which is dependent upon his judgment, is measured in his accomplishments.

There is nothing mysterious and secret in the methods pursued or the tools and techniques used in the management of investment portfolios. You are all familiar with these methods. You practice many of them yourselves. You all recognize that probably the most important single factor in gathering and correlating information is *hard work*. With it, there must be organization. Knowledge and informed opinion with many sources of information and an omniverous ability to consume the information, reduce it to digestible size, and dish it out promptly and effectively. One of the foundations of judgment is experience. Experience cannot be obtained synthetically, only time produces experience. Time also brings contacts.

We maintain contacts with managements of companies. We go and see them and they come and see us. We study their reports, and we listen to their thinking. We discuss their problems. We delve into the future with them. We visit their plants and we visit their properties. We are not engineers, we do not attempt to get out and measure the floor space in their plants or determine whether they have the most efficient production layout. We have, however, we think, over a period of time developed some ability at appraising corporate management. Some years ago, managements were aloof to visiting investors. In fact, they not only resisted such visits, but when cornered they refused to give any information. You know, gentlemen, to what extent times have changed. Hardly a day goes by in Boston without a visit from some industrial or public utility official from some part of the country. They come to see us to tell us their story.

Time has also built up our contacts, with people in the investment banking business, with commercial bankers, trust companies, economic organizations, government economists, research organizations. They are a priceless asset to any organization and can be developed only through an interchange of ideas based upon mutual respect and confidence.

This is the age of specialization. We must rely on specialists. In managing the portfolio, we get help from the investment banker, broker and investment dealer. We rely upon them for ideas, suggestions; we rely upon them for contacts with companies. We rely upon them to keep our ideas fresh and alert. We always find that our good investment banker friends have numerous suggestions involving exchanges in our portfolio—all of which are aimed at improving quality and investment position. I won't say that we accept every suggestion that we have made to us, but I will say that we consider them and we consider them seriously.

All of this requires organization on our part. It requires a team. On this team are industry specialists, research analysts who concentrate on a number of industries. We do not believe in over-specialization. We do not believe in a large organization of individuals working in very limited areas. We favor a small expert team with *flexibility of approach* and *directness of action*.

Let me give you one or two actual examples of portfolio management. Naturally, I'm going to tell you about our success stories and not about our failures. We have both. We make mistakes, but in the long run we trust the plusses will outweigh the minuses.

In 1946, we began to explore the rayon industry. It had certain characteristics that appealed to us. We studied the industry statistics and the statistics showed that the industry *had growth*. We were convinced that the *product was essential*. We knew that new uses were being uncovered—new applications for rayon were appearing. And we also knew that the units in the industry were developing new fibres and were improving the quality of the old ones. We also could learn from our studies that *production was concentrated* in a relatively few units; thus limiting the possibility of disorganized competition. Furthermore, the *threat of new competition* to the established units in the industry was *limited* because of the tremendous investment required. A further factor that appealed to us was the *steady downtrend in the price of the product*. At the same time, investors very generally considered the rayon companies as upstart relations in the textile family and gave them a very poor standing.

Having become favorably impressed with the statistics and the background of the industry, we then went to some of our banking friends who were familiar with the industry and with the leading companies to check our findings and to see where we might be wrong. Our favorable impressions were confirmed. Our interest in the situation increased. However, we still were not prepared to make a commitment. We now *established a direct contact* with companies in the field. We traveled from our office in Boston and called on the officials of the leading companies, we *made inspection tours* of the plants. We interviewed managements, trying to appraise their thinking, to learn their plans for the future, to understand their problems. We liked what we saw at Celanese. We believed the company had growth ahead. We predicted increased dividends for stockholders. We believed that the market was not placing a correct appraisal on the company's stock. At $18 a share, it represented a true value. I returned to Boston from my surveys and within 24 hours we had a commitment in Celanese stock. I might also add that shortly afterwards we made commitments in other rayon companies also. I merely cite this as a specific example of some of the processes that we went through, the timetable of appraisal, and the fact that we translated the final favorable contacts with the company into immediate action. Our action, however, as you can see, was not hasty. It was based upon the careful study of the background.

One other instance of a slightly different nature may also be illuminating. A few years ago, when the Finletter Commission report was published and the war clouds began to look black and people talked of building up a 70-group air force, we looked at the balance sheets of the aircraft manufacturing companies and saw that Lockheed Aircraft stock was selling for only 75 cents on the dollar as far as net working capital was concerned. Its plants, contracts, organization, and reputation were being given away. We know Bobby Gross who runs the company. We were prepared on the background—we were again in a position to act. We did act, and we acquired Lockheed stock when it was under $20 a share. We think that when you can buy working capital at 75 cents on the dollar with such a favorable industry outlook that you are purchasing a good value even if aircraft manufacturing stocks do not measure up to some people's idea of quality.

I have tried this afternoon to sketch for you some of the problems and some of the methods of management. Historically, we have looked at some of the techniques and some of the philosophies that have been tried over a period of years and discarded in part or in toto. We have defined our target and outlined our objectives. We have painted broadly the prudent man philosophy and then have described the qualities of character in management that appear essential to success and finally described the organization methods and techniques employed in the management of investment funds.

There can be no assurance that management will have any semblance to perfection. At times, it might appear to have only negative merit. There is no ducking the issue that ownership of capital for investment puts the owner into a complicated and difficult position, and any business to be successful must be well managed. I think I can speak for many of us in the business when I say that sometimes we feel like the man who was put in the cage with the lion, when the lion tamer said, "I don't expect much of you, my boy, but go in there and do the best you can." Managements should never be static. Management should be flexible and aggressive. It should guard against the common pitfalls of over optimism or excessive pessimism. It should always try to deal in terms of investment values and avoid purely speculative risks. No management can succeed without imagination, patience, courage, at times, and a conscientious effort to succeed.

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Continued from first page

The Bull Market Can Continue

published a compilation of earnings and prices of the Dow-Jones industrial stocks which showed that over a ten-year period market prices and earnings moved in the same direction less than 20% of the time. I don't want to bore you with too many statistics, but the case history of Santa Fe provides an excellent illustration of how far this divergence in trend actually went. In 1937, the railroad showed earnings of $0.60 a share and sold as high as 95. By 1942 the earnings had risen steadily for five years to the astronomical figure of $27.79 a share and the stock had gone on a $6 dividend basis, but the price of the stock had dropped to under 28. During the four-war-years earnings dropped steadily until in 1945 the stock was showing $9.56; but in 1945 the stock sold for 112. Five years later, at the outbreak of the Korean War, the stock was still selling at 112, although it was then earning at the rate of $30 a share.

Obviously something other than earnings was responsible for Santa Fe's remarkable behavior, but don't think for a moment that it was unique that all other stocks behaved in the conventional manner. To most, superficial glance at the records for the period under discussion will show dozens of stocks in a variety of industries acting much the same as Santa Fe. I only spend so much time on this because a large segment of those who disagree with me on the market's future course are bearish because they do not believe earnings can possibly hold at last year's boom levels for any appreciable length of time.

Keeping Santa Fe's history in mind, I should like to reappraise the whole theory of earnings as determinants of stock prices. Generally speaking, conservative investors have held that a stock should sell at 10 times earnings and 15 times dividends in a market which was neither particularly high or low. Historically (since 1938) good stocks have sold at anywhere between one times earnings and 150 times earnings, reaching the 10 times figure only occasionally, and then apparently by pure accident. However, if we look back at these periods we shall find that investors generally were willing to buy stocks at 10 times *what they thought would be* the earnings over the next year or year and a half. This, it seems to me, is very significant and lies at the root of much present-day confusion. It goes far to explain why stocks sold at such absurd levels during 1947 through 1949. For people were then expecting the decline in business which had followed every major war and were projecting the earnings which could be expected at the bottom of such a decline. Today the same logic may be used to support the belief that earnings may well decline over the next couple of years, as everyone predicts, but at the same time stock prices may move higher because of an improvement in price-earnings ratios. In other words, General Motors could as easily sell at 80 with earnings of $6 and dividends of $4 as it could sell at 50 earning $12 during 1950. As long as no serious decline is foreseen in business activity it seems logical that investors will not be averse to paying 10 times or more the earnings they anticipate.

Why No Postwar Decline in Business Activity

Now, leaving the subject of prices and earnings, let us consider another aspect of the situation: namely, why it was that the much-advertised postwar decline in business activity failed to take place. If one were a government supporter one could repeat the well-known statement of FDR, that "we planned it that way." When the first signs of inventory liquidation appeared in the spring of 1947, the government produced the Marshall Plan, ostensibly to save Europe from Communism, but effectively to channel off large quantities of surplus goods which were being produced by our overexpanded industry. This strategem appeared to stave off the trouble until early 1949 when industry, even with Marshall Plan aid, was beginning to show signs of trouble. This time support programs, insurance company-financed railroad car subsidies, and a technical rebound from an oversold inventory and stock market condition brought a recovery which might have lasted through 1950. Before one could tell, however, the attack on Korea, which we do not believe was manufactured by the government, again took the chestnuts out of the fire. Since August heavy industry has been swamped with orders which may not be filled for several years (as long as the semblance of a war is maintained somewhere), while consumer goods producers, with their well-known ability to double or triple production at the drop of a hat, have been on a real spree which is now showing signs of tapering off. Whether this soft goods letdown can be protected by an act of God or government, I don't know and shall not try to guess just now. Marketwise, I suspect its importance has been greatly overstressed.

In considering the manipulations to which business has been subjected since 1947, we find that the public has been misled and the government has saved the situation by one simple device—inflation. This easy solution for all the ills resulting from overproduction was first suggested in the early '30s by John Maynard Keynes, a brilliant speculator who once remarked that it would probably be his fate to have his ideas championed the loudest at a time when he would be the first to disagree with them. Keynes' ideas had their first test in 1933, their second in 1938, and then an annual test beginning in 1947. So far they have worked, although each time they have destroyed some of the confidence of intelligent people in the future purchasing power of the dollar. Someday we dare say that our situation will be really bad and the printing of money as a cure will result in the annihilation of our faith in paper-backed currency, but this doesn't seem too imminent right now. The important question today is how far confidence has already been destroyed; in other words, how many of the huge amounts of Series E and G bonds maturing in late 1951 and early 1952 will be extended and how many will be cashed in by anxious owners in search of some other form of investment offering better cost-of-living protection. In this connection you will recognize that we are not predicting the future, but merely indicating a phase of inflation which began many years ago and may become visible for the first time this fall.

Why Stocks Can Still Advance

The cost of living has risen around 100% since 1939 and almost everything but common stock prices have made the full adjustment. If you look through the records of 20 of the best managed companies in the country, you should find that per unit of sales their profit before taxes is over twice as high as it was then, after taxes a little less than that. This is of course very superficial, but taking into consideration the growth in unit business which has taken place since 1939, owing to growth in population, removal of German and Japanese competition for certain markets, more than proportional growth in the purchasing power of the lower economic classes, and the enormous amounts of largesse given away by the government to veterans, farmers, and other voting groups, one reaches the conclusion that for most well-managed companies net earnings, dividends and assets should be about double 1939 levels, assuming a comparable degree of prosperity. Translated into stock market terms this means that in 1949 the Dow at 160 was considerably cheaper than it was in 1938 at 100 and approximately as cheap as it was in 1942 at 90. It implies that *barring any further inflation of the currency* the Dow-Jones Industrials might be given a fair investment valuation at around 300 (the prewar 150 level). In a major speculative orgy a level close to 400 might be seen.

These statements will doubtless strike some of you as being irresponsible numerology. Much of this business falls into that category and I have tried as far as possible to stay away from the tempting game of numbers. But the figures of 300 and 400 for conservative and speculative projections of the Dow under today's conditions may be arrived at by several approaches.

Before I close, I should like to point to an old speculative theory which can still be used as a bull argument. That is that in a major bull market, good quality leaders should go up at least three times from their low, "dogs" should appreciate ten times and peak volume should run close to 10 times the volume on the bottom, so that those who purchased their stocks over a period of months when the public was selling will have an ample opportunity to change places with them when they finally change their minds. Logically there must be many more investors, professional and amateur alike, who disagree when the market is up as there were when it was down. The fact that a forum like this can still be fairly evenly divided on its market opinions is strong indication that the end has not yet been reached. If my line of reasoning is right, the only real question to present-day Bears is "How far will the market have to rise before you change your mind and buy?"

Seligman, Lubetkin Co. Expand 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. Otto Jensen, a partner in the firm, has been admitted to associate membership on the New York Curb Exchange to handle the expanding business of the firm.

American Trust Co. of N. Y. Elects Officers

Arthur W. Mischanko has been elected Vice-President and Comptroller and Harold R. Wright has been elected Treasurer and Secretary of American Trust Company, of New York, it was announced.

Mr. Mischanko formerly was Vice-President, Secretary and Treasurer of the organization. Mr. Wright formerly was Trust Officer of the Bank of New York & Fifth Avenue Bank, with which he was associated for 26 years.

Securities Salesman's Corner

By JOHN DUTTON

Many new men who enter the field of securities salesmanship soon discover that they can deliver an excellent talk about securities but when it comes to bringing in the orders they are faced with the inevitable: "I don't know; I'll think it over; see me again sometime." Not only are new salesmen bothered with this problem but many who have been selling intangibles for years are troubled with it. The main reason is, of course, the speech was too good! As a one sided talk it was excellent. The listener didn't have a chance, and the one thing he could do, **which was give you the order,** he withheld to himself. **There** he was boss. You made a good speech but he held back the order. He just didn't have enough opportunity to get in there too, and start helping you to make the sale.

I have purposely refrained from making any recommendations of sales literature, books and pamphlets in this column but this is one instance where I would like to suggest that you obtain a little booklet called "Silent Selling," written by Robert Rawls and obtainable from the Updegraff Press, Ltd., 20 Harwood Building, Scarsdale, N. Y. Single copies are inexpensive and, in quantities, the charge is even less expensive. I believe that all of us who are selling often need a reminder that "We talk too much—and too fast." Time and again I have personally felt the urge to interrupt another when they had the ball, and they were having just the best sort of time carrying it. When such a human failing as this occurs to all of us—and failing it is, make no mistake about it—then an understanding of this very important point is essential if you wish to do the best sort of job in sales work.

I have time and again watched people react to a soft voice and a humble manner. I have seen men go out with their briefcases under their arm, their jaws firm and a determined look on their faces attempting to get the order. I have also watched them come back to the office without it. They have wondered why—they listened to all the pep talks—they read the books—their shoes were shined—their enthusiasm was high—their talk was good—the only trouble was, **It Was Too Good.**

Give the other fellow a chance—give him an opportunity to sell himself—stop talking and let him digest a point before you start jamming another down his throat; then another, and another. The human mind can only absorb so much at a time. You know your story. He doesn't know it. It is new to him. Read the history of every great sale and you will find out that the man who put it over, **Put His Audience Into The Act.** Ben Franklin did it at Court of France. Roosevelt did it when he made his fireside chats. MacArthur did it last week before the United States Congress.

And know when to stop. This goes for columns as well. Send for a copy of "Silent Selling." It can provide a valuable addition to your practical study in the field of salesmanship.

Deposits of Mutual Savings Banks Up $56 Million in March

A. Livingston Kelley, President of NAMSB, says it is largest gain of year, and compares with only $1,700,000 gain in February.

Deposits in the nation's 530 mutual savings banks increased $56,000,000 during March, to reach $20,105,000,000 at the close of the month, according to A. Livingston Kelley, President of the National Association of Mutual Savings Banks and President, Providence Institution for Savings, Providence, R. I. The month witnessed the first substantial gain in regular deposits this year and the increase compares with a rise in total deposits of only $1,700,000 last month. The March gain in regular deposits further reflects the fact that, for the first time this year, amounts deposited in regular accounts exceeded withdrawals.

A. Livingston Kelley

Portfolio policy of the mutual savings banks during March reflected the unsettled conditions in the investment market. In recent months, U. S. Government bond holdings have been liquidated to provide the money needed for current mortgage commitments that was not available to the banks from other sources. In March, however, the increase of $145,000,000 in mortgages and $19,000,000 in corporate and municipal securities was accompanied by a decrease of $259,000,000 in U. S. Governments and a gain of $161,000,000 in cash.

J. Barth Co. Adds

SAN FRANCISCO, Calif.—John J. Cimino, former tax consultant and investment counselor, has joined J. Barth & Co., 404 Montgomery Street, members of the New York and San Francisco Stock Exchanges, as a registered representative.

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Continued from page 13

What Next, Mr. Business Man?

unless the wage policy is modified to allow them.

Public opinion at present does not demand that unions accept a wage policy that involves real restraints upon the use of their bargaining power. Since the order limiting wage increases was issued on Feb. 27, unions in wool, cotton, meat packing, shipbuilding, railroading, and other industries have negotiated wage increases which considerably exceed the permitted amounts. The unions evidently expect the government to modify its wage regulations or to treat the increases negotiated by unions as exceptions to the regulations.

When one takes account of the strong upward pressure of unions on wages, and the inability of the government to rally public opinion against wage increases, one reaches the conclusion that the rise in straight-time rates is likely to be at least as large as it was early in the Second World War between October, 1942 and October, 1943, when the increase was 7%. Such an increase would add over $9 billion to payrolls. This rise, together with that produced by the rise in employment and the longer work week, will make the total growth in the compensation of employees between the end of 1950 and the end of 1951 about $21 billion as an annual rate before taxes and about $16 billion or $17 billion after taxes at present rates.

VII

Since the prospects for limiting the rise in personal incomes are not bright, the control of the demand for consumer goods must be accomplished mainly by reducing the proportion of consumer incomes that are spent for consumer goods. There are two ways of doing this: (1) raising the personal income tax; and (2) increasing the rate of personal saving.

An increase of $16 billion or $17 billion a year in the yield of the personal income tax would eliminate the gap that will have arisen between personal incomes after taxes and the supply of consumer goods by the end of 1951. It is, of course, unrealistic from the political standpoint to talk about such a rise in the income tax. Indeed it is doubtful whether the Congress will be willing to vote the $4 billion increase in personal income taxes requested by the President.

Whether another $4 billion increase in the personal income tax would be bad for incentives would depend upon how it was raised. The personal income tax can probably go quite high before it discourages men from working harder. Indeed, up to a certain point, higher taxes on income from personal services probably encourage effort. The personal income tax can also go quite high before it makes most people less willing to invest in homes or causes the self-employed to be less willing to invest in their own enterprises. But willingness to invest in securities is probably weakened by high income tax rates, particularly when law permits very inadequate offsets for losses. In order to avoid discouraging millions of persons from increasing their savings and buying securities, it would be better to increase the yield of the income tax by reducing exemptions rather than by raising marginal rates.

VIII

Since only a small fraction of the inflationary gap can be eliminated by taxation, reducing the gap must be accomplished mainly by a rise in personal saving. There are several ways of increasing personal savings: (1) offering individuals convenient opportunities to reinvest dividends; (2) reducing the amount of dissaving; (3) increasing the use of personal savings in financing the purchase of real estate; and (4) offering individuals attractive securities in which to invest.

(1) Offering individuals convenient opportunities to reinvest dividends. This is a step that many corporations should take.

(2) Reducing the amount of dissaving. Dissaving occurs when one spends more than one's income. More than one-third of all dissaving occurs among the two-fifths of the spending units with the highest incomes. By reducing dissaving among the well-to-do by strict credit controls, it can probably be out by about $4 billion or $5 billion a year.

(3) Increasing the use of personal savings in financing the purchase of real estate. During the last year about $2 billion of investment in real estate was financed by the expansion of commercial bank credit and roughly a billion by the sale of government securities by insurance companies to the Federal Reserve Banks—in other words by an expansion of Federal Reserve bank credit. Both of these methods of financing the purchase of real estate are inflationary. If they are effectively discouraged, personal saving as a method of financing housing will be encouraged. There will be less residential building in 1951 than in 1950, but a much higher proportion of it should be financed out of personal savings.

(4) Offering individuals attractive securities in which to invest. The prospect that the long-run movement of prices will be upward greatly reduces the attractiveness of saving bank deposits as an investment for small savers. Perhaps conservatively-run investment trusts can help the small saver solve his investment problems in a period of reserve prices. Repayment of the large debts incurred by individuals in buying houses during the last several years will help about personal incomes, and should be encouraged. But a major role in encouraging personal saving and thus in reducing the size of the gap between personal incomes after taxes and the output of consumer goods should be played by the government.

Thus far the government has done virtually nothing to stimulate an increase in personal saving (1) despite the obvious fact that most of the reduction in the size of the gap between personal incomes and the supply of consumer goods must be achieved by more saving, and (2) despite the additional fact that the present securities of the government are not attractive to non-institutional buyers. In other words, the government has scarcely started to deal with the very crux of the problem of inflation. If the government is to do a good job of stimulating saving, there must be a merchandising point of view in the Treasury. This means that the Treasury must design and offer securities that fit present needs and preferences of prospective buyers and that would be purchased eagerly. The Treasury is still attempting to sell the same type of E bond that was offered about 10 years ago. In the meantime, however, conditions have greatly changed, so that attempting to sell a 1941 model government savings bond in 1951 is much like attempting to sell an out-of-date model automobile or refrigerator.

The principal change that has occurred between 1941 and 1951 is in expectations concerning the *future* movement of prices. Throughout the Second World War there was a general belief that the war would be followed by a slump and that the trend of postwar prices would be downward. As a result, not only were people willing to buy government securities on a large scale, but they were also willing to hoard. Between the end of 1941 and the end of 1945, personal holdings of currency and demand deposits increased from $16.7 billion to $45.7 billion. The general expectation that the postwar movement of prices would be downward is reflected in a survey of 62 non-governmental economists made by one of the agencies of the Farm Credit Administration in 1945. The dominant opinion among these economists was that the price level during the quinquennial 1946 to 1950 would average about 6 per cent above 1945, and that by the quinquennial 1956 to 1960, the price level would be slightly below the level 1946-1950.

Present opinions about the long-term movement of prices may be just as wrong as were the opinions of five or ten years ago. In fact, it is not too late for at least *some* of these early opinions to turn out to be correct—though I do not think this will happen. But whether present-day opinions are right or wrong, they are very different from the opinions of ten years ago, or even five years ago, and it is opinions that make markets. Merchants long ago discovered that the way to sell goods is to give the customer what he wants, not what the seller thinks the customer *ought* to want. A few years ago a large restaurant chain undertook to serve the kind of food top management thought the customers ought to eat—not the kind that the customers wished to eat. The customers got what they wanted, but they got it by going elsewhere.

Since there are differences in the preferences of prospective savers, the Treasury should offer a variety of savings bonds — a wider variety than it now offers. Any security that is sufficiently attractive to induce considerable new saving will be purchased in substantial measure out of capital rather than out of income, unless steps are taken to prevent it. Probably the best way of discouraging purchases out of capital would be to make the new bonds non-negotiable and to limit the quantity sold to any individual. There seems to be a widespread demand for a tax-exempt bond. A bond should be offered to meet this demand. If interest were tax exempt, a rate of 3.5 per cent or a little less, might be regarded as sufficient by many prospective buyers to compensate them for the risk of loss in the purchasing power of their principal and thus to induce an increase in saving. There is a considerable demand among prospective investors for "inflation hedges"—investments that will not lose in purchasing power if prices rise. In fact, the demand for protection against inflation extends beyond savings—there is a widespread demand that wage payments be protected against inflation. The Treasury should offer a bond designed to meet this widespread demand for a hedge against inflation—that is, a bond payable in a fixed amount of purchasing power.

Such bonds have been criticized on several grounds—all of them ill-founded. For example, it has been said that purchasing power bonds would represent "built-in inflation." This is erroneous. The ratio between the liabilities created for the government by purchasing power bonds and the national income would be precisely the same as the ratio between liabilities and income that would exist if the government sold conventional bonds and did a perfect job of price control—that is, prevented *any* rise in prices. It is also objected that purchasing power bonds would add to inflation if they were cashed and the proceeds spent for goods during a period of rising prices. But so long as people expected prices to rise still further, the purchasing power bonds would be among the last of their assets that they would part with. It has been argued that the mere issuance of purchasing power bonds would constitute a dangerous admission on the part of the government that the government may be unable to prevent a rise in prices and that this admission would precipitate an avalanche of buying in anticipation of higher prices. In this age of newspapers and radios, however, the danger that prices may rise is hardly news. And the establishment of price control machinery is a fairly good advertisement of the danger of a rise in prices. Likewise, every time the government issues an order cutting down the future use of this or that material in civilian production, it is advertising a probably shortage and presumably encouraging people to buy in advance. In view of the long and thorough discussion of the problems of inflation and in view of the rise in prices that has occurred in the last nine months, there cannot be much residue of scare buying that would be precipitated by purchasing power bonds.

Persuading millions of persons to start saving or to increase their saving cannot be done by ballyhoo, or by advertisements over the radio or in the magazines or in streetcars or subways—it can be done only by personal solicitation, the same kind of salesmanship that gets people to buy life insurance. Consequently, as soon as the government provides itself with a meritorious line of securities that can honestly be represented as meeting the needs of non-institutional buyers, it should organize for a nation-wide face-to-face selling campaign. A good volunteer sales force is just as essential as a high-quality line of securities.

IX

It is appropriate to close this analysis by asking whether the economy on balance is building up future inflationary or deflationary influences. An upheaval as great as the huge increase in defense expenditures is bound to have important aftermaths. Some of these may be inflationary; others deflationary. During the Second World War a great deal of delayed inflation was built into the economy—though most persons did not realize this and, indeed, believed that the war would be followed by deflation, not inflation. It is too early at present to judge whether the defense program and the public and business policies associated with it are mainly building up postposed inflation or are laying the foundation for a large deflation. It is not too early, however, to note some of the principal developments.

It is plain that many of these developments are in sharp contrast with developments of the Second World War. Consequently, it is by no means certain that the aftermath of the defense program will be roughly the same as the aftermath of the Second World War. Let us note briefly some of the deflationary and inflationary influences.

Among the trends that will limit the demand for goods after the war are the following:

(1) The output of cars and other durable goods during the present year will be roughly two-thirds as much as last year. During the first half of the year the output of cars will probably be as large as the output of last year. Since output last year was abnormally large and represented to considerable extent catching up on deferred demand, output this year will be about sufficient to meet normal demand. In other words, there will be little or no accumulation of deferred demand. During the Second World War the production of cars for civilian use virtually ceased for four years and there was an enormous accumulation of deferred demand.

(2) The output of housing during 1951 will also be about two-thirds as large as last year when the output was abnormally large and represented partly catching up on demand. In housing, as in automobiles and other durable goods, output will be large enough to meet current accruals of demand. There is, of course, still a large backlog of demand for housing. The backlog will not be diminished, but it will not be increased.

(3) During the Second World War there was a drop in personal indebtedness, particularly short-term indebtedness. Consumer credit outstanding dropped from $8.8 billion at the end of 1941 to $4.6 billion at the end of 1943. By the end of 1945, it has increased to $5.6 billion. During the last quarter of 1950 there was some reduction in short-term individual indebtedness, but it was offset by the large rise in the mortgage debts of individuals. The great increases in employment that occurred during the Second World War helped to raise personal incomes after taxes relative to short-term consumer indebtedness. This undoubtedly had much to do with the rapid increase in consumer indebtedness between 1945 and the end of 1948—the period of postwar inflation. During this time total consumer credit increased from $5.6 billion to $14.5 billion.

The year 1950 saw an increase of about $4.8 billion in the holdings of currency and bank deposits by individuals. The rise, though large, was at a slower rate than during the Second World War. Personal holdings of currency and demand deposits increased from $16.7 billion at the end of 1941 to $45.7 billion at the end of 1945; personal holdings of time deposits from $24.6 billion to $44.4 billion; and personal holdings of government securities from $8.2 billion to $41.6 billion.

(4) Since the Korean War there has been a rapid rise in short-term business indebtedness — in contrast with the Second World War when this indebtedness increased only slowly. If short-term business indebtedness is large when the government defense expenditures dropped, the repayment of these debts can be a powerful deflationary influence.

Among the influences that are favorable to inflation several years hence are the following:

(1) The ultimate drop in Federal expenditures will be much less deflationary than the drop which followed the Second World War when expenditures dropped from $84.8 billion in 1945 to $31.1 billion in 1949. It was this huge prospective drop that led many persons to expect deflation after the war. The drop that will occur in expenditures for defense (probably about 1953 and 1954) will probably not be more than $10 or $15 billion. The drop will occur when the large armed forces have been supplied with needed original equipment and when the buying of war goods shifts to a replacement basis. The obsolescence rate in war equipment will be high and expenditures will be kept large by the development of new or improved kinds of weapons and equipment.

(2) Wages will rise more rapidly than prices. This will neces-

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sitate an ultimate increase in prices.

(3) The increase in the length of the work week will build into the economy a certain amount of postponed inflation—or at least the need for a certain amount of postponed inflation. When working hours are reduced to normal, about the time that the government defense expenditures drop, wage earners will seek compensating wage increases just as they did in 1946. To the extent that they succeed in obtaining compensating wage increases, increases in prices will be necessary.

(4) Some of the tax increases are undoubtedly temporary. This is probably true of some of the increase in the personal income tax, the excess profits tax and part of the increase in the corporate income tax. The expansion of the economy during the next two or three years will increase the yield of all taxes and thus increase the possibility of cutting them when government expenditures drop. Taxes which are temporarily high build into the economy postponed inflation.

Dreyfus & Co. Gets Advertising Award

The Stock Exchange firm of Dreyfus & Co., 50 Broadway, New York, has been selected by Standard and Poor's Corporation to receive their "Advertising In Action Merit Certificate" for sponsoring an advertising campaign that operates "for the mutual benefit of the members of the investment community" it was announced by John T. McKenzie, advertising manager of Standard and Poor's.

The Merit Certificate, which was presented to Jack Dreyfus, senior partner of the member firm is for a series of institutional cartoon advertisements which single out the pitfalls investors commonly place in their own path.

Standard and Poor's Merit Certificates are awarded each month for outstanding promotions in financial centers throughout the country. The winners of the monthly awards will be judged at the end of the year to determine the national winner. Among those who've received awards since the competition was started last January is the Boston Stock Exchange for a combined newspaper and direct mail campaign on inflation.

Dreyfus & Co. has been running their cartoons in metropolitan New York newspapers and in the "New Yorker Magazine," since January, 1950. The advertising agency is Doyle, Dane, Bernbach, New York, New York.

Newman, Kennedy & Co. Forming in New York

On May 7 the New York Stock Exchange firm of Newman, Kennedy & Co. will be formed with offices at 30 Broad Street, New York City. Partners will be Charles M. Newman, member of the Exchange; Jay Richard Kennedy, Arthur B. Behal, general partners, and Abram Kardiner, Stanley P. Young, and Richard Glauber, limited partners. Mr. Newman is a partner in Newman & Co., which is being dissolved as of May 5. Mr. Behal has been a partner in Gruss & Co.

Lucien L. Bailey Admits

KNOXVILLE, Tenn.—David T. Bailey has been admitted to partnership in Lucien L. Bailey & Co., Hamilton National Bank Building.

Bache Co. to Admit

On May 3 Francis K. M. Hunter will become a limited partner in Bache & Co., 36 Wall Street, New York City, members of the New York Stock Exchange.

THEN and NOW...

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

(A)

(B)

Continued from page 3

Saved by the Bell

not sufficiently passed on to customers in the form of lower prices—and more customers!

With us, somewhere between 5% and 10% of gross national product goes each year into renewal of, or addition to, plant and equipment. This is not hay! It was $19 billion in 1948, $18½ billion in 1950, and a whopping expenditure of almost $24 billion is planned for this year. And today the big slice goes not for renewal of a war-worn factory, or the replacement of an obsolete unit, but for new capacity. Because of this, our industrial capacity at the end of 1951 will have expanded almost 10% over 1950! No wonder Production Director Wilson says we can allocate for this year 15% of output for war and still meet civilian clamorings for the goods and gadgets of the abundant life.

A $24 billion bigger plant. Whew! But where does the money come from? Well, last year only 42% of corporate net income was paid out in dividends. That's where part of the money hails from. Depreciation charges finance a lot of this expansion, and since the Korean outbreak there's a new gimmick—the certificate of necessity. Armed with this, a company can build a new plant, and write off somewhere between 40% and 100% of its cost in five years of time! Over $4 billion in new plant will grow and flourish via this route. U. S. Steel, Jones & Loughlin, many chemical, aircraft, and railroads, will have some brand new assets on "a five-year plan" (American, not Russian style!).

Other capital for plant growth will come from borrowing or debt in some form; and I am perfectly ashamed to have to tell you that not more than 2% of this whole deal—the $24 billion—will come from selling stock! Think of this—America, the land of enterprise, the home of the 10-million-share day, the investment center of the universe—and stock subscription financing only the toenails of this gigantic industrial robot!

It all goes back to a basic defect in our capitalism today. Not enough stockholders. Only 15,000,000 tops, out of 150,000,000 population. Why, everybody ought to be a stockholder to share in our business system, the same voice shared in our political system. With wider stock ownership, appreciation, and understanding, how much greater could be our standard of living, and our sustained economic growth. What we really need is perhaps not a good 5-cent cigar, but a good $5 stock!

Well, you've been real patient with me today. We've raced over 10 years of history, discussed how two dictators injected new life when our enterprise started to ebb, examined the status of our defense effort, and our new production equipment. But we didn't answer the $64 question—will we always have to be "saved by the bell" of military necessity? You know we may, even today, be making gigantic plans, gazing 2, 3 or 10 years into the future—plans for a World War III that may never (and for this we pray) be fought. Close your eyes for a minute. Imagine Stalin poisoned, Russian revolution led by the Ukranians, a democracy in Russia, a Chinese Abraham Lincoln, world disarmament. I can dream, can't I? How would we cope with depressions in such a Utopia?

Howard G. Peterson Co.

Howard G. Peterson is forming Howard G. Peterson & Co. in New York City to engage in the securities business. Mr. Peterson was formerly with Babson's Reports, Knickerbocker Shares and Karl D. Pettit & Co.

Insured Inv. Agency

Edward J. Samut is engaging in a securities business from offices at 221 West 22nd Street, New York City, under the firm name of Insured Investments Agency.

Admits Partner

CLEVELAND, Ohio—Arthur D. Metzenbaum has been admitted to partnership with Eugene S. Halle in Will S. Halle & Co., Swetland Building, members of the Midwest Stock Exchange. Mr. Metzenbaum has been associated with the firm for some time as manager.

Continued from page 10

The Economic Unsoundness Of Price Controls

is deceptive. But whether temporary or not, the halt in the upward index is due less to price controls than to other causes, including the following:

1. A greater delay than was anticipated in the effect on consumer prices of large government defense orders recently placed or soon to be placed. These orders will push prices up soon.

2. Recent increases in basic material and labor costs, and in wholesale prices, have not been reflected in retail prices as rapidly as was expected. But they will be felt soon, and especially felt under the present price control-policy of margin control, under which such added costs will be largely or entirely passed on to the consumer in higher retail prices.

3. There will shortly be some increases in direct wages, and also other costs of labor, such as those resulting from present and possibly new escalator clauses in wage contracts, from "fringe" increases, which will also be used to permit an increase of labor income (and hence of labor cost) without technically being wage increases.

4. The present halt (and even occasional reversal) of the upward price movement is due to temporary causes, and when they cease to operate the upward trend will be resumed. Among these temporary influences are excessive inventories now leading to some mark-downs or expected mark-downs; consumer resistance upon discovering that the predicted shortages, which led to psychological inflation through the winter, have not yet materialized; a temporary and unjustified optimism about Korea and Russia drawn from events in March and early April, resulting in the assumption that defense orders would be slowed or reduced; the good effects of credit curbs and government bond rate changes; and greater-than-expected production of some civilian goods like electrical appliances. These factors can change back again just as rapidly.

5. The Wage Stabilization Board fiasco had two important effects on prices. The first was deflationary but unfortunately only temporary. Due to labor's withdrawal from the Board, the freeze of wages had to continue longer than anyone had expected, to the discomfiture of labor, of the Board, and of some government officers. Pressure for wage "adjustments" has meanwhile been building up. Now that machinery to effect changes is again being organized; now that organized labor has won half its battle and will probably win the other half, we may expect many concessions to labor beyond simple wage concessions. These increases will force up prices and become labor arguments for one more round of wage increases.

6. Irritation with price controls is likely to increase as they become more complicated and time-demanding, and there will be added temptation to circumvent or ignore them. The Stabilizer's recent statement that with good luck controls may be removed within two years will not make controls more popular. And the closer we approach election day, the less rigorous enforcement is likely to be, and the more liberal the allowance of exceptions.

7. Nearly every price order since the initial "freeze" has allowed further price increases, and nearly every future price will permit "adjustments" that will be upward. Thus price control will become increasingly a paper fiction. Public esteem of price control measures will not be increased by the recognition that prices which our controllers have not even attempted to control, such as basic agricultural prices, have risen less than many prices which they have theoretically "frozen." Economic laws do not always bow to government edicts.

Price Control—A Political Expediency

We can hardly expect the present price control program to be sound in economic concept, because it was never an economic concept. It was conceived in haste by wishful thinking out of political expediency. In its formulation the advice of sound economists and of men experienced in World War II controls was largely disregarded, possibly in the bliss of ignorance or the smirk of cynicism. The initial "freeze" was never intended to be more than a stopgap measure, an expedient, a sop to public demand—to be modified as time permitted. One of its authors said to me that if it created merely the illusion of control and the appearance of economic soundness, it would serve its purpose. Instead, the initial "freeze" has become the foundation upon which further expedients have been erected piecemeal.

Is this system working? No one can prove to what extent it has held prices down, but one can prove that it has been worse than troublesome to the productive industry of the nation. Production is essential to defeat of inflation, and the short-term value of price control may already be more than offset by its impairment of production and production incentives. If we do get lower prices, we can thank the operation of natural economic forces far more confidently than the prestidigitators of price-control.

From all this I conclude the 1951 price-control has not justified its existence on economic grounds.

Goebel Brewing 3½% Notes Placed Privately

The Goebel Brewing Co., according to an announcement made on April 18, has arranged to place privately through Nauman, McFawn & Co., of Detroit an issue of $1,250,000 15-year 3½% notes due 1966, with the following institutional investors: Sun Life Assurance Co. of Canada, Massachusetts Mutual Life Insurance Co. and Manufacturers Life Insurance Co.

The purpose of the loan is to replace advances to the Goebel Brewing Co. of California, a wholly-owned subsidiary located in Oakland; also a portion of the proceeds will be used to modernize the bottling plant at Goebel Plant No. 1 in Detroit.

In 1950, the Oakland brewery was completely modernized and is in the final stages of completing a new stock house. These additional facilities have doubled the capacity of the Oakland plant permitting the introduction of Goebel beer into the Los Angeles, Calif., market.

Arthur Greenbaum Opens

Arthur Greenbaum is engaging in a securities business from offices at 1575 Thieriot Avenue, New York City.

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Federal Reserve Bank of St. Louis

Continued from page 4

Unfavorable vs. Favorable Factors in Stock Market

the 1946 peak, the residential contract figures began to decline, making their postwar lows around May, 1947, when stock prices were near their lows for that year. The sharp rise in stocks during the first half of 1948 was accompanied by an advance in the residential contract totals, with both series thereafter showing declining trends into 1949, although the residential construction series turned up before stock prices. Going back, quite a number of years, it will be noted that the 1929 top in stock prices was led by over a year in a decline of residential construction contracts while in 1937, the latter levelled off considerably ahead of the market.

A Strong Statistical Position

The above factors and others that may be classified as fundamental forces paint a rather ominous picture of stock market prospects but, as noted earlier, the market's strong statistical position offsets, to a large extent, the adverse effects of these factors. As a result, the current stalemate may be resolved by technical influences with regard to the market's trend over the next several months' period. Since the relatively cautious attitude now prevailing suggests that a shift to the more optimistic side would act as a powerful market stimulant, stock prices may yet go substantially higher before becoming vulnerable to a serious decline. This shift in sentiment may become increasingly noticeable when defense production develops more steam. Some of the more reliable signs to watch for in detecting excessive optimism in the next broad advance are, a sharp decrease in the short interest, heavy trading and sharp price increases in marginal stocks and the prevalence of one dominating popular motive for buying common shares, such as a renewed fear of inflation. Under the above set of circumstances, the probabilities of a substantial decline in market prices would be greatly increased. However, a material change in the foreign situation would call for an entirely new appraisal of the market's outlook. The above discussion is based chiefly on the assumption of continuation of a semi-war economy until 1953, at least.

EXHIBIT

"THE TIMING FACTOR"

The "timing factor" is a weighted combination of several fundamental economic market factors. While each factor in this combination may sometimes (by itself) give a false signal, the composite of these usually successful market indicators becomes much more reliable. Below is a brief discussion of each component.

(1) Stock Prices — From month to month, stock prices tend to follow their own trend.

(2) Bond Prices — In reflecting interest rates as well as the outlook for corporate earnings, bond prices usually lead the cyclical trend in stock prices.

(3) London Stock Prices — Because of England's importance in international trade and the fact that economic conditions in one nation are apt to affect another, London stock prices to some extent reflect the outlook for world trade conditions.

(4) Sensitive Commodity Prices —Certain raw materials are most sensitive to changes in general supply and demand conditions in the primary commodity markets.

(5) Residential Construction Contracts paint an advance picture of the huge building industry, which so vitally affects all other industries. They are more stable and sensitive to primary trends than total construction contracts, and thus give a clearer picture. The rate of change in this index is even more useful. If the rate of increase is decreasing, the signal indicated is of "bearish" significance. Conversely, a slowing up in the rate of decrease is interpreted as favorable.

(6) Demand Deposits — A substantial and most active part of the money supply is represented by demand deposits. If the rate of increase in demand deposits is decreasing, there may be trouble ahead; conversely if the rate of decrease is decreasing, these troubles may be approaching their end—to be followed by an increase.

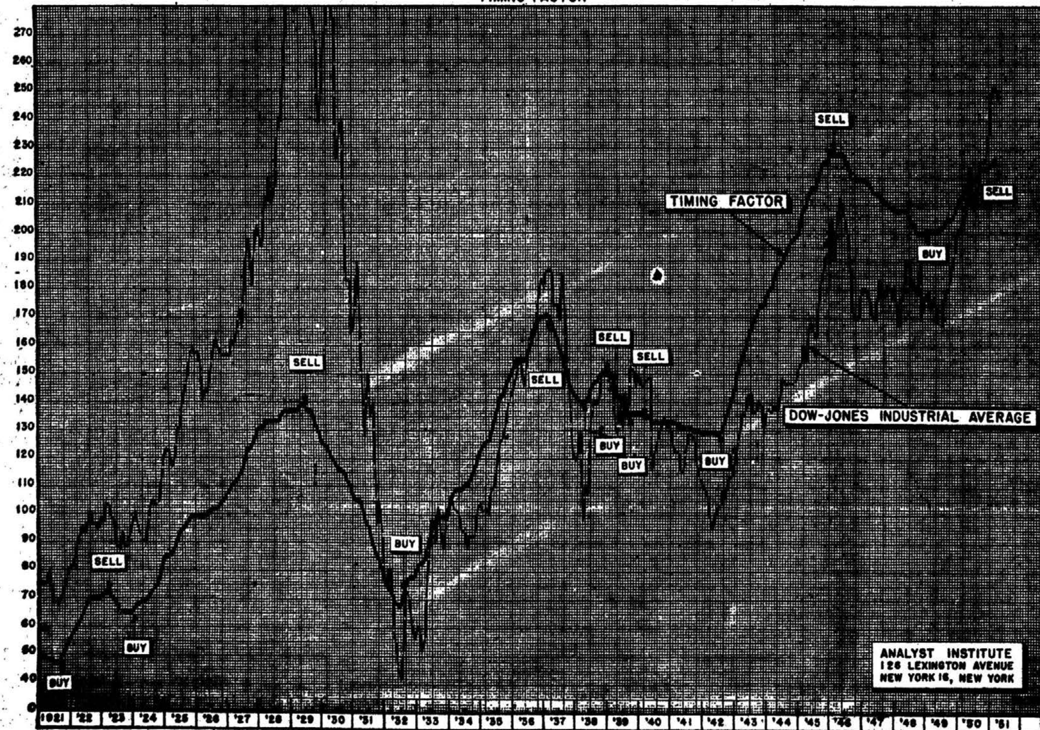
(7) Bank Loans represent debts. While loans by commercial banks inflate demand deposits and thus stimulate business, an overstimulant is dangerous and an invitation to subsequent deflation. Over-stimulation is indicated by an increasing rate of gain in bank loans; an improvement in bank credit health is preceded by an increasing rate of decreasing bank loans.

(8) Level of Stock Prices — The London stock market is a useful standard of comparison for testing whether stock prices are relatively high or low. The average ratio of New York to London stock prices which prevailed in the most recent economically normal period, 1935-1939, is the basis for this standard.

(9) Commodity-Stock Price Ratio—While rising prices may be stimulating, high commodity prices tend to reduce real purchasing power. A strong "bull" market is occurring if stock prices are rising at a faster rate than commodity prices. Conversely, a lagging decline of stock prices behind the commodity price trend may indicate the approaching end of the general economic decline, and an "over-sold" stock market.

While each individual component in the "timing factor" could conceivably be relied on for fairly satisfactory results, there are times when an individual component gives a false signal. However, the proper combination of the various components in the "timing factor" helps eliminate most of the false signals in the individual components.

These component changes are weighed — giving a composite. The trend of the composite is assumed to continue until reversed by a significant change in the opposite direction.



Chicago Invest. Analysts To Hear at Luncheon

CHICAGO, Ill.—R. A. Weaver, Chairman of the Board of Directors of the Ferro Enamel Corporation, will address the Investment Analysts Club luncheon meeting on April 21 at the Georgian Room, Carson Pirie Scott & Co. Mr. Weaver's subject will be the Ferro Enamel Corporation.

John Ricksen Forming Company in New York

John R. Ricksen is forming John Ricksen & Co. with offices at 21 Maiden Lane, New York City, to engage in the securities business. Mr. Ricksen was formerly with Daniel F. Rice & Co.; Auchincloss, Parker & Redpath, and Peter P. McDermott & Co.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market is still in the indeterminate stage, despite the growing belief that the bulk of the price adjustment has already been seen. Buyers are still reluctant to place more than scale orders but, on the other hand, the size of these orders has been enlarged in many instances. This is a healthy development and it may be heralding a change in the buying attitude of those that have an interest in acquiring governments for income purposes. It would not take too much buying to bring about some stabilization in the market, because offerings are still on the light side. Also, the level is low enough so that owners of Treasuries, bought at higher prices, are not likely to let them out, even if there should be further rallies. The short-term market is showing signs of settling down, and this might be a forerunner of what will take place throughout the list.

The longer bank issues eventually went the way of the other more distant Treasuries, under par, but there are reports that these obligations are being well bought on the way down. The partially-exempts also still seem to be interesting to out-of-town deposit banks.

Market on Defensive

The credit limiting action of the powers that be, which is the making of accessibility of Reserve Bank credit more risky and more difficult, continues to keep the government market on the defensive. The price decline in Treasuries, it seems, has been about steep enough to accomplish what the authorities wanted to do. There has been less liquidation of government obligations in order to get funds that are being put into other investments since quotations of Treasuries went on the skids. Nevertheless, there is still some selling that has to be done in order to take care of prior commitments, but this is not in nearly as sizable volume as was the case when Federal was protecting prices at pegged levels. On the other hand, with the absence of buyers it does not take much selling to keep the market on the defensive.

The reduction in the supply of funds that can be put into non-government investments, because of the declining Treasury market, is going to have an influence upon the loaning policies of insurance companies, savings banks and commercial banks sooner or later. Even at the present time, it is reported the pinch is being felt in not a few instances. The change in the open market policy of the monetary authorities is also creating other problems in the money markets, because there is the question of refundings and maturities that must be faced in the not distant future. This uncertainty, added to those of credit limiting, puts even the short-term obligations of the Treasury in a not too dissimilar position from the longs when it comes to creating reserve balances. Nevertheless, it does seem at the moment that the near-term maturities are taking on aspects of stability, which should make the risk not as great as might be encountered in the more distant maturities. Yet it is not indicated that the shorts will be without some elements of uncertainty because the open market policies of the authorities are still to make the creation of Reserve Bank credit not an easy matter, whether it be from shorts or longs, at least until the period of the emergency has passed.

A Two-Edged Sword

On the other hand, credit limiting policies of the authorities cannot be carried too far either, because this would interfere with the financing of the rearmament program. There is a balance that must be maintained, and this means protection in the government market from time to time. The orderly or flexible market will bring support in prices at levels that will prevent the cashing in of certain obligations in order to purchase the marketable issues. While the market is going through the credit limiting process, there has to be great caution among buyers of Treasury obligations, but at the same time each successive decline makes these securities more attractive to those that have funds, especially the yield buyer. Where the level will be that there will be more than scale buying is purely a matter of conjecture at this time because it is evident that the liquidation caused by the changed open market policy of the authorities has not yet run its course, although it probably does not have too much further to go. What are the opinions of those that are masterminding the market on the down side? It seems as though there is considerable support for the feeling that a 2.75% basis for the longest Treasury obligation is about as high a yield as is to be expected under the credit limiting program of the authorities. It will take time to get the answer, because at the moment the real plague of the market is the absence of buyers, not the weight of offerings. The leveling-off process and the restoration of confidence will not come until there are signs that the authorities believe the decline has been sufficient to accomplish what they set out to do. The trend of loans will be one of the important factors to watch because a decline in these should have a favorable effect upon the government market.

Although they are not a factor of too great importance in the market yet, the short-coverings of dealers and traders have had a minor stabilizing influence from time to time in certain obligations. The bank issues are getting some scale buying from the out-of-town banks that are looking for yield. There is, however, no disposition on the part of these purchasers to do more than make limited commitments, because funds are not too plentiful. The shorts are still being well taken, and it is believed in some quarters that this sector of the list is entering a stabilization area.

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Continued from page 14

Impact of Flexible Interest Rate Policy on Bond Prices

years. This reflects the persistent rise in construction outlays of States and municipalities and also a sizable volume of borrowing to cover bonus payments to veterans.

Current prospects are that the dollar volume of State and local construction in 1951 will be somewhat above 1950. While present controls over building materials and new construction will doubtless have some effect, they are not likely to be very significant this year. Furthermore, some securities will be issued under the Housing Act of 1949. On the other hand, however, the volume of bonus issues will be substantially below the levels of former years.

Consequently, the outlook is that the volume of State and municipal issues in 1951 will not be far below the 1950 level. Because of the tax-exemption feature, the terms of new issues are probably determined not only by the general level of interest rates, but to an important degree by the prevailing and prospective rates of Federal income taxes. In any event, the recent rise in interest rates is probably not a significant deterrent to new municipal financing.

Summary—If the foregoing appraisals appear reasonable, the conclusion is that the new money requirements in the form of business financing, mortgage credit and State and local issues are likely to be at very high levels throughout most of the current year, although they may be slightly less than in 1950. A significant decline in these capital requirements does not appear in prospect until later in 1951, and possibly may not develop until 1952.

Market Conditions and Bond Yields

The anticipated high level of demand for investment funds through the better part of 1951 appears as an important factor in the outlook for interest rates and bond yields in the months ahead.

It is well to recall that in order to finance the postwar investment boom, institutional investors, especially the life insurance companies and the mutual savings banks, had to sell a considerable volume of government bonds. In 1947 and 1948, this entailed substantial support purchases by the Federal Reserve banks in order to keep bond yields from rising. In the second half of 1950, the high demands for investment funds once more brought sizable selling of government bonds; the life insurance companies and the mutual savings banks sold about $2 billion of government bonds in that period. However, as other buyers, including pension funds, added significantly to their holdings, the portfolios of the Federal Reserve banks and the government trust funds increased only nominally.

At the present time, there is little buying interest in long-term government bonds outside the Treasury and the Federal Reserve. The increased yield spread between government and corporate bonds appears to have reduced drastically the amount of government bond purchases by pension funds and other investors. In fact, some are being tempted to replace part of their government holdings with corporate issues.

All these factors suggest that there may well be some further liquidation of government bonds with consequent pressure on bond prices over the coming months. However, there are various other factors which militate against the prospect of any really serious decline.

An important development in this respect is the substantial shortening of maturities which has recently taken place in the financial system. So far in 1951, the Federal Reserve and the government trust funds have purchased about $2¼ billion of government securities with maturities above 10 years. Some investment institutions, notably the life insurance companies, have sold large amounts of long-term governments in recent months and replaced them with short-term securities; the life insurance companies alone may hold as much as $1.5 billion of short-term government obligations. These could be allowed to run off to meet investment demands without putting the bond market under pressure. Thus a substantial cushion already has been provided which will help to meet the current and anticipated large demands for investment funds.

Other factors which will help ease the situation include the recent Treasury exchange operation, which has taken nearly $10 billion of long-term marketable government bonds off the market and has converted them into nonmarketable issues. Also, the volume of savings expected to be available to savings institutions, including pension funds, is estimated to be at least $500 to $750 million higher than last year.

Finally, in appraising the prospects for bond prices and interest rates, one should take into account the possibility that the higher levels of interest rates, together with other measures of credit restraint, may exercise a greater restrictive effect upon investment outlays than can be anticipated at this time. Above all, if the rearmament program should make faster progress than current prospects suggest, scarcities of materials and equipment might develop more rapidly, and this would probably curtail the volume of new investment to a significant degree. Even a small shift along these lines might well change the basic situation in the bond market.

On balance, the near-term outlook is for some further downward pressure on bond prices. However, the prospect that demands for investment funds are near their peak and will gradually decline suggests that this pressure on bond prices will ease over the longer term. This appraisal, based on current investment prospects, is fortified by certain other factors concerning the place of interest rate policy in the current economic environment.

Interest Rate Outlook in the Defense Economy

In an economy dedicated to rearmament and a large military program, the application of a restrictive credit policy is a delicate and complex task. Furthermore, many of the arguments which were raised against a policy of higher interest rates in the postwar years are still being advanced. Viewed in this light, the movement of long-term government bonds below par, despite its spectacular character, is not likely to signal the beginning of a protracted upswing in interest rates.

Debt Management Problems—The monetary authorities have long hesitated to permit a rise in interest rates because of the attendant problems in the management of the public debt. While the Federal Reserve has now unpegged the government bond market and has adopted a policy of flexible interest rates, this does not mean that it has no further concern with the problems of debt management. Quite the contrary is probably the case. Having achieved some measure of success in its quest for greater flexibility in the use of interest rate policy, the Federal Reserve is likely to be even more keenly aware of the obligations and responsibilities which accompany the use of this freedom of action. Since the unpegging, the Federal Reserve has bought around $600 million of longer-term bonds, thereby moderating the price decline. There is good reason to believe that considerations of Treasury financing and debt management will continue to operate against the prospects of susbtantially higher interest rates.

In the past several months, sales of United States savings bonds have lagged conspicuously, while holders of such obligations have displayed increased eagerness to cash their securities. It is not likely that the monetary authorities will permit the yields on marketable bonds to rise to levels that would provide a further handicap to new sales of nonmarketables, and a further incentive to redemptions.

Also, beginning around the middle of the year, the Treasury faces a large financing program. In the second half of 1951, the Treasury will be called upon to raise some $6 or $7 billion, or possibly more, of new money from the market. In addition, the Treasury will have to refund $27 billion of maturing notes and refinance $13.5 billion of outstanding Treasury bills.

With these large financing programs in prospect, it is difficult to visualize the monetary authorities continuing for too long policies that would permit growing unsettlement in the Government securities markets. Present prospects are that the Treasury will rely heavily upon the use of short-term issues in its forthcoming financing operations. Large amounts of short-term corporate funds will become available from tax accruals and this will help support the short end of the Government securities market. However, even though the Treasury may not contemplate substantial offerings of long-term bonds in the near future, the monetary authorities must be concerned with the possibility that continued unsettlement in the bond market might well be reflected in the market for short-term Government issues.

In appraising these problems, it is well to keep in mind the basic objective of the current open-market policy of the Federal Reserve. This is to check the expansion of Federal Reserve bank credit which results from net liquidation of Governments by institutional investors and others. The authorities hope that, by gradually reducing their support purchases, they will enable the market to find its own level. There are indications that since the close of the Treasury's exchange offering, declining bond prices have begun to retard this liquidation.

However, if the monetary authorities should permit too marked a decline in long-term Government bonds, there is a very real danger that the result may be to stimulate rather than discourage further selling. Investors who foresee the necessity of selling Government obligations in in order to cover investment commitments may decide to anticipate their needs in the fear of further declines in bond prices. Or, other holders of Governments may decide to shorten their maturities in the hope that the operation can be reversed later on a more favorable price basis. The monetary authorities are doubtless aware of the need for preventing a general deterioration in investor psychology, even if this should involve support operations beyond what may be required to maintain an "orderly" market.

The conclusions of this analysis are that even though a substantial investment demand for long-term Government bonds may not develop for some time, the monetary authorities are not likely to permit a continuous erosion in the prices of these securities.

Basic Limitations—In addition to the problems of debt management in the period ahead, the uninhibited use of general credit restraint as an anti-inflationary device is precluded by the inherent features of the defense economy.

Measures which reduce the availability of credit and increase its cost are important and generally accepted instruments for combating inflationary spending; drastically employed, they have frequently succeeded in breaking a speculative inflationary boom. The inflationary pressures in our economy since the outbreak of war in Korea, however, bear only a surface resemblance to those of an ordinary business boom; they have been inspired mainly by the large rearmament program to which we are committed, and by the fear of war.

Under such conditions, a policy of higher interest rates is subject to real limitations. Even in the absence of a defense program, the economic concomitants of a deflationary credit policy are socially and politically unpalatable; they are even more difficult to reconcile with a defense economy, where production must continue to rise and where the full employment not only of manpower, but of all natural and industrial resources, needs to be encouraged and aggressively stimulated.

Another obstacle to the full development of general credit restraint in the defense economy is that not all forms of credit should be curtailed. Credit needed for the military program or for essential civilian purposes must continue to be available, and indeed should be facilitated, whereas the financing of less essential projects should be discouraged and repressed. Interest rate policy which does not differentiate between essential and nonessential demands, is not the most suitable device for controlling inflation under present conditions.

These considerations support the point of view that the monetary authorities are not likely to carry interest rate policies to an extreme length. Consequently, there is widespread conviction among Governmental authorities that the expansion of private credit must be curbed by additional means. Even as interest rates were being raised, the search continued for other devices of credit control.

A few weeks ago, the Voluntary Credit Restraint Program was initiated in an attempt to cope with the problem on a cooperative basis. It is in the best interest of every member of the financial community that this plan succeed, and that all forms of lending or investing which are not necessary in our economy be checked by the good sense of the financial institutions themselves. If this appeal to the restraint and responsibility of the financial community should fail, the results may well be the promulgation of harsh and drastic measures of control over the entire field of credit and investment.

The Outlook for Municipal Securities

Against this background of interest rate policies and prospects, the question which is of particular interest to the members of the Municipal Forum is how these forces operating in the securities markets will affect State and local securities.

Here, a complicating factor is introduced by the tax-exemption feature, which in the past has caused municipal issues to fluctuate in more volatile fashion than Government and high-grade corporate bonds. In 1947, for instance, municipal bond yields rose sharply not only because of general conditions in the bond market, but also because of the anticipated reduction of income tax rates. Again, after the outbreak of war in Korea, yields on tax-exempt securities declined rapidly with the expectation of substantially heavier taxation. A further consideration was that in the event of a general war or an all-out rearmament effort, public construction, and hence the volume of new municipal issues, would be greatly curtailed.

Recently, municipal bond prices have declined sharply. To a significant extent, this development reflects the higher interest rate policy of the monetary authorities. Furthermore, Congress is demonstrating an increasing reluctance to enact new tax legislation, and, if this situation persists, the expected rise in income tax rates may not be as drastic as was anticipated some months ago. Also the amount of public construction and the volume of new issues are not likely to feel the restrictive effects of the defense effort for several months.

Under these conditions, the outlook for municipal bonds is particularly difficult to appraise. In general, it appears that their prices have been substantially adjusted to the recent increase in interest rates. Consequently, the trend of municipal bond prices from this point on is likely to depend to a large degree upon the many forces that affect the progress of the defense program and of tax legislation. If the current feeling that the international situation has improved should spread and grow, the factors that could strengthen the municipal bond market are likely to remain limited. On the other hand, if the next few months should bring new war scares, with the prospects of tighter restrictions on State and local construction projects and higher Federal income taxes, the demand of investors for tax-exempt securities is likely to be enhanced. Thus, municipal bonds may for some time be rather sensitive to the shifting prospects and events in the unpredictable international field.

Did You GUESS?

Here's the 1951 version of the two angels appearing on page 27.

Alonzo H. Lee   Edward H. Morfeld

(A) Alonzo H. Lee, Sterne, Agee & Leach, First National Building, Birmingham 3, Ala.; President of the Alabama Security Dealers Association.

(B) Edward H. Morfeld, Morfeld, Moss & Hartnett, 721 Olive Street, St. Louis 1, Mo.; President of the Security Traders Club of St. Louis.

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Continued from page 2

The Security I Like Best

tons. Island Creek expects that there will be increased demand in 1951 and that its production will increase more than the average of the country as a whole, due to the high quality of its product. The company reports that many utility and industrial plants, which were previously converted to oil, are now being reconverted to coal and it says that a coal-burning turbine gas locomotive, which is in the process of development, shows promise of surpassing the Diesel locomotive; this may regain markets lost through the dieselization of the railroads. Island Creek owns among the largest resources of high-grade, low sulphur coal for metallurgical and coke-making purposes; its reserves are sufficient for about 70 years of production at present rates.

Earnings amounted to $4.15 in 1950, $3.36 in 1949 and $5.37 in 1948; 1949 earnings were, of course, entirely irregular as the coal miners were on strike during 110 of 298 working days. The **dividend** was put on a $3 annual basis in 1948 after the split and has since been maintained at this level. It appears likely that profits in 1951 will be higher than in 1950; the excess profits tax exemption of the company is estimated at about $5.30. The $3 dividend appears quite safe.

The **Capitalization** is simple. There are 25,269 $6 preferred shares outstanding which are noncallable and entitled to $120 in liquidation. They are followed by 1,187,730 common shares; they are traded on the New York Stock Exchange. Their high since 1948 has been $40, their low $24. At their present price of about $34, the shares yield almost 9%. The book value of the common shares is about $25 but this means very little as mines and coal fields are obviously valued at a very low price. Net liquid assets increased in 1950 from $10,207,000 to $12,072,000 (equal to about $10 per common share without considering the preferred shares), after the modernization and expansion program of previous years had been largely completed.

It appears likely that investors in their search for high-quality investments will become increasingly aware of the excellent earning and dividend record of this company which stands comparison with any industrial corporation and which has even some growth characteristics. I would not be surprised to see these shares sell, over a period of time, on a 6% yield basis instead of 9% as at present.

L. B. SCHWINN

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

Diamond Alkali Co. Common

When Tolstoy chose a title for his famous classic, "War and Peace," he also provided a name for the current phase of the stock market. On one day there are rumors of a conclusion to our military efforts in Korea and the possibilities of peace dominate investment thinking. Interest in war babies begins to wane and stable issues like utilities attract greater attention. On another day headlines in the papers indicate the Reds are massing for a major offensive and popularity revives for stocks more likely to benefit from hasty, intensive rearmament. The desideratum at the moment is a security capable of participating with profit in either type of economy.

Leslie B. Schwinn

My nomination for this difficult assignment is the Diamond Alkali Company, second largest company in the alkali field and important producer of more than a hundred chemical items. The fact that the chemical industry is a growth industry needs no reiteration. In the case of Diamond Alkali there are additional features to recommend it. The company's common stock has all the earmarks of what some statistical services call a "special situation."

From its very beginning, forty years ago, Diamond Alkali has followed a policy of paying for expansion largely out of earnings. During recent years this policy has been especially conspicuous in the company's affairs. From 1946 through 1949 capital expenditures amounted to $38,000,000. Of this amount only $14,000,000 was borrowed and the loan has already been reduced by $4,000,000. Benefits from this self-imposed financial discipline are now beginning to accrue.

The company estimates its enlarged capacity produced 48% of net earnings for 1950. At the year's end the full benefits of the program were not yet being enjoyed. A crippling strike closed down vital plants of the company for ten weeks in the period following the Korean invasion. As a result, although the company improved vastly its showing of the year before, it did not make a spectacular record in comparison with other units in the industry. The following table reveals the relatively poor showing in 1950:

	Earnings Per Share	Price to Earning Ratio	Earns. Per Cent of Annual Sales	Earns. (Less Div. on Pfd. Stock) Per Cent on Book Value of Com. Stock and Long-Term Debt
Mathieson Chemical Corp.	3.32	8.7	11.9	11.9
Dow Chemical Co.	5.73	12.0	15.3	13.5
Diamond Alkali Co.	4.45	9.9	8.6	8.6
Allied Chem. & Dye Corp.	4.65	12.7	10.1	12.7
Union Carbide & Carbon	4.30	11.4	16.6	18.3
Monsanto Chemical Co.	5.37	12.5	11.4	14.8
E. I. du Pont de Nemours	6.59	12.7	23.5	30.1
American Cyanamid	8.99	8.0	11.2	16.9
Texas Gulf Sulphur	6.74	14.0	37.5	42.5

With the publication of results for the first quarter of 1951, Diamond Alkali begins to show its real quality. Net earnings per share after provision for Federal Income and Excess Profits Taxes were $1.65 compared to 82 cents per share in 1950. In the same period du Pont reported $1.26 per share versus $1.15 the previous year. Mathieson Chemical earned $1.08 against 81 cents in 1950.

The first quarter in 1951 was the best in Diamond Alkali's history. The company has derived indirect benefit from rearmament in that some of its customers are busier now and are bigger buyers of its products. Yet the company does not bear a war baby label. The huge expansion program was planned and paid for in anticipation of peace. In considering how Diamond Alkali would fare in a postwar period, it is not irrelevant to note that profits were reported throughout the depression of the thirties, and dividends in cash and/or stock were paid every year throughout the vicissitudes of the last twenty-one years.

From the standpoint of management the company occupies a unique position. Few corporations in America are still directed by the men or families who founded and developed them. The Fords, Firestones, Rockefellers, Donnells and families like them have been replaced in many instances with men lacking the personal touch provided by their predecessors. Diligent, competent and sincere though the modern executives may be, there can be no denying the contributions to American industry made by certain noted families. The President of Diamond Alkali, Mr. Raymond F. Evans, is the son of one of the company's founders and former Presidents, Mr. T. Raymond Evans.

Compared to other chemical issues or its own range over the years, the stock is not selling at an inflated level. Diamond's market price to earnings ratio is low for the industry, as the above comparison shows, and it has been selling just above book value although most chemicals sell substantially higher. The market range during the past eleven years has been 33½ low, 81½ high.

Diamond Alkali is traded over-the-counter. It is active in New York, Boston Pittsburgh and Cleveland. The shares are gradually receiving national attention as was made evident last December when one of the oldest, largest and most highly regarded mutual funds announced the purchase of 25,000 shares. The stock, in my opinion, is a suitable investment for any investor who is legally allowed to buy common stock.

Deere Stock Offered By Harriman Ripley

An underwriting group headed by Harriman Ripley & Co. Inc. yesterday offered to the public 120,000 shares of common stock of Deere & Co., a foremost manufacturer of agricultural implements and farm tractors. The stock was priced at $64 per share.

The offering does not constitute financing by Deere & Co. The shares are currently outstanding and were acquired by the underwriting group from Charles Deere Wiman, President of Deere & Co., who continues to be a substantial holder of the company's stock, and from executors under the will of the late Dwight Deere Wiman.

The business of the company and its subsidiaries is the outgrowth of the work of John Deere in the development of tillage tools which commenced in 1837. Currently the Deere organization operates 16 manufacturing plants, 15 in the United States and one in Canada. Early this year production of a modest amount of war products was started, and tooling and pre-production work are now in progress on other war products. Employees numbered 26,963 on Feb. 28, 1951.

Sales during 1950 totaled $336,482,810 while net income was $42,756,902, equal after preferred dividends to $13.51 a share on the common stock. Dividends of $5.50 per common share were paid during 1950.

John Fell Director

John R. Fell, partner in the investment banking firm of Lehman Brothers, has been elected a director of Texas Pacific Coal & Oil Company. Mr. Fell is also a director of Mergenthaler Linotype Company.

Continued from first page

As We See It

and was destined to remain "an engine of inflation" had become widespread. The idea was exercising very substantial influence in several strategic quarters. It suffered severe shock when governments began a rather long continued decline which took most issues below par, and several of them below 99 and certain of them through 98. Thus, some easy reasoners appear to assume, the basic inflationary factor embodied in Federal Reserve financing of the Treasury has been removed, and the government bond market at length left to stand on its own feet.

What Has Actually Happened

But has any such money market development actually occurred? What will happen to civilian goods production when rearmament expenditures assume full planned volume remains to be seen. Likewise, demand for civilian goods under possible tax changes remains to be determined. But however all this may be, it is clear that full understanding of what has been taking place in fiscal and money market areas is lacking. Observe, first, that during all these weeks when Treasury obligations were being "left to their own devices," when prices were moving downward rather steadily, and when the Reserve system was supposed to be on the sidelines, the 12 Reserve banks have from week to week been adding to their holdings of governments! Call it preserving an "orderly market" or whatever else may seem appropriate, but the fact remains that the Reserve system has been regularly supporting the market for Treasury's.

Take note also that all this has been taking place in a period of Treasury surpluses, and a declining volume of Federal debt in the hands of the public. The central banking system, so-called, of the United States during a period of declining Federal debt in the hands of the public, and during most of the time when refundings were confined to weekly issues of bills—in such a period the central banking system is not only unable to reduce its holdings but must consistently add to them! It seems to us that unless and until an end is put to this sort of business, we should be quite premature in congratulating ourselves upon a great improvement in the prospect for permanent escape from inflation.

Reserve authorities for a long while past have been inclined to have a good deal to say about the rising volume of commercial bank loans. They have, however, consistently supported such an increase by buying governments and thus adding to the reserves of member banks. But commercial banks themselves have grown somewhat dubious about this increasing volume of loans, particularly perhaps as they have been employed as a base for expanding inventories. It may well be that this trend will presently disappear or even reverse itself—and do so without a great deal of reference to the so-called voluntary credit restrictions initiated recently by the powers that be.

There Is a "But" in This Picture

But—and there definitely is a "but" in this picture—would-be borrowers in a great many cases are substantial owners of obligations of the Treasury. Some sizable blocks of these securities will mature within the next 12 months, and even sooner. Other large blocks are redeemable upon demand by the holders. What will happen if presently borrowers or would-be borrowers who cannot obtain accommodation from their banks permit their holdings of government obligations to run down, or if they demand cash for redeemable bonds, all, of course, for the purpose of obtaining funds which the banks now deny them? If this happens extensively, the Treasury obviously will be obliged to find very substantial funds.

If tax collections are adequate for the purpose, that is one thing. But he would certainly be an optimist—regardless of the surprisingly good showing being made in collections at present—to suppose that large volumes of debt repayment could be achieved through tax collections. Large E bond redemptions added to regular maturities during the next year or two—to say nothing of the definite possibility that a deficit in current operations will presently develop—would require very substantial borrowings by the Treasury. Now, let us put this question: Would large loans to the United States Treasury via the bond market—even loans by the commercial banks—be regarded as "inflationary" in the current voluntary

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credit restriction program? Of course, it is almost silly even to ask such a question.

What if . . . .

But is there a great deal of difference in basic effect between a loan to an individual or a business enterprise, and bank purchase (directly or indirectly) of governments from that same individual or business enterprise? Of course, the purchase could be direct or indirect in various ways. One may concede that a very much further decline in the price of governments in the open market—assuming that it is permitted to occur, which many do not believe—might act as a deterrent to the sale of obligations already held. At least, some influence of the sort would probably be felt. But if the obligations are redeemable at the option of the holder, or if they mature, the holder can avoid going to any market—leaving that to the Treasury—in which case lower prices would not be a deterrent to the present holders while they would actually make purchase of the bonds by the banks more attractive. The Federal Reserve has been accommodating enough to date in providing reserves (so far as additional reserves are needed). Would it in such circumstances alter its course?

It is evident, or so it seems to us, that one must be prepared for a continuation of inflationary trends during a prolonged rearmament program at least.

Continued from first page

Inflation: An Unworkable Fiscal Policy!

ally other people's money. Let the rich pay, was the slogan.

End of an Era

Now this period of fiscal history has come to an end. With the exception of the United States and some of the British Dominions what has been called the ability-to-pay of the wealthy citizens has been completely absorbed by taxes. No further funds of any significance can be collected from them. Henceforth all government spending will have to be financed by taxing the masses.

The European nations concerned are not yet fully aware of this fact because they have found a substitute. They are getting Marshall Plan aid. The American taxpayer fills the gap.

In this country things went not yet as far as they went in other countries. It is still possible to raise an additional $2 or $3 or perhaps even $4 billion by increasing corporation taxes, by excess profits taxes and by rendering the personal income tax more progressive. But even $4 billion would be only a fraction of what the Treasury needs under present conditions. Thus, also in this country we are at the end of a period of fiscal policies. Also, in this country, the whole philosophy of public finance must undergo a revision. In considering the pros and cons of a suggested expenditure the members of Congress will no longer be able to think: Anyway, the rich have enough; let them pay. For in the future the voters on whose ballot they depend will have to pay.

Inflation a Temporary Makeshift

Inflation is certainly not a means to avoid or to postpone for more than a short time the necessity to resort to taxes to be levied from other people than those belonging to the rich minority. If, for the sake of argument, we leave aside all the objections which are to be raised against any inflationary policy, we have to take into account the fact that inflation can never be more than a temporary makeshift. For inflation cannot be continued over a long period of time without defeating its fiscal purpose and ending in a complete debacle as was the case in this country with the Continental currency, in France with the *mandats territoriaux* and in Germany with the mark in 1923.

What makes it possible for a government to increase its funds by inflation is the ignorance of the public. The people must ignore the fact that the government has chosen inflation as a fiscal system and plans to go on with inflation endlessly. It must ascribe the general rise in prices to other causes than to the policy of the government, and must assume that prices will drop again in a not-too-distant future. If this opinion fades away, inflation comes to a catastrophic breakdown.

The Housewife's Behavior

If the housewife who needs a new frying pan thinks: "Now prices are too high; I will postpone the purchase until they drop again," inflation can still fulfill its fiscal purpose. As long as people share this view, they increase their cash holdings and bank balances, and a part of the additional money is absorbed by this increase.

But then comes — sooner or later—a turning point. The housewife discovers that the government will go on inflating and that consequently prices will always rise more and more. Then she thinks: "I do not need today a new frying pan; I shall need one only next year; but I'd better buy it now because next year the price will be much higher." If this insight spreads, inflation is done for. Then all people rush to buy. Everybody is anxious to reduce his holding of cash because he does not want to be damaged by the drop in the monetary unit's purchasing power. The phenomenon appears which in Europe was called "flight into real values." The knell of the currency system involved sounds.

We have today in this country not yet reached this second and final stage of every protracted inflation. But if the authorities do not very soon abandon any further attempt to increase the amount of money in circulation and to expand credit, we shall one day come to the same unpleasant result.

We have not to choose between financing the increased government expenditure by collecting taxes and borrowing from the public on the one hand and financing it by inflation on the other hand; simply because inflation can never be an instrument of fiscal policy. Inflation can never be an instrument of a fiscal policy continued over a long period of time. Continued inflation inevitably leads into a catastrophe.

Therefore, I think, we should not waste our time by discussing methods of price control. Price control cannot prevent the rise in prices if inflation is going on. Even capital punishment could not make price control work in the days of Emperor Diocletian and the French Revolution. Let us concentrate our efforts upon the problem how to avoid inflation, not upon useless schemes how to conceal its inexorable consequences.

Taxation the Key

What is needed in wartime is to divert production and consumption from peacetime channels toward military goals. In order to achieve this, it is necessary to tax the citizens, to take away from them the money which they would otherwise spend for those things they must no longer buy and consume.

At the breakfast table of every citizen in wartime sits an invisible guest, as it were, a GI who shares the meal. In the citizen's garage stays not only the family car, but besides — invisibly — a tank or a plane. The important fact is that this GI needs more in food, clothing and other things than he used to consume as a civilian, and that military equipment wears out much quicker than civilian equipment. The costs of a modern war are enormous.

The adequate method of providing the funds the government needs for the conduct of war is, of course, taxation. Part of the funds may also be provided by borrowing from the public, the citizens. But if the Treasury increases the amount of money in circulation or borrows from the commercial banks, it inflates. Inflation can for a limited time do the job. But it is the most expensive method of financing a war; it is socially disruptive and should be avoided.

A Convenient Makeshift

There is no need to dwell upon the disastrous consequences of inflation. All people agree in this regard. But inflation is a very convenient makeshift for those in power. It is a handy means to divert the resentment of the people from the government. In the eyes of the masses, not the Administration, but big business, the "profiteers," the merchants, appear responsible for the rise in prices and the ensuing necessity to restrict consumption.

Perhaps somebody will qualify what I am saying here as antidemocratic, reactionary and economic royalism. But the truth is that inflation is a typically antidemocratic measure. It is a policy of governments who do not have the courage to tell the people honestly what the costs of their conduct of affairs are.

A truly democratic government would have to tell the voters openly that they must pay higher taxes because expenses have risen considerably. But it is much more agreeable for a government to present only a part of the bill to the people and to resort for the rest of expenditures to inflation. What a triumph if they can say: Everybody's income is rising, everybody has now more money in his pocket, business is booming.

Deficit spending is not a new invention. It was during the greater part of the 19th century the preferred fiscal method of precisely those governments which were not called democratic and progressive—of Austria, Italy and Russia. Austria's budget showed yearly a deficit from 1781 on until the late '80s of the 19th century, when an orthodox professor of economics, Dunajewski, as Minister of Finance, restored the budgetary equilibrium. There is no reason to be proud of deficit spending and to call it progress.

Must Go After Lower Brackets

If one wants to collect more taxes, it will be necessary to lay a burden greater than hitherto on the lower income brackets, the strata whose members consume the much greater part of the total amount consumed in this country. Up to now it was customary to tax predominantly the corporations and the individuals with higher incomes. But even the outright confiscation of these revenues would only cover a fraction of the additional funds the country needs today.

Some experts have declared that it is necessary to tax the people until it hurts. I disagree with these sadists. The purpose of taxation is not to hurt, but to raise the money the country needs to rearm and to fight in Korea. It is a sad fact that the evolution of world affairs makes it necessary for the government to force people who used to buy nylon stockings and shirts to shift, as it were, to other du Pont products, namely munitions.

Kant in his book on "Eternal Peace" suggested that government should be forbidden to finance wars by borrowing. He expected that the warlike spirit would dwindle if all countries would have to pay cash for their wars. However, no serious objection can be raised against borrowing from the public, from people who have saved and are prepared to invest in government bonds. But borrowing from the commercial banks is tantamount to printing additional bank notes and expanding the amount of deposits subject to check; it is inflation.

There is nowadays a very reprehensible, even dangerous, semantic confusion that makes it extremely difficult for the non-expert to grasp the true state of affairs. Inflation, as this term was always used everywhere and especially also in this country, means increasing the quantity of money and bank notes in circulation and of bank deposits subject to check. But people today call inflation the phenomenon that is the inevitable *consequence* of inflation, that is, the tendency of all prices and wage rates to rise. The result of this deplorable confusion is that there is no term left to signify the cause of this rise in prices and wages. There is no longer any word available to signify the phenomenon that has been up to now called inflation. It follows that nobody cares about inflation in the traditional sense of the term. You cannot talk about something that has no name and you cannot fight it. Those who pretend to fight inflation are in fact only fighting what is the inevitable consequence of inflation. Their ventures are doomed to failure because they do not attack the root of the evil. They try to keep prices low while firmly committed to a policy which must necessarily make them soar. As long as this terminological confusion is not entirely wiped out, there cannot be any question of stopping inflation.

"Inflationary Pressures"—A Mistaken Term

Look at the silly term, "inflationary pressures." There is no such thing. There is inflation or the absence of inflation. If there is no increase in the quantity of money and no credit expansion, the average height of prices and wages will by and large remain unchanged. But if the quantity of money and credit increases, prices and wages must rise, whatever the government may decree. If there is no inflation, price control is superfluous. If there is inflation, price control is a sham, a hopeless venture.

It is the government that makes our inflation. The policy of the Treasury, and nothing else.

We have been told a lot about the necessity and the virtues of direct controls. We have learned that they preserve the individual's liberty to choose the grocer he prefers. I do not want to examine what value has to be attached to direct controls from any metaphysical point of view. I want only to stress one fact: as a means to prevent and to fight inflation or its consequences, direct controls are absolutely useless.

Blyth Group Offers Pacific Lighting Stk.

A nationwide syndicate of 68 underwriters headed by Blyth & Co., Inc., on April 24, publicly offered 369,643 shares of Pacific Lighting Corp. common stock (without par value) at a price of $52 per share.

Proceeds from the sale of the stock will be used by the system to finance in part its construction and expansion program.

The Pacific Lighting Corp. system is the largest distributor of natural gas in the United States, from the standpoint of number of customers served, supplying gas to approximately 1,541,778 meters serving an area with a population in excess of 5,500,000 located throughout the major portion of Southern California. The territory is one of highly diversified economic activity and is one of the fastest growing areas in the United States.

Earnings available for the common stock of Pacific Lighting Corporation increased sharply in 1950 compared with 1949. In 1950 net income after all charges amounted to $14,500,000, equal to $5.88 per common share. This compares with net earnings of $8,200,000, equal to $2.86 per common share in 1949.

The corporation has paid dividends on its common stock every year since 1908. Since 1938, dividends paid have been at the annual rate of $3 a share.

Frank I. Finucane With Bache in Kansas City

(Special to The Financial Chronicle)

KANSAS CITY, Mo.—Frank I. Finucane has become associated with Bache & Co., 1000 Baltimore Avenue. He has been resident manager for Lamson Bros. & Co. for a number of years and prior thereto was with Harris, Upham & Co.

W. P. Herbert Jr. With Francis I. duPont Co.

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—William P. Herbert, Jr. has become associated with Francis I. duPont & Co., 722 South Spring Street. He was formerly with E. F. Hutton & Company. In the past he was manager of the trading department of E. H. Rollins & Sons' Los Angeles office and headed the firm of Herbert-Reynolds Co.

With Cantor, Fitzgerald

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Otto C. Zink has been added to the staff of Cantor, Fitzgerald & Co., Inc., 224 North Canon Drive.

Shields & Co. Adds

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif. — Vernon Leader is now affiliated with Shields & Company 9478 Santa Monica Boulevard.

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Continued from page 19

Investment Bankers' Role in the Voluntary Credit Restraint Program

new money if this program goes forward without restraint.

Even assuming that strategic materials were available for this great plant expansion, the inflationary pressures would be tremendous. To quote from a letter which I received yesterday from an eminent banker-economist: "I just don't see how we could add that much pressure to the situation without inflation, and if this program goes forward it would go a long way toward defeating our credit program. One reason is that these long-term undertakings all involve the use of bank credit at one time or another by plumbers, and contractors, and equipment manufacturers, and so forth."

It is at this point that the investment banking committees of the Voluntary Credit Restraint Program will find much work to do. The Statement of Principles of the plan sets forth certain priorities for all types of credits which by definition include equity issues as well as true credit flotations. Since the plan is entirely voluntary, the screening of issues and the postponement of less important issues will depend entirely on the persuasive powers of investment bankers and the understanding of the national problem by would-be borrowers. It is to be hoped that all major prospective issues will be submitted for approval to the regional committees. I would suggest to avoid overburdening these committees that for the beginning, at least some minimum size of issue should be adopted—say, $1 million.

Getting Back to Capital Issues Plan of 1918

Judging from the experience of World War I, a great deal of moral pressure can be generated. Under the Capital Issues Plan of 1918, it became practically essential for the flotation of an issue for it to bear the statement that it had been approved by the Capital Issues Committee. It would seem possible that a similar badge of desirability could became an important part of the announcement of future issues under today's conditions.

Borrowing again from the experience of 1918, the Capital Issues Committee carefully refrained from passing on the soundness of a proposal issue. The statement used was this: "Passed by the Capital Issues Committee as not in compatible with the national interest, but without approval of legality, validity, worth or security."

In checking issues for essentiality, the committee relied upon (a) the claims of the applicant supported by such evidence as contracts with war agencies, (b) the opinions of interested government agencies, (c) the knowledge and investigations of the district committees.

A special problem arises in the case of public issues. It is fully recognized that states and municipalities are autonomous in their handling of their own finances. At the same time, public officials are as much interested in the national welfare as any private citizen. Investment bankers are frequently the financial advisers of public officials. It should be possible in many cases for members of the investment banking profession to advise effectively for the postponement of public projects which use scarce materials or where the projects are not immediately essential to the defense effort.

From the standpoint of the mechanics of inflation, municipal issues are particularly attractive to banks. The purchase of securities by a bank adds to the total of bank credit and bank deposits just as effectively as the granting of a business loan. Thus, the smaller the supply of municipal securities available for bank investment, the less increase there will be in the money supply from this source.

I have necessarily talked this evening in generalities. The Voluntary Credit Restraint Program is just getting under way. The national committee and the four regional committees set up to deal with investment banking problems will be going into action immediately, and you will hear much more from them in a very short time. I wish to close with two comments. First, the success of the Voluntary Credit Restraint Program depends on the fullest public understanding of the need for credit restraint in this period of expanding national defense. We shall be fostering this understanding by press releases, public addresses and by other means. The members of your association can play an even more important role by explaining fully and carefully to your clients the inflationary problems of the day and the relation of capital issues to this problem. Second, the program will need the full cooperation of borrower, underwriter and lender. I can illustrate my point by a little story.

Down South a shiftless colored man proudly informed his minister that he had "got religion."

"Dat's fine, brothah," the parson remarked, "but is you sure that you is going to lay aside sin?"

"Yessuh, ah'se done it already."

"An' is you gwine to pay up all yo' debts?"

"Jest wait a minute, parson. You ain't talking religion now—you is talking business."

Applying this story to today's problem, we must all recognize that inflation control is not somebody else's business. It is ours.

Continued from page 5

The State of Trade and Industry

a nine-cent hourly wage boost, retroactive to March 15. The increase is to compensate for the rise in living costs over the past six months. Auto industry contracts, which call for quarterly adjustments reflecting changes in living costs, are not affected by the March 15 figure. Their next adjustment is due June 1 on the basis of the April 15 index.

Business failures increased 22% in March to 732, but were less numerous than in March of either of the two preceding years. Casualties compared with a postwar high of 884 in March, 1950, and a total of 1,322 in March, 1939.

Dun's Failure Index, which extends the monthly failure rate to an annual basis and adjusts for seasonal fluctuation, increased slightly to 29 casualties per 10,000 listed enterprises from 26 the month before. This rate compared with 33 in the same month of last year.

Liabilities involved in March failures increased moderately to $17.7 million from the $16 million of February, but were about $10 million less than in March, 1950. Failures in all liability size categories except those for more than $100,000 were more numerous in March than in the previous month. All groups except those involving liabilities of less than $5,000 numbered fewer failures than in March last year.

Total valuation of building permits for 215 cities during the month of March came to $431,630,560, Dun & Bradstreet, Inc., notes. While showing a seasonal rise of 31.9% over the short February month with $327,241,738, this was a decline of 3.8% below the March, 1950, sum of $448,893,654, and the second successive month to fall below the level of the preceding year.

Steel Output Scheduled to Approach Record High Level of Month Ago

Metal consumers are being misled by statements from Washington on how little steel, aluminum and copper will be needed by the defense program, states "The Iron Age," national metalworking weekly, in its current summary of the steel trade. No matter how true these statements, or how honest the motives prompting them, they paint a false picture of the future availability of basic metals, the magazine adds.

What the metal consumer really wants to know is how much metal will be available to him for regular peacetime production. On the basis of information so far available, this can only be figured out by adding metal requirements for defense, special government programs and so-called "essential" civilian uses—then subtracting the total from estimated production. The difference is the total free market metal which will be available for nonessential uses, this trade authority asserts.

Applying this formula brings to light some startling results: (1) Within the next six months free market steel will shrink to less than 25% of total production. (2) Free market virgin aluminum from domestic producers will shrivel to less than 10% of total output. (This doesn't include imports or secondary aluminum produced from scrap.) (3) Free market copper will vanish to less than 25% of total supply.

This means manufacturers with no hope of getting metal allocated to them under the Controlled Materials Plan have a tough row to hoe. In all probability they face increasingly drastic mandatory restraints to keep their procurement in line with vanishing supplies of "free" metal, states "The Iron Age."

It's no wonder metal producers fear official statements from Washington have lulled their customers into expecting more metal for regular peacetime uses than will be available.

Copper producers are already urging the National Production Authority to take over complete allocation of copper when CMP starts July 1. But most steel and aluminum people want to continue distributing "free" tonnage themselves — no matter how little is left after CMP allotments are made.

Statements on availability of metals by 1953 are reassuring. By the time present basic metal expansion plans are completed it may well be we can have a guns-plus-butter economy—that we'll be operating on an industrial plane undreamed of a few months ago. But that is still at least two years away. And it is looking past many tough months immediately ahead, concludes this trade authority.

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 103.3% of capacity for the week beginning April 23, 1951, based on the industry's increased capacity of Jan. 1, compared to a rate of 102.9% a week ago, or an increase of 0.4 of a point.

This week the mills are expected to come within 4,000 tons of the record high point attained a month ago.

This week's operating rate is equivalent to 2,065,000 tons of steel ingots and castings for the entire industry, compared to 2,057,000 a week ago. A month ago the rate was 103.5% and production yielded 2,069,000 tons. A year ago it stood at 100.3% of the old capacity and amounted to 1,912,000 tons.

Electric Output Shows Modest Decline in Latest Week

The amount of electrical energy distributed by the electric light and power industry for the week ended April 21, 1951 was estimated at 6,730,464,000 kwh., according to the Edison Electric Institute.

The current total was 16,511,000 kwh. above that of the previous week, 884,828,000 kwh., or 15.1% above the total output for the week ended April 22, 1950, and 1,404,951,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Rise 5.2% Above Week Ago

Loadings of revenue freight for the week ended April 14, 1951, totaled 777,989 cars according to the Association of American Railroads, representing an increase of 38,466 cars or 5.2% above the preceding week.

The week's total represented an increase of 70,604 cars, or 10% above the corresponding week in 1950, and an increase of 12,046 cars, or 1.6% above the comparable period of 1949.

Auto Output Continues Upward Trend in Latest Week

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 165,487 units, compared with the previous week's total of 162,839 (revised) units and 151,613 units a year ago.

For the United States alone, total output was 155,717 units against last week's revised total of 152,909 units, and in the like week of last year 144,637. Canadian output in the week totaled 9,770 units, compared with 9,930 units a week ago and 6,976 units for the like week of 1950.

Total output for the current week was made up of 123,042 cars and 32,675 trucks built in the United States and a total of 7,100 cars and 2,670 trucks built in Canada.

Business Failures Continue to Fall

Commercial and industrial failures declined to 151 in the week ended April 19 from 172 in the preceding week, Dun & Bradstreet, Inc., reports. This decrease brought casualties below the 188 and 198 of 1950 and 1949, respectively. Failures were down 52% from the prewar total of 316 for the similar week.

Most of the week's decline was concentrated in casualties involving liabilities of $5,000 or more. Failures in this group fell to 108 from 126 last week and compared with 152 a year ago.

Retail trade accounted principally for the decrease in business mortality during the week with casualties in this line dropping to 80 from 98. Lesser declines took place in manufacturing and commercial service. An increase appeared in wholesale and construction failures.

Food Price Index Extends Gradual Downtrend

Continuing its gradual downtrend movement, the wholesale food price index, compiled by Dun & Bradstreet, Inc., dropped slightly to $7.13 on April 17 from $7.15 the week before. This brought the current figure to the lowest since Jan. 23 when it was $7.08, and represented a decline of 2.5% from the 1951 high of $7.31 on Feb. 20. It was, however, up 24.4% over the $5.73 of a year ago, and 19.6% above the pre-Korea level of $5.96.

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 Marked by Irregularity and Mild Decline

Commodity price movements continued to be irregular in the past week with the general level showing a slight drop from a week ago. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., closed at 322.65 on April 17, comparing with 323.01 a week earlier, and with 252.23 on the corresponding date last year.

Leading grain markets developed a firmer tone during the week, largely due to the unfavorable outlook for Winter wheat and the unsettled world political situation.

Extensive damage to the Winter wheat crop was confirmed by a Department of Agriculture report indicating that 23.4% of the 56,000,000 acres seeded to Winter wheat last Fall would be abandoned as the result of drought, Winter killing and pest damage. The corn market was quite active and prices rose moderately, aided by a steady export demand.

Planting of the new corn crop was reported well under way in the southern sections of the belt. Oats showed independent strength as small offerings in the cash market met with steady demand. Activity in grain futures increased slightly last week. Sales on the Chicago Board of Trade averaged about 28,700,000 bushels per day. This was slightly above the previous week and compared with 36,700,000 bushels in the like week a year ago.

Domestic flour business continued quiet with activity confined mostly to small-lot replacement buying of bakery flours. Export flour demand remained slow. Liquidation and hedging resulted in moderate declines in cocoa futures. Manufacturer demand for cocoa was slow and the spot Accra grade dropped

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slightly below ceiling levels. The coffee and sugar markets showed some improvement over recent dullness. There was a broader export demand for lard and prices moved slightly higher.

Spot cotton prices held at ceilings; futures moved irregularly at slightly higher levels than a week ago. Trading in spot markets was relatively slow. Sales in the ten spot markets totalled 74,200 bales, against 72,600 the previous week, and 89,500 in the corresponding week last year.

Inquiries were quite numerous but mills as a rule limited their purchases to small lots for prompt shipment. Export demand was reported slower than for several weeks.

Exports of cotton for the first seven months of the season ending with February, according to the Bureau of the Census, totaled 2,578,000 bales against 3,068,000 in the similar period a year ago. Daily average consumption of cotton during March, according to a preliminary estimate, showed very little change from the February level. Unseasonably low temperatures and wet soils delayed land preparation and planting in most southeastern and south central areas of the belt. Cotton textiles were more active and prices for print cloths and bag sheeting were firmer. In the Boston wool market business remained at a practical standstill. Prices continued to drop sharply as dealers awaited some announcement concerning price ceilings.

Retail Trade Reflects Substantial Rise in Dollar Volume Over That of Year Ago

For the first time since before Easter shoppers bought more than in the previous week. Total consumer spending in the period ended on Wednesday of last week also exceeded the level of a year ago by considerable dollar margins, although in terms of units purchased spending was less noticeable above the year-ago level, Dun & Bradstreet, Inc., reports.

Apparel merchants launched vigorous promotions in many parts of the nation, thereby helping to bolster an interest among their patrons which had been lagging since before Easter. Women's Spring suits and toppers were sold in increased volume, while marked interest in lightweight dresses, sport separates, handbags, lingerie, hosiery and costume jewelry was also noticeable. Shoppers bought slightly more articles of men's clothing than in the week before demand being largely for men's gabardine and light worsted suits and for sport jackets and slacks.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 13 to 17% above the reduced level of the comparable week in 1950 which followed the Easter holiday. Regional estimates varied from a year ago by these percentages:

New England and Southwest + 11 to +15; East and South +12 to +16; Midwest and Northwest +14 to +18; and Pacific Coast +13 to +17.

While current orders of the nation's wholesalers increased on a modest scale during the week, total order backlogs continued to be markedly above year-ago levels. Inventories of wholesalers bulked large in comparison with those of last year. The number of buyers attending various wholesale markets was slightly below both last week's number and that of a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended April 14, 1951, declined 13% from the like period of last year. This compared with a decrease of 9% in the previous week and 1% for the four weeks ended April 14, 1951. For the year to date department store sales registered an advance of 14%.

Retail trade in New York last week dropped an estimated 10% under the level for the like period one year ago, due, according to trade observers, to the great interest in General MacArthur's arrival, his address to Congress and the reception and parade in his honor here in New York.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period of April 14, 1951, advanced 19% from the like period of last year. In the preceding week a decrease of 7% (revised) was registered below the similar week of 1950. For the four weeks ended April 14, 1951, no change was recorded from that of a year ago, and for the year to date, volume advanced 14% from the like period of last year.

Continued from page 5

Observations . . .

or other causes. The present state of confusion in retail circles resulting from the imposition of uniform mark-up assuredly lends little encouragement to the practicability or justice of a uniform yardstick. Possibly a civilian-type dictator duplicating the public's image of General MacArthur could perform the administrative miracle and get compliance—but surely nothing less!

Out-Socializing the British

Many of the New Deal and Fair Deal measures have been depicted as manifesting our unwitting swing into state socialism, on the British pattern. But, ironically, nothing like our own Administration's new pricing philosophy (?) has been inflicted by even the Labor Government of Messrs. Attlee and Bevan. And it must be relevantly noted that Mr. Attlee has stood firm against the demands to sacrifice rearmament for welfare spending, even going to the "length" of imposing a 50% charge on socialized medicine's spectacles and false teeth. In the same vein, let us in free America treat the *roots* rather than the symptoms of inflation—by logically combining a curtailment of non-defense spending with a non-political pay-as-you-go tax policy levied against the lower-bracket incomes that are actually available. Otherwise it may happen that the socialist state will be located on the Western instead of the Eastern side of the Atlantic!

Continued from page 10

The Banks Must Finance Defense Without Inflation

as they can some rules of procedure in making loans.

Don't Push People Around

Now, I don't claim that this is going to cure the situation. I do think that in a democracy you don't just push people around. You try to give them ideas of what should be done, and I don't believe that in a time like this you can rely solely on people acting like the classical economic man.

As American citizens, we have a responsibility for the whole picture, and I think that by trying to educate our people at the same time that you push them around, perhaps we will get a lot further.

Plenty of Precedents

There have been plenty of illustrations in our history of voluntary action where you appeal to something in people besides their immediate economic advantage.

For example, we bankers all worked on the War Loan drives. We did it for nothing. It was not to our short-term economic advantage to do it because it took a lot of time, but it was a very successful move. We intend to do it again.

I believe in a democracy that a great deal can be accomplished by trying to educate people in the line of conduct that they should follow while at the same time I agree that we can't deal with this situation except by dealing with it on all different fronts. . . .

May I also say that this set of voluntary credit controls can, if necessary, be made more effective and moved over towards more direct controls? There was a very effective Capital Issues Committee, for example, in World War I, that was staffed by people who were being controlled, which turned down some $900 million worth of capital issues and approved about $2½ billion, but did its job extremely well under the chairmanship of a banker.

These voluntary committees can be incorporated into the government system in that general way without too great difficulty if we find that it doesn't work on its present basis. . . .

We already have direct controls on bank loans, something like 50% of loans—we have it in real estate, in securities, and we have it in instalment credit.

I think those of us who have worked with the Federal Reserve System are firmly convinced of the power of money as a major development in economic changes, perhaps the most powerful of all. I am delighted to see the economists turn back to a study of money as compared with fiscal policy because of a belief that it is more effective and more controllable than a fiscal policy.

While believing that money policy is very influential, I would like to enter a dissent from the complete belief in the document put out by a group of Chicago professors which I think vastly overstates the case for money policy. I was distressed that the pamphlet took no account whatever of the velocity of circulation, though I am glad that your statement here does, and calls attention to the fact that while in the past year production has increased 15% or thereabouts, prices have risen, say, 8 or 10 or 12%, and the cost of living some 5 or 6%; that the volume of money has risen 6% and velocity has risen from 10 to 15%, depending on what period you take. That is, this inflation has been financed not primarily by the money created during the period, but by money created before that time which has been used more freely by the possessors of it.

Longer-Term Influence Vital

This leads me to suggest that we have to look at the longer-term influence rather than the immediate one. You can't turn the spigot on and off and hope to have it operate. We have been pitching our economy on an inflationary plane ever since the war, and that carries over into this period. The money policy of today may affect the economics of four and five years from now or even longer. The fathers have eaten sour grapes and the children's teeth are set on edge.

It was notably true that in the '20s we embarked on an easy-money policy, partly as a favor to our British friends and the rest of the world in the hope that expansion here would make their recovery easier. When '28 and '29 came, we tried to reverse it and found it almost impossible to do it because we had built up a huge volume of money that then proceeded to be used.

Sensitivity to Money Change

That leads one to a second limitation which is that the economic situation is at times very much more sensitive to a change in money than it is at other times. In the earlier '20s, the change of ½% in the rediscount rate or the sale or purchase of $200 million of government securities appeared to change the trend of prices and business from time to time; '28 and '29 was impervious to those changes.

Applying that to the present time, I think the recent rise in the price of money comes at a time when the situation is probably highly sensitized to it, and it may produce more results than it would at other times. That is developed in the National City Bank "Letter" of April 1 that we distributed. Let me say it comes at a time when many people are overinventoried, when there is a bubble, as Professor Harrod has said, that could be pricked, and may now be in the process of being pricked.

The effectiveness, of course, lies in the holdings of government securities. The banks find themselves in a position where additional loans can be made only at the price of a sale of government securities at a loss. We don't like to sell government securities at a loss. It comes also at a time when many banks are heavily loaned, perhaps overloaned, when the country banks are coming to us to try to get us to take over part of their portfolio. It is a tight situation, I assure you.

Even more tight is the situation of the insurance companies which come into this period heavily overcommitted for mortgages and corporate bonds, perhaps committed for their income six months to a year ahead. They counted on selling government securities. They now sell them at a loss, and they have locked up a substantial number in the new 2¾% bonds which are attractive. So I think it is fair to say that the average insurance company has cut its program for taking new mortgages by as much as 50% and that they are screening their corporate loans much more vigorously than they were, so that these conditions will impinge not only on the volume of short-term credit, but on the long-term as well.

A third qualification—we have set the stage for five years with the outpouring of easy money and the government guaranties of housing, the RFC and foreign lending, which is, of course, inflationary, much as it may be necessary.

An Investment Problem

That brings me to express approval of Dr. Harrod's suggestion, that while we may have pricked an inventory bubble and you may get a leveling off here, the long-term effectiveness in dealing with inflation, I believe, deals essentially with the problem of investment. You simply cannot finance in this country $24 billion of new capital proposals, as has been published by the Department of Commerce, along with this defense program, and carry on at the same time a private building program at the pace we have been doing without inflation, no matter if you put the interest rate up to 5%. I agree that there you have a force that you can't deal with solely by money policy.

You have got to plug some of the leakages of this tremendous investment program. You have got to deal with that in some way or another.

State and municipal expenditures are between $3 and $4 billion a year. That certainly can be cut back, and you can do that partly by cooperation, pulling the governors and mayors together and agreeing on some sensible standards.

The building program, if it hasn't been reduced by Regulation X—and I doubt if it has, and there are many exceptions—I believe has got to be cut back. Control of that is after all in government's hands because most of it is done under government guaranties.

We want to do things that work. We are trying to do two things here. That is the thing that we need to bear in mind. We are trying to finance the defense effort, number one; and, secondly, we are trying to do it without inflation. That delicate balance is where all our problems will come. I would say that 85% of the loans that I have seen go through our bank have been directly related to doing a defense job and maintaining the production of an economy at a level 15% higher than it was a year ago.

Now, it is a delicate job to do, and I think it can be dealt with with the kind of setup that is being worked out.

Washington Bond Club Annual Outing

WASHINGTON, D. C.—The annual outing of the Bond Club of Washington will be held at the Manor Club on May 18. Robert T. Norman, manager of the Washington office of Stein Bros. & Boyce, is Chairman of the outing.

Officers of the Bond Club of Washington are: Austin Rohrbaugh, Rohrbaugh & Co., President; Edgar B. Rouse, Rouse, Brewer & Becker, Vice-President; Millard F. West, Jr., Auchincloss, Parker & Redpath, Secretary-Treasurer. Bernard J. Nees, Johnson, Lemon & Co., and Thomas L. Anglin, are Directors.

New York Stock Exch. Weekly Firm Changes

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

Transfer of the Exchange membership of Arthur B. Behal to Joseph S. Gruss will be considered by the Exchange on April 26.

Transfer of the Exchange membership of the late Adams Batcheller, Jr., to Charles K. Dickson will be considered by the Exchange on May 3.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

The market now appears to be jockeying for position from which it can start an up move. It is quite likely that such a move may be on its way by the time you read this.

Whether or not such a move will be worth following depends on one's agility and success in picking out the right stocks. Off hand I would say that the market has again entered its romance stage, or the crystal-gazing era. It can be seen in the strength of alloy steels as against that of the more conventional steels.

One of the sparks that will help move this market up is the short interest. According to the latest figures, the current short position is more than 2,500,000 shares, which represents the largest short interest since May 1932.

You're probably wondering if all this means I'm now becoming bullish. Last week, if you'll re-read my column, I was anything but optimistic. Let me hasten to say that I'm still pessimistic. I can turn around quickly enough if conditions warrant. I don't see anything in the immediate future to warrant such a turnaround.

The major reasons against any severe decline seem to be that most stocks are selling at a low-per-share-earnings ratio. In all the years I've watched them I've yet to see that as a bulwark against declines. Stocks are always worth what they're selling for, no more no less. If stock B sells at 50 its worth 50, not a penny more. If it sells at 10 that's all it's worth. If you don't think so try taking it to a bank and see how much more than its current price you can borrow.

The majority opinion still has it that stocks will go higher after they go lower. As you read in this space last week, I don't agree. My belief is that stocks will go higher without going lower, and then when the reaction comes, it will be much sharper than generally anticipated.

As of this writing the familiar averages are about 256, or almost a full point over their old highs seen last February. The rails, however, are about eight points under their old highs. To satisfy the Dow theorists the rails would have to duplicate the action of the industrials. For all I know, they may do just that, even if I doubt it.

In any case, however, I believe the industrials will add about 15 to 20 points to their current levels, or get to about 275, before they'll turn down. Of course such a move is worth following. But with an anticipated obstacle ahead, any participation must be entered into with misgivings. You can take it from here.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

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Continued from page 15

Credit Controls and Fiscal Policy

and the terms were tightened somewhat over June 30, 1949.

Regulation W specifies the minimum down payments and maximum maturity for major consumer durable goods. The minimum down payment for automobiles is 1/3, for appliances 1/4 and for furniture 15%. The maximum maturity in all of these cases is fifteen months. The minimum down payment for home improvements is 10%; the maximum maturity is thirty months. The Regulation is applicable to articles costing only $50 or more. It does not apply to items selling for less than this amount.

The objectives of Regulation W in the economic sphere are to decrease buying power, to restrain the upward rise in prices and to conserve materials needed for reconversion to a stepped-up defense effort. The role of consumer credit controls may be evaluated by analysis of its economic significance. In 1929, consumer credit amounted to something over $6 billion. It declined by 1932 to about half of this level, rose again to $7 billion by 1939, declined to a war time low of some $5 billion and since the end of the war has risen to somewhat over $20 billion. Clearly the volume of consumer credit is of some significance in the level of spending. Careful study of the role of consumer credit in the business cycle however indicates that it is not a major originating factor. Consumer credit is not a major influence in causing booms to begin or depressions to take place. On the other hand, it is important as a reinforcing factor magnifying a boom and aggravating a decline. For example, since January, 1949, consumer credit has increased by over $6 billion; this is an increase in spending power and when its derivative effects are taken into account is an influence of not inconsiderable magnitude on the economy. The 1950 Survey of Consumer Finances indicated that in the purchase of durable goods in 1949, such as radios, television sets, refrigerators and new and used automobiles, approximately half of the purchases were made with credit arrangements of one type or another.

An argument which has been leveled in bitter denunciation of consumer credit controls is that they have discriminated against the lower income groups. It is charged that consumer credit controls ration goods in accordance with the wealth and income of individuals. However, this criticism ignores the realities of a limited availability of consumer durable goods. If there had not been rationing of consumer durables by consumer credit controls, their prices would have risen sharply due to the pressure of strong demand. The limited supply would then have been rationed through high prices. Consumer credit controls did not reduce the quantity of consumer durable goods going to the lower income groups. It did make it possible for the lower income groups to buy consumer durables at lower prices than otherwise.

In summary, the advantages of consumer credit controls are that they are relatively impersonal; experience had been developed in utilizing the machinery so that they could be imposed quickly; the effect was relatively quickly felt and made it possible to reallocate relatively scarce materials for preparedness uses. A full evaluation requires consideration of other devices utilized in the broad program to reconvert the economy to a high level preparedness basis.

Controls on Real Estate Financing

The major consumer durable goods not covered by Regulation W and never heretofore subject to direct control was the regulation of the financing of real estate construction and purchases. Section 6 of the Defense Production Act provided for restrictions on credit in connection with real estate purchases. Accordingly, Regulation X of the Federal Reserve System, effective Oct. 12, 1950, was promulgated. Effective Oct. 12, 1950, restrictions on residential real estate credit were imposed. The coverage includes existing homes or second hand real estate as well as new construction. The maximum loan values vary. For units having a value between $2,500 and $5,000 the maximum loan value is 90% of the value. The ratio of loan to value is reduced for high priced units. Units whose sale price exceeds $20,000 carry a maximum loan value of approximately 50%. Maturities in general are limited to 20 years. Veteran's preference is provided by making down payment requirements on loans in the price range between $6,000 and $12,000 lower by 10%, with the preference narrowing to 5% on the higher price levels.

On Jan. 11, 1951, the coverage of real estate credit control was extended to apply to multi-unit residences such as apartment houses or apartment hotels which include more than four family units. Maximum loan values per unit are similar to those provided in the regulations set forth on Oct. 12, but somewhat lower. If the value per family unit is not more than $7,000, the maximum loan value is 83%. On units of value over $23,500 the maximum loan valeu is 50%. Detailed provisions covering rental housing, cooperative projects and Veterans Administration loans were also prescribed.

On Feb. 15, 1951, the amended regulation was broadened to include new construction of non-residential building as well as their improvements if they exceed 15% of the appraised value of the non-residential structure. Maximum loan values are set at 50% of the value of the property.

The objective of Regulation X is to restrict the flow of funds into the mortgage market and through the reduction of construction activity to provide materials and labor required for the defense program. With regard to housing production alone, it was estimated at the time of the promulgation of Regulation X that the rate of home building in the Fall of 1950 was to be reduced by 1/3 for 1951 so that not more than 800,000 housing units would be built in 1951. It will be noted that in the restrictions on real estate credit the lower priced units which presumably are of greater interest for purchase by the lower income groups may carry higher loan-to-value ratios. Thus Regulation X is not subject to the argument that it discriminates against the lower income groups.

It is generally conceded that the objectives of Regulation X are commendable. While it is of course desirable always to have more homes and under present circumstances more business properties, we are confronted with the basic economic problem of limitations on available resources and the necessity of allocating them among competing uses. In the circumstances of a preparedness program Regulation X may be expected to perform a significant role in maintaining the strength of the American economy for its defense effort.

Margin Requirements

The third major category of loans are those secured by stock of corporations. The magnitude of security loans is relatively small. Their rate of increase has been comparatively small. Nevertheless, margin requirements were raised from 50% to 75% effective January, 1951. This is to say that the maximum loan value using stocks as security is now 25%. Margin requirements had been 75% from Feb. 1, 1947, to March 29, 1949. On March 30, 1949, they were lowered to 50% at which level they continued until their recent increase in January, 1951. The margin requirements have been set by the Federal Reserve System since 1934 under Regulation U applicable for loans by banks and under Regulation T for extensions of credit by brokers and dealers on listed securities.

Empirical studies indicate that loans by brokers and security loans by banks are not very responsive to changes in margin requirements. That is when margin requirements are changed so that the volume of borrowing might be increased substantially, no significant increase does take place. Similarly when margin requirements are increased, the volume of loans does not fall off greatly immediately. The explanation for this is as follows. The volume of credit is no longer a fundamental force determining stock prices. Margin requirements generally have been lowered when stock prices have been falling and have been raised when stock prices have shown a tendency toward a vigorous rise. The fundamental forces making for a rise in stock market prices are not usually greatly dampened by a decrease in credit available. Even on a cash market the prices continue to rise. Credit secured by listed securities does not change immediately for the reason that new margin requirements are effective only for new transactions and are not applicable to existing account holdings. For the longer period, borrowing on stock does not decrease when margin requirements are raised because the volume of trading and stock prices is not likely to be restricted by margin increases and hence the level of borrowing continues to increase somewhat.

The significant point in connection with changes in margin requirements is that they prevent the increase in borrowing from being at a greater rate than it otherwise would be, or a decrease in margin requirements tends to cushion a decline in borrowing and stock prices.

Again as with other direct controls of this nature, namely consumer credit and control over real estate transactions, the underlying forces in the market are of greater significance than the financing factor in originating price rises or price declines. On the other hand, the financing factor is an influence in reenforcing rises or declines. Hence there is a contribution that can be made by regulating margin requirements in an anti-cyclical fashion.

In the present situation an objective of varying margin requirements is to attempt to restrain somewhat the rise in security prices which has the effect of limiting the extent to which firms may use the equity market for new financing. This limits the extent to which firms can draw upon additional funds to finance investment expansion. The preparedness program of course does require investment expansion. However, by imposing controls over normal channels of financing, firms must attempt to secure additional funds through channels which are subject to more direct control by governmental authorities. Hence the financing activities, by being

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subject to greater control by governmental authorities can be used as one of the devices for rationing or allocating scarce materials and labor to investment expansion programs of the type which will make the maximum contribution to the preparedness program.

Business Loans

The fourth major commercial bank credit category is significantly larger than all of the remaining categories combined. Analysis of measures to control this category, business loans, are therefore of unusual significance and interest. Not only do business loans represent the greatest absolute amount of credit outstanding but, in addition, represent the greatest amount of increase since December 1949 of any of the categories.

The regulation of the total amount of bank credit is of strategic importance. As indicated before it is one of the two practical routes by which effective purchasing power in the nation may be increased or decreased. The traditional responsibility of monetary and credit policy is to control the total means of payments so that the best economic needs of the country may be served. The selective credit controls referred to are condemned by advocates of the traditional principles on the grounds that monetary and credit policy should be general and impersonal. Monetary and credit policy should operate to control the total means of payment but should not insert itself into the decisions of individuals as to how they shall use that means of payment. If the total money supply is properly regulated, it has been urged, there is little or no need for direct qualitative control on consumer credit, real estate loans, or security loans.

Since the responsibility of the banking authorities, especially the Federal Reserve System, is to control the means of payment properly, the question may appropriately be raised as to why the means of payment have not in fact been subject to the desired close control of the banking authorities and why it has been necessary to resort to direct qualitative controls.

Traditional Powers of the Federal Reserve System

The traditional powers of the Federal Reserve System used to control the supply of money are (1) controls over the rediscount rate, (2) open market operations and (3) changing reserve requirements. Singly and in combination, these powers are presumed to give the Federal Reserve authorities control over the money supply in order to vary it to meet the commercial and business needs of the economy.

The Federal Reserve Bank rediscount rate was in fact raised in late August, 1950 (about two weeks before the passage of the Defense Production Act) from 1½% to 1¾%. When banks were heavy borrowers from the central bank, changing the rediscount rate was effective in reducing the supply of credit by raising its price. Since the early 1930's, however, member banks in the United States have not been heavy borrowers from the Federal Reserve System. Changes in the rediscount rate have been influential only as signals of a general policy by the central bank to tighten or ease the flow of credit.

The instrument, however, by which the central bank actually enforces the signal indicated by changes in the rediscount rate are its open market operations. Open market operations can be used to increase and decrease the excess reserves of member banks and their ability to extend credit. This can be done on a national scale and even a regional or local basis quickly and effectively. However, since the early days of World War II, the freedom of the central bank to use its open market operation has been subordinated to supporting a pattern of interest rates on United States government securities.

The power to alter reserve requirements was not contained in the original Reserve Act of 1913. The Banking Act of 1935 gave the central bank the power to double the reserve requirements in existence at that time. While there have been relatively frequent changes in reserve requirements since 1948, the only alteration now possible in reserve requirements under existing law would be for the central reserve city banks to have their reserve requirements raised by an additional two percentage points. At the present time, therefore, little can be done in the way of changing member bank reserve requirements to enable the central bank to restrain any possible increases in the money supply through expansion of member banks' loans.

It is seen therefore in review that the three traditional powers of the Reserve System to control the supply of money provided by the banking system have been until recently almost completely hobbled. Since changing reserve requirements has not traditionally been an important weapon of the central bank and since there is considerable dispute on the effectiveness of changes in the rediscount rate as the deterrent to the increase in the money supply, through raising the cost of borrowing, attention centers on restoring to the reserve system the effectiveness of open market operations. The net result of open market operations from June 21, 1950 through October 11, 1950 for all member banks has been to increase member bank reserves by some two billion dollars. With an average expansibility in member banks' loans by a ratio of 5 to 1, this would provide for an increase in member bank demand deposits by approximately 10 billion dollars.

This has occurred because of a low interest rate policy by the Treasury which, until comparatively recently, the Reserve authorities have supported. Since August, however, sharp differences between the Treasury and the Federal Reserve have been spot-lighted.

The essence of the Treasury view in support of a low level of interest rates is that a rise in interest rates is costly to the Treasury and would not affect the volume of business borrowing because interest rates are presumed to have little effect upon business decisions. This argument is reinforced by the Treasury assertion that the credit of the United States government must be protected.

In opposition to these views the position held by the Federal Reserve authorities has been substantially as follows. A price level rise of even 5 or 10% is more costly to the government and to the nation as a whole than a substantial rise in interest rates.

However, it is a false issue to regard the debate as centering upon whether a difference of ⅛ or ¼% or ½ or 1% interest should be paid by the Treasury. The real consideration is not whether higher interest rates should be paid by the Treasury on the 250 billion dollar debt outstanding and whether an increase in interest rates would restrain borrowing by business firms. The essential point is that the pattern of interest charges on government debt should be such that it need not be supported by Federal Reserve open market operations. If the central bank regains the power to pursue open market operations guided by the criterion of providing an appropriate money supply for the economy, inappropriate credit policy by member banks can then be restrained. (Actually the extent of required action by Federal Reserve authorities would be diminished by the fact that if the yield on government securities were at a higher average level, member banks would be less willing to make business loans because of the higher level of risk involved in such lending activities.) Business loans of member banks would thereby decrease not primarily because member bank credit had become more expensive to borrowing business firms but because member banks themselves would ration the volume of credit they were extending.

With regard to the second Treasury argument that the credit of the United States Government must be preserved, it should be observed that the danger to the ability to market government securities is not that interest rates rise somewhat. The great danger is that there occur such a rapid rise that investors of every type become unwilling to purchase securities whose principal is paid in terms of a fixed dollar amount.

Regulation V Loans

With the total supply of credit severely limited, the problem of supplying the actual loan needs of firms engaged in defense production would still remain. It is in this regard that Regulation V has a useful role to play. If member bank reserve positions are tightened in the appropriate manner through central bank action, it will be difficult for some firms with defense orders to secure loans. Regulation V facilitates bank credit for firms engaged in defense production. An effort is made to make this type of loan attractive to banks by providing guarantees.

A contractor or subcontractor engaged in defense production may contact his local bank or other financing institutions. If the financing institution agrees that there is need for a guaranteed loan, it files an application for a guarantee of the loan by the appropriate guaranteeing agency. The maximum rate of interest which may be charged on a guaranteed loan is 5%. The guarantee fees charged by the Federal Reserve Bank range from 10% if the loan is guaranteed up to 70% or less, with the guarantee fee increasing to 40 to 50% of the amount of interest received on the guaranteed portion of the loan if the percentage of the loan guaranteed exceeds 95%.

Lawyers have a function of importance in connection with the granting of the loan as they often do in connection with other types of borrowing. After the form of guarantee agreement and note under which the borrowing is made has been prepared by the Federal Reserve Banks, it is sent to the borrower for execution and borrower is requested to furnish opinion of its counsel as required by the credit agreement that (1) the bank has a good and binding obligation with regard to the note, (2) the credit agreement is effective and (3) the bank has a binding obligation of the guarantor. After this opinion has been received the copies of the credit agreement are then returned to the bank for execution and copies sent to the Federal Reserve Bank for the preparation and execution of the guarantee agreement.

Thus, although over-all bank credit may be limited by appropriate central bank action, special devices may be used to increase the credit flowing into desired channels during a preparedness program. By a program such as the Regulation V program of loan guarantees for defense production inaugurated under authority of the Defense Production Act, this type of loan can be made unusually attractive for lending institutions. In this manner, the over-all volume of credit may be appropriately controlled at the same time that the special needs of the economy may be provided for.

Fiscal Policy

Fiscal policy represents the other main arena in which the money supply and volume of employment and output are increased or decreased.

In appraising the fiscal role of government, more than passing mention should be made of the role of government on the spending side. The increased spending activity accounts for an increasing proportion of the real national output. Cash expenditures of the Federal government for fiscal 1950 were 43 billion dollars. They are estimated to be approximately 50 billion dollars for fiscal 1951 and approach 75 billion dollars for fiscal 1952. The major source of the increased spending of course is increased outlays for the military services and international security.

However, careful analysts of the Federal budget have indicated that there is a substantial area for cost reduction, both in the elimination of inefficiencies and the postponement of desirable programs which might better come at a later date. Space does not here permit a recapitulation even of the specific areas in which cost reduction through reduction of inefficiency may be achieved. The facts have been supplied in sufficient detail and with sufficient realism to provide assurance that substantial reduction can be achieved.

The 1951 and 1952 budgets include continuation and expansion of some welfare programs, notably in housing, public works, health and education. Commendable as these programs may be as long-run objectives, the millenium can not be achieved in a single day. With limited resources and a host of competing uses for the resources, the achievement of long-run objectives may actually be hampered by present and near term dislocations of attempting too much too soon.

So much for the spending side, detailed data on which must be supplied by analysts close to budget operations.

Turning to revenue aspects of the budget, the statement has frequently been made that the budget was relatively neutral in its effect on the recent substantial price rises. Such observations are quite misleading. It is true that revenues for fiscal 1950 amounted to some 43 billion dollars compared to cash receipts of some 41 billion dollars. The consolidated Federal cash budget for fiscal 1950 therefore was inflationary by 2 billion dollars. For fiscal 1951 it is estimated that both cash receipts and cash payments will approximate 49 billion dollars and on this basis it has been said that the budget position of the Federal government will be neutral. This is erroneous for two reasons. First the anticipated Federal deficit for 1952, and the large volume of Federal spending which would make a substantial number of items scarce, has resulted in anticipatory buying and utilization of formerly idle cash balances. Furthermore, since the emasculation of monetary control over bank credit expansion has resulted in a substantial increase in the money supply, it was necessary to achieve a budget surplus to attempt to offset the increase in the other major sector in which money supply is influenced. Hence we must do better than to simply balance the cash receipts and cash outlays for fiscal 1951 and to reduce the projected deficit of $16½ billion for fiscal 1952. It should be observed that on a cash basis, the consolidation Federal cash budget for 1952 will show a deficit of only $12.8 billion because of nearly $4 billion cash flow into trust funds, which is not Federal income but simply an increase in the reserves of these funds. It is for these reasons that tax increases have been requested. Before appraising the nature and necessity of future tax increases, it will be useful to review the recent changes which have taken place in tax legislation in the attempt to reduce the inflationary impact of government operations.

Recent Tax Legislation

A tax law was passed and signed by the President Sept. 23, 1950. This tax had been initiated before Korea and at that time it consisted primarily of excise tax reductions and loophole closing provisions to offset the revenue loss by reducing excise taxes. The developments in Korea caused substantial changes in the tax bill that was in process. The excise tax reductions were eliminated and corporation and individual income taxes were increased. The individual income taxes were increased, not by changing the normal tax and surtax rate, but by removing from the law for 1951 and later years, the percentage reduction of the total tentative tax to arrive at the net amount of tax liability. Since technically the increased tax burden began with the last quarter of 1950, in figuring the amount of tax for 1950, the increase in taxes was accomplished by reducing the tentative tax by 13% of the first $400, 9% of the next $99,600 and 7.3% of the tentative tax in excess of $100,000. The rates formerly had been respectively 17, 12 and 9.75. For years beginning with 1951, no percentage deduction is allowed.

The corporate income tax was changed in a more substantial fashion. The rate was increased from the 38% level to 45%. The increase was to begin effective June 30, 1950. For the calendar year, therefore, the tax rate reflected a type of average of the old and new rate. The method of computing the tax was simplified. The system of graduated rates for corporations with incomes below $25,000 and the 53% notch rate applicable to corporations with incomes between $25,000 and $50,000 was eliminated. For tax years beginning after June 30, 1950, a 25% normal tax rate is applied. An exemption of $25,000 is allowed for surtax purposes and a surtax of 20% applied to corporate net incomes above this minimum. For corporations with income up to $25,000, therefore, the tax rate is 25%, for incomes above $25,000 the tax rate is 45%.

This however, was modified by the corporate tax law passed Jan. 3, 1951, which included a 2% increase in the surtax rate, raising it to 22%. A penalty tax of 2% on consolidated returns would still be over and above the resulting 47% tax rate. In addition, an excess profits tax law was passed. Both the surtax increase and the excess profits tax law became effective July 1, 1950. The termination date on the excess profits tax was placed at July 1, 1953.

It will be useful to briefly summarize the excess profits tax law to comment somewhat on its economic effects and its role as a part of the fiscal system. We shall then turn to an evaluation of the possibility of additional taxes and in this process we shall appraise the economic effects of alternative tax devices.

An effective tax rate on excess profits of 77% is to be levied. Excess profits are defined as those profits over and above a maximum defined in the statute which is described as the excess profits tax credit. Two methods as in the World War II Law are provided

Continued on page 36

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Continued from page 35

Credit Controls and Fiscal Policy

for determinating the excess profits tax credit. One is the average earnings credit and the other is the invested capital method. For the average earnings credit the base period is defined as the three best years 1946 through 1949. 85% of this is the excess profits tax credit. Provision is made for capital changes after the base period, a growth formula is provided and base period abnormalities are taken into account. Recognition is given to new products or services and depressed industries. Special exceptions are provided for utilities and transportation companies.

The invested capital credit is 12% of the first $5 million of invested capital, 10% of the next $5 million and 8% of anything over $10 million. Invested capital will include 100% of equity capital and retained earnings and 75% of borrowed capital. If borrowed capital is included, only 25% of the interest payments on the borrowed capital can be deducted from the company's income subject to tax.

Invested capital can be calculated in two ways, either on the basis of a new assets approach or on the historical capital approach provided in World War II. Under the former method, the company will compute its assets including its retained earnings, subtract its liabilities and add its net loss during the 1946-49 period or the 1940-49 period, whichever is greater. Under the historical approach it will base the figure on its original paid in capital and surplus, plus any net accumulation of earnings over the entire period of its existence. Provision is made for capital changes after the base period.

A minimum excess profits tax credit of $25,000 is allowed. The law in addition permits net operating losses of a given year to be carried back or forward. Losses may be carried forward five years or back one. Unused excess profits tax credit can be carried back one year or forward five years. Any unused portion of the $25,000 minimum however cannot be so shifted. A tax ceiling stipulates that not more than 62% of any firm's income in regular corporate excess profits taxes and 2% penalty tax may be taken. Thus an overall ceiling of 62% is provided.

Appraisal of Excess Profits Tax

The theory of an excess profits tax for wartime or a period of high level preparedness is that firms benefit differentially from the increased national income and business activity. To increase tax rates across the board is to penalize firms which do not differentially benefit from the increased tempo of economic activities resulting from a war or preparedness program. The theory is that profits in excess of what would have been earned if the abnormal occurrences had not taken place should be subject to the differential tax.

Many objections, however, have been voiced against even a wartime excess profits tax. With regard to the average earnings standard, it is argued that there is really no previous historical period which can, with high reliability, be regarded as normal for all firms and industries. An attempt to make adjustments for abnormalities between firms and industries for the base period gets into endless complications and brings on the requirement of relief provisions which are productive of considerable litigation. The complications in the administration of section 722 of course were aggravated by the fact that at no time were definite standards for the administration of section 722 completely worked out. As a consequence, it was necessary for tax accountants and tax lawyers to file a section 722 claim to ascertain whether their client was in fact entitled to recognition for his special circumstances.

The difficulties with the invested capital base are even greater. Since accountants do not presume to provide measures of current values of assets or invested capital, book values of invested capital may bear no relationship to the current values of those assets and may bear no relationship whatsoever to what present stockholders have paid for their shares in the corporate enterprise. The inequity of an excess profits tax is therefore likely to be quite serious.

Some of the difficulty is, of course, alleviated by providing alternative standards, an average earnings standard and an invested capital standard. But frequently the particular situation of a firm is not sufficiently recognized or provided for even by the option of the alternative standards. This is particularly true for the new and small firms which typically have neither a favorable historical earnings record nor large invested capital.

In an over-all appraisal of an excess profits tax, it must be acknowledged that it has some role to perform in a war period. As a part of a general program of imposing limitations on the earnings and wages of all types of income recipients, the passage of an excess profits tax seems essential to secure general assent to a broad program of controls during wartime. Probably the major reason for the passage of the Excess Profits Act of 1950 was political; it was to a considerable extent at the behest of the labor groups. There is also an economic basis for the tax during a preparedness period or abnormal economic conditions. While there is a role for an excess profits tax, the unreliability of the definition of normal earnings makes it important that the excess profits tax rate not be too high except under very extreme wartime conditions, and that the combined corporate tax rate have a relatively moderate ceiling in order to avoid the deliberating effect of high corporate taxes upon cost control. It is widely recognized that an extremely high corporate income tax rate makes business decisions unusually dependent upon the consideration that the government is paying for a high percentage of any outlay.

Tax Prospects

Having analyzed the nature of recent tax changes, we now turn to the future to consider alternative sources of additional revenues necessary to achieve a substantial cash budget surplus. It is not possible to review here the many alternative tax proposals which have been made. A summary tax program is presented with brief reasons for the plans proposed.

The bulk of increased tax revenues should come from increases in the personal income tax. The chief merit of the personal income tax is that it is a direct tax. It is presumably not shifted to any great extent, so that one may secure an understanding of its impact. There is much to commend a cut in exemptions from $600 to $400. This would raise an additional $4 billion. Further, the surtax rates should be increased 4% at each bracket. This would also add approximately $4 billion.

Although an increase in taxes hurts all of us, inflation carries even heavier burdens. Increases in personal income taxes are subject to two major restraints, however. First, high personal taxes will at some point have undesirable effects upon incentives and thereby hamper output increases. Second, to a considerable extent the personal income tax is self-assessed. The higher the rates, the greater the tendency for the administration of the personal income taxes to break down.

Consequently, to the extent that appreciable sums cannot be secured from alternative sources, reduction in consumers' purchasing power should be achieved by offering an attractive saving medium. This is represented by a purchasing power bond. Details of the purchasing power bond and arguments in its defense have been presented by Professor Slichter. He demonstrates convincingly that the purchasing power bond has considerable merit as a fiscal device.

In my judgment the excess profits tax should not be changed in the attempt to secure additional revenue under present conditions. At best an excess profits tax is an imprecise method of attempting to identify differential incomes. If an attempt is made to use the tax to secure too high a proportion of the Federal government's revenue, either serious inequities will be placed upon individual corporations or the law will have to become administratively complex because of exemptions and relief provisions.

Proposed increases in the corporate income tax have been justified by some on the ground that they would merely reduce corporate income levels to somewhere near the 1948 levels which are regarded as an unusually favorable level of profit. The difficulty of using historical standards such as this is that no consideration is given to possible growth in the invested capitals of corporations in the aggregate. Furthermore, the relationship of corporate profits to the size of the total economy as measured by gross national product or national income is not taken into account. Finally, changes in the price level are given insufficient consideration in comparing corporate profit levels between the two dates. The use of such historical standards is question-begging, especially since the standard could equally well be applied to the aggregate level of wage returns or any other distributive share. When a historical standard is applied to other distributive shares, its lack of basis on logical grounds becomes readily apparent.

An undesirable aspect of the corporate net income tax, correction of which should be made even under present circumstances, is the double taxation of corporate earnings. The proposal contained in the final report of the Committee on the Federal Corporate Net Income Tax of the National Tax Association, published August, 1950, deserves recognition. It was suggested that at a rate of 45%, the tax should be divided be divided into two segments. The full 45% would be paid on retained earnings and a lower percent, for example 30%, paid on dividends paid. These two levels were chosen to attempt to integrate the corporate net income tax with the first bracket level of effective rate of tax on personal income. At the time of this proposal, it was suggested that the corporate income tax, which was then at a level of 38%, be raised to 45% to compensate for the revenue loss that would be occasioned by the lower rate on dividends. Since the corporate income tax has been already raised to 47%, the income would have to be made up in some other fashion. The basic rate could be raised to 50% (and this 50% level is a persuasive symbol beyond which the corporate income tax should not be permitted to go) to partially compensate for the lower rate on dividends actually paid. The rate on dividends might appropriately be the difference between the corporate income tax rate of 50% and the 24% rate on the first surtax bracket for individuals, or a 26% rate on that portion of earnings distributed as dividends. Of course, to the extent that dividend payments would be thereby encouraged, tax revenues under the personal income tax would increase. This proposal embodies very desirable elements since it reduces the present double taxation of corporate earnings and moves the tax system in the direction of greater reliance upon direct taxes as a source of income.

Another principle of significance and importance which could well be observed is to continue provision for an over-all limitation in the amount of taxes to be taken by the combined corporate net income tax and the excess profits tax by the application of a ceiling. The present ceiling of 62% represents a desirable principle since this reduces the effect of high marginal tax rates on waste and extravagance which may be encouraged by high marginal rates. The advantage of a reasonably moderate ceiling is that wastes of this kind are reduced and the need for detailed relief provision is reduced.

Related to such a proposal is the idea of a "humped curve" in an excess profits tax or a corporate income tax levy. It is especially appropriate for an excess profits tax levy. For example, earnings in excess of the normal earnings as defined by statutes could be broken into segments. The first 20% of the earnings might be taxed at an excess profits tax rate of something like 50%; the next 10% might be taxed at a 64% rate; the next 10% might be taxed at an 80% rate, the fourth 10% at a 90% rate; and all over 50% of the excess might be taxed at an intermediate rate such as 60 or 75%. Thus, by getting over the hump with reference to what it has achieved in the base period, a corporation receives recognition in the tax structure for increases in output and efficiency. The rising portion of the curve is intended to reduce the importance attached to the base period and to reduce the injustice done to concerns which find their base to be inequitably low. The falling part of the schedule acts to induce companies to strive for increased efficiency profits after which they are enabled to retain a larger portion of their earnings.

On the basis of economic principles, therefore, some modifications in the nature of the present corporate net income tax are called for, but it should not be used as a source of any appreciable increase in revenue.

Another tax which has been proposed is a general sales tax. A difficulty with a general sales tax is that it is somewhat cumbersome to administer. Its major impact is on the lower income groups, but in a period when one is trying to control inflation, this is a virtue rather than a defect in the proposal.

Under present circumstances a general retail sales tax should not be adopted. It would result in price increases which would be reflected in the cost of living, thus contributing to wage increases and further price spiralling effects. Preparedness or semi-mobilization activities may continue over a long period of time. If a retail sales tax were used, there is a danger that it would become a permanent part of the tax system and this is not desirable. Hence, unless present mobilization levels are required to be increased, I would favor the continuation of selective sales taxes which are represented by excises.

First, excise taxes that are fixed in dollars, notably those on liquor and tobacco, are recommended for increase since they have remained fixed since 1942. This has been during a period when the general price level has greatly increased, while other excises which are levied on an ad valorem basis have increased correspondingly in dollar amounts. Second, revenue increases may appropriately be achieved by increasing excises on luxuries. Luxuries in this context may be defined as items whose prices do not enter into the cost of living index. Price increases resulting from the increased excise taxes would not therefore affect the official basis for wage adjustments. Further, these items provide an outlet for excessive consumer buying power. Consequent price rises are shared directly with the tax authorities. From these increases in excise taxes close to $3 billion of additional revenues may be secured.

Conclusions

In summary, on the basis of the prospective outlook, the following proposals appear to be appropriate credit and fiscal policies to promote stability: (1) Restoration of Federal Reserve control over the money supply. (2) Retention of selective controls over credit expansion. To the extent that effective control over the total money supply is achieved, direct credit controls are likely to be at the same time more effective and less necessary. (3) Increases in personal income tax rates to yield an additional $8 billion. (4) The provision of a purchasing power bond for small investors. (5) Reform of the corporate income tax with no major changes in the excess profits tax for the present. (6) Increases in selective excises to yield approximately $3 billion.

The above appears to be a minimal program. The need for it is great, since there is little basis for hope that the international tensions requiring substantial military preparations will, in the near future, be moderated. Effective demonstration is required that the erosion of the purchasing power of money can be halted.

Put & Call Brokers to Hold Annual Dinner

The Put and Call Brokers and Dealers Association, Inc., will hold its annual meeting at the Hotel New Yorker on April 27, 1951, at 5:00 p.m.

At this yearly meeting a testimonial dinner will be tendered to Sid D. Harnden, the Association's President, who has served in this capacity for 10 years.

Gottron, Russell Co. Wire to Cruttenden

CLEVELAND, Ohio—Gottron, Russell & Co., Union Commerce Building, members of the Midwest Stock Exchange, announce the installation of a direct wire to Cruttenden & Co., 209 South La Salle Street, Chicago, members of the New York and Midwest Stock Exchanges.

Extend Put & Call Options

Directors of the Put and Call Brokers and Dealers Association, Inc., have ruled that Put and Call Option Contracts which expire on any Saturday during the months of June, July, August and September this year will be automatically extended to expire at 11:45 a.m. on the following Monday. Directors took this action because the New York Stock Exchange will be closed on these Saturdays.

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BOSTON, Mass. — Myles D. Huntington has become affiliated withr Lee Higginson Corporation, 50 Federal Street.

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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. 29	103.3	102.9	103.5	100.3
Equivalent to—					
Steel ingots and castings (net tons)	Apr. 29	2,065,000	2,057,000	2,069,000	1,912,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Apr. 14	6,120,200	6,126,800	6,042,750	4,998,800
Crude runs to stills — daily average (bbls.)	Apr. 14	†6,127,000	6,092,000	6,401,000	5,116,000
Gasoline output (bbls.)	Apr. 14	19,371,000	19,306,000	20,341,000	16,820,000
Kerosene output (bbls.)	Apr. 14	2,691,000	2,301,000	2,628,000	2,044,000
Gas, oil, and distillate fuel oil output (bbls.)	Apr. 14	8,492,000	8,988,000	8,792,000	6,767,000
Residual fuel oil output (bbls.)	Apr. 14	8,834,000	8,877,000	9,473,000	7,541,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Apr. 14	139,431,000	139,728,000	141,007,000	133,458,000
Kerosene (bbls.) at	Apr. 14	14,337,000	13,533,000	13,084,000	12,686,000
Gas, oil, and distillate fuel oil (bbls.) at	Apr. 14	43,203,000	42,354,000	44,966,000	37,499,000
Residual fuel oil (bbls.) at	Apr. 14	36,826,000	36,532,000	37,753,000	39,881,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Apr. 14	777,989	739,523	745,365	707,385
Revenue freight received from connections (number of cars)	Apr. 14	691,086	699,053	708,312	627,834
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Apr. 19	$220,797,000	$311,168,000	$159,761,000	$236,708,000
Private construction	Apr. 19	98,768,000	188,188,000	59,776,000	155,753,000
Public construction	Apr. 19	122,029,000	122,980,000	99,985,000	79,955,000
State and municipal	Apr. 19	69,376,000	69,562,000	83,330,000	67,800,000
Federal	Apr. 19	52,653,000	53,418,000	16,655,000	12,155,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Apr. 14	9,973,000	9,110,000	9,920,000	11,584,000
Pennsylvania anthracite (tons)	Apr. 14	529,000	465,000	412,000	778,000
Beehive coke (tons)	Apr. 14	132,600	*113,300	149,300	115,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Apr. 14	288	*292	292	254
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Apr. 21	6,730,464	6,746,975	6,847,786	5,845,636
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Apr. 19	151	172	170	188
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Apr. 17	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Apr. 17	$52.69	$52.69	$52.69	$46.38
Scrap steel (per gross ton)	Apr. 17	$43.00	$43.00	$43.00	$28.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Apr. 18	24.200c	24.200c	24.200c	19.000c
Export refinery at	Apr. 18	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Apr. 18	142.000c	150.500c	134.000c	76.750c
Lead (New York) at	Apr. 18	17.000c	17.000c	17.000c	10.500c
Lead (St. Louis) at	Apr. 18	16.800c	16.800c	16.800c	10.300c
Zinc (East St. Louis) at	Apr. 18	17.500c	17.500c	17.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Apr. 24	97.82	98.21	99.52	102.75
Average corporate	Apr. 24	111.44	111.81	113.31	116.22
Aaa	Apr. 24	115.43	115.63	116.80	121.04
Aa	Apr. 24	113.89	114.27	116.02	119.61
A	Apr. 24	110.52	110.88	112.56	115.82
Baa	Apr. 24	106.04	106.92	108.52	108.70
Railroad Group	Apr. 24	107.98	108.70	110.52	111.44
Public Utilities Group	Apr. 24	111.25	111.62	113.31	117.00
Industrials Group	Apr. 24	115.04	115.24	116.41	120.02
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Apr. 24	2.64	2.62	2.53	2.29
Average corporate	Apr. 24	3.09	3.07	2.99	2.84
Aaa	Apr. 24	2.88	2.87	2.81	2.60
Aa	Apr. 24	2.96	2.94	2.85	2.67
A	Apr. 24	3.14	3.12	3.03	2.86
Baa	Apr. 24	3.39	3.34	3.25	3.24
Railroad Group	Apr. 24	3.28	3.24	3.14	3.09
Public Utilities Group	Apr. 24	3.10	3.08	2.99	2.80
Industrials Group	Apr. 24	2.90	2.89	2.83	2.65
MOODY'S COMMODITY INDEX	Apr. 24	521.1	515.5	528.0	365.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Apr. 14	199,937	328,223	245,852	171,468
Production (tons)	Apr. 14	248,406	253,702	250,490	193,925
Percentage of activity	Apr. 14	102	106	106	88
Unfilled orders (tons) at	Apr. 14	726,783	778,034	751,036	379,118
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Apr. 20	154.8	§154.2	154.5	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	Apr. 7	30,980	28,514	33,189	25,262
Number of shares	Apr. 7	896,196	821,113	958,212	770,822
Dollar value	Apr. 7	$38,575,902	$34,246,152	$41,738,785	$30,239,610
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Apr. 7	25,798	24,846	30,559	28,801
Customers' short sales	Apr. 7	728	447	340	167
Customers' other sales	Apr. 7	25,070	24,399	30,219	28,634
Number of shares—Total sales	Apr. 7	713,919	691,592	840,359	812,260
Customers' short sales	Apr. 7	27,004	16,981	12,418	6,237
Customers' other sales	Apr. 7	686,915	674,611	827,941	806,023
Dollar value	Apr. 7	$29,017,008	$27,785,049	$34,100,807	$28,677,102
Round-lot sales by dealers—					
Number of shares—Total sales	Apr. 7	198,160	203,710	260,730	261,850
Short sales	Apr. 7				
Other sales	Apr. 7	198,160	203,710	260,730	261,850
Round-lot purchases by dealers—					
Number of shares	Apr. 7	370,870	339,090	355,510	243,750
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Apr. 17	183.2	*183.0	183.9	152.5
Farm products	Apr. 17	201.2	*201.3	204.6	158.1
Grains	Apr. 17	189.5	188.5	187.0	169.6
Livestock	Apr. 17	268.0	268.7	272.9	194.4
Foods	Apr. 17	186.8	185.7	187.9	154.4
Meats	Apr. 17	273.2	272.0	273.6	212.2
All commodities other than farm and foods	Apr. 17	171.7	*171.9	172.1	146.4
Textile products	Apr. 17	184.4	184.3	185.1	136.4
Fuel and lighting materials	Apr. 17	138.9	138.9	139.0	131.1
Metals and metal products	Apr. 17	189.8	189.9	189.3	168.8
Building materials	Apr. 17	227.5	227.6	227.7	194.9
Lumber	Apr. 17	358.9	358.9	358.9	‡
Chemicals and allied products	Apr. 17	144.5	*144.9	145.6	117.0

*Revised figure. ‡Not available. §Corrected figure. †Includes 466,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION — For Month of February:			
Total gas (M therms)	4,922,364	5,134,336	4,084,481
Natural gas sales (M therms)	4,533,443	4,743,234	3,731,943
Manufactured gas sales (M therms)	233,741	234,838	228,769
Mixed gas sales (M therms)	155,180	156,264	123,769
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of March	9,050,000	*7,765,701	7,487,036
Shipments of steel products, including alloy and stainless (net tons)—Month of Feb.	5,776,229	6,904,688	5,134,780
AMERICAN ZINC INSTITUTE, INC.—Month of March:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	80,450	70,285	77,946
Shipments (tons of 2,000 lbs.)	70,845	64,784	74,700
Stocks at end of period (tons)	11,105	11,117	59,776
Unfilled orders at end of period (tons)	80,769	76,446	55,433
BUSINESS FAILURES—DUN & BRADSTREET INC. — Month of March:			
Manufacturing number	115	107	206
Wholesale number	88	69	116
Retail number	377	304	402
Construction number	83	60	86
Commercial service number	69	59	74
Total number	732	599	884
Manufacturing liabilities	$5,169,000	$6,134,000	$12,241,000
Wholesale liabilities	2,211,000	1,891,000	3,317,000
Retail liabilities	5,605,000	4,357,000	7,859,000
Construction liabilities	3,292,000	2,228,000	2,777,000
Commercial service liabilities	1,375,000	1,399,000	1,706,000
Total liabilities	$17,652,000	$16,009,000	$27,900,000
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of March:			
Total U. S. construction	$1,406,456,000	$1,271,045,000	$993,453,000
Private construction	884,358,000	932,612,000	623,415,000
Public construction	522,098,000	338,433,000	370,038,000
State and municipal	344,574,000	260,680,000	294,178,000
Federal	177,524,000	77,753,000	75,860,000
COAL OUTPUT (BUREAU OF MINES)—Month of March:			
Bituminous coal and lignite (net tons)	44,490,000	39,032,000	*53,594,000
Pennsylvania anthracite (net tons)	2,183,000	*3,522,000	4,882,000
Beehive coke (net tons)	634,400	*603,200	302,100
COKE (BUREAU OF MINES)—Month of Feb.:			
Production (net tons)	6,001,616	*6,791,828	3,994,106
Oven coke (net tons)	5,398,379	*6,076,872	3,956,139
Beehive coke (net tons)	603,237	*714,956	37,967
Oven coke stocks at end of month (net tons)	1,068,695	1,100,157	655,132
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of March 31 (000's omitted)	$381,000	$369,000	$258,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of March	341.7	*329.0	298.2
COPPER INSTITUTE — For month of March			
Copper production in U. S. A.—			
Crude (tons of 2,000 pounds)	90,671	*81,598	90,358
Refined (tons of 2,000 pounds)	112,933	*101,054	113,464
Deliveries to customers—			
In U. S. A. (tons of 2,000 pounds)	116,793	*99,485	123,054
Refined copper stocks at end of period (tons of 2,000 pounds)	55,609	59,324	60,276
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100) Month of March:			
Adjusted for seasonal variation	286	326	274
Without seasonal adjustment	280	261	257
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE—U. S. DEPT. OF LABOR—Month of February:			
Earnings—			
All manufacturing	$64.08	*$63.67	$56.37
Durable goods	68.55	*67.52	59.47
Nondurable goods	58.43	*58.76	53.06
Hours—			
All manufacturing	41.0	*41.0	39.7
Durable goods	41.7	*41.5	40.1
Nondurable goods	40.1	*40.3	39.3
Hourly earnings—			
All manufacturing	$1.563	*$1.553	$1.420
Durable goods	1.644	*1.627	1.483
Nondurable goods	1.457	1.458	1.350
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of February:			
Death benefits	$129,006,000	$157,309,000	$124,549,000
Matured endowments	41,556,000	50,869,000	38,750,000
Disability payments	7,959,000	9,487,000	7,800,000
Annuity payments	22,573,000	27,999,000	19,434,000
Surrender values	53,161,000	59,391,000	51,007,000
Policy dividends	49,887,000	66,004,000	47,168,000
Total	$304,142,000	$371,059,000	$288,708,000
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE—Month of March (000's omitted):			
Ordinary	$1,557,000	$1,303,000	$1,489,000
Industrial	486,000	424,000	514,000
Group	420,000	628,000	434,000
Total	$2,463,000	$2,355,000	$2,437,000
NEW YORK STOCK EXCHANGE—As of March 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,303,605	$1,366,817	$1,018,337
Credit extended to customers	54,023	97,397	46,539
Cash on hand and in banks in U. S.	391,325	411,646	290,999
Total of customers' free credit balances	918,245	952,827	666,252
Market value of listed shares	98,112,284	100,245,611	79,482,749
Market value of listed bonds	114,382,062	115,801,060	125,846,076
Member borrowings on U. S. Govt. issues	60,779	132,425	112,995
Member borrowings on other collateral	803,326	629,107	609,536
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS — Month of Feb. (000's omitted):			
Exports	$1,073,000	$972,000	$764,000
Imports	907,000	1,021,000	600,468

*Revised.

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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. (5/1)
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.

American Television & Radio Co. (5/1)
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.

• **Arizona Edison Co.**
April 24 filed 40,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriters**—William R. Staats Co., Los Angeles, Calif.; A. C. Allyn & Co., Inc., Chicago, Ill.; and Refsnes, Ely, Beck & Co., Phoenix, Ariz. **Proceeds**—To repay bank loans and for new construction.

Artloom Carpet Co., Inc.
March 27 filed 78,556 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; rights to expire on May 18. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For working capital. Statement effective April 18.

• **Arwood Precision Casting Corp.**
April 18 (letter of notification) 4,000 shares of 5½% cumulative non-convertible preferred stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—70 Washington Street, Brooklyn 1, N. Y.

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.

• **Berkroy Products, Inc., Los Angeles, Calif.**
April 18 (letter of notification) $62,000 of 5% convertible income debentures to be offered to stockholders in denominations of $100 each. Each debenture may be converted into 50 shares of common stock. **Price**—At par (payable in cash or in one year at 5% interest. **Underwriter**—None. **Proceeds**—To repay indebtedness. **Office**—401 Taft Bldg., Los Angeles 28, Calif.

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.

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• **Canam Copper Co., Ltd., Vancouver, B. C., Canada**
April 20 filed 200,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—Harry M. Forst. **Proceeds**—For exploration and development work.

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. **Offering**—Expected to be made next week.

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 Laboratories, Inc., Brooklyn, N. Y.**
April 16 (letter of notification) 5,000 shares of cumulative preferred stock (no par) and 500 shares of common stock (no par). **Price**—$9.90 per share for preferred and $1 for common. **Underwriter**—None. **Proceeds**—For working capital. **Office**—70 Hanson Place, Brooklyn, New York.

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. **Offering**—Not expected before the middle of June.

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.

• **Colorado Ohio Corp., Seattle, Wash.**
April 17 (letter of notification) 400,000 shares of common stock (par 1 cent). **Price**—25 cents per share. **Underwriter**—Leverett G. Tallman of Seattle. **Proceeds**—For exploration and equipment. **Office**—704 American Building, Seattle, Wash.

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**—To be opened at 11 a.m. (EDT) on May 1 at 4 Irving Place, New York, N. Y. Statement effective April 19.

• **Consolidated Engineering Corp.**
April 16 (letter of notification) 1,115 shares of common stock (par $1) to be purchased by William D. Nesbit upon exercise of stock option. **Price**—100/115ths of $5 per share. **Proceeds**—For working capital.

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.

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.

• **Cotter & Co., Chicago, Ill.**
April 16 (letter of notification) 1,250 shares of common stock (par $100) and 625 shares of preferred stock (par $100) to be issued in units of 10 common and five preferred shares to shareholder-dealers. **Price**—$1,500 per unit. **Underwriter**—None. **Proceeds**—For working capital. **Office**—365 East Illinois St., Chicago, Ill.

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**—Dealers may be underwriters. **Proceeds**—For investments in railroad and kindred securities. Statement effective April 11.

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.

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.

Fairchild Camera & Instrument Corp. (5/3)
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.

Foote Mineral Co. (4/30)
March 30 filed 23,206 shares of common stock (par $2.50) expected to be offered to stockholders of record April 27, 1951, for subscription at rate of one share for each 10 shares held; rights expire about May 10. **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.

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● **Gamble-Skogmo, Inc.**
April 24 filed 304,270 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriters**—Goldman, Sachs & Co.; Merrill Lynch, Pierce, Fenner & Beane, and Piper, Jaffray & Hopwood. **Proceeds**—To a selling stockholder.

● **General Telephone Corp.**
April 19 filed 150,000 shares of common stock (par $20) to be offered for sale to employees of the company and its subsidiaries. **Price**—Fixed at $3 below the average market price either for the month in which payments are completed or for the next succeeding month, whichever is lower, but in no event more than $35 nor less than $25 per share. **Proceeds**—To make additional investments in common stock equities of subsidiaries and temporary advances to the subsidiaries in connection with their construction programs and for general corporate purposes.

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. (5/1)
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. (5/1)
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. **Offering**—Date not set.

Greenwich Gas Co.
April 10 (letter of notification) 60,000 shares of common stock (no par) being offered to common stockholders of record April 16 on basis of 2.045 shares for each share held; rights to expire on April 26. **Price**—$5 per share. **Underwriter**—F. L. Putnam & Co., Boston, Mass. **Proceeds**—To retire bank loans and for capital additions.

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.

● **Hawkeye-Security Insurance Co.**
April 18 (letter of notification) 110 shares of preferred stock (par $50) or 55 shares of preferred stock (par $100) and 575 shares of common stock (par $10) to be offered under Profit-Sharing and Retirement Plan. **Price**—At par. **Office**—1017 Walnut St., Des Moines, Ia.

Hilton Hotels Corp., Chicago, Ill.
March 30 filed 153,252 shares of common stock (par $5) now 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; offer expires on May 28. **Dealer-Manager**—Carl M. Loeb, Rhoades & Co., New York.

● **Howe (Charles) Corp., Newburyport, Mass.**
April 16 (letter of notification) 4,366 shares of common stock (par $1) and 4,266 shares of 5% cumulative participating preferred stock (par $10). **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital and equipment. **Address**—P. O. Box 511, Newburyport, Mass.

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-Lock-In Furniture Corp., N. Y.**
April 21 (letter of notification) 10,000 shares of preferred stock, of which 9,650 shares are to be publicly offered, 200 shares issued in exchange for 20 common shares and 150 shares in exchange for 16½ shares. **Price**—At par ($10 per share). **Underwriter**—Mrs. Mary Nell Druke (Secretary and Treasurer), Philip C. Curtis, Giles H. Florence and Redmond J. Toohey, all in care of Erwin Druke, 2505 No. Central Avenue, Phoenix, Ariz. **Proceeds**—For working capital and machinery. **Office**—128 East 56th Street, New York, N. Y.

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.

NEW ISSUE CALENDAR

April 28, 1951
Culver Corp. ---------- Common

April 30, 1951
Foote Mineral Co. ---------- Common

May 1, 1951
American Dairy Products Corp. ---------- Preferred & Com.
American Television & Radio Co. ---------- Common
Consolidated Edison Co. of New York, Inc. 11 a.m. (EDT) ---------- Bonds
Globe & Rutgers Fire Insurance Co. ---------- Preferred
Israel (State of) ---------- Bonds
Ontario (Province of) ---------- Debentures
Telegift, Inc. ---------- Common

May 2, 1951
Long Island Lighting Co. ---------- Common
Montana-Dakota Utilities Co. ---------- Bonds
Ohio Edison Co., 11:30 a.m. (EDT) ---------- Pfd. & Com.

May 3, 1951
Fairchild Camera & Instrument Corp. ---------- Common

May 8, 1951
Atlantic City Electric Co. ---------- Common

May 9, 1951
Denver & Rio Grande Western RR. ---------- Eqp. Tr. Ctfs.

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

● **Israel American National Construction Corp.**
April 20 (letter of notification) 2,281 shares of preferred stock (par $25) and 570 shares of common stock (par $1). **Price**—At par. **Underwriter**—None. **Proceeds**—None, since stock offering is for promotional plan under which three promoters will receive one share of common for every share sold but not to exceed 2,500 shares. **Office**—756 So. Broadway, Los Angeles 14, Calif.

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.

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. **Amendment**—Filed April 24 seeks exemption from competitive bidding. Preferred may be privately placed.

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.

● **Keystone Custodian Funds, Inc., Boston, Mass.**
April 23 filed 750,000 shares of series B-2 capital stock. **Price**—At market. **Underwriter**—None. **Proceeds**—For investment.

● **Kiawanda Products, Inc., Reno, Nev.**
April 17 (letter of notification with the SEC covering 200,000 shares of common stock. **Price** — $1 per share. **Underwriter** — None. **Proceeds** — For construction and working capital. **Office**—139 No. Virginia St., Reno, Nev.

● **Leadville Lead Corp.**
April 20 (letter of notification) 88,236 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For drilling and corporate expenses. **Office**—500 E. & C. Building, Leadville, Colo.

Long Island Lighting Co. (5/2)
April 6 filed 574,949 shares of new common stock of which 524,949 shares are to be offered common stockholders of record May 2 in the ratio of one share for each six shares held, with an oversubscription privilege; rights to expire on May 18. 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.

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.

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.

● **Mid-Continent Airlines, Inc., Kansas City, Mo.**
April 24 filed $2,000,000 20-year 4½% convertible debentures due May 1, 1963. **Price**—To be supplied by amendment. **Underwriters**—Lehman Brothers, New York, and Kalman & Co., Inc., Minneapolis, Minn. **Proceeds**—For purchase of six Convair aircraft and for construction of new hangar.

Minneapolis Gas Co.
March 30 filed 118,426 shares of common stock (par $1) being 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. Statement effective April 20.

Montana-Dakota Utilities Co.
March 30 filed 236,755 shares of common stock (par $5) being 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**—$14.50 per share. **Underwriters**—Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—To reduce bank loans and for construction program. Statement effective April 19.

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.

Continued on page 40

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Continued from page 39

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. Offering withdrawn.

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.

● **National Research Corp., Cambridge, Mass.**
April 16 (letter of notification) 2,000 shares of common stock (par $1). **Price**—$27 per share. **Underwriter**—Paine, Webber, Jackson & Curtis, Boston, Mass. **Proceeds**—To William A. Coolidge, the selling stockholder.

● **New England Cooperatives, Inc., Cambridge, Massachusetts**
March 29 (letter of notification) $93,000 of 4% debenture bonds dated July 1, 1951 (in denominations of $25 and multiples thereof) and 3,200 shares of class A preferred stock (par $25) of which $38,000 of debentures are to be offered in exchange for bonds and notes of Eastern Cooperatives, Inc. of equal face value, and $55,000 of debentures and the class A stock are to be offered in exchange for preferred stock of Eastern. **Address**—Dorothy Kenyon, 50 Broadway, New York, N. Y.

● **Norris Oil Co., Bakersfield, Calif.**
April 20 (letter of notification) 500 shares of capital stock (par $1). **Price**—$4.50 per share. **Underwriter**—None. **Proceeds**—To Arthur W. Scott, the telling stockholder. **Office**—Haberfelde Building Arcade, Bakersfield, Calif.

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.

● **Northwest Gypsum Co., Colfax, Wash.**
April 16 (letter of notification) 200,000 shares of common stock (par 10 cents). **Price**—25 cents per share. **Underwriter**—None. **Proceeds**—To erect a mill and buy equipment. **Office**—201 Main St., Colfax, Wash.

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 office of Commonwealth Services Inc., 20 Pine St., New York 5, N. Y., up to 11:30 a.m. (EDT) on May 2. Statement effective April 18.

● **Olympic Radio & Television, Inc.**
April 16 (letter of notification) 8,800 shares of common stock (par $1). **Price**—At the market. **Underwriter**—None, but Van Alstyne, Noel & Co., New York, will act as broker. **Proceeds**—To two selling stockholders.

● **Ontario (Province of) (5/1)**
April 20 filed $50,000,000 of 20-year debentures due May 15, 1971. **Price**—To be supplied by amendment. **Underwriter**—Harriman Ripley & Co., Inc., New York. **Proceeds**—To be advanced to The Hydro-Electric Power Commission of Ontario to be used in part for capital expenditures in connection with the Commission's capital construction program and to repay the temporary loans of the Commission which amounted at March 31, 1951, to $35,221,465.

● **Opelika Manufacturing Corp.**
April 25 filed 200,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Underwriter**—Glore, Forgan & Co., New York. **Proceeds**—To certain selling stockholders.

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.

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.

● **Panhandle Producing & Refining Co.**
April 24 filed 192,500 shares of common stock (par $1). **Price**—At a price "not less than the closing bid on the first business day (except Friday or Saturday) on which shares close at $7.75 per share or better." **Underwriter**—White, Weld & Co., New York. **Proceeds**—To Atlas Corp., the selling stockholder.

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. Temporarily postponed.

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.

● **Prudential Acceptance Corp., Los Angeles, Calif.**
April 19 (letter of notification) 8,000 shares of 6% preferred stock (par $25) and 2,000 shares of common stock (par $1) to be offered in units of four shares of preferred and one share of common stock. **Price**—$110 per unit. **Underwriter** — None. **Proceeds** — For working capital. **Office**—520 West Seventh St., Los Angeles 14, Calif.

● **Ringgold (La.) Telephone Co.**
March 29 (letter of notification) 400 shares of capital stock (par $50), of which 140 shares are to be issued to C. C. Tomme in liquidation of a debt and 260 shares are to be sold to the public. **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital.

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.

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.

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)
April 9 filed by amendment 384,000 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.

● **Stanley Works, New Britain, Conn.**
April 20 (letter of notification) 5,450 shares of common stock (par $25). **Price**—At the market (approximately $55 per share). **Underwriter**—None. **Proceeds**—To repay loans and for working capital. **Office**—Lake St., New Britain, Conn.

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.

● **Suburban Gas Service, Inc., Upland, Calif.**
April 20 (letter of notification) 10,000 shares of common stock (par $1). **Price**—$4.50 per share. **Underwriter**—Wagenseller & Durst, Inc., and Lester & Co., both of Los Angeles, Calif. **Proceeds**—To Richard Harris, the selling stockholder.

● **Sunland Life Insurance Co., Scottsdale, Ariz.**
April 19 (letter of notification) 5,000 shares of class A 10% cumulative preferred stock (par $30) and 10,000 shares of class B common stock (par 10 cents). **Price**—$55 per share for the preferred and 10 cents per share for the common stock. **Underwriter**—None. **Proceeds**—To meet requirements for operating insurance business. **Office**—106 E. 1st Ave., Scottsdale, Ariz.

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. **Offering**—Expected next month.

Superdraulic Corp., Detroit, Mich.
Feb. 23 (letter of notification) 100,000 shares of 6% non-cumulative convertible preferred stock (convertible into common stock par $1, share-for share) now offered to common stockholders. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—14256 Wyoming Ave., Detroit, Mich.

Telegift, Inc., New York (5/1)
March 20 (letter of notification) 60,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To establish and operate a "Gifts-by-Wire" service to be known as the Telegift Service, and for operating capital. **Office**—40 East 49th Street, New York 17, N. Y.

Tennessee Gas Transmission Co.
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.

● **Trans-World Oil Co., Seattle, Wash.**
April 16 (letter of notification) 29,975 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—2235—5th Ave., Seattle 1, Wash.

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.
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.

● **Veterans Broadcasting Co., Inc.**
April 19 (letter of notification) 26,575 shares of capital stock. **Price**—$5 per share. **Underwriter**—None. **Proceeds**—To construct a television station. **Office**—17 Clinton Ave., South, Rochester 4, N. Y.

● **Video Corp. of America**
April 20 (letter of notification) 36,000 shares of common stock (par 10 cents). **Price**—At market (about 34 cents per share). **Underwriter**—None. **Proceeds**—To selling stockholders. **Office**—229 West 28th 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.

● **West Virginia Coal & Coke Corp.**
April 16 (letter of notification) 3,700 shares of common stock (par $5). **Price**—At the market (not less than $18 per share). **Underwriter**—Tucker, Anthony & Co., New York. **Proceeds**—To Charles Dorrance, President, who is the selling stockholder.

Wheeling Steel Corp.
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 April 26 on basis of $100 of debentures for each 10 shares of common stock held; rights expire May 10. **Price**—To be supplied by amendment. **Underwriter**—Kuhn, Loeb & Co., New York. **Proceeds**—For improvement program.

● **Whitehorn Properties, Inc., Reno, Nev.**
April 20 (letter of notification) 3,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To construct hotel and guest cottages. **Office**—139 No. Virginia St., Reno, Nev.

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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 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.

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.

● **California Oregon Power Co.**
April 20 it was stated that company plans to raise more than $11,000,000 through the sale of $6,000,000 new first mortgage bonds and 250,000 shares of common stock about mid-1951. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Smith, Barney & Co. and Carl M. Loeb, Rhoades & Co. (jointly); Shields & Co.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); White, Weld & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly). The previous stock offering was underwritten by Blyth & Co., Inc. and The First Boston Corp. Proceeds would be used to retire $11,000,000 outstanding bank loans.

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).

● **Colorado Central Power Co.**
April 13 it was reported that the company may do some debt financing to raise additional necessary funds for its 1951 construction program. Will probably be placed privately.

Columbia Gas System, Inc.
Dec. 7 it was reported that corporation may issue and sell $35,000,000 of new securities in the Spring or early summer. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly). Probable bidders for common stock, in event of competitive bidding: Morgan Stanley & Co.; Goldman, Sachs & Co. and Union Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Shields & Co. and R. W. Pressprich & Co. (jointly). Proceeds will be used for expansion program.

Commonwealth Edison Co.
Jan. 10 it was announced the company contemplates $181,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Morgan Stanley & Co. Proceeds are to be used for construction program.

Consolidated 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. **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 oustanding 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.

● **Denver & Rio Grande Western RR. (5/9)**
April 23 it was announced that the company plans to issue and sell $2,670,000 of equipment trust certificates to be dated June 1, 1951, and to mature in 30 equal semi-annual instalments of $89,000 each. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.). **Bids**—To be received on May 9.

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.

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.

● **Gas Service Co.**
April 20 it was reported company plans to sell $5,500,000 of new bonds late in June or early in July. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Lehman Brothers; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Union Securities Corp. and Harriman Ripley & Co., Inc. (jointly). **Proceeds**—For new construction.

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 Oil Corp.**
April 24 directors stated that plans for expansion to meet military and civilian needs will be of major proportions during 1951 and will cost in the neighborhood of $200,000,000.

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 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.

Iowa Public Service Co.
March 23 the company's report revealed it is anticipated

Continued on page 42

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Continued from page 41

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-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.

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.

● **Montana-Dakota Utilities Co.**
April 19 it was announced that if the proposed acquisition of the gas utility properties is authorized by the FPC and consummated, the company plans to issue and sell $2,000,000 of preferred stock and $3,000,000 of additional first mortgage bonds. This is in addition to present stock financing and proposed bond financing as reported under "Securities Now in Registration" in a preceding column.

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.

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."

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.

● **South Jersey Gas Co.**
April 24 Earl Smith, President, announced company plans a bond issue of more than $8,000,000 by fall of this year. **Underwriters**—May be determined by competitive bidding. Probable bidders may include Halsey, Stuart & Co. Inc. **Proceeds**—To refund the presently outstanding $4,000,000 of 4⅛% first mortgage bonds and repay outstanding short-term bank notes which are due before the end of the year.

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 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).

● **Western Maryland Ry.**
April 20, E. S. Williams, President, intimated that company may decide at a later date to attempt to refinance about $15,500,000 of first mortgage bonds due in October, 1952, which remained outstanding after expiration of an exchange offer in January, 1950.

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.

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Continued from page 8

Dealer-Broker Investment Recommendations and Literature

Diversey Corp.—Memorandum—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

International Hydro-Electric System—Analysis—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Kearney & Trecker Corp.—Analysis—In current issue of "Over-the-Counter Bulletin"—J. Arthur Warner & Co., Incorporated, 120 Broadway, New York 5, N. Y. Also in the same issue are brief analyses of **Collins Radio Company, American Phenolic Corp., P. R. Mallory & Co., Inc., Globe & Republic Insurance, Iowa Southern Utilities Co., Lear Incorporated** and **Scott Radio Laboratories, Inc.**

McGraw-Hill Publishing Company, Inc.—Brochure—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Mexican Gulf Sulphur—Analysis—J. F. Reilly & Co. Incorporated, 61 Broadway, New York 6, N. Y.

Montana Power Company—Bulletin—Pacific Northwest Company, Exchange Building, Seattle 4, Wash.

Newport Steel Corporation—Analysis—L. H. Rothchild & Co., 52 Wall Street, New York 5, N. Y.

Norfolk Southern Railway Company—Analysis—Amott, Baker & Co., Inc., 150 Broadway, New York 38, N. Y.

Otis Elevator—Brief data—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y. Also available are brief reports on **Union Bag & Paper** and **Pittsburgh Coke & Chemical.**

Pabst Brewing Company—Analysis in current issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis. Also available is an analysis of **Harshaw Chemical Company.**

Peter Paul, Inc.—Analysis—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

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

Public National Bank & Trust Company of New York—Table of related values—The First Boston Corporation, 100 Broadway, New York 5, N. Y.

Purolator Products, Inc.—Analysis—H. M. Byllesby and Company, Incorporated, Stock Exchange Building, Philadelphia 2, Pa.

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.**

St. Paul Fire and Marine Insurance Co.—Analysis for general distributions to dealers—J. M. Dain & Company, 110 South Sixth Street, Minneapolis 2, Minn.

Safeway Stores, Inc.—1950 annual report—Librarian, Safeway Stores, Incorporated, P. O. Box 660, Oakland 4, Calif.

Seneca Oil Company—Special memorandum—J. May & Company, Inc., 32 Broadway, New York 4, N. Y.

Springfield Fire and Marine Insurance Company—Analytical study—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

Struthers Wells Corporation—Current analytical report—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Trailmobile Company—Analysis—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill. Also available are memoranda on **Bowser, Inc., Chicago, Aurora & Elgin,** and **Filtrol Co. of California.**

United Air Lines, Inc.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

United Paramount Theatres—Bulletin—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Continued from page 8

Our Reporter's Report

whether these transactions represent merely switches into other securities, or whether they mean that the sellers prefer to be in "cash" just now.

Several Large Ones

Next Tuesday three hefty banking groups will face the deadline for bids on Consolidated Edison Co. of New York's $40,000,000 of first and refunding bonds series G, due in 30 years. Proceeds will go to pay bank loans and for improvements and additions to property.

Meanwhile, Wheeling Steel Corp., is due to offer to holders of record at the close today, $14,238,900 of 14-year convertible debentures, due 1965 and convertible for the first 10 years. Holders would get the right to subscribe for $100 of debentures for each 10 shares of common held, with any unsubscribed portion to be underwritten by bankers. Rights here expire May 10.

Thereafter, nothing in the way of large-size corporate undertaking is on schedule until May 14, when Consolidated Natural Gas Co. is slated to open bids for $50,000,000 of sinking fund debentures due in 25 years. Three groups have indicated intention of seeking this business.

SITUATION WANTED

COMBINATION POSITION WANTED

Wide experience in Over-the-Counter Trading and Order Room. Also, Registered Representative with Retail Accounts, requiring little time to service, seeks connection with New York Stock Exchange Firm. Salary and Commission basis. Box M 13. Commercial & Financial Chronicle, 25 Park Place, New York 7.

MEETING NOTICE

NORFOLK AND WESTERN RAILWAY COMPANY
Roanoke, Virginia, April 4, 1951
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders of Norfolk and Western Railway Company will be held, pursuant to the By-laws, at the principal office of the Company in Roanoke, Virginia, on Thursday, May 10, 1951, at 10 o'clock A. M., to elect three Directors for a term of three years.

Stockholders of record at the close of business April 20, 1951, will be entitled to vote at such meeting.

By order of the Board of Directors.
L. W. COX, Secretary.

Loewi & Co. Offers Religious Issue

Loewi & Co. are offering an issue of $900,000 of 3%, 3¼% and 3½% first mortgage bonds of Oak Park Hospital and Training School for Nurses of the Sisters of Misericorde, Oak Park, Ill. They are priced at 100, plus accrued interest from Jan. 1, 1951.

The bonds are dated Jan. 1, 1951, and are due serially each six months beginning July 1, 1952, to and including Jan. 1, 1966.

The net proceeds, together with other funds, are to be used to complete a 100-bed addition to the present hospital at a cost of $1,474,000 under a fixed contract.

The bonds are a direct obligation of the corporation comprising the hospital and school, whose land, buildings and additions will have an estimated value of $3,903,480.

With King Merritt

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Raymond D. Johnson is with King Merritt & Co., Inc., Chamber of Commerce Building.

DIVIDEND NOTICES

The American Tobacco Company
111 Fifth Avenue New York 3, N. Y.

183rd Common Dividend

A regular dividend of Seventy-five Cents (75¢) per share has been declared upon the Common Stock of The American Tobacco Company, payable in cash on June 1, 1951, to stockholders of record at the close of business May 10, 1951. Checks will be mailed.

Harry L. Hilyard, *Treasurer*
April 24, 1951

Borden's
DIVIDEND No. 165

An interim dividend of sixty cents (60¢) per share has been declared on the capital stock of *The Borden Company*, payable June 1, 1951, to stockholders of record at the close of business May 11, 1951.

E. L. NOETZEL, Treasurer
April 24, 1951

THE BYRNDUN CORPORATION

The Directors of the Byrndun Corporation at its meeting held on April 19th, 1951, declared a dividend of $1.50 per share on the Participating Preferred Stock, a dividend of $2.50 per share on the Class "A" Participating Stock, and a dividend of $3.50 per share on the Second Preferred Stock; also a dividend of Twenty-five cents (25¢) per share on the Class "A" Participating Stock, Class "A" Common Stock and Common Stock; no dividend on fractional shares, all payable on May 3rd, 1951 to stockholders of record at 3:00 P. M., April 30th, 1951.

H. G. FAHLBUSCH, *President*
April 19th, 1951.

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 131 of one dollar and seventy-five cents ($1.75) per share on the preferred stock payable June 1, 1951, to stockholders of record at the close of business on May 5, 1951.

GERARD J. EGER, Secretary

At a meeting of the Board of Directors of The Gamewell Company held on April 20, 1951, the following dividends were voted:

$.25 per share payable May 15, 1951 to stockholders of record at the close of business May 4, 1951.

A year end dividend of $.25 per share payable May 15, 1951 to stockholders of record at the close of business May 4, 1951.

W. C. BECK, Treasurer.

DIVIDEND NOTICES

A quarterly dividend of 35c per share on the Capital Stock, par value $13.50 per share, has been declared, payable June 30, 1951, to stockholders of record May 31, 1951.

THE UNITED GAS IMPROVEMENT CO.
JOHNS HOPKINS, Treasurer
April 24, 1951 Philadelphia, Pa.

NAUMKEAG
Steam Cotton Company
SALEM, MASSACHUSETTS
DIVIDEND No. 232

April 25, 1951

The Board of Directors of Naumkeag Steam Cotton Company at a meeting held on April 25, 1951 declared a dividend of Fifty Cents (.50) a share, payable on May 25, 1951 to holders of record at the close of business May 15, 1951. Old Colony Trust Company, of Boston, will mail checks.

RUDOLPH C. DICK
President and Treasurer

PEQUOT SHEETS & PILLOW CASES pay daily dividends of luxurious and restful sleep.
"The Nation Sleeps on PEQUOT SHEETS"

SOCONY-VACUUM OIL COMPANY
INCORPORATED

Dividend No. 161 — April 24, 1951

The Board of Directors today declared a quarterly dividend of 40¢ per share on the outstanding capital stock of this Company, payable June 9, 1951, to stockholders of record at the close of business May 4, 1951.

W. D. Bickham, *Secretary*

Southern Railway Company

DIVIDEND NOTICE

New York, April 24, 1951.

A dividend of One Dollar ($1.00) per share on 1,298,200 shares of Common Stock without par value of Southern Railway Company has today been declared out of the surplus of net profits of the Company for the fiscal year ended December 31, 1950, payable on June 15, 1951, to stockholders of record at the close of business on May 15, 1951.

J. J. MAHER, Secretary.

Hooker Electrochemical Company

$4.25 Cumulative Preferred Stock Dividend

The Board of Directors of Hooker Electrochemical Company on April 18, 1951 declared a quarterly dividend of $1.0625 per share on its $4.25 Cumulative Preferred Stock, payable June 27, 1951 to stockholders of record as of the close of business June 1, 1951.

Common Stock Dividend

The Board of Directors of Hooker Electrochemical Company on April 18, 1951 declared a quarterly dividend of Fifty Cents ($.50) per share on its Common Stock, payable May 25, 1951 to stockholders of record as of the close of business May 1, 1951.

ANSLEY WILCOX, 2nd,
Secretary.

DIVIDEND NOTICES

UNITED STATES LINES COMPANY
Common Stock DIVIDEND

The Board of Directors has authorized the payment of a quarterly dividend of fifty cents ($.50) per share payable June 8, 1951 to holders of Common Stock of record May 25, 1951 who on that date hold regularly issued Common Stock ($1.00 par) of this Company.

CHAS. F. BRADLEY, *Secretary*
One Broadway, New York 4, N. Y.

WOODALL INDUSTRIES INC.

A regular quarterly dividend of 31¼¢ per share on the 5% Convertible Preferred Stock has been declared payable June 1, 1951, to stockholders of record May 15, 1951. A regular quarterly dividend of 30¢ per share on the Common Stock has been declared payable May 31, 1951, to stockholders of record May 15, 1951.

M. E. GRIFFIN,
Secretary-Treasurer.

SOUTHERN NATURAL GAS COMPANY
Birmingham, Alabama

Common Stock Dividend No. 49

A dividend of 62½ cents per share has been declared on the Common Stock of Southern Natural Gas Company, payable June 13, 1951 to stockholders of record at the close of business on June 1, 1951.

H. D. McHENRY,
Secretary.

Dated: April 24, 1951.

Southern California Edison Company

DIVIDENDS

CUMULATIVE PREFERRED STOCK
4.08% SERIES
DIVIDEND NO. 5

CUMULATIVE PREFERRED STOCK
4.88% SERIES
DIVIDEND NO. 14

The Board of Directors has authorized the payment of the following quarterly dividends:

25½ cents per share on the Cumulative Preferred Stock, 4.08% Series;

30½ cents per share on the Cumulative Preferred Stock, 4.88% Series.

The above dividends are payable May 31, 1951, to stockholders of record May 5, 1951. *Checks will be mailed from the Company's office in Los Angeles, May 31, 1951.*

P. C. HALE, *Treasurer*
April 20, 1951

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There is scarcely a responsible observer at this seat of government who can at this time answer with the remotest confidence the one burning question on the minds of people the world over:

Will this tremendous MacArthur business in itself set in motion forces sufficient to bring about a sharp change in U. S. foreign and military policy?

If the question were only whether Congress might take some affirmative action in the near future, without the stimulus of some fresh Russian-inspired aggression, to overturn specifically some major established pillar of foreign or military policy, the answer probably would be "no."

Apart from the fact that it is almost mechanically impossible for a legislative body to lay down an integrated and detailed foreign and supporting military policy, Mr. Truman could probably count upon enough Democrats and internationally-minded Republicans to back him, albeit by no impressive majority.

However, there are a great many cool heads here who recognize the fact that the unprecedented adulation of General MacArthur was a compound of several things. Principally it is a reflection, they think, of the great disfavor with which the White House is regarded by tens of millions. Second, it is national dissatisfaction with the frustrating situation of a war which cannot be won and cannot be settled, a tremendous rebellion against the idea of a perpetual stalemate with the only alternative surrender, by whatever name it may be called. Third, among other things, it represents an instinctive cry for leadership, any kind of leadership that is not bound hand and foot waiting the initiative of London or Moscow before acting.

As such a compound, the adulation of General MacArthur, the cooler heads feel, does not represent a complete "sale" of the public for the General's specific recommendations for an extension of military opposition to Communist China. In a pinch, a good many votes at the Capitol would reflect this thinking.

On the other hand, the MacArthur business could have broad and unpredictable effects because of the emotions which it might arouse in the present rulers of the Administration. Neither kings nor presidents like to cower in their palaces while the mobs go wild over their adversaries. Presidents do not become presidents by being indifferent to vehement mass hatred of their leadership, whether they have been life-long successful politicians or even presidents more or less by accident.

And in a fit of what many regard as erratic thinking induced by the emotion over aggression by North Korea, Mr. Truman suddenly jettisoned the policy of abandoning Korea and staying out of the land mass of Asia, and ordered counter-resistance to that aggression.

In this connection, one of the most accepted theses among Washingtonians in and out of official life is that there is nothing which Mr. Truman needs so much to keep the public behind the "military build-up" as a fresh emergency. The anti-inflation program already is moribund.

So far, specific controls aimed at diverting raw materials from the civilian to the military economy have not aroused great resistance. A prolonged stalemate with no victory and no peace would not encourage acceptance of controls (little felt as yet on the civilian economy) cutting out construction of houses, cars, refrigerators, et. al. In time it will be impossible to hold these controls against public opinion if there is no war in which the aircraft and the tanks can be employed, although this time may not arrive until after Congress has settled the battle of what kind of controls it shall write to operate following the expiration of the Defense Production Act on June 30.

Mr. Truman, however, obviously means to avoid war if he can.

* * *

Unless he gets straightened out before he takes the plunge, President Truman is fixing to touch off a new controversy in Congress which by comparison with anything but the MacArthur dispute, will be a major and bitterly contested issue of the 82nd Congress.

The explosion will occur after the President offers his special message to Congress on foreign aid, in the near future.

First, Mr. Truman proposes that the Secretary of State, as was published last week, shall have over-riding authority over ECA and all foreign programs. This is theoretically an accomplished fact, since the President has ordered this.

Second, Mr. Truman will submit the proposal that the legal death of ECA in 1952, decreed by Congress after the Administration most solemnly assured all concerned that ECA would do the job by 1952, shall be repealed.

Third, the President will propose that the entire foreign military and economic aid program, which some say would run around $11 billion, shall be appropriated in a lump sum with the President free to determine how much of it shall be utilized for economic aid and how much for military aid.

The really new wrinkle in this prospective proposal is that of whatever sum is requested, any part thereof could be employed for "Point IV" aid to the so-called backward areas. In theory, the President could, for example, allow himself to expend $4 billion (or any other sum) for "Point IV", $4 billions for economic aid, and only $3 billions for military aid, although, of course, it may be doubted that the President has any such fantastic notions.

Nevertheless, he would be free to determine in his own judgment not only how much of the sum should be spent for each of these objectives, but also how much of it should go to any particular area or country.

This package would do a number of things to which the majority of Congress is violently hostile.

It would raise "Point IV" to an ennobled stature of billions. In the first two years after his inauguration, despite the most intense pressure, the most that Mr. Truman could persuade a Congress hostile to the entire "Point IV" business to give him was an appropriation of $34.5 million for the current fiscal year, a crumb tossed out in a "take it and for heaven's sake shut up" mood.

This package proposal would connote the idea of an indefinite and monetarily-vigorous foreign economic aid program. A good many in Congress believe that "some" foreign economic aid might be continued profitably, particularly where it was distinctly subordinate to, and assisting in, military aid. They don't embrace an indefinite ECA.

This program involves the idea of giving the President a vast discretion in spending, a discretion which would be bitterly opposed even if Mr. Truman were a popular President.

Finally, it would put the controversial Secretary of State over ECA, and, in many respects, over the military, for it would be the Secretary of State who would advise the President how the funds should be allocated both as among the three main objectives and as among beneficiary countries.

That the President is seriously planning a package program of this character illustrates the gulf which separates the President from the thinking, even among his friends, in Congress. Such a program is most unlikely to carry in any where near the form the President wants it.

This program also offers another illustration of the dominant influence of Dean Acheson in the councils of the White House. Congress once before specifically refused to allow the Secretary of State to have a leading hand in ECA.

* * *

Because everybody was thinking about MacArthur's return, the initial reaction was small toward the President's new Wage Stabilization Board set-up.

Through hand-picked Charley McCarthies on the so-called Defense Mobilization Advisory Board, the President got recommended 12 to 4 a proposed Wage Stabilization Board empowered to "recommend" settlement of non-wage (i. e., Taft-Hartley Act) issues as well as wage disputes. Business and industry provided the four votes against.

This thus constructively evades the Defense Production Act's statutory requirement that there be agreement among the parties before such a Board be established, for the industry and business representatives opposed. The "public" members included such pro-labor and pro-Truman men as former Democratic publicity chief and OPA Administrator, Paul Porter, and William H. Davis, who helped the War (II) Labor Board push up wage and fringe benefits for organized labor.

It would also appear to evade the Act's seeming ban on such a board handling matters covered by the Taft-Hartley Act.

The legal sleight-of-hand used to get around the DPA Act was that the board shall not settle non-wage disputes, but only issue "recommendations." However, when the Federal Government, which refuses to enforce Taft-Hartley, and also is the employer of much of industry's capacity, backs these "recommendations" as it most certainly will, industry usually will have to capitulate.

As happens nearly every year the left-wing crowd and the building industry are wrestling, with each pushing his thumbs in the other guy's eye.

It all happened over the Defense Housing Act. Left-wing (son of the late Huey) Senator Russell Long got an amendment adopted in the Senate to the Defense Housing bill providing that mortgagees (most often, also the builders) of housing projects shall certify that the mortgage proceeds do not exceed cost of physical improvements, without profit. Any excess must be returned. Furthermore, costs shall include materials at net cost, excluding trade discounts.

If this stayed in the bill in final enactment, the housing industry would tell the government to go chuck it.

Yet the left-wing crowd is telling the industry it better take this or the left-wing crowd will see that no new money is allowed for FHA Title II insurance, which runs out in several days.

A variation of this tussle has gone on over virtually every housing bill since the end of War II.

Unhappy is the Administration. It recognizes that if builders can not take their profit upon completion, they won't build defense houses.

(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

"Now why do you suppose Peabody would have to purchase etchings?"

$12,600,000 Bonds of State of New Hamp. Offered for Investment

A syndicate headed by Halsey, Stuart & Co., Inc., and Kidder, Peabody & Co., and including, among others, Continental Illinois National Bank & Trust Co., Chicago, Drexel & Co., and Phelps, Fenn & Co., made public offering on April 25 of $12,600,000 1.60% bonds of the State of New Hampshire at prices to yield 1% to 1.65%, according to maturity. The bonds, issued for various purposes, mature serially on May 1 from 1952 to 1976, inclusive. The full faith and credit of the State are pledged for payment of the bonds and, in the opinion of the bankers, the securities are legal investment for savings banks and trust funds in New York and Connecticut and for Savings Banks in Massachusetts.

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