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EDITORIAL

As We See It

Congress has at length adjourned. Individual members of both houses have approximately 60 days back home to mend political fences and lay the foundations for the election campaigns scheduled for next year. How different things would seem in light of all this if the record of either of the major political parties during the prolonged session of Congress just now come to an end afforded a basis for a campaign of statesmanlike qualities! But what an opportunity is thus afforded any and all aspirants for public office who are not in any way bound by the deficiencies and the clamor of the major political parties of the day! One can only wish that modern political organization and tactics did not render it so difficult for such independents to make progress in public life — or that somewhere, somehow real leaders with real understanding of the basic facts of life would emerge to the discomfiture of the scheming, professional politician.

It would be difficult for most members of Congress to go to the people on the right side of real issues. To do so would often in effect convict themselves of failure to perceive or to act upon these issues when opportunity repeatedly presented itself in the legislative halls during the past year or two. There are a few exceptions, of course, and the professional politician is past master of the art of making his record appear what it really is not. Faced with an aroused general public even the professional politician might find it profitable to get down to brass tacks and

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Does Our Gold Policy Make Any Sense?

By PHILIP CORTNEY*

Economist and President of Coty International Corp.

Economist urges as our objective, halting of "engine of inflation" and preventing severe and prolonged depression, by restoring gold standard with greatest technical skill. Advocates, while getting ready to return to gold standard, we should maintain present gold-bullion standard, and permit free purchase and sale of gold, as well as its importation and exportation.

I wish to begin with a few preliminary remarks which might help you understand why, in my judgment, our gold policy does not make any sense.

Philip Cortney

Why is there so much nonsense said about gold and the gold-standard? Mainly I believe because there never was a generally accepted doctrine as to how gold influences prices. Does gold act on prices via the credit system or does gold influence prices because it represents new monetary demand in the hands of producers of gold? Economists are still disputing on this question. In the literature on money there is also a constant confusion between money and credit. In recent times, the book by Warren and Pearson on gold and prices has further muddled our thinking on gold and prices. This lack of a body of accepted doctrines on gold, credit and prices has already had disastrous consequences for humanity. I share the view that if those managing our monetary destiny in the 1920s had understood how gold influences prices, and if they had clearly distinguished between money and credit, we could have prevented the intensity and length of the 1929 depression.

The gold-standard and gold-scarcity have wrongly been made the culprits for the 1929 depression. I believe

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*An address by Mr. Cortney before the American Mining Congress, Los Angeles, Calif., October 24, 1951.

Stock Holdings Should Not Be Disturbed!

By LUCIEN O. HOOPER*

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

Disclaiming belief in gearing investment policy to cyclical swings, Mr. Hooper advocates maintenance of long-term holdings. While he expects no extreme market movement, maintains stocks are fundamentally cheap on basis of earnings, dividends, and greatly increased book values. Believes rise to 300 for Dow-Jones Industrials and 95-100 for rails an early possibility.

The fascinating thing about this profession of ours is that it deals with ever-changing data which find constantly fresh applications in a dynamic economy which is in a perpetual state of flux as it evolves into successive new phases and environments.

L. O. Hooper

Investment practices and trading systems which were helpful, and perhaps infallible, yesterday may be obsolete today. And in no area of the field of investment art is this more true than in forecasting the probable behavior of our fundamentally changed stock market.

Frankly, I am impatient with so-called technical systems, all one-sided approaches to the market's behavior, blanket generalizations and the very idea that scientific investment in equities must be based on the old cyclical ideas of stock price fluctuations.

I have been writing about securities and the stock market since 1919, and that's a long time. During this 32 years there have been only 3½ times when it has paid investors in good stocks (as distinguished from scalpers, or intermediate movement traders, or outright speculators in speculative stocks) to "sell everything" and go into cash. One of these times was in 1919; another was in 1929; and an-

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*A talk by Mr. Hooper before New York Society of Security Analysts, Inc., October 22, 1951.

NSTA CONVENTION ISSUE OUT TODAY—Section Two of today's "Chronicle" constitutes an 84-page Special Supplement devoted to the Annual Convention of the NATIONAL SECURITY TRADERS ASSOCIATION AT CORONADO, CAL.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

GORDON Y. BILLARD
Partner, J. R. Williston & Co., New York City
Members of New York Stock Exchange

Phillips Petroleum (Common)

Petroleum chemistry is an outstanding growth industry in which every investor should have some representation.


Gordon Y. Billard

In 1940, it is estimated, the capital investment in the petro-chemical industry was $350 million, while output was about 4,100 million pounds. By 1945, the capital investment had reached about $1,200 million and output expanded to 10,500 million pounds. Today, the total investment is about $1,950 million and output is at an annual rate of approximately 16,000 million pounds. The rate of expansion promises to continue for a long time to come. In all probability it will not slacken appreciably for at least another decade. Hardly a week goes by without an announcement of some new petro-chemical process or product.

About 25% of all the chemicals produced in this country at the present time are estimated to come from petroleum. Assuming a continuation of the rate of expansion from 1940 to date, it is estimated that by 1962 the figure will be 50%. Petroleum chemicals are one of the most important industrial developments of the past several decades. They are today contributing spectacular new products on an ever-widening scale and promoting progressively higher standards of living. Until about ten years ago the basic raw materials used in the synthesis of commercial products were coal, cellulose, and salt.

Petro-chemicals, derived from the almost inexhaustible supplies of petroleum and natural gas, are the bellwether of the expanding chemical industry. Due to the inventive genius of the chemist and the chemical engineer and the earmarking of large sums by the petroleum industry for research, petroleum chemistry has become a specialized branch of the petroleum industry.

A foremost choice for participation in this industry is Phillips Petroleum common stock, which offers excellent value on the basis of any orthodox analysis, especially for the patient investor.

Phillips is a dominant factor in the petroleum chemical industry as well as in the petroleum and natural gas industry. Its operations are fully integrated. Of the several operating subsidiaries, the main organizations are Phillips Oil Company, Phillips Chemical Company, and Phillips Pipe Line Company.

Net assets today of over $700 million compare with around $246 million prior to Pearl Harbor. During this same period gross operating income expanded from around $142 million to about $534 million last year, while net income rose from about $17 million to more than $51 million. New peaks will probably be reached this year which promise to be exceeded next year. At present the company is in a period of greatly expanding its already extensive chemical activities.

At the beginning of this year, oil reserves were estimated at 1,250 million barrels (this has undoubtedly been increased through new wells discovered this year). Natural gas reserves are estimated at about 15 trillion cubic feet. It has been said that oil cannot be discovered in this country today for even $1 a barrel. However, by valuing oil in the ground at an arbitrary and conservative figure of 75 cents per barrel and natural gas reserves at 3 cents per MCF, adding net working capital and deducting debt as stated in the last published balance sheet (allowing for full conversion of the convertible debentures), the resultant value for Phillips common stock is approximately $100 per share. This does not give consideration to the company's extensive chemical plants, its refineries and transportation facilities, pipe lines or other valuable real estate.

Operations are primarily conducted within the United States. Phillips Petroleum is a major holder of acreage in the newly found Spraberry trend in West Texas, believed to be one of the biggest discoveries in the past 20 years. Completion of a number of successful wells in this area probably has added to reserves previously mentioned. A crude oil pipe line and gathering system in which Phillips has a 50% interest is under construction in this area to enable the movement of additional oil to its refineries in Texas, Oklahoma, and Kansas. Completion is scheduled for June, 1952.

Phillips is the largest producer of natural gasoline and, in the highly competitive oil business, occupies a particularly favorable position due to its low cost operations. Natural gas reserves are considered the largest in the industry. A recent decision handed down by the Federal Power Commission freeing the company from its jurisdiction over the sale of natural gas, once it has been confirmed, would place the company in a position to capitalize aggressively upon its gas reserves.

Through its wholly-owned subsidiary, the Phillips Chemical Company, a wide range of chemicals is produced. Included are a base for synthetic fibers, nitrogen and sulphur chemicals, synthetic rubber, carbon black, solvents, and hydrocarbons. Chemical activities also include fertilizer plants with facilities for producing anhydrous ammonia, nitric acid, ammonium nitrate, and ammonium sulphate. A large sulphur plant designed to recover 100 tons of sulphur daily from sour natural gas will be completed early next year. This sulphur will be converted into acid for producing ammonium sulphate fertilizer. Phillips is a large producer of special types of carbon black used in the manufacture of synthetic rubber. A new plant will produce vinyl pyridine, an intermediate material used in synthetic fibers. The company is the pioneer in the LP gas industry with its widely known Philgas.

Next month the company will be the recipient of the coveted 1951 award for outstanding chemical achievement given by "Chemical Engineering." Two interrelated accomplishments vital to the welfare of the United States and its defense won this award for Phillips. One was the commercial development since 1948 of high abrasive carbon black and the other was the company's major contribution to the successful development of cold rubber. Both of these were prime factors in the development of synthetic rubber, which has made the United States nearly self-sufficient in rubber. In addition, the Phillip's management received the signal honor of being selected by the Atomic Energy Commission to operate a reactor project.

Sales volume in the first half of this year was up 15% over that of a year ago, with demand for most products, including aviation gasoline, motor fuels, carbon black, and butadiene for synthetic rubber, at peak levels. Allowing for full conversion of the outstanding convertible debentures, which have been called for redemption November 13th, earnings per share of common stock for this year should approximate $5. Thus, the common stock of this prominent growth company is selling for less than half its net asset value in proven oil reserves and for somewhat less than 10 times this year's indicated earnings, to yield approximately 5% from the present dividend rate, which should be increased in due course.

Phillips Petroleum common stock possesses all of the attributes of an ideal investment. It offers excellent protection against further price inflation and at the same time has strong anti-deflation characteristics. It owns and controls important commodities in a strong growth trend. Current earnings and dividends are being capitalized at what will eventually prove to be subnormal levels. Financial position is strong. The record under the present management speaks for itself.

RALPH A. ROTNEM
Harris, Upham & Co., N. Y. City
Members New York Stock Exchange

Scientific Research Companies

One of the few certainties in this most uncertain of economies is the amazing progress that is being made by scientists in unravelling the secrets of nature. The world of tomorrow is being snaped in today's laboratories and from them will come improved and cheaper products, equipment and processes that will give us new drugs, chemicals, foods, clothing, shelter, amusements, transportation, power and weapons. Today's frontiers are not geographic, but scientific, and the wise investor who is thinking ahead for the next 10 years should have good representation in the companies that are dominant in scientific research and that have the business managers who have the ability to translate these new discoveries into profits for their shareholders.


Ralph A. Rotnem

Two years ago in this same Forum, a list of such stocks was chosen as "The Securities I Like Best." In spite of the fact that they have appreciated 76% in

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Visible Factors in Business Outlook for Next Five Years

By THEODORE J. KREPS*
Professor of Business Economics, Graduate School of Business, Stanford University

Professor Kreps lists as six most important factors in long-term business outlook: (1) frightfully high defense expenditures; (2) large government deficits; (3) continuous struggle to combat and contain world-wide inflation; (4) large increases in basic productive capacity and quicker pace of technological progress; (5) marked growth in population; and (6) recurrent social and political upheavals throughout world. Sees no likelihood of depression like 1932, or World War III in next five years.

My particular crystal ball is barely worth looking into. It resembles an inferior television set I know—it fails utterly at critical times (particularly when home runs or touchdowns are being made); it gives wavy, blurred pictures; and in general judged by its past record it performs like a tantalizing, undependable wench.


Theodore J. Kreps

Of course, if my crystal ball were always completely dependable and accurate, and unmistakably revealed what was going to happen, I would surely not be up here trying to make this speech—at least not until I had first drastically improved the present tax-burdened and inflation-gutted state of my exchequer. I would be too busy "making a killing" in real estate, common stocks, or commodities. And if a year or two hence I were to succumb to the blandishments of your program Chairman, he would not be calling me any such fighting name as "perfesser" or economist but would address me "kind-a-respectful-like" as retired capitalist, eccentric philanthropist, or gentleman farmer.

However, now "I'm stuck" and unfortunately you're "stuck" with a much less romantic alternative so with caution and hesitancy I shall probe the present state of low business visibility in order to "guesstimate" the shape of things to come from necessarily incomplete analyses of what is feared, or, at best, not clearly visible. As one strains forward to see what is likely to happen, what items jut out in the business landscape?

Factors of Greatest Importance

As I see it, there are six of greatest potential importance:

(1) Defense expenditures will be frightfully high—possibly as much as $70 billion in some years and never less than $35 or $40 billion.

(2) There will be large governmental deficits.

(3) There will be a continuous struggle to combat and contain world-wide inflation.

(4) Large increases in basic productive capacity and in the pace of technological progress will continue to overhang and disturb business markets.

(5) A marked growth in population and greater pressures for higher levels of living both here and abroad will require expanding levels of business performance.

(6) There will be recurrent social and political upheavals throughout the world.

Astronomical Military Spending

The best estimate thus far available of what the military is likely to spend during the next five years is shown in Table I. Notice that military expenditures are estimated to reach a peak of $55.5 billion in the fiscal year ending June 30, 1953 and taper off gradually thereafter to a level of $35 billion by June 30, 1956. Total government expenditures may likewise reach a high in 1953 of $87.3 billion, and stabilize by 1956 to a level of $60 billion.

These estimates, one should hasten to add, are based, like all estimates have to be, on certain assumptions, in this instance highly conservative assumptions such that these estimates of government spending can in no sense be said to be high. If anything, they

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*An address by Professor Kreps before the 1951 Retail Clinic of the National Association of Retail Clothiers and Furnishers, Stanford, Cal., Oct. 22, 1951.

TABLE I
Authorizations, Total Funds Available, and Administrative Budget Expenditures for Defense Department Military Functions Only
(Billions of Dollars)

Fiscal Year	Brought Forward From Prior Years	Net New Authority	Total Funds Available	Budget Expenditures	Carry-over to Following Year
1951	9.4	47.6	57.0	19.2	37.8
1952	37.8	60.7	98.5	40.0	58.5
1953	58.5	45.0	103.5	55.5	48.0
1954	48.0	35.0	83.0	50.0	33.0
1955	33.0	35.0	68.0	40.0	28.0
1956	28.0	35.0	63.0	35.0	28.0

SOURCE: Staff, Joint Committee on the Economic Report.

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Articles and News Page

MORE ARTICLES IN SECTION TWO

SECTION TWO of today's "Chronicle," devoted to the recent Annual Convention of the National Security Traders Association at Coronado, Calif., includes the following articles:

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

The Defense Does Not Rest

By IRA U. COBLEIGH
Author of "Expanding Your Income"

Giving some appraisal of appropriations for military hardware to thwart Muscovite malice; and stressing the difficulty of putting defense on the assembly line, without stockpiling obsolescence. Plus an outline of certain companies impressive in defense research, such as Grumman Aircraft, Electric Boat Co. and Piasecki Helicopter Corp.

World War I brought to the fiendish science of warfare the tank, fighter aircraft, and poison gas; World War II introduced strategic bombing, the aircraft carrier, radar and the atom bomb. Thus the 75-millimeter gun and the Maginot Line, have joined the long-bow, the battering ram, and the catapult in our Museum of Destructive Art; and, in our more enlightened days, we turn to a mad future of hydrogen bombs, military super jets, and guided missiles, with their satanic talent for maximizing mayhem.

Ira U. Cobleigh

The 82nd Congress has concluded its labors, and appropriated some $90 billion for running our government till July 1, 1952—the largest financial allocation for spending taxpayer money in our fabulous history; and, of course, the biggest slice of this wampum (only six years after the end of World War II) is for defense. Well defense is a Protean word. It looks differently, and means different things, depending on your viewpoint.

To the Army Air Corps it means 150 wings instead of 95 as originally planned, and suggests that Army will receive substantially more than the roughly ⅓ of defense funds allocated to it since "unification" of the Armed Forces took place. Actually 150 wings is at least a 3-year blueprint since a single wing (not a football term) equals 20 to 75 planes (this depends on type) and some 3,000 men. At the moment we're quite a ways from either the planes or the men—partly because aeronautics becomes more complicated and costly with each passing day. For instance, the ace fighter of World War II, the P51 Mustang, was reported to have cost roughly $55,000. Its successor, the jet driven F86, handsomely outfitted with every new electronic device to combat the enemy and the weather, weighs 50% more, is seven times as powerful and costs about 10 times as much. Nor is this the last word. Brilliant scientists and engineers are, at this moment, working overtime to create advanced frames and engines, which will make the F86, in its turn, obsolete.

And so it is with bombers and bombsights—ever new designs and higher costs. The famous Norden sight, costing around $2,500 in 1944, has been outdated by a new minute labyrinth of electronics with astounding accuracy, even from several miles up, and costing as much as a 100-foot yacht.

With the Army, it's new tanks of all sizes, new range finders, rockets, new pieces of artillery, and probably on the way, some shells with atomic warheads.

The Navy, too, has its interpretation of defense, battlewagons, aircraft carriers, with planes to match, helicopters, and newest of all, atom powered submarines. And all of these must be as new as tomorrow's sunrise.

This then, is the defense gear for which we appropriate; with top brass, in each division, devoted to the idea that the military hardware of his unit best serves our vital defense needs.

Well the simple fact of the matter is that we're having a tough time converting appropriated money into all these things at the production level; and just because another $5 billion has been allocated to aircraft, does not mean that we are immediately better prepared to cope with an enemy. Consider, too, all the hunks of this earth's geography we are now dedicated to defend—with Suez thrown in as a sort of door prize just this week!

So it is that we can never, in the foreseeable immediate future, sit back and say: "Well, we've spent $150 billion in training and equipping a modern armed force. Now we are fully prepared. Now, all we need to do is store our planes and our subs, our tanks and our carriers, against the day we may need them." No, we can't say that, for ours must be a fluid, an ever more modern defense.

Thus it is that the military producers can, with greater clarity than most other segments of our economy, predict that they will be operating at virtual capacity not only this year, but in 1952 and 1953 as well. As long as we perceive a powerful enemy on the horizon, our defense is never done. We have to be there "fustest" with the latest as well as "the mostest."

Thus it is, too, that investors, in defending their incomes against inflation, are likely to consider the most progressive companies in the defense production effort as offering a field for sustained growth, expanding earnings, and fair dividend treatment. Accordingly, I am outlining today two companies with brilliant backgrounds of success in technology and production, plus a third, a newcomer, that fills a special niche in our aviation picture.

Grumman Aircraft

First is Grumman Aircraft Engineering Corp. Made the famous Hellcats and Avengers in World War II; and now produces the F9F-2 and F9F-3 Panthers used actively in Korea; plus the Albatross, a two-engine amphibian, and the Guardian for anti-sub warfare. A terrific backlog of $620 million projects full company activity 2½ years into the future. Presuming $180 million of actual delivery in 1951, earnings of above $3 a share lie in the realm of the probable. With an unbroken dividend record going back to 1933, and probable $2 dividends this year; with possible 1952 earnings, even after a 69% maximum tax bite, of $4, some solid qualities, not found in many industrials, appear in Grumman, particularly at around 23.

Electric Boat Co.

A void in our defense picture would exist if Electric Boat Co. wasn't around. 52 years old, this outfit is our country's only private builder of submarines, and its subsidiary, Canadair Limited, is Canada's largest producer of aircraft, turning out the "Sabre" jet for the Royal Canadian Air Force.

Submarines have been a vital adjunct to our Navy in the past, but they now appear to have entered a new and dynamic phase; for on Aug. 21 the Navy announced a contract award to Electric Boat for production of the first atom-powered sub. Not only will this revolutionize tuna-level warfare, but ponder for a moment the head start this gives Electric Boat. Nuclear energy may, someday, propel the ships at sea, trains, planes and cars—and Electric Boat will pioneer. Apart from its other outlooks, which are excellent, the future earnings from atomic research suggest new horizons of investment worth for Electric Boat.

Current backlog of $200 million, annual earnings of around $3, and 1951 indicated dividends of $2 provide present reasons for your consideration of Electric Boat at recent levels around 24. It should not submerge very deeply even in the kind of market we've been having!

Piasecki Helicopter Corp.

Another impressive contributor to our defensive science is Piasecki Helicopter Corporation. Back in 1947 there were some 40 companies offering themselves as producers of helicopters. Some went by the boards, and today the top three are Bell, Sikorsky (United Aircraft) and Piasecki.

The big point favoring Piasecki is its development of tandem rotary wings making possible far greater carrying capacity. As developed by this relatively new and highly enterprising unit, the helicopter opens up new vistas of military mobility such as: (1) Rapid landing or withdrawal of troops and supplies in volume; (2) Prompt withdrawal of wounded (parachuters have no method of return); (3) Spotting submarines; and (4) Picking up pilots at sea unable otherwise to return to carriers (destroyers used to do this with less efficiency and far greater cost).

In the last two years military appropriations for helicopters alone have increased by over $400 million. Piasecki with its HUP, a six-place Navy utility helicopter in production, and its 40-passenger Air Force XH16 being developed, has now a $100 million backlog; and its common shares, split 2 for 1 in May of this year (and now quoted over-the-counter at 14½), offer an interesting and fascinating speculation in a field of aeronautics, with a quite predictable future in peace or war.

Naturally, we hope and pray never to be called on to employ our vast and expanding arsenal in a World War III. But this arsenal is indeed our best hope for peace, and companies leading in research and production, such as I have outlined, give further proof that development by private investment can create and sustain those enterprises that best assure continuance of our way of life. The defense, indeed, does not rest.

A Constructive View of The Stock Market

By WALTER MAYNARD
Shearson, Hammill & Co., Members N. Y. Stock Exchange

Mr. Maynard warns against excessive pessimism, citing certain constructive offsets in the tax situation, and the government's retention of Keynesian weapons of inflation to overcome later liquidation of capital goods and armament booms. Advocates concentration on issues with prospective sustained yields.

An orderly discussion of the outlook for the stock market involves at least three separate types of analysis — the actual value of stocks, supply-demand relationships in the market itself, and the prospective state of investor psychology.

Walter Maynard

A prime determinant of the value of stocks is the current and prospective rate of earnings, and of course for stocks as a whole earnings are now tilted downward. The principal reason for this downward tilt is the high rate of income taxation, and therefore a brief review of certain factors affecting taxes may be worthwhile.

Tenets About Corporate Taxes

The points that investors should keep in mind with regard to corporate taxes are:

(a) Taxes **can** be lowered. They were lowered after the last war when deflation threatened, and the excess profits tax, which is the most onerous form of taxation, is to expire by limitation.

(b) Income taxes are now an important element of industrial costs; they differ from other costs in that they diminish as profits diminish and disappear altogether when the break-even point is reached—they do not contribute to losses as do other cost elements.

(c) Corollaries of this reasoning are that earnings are of better quality than they otherwise would be, and break-even points are now low.

Dividends, another major determinant of value, are also low in relation to reported earnings, and thus are relatively secure. This is an important fact to consider, particularly for the longer term. Moreover, only in a few groups are yields at the low levels which in the past has proved to be a danger point.

Supply-demand relationships in the stock market are also tilted in an unfavorable direction—insiders are selling with remarkable uniformity, and the supply of new stock is being steadily increased, both directly and indirectly, via a flood of convertible issues. Demand for stocks despite record peacetime public savings, remains barely steady. This is because of the large amount of debt which has been incurred by the public in the last five years, most of which contains self-liquidating provisions.

Coming Liquidation of Two Booms

Taking a longer view of the situation, it is evident that in the next two or three years, not only the capital goods boom, but the armament boom (in the absence of all-out war) will have to be liquidated. However, when this liquidation begins to produce a significant degree of unemployment, the government can be expected to intervene with its full arsenal of inflationary weapons, including cheap money, lower taxes, heavy public works programs, the subsidy of housing schemes and deficits on a Keynesian scale.

The existence of these powers is now widely known and understood, and the assumption that they will be used is generally accepted and agreed to. As a consequence, this factor, combined with the value factors discussed above, should make the liquidation of the various booms much less painful marketwise than similar liquidations have been in the past.

Moreover, if the armament boom is in fact to be liquidated, it will be accomplished under conditions of diminished international tension, and this factor by itself should make for greater public confidence and higher price-earnings ratios than those to which we have become accustomed in recent years.

Finally, the experiences of investors in the years since the great depression of 1932 are such as to furnish ample grounds for profound confidence in our national ability to overcome all obstacles, and in the long range value of common stocks as investments.

For these reasons, although many familiar economic and market indicators now appear to be adverse, excessive pessimism should be guarded against. The policy that seems likely to work out the best at this juncture is to minimize risks by avoiding issues that are really high-priced in terms of price-earnings ratios and to concentrate on the many issues now available which afford good assurance of sustained satisfactory yields.

The State of Trade and Industry

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

The past week saw a steady rise take place in total industrial output in most heavy industries as manufacturers increased their efforts to meet the challenge of growing defense requirements.

While over-all production held much above the previous year's levels, it failed to come up to the peak production levels of World War II.

On the employment front initial claims for unemployment insurance declined appreciably as manufacturers' payrolls continued to expand.

Last week steel production advanced to 102.1%, or 0.3 of a point, above the capacity rate of the previous week. The current week the rate is scheduled to show a rise of 0.8 of a point to 102.9% and equivalent to 2,057,000 tons of steel ingots and castings for the entire industry.

With respect to the steel industry, the defense program is nearing its point of greatest impact on the economy, according to "The Iron Age," national metalworking weekly. Actual output of military goods isn't expected to hit its full stride until the latter part of next year. But, because of lead time necessary for both material and parts, the steel take for defense will be very high in the first quarter of 1952 and will probably reach its peak about mid-year. After that, it is expected to level off for a time—then slowly decline.

To meet the needs of the defense program and the Controlled Materials Plan steel people have had to alter their product mix. Some steel items which were in tightest supply before Korea are now relatively easier. On many other items the reverse is true.

For example, before Korea cold-rolled sheets and strip were about the tightest items in the steel market. During the previous five years such light gage flat-rolled products accounted for roughly one-third of total finished steel output. Principal consumers were consumer durable goods industries including autos and appliances.

Now production cutbacks have so throttled their demand, states "The Iron Age," that sheet tonnage offered by conversion brokers is going begging.

Actually, it's all part of the plan—to produce less thin flat-rolled products and more plates, shapes and bars. Much of the needed expansion in plate output is being obtained by assigning light plate orders to continuous hot-strip mills. Space is made available by curbing demand for sheets and strip.

The "softening-up" process leading to steel wage negotiations is well underway, this trade publication asserts. During the past month wildcat strikes have hit production in four important steel-producing districts—Pittsburgh, Youngstown, Chicago and the South. Such tactics on the part of steel workers are not uncommon, but rather are to be expected, in view of past experience.

Steel labor's wage campaign will officially open Nov. 14, when their 33-man International Executive Board will meet at Atlantic City. They will outline and recommend formal contract demands. These will be passed on by the union's 163-member International Wage Policy Committee meeting at the same place Nov. 15 and 16. The negotiators will pick it up from there.

In Washington, Office of Price Stabilization officials are racing to complete a list of tailored price controls on steel mill products before wage negotiations get in full swing. Chances are they will lose the race. The outlook is that premium-priced producers will still be allowed to charge more than the bulk of the industry.

Steel producers are still selling their products under a "voluntary" agreement not to raise prices without giving the government advance notice. Even controls officials admit that this has been one of the brightest spots in the price-control picture so far. But any increase in steel wages will blow off the price lid, this trade authority concludes.

Auto output last week fell less than 1% below the previous week, states "Ward's Automotive Reports."

Buick production declined the past week when materials shortages and adjustments to October's output schedule cut 40% off output on Monday, this agency reported. Nash was shut down completely on Wednesday, a week ago, because of supplier strikes, but resumed operations of all but its Rambler series assembly the following day.

Ford and Mercury output at the Rouge plant was also curtailed last week, according to "Ward's," when production was halted for the second successive Friday for alterations in production equipment. Labor trouble at its Kansas City factory also hit Ford car production last Thursday. Resumption of assemblies by Packard, down since Sept. 25 for inventory and equipment rearrangement, helped to offset the industry's setbacks the past week, "Ward's" noted.

Many car manufacturers are threatened with severe production curtailments because of the continuing strike at Borg-Warner, their sole supplier of some critical components, the statistical agency added.

On Monday of this week the securities market experienced the worst break since Dec. 4, of last year. Stocks underwent a steady drop in prices in early trading following broad declines in the previous week. A wave of heavy selling later developed which flooded the market and caused the tape to run seven minutes behind floor transactions.

In the afternoon some stocks recovered somewhat from their lows on a lighter volume of sales.

Commodity futures were also under pressure, affected by weakness in securities and uncertainties in the international situa-

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Observations . . .

By A. WILFRED MAY

THE STOCK MARKET BREAK

And the "How's-the-Market?" Fantasy

The past week's turbulent stock price movements, with the financial community chasing after the exceptionally broad decline with nonsensical hindsight "explanations" and with reversals of speculative position, strongly highlights the persistent fallacy of picturing a capturable trend of "the" market.

A. Wilfred May

Concededly, so long as even a bare majority of the traded stocks move in the same direction, it is theoretically possible to categorize their behavior. But not only does divergence which extends to an appreciable number of issues make such categorization impracticable, but also in any event it is only useful in *describing past* and *present* performance. The failure to distinguish fully between hindsight and foresight in the picturing (with or without fancy charting) of a *trend* constitutes an erroneous basic premise underlying most of the popular "technical" gadgeting. Such misconception about *trend* encompasses the venerated Dow Theory as well as the more involved geometric "evidence" embodied in cycle theory, sun-spots and stellar radiation.

The assumption that there is uniformity of stock price action sufficient to take advantage of future price changes in the market as a unit, is completely demolished by the long-continuing actual record.

Divergence Between Industry Groups

Divergence between the various industry groups has consistently ruled over both the long and short terms.

During the single week ended Oct. 17, while the Standard and Poor's Combined Index of 416 stocks was advancing by 0.3%; 27 of the individual industry groups also advanced (up to 4.4% for the crude oil producers), but 43 were simultaneously *declining* (with a 3.8% loss for the coal stocks), the canned food issues hitting a new low for this entire bull year.*

Between the low average point of 1949 and last week, while the composite group was advancing 70% net, the component utility issues rose by only 22%, apparel by only 18%, the 5c-to-$1 chainstores by but 8%. Simultaneously there have actually been *declines* in the soft drink issues by 14%, in the sugars by 16%, in U. S. gold mining issues by 4%, in tobaccos by 2%. Packaged foods remain unchanged from their 1949 lows.

Over the longer period since their 1935-39 prewar average: While the composite 416 issues have risen 87%; distillers have gained 504%, bituminous coal 465%, tires 450%, while on the other hand seven other groups show net declines.

Divergence Between Issues

During last year, in the face of the bullish 12-month period resulting in a 17½% net rise in the Dow Jones Industrial Average, 347 of 1,235 active listed issues examined nevertheless registered declines, with 22 ending unchanged.

During the first half of this year, of the 1,235 issues, 769 advanced, 422 declined and 44 were unchanged.

During the 25% *rise* since the top of the 1946 market scored by the Dow Jones Industrial Average, net *declines* have occurred in many popular issues: Air Reduction (50%), American Tobacco (30%), International Telephone (50%), Montgomery Ward (27%), (Sears has advanced by 20%), Twentieth Century Fox (65%),

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*Source: Standard and Poor's *Indexes of the Security Markets.*

Security Analysts Meeting on Nov. 8

M. S. Szymczak and C. C. Brown to address Eastern Regional Conference in New York.

M. S. Szymczak

C. C. Brown

The New York Society of Security Analysts will hold an Eastern Regional Conference in New York City Nov. 8 at the Hotel Statler, it was announced by Jeremy C. Jenks, President, and Sidney B. Lurie, Chairman of the program committee.

The program will open at 10:30 a.m. and be climaxed by a dinner at which the speakers will be M. S. Szymczak, member of the Board of Governors of the Federal Reserve System, and Courtney C. Brown, economist of Standard Oil Company of New Jersey.

The program this year is aimed primarily at frontier industries that are based on new scientific discoveries. Electronics, synthetic fibers, servo-mechanisms, atomic energy and new metals are among the subjects to be discussed at the forum sessions which continue throughout the day.

Information and reservations are being handled by Helen Slade, 400 East 57th Street, New York, N. Y.

Correction

Due to inadvertence on the part of one of our Ohio correspondents, it was indicated in the "Financial Chronicle" of Oct. 11 that William A. Fennell had become associated with Hayden, Miller & Co. of Cleveland. The item should have shown that Donald W. Graber, formerly with Otis & Co., had joined the staff of Hayden, Miller & Co.

Too Much Waste in Government

By HON. CHARLES SAWYER*
Secretary of Commerce

Cabinet officer severely condemns wasteful government expenditure, and calls for putting into effect recommendations of recent economy commissions. Blames Congressmen for unnecessary appropriations and increase in government agencies. Attacks system of budget making, and advocates changes in civil service laws to eliminate incompetents in government service. Says no department at cabinet level should be created with sole function of giving away money, and recommends limits on government functions.

We hear continually of the need for economy in government. It is discussed, many times with heat, in and out of the halls of Congress. Nobody disputes that the costs of government should be cut. As a theoretical objective, everyone is for it. Problems become difficult as they become practical. The way to cut costs is to cut. There is a theory that by so-called "streamlining" of government activities and reshuffling of functions, great savings can be accomplished. This theory is attractive, but is it sound? Some savings can be made by "streamlining"—great ones require a different treatment. Fundamentally I can conceive of no large saving of government funds—the taxpayers' money—except by eliminating things which the government does. Large savings must be made in the places where we are making large expenditures.

Charles Sawyer

I propose to discuss this matter from a completely realistic and objective standpoint. That being so, we must recognize that we are dealing with an extremely difficult problem. The difficulty lies in the fact that everyone favors economy as applied to the other fellow—few favor it when it strikes home.

Many reports on efficiency and reform of government procedure have been produced. The most recent and outstanding and helpful of these are known as the Hoover Commission Reports, the result of long and serious study by competent and experienced men. The President has made a conscientious effort to carry out the recommendations of these reports by 35 so-called Reorganization Plans which he has periodically submitted to the Congress. Of these, the Congress has adopted 27, rejected eight. The Hoover proposals are constructive, and honest efforts are being made to carry them out.

Put Economy Reports in Practice

The great trouble with most reports on efficiency in government (and this is true of reports on many subjects) is that the reports are filed away and thereafter never seen or used. We now have, in my judgment, sufficient studies and suggestions with reference to reorganization.

What is needed is to put the suggestions into effect; but beyond this is the need to recognize that reorganization in itself will not accomplish a major result. Studies which deal with a dream world and bear little relation to reality, full of graphs and charts and regrouping of functions, will not bring about great savings.

I might interpolate that the drafting of studies and programs is a Washington obsession, which in itself calls for the expenditure of more money, the use of more manpower, the occupying of more space. In many cases it results in a recommendation that a further study be made or that a new commission be appointed to take over the problem which has been discussed.

For great savings we need—not more studies—but action. What kind of action is required? As I said at the beginning, to accomplish great savings we will be forced to cut down or get rid of certain functions now being performed. With such action, and in fact with any specific suggestion along this line, there will arise a howl of protest and anger from every affected individual or group throughout the country.

There are, however, some practical steps which could be taken short of the drastic one I suggest; and the ideas I am about to set forth have been based not upon any commission study but on observation of what goes on in government as I have lived with it myself. My first suggestion is perhaps impossible of fulfillment, but here it is:

Each department of the government is required to submit periodically its estimates of expenditures for the coming year. This "year" is a fiscal year which begins on July 1. Appropriation requests must be developed at least one year in advance of the next fiscal year. This confusing use of a fiscal year starting July 1, should be abandoned and all government expenditures—after an appropriate interval for adjustment—be placed on a calendar year basis. Furthermore, requests for appropriations should be made as closely as possible to the period for which the funds are intended. If appropriations hearings for the calendar year 1952 were held by Congress near the first of that year, it would afford the Congress and the government departments the advantage of utilizing up-to-date information. I appreciate that this is a drastic proposal and difficult to achieve—the legislative machinery tends to grind slowly. The processing of a Federal budget currently requires weeks if not months because of the necessity for hearing each official identified with a particular appropriation. I am informed that one bureau in a Federal department had as many as 80 separate appropriations until a short time ago. The government has moved to reduce the vast number of appropriations, which I am satisfied is a step in the right direction.

Defects of Budget Making

In connection with the budget submitted by each department, the operations and probable expenditures of the department are outlined in great detail. These figures are carefully scrutinized. The department head who is desirous of promoting economy, questions his agency subordinates as to the amounts of money requested to carry on each activity. Strength of character is needed to cut down these requests—first, because the men who make them are honestly enthusiastic about the activities in which they are engaged; and second, because the suggestion is continually made that in other agencies and in other departments the urge to economize is not equally present. The Congress has been fine in giving credit to my Department for its endeavor to economize, and for that reason I have suggested that a particular effort be made to operate within the amounts appropriated, and if possible to come up with a surplus. The answer from an operating official is that if he shows a surplus he gives Congress the impression that the original request was excessive and the agency head a poor administrator. Instead of being rewarded for his success in economy he fears that he will be penalized by reduced appropriations for the following year. This has gone so far that toward the close of the fiscal year if a surplus in any particular account is found to exist, extraordinary efforts are made to discover ways of spending it.

It is obvious that these frantic efforts—and I use the word "frantic" advisedly—at the close of the fiscal year represent expenditures which could be avoided. The remedy for this disturbing situation lies partly with the administrative heads and partly with the Congress. I have stated repeatedly to my bureau heads that I will not tolerate any such practice. As the result of my action, the amount of $6,220,000 of the funds available to the Department of Commerce for the past fiscal year was saved. These funds will be returned to the Treasury as required in the case of all unexpended balances and other receipts such as those from the sale of documents and publications, which last item, incidentally, amounted to $1,009,810.50 for the current year.

Savings From Improved Management

Savings can be made, of course, by improvements in management. In my department as well as others, there are agency heads who make honest and effective efforts in saving. In the Civil Aeronautics

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*An address by Secretary Sawyer at Luncheon Meeting of Eighth Annual Advertising and Sales Promotion Conference, Ohio State University, Columbus, O., Oct. 19, 1951.

From Washington Ahead of the News

By CARLISLE BARGERON

In the period 1933-44, it might be said there were two governments in Washington. There was the New Deal and then there was Jesse Jones.

If you will read Mr. Jones' book, "Sixty Billion Dollars," you will not only get an amazing insight into perhaps the most turbulent, momentous and tragic decade of this country's history, but you will also get an appreciation of the tremendous service which this man rendered. It is an appreciation that those of us who were on the scene have long had.

Carlisle Bargeron

This appreciation is not confined to his work in getting the wheels of industry to turning again. Except for the President no one has ever had the responsibility and the power this banker-statesman had, and no one, in my opinion, could have exercised such responsibility and power more wisely and efficiently. But this is all on the record for the historians to see.

What may not be so apparent was the check which he maintained over the revolutionaries that swarmed into Washington and took over the government. In view of what has happened you may likely question this statement and say there was no check, that nothing more could have happened than has. The New Dealers will tell you differently. In their book, in the book of this motley crowd of Commies, left-wingers, pinkoes and whatnot, Jesse Jones is anathema. He was their frustration.

We still have, at least, the framework of the government which our forefathers gave us. You can credit Jesse Jones for much of this. As just one example, they were determined to take over the country's entire credit system. They would have done so, I believe, had it not been for him.

It wasn't he, just operating as one man, of course. But the fact is that he had the confidence of Congress during those turbulent times more than Roosevelt himself. Indeed, Roosevelt lost the confidence of the legislative body within a very short time after he came into office. He kept power over it as he did over the State Governors through the unlimited funds which he had to spend, but he soon lost its confidence.

Jesse Jones was a counter power because of the confidence Congress had in him. It was this confidence, in fact, that made him indispensable to the New Dealers when they so thoroughly despised him they would have liked nothing better than to run him out of town. It is a seeming paradox that he was their greatest enemy and at the same time utterly essential to them.

Jesse maintained his position through his ability to "give" or bend towards this crowd when necessary and when the price was not too great. Time after time he succeeded in getteng legislation through Congress for them when they could not get it themselves. These matters usually concerned spending and when the legislation was enacted it was usually found that the spending was to be done under his control. Such manipulation took the grounds for agitation away from the New Dealers and provided for a minimum of spending. Maybe it was a matter of increased power for the New Dealers. Encountering opposition in Congress, they would seek Jesse's influence in the mood of "you are either on the team or you aren't." If Jesse had ever taken the stand that he wasn't on the team, a part of the Administration, he would have had to get out. So he would get their legislation for them, except that somehow or another the power would land up with him and he usually put quietly on the shelf. In all of the scheming of the New Dealers, Jesse Jones was the only one around here with either the nerve or th ability to outwit them. He was a pain in their necks and there is no doubt in my mind that he was largely responsible for whatever has been salvaged from their depredations. I would hold him in high esteem if he accomplished no more than adding to their gray hairs and their blood pressures. But he accomplished much more. He turned them back innumerable times in their assaults against Private Enterprise or what has become a term of Leftist ridicule, the American Way of Life.

Since he left, Congress has toyed a lot with the idea of getting rid of the RFC. Mr. Jones, himself, says that it has served its purpose. It has too many influential clients, however, to prevent Congress from getting anywhere towards closing it down.

One thing is sure and certain. As long as it exists it will be the source of such "scandals" as have recently been exposed. It is a political lending agency and influence and pull are inseparable from its present-day operations. Pull and influence are mighty handy assets in dealing with bankers at any time, in dealing with most anybody else. I try to remember my banker at Christmas time. A bottle of whiskey or a box of cigars won't in itself get me a loan but it will keep my many other good points in the banker's mind.

Jesse Jones presided over the RFC in different times and also there aren't many Jesse Joneses.

Is the Cycle of War Bond Selling Completed?

By DONALD L. KEMMERER*
Professor of Economics, University of Illinois

Dr. Kemmerer traces history of War Bond selling and indicates present situation resembles that following Civil War, when selling cycle was completed. Says bond-support system is not only not essential, but has fault of inflating currency, discouraging bond buyers and diluting tax dollars. Urges return to a gold coin standard and sale of bonds redeemable in gold, with little participation in market by Federal Reserve.

Most of us are perfectionists on at least some matters. For centuries man has constantly sought new ways of worshiping, governing, playing games, running his economy, regulating his money supply, raising children, building fighting ships, and so on, *ad infinitum*. No way is ever perfect and yet we keep hoping that the next experiment will reveal the perfect way. It never does. We make some improvements, it is true, and we may find a method that is better adapted to a changed condition. Light armored ships, for example, have speed but offer little protection; heavy armored ones sacrifice speed but offer more protection. Each has its advantages and disadvantages; no one has all the advantages.

Donald L. Kemmerer

Likewise, no economic or political or other system of doing things is perfect, because man himself is not perfect and never will be. Yet, somehow, many of us persist in thinking that the kind of economy, the type of money system, or some other course of action, that we are not using is better than the one that we are using. The faults of any system in use are painfully apparent; the virtues of any proposed system tend to be glamorized. Those who remember the faults it had the last time it was used have died. So we try a different system. This idealism or optimism, too often untempered by experience or knowledge of history, is one of the mainsprings of change. It explains why history keeps repeating itself. It explains why, for example, people have tired of government regulation and tried *laissez faire*, and then tired of that and tried government regulation again. Or why people shift back and forth between hard money systems and soft or managed money systems. What has this philosophizing to do with war bond sales? Quite a lot, as you will see, if you read on.

There are three basic ways of financing a modern war: namely, by taxation, by borrowing (selling bonds), and by creating money (and bank deposits). They are desirable and painful, both, in the order just given. In major modern wars all three methods are bound to be used. The middle method, selling bonds, generally provides more funds than either of the other two. (See Table 1, Column 4.) The terms of bond sales differ, however, from one major war to the next. The faults of the old method are remembered and hopes are held for a better method this time. Let us examine the methods used in this country, starting with the Civil War, our first modern war, and continuing down to the present. The Civil War method, especially, should interest us today.

*Reprinted from the August issue of "Current Economic Comment," published by the College of Commerce and Business Administration of the University of Illinois.

Civil War Bonds

The Civil War was a struggle between an industrially strong but militarily weak North and an industrially weak but militarily strong South. At the start the North was recklessly optimistic of victory. The first 75,000 troops were mustered in for just three months and Congress increased taxes only slightly. But the North won no major battles for over a year and a half, and as the war went on and on costs mounted. Soon the banks showed a reluctance to lend more to the governmen on any but very stiff terms.

TABLE 1

Financing Three Major American Wars

War	Duration in Months	Cost in Billions	Percentage of Cost Paid By— Taxes	Bonds	Money Creation
Civil War	48	$4	18	70	12
World War I	19	26	20	50	30
World War II	45	330	40	50	10

TABLE 2

Major Bond Issues in the Civil War

Authorized in—	Interest Rate	Term in Years	Proceeds
July-August, 1861	6%	20	$189,200,000
February, 1862	6	5–20	514,700,000
March, 1863	6	17	74,300,000
March, 1864	5	10–40	172,900,000
June, 1864	6	5–20	90,700,000
Total, 1861-64	5-6%	5–40	$1,041,800,000

SOURCE: D. R. Dewey, *Financial History of the United States* (1928), pp. 306-8.

TABLE 3

World War I Bond Issues

Loan	Date	Interest Rate	Term in Years	Proceeds
First Liberty	Apr., 1917	3.5%	15–30	$1,989,000,000
Second Liberty	Oct., 1917	4.0	10–25	3,808,000,000
Third Liberty	Apr., 1918	4.25	10	4,176,000,000
Fourth Liberty	Sept., 1918	4.25	15–20	6,964,000,000
Victory	May, 1919	4.75	2–3	4,498,000,000
Total	1917–1919	3.5–4.75%	2–30	$21,435,000,000

SOURCE: D. R. Dewey, *Financial History of the United States* (1928), pp. 502-3, 506, 508, 516.

The people of that era were not accustomed to buying government bonds as they are nowadays. So the Treasury floated a $50 million loan in the form of short-term notes that circulated as money. It was these notes that forced a suspension of specie payments in December, 1861, and drove the country off the gold standard. Subsequently other issues of Treasury notes, called "greenbacks," caused more inflation.

During the war the government also conducted five major bond drives. (See Table 2.) This was in addition to the sale of a welter of short-term Treasury notes. Jay Cooke, an astute and energetic Philadelphia banker, organized a corps of salesmen who almost literally peddled bonds from door to door. All told, 70% of the war was financed by borrowing. It was necessary to make these bonds very attractive to sell them. They usually carried interest of 6%. Better yet, the buyer could pay for them in greenbacks but was promised in most cases that the interest and principal he received would be gold. This was an especially fine bargain for those who bought bonds when the greenbacks were heavily depreciated. It was the high price paid by a government whose credit was not very good. Professor Wesley C. Mitchell later estimated that the use of greenbacks in the Civil War increased the cost of the war by $600 million.

After the war was over there was considerable resentment towards those bondholders who insisted too legalistically on their pound of gold flesh. The later bond issues had not stated clearly, as had the earlier ones, that they were payable in gold. Despite political campaigns featuring such slogans as "The same currency for the bondholder and the plowholder," all the bondholders were paid off in gold. This costly way of financing the war and its political repercussions were long remembered, however, and influenced the financing of World War I.

World War I Bonds

Although we had over two years' warning that we might be drawn into World War I, we were ill prepared when the time came. We had to train troops and produce supplies for them and get them all to Europe in a hurry. This was bound to be costly. As before, we increased taxes reluctantly and this had effects that might have been expected on our price level and on our monetary system. Prices rose sharply. We prohibited the export of gold in 1917 and thus abandoned the gold standard. This time, however, the government issued no greenbacks. The inflation that took place was largely the result of increased demand deposits. The increase of these grew in part out of the sale of bonds to banks, in part out of sales to bank customers who were assisted by somewhat indefinite loans, and in part from other causes, such as war-induced business expansion. It is difficult to ascertain very accurately how much of the war was financed by the creation of such bank credit. Selling bonds to banks in exchange for created deposits is money creation just as is printing greenbacks. A reasonable estimate on World War I money creation is 30%.

Approximately half the direct cost of the war was met by genuine borrowing. There were four major bond sales during World War I and one victory loan of three-year Treasury notes afterwards. (See Table 3.) In addition, there were, of course, continual sales of various short-term Treasury obligations. Neither the principal nor the interest of these bonds was payable in gold, but the interest rate ranged from 3.5% to 4.75%. People were urged to save through bonds so that after the war they might buy what they wanted.

Although we returned to a gold standard in June of 1919 and wholesale prices fell 40% in 1920-21, the bonds got an undesirable reputation after the war. Too many persons wanted to cash in their bonds in a market that was not strong anyway. Fourth Liberty Loan bonds sold as low as 82. Perhaps this was the best remembered fact about World War I Liberty Bonds. Obviously it was something to be avoided, if possible, the next time.

World War II Bonds

World War II was a double war and it lasted over twice as long as World War I. Despite at least two years of warning, we were again caught unprepared. Because of a decade of depression, moreover, our public debt was already sizable ($43 billion in 1940). But the banking and fiscal policy pursued since 1931 had driven interest rates to an all-time low. This made loanable funds cheap not only to the government but also to everyone else and stimulated inflation. Again there were no greenback issues, however. The nation was on a "qualified" gold standard and had no difficulty remaining on it. Since there was no domestic convertibility of gold, specie payments did not have to be suspended. With other nations' currencies more inflated than ours, we could continue to redeem gold internationally although most of the time it was not necessary to do so. As in previous wars, tax increases were slow in appearing.

Bond sales again provided much of the funds, especially at first. A summary of the eight war loan drives in the "Federal Reserve Bulletin" for February, 1946 (p. 120) shows the amounts sold as follows:

Issue	Total Sales in Millions
First War Loan	$ 12,947
Second War Loan	18,555
Third War Loan	18,944
Fourth War Loan	16,730
Fifth War Loan	20,639
Sixth War Loan	21,621
Seventh War Loan	26,313
Victory Loan	21,144
Total eight loans	$156,893

The amounts raised in these drives include not only bonds, however, but billions of dollars in short-term Treasury obligations also. As in World War I, a large part of these bonds were at first sold to or through banks. After 1942 strenuous efforts were made to sell more of them to the public. This was not especially successful but the effort was highly commendable. The banks continued to take a large part of the government bonds, but in a more indirect way now. Thanks chiefly to increased production over the nation,

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Prominent Banker's Reply to Rep. Patman's Questionnaire

John J. Rowe, President of Fifth Third Union Trust Company of Cincinnati, finds no change in his bank's loan and investment policies. Opposes banks being required to hold additional reserves, and sees no need for restrictions on real estate or consumers' loans. Says transfer of ownership of Federal Reserve Banks to government would be outrage to those who believe in free enterprise.

John J. Rowe, President of Fifth Third Union Trust Company of Cincinnati, Ohio, has released to the "Chronicle" his answers to a questionnaire, addressed to the bankers of the country by Congressman Wright Patman, Chairman of the Subcommittee on General Credit Control and Debt Management.

John J. Rowe

The questions, together with the answers of Mr. Rowe, follow:

Question No. 1—Have the lending policies of your bank changed since July 1950? If so, what has been the general character of the change? Specifically, what change has occurred in your lending policies with respect to: (a) Regular commercial customers, (b) occasional commercial borrowers, (c) real-estate loans, (d) consumer loans?

Answer—In my opinion, the lending policies of this Bank have changed very little since July, 1950. I can see no change at all in our loans to regular commercial customers, nor (b) occasional commercial borrowers. On (c), we have observed the margin in the relationship of loan to the cost of the property under existing regulations, and (d) similarly on consumer loans.

Question No. 2—Have the investment policies of your bank changed since July, 1950? Discuss the change in terms of: (a) Purchase of municipal securities, (b) purchase of corporate securities, (c) management of your government security portfolio.

Answer — There has really been no change in investment policy because for some time we have been holding down purchases or holdings of longer maturities.

Question No. 3 — Discuss the factors which contributed to the changes in your policies described in the two preceding questions, and your evaluation of the relative importance of each factor. Please give consideration to the following: (a) Increases in short-term interest rates, (b) declines in prices of long-term Government bonds, (c) increases in reserve requirements around the turn of the year, (d) moral suasion (including the Voluntary Credit Restraint Program), (e) changes in prices and in the business outlook.

Answer — One of the factors contributing to the little change we have made has been margin requirements on collateral loans. Personally, I consider (a), namely, increases in short-term interest rates, as a very natural result of constantly rising costs and taxes. With higher overhead and taxes, our Bank feels that it has to get more interest. As to (b), declines in prices of long-term Government bonds, I feel personally that these declines are again the result of higher wages and taxes, and that longer term money should bring a higher return. (c) Increases in reserve requirements — in my opinion lessen the earning power of Banks, and again amount to a further increase in the cost of doing business. Banks in a city like Cincinnati have to keep their mobile reserve in New York, Chicago banks, etc. and, in my opinion, these balances constitute a real liquidity. (d) As to moral suasion, in my opinion, in our institution every effort has been made for many years to keep the Bank and its customers sound and in a strong quick cash position, and I have very little interest in the Voluntary Credit Restraint Program, as I feel that each bank should make its own decision as to what credits should be granted, and what credits should not be granted, and that the police power should come through the legal route of proper bank examination. I do not feel that bank examination was as effective as it should have been in the roaring 20s, but that examination of banks has improved much since then, and is capable of further improvement as bank examining skills increase. As to (e) changes in prices and in the business outlook, personally, it strikes me that as prices advance the dollar volume of business will increase, and that bank deposits are certain to rise as long as wages and taxes continue going up. Obviously, individuals and companies have to build up cash balances for the income tax payment dates, which again seems clear proof to me that deposits increase as taxes increase.

Question No. 4—Do you believe that it was wise to abandon the par support of long-term Government bonds in March 1951? If not, would you have considered it wise at another time or under other conditions? When, or under what conditions? If you favored the abandonment, would you have preferred that it be done earlier? When?

Answer—I believe that the Federal Reserve Banks should buy bonds for the best advantage of the shareholders of the Federal Reserve Banks; that they should not, in the first place, have accepted a par support of the long-term Government market, and that their purchasing of Government bonds should follow the same policy which their member banks adopt, namely, which issues are for the best interests of the Bank, bearing in mind not having a larger market risk than their net worth can afford. As to whether I favored the abandonment, or would have preferred that it had been done earlier, my own firm conviction is that it should never have been started in the first place. My own conviction is that governments have to go to the open market when borrowing money, and should not consider themselves completely above the competitive system which applies to business.

Question No. 5—What do you consider to be the principal functions of bank reserve requirements? Do you believe that non-member banks should be required to hold the same reserve as member banks of the Federal Reserve System?

Answer—The principal functions of bank reserve requirements are to keep banks liquid and able to meet unusual withdrawals. I see no reason whatsoever for non-member banks to be under any other rules and regulations than those made by the State granting them their Charter.

Question No. 6 — Comment on the proposal (advanced in the Wilson report and in several annual reports of the Board of Governors of the Federal Reserve System) that banks be required to hold reserves additional to those now required, such reserves to be held at the option of the bank in specified classes of United States securities.

Answer—It seems to me that to require banks to hold additional reserves is nothing more or less than a bald plan to, by police action, require more holdings of Government bonds than they themselves wish to hold.

Question No. 7—Do you believe that the coverage of Federal deposit insurance should be extended to include all deposits in insured Banks? Why, or why not?

Answer—I do not believe in the Federal Deposit Insurance Plan in the first place. I do not think the Government belongs in the Insurance business. I am strongly opposed not only to the insurance at all, but I am certainly opposed to any increase in its field.

Question No. 8—To what extent do you believe that bank examination and supervision should be used as instruments for furthering the objective of economic stability?

Answer—It seems to me that bank examination should be for the one and single purpose of seeing that the bank examined is amply liquid, able to meet its obligations, and to avoid any form of dishonesty whatsoever. The suggestion that examination could further the objective of economic stability seems to me nothing in the world but a police state.

Question No. 9—In your experience, have regulation X (real-estate loans) and regulation W (consumer loans) of the Board of Governors of the Federal Reserve System been successful in accomplishing their respective objectives? Have they been fair and equitable in administration?

Answer—Again, I feel strongly that both regulation X and regulation W should not have been put into effect, and that if we do believe in free enterprise, we should avoid any concession whatsoever to being under directives from an "all wise" Government.

Question No. 10—What do you consider to be the advantages and disadvantages of the ownership of the stock of the Federal Reserve banks by member banks? Do you believe that ownership by the United States Government would be more desirable?

Answer—I feel that as owners of the stock of the Federal Reserve Banks, member banks should have more to say in the administration and management of Federal Reserve Banks, and particularly endeavor to see that the Federal Reserve Banks build up a very much larger surplus and undivided profits account in order to guard against being called upon by the banks to pay in more capital. The thought that the United States Government should take over the ownership of Federal Reserve Banks seems to me an outrage to those who believe in private enterprise.

Dealer-Broker Investment Recommendations and Literature

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

Capital Gains Tax—Bulletin—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Expanding Your Income—Ira U. Cobleigh—Explaining the know-how and know-when of investing for income and capital growth—$2.00 per copy—Dept. 6, David McKay Co., Inc., 225 Park Avenue, New York 17, N. Y.

Farm Implements—Bulletin on the industry—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Government of Canada Internal Loans—Bulletin of quotations —A. E. Ames & Co., Inc., 2 Wall Street, New York 5, N. Y.

Most Fascinating Business in the World—Brochure describing the various products, transparent films, foils, etc., made by The Dobeckmun Co., Cleveland 1, Ohio.

New York Banks and Trust Companies—Comparative figures as of Sept. 30—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

New York City Bank Stocks—Third quarter comparison and analysis of 17 New York City Bank Stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the 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 a 12½-year period. Of the 35 companies represented in the National Quotation Bureau's Over-the-Counter Industrial Stock Index, 12 trace their ancestry to years before the Civil War and another nine had their beginnings in 1900 or earlier. Twenty-three of the companies have been paying dividends continuously from seven to seventy-nine years. Of the other twelve, one started paying dividends 119 years ago, and its stockholders have received annual dividends regularly with the exception of the years 1833, 1840 and 1858—National Quotation Bureau, Inc., 46 Front Street, New York 4, New York.

Railroad Income Bonds—Analysis—McGinnis & Co., 61 Broadway, New York 6, N. Y.

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Aberdeen Petroleum Corporation—Analysis—Bonner & Bonner, Incorporated, 120 Broadway, New York 5, N. Y.

Air-Way Electric Appliance Corporation—Bulletin—Newey & Conway, 231 South La Salle Street, Chicago 4, Ill.

Anaconda Copper Mining Co.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y. Also available is a study of convertible **Railroad Income Bonds & Preferred Stocks.**

Autocar Co.—Card memorandum—Bond, Richman & Co., 37 Wall Street, New York 5, N. Y.

Brazil Traction—Analysis—Arnhold and S. Bleichroeder, Inc., 30 Broad Street, New York 4, N. Y.

Bucyrus-Erie Company—Analysis—Filor Bullard & Smyth, 39 Broadway, New York 6, N. Y.

Canadian Superior Oil of California, Ltd. — Analysis — Hill Richards & Co., 621 South Spring Street, Los Angeles 14, Calif. Also available is a study of **Capital Gain Possibilities** in non-dividend paying securities.

Chesapeake & Ohio Railway—Analysis—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Christiana Securities Company—Analysis—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Colgate-Palmolive-Peet—Memorandum—Carl M. Loeb, Rhoades & Co., 42 Wall Street, New York 5, N. Y. Also available is a memorandum on **Paramount Pictures.**

Colorado Fuel and Iron Corporation—Analysis—Bache & Co., 36 Wall Street, New York 5, N. Y.

Haile Mines—Bulletin—Frank C. Moore & Co., 42 Broadway, New York 4, N. Y.

Jack & Heintz—Memorandum—Merrill, Turben & Co., Union Commerce Building, Cleveland 14, Ohio.

Lone Star Steel Company—Analysis—McCarley & Co., Vanderbilt Hotel Building, Asheville, N. C.

Market Basket—Memorandum—Fewel & Co., 453 South Spring Street, Los Angeles 13, Calif.

Mergenthaler Linotype—Memorandum—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y. Also available is a memorandum on **Norfolk & Western Railway.**

Continued on page 36

We Need New Business Ventures —Large and Small

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

Stressing importance of new and small businesses in our national economy, leading industrialist cites recent increase in new business units as indicating individual ventures still persist. Denies there are many "malefactors of great wealth," and points to success of Carnegie and others in starting small concerns that grew large and prosperous. Says the "customer" is judge and jury in determining business success. Concludes size, in itself, cannot crush competition.

All of us recognize the importance of new and small business to our national economy. When any nation stops producing new business units it must perish just as surely as it would if it had stopped producing children. The trouble is that the establishment of any new business is likely to be a very hazardous and costly gamble. Yet the whole future of America depends on the willingness of millions of people to take that risk—and one thing is certain: no man in his right mind will ever take any gamble unless he knows, for a fact, that it does pay off to somebody.

Benjamin F. Fairless

Now I do not know how many other old, established businesses are—at this precise moment—celebrating their growth and expansion as we are here; but I do know that somewhere in America, this very day, nearly thirteen hundred brand new businesses are opening their doors to the public for the first time. Another thirteen hundred will do so tomorrow, and so it will be the next day—and every weekday throughout the entire year.

Experience tells us, unhappily, that most of these brave new ventures will fail, and yet—knowing this, their owners have still been willing to risk their precious savings, and to mortgage, perhaps, their entire future, on the outside chance of success.

Why?

Well, there are only two reasons: first, because they have seen others take the same gamble and win; and second, because they hope—if they win—to win big.

If they thought for a minute that the best they could expect of their business was that it would remain small, provide a hand-to-mouth existence, and keep one jump ahead of the sheriff, you can bet your bottom dollar that not one of these little new ventures would ever have seen the light of day.

Yes, the truth is that growth and progress are something more than the mere symptoms of success . . . they are the necessary ingredients of it; and when any company, big or small, stops growing and ceases to progress, you can be perfectly sure that the rigor mortis of business failure has set in.

Unfortunately, however, there are in this country some people who do not regard success as a virtue, and who look upon business growth as a national calamity. To them, the opening of this fine new plant will mean only that another Big Business has grown bigger. They will conclude, therefore, that Small Business must be growing smaller; and without ever stopping to look at the facts, they will take to horse, like Paul Revere, and storm every Middlesex village and farm, crying out that America is in danger.

Yet many of these Calamity Johns who denounce success wherever they find it, and who fill the air with a constant clamor of false alarms, are undoubtedly sincere, well-meaning people—people who are only suffering from what I would call a "midget complex." They think small.

A new-born business that is little and weak arouses their instant admiration; so they try to protect it—and to keep it that way. But let that business grow—let it become strong and successful and vigorous and big, and it frightens them to death. So they advocate reforms, and advance theories, which would make growth and success impossible; and the worst of it is that some of our people accept these false theories as facts.

The Basis of Business Success

Yet the true facts are available to all of us. They are to be found not only in official government reports, but also in the history of every successful company and of every thriving community in the United States. And certainly, they are all around us as we gather here today.

So let's look at a few of these facts and let's see for ourselves what would have happened if the strange and unreasoning fears of our Calamity Johns had ever been permitted to govern our national thinking.

For example, there is that quaint—but widely entertained—notion that every business must be strictly monogamous . . . that once it has become wedded to one particular line of products, it must never, never, never make any other. If a meat packer goes into the grocery business, or a radiator company makes flying machines, that is industrial bigamy.

Now all of us here, I presume, are opposed to bigamy; so it all sounds fairly logical. But is it? Well, suppose we look at the history of the National Radiator Company for a moment, and see.

This company was once strictly monogamous—industrially speaking. For more than thirty years it made nothing but heating equipment, and so it was tied to the apron strings of the building industry. As long as building was booming, the heating business boomed too; and then suddenly—just at the moment when the company appeared to have reached the very peak of its size and industrial power — the building industry went into a slump; and depression struck the nation. The market for heating equipment collapsed completely, and this company almost did likewise.

I have no doubt that it would have gone under had it not been for the alertness and quick thinking of its managers. Diagnosing its weakness correctly, they decided at once to diversify its products. "If people won't buy radiators," they said, "we've got to make something they will buy." And so they began a great program of research, which successfully developed several new lines of products.

A laboratory experiment led them into the field of powder metallurgy, and today the National Radiator Company is the largest producer of iron powder in the world. It also manufactures such diverse items as piano plates and aircraft sub-assemblies. In fact, the new products which it has developed during the past ten years now account for 60% of its total sales. And because it no longer puts all of its eggs in one basket, it affords a new measure of security, and the new promise of a steadier income to its workers, to their families, to their communities, and to the nation.

The Calamity Johns may not like that; but, to me, it represents real social progress. It is exactly the same kind of social progress which the citizens and merchants of Altoona have made through their own splendid program of industrial diversification—the program which brought this Duncansville plant here to their district in the first place. And I congratulate them on it.

Are There "Malefactors of Great Wealth?"

But let us look for a moment at another strange theory which the enemies of success propound. It is summed up in that overworked phrase you have heard so often — that phrase about the "malefactors of great wealth."

Now first, let me confess, regretfully, that I have never acquired that quantity of wealth which would entitle me to be distinguished as a "malefactor," so I can speak freely—and impersonally—on the subject. In fact, the most fanatical of our Calamity Johns could hardly regard me as anything more than a minor hazard on the road to his Socialist Utopia.

But if the accumulation of wealth is evil, then certainly, one of the greatest "malefactors" in history was a young telegraph operator who once worked for the railroad right here at Wye Switches where this plant is standing now. That was about a hundred years ago, and his name, of course, was Andrew Carnegie.

He was the father of our modern, integrated, mass-production steel industry as we know it today. It was during his time that America became the largest steel-producing nation in the world, and it was he—more than any other one man, probably—who was responsible for that fact.

The fact that America is the largets steel-producing nation on earth accounts, of course, for the added fact that it is the world's greatest industrial nation, providing work for more than 62,000,000 people who enjoy the highest pay, the greatest purchasing power, and the finest standard of living in all of recorded history.

I do not know how many of those 62,000,000 jobs can be traced back directly or indirectly to the efforts and to the success of Andrew Carnegie; but I do know that 40% of all our industrial workers today are employed either in making steel or in making products out of steel.

And of one thing I am certain: if we could gather in one mountainous pile, all of the wealth which Carnegie created for others during his lifetime — and if we could then place, in another pile beside it, all the money that he made for himself—his own personal fortune, vast as it was, would seem so small and so puny by comparison that you could put it in your eye!

Somewhere in this country today, there may be other young men who possess the imagination, the ingenuity and the genius of a Carnegie, but I seriously wonder whether our present laws and eco-

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*From an address by Mr. Fairless at dedication of the Duncansville Sheet Metal Plant of National Radiator Company, Duncansville, Pa., Oct. 18, 1951.

Independent Universities—Essential to Private Enterprise

By IRVING S. OLDS*
Chairman of the Board, United States Steel Corporation

Extolling need for support of privately endowed independent universities as curb against totalitarian trends, Mr. Olds calls attention to precarious financial situation of most of these institutions. Points out tax-supported universities have competitive advantages and may eventually eliminate private colleges, unless latter receive greater financial support. Says most difficult problems which American enterprise faces lie chiefly in liberal arts education. Wants academic freedom preserved.

Just as our privately owned and operated industries have given us the material weapons with which to repel the armies of foreign aggressors, so we have looked to our privately-endowed universities for the intellectual weapons with which to resist invasion by totalitarian ideologies. No other nation possesses so many private universities as we do; and no nation, I suppose, enjoys the same full measure of individual liberty that we have known. That can hardly be a coincidence.

Irving S. Olds

Abroad — in countries where education is wholly dominated by the State—we have seen ruthless and ambitious men subvert the youthful minds of an entire nation to the barbarities of Fascism or to the corkscrew convolutions of a crooked party line. *That must not happen here.* We have many fine tax-supported public colleges which are controlled by State and local governmental agencies, but we are determined that no self-seeking individual or group shall ever destroy their academic independence, and we recognize that their best assurance of continued independence lies in the preservation of a strong, healthy, vigorous and competing system of private education, privately endowed.

To preserve that system of private education is, I think, a fundamental responsibility of private enterprise, and to preserve our democratic system of freedom and opportunity is, I believe, the compelling responsibility of our private universities.

Yale has survived and prospered for 250 years. Without governmental subsidy, it has grown from small and humble origins to become one of our nation's truly great institutions, and it has done this only because it has satisfactorily performed a real and useful public service—a service which our society wanted and was willing to support.

Threat to Private Education

But neither size, nor success, nor venerable age, nor the past record of great public service is any guaranty of the future security of any private institution in these times; and if the day ever comes when Yale and our other privately-endowed universities fail to provide the kind of service which our society wants and is willing to support, then there will be no more independent, private colleges in America. There will only be Government subsidy and Government control of education.

That is why I am gravely disturbed tonight by what appears to be a clear and definite trend away from private education in this country—a trend which seems to indicate that our independent universities may find it difficult to keep pace with their tax-supported competitors. Here are the facts of what has been described, in recent press reports, as the most serious financial crisis that our private colleges have faced in more than a century.

Surveys show that one-half of all our private, liberal arts institutions are now operating in the red. Many of them are dipping into their endowment capital or —what is more serious—are curtailing their teaching staffs. Their situation, moreover, is growing worse, and there seems little prospect of meeting these deficits solely by contributions to current income. Our private universities must seek greater endowment gifts—from individuals, foundations and corporations.

Studies of our privately-endowed universities as a whole disclose that the rate of income on their invested endowments is only slightly more than half what it was 20 years ago, while the overall cost which the student must pay for a college education is nearly twice what it was in 1941. So-called soak-the-rich tax policies, moreover, must result, in the long run, in drying up the well-springs from which large future endowments might have been expected, although temporarily, perhaps, these high taxes may produce larger current gifts from a few individuals who figure that the Government is thus paying indirectly a good share of their contribution.

Tax Supported Institutions Financially Better Off

But our tax-supported competitors have a seemingly inexhaustible source of income, and today each of them—on the average—is receiving twice as much in subsidies as we are getting from private donations and bequests. So they can pay higher salaries, build more facilities and charge lower tuition than we do.

Thus far we have been able to meet this competition largely because our wonderful library and our prestige have attracted many of the nation's outstanding scholars and educators to our faculties; but books and prestige will not buy groceries, nor will they induce well-balanced, thoroughly qualified young men, of the type we shall need in the future, to embrace teaching as their chosen profession. When a racehorse can earn more money in one year than a Yale professor can earn in his entire lifetime, it is easy to see how an embittered young man can persuade himself that there is something wrong with our economic system or with our American sense of values.

Some people, of course, would seek to cure this situation by putting a ceiling on the earnings of the racehorse, but I personally cling to the old-fashioned and reactionary school of thought which holds that the better course is to increase the pay of the professor.

If the day ever comes when our tax-supported competitors can offer the youth of America a better education than we can—and at a lower price—we are through, and I think there is no doubt that that

*An address by Mr. Olds at the Alumni Dinner celebrating the 250th Anniversary of Yale University, New Haven, Conn., Oct. 19, 1951.

day will come unless we can secure adequate financial support to carry on our privately-endowed universities. And I will go further and say that I question whether that support will be forthcoming in full measure unless we can enlist the aid of the corporate enterprises of America.

Now speaking as a corporation executive, although not officially as a representative of the company with which I am connected, I want to say emphatically that — in my opinion—every American business has a direct obligation to support the free, independent, privately-endowed colleges and universities of this country to the limit of its financial ability and legal authority. And unless it recognizes and meets this obligation, I do not believe it is properly protecting the long-range interests of its stockholders, its employees and its customers.

Every well-managed corporation, of course, must preserve, improve and develop the major sources of its raw materials; but if it is necessary for us to spend millions of dollars to beneficiate the ore which goes into our blast furnaces and to process the coal which goes into our coke ovens—then why is it not equally our business to develop and improve the quality of the greatest natural resource of all—the human mind?

To a limited extent, many corporations are doing that today. They support scientific research by qualified schools, in various specialized fields. They also make general donations to certain technical schools from which they hope to draw trained personnel; and they contribute extensively to educational projects in their plant communities where most of the benefits of these expenditures will devolve directly upon their own employees.

Problems Lie in Liberal Arts Education

But their power to contribute is limited by the statutes of the particular state in which each of them is incorporated, and many state laws cast grave doubt upon the right of a corporation to donate the money of its stockholders unless the probability of immediate and direct benefit to the donor is clearly demonstrable. That is why they have not felt free generally to finance studies in the liberal arts and the humanities, even though the most difficult problems which American enterprise faces today are neither scientific nor technical, but lie chiefly in the realm of what is embraced in a liberal arts education. That such doubts should be resolved, either by judicial interpretation or by legislative amendment, is, I believe, an immediate and major responsibility of the managers and share-owners of every corporation which honestly desires to preserve free and independent education in America.

But I also believe that there is an equally compelling responsibility on the other side—a responsibility on the part of our private universities to inspire in their students understanding of, and devotion to, the fundamental principles of individual liberty and opportunity which have always been the basic source of spiritual and economic strength in our society. Rightly or wrongly, there seems to be a growing popular belief that our colleges and universities are not adequately fulfilling this responsibility. So, as one who seeks above all else to preserve educational independence in America, I want to speak briefly on this subject.

Private Institutions Should Preserve Academic Freedom

I am hopeful that our private universities do and will continue to understand clearly that it is in their own interests to preserve those fundamental principles of freedom upon which Academic Freedom itself depends. They should know, as well as you and I, that to sacrifice these principles of individual liberty and opportunity, or to weaken them, must someday result in the collapse of the very system of Private Education that we seek to preserve. Now let me make one point very clear. I am not suggesting that we tailor our scholastic pattern to the self-serving specifications of any individual or any group, industrial or political. We might as well accept government subsidy and control and be done with it. But I am suggesting that Freedom of Education and Freedom of Enterprise are part and parcel of the same thing—that they are inseparable—and that neither can survive without the other.

That is why no true believer in Free Enterprise will ever let our independent universities die for the want of his support; and why no honest devotee of Academic Freedom will ever seek to destroy our faith in the American system of incentive and free opportunity. With that fact clearly before us, it becomes our duty, difficult as it may be, to distinguish between what I might term as Academic Freedom on the one hand and Academic License on the other hand.

Among all our precious Constitutional Liberties, I know of none that is absolute and unlimited. Freedom of speech is subject to the overriding laws of libel and slander. Freedom of assembly is subject to the laws of trespass. Freedom of petition is limited by the laws governing lobbying. And so it is with Academic Freedom, which is always subject—I submit—to something that I would call "Academic Integrity" and that I would define as the determination of the consecrated scholar to lay aside all personal prejudice, to renounce the dictates and preconceived conclusions of any ideology, and to search, with all the selfless devotion of a Galahad, for the precious Grail of Truth.

Longer Work Day Is Best Cure For Inflation

By ROGER W. BABSON

Pointing out deflation instead of inflation followed previous wars, Mr. Babson ascribes current inflationary prices to organized labor aided by politicians. Says armament program will not "bust the country," and advocates extending working day to ten hours without pay increase as means of reducing government deficit and avoiding inflation.

Most people worry at the wrong time; and worry about the wrong thing. A few years ago when no one was fearful of inflation, readers know I was continually warning against it. In fact, the Frederick A. Stokes Company of New York published in 1937 a book by me entitled "If Inflation Comes." At that time no one paid any attention to the book or to inflation; but recently the book has gone through ten editions. People are now frightened about inflation.

Roger W. Babson

In 1937 the cost-of-living index was 103. Since then it has risen 80% and average weekly earnings have risen 160%. Now all the columnists are warning of inflation! It is just like the stock market. When stocks are cheap, as they were in 1932 and 1933, no one was interested in buying them; but in 1951 when they have risen 175% and the Dow-Jones Average is up from 100 in 1933 to 275 today, people want to buy stocks.

I am not condoning inflation. It is bad. But there is no legitimate excuse for the increase in prices and the cost-of-living. If people had been worried about inflation in the thirties, as they are today, inflation would not have happened. It is just as bad now to fear inflation will "bust the country" as it was then to ignore it.

Let's Look at the Record

After every great war, until now, there has been a decline in the cost-of-living. After the Civil War, 1861-1865, the cost-of-living gradually declined until 1896. After World War I, the cost-of-living, beginning in 1920, declined until it reached a low point in 1933. The cost-of-living then fluctuated for a few years and again increased during World War II. The natural thing would have been for it to be on the decline again today. If it followed the course of all previous wars, including the Revolutionary War, the War of 1812, the Mexican War, the Civil War, the Spanish-American War and World War I, we would now have deflation instead of inflation.

The truth is that the present trend is contrary to previous economic history. Inflationary prices are due to Organized Labor, aided by the politicians, reducing working hours. Labor leaders yell about the high cost-of-living and blame it on "Inflation"; but they will not tell you the real cause for inflation. This is not necessarily a criticism of labor unions. I have always defended collective bargaining. The fact, nevertheless, remains that if the labor leaders had been reasonable, the cost-of-living would have gone down following World War II.

No Reason to Fear the U. S. Will Bust

The talk now is that the armament program will "bust the country"; but I don't believe this. Bankers point to the fact that an expenditure of $50 billion a year on armaments will either result in taxes so high that the people cannot stand them, or else will cause our government to get into terrible debt. The facts do not uphold this nonsensical talk. Labor leaders can solve the problem whenever they wish and this will not require a reduction in "take home" wages. Fifty billion dollars a year can be spent on armaments, the cost-of-living can be reduced, Federal employees can continue to hold their jobs, the government can operate with a surplus, instead of a deficit, and taxes can be reduced **by extending the working day from eight hours to ten hours without a pay increase.**

The total income of the country for 1951 will be about $275 billion. Of this amount about $175 billion will go to wageworkers on the basis of an eight-hour day. If we all worked two hours more—which would be no longer than our fathers worked—this would be equivalent to increasing production 25%. This could solve our inflation problem and pay for all our military preparations. To talk about Russia waiting until our country is busted is the "bunk." Of course, we will sometime have another business depression for trying to get something for nothing; but if such threatens our existence, it can quickly be cured by all of us working longer and harder. By doing this now we would have Russia licked once and for all. No wonder the Communists and fellow travelers are urging labor to resist a longer work day.

Two With E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert A. Marshall and Richard J. Martin have been added to the staff of E. F. Hutton & Company, 623 South Spring Street.

Kaiser Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Dan B. Williams has been added to the staff of Kaiser & Co., Russ Building, members of the San Francisco Stock Exchange.

The Gold Standard vs. Irredeemable Currency

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

Contending public have lost control of people's purse because of an irredeemable currency, Dr. Spahr sees in this situation a drift into dictatorship. Urges U. S. lead way to universal adoption of redeemable currency, and deplores discrimination against our own people in favor of foreign central banks and governments. Upholds free gold market with $35 an ounce fixed price.

If our currency were made redeemable in our standard gold unit, the proper right of our people to control the government's use of their purse would be restored to them.

Walter E. Spahr

Our people can control the Federal government by two devices: (1) by the use of the ballot, and (2) by the power inherent in the right to demand that the Treasury and Federal Reserve Banks redeem their promises to pay in this nation's standard monetary unit.

When an irredeemable currency was thrust upon our people in 1933, they were deprived of the right to demand that the Treasury and Reserve Banks redeem their paper money in our standard gold dollar. As a consequence, control of the people's purse passed from them to an unrestrainable Federal government. The power of the ballot, standing alone, may be and often is insufficient to bring a government under control when it has the freedom, given it by an irredeemable currency, to use the people's purse as it sees fit. Under these powers, the government can corrupt the ballot and the people, and buy the support needed while it pursues its course of profligate spending and waste.

When the people's national Treasury and central banking system can be called upon to redeem their promises to pay, those institutions conduct themselves with much greater restraint and caution than is the case when they cannot be held to an effective accounting under the freedom given them by an irredeemable currency. When non-gold currency is redeemable in gold, that monetary commodity of universal acceptability places restrictions upon the amount of promises to pay that can be issued against it. That restriction is proper and desirable. The issuance of currency against other promises to pay, such as government debt, or against no specific commodity has no limits, and such currency can become worthless. A currency redeemable in gold never becomes worthless. Gold, as an intermediary in exchange, has the widest acceptability and the greatest stability of any medium of exchange and store of value known to man.

Among the consequences of our loss of control over our public purse, beginning with the infliction upon us of an irredeemable currency, have been the loss of the basic property right to obtain gold for monetary use, an unprecedented and unrestrainable spending orgy on the part of our government, a sharp depreciation in the purchasing power of our dollar, and the development of government controls of our economy and people characteristic of government dictatorship.

The endless protests, organized and unorganized, of our people against the insane spending and waste, made possible and invited by the freedom afforded our government under an irredeemable currency, have been futile. No government, having complete possession of the people's purse, need be responsive to their protests against its use of their funds. That is why an irredeemable currency is the most potent weapon a dictator or potential dictator can legally employ to obtain control of a people. Wherever one sees dictatorship, one sees an irredeemable currency. Human freedom is associated with and develops under a redeemable currency.

Were our currency redeemable in our standard gold unit, every individual opposing or distrusting the fiscal and monetary policies of our Federal government and banks could protect his savings and make his judgment felt by demanding redemption in gold of the promises to pay, issued by the United States Treasury and Federal Reserve Banks, which he holds. He would not find it necessary to join with others to obtain action; he could proceed freely, secretly, and alone—and with effect. His action would raise a red flag of danger for the Reserve Banks and Treasury. As the number of such red flags increased across this country, the results would be recorded in the reduction in the gold reserves of the Federal Reserve Banks and Treasury. Congress would be compelled to heed a decline in the gold reserves of these institutions, and thus would the government's wild spending be brought to a halt.

With a system of redeemable currency, every individual with dollars has, as it were, a direct connection through a golden wire with the central signal system in the United States Treasury at which he can record his judgment of fiscal and monetary policies in any degree he chooses up to the full value of his property. In 1933, the millions of golden wires running from all our people to that central signal system were withdrawn. Every individual lost his power to record his judgment and to protect his property against a rapacious government by converting it into gold. A basic right of our citizens disappeared. The central signal system in Washington was closed to all except foreign central banks and governments. The power of the dictator, except as controlled by the power of the ballot, was ushered in; and it has grown in ways too numerous to permit enumeration.

History records the major struggles of mankind to gain freedom and rights of private property for the individual through battles to take the control of the public purse from an uncontrollable government and to place it in the hands of the people. Revolutions have been fought to establish the people's right to control the public purse and, consequently, their government. Despite the lessons that should be learned from these facts, governments throughout the world have again, in high degree or absolutely, taken possession of the people's purse and of the people; and we in the United States, apparently with no important amount of understanding of what we have done, have joined in that throwback to a state of affairs from which the government of this nation was designed to save us. We have permitted a great freedom to be taken from us, and we are apparently revealing ourselves to be no more intelligent than were the peoples of various other nations who lost their freedom while seeking pottage through the inviting, insidious, and devastating channel of irredeemable currency and through a governmentally-managed economy.

Who Shall Be Master—Our People Or Our Government?

A most basic question pressing hard upon us for answer is whether we are to become the subjects of an uncontrollable government or whether we will make it our responsive and responsible agent as intended by our Federal Constitution.

If our people, rather than our government, is to be the ultimate source of authority in this country, it follows as night follows day, that they must have a redeemable currency. The power of the ballot alone is insufficient to insure the liberty of a people. The last so-called popular vote for Hitler was almost 100% in his favor.

Since the mass of people have no appreciable amount of understanding of the vital differences between redeemable and irredeemable currencies, and could not extricate themselves from the quicksand of irredeemable currency should the majority desire to do so, the only hope for their rescue lies in the emergence of a statesman who understands what is involved and who will lead them back to the solid ground of redeemability where official responsibility replaces the irresponsibility of officialdom inherent in the use of irredeemable currency.

Therefore, all our citizens who exercise influence in selecting our next Presidential candidates will fail to serve our people well and properly unless they select a man who will commit himself to return to the people of this nation control over the public purse by reinstituting a redeemable currency.

Our Drift Into Dictatorship

Although a redeemable currency is the most potent weapon a people have by which to protect themselves against Socialism or dictatorship in some other form, we have been without that protective device since early 1933 with the consequence that we have been taken a great distance into government dictatorship. Our responses have demonstrated that we either do not know the history of irredeemable currencies or have no respect for the lessons which that history holds for us. Instead of dealing with the basic causal factor involved, we issue futile protests against being dragged into the cesspool of government dictatorship, we engage in price fixing and price control, allotments, and various other compulsions regarding what we may produce, sell, and buy, and at what prices—all tools of government dictatorship. We exhibit an economic illiteracy and a willingness to sacrifice freedom that suggest strongly a marked degeneration among our people in what were widely supposed to be a generally high level of intelligence and an ability and determination to maintain our freedom from government dictatorship.

It would seem that we should profit from seeing ourselves as described by one of our leading Communists. Said Earl Browder, in 1950, of the situation into which we have fallen in this country: "State capitalism leaped forward to a new high point in the decade 1939-1949. It became overwhelmingly predominant in every major phase of economic life, and changed the face of politics. . . . State capitalism, in substance if not in formal aspects, has progressed farther in America than in Great Britain under the Labor Government, despite its nationalization of certain industries, which is a formal stage not yet reached in America; the actual, substantial concentration of the guiding reins of national economy in government hands is probably on a higher level in the U. S. A." (Earl Browder, "Keynes, Foster and Marx, Part I, State Capitalism and Progress," published by Earl Browder, 7 Highland Place, Yonkers, N. Y., 1950, pp. 29-30.)

Dictatorship at Our International Boundaries

Reinstitution of a redeemable currency would remove government dictatorship at our international boundaries. Private enterprise, which could capitalize the infinite ingenuity of millions of people, could then go to work to open up trade, travel, and investment.

Under a system of irredeemable currency, our government sits at the international boundaries as judge and dictator as to what shall be traded, at what prices, and under what conditions.

We should be able to profit from what the Communist, Earl Browder, said in 1950 about this aspect of our state of affairs. Said he (op. cit., pp. 43-44): ". . . There is nothing more necessary in the postwar development of foreign trade than precisely the intervention of the government as organizer, director, and financier of the whole process. . . . State capitalism in its most advanced forms is taking over the field of foreign trade more than any other field. . . . The day of private trading between nations is coming to an end; it has already ended for the main bulk of such trade."

* * *

"The large-scale entry of the government into the sphere of foreign trade is only another part of the development of state capitalism. It is another step in the capitulation of the bourgeoisie before the invasion of the principle of socialist planning."

We should also be able to profit from some of the observations on this state of affairs made by Dr. Hjalmar Schacht of Germany who, perhaps above all men, has seen the evils of government management with its irredeemable currency and dictatorship. Says he (in his "Gold For Europe," Gerald Duckworth and Co., Ltd., London, 1950, p. 3): ". . . All international trade is involved today in a permanent crisis which keeps all politicians and economists fighting for breath. Anyone who lived through those happy days before the first World War — when the international exchange of goods took place without friction under free play of private enterprise, and when the state confined itself to a few general regulations—sees today with horror how governments labor in vain to restore international trade by a succession of regulations and interference. This continual government interference simply results in the damping down of all enterprise on the part of those engaged in trade. The efforts of businessmen, formerly concentrated solely on the organization of production and markets, are exhausted today largely in a struggle against state bureaucracies. . . . Artificially established international finance relations, restrictions on the international exchange of payments, obstruction and prevention of international transfers of capital—all these deprive trade and production of any basis for recovery."

One of the remarkable commentaries on these times is the fact that while our international planners talk much of, and agitate for, "one world," national planners in nearly every nation of the world, through the use of irredeemable currencies and the related dictatorship, block the prospects for "one world," in any practical sense, by controlling exports, imports, travel, and exchange rates.

It was during the Nineteenth Century and up to the first World War that freedom in international relations, as well as domestically, reached its greatest development. That was because gold standards and redeemable currencies also attained their greatest development. Currencies were linked to one another by free conversion in terms of gold at parity rates that were maintained. Governments did not manipulate standards and parities as today. American Express Company checks carried the exchange parities in terms of gold of all important currencies. People could travel and trade and invest freely throughout the world. Those were, indeed, as Dr. Schacht says, "happy days." He is also correct when he remarks that those aware of the practices of the nations of the world then and now note the present state of affairs "with horror."

The way to help to end this serious throwback to practices characteristic of the all-powerful state is for the United States government to lead the way into what should again be happier days by instituting a redeemable currency; by withdrawing from its dictatorship in international trade, travel, and exchange; and by permitting private enterprise and free markets to operate substantially as before 1914. If we take those steps, other nations could be expected to follow the same path in the course of time. The commonly advanced argument that we could not lead off until other nations are ready to pursue the same course has no validity. It is either a defense by those who wish to continue government dictatorship, through what they call government planning, or a manifestation of a lack of understanding of the elemental facts involved.

Shall Standards of Responsibility in Government Be Lower Than Those Applicable to Private Enterprise?

Institution of a redeemable currency would force upon our Federal government and Reserve banks the same degree of responsibility that is applied to people in private enterprise under our body of contract law.

There is no valid defense for the present two sets of standards. In private enterprise, people who issue promises to pay are required to fulfill them or suffer the penalties prescribed in our body of contract law.

But under our system of irredeemable currency, our Treasury and Federal Reserve banks are authorized to issue promises to pay, or what pass as promises to pay, without being required to redeem them in the type of dollar that has most universal acceptability—except for foreign central banks and governments. That is privilege without corresponding responsibility. It is a case of having one standard of responsibility for people in private enterprise and a different, and lower, standard of responsibility for government officials. That is government tyranny.

We need to remind ourselves that if a government employs an irredeemable currency, because it

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*An address by Dr. Spahr before the Iowa Bankers Association, Des Moines, Iowa, Oct. 23rd, 1951.

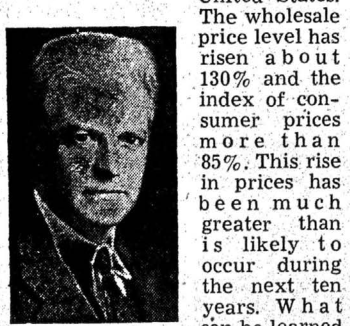
What Have We Learned from Our Experience With Inflation?

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

In analyzing recent inflation trend, Professor Slichter lays it both to volume of money and rate at which it is spent, the latter being the most effective force. Upholds controls that stabilize prices until economy is ready to produce more civilian goods. Stresses changes in distribution of monetary supply as inflationary factor, and points out credit and fiscal policies, even though drastic, will not, because of rapid turnover of money, prevent moderate price advances during boom times. Predicts long-run rise in prices due to labor union pressure.

I
The Issues

The last twelve years (from 1939 to September 1951) have been one of the most inflationary periods in the history of the United States. The wholesale price level has risen about 130% and the index of consumer prices more than 85%. This rise in prices has been much greater than is likely to occur during the next ten years. What can be learned from the substantial inflation of the last twelve years to guide policy-making today and in the near future?



Prof. S. H. Slichter

My remarks will deal mainly with the period since 1945 and with a few fundamental questions. What was the basic nature of the inflation? What role did rising costs play in causing the rise in prices? Who did the buying that pushed up prices? How was the buying financed? Why was the rise in prices not considerably greater than it actually was? What influences limited the rise in prices? Why was the inflation so decisively interrupted in 1948 and 1949 and again in the spring of 1951? How has the inflation affected the economy? What light does the experience of the last twelve years throw on the problem of controlling inflation?

II
A Brief Survey of What Has Happened

Let us begin by looking briefly at what has happened during the last twelve years. The rise in prices has occurred at an uneven rate and twice it was interrupted. It is desirable (1) to distinguish the different phases of the inflation; (2) to notice the different behavior of different groups of prices; (3) to notice the differences in the behavior of different parts of the community.

(1) **The phases of the war and postwar inflation:** Five principal phases of the inflation may be distinguished:

(a) *Wartime inflation from 1940 to V-J Day:* This period was characterized by a rapid increase in the quantity of money and a substantial drop in the rate at which money was spent. Between 1939 and 1945 the quantity of money increased nearly three times as fast as physical production. In this period the wholesale price level advanced about 34%. The great increase in the volume of money was not in a fundamental sense the cause of an increase in the demand for goods. On the contrary, it was the **result** of an increase in the demand for goods. The money was created to finance the expansion in demand.

(b) *The first period of postwar inflation—from V-J Day to January, 1948:* In this period the volume of physical production increased faster than the quantity of money—though the rise in the supply of money was fairly rapid. Cash outside of banks and adjusted demand deposits increased about 11% between the end of 1945 and the end of 1947. The period of post-war inflation was accompanied by a surplus in the cash budget of the Federal government. The surplus was particularly large in 1947, when it was $5.7 billion. Despite the facts that production increased faster than money supply and that the budget was running a surplus, prices advanced rapidly—far faster than during the war. Between August 1945 and January 1948 the index of wholesale prices increased by 57%. The rapid rise in prices during this period was made possible by an increase in the turnover of money.

(c) *The first interruption of inflation—the period of stability and mild recession from January, 1948 to December, 1949:* For a period of two years the price level as a whole was remarkably stable—though important changes occurred in price relationships. Prices of farm products were falling—they dropped over 22% between January 1948 and December 1949—but non-farm prices remained about the same—they dropped about 2% in the same period.

(d) *The second period of postwar inflation:* This inflation began about the beginning of 1950 and was moderate until the beginning of fighting in Korea. It reached a peak in March 1951. The rate at which money was spent continued to rise rapidly and during the second half of 1950 there was also a rapid increase in the quantity of money.

(e) *The second interruption of inflation:* This began in March, 1951 and has lasted for six months. The price level has drifted downward very slightly, but employment and personal incomes have continued to grow. This second interruption to inflation has been characterized by a large increase in the rate of personal saving. As I write these lines, it looks as if the upward movement of prices will soon be resumed because the future prices of commodities have been advancing for two months, bank credit is expanding, consumer credit is increasing, the cash surplus of the Federal government is a thing of the past, and personal incomes continue to grow while the output of consumer goods remains about the same.

(2) **Differences in the movements of different groups of prices:** The movements of non-agricultural prices and agricultural prices have been quite different during several phases of the inflation. During the war, farm prices nearly doubled, but the prices of non-farm products increased less than 25%. During the post-war inflation in 1946 and 1947, prices of farm products continued to increase slightly faster than non-farm prices. During the first period of adjustment during 1948 and 1949, however, farm prices, as I have pointed out, dropped sharply, while non-farm prices changed very little. During the second postwar inflation both farm prices and non-farm prices have risen at substantially the same rate.

(3) **Differences in behavior of different parts of the community:** There has been a conspicuous difference in the behavior of individuals and business enterprises during the period of postwar inflation. Since 1945, both corporations and individuals have increased substantially their rate of spending—measured by the ratio of their expenditures to their holdings of cash and demand deposits. Corporations, however, have increased their rate of spending far more than have individuals. For several years corporations have been spending their holdings of cash and demand deposits faster than in 1939, whereas individuals have been spending their holdings of cash and demand deposits more slowly than in 1939. Since the holdings of cash and demand deposits by corporations have changed little since 1945, one can obtain a reasonably good measure of the disbursements of corporations by their sales. Measured in this way, the disbursements of corporations per dollar of cash and demand deposits dropped from about $11.80 per year in 1939 to $10.80 in 1945 and then rose to $15.00 in 1947, $16.10 in 1948, and $14.90 in 1949—far above pre-war. Expenditures of individuals on consumer goods per dollar of cash and demand deposits held dropped from $5.92 in 1939 to $2.69 in 1945 and rose to $3.23 in 1947, $3.70 in 1948, and $3.93 in 1950—a considerable rise above 1945 but one-third below pre-war. In short, corporations have been a much stronger inflationary influence than have individuals.

III
The Fundamental Causes of the Postwar Inflation

What were the fundamental causes of the postwar inflation? It is usual to explain the inflation by the methods of financing the war which caused the volume of adjusted demands deposits and money outside of banks almost to treble between the end of 1939 and the end of 1945 while the volume of physical output increased by about 63%. Hence the rise in prices is explained by the familiar expression "too much money chasing too few goods."

This explanation is correct as far as it goes, but it is by no means complete. It does not explain, for example, why the volume of money continued to increase even after the fighting had ceased and the budget of the Federal government was showing a surplus. Nor does it explain how **hard** money was chasing goods—for the price level obviously depends upon how rapidly money is spent as well as upon the quantity of money. During most of the inflationary period money was not chasing goods very hard—not as hard as it was chasing goods back in 1939. In short, the usual explanation of inflation does not explain the process by which prices rise, why they increased as much as they did, and why they did not increase faster and more than they did.

Seven general conditions, among the many, that influenced the rise in prices between 1945 and 1948 are worth calling attention to. I shall comment on each of them very briefly.

(1) **The strong disposition of persons during the previous five or six years to save in the form of cash and demand deposits:** Between the end of 1939 and the end of 1945, personal holdings of cash and demand deposits increased from $11.4 billion to $45.7 billion. This large growth in personal holdings of cash and demand deposits was, of course, anti-inflationary during the war. It would have helped limit the rise in prices after the war, however, had the government persuaded individuals to place a larger proportion of their wartime savings into government securities and a smaller proportion into cash and demand deposits. As a matter of fact, personal holdings of government securities did increase enormously — from $5.7 billion in December, 1939 to $41.6 billion in December, 1945. After the war was over, however, individuals began to spend their cash and demand deposits and there was a considerable rise in the rate at which personal holdings of cash and demand deposits turned over. Had individuals held considerably larger quantities of government bonds and smaller quantities of cash and demand deposits at the end of the war, their postwar expenditures would have been less and the postwar rise in prices would have been less.

(2) **The world-wide shortage of raw materials and foodstuffs:** The world-wide shortage of raw materials and foodstuffs was a surprise. It was expected that the end of hostilities would soon be followed by surpluses. It took longer than had been anticipated to restore agricultural production in Europe. The inflationary difficulties of some countries, such as France, caused farmers to hold foodstuffs off the market or to use grain for animals. Trade between eastern and western Europe did not revive to the extent that had been expected. Finally, civil war and political difficulties in the Far East retarded agricul-

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*An address by Professor Slichter before the Iowa Bankers Association, Des Moines, Iowa, Oct. 22, 1951.

Changing Investment Policies Of Mutual Savings Banks

By AUGUST IHLEFELD*
President, Savings Banks Trust Company

Mr. Ihlefeld lists as major shifts in savings banks investment policies: (1) lower proportion of government securities holdings; (2) expansion of mortgage lending; (3) larger holdings of corporate and tax exempt bonds; and (4) purchase, on limited scale, of common stocks. Sees need for further building up of reserves, and larger income returns so as to permit higher dividend payments and thus encourage thrift.


August Ihlefeld

Mutual savings banks serve the economy in three main ways. First, they stimulate and facilitate thrift by providing a safe, convenient, liquid and remunerative medium for the investment of individual savings—the savings account. It is questionable whether considerable part of the existing $20 billion of mutual savings bank deposits would have been saved at all, if mutual savings banks had not been available to receive and conserve these funds.

Secondly, mutual savings banks perform a wide variety of personal financial services to their depositors. They sell United States savings bonds, provide limited amounts of life insurance at low cost, make available money orders and give objective financial advice to persons of small means who do not have access to other sources of information and guidance.

In the third place, mutual savings banks furnish long-term credit to individual home owners, to private enterprise and to government through investment of the savings entrusted to them.

This third service is particularly important to a dynamic, growing economy like that of the United States. It is this phase of savings bank operation—the investment policy of these banks—that I will discuss today.

Changing Investment Policy

The investment policy of mutual savings banks must constantly be adapted to our changing economy and to changing national policies. Hence, we find major shifts in the make-up of savings bank investments taking place over a period of years.

At the beginning of this century, the mutual savings banks of the country held something over $2 billion of deposits. Just under half of this total was invested in mortgage loans, and the rest in bonds, mainly railroad obligations. The chief sources of demand for long-term credit at the time were the home building and the railroad industries. Mutual savings banks helped to satisfy both these demands with the savings they had collected from more than 5,000,000 individual depositors.

By 1930, deposits in mutual savings banks had expanded more than fourfold. Mutual savings banks found mortgage loans increasingly attractive during the first three decades of the century, and competition among investors for these loans was less severe than for bonds. As a result, we find that in 1930 more than 60% of savings bank funds were invested in real estate mortgages. The rest was invested mainly in railroad and public utility bonds. Holdings of Federal, State and municipal obligations constituted a lesser part of the bond portfolio in this era when government activities were still limited in scope.

In the decade of the 1930's, the character of the American economy underwent a major change. Private economic activity tended to stagnate, relatively speaking, while a great expansion occurred in the economic role of the Federal Government. This trend was clearly reflected in savings bank portfolios. By the end of 1939, after a decade of reduced building activity and deflation of realty values, mortgages constituted less than half of savings bank investments. United States Government bonds had assumed a leading place among bond holdings, accounting for three-fifths of the total. Corporate bonds now formed the smaller part of the bond portfolio.

The World War II years witnessed another drastic shift in investment policy for mutual savings banks, as for other institutions. It became a patriotic duty to invest in Treasury obligations to a maximum extent to help finance the huge wartime deficits. Not only were new deposits invested in government securities, but other investments were liquidated and the proceeds reinvested in governments. By the end of 1945, two-thirds of the deposits of mutual savings banks were invested in U. S. Government obligations. Mortgages accounted for a little more than 25% and corporate and municipal bonds 7%. The mutual savings banks, like other financial institutions, devoted their energies and resources to financing the Treasury during this war emergency period.

Since the end of the war, the mutual savings banks have again sought to serve the private enterprise sector of our economy, which has undergone unprecedented expansion. In particular, they have concentrated on the financing of home and other urban building, thereby helping to relieve the acute shortages left by the war. Savings banks have thus cooperated wholeheartedly with the national policy of relieving the housing shortage through stimulation of private home building. Mortgage portfolios have, in consequence, been more than doubled since the end of the war. U. S. Government securities, still the largest single asset of mutual savings banks, now amount to less than half of deposits. Holdings of corporate bonds have been expanded as record plant and equipment expenditures have stepped up industrial capital needs, although corporate bonds are still not much more than 10% of the total of savings bank deposits, which now is well past the $20 billion mark.

To summarize savings bank investment policy during the first half of the 20th century, one could say that in the first 30 years mortgage lending became increasingly important, while financing of government was a minor factor. In the 15 years 1930-1945, private lending contracted while lending to government came to the fore as the main outlet for investment funds. Since 1945, the trend has been reversed again, with mortgage lending expanding rapidly and lending to government slowly declining in relative importance.

These changes have corresponded with the changing relative roles of the private and the government segments of our national economy. In the first three decades, private capital requirements were by far the more important. This was not true in the 1930-1945 period, but since the end of World War II we have witnessed a gratifying revival of the private segment of the economy, while the Federal Government did not have to raise new money because of a budgetary surplus of $7 billion in the five fiscal years 1947-1951.

Principles Guiding Asset Distribution

Interesting as have been the past changes in savings bank investment policy, they are of limited aid in guiding mutual savings bank managements in deciding on the future distribution of their earning assets. Sound management of banks, as of all business enterprises, calls for adjustment to new conditions as they arise, rather than doctrinaire adherence to any particular past practices and traditions. The chief lesson taught by the past is that we must expect changes in the future.

In adjusting savings bank investment policies to new conditions and to new national policies as they develop, it is essential to safeguard the strength and liquidity of these great thrift institutions. The supply of investments available to financial institutions is now very much greater and more varied than in any earlier phase of our financial history. Both public and private debts have been expanded on an unprecedented scale. Just because the choice of investments is so wide and diverse, mutual savings banks and other financial institutions are much better able to adjust their portfolios to their individual special requirements.

Early in the century, as we saw, real estate mortgages and railroad bonds formed the bulk of available investments. Today, the public debt is larger than all other types of long-term indebtedness combined, and we have available such bonds as the issues of the International Bank for Reconstruction and Development and of public housing authorities which were not even dreamed of at the beginning of the century. Moreover, there is growing sentiment for the investment of a limited percentage of institutional funds in equities, in consequence of the emergence of corporations enjoying a size, financial strength and stability of earning power that could hardly be conceived in 1900.

Mutual savings banks have four chief objectives to guide them in the selection of investments. These are:

(1) Safety.
(2) Liquidity.
(3) Market stability.
(4) Reasonable yield.

Each of these factors requires careful analysis.

The Safety Factor in Savings Bank Investments

I define safety in connection with savings bank investments as assurance that obligations held by a savings bank will be paid in full when they mature. It may also be referred to as the credit risk attending investment.

The only type of asset outside of cash which the regulatory authorities designate as non-risk in character are U. S. Government securities. Regardless of market fluctuations, it is held that there is no question that the Treasury will pay these securities promptly whenever they mature.

Other assets are considered to involve a measure of credit risk, and so are designated as "risk assets." The degree of risk will vary from negligible, as in a triple-A bond or an FHA insured mortgage, to great.

No financial institution can serve the private sector of the economy adequately without holding sizable amounts of risk assets. Good banking is not and will never be riskless banking. A bank, to serve the private sector of the economy, must acquire risk assets. A savings bank must invest in risk assets to earn enough to pay a dividend rate adequate to hold its deposits, to attract new deposits and to build up a surplus for contingencies. But sound investment policy calls for minimizing possible losses from risk assets through:

(1) Careful selection.
(2) Setting aside adequate reserves to absorb possible losses on risk assets.
(3) Maintenance of adequate capital funds as an overall cushion against any future loss that may arise, from whatever source.

Careful selection of risk assets requires that the yield differential over that of non-risk assets be adequate to provide sufficient increased income out of which to set aside reserves.

The larger the proportion of risk assets held, the more important it becomes to prepare for future losses in these three ways.

Mutual savings banks today have invested nearly half of their deposits in U. S. Government securities, which are rated as non-risk assets. The proportion has been declining. In the next two or three years, should the Treasury incur heavy deficits due to defense spending so that offerings of long-term bonds to institutions on attractive terms are resumed, mutual savings banks may again become important net buyers of government bonds. This would be a sound way to combat inflation. But, over the longer run, it is probable that holdings of government securities will decline further as a savings banks devote new deposits to financing the needs of the private enterprise sector of the economy. With peace and a relaxation of international tension, government bond holdings of mutual savings banks could gradually decline to a point where they constitute a quarter of deposits. They would then still be a larger proportion of deposits than was the case in 1939. My own view is that such a proportion of non-risk investments would clearly safeguard the overwhelming strength and safety mutual savings banks enjoy today.

Mutual savings banks have pursued a conservative policy in the selection of risk assets. Most of the bonds held are of the highest rating. A large proportion of mortgages held are indirectly backed by the credit of the U. S. Government, through FHA insurance or VA guarantees. The rest of the mortgage portfolio consists largely of carefully selected liens, enjoying regular annual amortization, on single and multiple dwellings built mainly for middle-income families. In addition, reserves are being set up against possible future losses on mortgages and these reserves have now reached considerable proportions in many institutions. The ratio of capital funds to deposits of mutual savings banks is better than 11% for the entire system, as compared with less than 8% for all commercial banks. The ratio of capital funds to risk assets exceeds 19%, as compared with approximately 17% for all commercial banks.

These statistics add up to a picture of great reserve strength in our mutual savings banks. They are in position to assume additional credit risks as opportunity offers. Needless to say, they will not do so unless the added returns offered amply justify further risk assumption.

The Liquidity Factor

Receiving deposits which are, in fact if not in name, withdrawable on demand, mutual savings banks require a considerably higher degree of liquidity than do such financial institutions as life insurance companies.

Cash and government securities are the main sources of liquidity. The need for liquidity is perhaps paramount among the reasons for keeping a substantial proportion of assets invested in government securities, even should long-term credit demands of the private area of the economy become more insistent. Cash and governments are well over half the deposit total today. Around a 30% ratio should be regarded as an appropriate safety level, even though the ratio was actually far lower than this in the first three decades of the century. High-grade bonds other than governments provide some additional liquidity, as do current amortization payments on mortgage loans. Moreover, a secondary market exists for FHA-insured and VA-guaranteed mortgage loans, so that such assets possess a limited measure of liquidity they did not possess before.

In terms of liquidity, as well as of safety, mutual savings bank portfolios today have a considerable margin over and above any reasonable minimum standard.

Market Stability

Because mutual savings banks may find it desirable at times to liquidate some of their investments in order to meet deposit withdrawals or to make attractive alternative investments, they are interested in the stability of the market for their liquid investments, particularly long-term government bonds. Also, banks dislike to see bond accounts depreciate in price, however temporary the decline in the market may be.

So long as government bonds were pegged at or above par by the Federal Reserve banks, as was the case for a decade before March of this year, this type of investment enjoyed an extraordinary degree of market stability. This is no longer the case. Government bonds declined several points below par during the first part of this year, and they could decline again now that the Federal Reserve banks are no longer committed to a rigid market stabilization program.

However, with a public debt of over $250 billion and Treasury deficit financing likely to become necessary again in the foreseeable future, the wide swings in interest rates and bond prices of earlier decades are not likely to occur again. And at times when business recession threatens or occurs, there is every reason to expect the credit authorities to return to a policy of relatively easy money, as they did as late as 1949.

Government bonds, therefore, should enjoy a relatively high degree of market stability over a period of years. Although they no longer have a rigidly pegged market which puts a floor price of par under them, some Federal Reserve support is reasonable to anticipate in declining markets. More attention to selection of issues and spacing of maturities may be in order for banks that want to avoid the risk that bonds may have to be sold several points below par to meet a need for cash because of deposit withdrawals or to make attractive alternative investments that become available. Such factors as approaching eligibility for commercial bank investment could lessen the risk of market depreciation for particular issues at certain times.

At most, however, the need for market stability is limited. Savings bank deposits have been rising every year of this century except four, despite the great changes in economic conditions that have occurred over the past 50 years. It may reasonably be

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*An address by Mr. Ihlefeld before the 21st New England Bank Management Conference, Boston, Mass., Oct. 19, 1951.

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Observations . . .

Pullman (25%), Borden (14%), Woolworth (30%), Sterling Drug (20%), General Foods (20%), Schenley (50%), Eastern Airlines (27%).

Among the issues now selling *below* their June 1949 lows are long dividend payers including American Tobacco, Coca Cola, International Shoe, and Woolworth.

Varying Impact of War

Since the all-time peak reached in the 1929 boom, there is, as of the present, a net fall of 31% in the D-J Industrial Average. Nevertheless, approximately 400 listed issues stand above their 1929 highs, of which the following small sample is typical:

	1929 High (Adjusted)	Present Price
Monsanto	13	94
May Department Stores	27	31
Minn. M. & M.	7	45
Minn. Honeywell	10	51
Abbott	3	56
Amerada	21	150
Union Carbide	44	57
Sears, Roebuck	43	55

Crazy-Quilt Since 1929 Peak

The actual experience in the markets surrounding the Second World War and the Korean "tepid War," demonstrates the highly irregular impact on the market resulting from important external events. The appended table shows these non-uniform effects within a single situation, as well as the divergence from situation to situation. Additionally substantiating the latter conclusion was the comparative action in the First and Second World War markets (for a detailed analysis cf. *"Analysis of Wartime Stock Market Behavior,"* by George F. Shaskan Jr., and A. Wilfred May in the "Commercial and Financial Chronicle," July 13, 1950).

STOCK PRICE CHANGES BY INDUSTRY GROUPS

	During World War II — Entire Period 1939 Through 1945	During World War II — 'Arsenal of Democracy' Period, Sept. 1,'39-May 1, '42	Korean War June 21, '50-Oct. 17, '51
Aircraft Manufacturing	+24%	—25%	+35%
Air Transport	484	+ 2	+37
Automobile	113	—29	+ 5
Auto Equipment	101	—13	+12
Banks	80	—16	0
Building Material	86	—29	+22
Chemicals	22	—24	+33
Containers	175	— 6	+26
Drugs	33	—34	+21
Electrical Equipment	55	—26	+23
Foods	84	—23	— 3
Instalment Finance	23	—52	— 2
Insurance (Fire & Cas.)	46	— 9	+16
Liquor	421	— 2	+26
Machinery	123	— 6	+42
Metals, Nonferrous	35	—20	+46
Motion Pictures	266	+ 4	+26
Office Equipment	82	—25	+16
Oil	67	—19	+53
Paper	237	+36	+50
Retail Trade	73	—35	+10
Rubber Goods and Tires	151	—43	+80
Steels	47	—19	+15
Textiles	284	+30	+22
Tobaccos	5	—46	—10
Avg. Dow-Jones Industrials	**+41**	**—29**	**+22**

Surely the actual record of stock price behavior clearly demonstrates insufficient intra-market uniformity to warrant anticipation of market trend.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York (STANY) Bowling League standing as of Oct. 19, 1951 was as follows:

TEAM	Points
Kumm (Capt.), Gehegan, R. Montanye, Krassowich, Manson	24
Leone (Capt.), Tisch, Pollack, Nieman, Bradley	20
Burian (Capt.), Siepser, Gronick, Growney, Kaiser	20
Mewing (Capt.), G. Montanye, M. Meyer, La Pato, Klein	20
Krisam (Capt.), Gavin, Gannon, Jacobs, Murphy	20
Goodman (Capt.), Weissman, Farrell, Valentine, Smith	19
Serlan (Capt.), Gold, Krumholz, Young, Gersten	19
Hunter (Capt.), Craig, Fredericks, Weseman, Lytle	18
Donadio (Capt.), Rappa, O'Connor, Whiting, Demaye	15
Greenberg (Capt.), Siegel, Cohen, Sullivan, Coccoli	12
H. Meyer (Capt.), Swenson, A. Frankel, Wechsler, King	12
Bean (Capt.), Lax, H. Frankel, Werkmeister, Reid	11

200 Club

Leone 204

5 Point Club

Julie Bean
Walter Mewing
Wilbur Krisam
Willie Kumm

Our Economy Not Depression Proof

By WILLIAM A. McDONNELL*
President, First National Bank of St. Louis

Asserting only way business cycle can be eliminated is by destroying free enterprise, Midwest banker holds government, by wise action can and should prevent wide swings in business conditions. Warns government, while giving lip service to inflation prevention, is fostering it through extravagance.

In the last twenty-five years we have seen two periods when it seemed that the laws of the business cycle had been nullified or counteracted by other forces. The first was in the period of 1925-28. That was the period when it was said that we had reached new economic plateaus from which we would never descend to old levels, and that the days of depression were over. Most of us remember how these prophecies turned out.

Wm. A. McDonnell

In this postwar period since 1945 we have been hearing the same sort of thing again. It is being said that in this new age of economic planning depressions are a thing of the past—that we are going to inflate ourselves pleasantly and profitably out of any recession before it degenerates into depression—that with sensible planning we can have an ever-rising standard of living, uninterrupted by business cycles. Personally, I do not think that we have achieved a depression-proof economy. In fact, I hope we have not and that we never do. The reason I say that is because under a capitalistic system the only way you can eliminate the business cycle is to eliminate freedom of enterprise. In a slave state there are no business cycles, but as long as men are free to buy and sell in an open market there will be ups and downs in business. The only way to keep prices from falling is to keep them from going up and the only way to do that is to take the freedom out of free enterprise. Some of our economic planners, of course, would be willing to do just that in order to achieve their goal. The only way to prevent a severe deflation is to avoid a severe inflation, for the one is but the counteraction of the other. Government by wise action can take the wide swings out of these business cycles, and it should endeavor to do so. To do this, brakes should be put on during the up-swings so as to cushion or modify the down-swings.

What is worrying many of us in my business is the fact that we have now had ten years of uninterrupted inflation in this country and, while government gives lip-service to curbing and putting an end to this inflation, most of its policies have the opposite effect. In fact, about the only important anti-inflationary policies the government has are (1) raising taxes, and (2) urging our people to purchas Defense Bonds and practice thrift and economy, virtues in which it seems unwilling to set an example. The most effective method of preventing inflation is one which government has not yet employed and that is the cutting out of all non-essential spending and lending.

Increased taxes, to be sure, must be levied. But because increased taxes raise production costs and prices, they have an inflationary as well as deflationary effect and, therefore, are not nearly as effective in fighting inflation as are reductions in government spending. If in its endeavor to control fires of inflation the government raises taxes without eliminating all non-essential expenditures, it is like a fireman with a fire extinguisher in one hand and a flame thrower in the other.

The economy record of government to date is far from encouraging and indicates a total lack of determination to strip out the chaff in government. It is estimated that the revenues of the Federal government in this fiscal year, under the new law about to be enacted, will, for the first time in the nation's history, exceed the equivalent of a billion dollars a week, at an annual rate. The total is expected to run around $65 billion for the year. And yet we are told by our leaders in government that this gigantic sum—a revenue unprecedented in war or peace—will fall $3½ billion short of an amount sufficient to balance the budget. Advocates of economy in government, in and out of Congress, are on record that economies of at least twice the $3½ billion could be made in this fiscal year without sacrificing essential government services and operations or impairing the rearmament effort or the meeting of our international responsibilities. Those who assert that a $3 billion deficit is small compared to the total budget overlook the tremendous psychological effect upon the stability of the dollar which a pay-as-you-go policy would have.

Thus far, however, the reduction in such expenditures has been almost negligible. In fact, it would appear that the present Administration is trying to perpetuate rather than put an end to inflation. Inflation cannot be perpetuated—it can only be prolonged and the longer it is prolonged the more severe will be the inevitable reaction.

The great danger facing this Nation today is that in the process of rearming ourselves we shall depreciate our money to such an extent that free enterprise will be destroyed and we will become enslaved in the very totalitarian system against which we are struggling. In other words, if we are not careful — if we do not have wise leadership — inflation will make a mockery of all of our real efforts to achieve freedom and peace for the individual and the world.

The severe test to which this Nation is being put will require great sacrifices on the part of our people. But sacrifices alone are not enough. We must also have statesmanship in public office and a return to old-fashioned morals.

*Digest of an address by Mr. McDonnell before the American Gas Association, St. Louis, Mo., Oct. 17, 1951.

Investment Banking Syndicate Reports Housing Bond Success

The syndicate headed by Phelps, Fenn & Co., Lehman Brothers and Blyth & Co., Inc. which purchased $111,920,000 New Housing Authority Bonds reports a most satisfactory response to the offering, orders having been received in excess of $220,000,000. **(Further details of the underwriting appear on page 20.)**

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo.—Orville E. Scotten has become affiliated with Waddell & Reed, Inc., 1012 Baltimore Avenue.

Flexible Exchange Rates

By PAUL EINZIG

Seeing difficulties and grave dangers arising from both too rigid and too elastic exchange rates, Dr. Einzig finds as intermediate solution the fixing of margins within which exchanges would be allowed to fluctuate.

LONDON, Eng.—During the 'thirties the world suffered a great deal both through the undue rigidity of exchange rates and through their undue elasticity. This may sound paradoxical but it is none the less true. Until the suspension of the gold standard in 1931 Britain suffered grave disadvantages from the undue rigidity of sterling at an overvalued level. Until the suspension of the gold standard in 1933 the United States underwent one of the gravest economic crises in world history, largely because of the undue rigidity of the dollar, especially after the depreciation of sterling. The rigidity of the French franc until 1936 inflicted on France a series of financial and political crises. On the other hand, the sharp fluctuations of sterling between 1931 and 1936 and the competitive currency depreciations following on the depreciation of the dollar in 1933 caused chaotic currency conditions throughout the world.

Dr. Paul Einzig

During the Second World War a rigid stability of currencies was maintained, and it was agreed in the Bretton Woods plan to continue to aim at rigidity after the war. Indeed as far as the dollar is concerned this aim has been fully achieved. The value of sterling only changed on one occasion during the postwar period, and changes were equally infrequent in the exchange parities of many other currencies. As a result these currencies tended to become either overvalued or undervalued from time to time. The governments concerned were unwilling to make adjustments every time there was evidence of disequilibrium, because they felt that the disadvantages of instability would outweigh those of the overvaluation or undervaluation of their currencies. A similar line came to be adopted also by governments of those countries which suffered hardships through the undue elasticity of their currencies during the early postwar years.

The history of the French franc since the last war provides an example of the disadvantages caused both by undue elasticity and by undue rigidity. The value of the French franc was changed a number of times since 1945, always in a downward direction. It was difficult to establish confidence in a currency which is liable to such frequent changes. On the other hand, between the changes the franc tended to become grossly overvalued as a result of the depreciation of its internal purchasing power. As the French Government was naturally reluctant to devalue even more frequently, France became exposed from time to time to the disadvantags of a rigid currency at an overvalued level.

Undue rigidity of the exchange parity is causing a considerable amount of trouble also to Belgium, though in a different sense. Owing to the undervaluation of the Belgian franc there is a persistent export surplus, especially in relation to the countries of the European Payments Union. The limit of the balances which Belgium is prepared to accumulate with the EPU having been reached, the government has now introduced a series of restrictions designed to safeguard the country, not against an outflow of funds but against an inflow of funds. The alternative would be a revaluation of the franc, and the government may yet reluctantly decide in favor of that solution. There are, however, as many arguments against a revaluation of the Belgian franc as against a devaluation of the French franc, for both changes are liable to cause considerable upheaval in the domestic economy and foreign trade relations of the countries concerned.

The task of the governments in having to decide between undue rigidity and undue elasticity is indeed far from enviable. Both policies are fraught with grave disadvantages. It is possible to put forward a formidable array of arguments in favor of either policy. Whichever course is chosen there is certain to be ample ground for criticism of the decision. It is almost impossible to strike a happy medium between the two extremes, and it is certainly impossible to reach a decision which would more or less satisfy both those favoring rigidity and those favoring elasticity. British postwar policy has been variously criticized both for the devaluation of the pound and for not having changed its parity on more than one occasion.

A possible intermediate solution—which, precisely because it is a kind of compromise, would satisfy nobody—would be the fixing of margins within which exchanges would be allowed to fluctuate. Instead of fixing their value rigidly at the parities accepted by the International Monetary Fund, they could be allowed to move within, say, 10% on either side of the parities. Thus, the sterling-dollar rate could be allowed to move between, say, $2.52 and $3.08. A margin of 20% would be sufficient even these days, for correcting any conceivable overvaluation or undervaluation. The trouble is that the movements of the rate would not necessarily bear any relations to the equilibrium level of sterling. It might depreciate to the lower limit when at $2.80 sterling is not overvalued, simply because of a wave of pessimism leading to speculation against sterling. Or it might appreciate to the upper limit without any justification. This difficulty could be overcome by official intervention which would prevent any movement unjustified by a shifting of purchasing power parities of sterling.

Admittedly, even under the existing system the member governments are entitled to change their parities up to 10% without having to obtain the consent of the International Monetary Fund. But to do so would involve a major decision which, as experience shows, most governments are reluctant to take. On the other hand if it were understood that their parities would remain unchanged but the rates could fluctuate within those limits, then the member governments might conceivably take advantage of such a limited elasticity provision, thereby sparing their countries the inconvenience caused by undue rigidity.

Importance of Distribution In the Securities Markets

By JAMES E. DAY*
President, Midwest Stock Exchange

Prominent stock exchange executive describes functions of floor traders and specialists in creating "liquidity" in securities markets. Though favoring some changes in Securities and Exchange Act, he praises SEC regulations regarding floor traders and specialists. Says resulting loss of marketability has been offset by increased growth and wide distribution of stockholdings. Denies increase in number of securities' holders will make markets more vulnerable to panics, but asserts greater outright ownership of securities by public is a stabilizing factor.

Distribution is the greatest single factor in the marketability of modern securities markets. In the time alloted to me, I shall attempt to show you why distribution is all important, reviewing briefly the drastic change that has taken place in the base for marketability of liquidity and, finally, my reasons for believing that greater distribution is all important in the future of America. I think it is worthwhile to mention that securities of our national corporations not only offer avenues for investment but provide the finest collateral that can be obtained. The basic reason for this is the fact that most securities have a ready market and can be sold in the space of a few minutes.

James E. Day

In our modern markets today, the liquidity or marketability of these securities has been constantly improving. In the late '20s our security markets were quite broad; liquidity was excellent, but for different reasons than is the case today. In these earlier years a great deal of our marketability depended on what I would term "artificial" liquidity. This was accomplished by the latitude of the operations permitted floor traders and specialists on the Exchanges. It was possible in those days for the so-called floor trader to trade in thousands of shares of stock within any given day and to even his account out at the close and end up by having none of his personal funds involved.

On the other hand, the specialist, in making a market for a security, could bid it up to new heights, taking or supplying unrestricted amounts of stock which may or may not have had any relation to his function as a specialist—that of being a stabilizing force in any given market. He could almost, with restriction, sell stock short. It was, therefore, possible for him to create artificial liquidity. These particular times also saw the formation of pools and syndicates that became major factors in the sharp inclines and declines of stock prices. Though they provided a certain amount of liquidity through a volume operation it was, at best, an unnatural one and in no way in the interest of sound finance. Any number of competent authorities, in writing histories of American finance, point out that there were times when as much as 70% of the volume on stock Exchanges could be accounted for by these unnatural or artificial means.

The stock Exchanges, through rules and regulations, attempted to control these situations, but since they could only rule against their own members, it was virtually impossible to include those formed outside the Exchange.

The Establishment of the SEC

At the start of our depression in the early '30s our stock market reacted violently. There were a number of instances, at that time, that called for the broadening of rules and regulations of securities markets and which were undoubtedly, in part, the forerunner of the establishment of the Securities and Exchange Commission. With their volume running at its lowest ebb, the Exchanges showed real courage in establishing new controls that virtually eliminated these practices, as far as its own internal operation was concerned. The Securities and Exchange Commission played an important part; in fact, it is my opinion that the Securities and Exchange Commission has not only been a most constructive addition in the interest of the stockholders in our nation, but provides our financial industry with one of the best safeguards against a return of reckless and unsound activity.

There are things that I would like to see changed in the Securities and Exchange Commission regulatory field but, as a whole, I must say that here is one government bureau that has and still is functioning very much to the general interest.

From out of all this came such Exchange regulations as the control over the floor trader, which put a stop to the so-called free riding and required him to pay for any of his purchases in a regular way. It is estimated that his operations in the earlier days, from time to time, amounted to as much as 40% of the volume. The present records show that the floor trader, at present, averages somewhat less than 2% of the volume on the Exchange. Under present rules and regulations I believe him to be a healthy influence and I hope that he may become a more important factor.

The specialist under the new rules and regulations can no longer unduly bid a stock up and, on the other side, he can only sell it short on an "up-tick"—or, to put it another way, he may sell securities that he does not have only when the security advances in price at least an eighth.

The penalties for the formation of pools and syndicates are so vigorous that they are simply not in existence today.

A final comparison shows that our totals of the "old days" with these so-called stimuli to liquidity accounted for as much as 70% of the volume of Exchanges, as compared with our present record of approximately 12% participation. I repeat that it is my earnest conviction that the participation by the specialist and floor trader, under present controls, is helpful and sound and in the public interest.

Securities Now More Widely Held

Since our daily papers, through the stock tables, reflect the fact that our markets today are broad, that the securities traded therein have good marketability, what, then, is the major factor making up this great percentage of marketability lost through regulation? Is the increased growth and wide distribution of stock holdings in the hands of the investing public.

Let me give you one of the best examples of distribution: In 1923 the American Telephone and Telegraph Company had 281,149 stockholders who held a total of approximately 7,000,000 shares of its stock. The average holding was approximately 28 shares. In January of this year (1951) the American Telephone and Telegraph Company announced that their stockholders numbered 1,000,000, who held a total of approximately 29,000,000 shares. Here, certainly, is an ideal example of industrial democracy. Needless to say, I could name numerous companies whose growth in stockholders, in a degree, parallels that of Telephone.

The important part of all this to the liquidity of American Telephone and Telegraph Company common stock is that this vast number of stockholders throughout the nation has automatically created broad liquidity for the issue. This comes about through the natural flow of buy and sell orders from such a large group of investors. Selling orders of stock available for purchase comes about not through the sale or the manipulation by syndicates or pools, but through sales by investors to realize capital gains or losses, to provide monies to purchase a new home, pay doctor bills or from estates, pension funds, etc.

Last year the purchases and sales or turnover of Telephone common stock amounted to over 3,000,000, virtually all coming from this natural flow of buy and sell orders from the investing public.

This same process creating today's marketability of the credit of American industry is, in effect, in the hands of the general public, except in the case of closed corporations. With these facts at hand, it should be clear to those who wish to understand that today's securities markets are truly public markets. You still hear expressions by the neophyte to the effect that: "They" are the corner druggist, the farmer, the white-collar worker, the Vice-President and Mrs. Jones in Centerville, Kansas.

The American people gradually coming to own America's corporations not only means improved marketability but presents the strongest single army for the protection of our country against the inroads of Socialism and Communism.

It might be a natural question to ask: "Aren't we quite vulnerable in our securities markets to panic because there are so many investors who could, in an unprecedented selling wave, touch off a collapse?" In answer to that, first let me say that I know of no way to prevent substantial selloffs of any or all of our securities in the future. If we are to have another world-wide depression, then, most certainly, our securities markets will be affected, but I do believe that this broad distribution among millions of Americans is a far more stable force in the event of panic than the holdings of huge blocks of stock by few individuals.

Another very important stabilizing factor in our present markets is the basis and type of security purchases. A recent survey of Chicago brokerage office transactions show that about 40% were odd-lot orders involving less than 100 shares of stock. Trades with a market value of less than $1,000 accounted for 49% of the unit or number of transactions. Other surveys throughout the nation show that 20 years ago 90% of brokerage office revenues came

*An address by Mr. Day before the Boston Conference on Distribution, Boston, Mass., Oct. 15, 1951.

from speculative trades on margin accounts. Today this picture is exactly reversed; 90% of revenues are derived from cash purchases and only 10% can be considered truly speculative. Brokers' loans in 1929 were in the neighborhood of $8,000,000,000, representing the greatest proportion of the amount of money involved in security purchases. Today brokers' loans are a small item, indeed. Latest figures available show that less than 1% of the total amount of security purchases are on loan or margin, even though there are many more securities in the hands of the public today than in 1929.

Securities Now Largely Bought Outright

I believe we can conclude that this steady increase in the number of shareholders in American corporations who own their securities outright provides one of the greatest safety factors as far as price decline is concerned that our financial markets have ever enjoyed.

Though we have seen this amazing growth in shareholders of American corporations, we still have only scratched the surface. It may be a shock for you to learn that in Japan 12% of its people own securities in business enterprises, while here in our country today only 7% of our people own shares in American industry. We must continue to correct this situation if we are to have a free America.

I call your attention to the fact that we are in the greatest period of expansion that our country has ever known. It appears that this may continue for an indefinite number of years. Where is this money coming from to pay for this growth in industry? There are only two sources that I know of: (1) through the sale of stock or bonds to the American public, and (2) through the borrowing of funds by industry through some government agency. Our newspapers have been carrying accounts of charges about unwarranted loans made through government agencies. It appears that there have been far too many instances where loans were made to businesses having no true economic base for existence. Even though all the loans may be sound in the future, I believe that there is no shorter cut to socialized industry than to have our American corporations financed by the government.

Greater Responsibility of Securities Dealers and Brokers

If we are fortunate enough to raise a great part of these funds through the sale of securities to the American public, we must realize that we have a great responsibility. Our public generally is not familiar with the risks involved in the investment of new enterprise. We must clearly indicate these risks. We must stress that the likelihood of loss is every bit as great as the likelihood of gain, but we should not discount this credit of American industry. We should make clear that purchasing a stock in any corporation involves the same problems and risks as any one individual would have in starting his own business. I think we can say to ourselves that if profits and dividends are to be made in time of war, which they always seem to be, that it is a healthy condition to have those profits shared by a cross-section of the American people. We can say, in addition, that though risks are involved by using the savings of the American people in the purchase of American securities, is there not loss involved in providing the funds for industry through a government agency? Isn't it true that any government agency gets its funds for loaning purposes through taxing the American people?

I conclude by earnestly soliciting the support of my listeners toward a broader distribution of the securities of American industry to improve marketability and the ownership of American securities by Americans.

River Authority Engages Wainwright, Ramsey

Max Starcke, General Manager of the Lower Colorado River Authority of Texas, announced yesterday that the Authority has engaged the services of the financial consulting firm of Wainwright, Ramsey & Lancaster, 70 Pine Street, New York City, to work with the Authority on its future financing operations.

Mr. Starcke added that no new financing plans are being contemplated at this time, but that the enormous growth of the entire area served by the Authority is continuing at such a rapid pace that reconsideration of expansion plans must be made at frequent intervals. In order to continue the growth in the operations of the Authority on the soundest possible basis, the Board of Directors has decided to engage the consulting firm to assist them with their long range plans and to supervise the Authority's financial public relations and the operation of future programs, he stated.

Increased Production Alone Will Not Solve Economic Problem

By WALTER SONNEBERG

Commenting on persistent cry for more production, Mr. Sonneberg points out qualifying conditions which are fundamental and essential if production is to solve nation's present dilemma. Warns of U. S. global spending spree.

Assigning increased production the role of rescuing the economy from the present dilemma has become the popular indoor sport. In the absence of conditions favoring fulfillment of expectations the persistent cry for more production takes on an Oliver Twistian, self-defeating aspect.

Walter Sonneberg

It is surprising how easily some of the situation assessors, swayed by the speed feature of the system, muff essentials, disregard fundamental deficiencies and depend upon the capacity of increased production to overcome all shortcomings.

The kind of production, the way it fits into the modern industrial set-up, the relationship to natural demand as distinguished from artificially created wants, the way it is financed, are some of the factors determining desirability. Quality, not quantity, should be the password.

From primitive exchanges of bushels of wheat for pairs of shoes, in conditions of mutual advantage, to a too ambitious production mainspringed primarily by the profit motive, was a step unaccompanied by necessary concessions to economic reality. The substitution of a war-spurred, deficit-financed regime for a set-up in which "the mechanisms of distribution are properly geared to the increased output of machinery" was bound to prove disappointing.

Production is no trick at all. Getting rid of the goods in a way that will maintain employment and keep down prices is the test of modern business enterprise.

Doctor E. G. Nourse — "The 1950's Come First" — points the issue: "We cannot accept the artificial stimulus of war, which is now dominating the economy, or the temporary subterfuge of deficit financing, which we have had for practically all of the postwar period, as well as during the war itself and the preceding depression." Certainly if enterprise is to be kept free sounder methods of operation must be found, economically sanctioned principles must be installed for sharing the fruits of production practically between workers, employers and public.

About a year ago officials were warning us of an impending shortage of goods due to competing war productions. Now business men are concerned with reducing "excessive inventories." Manufacturers have been disposed to "take the bull by the horns" and trim production in earnest in the hope of reducing "excess stocks." One Los Angeles television merchant offers a free holiday for two people at a California resort with each television set sold. Similar attractive unloading deals are made by stores overstocked with electric refrigerators and other gadgets.

We don't know our strength or our weakness. The American giant, disregarding the limitations of a tax-supplied treasury, the inflation threat and the accumulation of debt, engages in a global spending spree, and commits itself to deeds of valor for which its capacity is questionable.

On what basis are these tremendous transactions undertaken? "Deficit financing" at a rate we had never known before; an agricultural industry requiring large subsidies, and special interest groups whipping the economy into a "price-income spiral" are scarcely the stuff of which a healthy, independent system is made. Nor is there much nourishment in attempting the imposition of such an unproved system on an unprepared world.

One item betrays the delusive trend. Wages tied to a cost of living featuring too many expensive things out of reach of too many people, and a cost of living fixed on fictitious premises—based on the appetite of advertisers for customers rather than on the capacity of enough customers to pay—tell the story.

An example taken at random shows how the thing works in practice. In the newspaper field, "production costs forced up selling price of all newspapers to a point beyond the level of good business." Daily papers, chiefly through increased costs all along the line for labor, materials, transportation, production, etc., advanced to six or seven cents—costs and prices that prevent maximum circulation and account for the bankruptcy of many publications.

Production, saddled with the handicap of uneconomically high wages, near confiscatory taxes, and swollen social welfare charges, cannot function as it should. It can only come into its own if its fruits are rightly divided between worker pay, employer profits and for the public lower prices. In short, production performs in accordance with the way it is handled. Unaccompanied by purchasing power and prices that will take the product continuously off the market, without recourse to Wars or Deals, big production discounts other advantages.

Some folks hold the comfortable idea that the so-called law of supply and demand will conveniently take care of price levels. Not so long as subsidy-minded farmers, industrialists given to milking the situation cow while the milking's good, and workers resolved to get their share of the spoils, hold the reins, with Uncle Sam standing by to pick up the pieces.

Free enterprise and democracy are not just prize winning slogans. The terms upon which they can be preserved against a rising ideological tide are laid down in experience. An experience recently noted by a Wage Stabilization Board warning that "jockeying among economic groups to keep abreast of each other is leading toward national bankruptcy."

Despite assurances made and parallels depicted by some historians there's no precedent upon which to draw. A Russian monstrosity, motivated by a cockeyed philosophy, politicianed by fanatics, and administered by a bloody-handed police state is pitted against a Republic which overplays its hand by attempting to impose its industrial pattern on the world before that pattern has been fully proved, and in dissipating its vast resources in too many questionable enterprises.

The scenario for a grand civilization characterized by "better machines, more power and improved mechanical skills" awaits a cast of actors capable of putting it over.

In France the Maginot Line, "mightest defense line ever built," did not stop the Germans from marching around it at the open end and taking over the country. American industry's vulnerability derives from too much dependence on a production limited by the absence of factors that would give production full economic value.

Byfield to Be NYSE Representative at UN Meeting in Paris

G. Keith Funston, President of the New York Stock Exchange, has announced the appointment by the Board of Governors of Robert S. Byfield to be special representative of the Exchange at the Sixth General Assembly of the United Nations in Paris in November.

Robert S. Byfield

Mr. Byfield, a member of the Exchange, has written extensively on financial and economic topics and has participated in a number of radio and television forums. In 1949 he was special representative of the Exchange on the Town Hall 'Round the World Seminar. He will sail with the U. S. delegation on the S.S. America on Thursday, Oct. 25. Mr. Byfield will report his observations directly to Mr. Funston.

The Stock Exchange named a representative and observer at the General Assembly in response to an invitation by the United States Mission to national labor and civic organizations to participate in the Paris meetings.

Mr. Byfield will be in daily contact with members of the U. S. delegation, representatives of non-governmental organizations attending the meetings, and other international leaders. It is anticipated that Mr. Byfield will be in an unusual position to interpret the functioning of the American system of freedom of enterprise and the contributions that system is making to world peace. Mr. Byfield, too, is well equipped to answer the arguments of those who criticize, because of misinformation or lack of information, capitalism at work and the end-product of capitalism.

Invesim't Course to Be Offered in Kitchener

KITCHENER, Ont., Canada—Announcement is made that the Kitchener Investment Course will again be given by a group of investment dealers, under the auspices of the Kitchener Board of Education at the Kitchener & Waterloo Collegiate & Vocational School. The panel of lecturers will be D. R. Dattels, Dattels & Company Limited; J. B. Smith, Wood, Gundy & Co., Ltd.; R. Learn, Nesbitt, Thomson & Co., Ltd.; W. D. Meikle, Osler & Hammond; P. H. Bartlett, Dominion Securities Corp., Ltd., and Lorne Sellery, A. E. Ames & Co., Ltd.

Chicago Analysts to Meet

CHICAGO, Ill.—The Investment Analysts Club of Chicago will have as guest speaker at its luncheon meeting today (Oct. 25), Kenneth A. Spencer, President, and John P. Miller, Vice-President and Treasurer, of the Spencer Chemical Company.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Approval by the New York State Banking Department of a certificate of increase in the capital stock of **J. P. Morgan & Co. Incorporated of New York,** was made known by the New York State Banking Department on Oct. 17. The plans provide for the enlargement of the capital from $20,000,000 in 200,000 shares of $100 par each to $25,000,000, consisting of 250,000 shares, par $100 each.

* * *

The tenth Annual Dinner of the Quarter Century Club of the **Bank of the Manhattan Company of New York** was held at the Waldorf-Astoria on Oct. 17. Of the 404 members of the Club, 350 are active employees of the bank at the present time, and 54 are pensioners. During the past year, 49 completed their 25 years of service with the bank. William E. Draude, President of the Club, presided at the dinner, and Harry P. Black of the bank's Madison Avenue and 64th Street office was elected President of the Club for the coming year. J. Stewart Baker, Chairman of the Bank, welcomed the new members to the Club and Graham B. Blaine, Vice-Chairman of the bank, presented emblems to the members celebrating their 30th, 35th, 40th and 45th anniversaries.

* * *

Z. C. Barnes, a partner of Calkins & Holden, Carlock, McClinton & Smith, Inc., advertising agency, has been elected a trustee of the **Union Dime Savings Bank of New York,** according to an announcement made on Oct. 17 by J. Wilbur Lewis, President of the bank. Mr. Barnes, also Chairman of the Executive Committee of his firm, formerly was Vice-President in charge of sales of the Mutual Broadcasting System. Prior to that he was Vice-President of Outdoor Advertising, Inc., which company he first joined in 1923 when it was known as O. J. Gude and Poster Advertising Co.

* * *

Horace C. Flanigan, President of **Manufacturers Trust Company of New York** has announced that Edward A. Henry of the bank's Fifth Avenue and 43rd Street Office and Thomas Sheil of the Boynton Avenue Office in the Bronx, have been appointed Assistant Secretaries. Mr. Henry, a native of Trenton, N. J., was with Manufacturers Trust Company from 1937 to 1948. During the last three years, before rejoining the bank, he was Vice-President and Treasurer of Canada Dry Bottling Co. of Trenton, of which organization he remains a director. Mr. Sheil, a native New Yorker, was with the Bank of Manhattan Company for 21 years before joining Manufacturers Trust Company in 1943.

* * *

Forty-three new members will join **The Hanover Bank** Quarter-Century Club at its 11th annual dinner at Hotel Roosevelt, New York, on Oct. 26. Membership in the veteran group will total 463, of which 364 are active employees. R. E. McNeill, Jr., President of the bank, will present savings bonds to new members, and James R. Day, President-elect of the Club, will award 25-year pins. William S. Gray, Chairman of the bank and a member of the Club, will address the dinner meeting.

* * *

The First National Bank & Trust Co. of Walden, N. Y., increased its capital, effective Oct. 16, from $75,000 to $100,000, by the sale of $25,000 of new stock.

The First National Bank of Boston has advised the underwriters that of the 375,000 shares of stock offered by the bank under rights to its shareholders 368,622 shares, or approximately 98.3% of the shares offered, were subscribed upon the exercise of rights. Offering of the new shares of stock of the bank was referred to in these columns Sept. 27, pages 1168 and 1177.

* * *

At a special meeting of the corporators of the **Connecticut Savings Bank of New Haven, Conn.,** held at the banking house on Oct. 22, two changes were made in the official staff. Thomas E. Curl, formerly auditor, was elected to the new office of comptroller, and Felix F. de Foschi, formerly assistant auditor, was elected auditor. Mr. Curl became associated with the bank in June, 1929 and was elected auditor in July, 1941. Mr. de Foschi joined the bank's staff in December, 1929. Both Mr. Curl and Mr. de Foschi are past Presidents of the New Haven Conference, National Association of Bank Auditors and Comptrollers.

* * *

Thirty-five bank officers and employees, representing, it is stated, close to 1,000 years of banking experience, were honored on Saturday evening, Oct. 20, at the Hotel Plaza, Jersey City, on the occasion of the annual dinner meeting of the Twenty Year Club of the **First National Bank of Jersey City, N. J.** This group is composed of members of the bank's staff who have had 20 or more years of service with the institution or its predecessors. Kelley Graham, Chairman of the Board, again expressed his appreciation for the loyalty and cooperation of the staff of his institution. Special compliments were paid to the 10 members of the Twenty Year Club holding the record for the longest number of years of service. These included: Clifford A. Spoerl, President, 45 years; Harry J. Ducroiset, teller, 41 years; Harold E. McCausland, Assistant Vice-President, 37 years; Daniel P. Griffin, teller, 34 years; Anna Hackenburg, teller, 34 years; Charles R. Merwarth, Assistant Cashier, 33 years; Henry F. Moorhouse, Assistant Cashier, 32 years; Cornelius V. Voorhees, note teller, 31 years; Alfred E. Wroldsen, Auditor, 31 years, and Alfred Rose, vault attendant, 29 years. Clifford A. Spoerl, who has been with the organization the longest, was awarded a gold pin indicating his 45 years' service. Arthur Kackenmester, H. W. Manning and Michael Fuller, three members who have just passed the 25 year mark, received pins indicative of their quarter century of service with First National.

* * *

The **Verona Trust Company of Verona, N. J.,** an insured non-member of the Federal Reserve System, has been absorbed by the **Montclair Trust Company, of Montclair, N. J.,** a State member. Incident to the absorption, the Montclair Trust Co. has established a branch in the quarters of the Verona Trust.

* * *

Irving T. Cueman and Joseph S. Bator have been named Assistant Vice-President, and Controller, respectively, of the **Bank of Nutley, at Nutley, N. J.,** according to the Newark "Evening News" of Oct. 13. The "News" adds: "Mr. Cueman, a member of the bank staff since 1942, was formerly Assistant Cashier.

"Mr. Bator, head bookkeeper for the bank before his promotion, was associated with the former Franklin National Bank, Nutley, which was acquired by the Bank of Nutley in 1937."

* * *

A proposal to merge the **Paterson Savings & Trust Co. of Paterson, N. J.** with the **Peoples Bank & Trust Co. of Passaic** will be decided at a special stockholders' meeting Nov. 9 at the Paterson bank, advices to the Newark "Sunday News" of Oct. 21 by a Paterson staff correspondent stated. The account from which we quote added:

"The bank merger, unanimously approved by the directors of the two institutions, would create a unit with resources reported a more than $80,000,000. The new bank would be known as the **County Bank & Trust Co.** and will have five offices. These offices include the present main office of the Paterson bank at 129 Market Street, a new office under construction at 30th Street and 21st Avenue in Paterson, the present office of the Passaic bank at 663 Main Avenue, and its two branch offices at 50 Monroe Avenue and 405 Van Houten Avenue.

"In 1947, the Paterson institution purchased a controlling interest in the Passaic bank, with reported intentions of eventually joining the two organizations."

* * *

Two **Norfolk, Va.** civic leaders have been elected members of the Advisory Board of **The Bank of Virginia** in that city. They are: Robert E. Garris, Vice-President of Fred P. Gaskell Co., Inc., foreign forwarders, and Treasurer of Old Dominion Stevedoring Corp., and James R. Peake, Jr., who is associated with the Equitable Life Assurance Society of the United States. Mr. Garris is a member of the Board of Governors of the Norfolk Rotary Club, a member of the Norfolk-Portsmouth Traffic Club, etc. Mr. Peake is President of the Norfolk Rotary Club, a member of the Mayor's Committee for Service Man's Club, and is active in other civic affairs.

* * *

A stock dividend of $25,000 has served to increase the capital of the **First National Bank of Caldwell, Ohio,** from $75,000 to $100,000, effective Sept. 24.

* * *

Enlargement of the capital of the **Industrial National Bank of Detroit, Mich.,** from $1,500,000 to $1,750,000, brought about by the sale of $250,000 of new stock, became effective Oct. 1, 1951.

* * *

An addition of $400,000 has been made to the capital of the **Coral Gables First National Bank, of Coral Gables, Fla.,** by the sale of new stock of that amount, whereby the capital has been increased to $1,000,000, from $600,000, effective Oct. 10.

* * *

The capital of the **First National Bank of Port Arthur, Texas,** was increased as of Oct. 9 from $100,000 to $500,000 by a stock dividend of $400,000.

* * *

An increase of $40,000 as a result of the sale of new stock of that amount has resulted in enlarging the capital of the **First National Bank of Bellevue, Wash.,** from $100,000 to $140,000, effective Sept. 25.

Joel D. Middleton With Mitchum, Tully & Co.

LOS ANGELES, Calif.—Joel D. Middleton has become associated with Mitchum, Tully & Co., 650 South Spring Street. He was formerly an officer of First California Company.

NYSE Joins in Census of Stockholders

Announces formation of Advisory Committee to assist in work in collaboration with Brookings Institution. Results of nation-wide survey to be made within a year.

The New York Stock Exchange has announced formation of an Advisory Committee, composed of representatives of the financial community and of industry, to assist in taking a national census of stockholders.

Keith Funston, President of the Exchange, disclosed earlier this month that the Exchange, in collaboration with The Brookings Institution, was undertaking a census "to answer the question of who owns American industry." Results will be published within a year.

The Advisory Committee will work with the Exchange and Brookings to decide the most practical and efficient methods of securing needed data. One of the first jobs will be to request specific information from each of the estimated 5,000 corporations to be included in the census. The Committee expects to accomplish this within two weeks.

Preliminary conversations already have been held by the New York Stock Exchange and regional Exchanges respecting the census.

Members of the Committee and their affiliations are: Joseph E. Williams, Vice-President, Chase National Bank, and Chairman, New York Stock Transfer Association, for Bank Transfer Agents; Harold P. Gundersdorf and J. F. Rath, Assistant Vice-Presidents, Bankers Trust Co., for Bank Trust & Custodian Departments; Harvey W. Roscoe, Assistant Treasurer, American Telephone & Telegraph Co., and W. A. Brown, Secretary, United States Steel Corp., for United States companies; Henry S. Wingate, Vice-President and Secretary, International Nickel Co., for international companies; Martin K. Keena, Vice-President, New York Curb Exchange; George B. Soule, National Association of Securities Dealers; Theodore L. Turney, Executive Director, American Society of Corporate Secretaries; John M. Sheffey, Executive Secretary, National Association of Investment Companies; Harry K. Smith, partner of Shearson, Hammill & Co., for Stock Exchange member firms; Arthur B. Dougall and C. W. McKay, Stewart Dougall & Associates, Inc., sampling survey firm; William Boyle and R. V. Sentler, International Business Machines Corp., on compiling and tabulating procedures; Dr. Lewis H. Kimmel, Director of Study, The Brookings Institution; John Haskell, Vice-President, and W. R. Satterfield, New York Stock Exchange.

Hugh Johnson Co. Reynolds Correspond't

Hugh Johnson & Company, Inc., Rand Building, Buffalo, announce that the firm has been admitted to membership on the Midwest Stock Exchange.

Simultaneously, Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that Hugh Johnson & Company, Inc. have become their correspondents. In addition to headquarters in Buffalo, the Johnson organization maintains offices in Cleveland, O., Bradford, Pa., and Cooperstown, Gowanda and Westfield in N. Y.

T. R. Smith Opens

Thomas R. Smith is engaging in the securities business from offices at 25 Vanderbilt Avenue, New York City.

Canadian Securities

By WILLIAM J. McKAY

It is difficult to overestimate the influence of a return of a British Conservative government on Anglo-Canadian relations. Following the advent of the Labor administration the links between the Mother Country and her Senior Dominion have been progressively weakened. The Socialist government in Britain failed lamentably to envision the growing importance of Canada, not only in the British community of nations but also in the world as a whole. Whereas during the war years, Britain, with Winston Churchill as the British guiding force, maintained the closest political and economic ties with the Dominion, this close cooperation rapidly faded when the Labor government assumed the direction of affairs in the postwar period.

During the war Canada's extraordinary efforts in support of Britain in the shape of mutual aid, loans, and low cost provision of essential foods and raw materials played an invaluable part in Britain's struggle for survival. With the cessation of hostilities the opportunity to consolidate Anglo-Canadian relations on the intimate basis formed during the war was allowed to lapse. As a result of Labor government policies Canada's economic relationship with the British Commonwealth of Nations has become increasingly remote. Consequently the pattern of Canadian foreign commerce has undergone a striking change. Principally due to Labor government restrictions, British outlets for Canadian exports have been drastically reduced and despite Dominion efforts to absorb a larger proportion of British exports the overall volume of Anglo-Canadian trade has fallen sharply. In the normal way there would have been mutual efforts at a high level to correct this undesirable trend. Unfortunately, however, the attitude of the various British ministerial visitors to Canada has not contributed to a sympathetic settlement of the many difficult issues involved.

There is little doubt that a Conservative or Coalition government headed by Winston Churchill would view this vitally important question in a totally different light. Visionary statesmanship and imaginative planning would replace the previous apathy and thinking in terms of restrictions. At the present time Canada is almost wholly divorced from the British economic scheme, despite the fact that the Dominion is by far the most prosperous member of the British Commonwealth of Nations. It is logical therefore that one of the first objectives of a British government that would think in terms of British progress and solidarity would be the return of Canada within the British economic orbit.

The difference of currencies constitutes a certain impediment to the incorporation of Canada in the British exchange system but this obstacle is by no means insuperable. Undoubtedly a matter that would receive primary attention on the part of a non-Labor government would be the strengthening of the basis of sterling as a preliminary step towards fuller convertibility. In this way the barrier between sterling and the hard currencies could be eliminated. With the removal of the currency difficulty Anglo-Canadian trade would receive an immediate stimulus. The removal of restrictions governing the use of sterling following measures taken to restore confidence in the currency would also encourage foreign customers of Britain to hold sterling balances instead of seeking immediate conversion.

In this connection, Canada, in the event of the advent of a Conservative government, would probably take the initiative in selling to Britain on the basis of payment in sterling that would not be immediately liquidated. As matters now stand it is a reflection on British Commonwealth cooperation and solidarity that one Dominion, Australia, is a holder of enormous sterling balances, while another Dominion, Canada, with far greater resources maintains only a nominal interest in sterling. From the British point of view therefore the inclusion of Canada in the sterling exchange system could have a revolutionary influence on the exchange position of the pound. Although this would entail a short-term sacrifice on the part of Canada, in the long run the benefits of greatly expanded trade with the sterling area would far outweigh the initial disadvantages. The fuller employment of the economic strength of the British Commonwealth would also do much to relieve the burden of responsibility of this country in its struggle for economic stability of the Western world.

During the week the external section of the bond market was again slightly lower principally as a result of persistent offerings of Canadian Nationals. The recorded internals were marked up in sympathy with the strength of the Canadian dollar which touched a new recent high point of 4⅛%. Stocks were lower in sympathy with the sharp drop in New York with the industrials and senior golds bearing the brunt of the selling pressure. The Western oil and base-metal issues were less affected and met with steady support at the lower levels.

Harvey Renton With Freeman; Patterson To Rejoin Firm

Freeman & Company, 61 Broadway, New York City, announce that Harvey S. Renton, Jr. has joined the firm as manager of its municipal bond department. The firm also announces that Howard G. Patterson will rejoin the organization on Nov. 1, 1951 as manager of its railroad bond department.

To Such a State!

"Travelers to southern Iran may on consecutive days visit two sites that stir emotions with almost equal force—the ruins of monuments erected at Persepolis by the Achaemenid Kings of Persia long ago and the giant Abadan refinery lately abandoned by the British who built it.

"When seen from a distance, across the plain, the fifty-odd steel chimneys of the refinery bear a striking resemblance to the still standing remains of King Xerxes's Apadana and Hall of a Hundred Columns at Persepolis. But as a traveler draws nearer the gleaming metal soon identifies the silent towers of idle Abadan as the colossus of the industrial age, not of the fifth century B. C.

"Upon entering Abadan a visitor passes between neat rows of prim but comfortable bungalows with tightly shuttered windows. The lawns and hedges lovingly attended until a fortnight ago already are turning brown under the pitiless Persian Gulf sun. Almost every vista ends against the fantastic skyline of the world's largest refinery."—Abadan dispatch in the New York "Times" from its correspondent Michael Clark.

To such a state are underprivileged peoples reduced under a regime of self-determination and disregard of contracts.

$109,511,000 New Housing Authority Bonds Publicly Offered by Investment Bankers

Obligations purchased at competitive bidding by syndicate, principal managers of which are Phelps, Fenn & Co., Lehman Bros. and Blyth & Co., Inc. Award comprised issues aggregating $111,920,000, of which $2,409,000 were placed privately.

An investment banking group, with Phelps, Fenn & Co., Lehman Brothers and Blyth & Co., Inc. as principal managers, was the successful bidder for $111,920,000 of a total of $162,787,000 new Housing Authority Bonds offered on Oct. 23 by 83 Local Public Agencies located in 23 states and in Puerto Rico. The group, which did not submit bids for issues aggregating $5,457,000 principal amount, was the high bidder for 63 of the issues for which it competed.

Coupon rates of 2% and 2⅛% for the tax exempt bonds, most of which mature serially from 1953 to 1992, inclusive, were specified by the group. Some of the issues offered, however, have an initial maturity in 1952 and a few have final maturities in 1987, 1989, 1990 and 1991.

The group placed privately $2,409,000 Mercer County, Pa. bonds. The remaining $109,511,000 bonds are being reoffered in three yield-scale groups: Scale B, 1.00% to 2.10%; Scale C, 1.00% to 2.175%; and Scale D, 1.00% to 2.25%.

In addition to the three principal managers, six other firms are managers of the group: Goldman, Sachs & Co.; Harriman Ripley & Co. Incorporated; Smith, Barney & Co.; Shields & Company; The First Boston Corporation; and R. W. Pressprich & Co.

The bonds of each issue will be secured by a pledge of annual contributions unconditionally payable to an Annual Contributions Contract between the Public Housing Administration and the Local Public Agency issuing the bonds, in the opinions of bond counsel. The annual contributions will be payable in an amount which, together with other funds of the Local Public Agency available for the purpose, will be sufficient to pay the principal of and interest on the bonds when due. The United States Housing Act of 1937, as amended, pledges the faith of the United States to the payment of the annual contributions by the Public Housing Administration pursuant to said Annual Contributions Contracts.

Bonds of the New York City authority are priced to yield from 1.00% for the 1952 maturity to 2.10% for the 1985-1987 maturities.

Bonds of the following authorities are priced to yield from 1.00% for the 1952 maturities to 2.175% for the 1986-1992 maturities: Phoenix, Ariz.; Fort Smith and Little Rock, Ark.; County of Kern, Calif.; Albany, Brunswick and Rome, Ga.; Massac County, Ill.; Monroe, La.; River Rouge, Mich.; Bayonne, New Brunswick, Perth Amboy, Rahway, South Amboy and Union City, N. J.; Goldsboro, N. C.; Puerto Rico; Providence, R. I.; Kingsport, Tenn.; and Everett, Wash.

Bonds of the following authorities are priced to yield from 1.00% for the 1952 maturities to 2.25% for the 1988-1992 maturities: Boaz and Jasper, Ala.; Mesa, Ariz.; North Little Rock, Ark.; Calexico, Holtville, Port Hueneme, Riverbank, San Buenaventura and County of Yolo, Calif.; Daytona Beach, Key West, Miami Beach and Sanford, Fla.; Hartwell, Lavonia, McRae, Rockmart, Waynesboro and West Point, Ga.; Canton and West Point, Miss.; Bonham, Brownwood, Del Rio, Eagle Pass, Electra, Ennis, Gladewater, Hamilton, Haskell, Hearne, Henderson, Honey Grove, Jefferson, McKinney, Mission, Olney, Seymour and Sweetwater, Texas; and Clallam County, Wash.

Bonds of the following authorities are being offered by states as a group: New Jersey; Alabama; California, except County of Kern; Florida; Georgia, except Albany, Brunswick and Rome; Mississippi; and Texas.

In addition to the nine managers, the underwriting group comprises: Drexel & Co.; Eastman, Dillon & Co.; Equitable Securities Corporation; Merrill Lynch, Pierce, Fenner & Beane; Stone & Webster Securities Corporation; White, Weld & Co.; A. C. Allyn and Company Incorporated; Bear, Stearns & Co.; Alex. Brown & Sons; Coffin & Burr Incorporated; Estabrook & Co.; Hemphill, Noyes, Graham, Parsons & Co.; Hornblower & Weeks; Lee Higginson Corporation; F. S. Moseley & Co.; Paine, Webber, Jackson & Curtis; Schoellkopf, Hutton & Pomeroy, Inc.; American Securities Corporation; Braun, Bosworth & Co. Incorporated; R. S. Dickson & Company Incorporated; First of Michigan Corporation; Hallgarten & Co.; Harris, Hall & Company (Incorporated); Ira Haupt & Co.; John Nuveen & Co.; Reynolds & Co.; L. F. Rothschild & Co.; Tucker, Anthony & Co.; Bacon, Stevenson & Co.; A. G. Becker & Co. Incorporated; Francis I. du-Pont & Co.; Eldredge & Co. Incorporated; Folger, Nolan Incorporated; Paul Frederick & Company; Geo. B. Gibbons & Company Incorporated; Hirsch & Co.; E. F. Hutton & Company; W. E. Hutton & Co.; Kean, Taylor & Co.; Laurence M. Marks & Co.; McDonald & Company; Wm. E. Pollock & Co., Inc.; Roosevelt & Cross Incorporated; F. S. Smithers & Co.; William R. Staats & Co.; Stroud & Company Incorporated; Chas. E. Weigold & Co. Incorporated; Dean Witter & Co.; and Wood, Struthers & Co.

Stone Named to Head Rocky Mt. IBA Group

DENVER, Colo.—The following slate of officers has been presented for the Rocky Mountain Group of the Investment Bankers Association of America:

Ernest E. Stone

Chairman, Ernest E. Stone, Stone, Moore & Co.

Vice-Chairman: Alexander W. Forsyth, Calvin Bullock.

Secretary-Treasurer: Donald F. Brown, Boettcher & Co.

The Group's annual election meeting is being held Oct. 25. Nomination for office is considered tantamount to election.

Members of the nominating committee were Paul Youmans, Bosworth, Sullivan & Co., Chairman; Karl L. Mayer, J. A. Hogle & Co.; and George S. Writer, Peters, Writer & Christensen, Inc.

The new officers will be installed as of the close of the annual convention of the Investment Bankers Association in Hollywood, Fla., Nov. 25-30. Walter J. Coughlin, Coughlin & Co. is present Chairman of the Rocky Mountain Group.

Halsey, Stuart Offers Wisc. Mich. Pow. Bds.

Halsey, Stuart & Co. Inc. are offering $3,500,000 first mortgage bonds, 3⅝% series due 1981 of Wisconsin Michigan Power Co. at 102.31% and accrued interest. Award of the bonds was made at competitive sale on Monday on a bid of 101.66%.

Net proceeds from the sale of the bonds and from the sale of additional common stock will be added to the general funds of the company to be applied toward the cost of its construction program through 1952, to retire $1,000,000 short-term promissory notes held by banks which mature Feb. 15, 1952 (proceeds from the sale of which were used to finance in part the 1951 construction program), and the balance will be available for other corporate purposes.

Regular redemption of the bonds may be made at prices ranging from 105.31% to par. Special redemption prices declined from 102.32% to par.

Wisconsin Michigan Power Co. is engaged in the generation, transmission and distribution of electric energy in Wisconsin and in the upper peninsula of Michigan. The company furnishes directly electric service in 167 communities having an estimated population of 188,000.

Continued from first page

Stock Holdings Should Not Be Disturbed!

other was in 1937. The "half" time was in 1946, when the more speculative stocks were a sale but the good ones were not.

Oh, there have been many "false alarms." A few that come to mind are the "false alarm" of 1923 (I was sure, at the time, it was the "real thing"), the break in the summer of 1933, late August of 1939, the Truman election, and the outbreak of war in Korea. The real investors who suffered through these minor Gethsemanes, however, found glory stored up for them in bigger profits than were realized by the "smarter" people who avoided the temporary distress but lost their positions.

Monday Morning Quarterbacking Difficult

As a Monday morning quarterback, it looks easy to profit from a 10% or a 15% decline in the Dow, but in practice it is different.

Not all stocks behave alike. You don't sell at the top. You don't buy back at the bottom. You pay the broker commissions "out" and commissions "back in." You lose dividends. Worst of all, if you have profits, you pay an unnecessary capital gains tax—often at the higher short-term rate.

We people who have a lot of investor customers know that the clients who do best in the long run are the ones who own the quality "growth" stocks and trade least. We also know that the clients who try to "beat the market" rather than invest make a sorry comparative showing. Some of us, in this profession, can exhibit ourselves as human guinea pigs to prove that point.

While I recognize that sentiment frequently swings from fear of 1932 to anticipation of a new 1928-1929 "new era," it seems to me this is a time to expect neither extreme. Indeed, it seems to me that the market is showing a wholesome inclination to make a path right down through the center without getting too far to the left or the right.

If anything, the precedent shattering confusions and perpetual crises of this dynamic and fascinating period of world evolution and revolution tend to bring about undervaluation rather than overvaluation of common stocks.

Stocks Still Cheap

By all time-worn bench marks of traditional measurements, stocks still are relatively inexpensive rather than dear. They look high only in relation to the era of unusually low appraisal through which we have so recently passed.

People who do a much more scientific job than I do are estimating this year's earnings on the Dow at $27 or $28 a share after higher taxes. They place the dividend payout at between $15 and $15.50 a share. Looking ahead to next year, their preliminary estimates run at between $24 and $25 a share for earnings and at $14 to $14.50 a share for dividends.

Earnings and Dividend Yields

This means that the Dow at 263 recently has been selling at not far from 9½ to 10 times earnings to return roughly 5⅞%.

Looking back, we find that in 1930, the last time the Dow sold at 270, it ranged between 29.4 times and 15.7 times earnings to offer return yield 2½% to 4.7%. In 1929, the range of the price-earnings ratio was 19.7 high to 11.0 low, and yield ranged between a high of 3½% and a low of 1.9%.

In 1937, when stocks were "high," the top price-earnings ratio was 17 times.

The ratio did not drop any lower than 9.3 times earnings at any time in the 14 years ended with 1946. The dividend yield at the low of the year has not been as high as the present 5¾% in any recent years except 1933, when it was 6%; 1937, when it was 7.2%; 1941 and 1942, when it was above 7%; and in 1948, 1949 and 1950.

Remember that we are not dealing in the same equities we traded 20 years ago, 10 years ago, 5 years ago, or even a year ago. Dividend payout in recent years has been low; and book values, which are as much understated as they were overstated 30 years ago, have been increasing. You all know, too, how much understatement there is in plant valuation in balance sheets. Some plants are insured at two, three and even four times the carrying cost.

Book value of the Dow back in 1937 was only $90 a share. At the end of 1951 it will be not far from $205 a share. Look how it has been going up: 1942, $116; 1943, $121; 1944, $127; 1945, $130; 1946, $138; 1947, $150; 1948, $164; 1949, $174; and 1950, $192.

Good Industrial Shares Best Inflation Hedge

If you really want a property hedge against inflation you are much safer if you buy these good industrial shares than you are if you go out and buy undetermined mining and oil prospects, as so many people are doing. When you buy stocks today, you get a lot for your money.

The fallacy that people fall for when they say that stocks are "historically" high is that they overlook the added assets and added earning power in equities. Stocks represent more earnings, more dividends and more physical assets per share than they ever did before—so they must sell for many more dollars per share or they are cheaper than in former years.

The price-earnings ratios, yields and asset values I have given have been based on the Dow Jones Average, which is heavily weighted with "blue chips" and stocks of "institutional" quality. The Dow Average type of stock is higher than the market. Run-of-mine stocks sell at 4 to 7 times earnings to return 7% to 10% in dividends.

This rise in stocks has been quite different from the one we had in 1943-1946. At that time the speculative low-priced issues led the way. This time the leadership has been seized by the "blue chips."

Immediate Price Objectives

My projection, subject to correction as the pattern fills itself out, is that the immediate price objectives could be 290 to 300 in the Industrials and 95 to 100 in the Rails, and could be realized sometime between Dec. 1 and Jan. 31. I would not give a hoot, incidentally, for a market commentator who is unwilling to change his mind. Stubbornness in this matter of market forecasting can make a man "consistent" without making him "right"; and it can make a fellow who lives in a fish bowl uncomfortable as well as terribly wrong.

I don't want to be misunderstood, I am not predicting that 300 is the top of the bull market of the 1950's. I simply think it might be the approximate peak of a phase of the rise. If I knew the "correction" would carry us back to 240, or 20% from 300, I would not advocate selling more than a small part of investment holdings.

As for the in-and-out traders, I've given up trying to help them. My experience is that many of them prefer to have their fun rather than to make a serious effort to accumulate wealth.

Gearko Inc. Stock Offered at $1 a Share

Gearhart, Kinnard & Otis, Inc. are offering 200,000 shares of 1-cent par value common stock of Gearko Inc. at $1 per share.

Of the proceeds to be received from the sale of these shares, the company proposes to use approximately $45,000 to pay current indebtedness. The balance will be used, as received, for the acquisition of additional oil properties and the drilling of eight wells on two additional leaseholds adjacent to the company's Gamm lease, and for working capital and other corporate purposes. The purchase contract provides that no shares of common stock will be issued and sold until 50,000 shares of common stock have been purchased.

Gearko Inc. was incorporated in New York on Feb. 4, 1949. In April of this year, the company acquired its first oil leasehold and since that time has acquired further oil-producing properties. The company has acquired oil, gas and mineral leaseholds covering an aggregate of approximately 96 acres located in Caddo Parish, La. As of Sept. 30, 1951, it had completed 13 producing oil wells on these leaseholds, and has completed two additional producing oil wells since that date.

Toronto Bond Traders Officers 1951-1952

TORONTO, Ont., Canada — The Toronto Bond Traders Association has elected the following officers for 1951-52:

Honorary President: J. Lindsay Graham, J. L. Graham & Co. Ltd.

Honorary Vice-President: William Robson, A. E. Ames & Co. Ltd.; Clifford G. Beatty, Beatty, Webster & Co. Ltd.

President: C. G. Lee, Bache & Company.

Vice-President: J. L. Hayman, Goulding, Rose & Co. Ltd.

Secretary: J. B. MacFarlane, Wood, Gundy & Co. Ltd.

Treasurer: D. E. Morrison, Royal Securities Corp. Ltd.

Committee: T. H. Baker, Ross, Knowles & Co.; R. J. Trow, W. C. Pitfield & Co. Ltd.; B. A. Mallon, McLeod, Young, Weir & Co. Ltd.; H. B. Tindale, Walwyn, Fisher & Co. Ltd.; M. H. Seagram, Bank of Nova Scotia.

Ex Officio: W. D. McAlpine, Brawley, Cathers & Co.; D. G. Simpson, Midland Securities Ltd.

Golf Winners in IDAC Kitchener-Waterloo Group

KITCHENER, Ont., Canada.—Winners in the first annual golf tournament of the Kitchener-Waterloo Group of the Ontario District of the Investment Dealers Association of Canada were:

Low Gross — Jack Pequegnat, Cochran, Murray & Co. Limited.

Low Net—John MacAvity, W. C. Pitfield & Company Limited.

Second Low Gross—Bill Meikle, Osler & Hammond.

High Gross—Bill Stewart, Midland Securities Limited.

With Townsend, Dabney

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Ernest F. George has become affiliated with Townsend, Dabney & Tyson, 30 State Street, members of the New York and Boston Stock Exchanges.

Joseph Johnson Nominated for President Of Investment Bankers Association

CHICAGO, Ill.—Joseph T. Johnson, President, The Milwaukee Company, investment banking house of Milwaukee, Wisc., has been nominated as the next President of the Investment Bankers Association of America, it was announced by Laurence M. Marks,

Joseph T. Johnson

Laurence M. Marks

Ewing Thomas Boles

Walter W. Craigie

George W. Davis

Walter A. Schmidt

Norman P. Smith

Laurence M. Marks & Co., New York, President of the Association. Named with Mr. Johnson are the following nominees for Vice-President:

Ewing T. Boles, The Ohio Company, Columbus.
Walter W. Craigie, F. W. Craigie & Co., Richmond.
George W. Davis, Davis, Skaggs & Co., San Francisco.
Walter A. Schmidt, Schmidt, Poole & Co., Philadelphia.
Norman Smith, Merrill Lynch, Pierce, Fenner & Beane, New York.

Nominations, made by the Board of Governors, are considered tantamount to election in the IBA, which will act on the ticket at its annual convention scheduled for November 25-30 at the Hollywood Beach Hotel, Hollywood, Florida.

Mr. Johnson has been in the investment banking business since 1923. He attended Wofford College, Spartanburg, South Carolina, the state of his birth, and George Washington University; and upon completion of his education in 1915 he entered the service of the United States Treasury Department as internal revenue agent. He was shortly assigned to the Milwaukee office and in 1920 was made agent in charge of the Wisconsin Division.

Three years later he entered the investment banking business as manager of the bond department of the Second Ward Securities Company, Milwaukee, and continued with that organization up to the time of its merger with the First Wisconsin National Bank.

In association with others he established The Milwaukee Company in 1929 and served the new company as Vice-President until his election to his present position in 1934. The Milwaukee Company has branch offices in Chicago, St. Paul, Madison, and Wausau and is a member of the Midwest Stock Exchange.

Next to investment banking Mr. Johnson has a second major interest. Since the early days of the airplane he has been a flying enthusiast and has followed closely the development of commercial aviation. In 1939 he was elected to the Board of Northwest Airlines. He has been an unusually active director of that company and has flown on every inaugural flight as Northwest extended its routes in this country and abroad.

Recently Mr. Johnson was elected a director of National Thrift Committee, Inc.

Throughout his 29-year career in the investment banking business Mr. Johnson has given generously of his time toward advancing the interests of the securities industry. He was on the industry-wide Investment Bankers Conference Committee in 1934 and in the intervening years has served on various group and national committees of the IBA. From 1945 through 1948 he represented the Central States Group on the IBA Board of Governors and was elected a Vice-President of the Association in each year since 1948.

During more recent years Mr. Johnson has given particular attention to the public relations aspects of the securities business, according to President Marks, who pointed out that Mr. Johnson was Chairman of a special committee in 1948 that recommended a public education program for the Association. This led to the establishment of a Public Education Committee, of which Mr. Johnson has been Chairman for the past four years.

"Through the Public Education Committee," Mr. Marks added, "member firms have been stimulated to join the compaign designed to improve public understanding of our business. Mr. Johnson and his committee have done a splendid job with a difficult assignment, and we can expect an extension of the progress made under his leadership in the forthcoming year."

Now Sole Proprietor

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass.—G. Wayne Gibbs is now sole proprietor of Gibbs & Coe, 507 Main Street.

Mutual Funds

By ROBERT R. RICH

THE IRANIAN development overshadows and obscures all other factors in the current outlook for the oil industry, it is pointed out by Calvin Bullock, in its current "Perspective," which analyzes the petroleum industry.

The firm stated, "If it were not for Iran the industry might be facing a condition of somewhat over-ample inventories."

After noting various bullish factors in the oil outlook, the firm notes in its current study that, "on the basis of the near term outlook we believe that a more cautious attitude toward the oil shares is justified at this time.

"It should be emphasized that this viewpoint should not be construed as indicating extreme pessimism but rather that the industry does not present the same degree of attraction to the investor as it did last year. For the longer term, the oil shares still represent a participation in one of the premier growth industries in our economy.

"It should be recalled that consumption advanced rapidly in the final half of 1950 and that the rate of gain shown by the industry will taper off rapidly in the final months of this year.

"Of more basic consequence, the outlook is for a lower level of automobile production and smaller installations of oil burners due to reduced residential construction.

"Finally, if a truce should be effected in Korea there would be an indeterminate decline in military demand although probably not of too great a significance in the over-all picture. In short, there are present elements in the petroleum outlook which if not highly bearish should at least engender caution."

"As regards the course of earnings next year," Bullock's Perspective stated, "it is difficult to visualize on the basis of the industry's outlook any material improvement in profits at best, and it is possible for weakness in refined product price to cause an appreciable, but not a major, decline in earnings.

"Dividends represent a low payout on earnings but in view of the increased capital investments that must be made by the industry it is difficult to see any substantial increase in present rates even if earnings continue high."

Concerning the deficiency caused by the Iranian shutdown, Calvin Bullock points out that the chief difficulty lies not in replacing the Iranian crude, but in finding adequate refining facilities.

"The effect of the Iranian shutdown was not felt immediately because of ability to dig into stocks, but it has now become a definite factor in the oil market with the squeeze reaching its apex in the seasonally high first quarter of 1952. The residual or heavy fuel oil market will be particularly affected as Iran is an important producer of this product."

LOUIS H. WHITEHEAD Vice-President and member of Policy Committee of National Securities & Research Corporation, is making a series of lectures in upstate New York on the subject "Inflation—What to do About It."

His talk includes an appraisal of the current economic situation. He has already appeared as principal speaker at the Rotary Clubs of Binghamton and Horseheads, New York; at the Kiwanis Clubs of Elmira and Waverly, New York; and at the Foreman's Club of Elmira, New York.

Mr. Whitehead, an experienced lecturer and a former member of the faculty of Syracuse University, College of Business Administration, for the past ten years has conducted lecture courses at the New York Institute of Finance, successor to the New York Stock Exchange Institute, on the subjects of "Current Economic Developments Affecting Investments," and "Mutual Funds."

CLOSED-END REPORTS

Tri-Continental Corporation's final dividend on common stock will be considerably larger than the 15 cents per share declared for the third quarter, its third quarter report anticipates. The dividend will be determined in December and net investment income is normally larger in the fourth quarter because of the tendency for special or extra dividends to be paid in that period.

Gross assets of Tri-Continental Corporation rose by $13,431,992 in the three months ended Sept. 30 according to Francis F. Randolph, Chairman of the Board and President. Gross assets are $153,896,721 for the nine months ended Sept. 30 and compare with $140,464,729 three months earlier.

Net assets were equivalent to $20.85 per share of common stock on Sept. 30, compared with $18.12 on June 30 and $17.08 at the beginning of the year. Asset coverages were $314.33 per share on 383,703 shares of preferred stock

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MUTUAL FUND PORTFOLIO CHANGES

Stock—	No. of Shares	Fund—	Period
New Portfolio Holdings			
Allied Chemical	1,000	Selected Amer.	September
American Smelting	5,000	Putnam	Qtr. end. Sep. 30
Anderson-Prichard	7,500	Putnam	Qtr. end. Sep. 30
Durez Plastics & Chem.	----	Growth Cos.	October
Gulf Oil Corp.	8,000	Gas Industries	July
Mullins Mfg. Co.	----	Growth Cos.	September
N. Y., Chic. & St. L. RR.	1,000	Selected Amer.	September
Rhinelander Paper	6,000	Putnam	Qtr. end. Sep. 30
Robbins Mills	2,500	Putnam	Qtr. end. Sep. 30
Ultrasonics Corp.	----	Growth Cos.	October
United Merch. & Mfrs.	----	Growth Cos.	September
Additions to Portfolio Holdings			
American Cyanamid	----	Growth Cos.	October
Baltimore & Ohio, pfd.	1,000	Selected Amer.	September
Canada Dry	----	Delaware	Wk. end. Oct. 6
Cities Service	----	Growth Cos.	October
Cooper Bessemer	----	Growth Cos.	September
Crown Cork & Seal	----	Delaware	Wk. end. Oct. 15
Deere	2,000	Selected Amer.	September
Ekco Products	----	Growth Cos.	September
General Foods	----	Delaware	Wk. end. Oct. 6
General Foods	----	Delaware	Wk. end. Oct. 15
Gulf Oil	----	Growth Cos.	September
Haloid	----	Growth Cos.	September
Int'l Hydro-Elec. pfd.	----	Delaware	Wk. end. Oct. 6
Internat'l Tel. & Tel.	1,000	Selected Amer.	September
Iowa-Illinois Gas & Elec.	----	Delaware	Wk. end. Oct. 6
Koppers Co.	----	Growth Cos.	September
Koppers Co.	----	Growth Cos.	October
Montgomery Ward	100	Dreyfus	September
Radio Corp. of America	500	Selected Amer.	September
H. H. Robertson	----	Growth Cos.	September
A. O. Smith	----	Growth Cos.	September
Speere Carbon	----	Growth Cos.	October
Union Tank Car	----	Delaware	Wk. end. Oct. 15
United Aircraft	----	Delaware	Wk. end. Oct. 6
United Aircraft	----	Delaware	Wk. end. Oct. 15
U. S. Foil "B"	----	Growth Cos.	September
U. S. Gypsum	----	Growth Cos.	September
U. S. Plywood	----	Growth Cos.	September
Reductions in Portfolio Holdings			
American Natural Gas	----	Growth Cos.	October
Baltimore & Ohio, com.	3,200	Selected Amer.	September
Carrier	----	Growth Cos.	October
Crucible Steel	1,000	Selected Amer.	September
Grayson Robinson	----	Growth Cos.	September
National Gypsum	1,000	Selected Amer.	September
National Supply	200	Dreyfus	September
United Fruit	1,900	Selected Amer.	September
Eliminated From Portfolios			
American Can	100	Dreyfus	September
Amer. Sugar Refining	200	Dreyfus	September
Consolidated Gas Utilities	----	Selected Amer.	September
Copper Range	----	Growth Cos.	September
du Pont de Nemours	200	Dreyfus	September
Elliott Co.	----	Growth Cos.	October
Firestone Tire & Rubber	100	Dreyfus	September
Grayson Robinson	----	Growth Cos.	October
Gulf Oil	----	Delaware	Wk. end. Oct. 15
Iowa-Illinois Gas & Elec.	600	Dreyfus	September
Louisville & Nashv. RR.	----	Selected Amer.	September
McBee	----	Growth Cos.	September
McKesson & Robbins	----	Putnam Fund	Qtr. end. Sep. 30
National Supply	----	Selected Amer.	September
Pacific Mills	----	Putnam Fund	Qtr. end. Sep. 30
Pantepec Oil of Venezuela	----	Delaware	Wk. end. Oct. 15
U. S. Plywood, 3¾ B pfd.	100	Dreyfus	September

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and $8,132 per $1,000 principal amount of debentures outstanding.

During the third quarter, a dividend from net investment income of 15 cents was declared in accordance with an earlier conclusion to place the common on a quarterly dividend basis.

Total dividends declared for the year 1951 are 45 cents per share, an amount roughly equal to the company's net investment income for the first nine months, after providing for preferred stock dividend.

There were no major changes in the distribution of Tri-Continental Corporation's assets between common stocks, senior securities and cash during the third quarter. Common stocks, on Sept. 30, represented 79.12% of gross assets less current liabilities; corporate bonds and preferred stocks, 19.74%; and net cash and U. S. Government securities, 1.14%.

Net assets of **U. S. and Foreign Securities** on Sept. 30 had an indicated value of $94,760,869, equivalent to $947.61 per share of first preferred stock outstanding and, after deducting the value in liquidation of the first and second preferred stocks in the total amount of $15,000,000, to $80.98 per share of common stock outstanding.

This compares with net asset value on Sept. 30, 1950 of $68,698,156, equivalent to $686.98 per share of first preferred stock and $54.52 per share of common stock outstanding.

U. S. & International Securities' Sept. 30 net assets of $62,189,005 were equivalent to $310.95 per share of first preferred stock outstanding and, after deducting the value in liquidation of the first and second preferred stocks in the total amount of $39,408,333, to $9.17 per share of common stock outstanding. This compares with net assets on Sept. 30, 1950 of $46,836,777, equivalent to $234.18 per share of first preferred stock and $2.85 per share of common stock.

No allowance has been made for tax on unrealized appreciation, as both corporations are "regulated" investment companies and expect to be relieved of that tax on such future realized investment profits as are distributed as capital gain dividends.

U. S. & Foreign Securities Corp. owns approximately 99% of the second preferred stock and 80% of the common stock of U. S. & International.

Capital Administration Company, on Sept. 30 had net assets of $9,561,483 before deducting funded debt, compared with $8,462,759 on Dec. 31 and $8,117,301 on Sept. 30, 1950.

Net assets on Sept. 30, 1951, were equal to $8,314 per $1,000 principal amount of debentures, $193.81 per share of preferred stock, $36.46 per share of Class A stock, and $4.21 per share of Class B stock. On Dec. 31 asset values of the Class A and Class B stocks were $31.10 and $2.84, respectively, and on Sept. 30, 1950, they were $29.41 and $2.41, respectively.

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Changing Investment Policies Of Mutual Savings Banks

expected that, unless growth is arrested by restrictive ceilings on dividend rates, savings bank deposits will continued their upward trend.

Relative Yields From Savings Bank Investments

A savings bank must consider the yield derived from investments, as well as their safety, liquidity and market stability, in formulating its portfolio policy.

Were it not for the yield factor, a savings bank from its own viewpoint would hardly be justified in holding anything other than government bonds. A trustee is not justified in assuming risk for risk's sake, without adequate compensation. Risk is justified only where necessary to realize a reasonable rate of return on savings.

The yield on government securities provides a yardstick by which all other yields can be judged.

Long-term marketable government bonds now provide a return of approximately 2.60%. Such bonds provide the highest degree of safety and liquidity, and involve limited risk of market depreciation should interest rates rise. To secure greater market stability by spacing of maturities, a savings bank would have to hold some shorter-term issues that would bring the market return down to nearer 2.50%.

In comparing the net return available from alternative types of investment, with yields available on government obligations, the expenses incurred in making and administering them must be considered. For example, a mortgage portfolio creates a considerable burden of expense, and only the net return to the bank after such expense is fairly comparable with the yield on governments, which involve a minimum of administrative expense.

FHA insured mortgages now give a return, after servicing costs, of 3.75% to 3.90%, or a yield differential of perhaps 1% compared with governments after allowance for expense factors. A small part of this difference may be put aside as a reserve against costs of foreclosure in the event of default and invocation of the insurance provisions. A reserve of 1/20 of 1% per annum, to accumulate a total reserve of 1% of face value of FHA mortgages held, is considered adequate by many bankers. Mortgages guaranteed by the Veterans Administration give a narrower yield differential over government bonds. The interest rate is limited to 4% and, since only part of the loan is covered by the guarantee, a reserve of ¼ of 1% per annum is regarded as desirable.

Conventional mortgages are even more attractive, with the home lending rate rising to 5% in many communities. After expenses and a reserve of ½ of 1% against possible future losses, the return is close to 4%, or considerably more than 1% over the yield on governments.

Corporate bonds of high quality yield over 3% now, or about 50 basis points more than governments of comparable maturity. This is a wider differential than was available a year ago, when insurance companies eagerly bid for all the high quality corporates available and held down the differential to around 30 basis points at that time. Most savings banks find a differential of less than 50 basis points between governments and high-quality corporates inadequate compensation for the difference in safety, liquidity and market stability involved. However, whenever the large insurance companies step out of the corporate market, as they did early last summer when their outstanding mortgage commitments were especially heavy, the yield differential tends to exceed 50 basis points and some mutual savings banks again find corporate bonds attractive.

Municipal and other tax-exempt bonds have not as a rule been attractive as a class to mutual savings banks. Other investors, subject to high and rising income tax rates, bid up prices and depress yields of tax-exempt obligations. Now that mutual savings banks have been made subject, for the first time, to the Federal income tax on earnings after dividends and expenses, tax-exempt obligations become of great interest to them.

In comparing yields from the several types of investments, the return after taxes is most significant. For example, on that portion of income subject to a 52% tax rate, a yield of 2% from municipal or public housing bonds is equivalent to a return of about 4% from taxable bonds of comparable quality. Consideration would have to be given, however, to the fact that investment in long-term tax-empt bonds involves a risk of market depreciation should income tax rates be reduced in the future, or should a Federal tax on mutual savings banks endure only for the period of the national emergency, or should the supply of tax-exempts be increased so greatly in the future that such bonds would tend to sell at yield levels closer to those offered by comparable quality taxable bonds.

Now that mutual savings banks have become subject to Federal taxation, the case for equity investment by these institutions is stronger than ever.

Mutual savings banks would be able to step up the average yield derived from their portfolios by investing a small percentage of resources in equities, as life insurance companies in most states are now authorized to do. The average yield available from the common stocks listed on the New York Stock Exchange today is over 6%. Corporations as a whole currently distribute as dividends less than half their net income, so that prevailing dividends have a cushion of protection against a decline in profits. Over the long run, moreover, the retained earnings should make possible dividend increases, as they have in the past. Massachusetts authorizes equity investment by mutual savings banks, although such purchases are limited to bank stocks. I believe that it would be sound to permit all mutual savings banks to invest in common stocks in amounts not exceeding one-half of their surplus and undivided profits accounts, to raise the average rate of return realized.

Authorization of such equity investment would also conform to the national policy of encouraging corporate financing with equity, as against borrowed, capital.

Intercorporate dividends are taxable only to the extent of 15% of their amount. This means that taxable dividend income to a mutual savings bank is subject to an actual tax rate of 7.8%, whereas taxable interest income is subject to a tax rate of 52%. In view of the favored position of dividend income under the tax law, consideration should be given to permitting mutual savings banks to invest in high-grade preferred and guaranteed stocks meeting specified tests, in lieu of corporate bonds. Such a preferred stock investment authorization should be apart from any authority to invest a limited amount of their funds in common stocks. Life insurance companies have long had such authority.

By increasing the rate of return derived from their portfolios, mutual savings banks will place themselves in position to pay higher rates of dividends to depositors in time. This will enable them to perform even more effectively their basic economic function of stimulating thrift and encouraging savings by offering a more adequate rate of return to the saver.

Conclusion

I think it is apparent in the light of history, that there can be no single ideal distribution of savings bank assets. Rather, asset distribution is bound to change from time to time with economic conditions and national policies. Whatever economic conditions and national policies prevail, however, savings bank investment policy must pursue the sound objectives of securing adequate safety and liquidity, reasonable market stability, and the highest average yield consistent with these other aims.

The mutual savings banks of the country today hold almost $22 billion in loans and investments. Government obligations as the largest single classification, approximate $10 billion; mortgage loans over $9 billion, and bonds other than governments $2.5 billion. In the period ahead, mortgage loans are bound to increase because of the taking up of outstanding commitments and the making of new loans, while the proportion of government security holdings is likely to decline over the longer run.

The present distribution of assets still reflects the preoccupation with Treasury financing during the World War II period. With the passage of time, the mutual savings banks may be expected to devote a larger proportion of their resources to the financing of private enterprise, rather than government deficits. The defense program may temporarily interrupt this trend; with peace, it should soon be resumed.

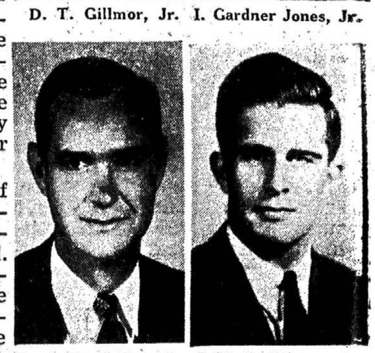
Over the longer term, therefore, as savings banks continue to grow, we may expect government security holdings to form a declining proportion of portfolios until they are only perhaps a quarter of earning assets, while mortgage loans should expand to a point where they will again constitute more than half the total of savings bank assets. Corporate and other bonds also will probably become a larger percentage of assets, say 15-20%. However, holdings of corporates could form a lower percentage, if tax-exempt bonds should replace them in the favor of savings banks. Generally speaking, corporate bonds are likely to be bought actively only when insurance company demand is less aggressive so that mutual savings banks can obtain yields of about 60 to 75 basis points over those available from long-term marketable governments. Common stocks will probably be bought on a limited scale by savings banks in most, if not all states, once investment laws affecting equity purchases are brought into line with those applicable to life insurance companies. At most, however, equities will provide an outlet only for a part of the funds of mutual savings banks. Buying of both tax-exempt bonds and equities has become very much more attractive, now that mutual savings banks are required to pay a Federal income tax on earnings after dividends and expenses.

These shifts in asset distribution, accomplished gradually over a period of time with careful deliberation, and accompanied by the further building up of reserves against risk assets and of surplus funds against deposits, should accomplish the twin purposes of safeguarding the strength of the mutual savings banking system while paving the way for eventual moderately higher dividend payments to encourage thrift. Moreover, such a prospective asset distribution spells increased service on the part of mutual savings banks to the all-important private enterprise segment of our national economy.

National Securities Expands Personnel

In recognition of the need for additional manpower to service an ever expanding business, Henry J. Simonson, Jr., President of National Securities & Research Corp.,

D. T. Gillmor, Jr. I. Gardner Jones, Jr.



Benjamin J. Kerr, Jr. J. M. R. Morton, Jr.

120 Broadway, New York City, announced that the following men have joined the organization to assist in the wholesale distribution of National funds in territories as indicated below. These new men, all experienced in retail selling of mutual funds, Mr Simonson stated, will work with officers of the company who have been handling the wholesale distribution of National funds for many years:

David T. Gillmor, Jr., with residence at Los Gatos, Calif., will assist Vice-President Rufus L. Carter in the wholesale distribution of National Securities Series in the States of New Mexico, Colorado, Utah, Nevada, Idaho and northern California.

I. Gardner Jones, Jr., with residence at Rochester, New York, will assist Vice-President Ira Jones in the northeastern states.

Benjamin J. Kerr, Jr., with residence at San Antonio, Texas, will assist Vice-President L. L. Moorman in the States of Texas, Arkansas, Louisiana, Mississippi and western Tennessee.

John M. R. Morton, Jr., with residence at Pittsburgh, Pa., will assist Vice-President G. Sellers Smith in the eastern territory.

Former Affiliations—Mr. Gillmor formerly was sole proprietor of his own retail organization in California; Mr. Jones, Jr., was with F. L. Putnam of Boston; Mr. Kerr had been active in the Southwest; and Mr. Morton was with Hornblower & Weeks of Philadelphia.

Railroad Securities

Illinois Central

Two weeks ago in discussing **St. Louis-San Francisco** we stated that the stock was on a regular $3 annual dividend basis. This was in error, or perhaps wishful thinking—the rate is only $2.50. This does not change our opinion of the shares. Since we wrote our column on the road the stock of the controlled New Mexico and Arizona Land Company, which had been very buoyant on vague rumors of important mineral discoveries, has retreated quite sharply. Partly in reflection of that, and partly in sympathy with general market considerations, Frisco common has also declined. Even disregarding the equity in the Land company Frisco common is viewed by most rail analysts as having interesting potentialities.

There is another railroad whose dividend policies are being watched with particular interest by followers of railroad securities. That is Illinois Central. It had been anticipated in some quarters that action on the Jan. 2, 1952 quarterly disbursement might be taken last week. Presumably it will not be decided on until the November meeting. This was one of the last of the major railroads to resume dividends after the depression cuts. Nothing was paid on the common from 1932-1949, inclusive. Last year payments were resumed on a $3 annual basis and this rate still prevails.

Illinois Central had plenty of reasons for the long dividend lapse, even though earnings during the major part of the period were high. It had a burdensome debt structure and a particularly onerous debt maturity schedule during the early 1950s. All available cash not needed for the properties and for working needs, therefore, had to be dedicated to debt reduction. For all practical purposes this problem is now behind them. For this reason, and because stockholders went so long without any return, there has developed a feeling in financial circles that more liberal dividend policies are now in order.

Disregarding any open market purchases of 1952-1955 maturities that may have been made this year (and it is known that some of these have been retired in 1951) the company has reduced its non-equipment debt by $176,170,390 since the beginning of 1941, a cut of more than 50%. Moreover, the 1952-1955 maturities had been pared by the end of last year to under $29 million and are unquestionably lower now. After that there is nothing but serial equipments until 1963. In comparison, the company on July 31 had cash and equivalent of roundly $55 million.

The road is traditionally an efficient one to operate, with a particular reputation for being able to control costs rapidly in any periods of stress. Share earnings on the common during the past ten years have averaged $12.33 and last year soared to $22.83. The 1950 results, however, were distorted by extraordinary credits and there can hardly be any hope of their duplication. On the other hand, it does appear reasonable to expect that the earnings this year will run between $13 and $15. If so, the management could well afford, in the opinion of most analysts, to pay out more than $3 a share without danger of being accused of abandoning sound financial policies. Common share earnings of $15 would be equivalent, after meeting the preferred dividend requirement, to over $20 million.

Another highly favorable aspect of the Illinois Central picture is the start of the development of some of its Lake Front real estate property in Chicago. Prudential Insurance Co. has already contracted for the purchase of air rights over part of the tract. Now that the ice has been broken it is expected that other sales should be forthcoming. It is impossible to estimate just how fast this project may develop or just what the ultimate value will be. Informed estimates lean to the opinion that Illinois Central should get at least $100 million, and perhaps $150 million, out of the development.

Malcolm Saunders Is Raymond Partner

Malcolm L. Saunders

BOSTON, Mass.—Malcolm L. Saunders has been admitted to partnership in Raymond & Co., 148 State Street. Mr. Saunders has been with the firm for many years in charge of trading.

Investment Course to Be Given at McMaster

HAMILTON, ONT., Canada—In cooperation with investment dealers located in Hamilton, the first McMaster University Course on Investment commenced Oct. 2. Lecturers in the course are P. J. F. Baker, Wood, Gundy & Co., Ltd.; H. A. Main, Nesbitt, Thomson & Co., Ltd. I. C. Heggie, W. C. Pitfield & Co., Ltd.; R. N. Steiner, A. E. Ames & Co., Ltd.; R. R. Labatt, Cochran, Murray & Co. Ltd., and T. H. L. Gallagher, Dominion Securities Corpn. Ltd.

Spencer Frank to Be Faroll Co. Partner

Spencer W. Frank, member of the New York Stock Exchange, will become a partner in the Exchange member firm of Faroll & Company on Nov. 1st. Mr. Frank, who will withdraw from partnership in Garfield & Co., Oct. 31st, will make his headquarters at Faroll & Company's New York office, 67 Wall Street.

Continued from first page

Does Our Gold Policy Make Any Sense?

that the devastating deflation of the years 1929 to 1933 had its real cause in the fact that the United States and Great Britain had chosen wrong gold parities for their currencies when, starting in 1924, the European countries decided one after another to return to the gold-standard. In other words, a wrong price for gold had been chosen in the middle of the 1920s when a great number of countries decided to return to the gold standard.

To this very day the economists of the world disagree on the causes of the "great depression" and particularly on the reasons for its intensity and duration. Most of the economists think that the 1929 depression was an ordinary business-recession, only exceptionally severe. I rather share the view that the most plausible explanation of the severity of the 1929 depression is that an ordinary business-cycle, and readjustments made necessary by the monetary, credit and economic policies followed during and after the war, were superposed on a fundamental downward trend of prices as expressed in gold-dollars. The fundamental downward trend of prices, as expressed in gold dollars, was due mainly to wrong gold parities of the dollar and of the pound, which were fixed with a complete disregard of the huge monetary inflation and the concomitant rise in prices during the war and the period immediately after the war. This is not the time to discuss the causes of the 1929 depression. I want only to emphasize my conviction that we could have avoided the intensity and duration of the 1929 depression if in 1925 the dollar and the pound had been devalued in order to sanction the level of prices reached because of the inflation of the monetary means during the war.

I submit that if we had an intelligent, intelligible and realistic diagnosis of the 1929 depression, and of the 1937 recession, many of the present day economic fallacies would not enjoy the credit they do. One of the most damaging consequences of the inadequate diagnosis of the 1929 depression is the distrust of the gold standard. It has come to be identified with depression and deflation. Our modern wizards dream of a world, or at least of our country, in a perpetual boom fed by inflation, and of course without a return to the gold standard. It does not matter to them whether we use as money gold, or newly created paper-money covering budgetary deficits, or credit expanded by banks. They believe we can play God once more as we tried in the 1920s with such dismal failure. Our modern wizards think they can devise policies, mainly inflationary, so as to have a constantly rising level of prices without ever reaching the state when either our people would distrust our currency, or other evils would ensue. They advocate a policy of paper-money and credit inflation without any regard as to the consequences on the rest of the world. We profess to favor and further the stability and free convertibility of currencies, and the freedom of international trade. Yet our domestic monetary and economic policies are such that we are pushing the other free countries into nationalistic economic policies. Ever since we have come to believe that it is our dollar which gives value to gold we are pursuing nationalistic monetary policies, and we expect the rest of the world to get in line with our actions and their consequences. Some of the ill-effects of our policies on other countries we try to offset by gifts and so-called economic aid.

Our Gold Policy

With all that, we are supposed to have a gold policy. Let us first see what this policy is. To describe it, I shall follow mainly the famous speech of Allan Sproul, President of the Federal Reserve Bank of New York, which he gave before the American Bankers Association in November, 1949.

First let us see what he says about money. He does not clearly distinguish between money and credit. To Allan Sproul "Money is a convenience devised by man to facilitate his economic life. It is a standard of value and a medium of exchange. Almost anything will serve as money so long as it is generally acceptable."

So apparently money does not need to be a valuable merchandise. I suppose that it is by mere chance that gold serves as money. What does Sproul say about gold:

"In this country we still retain some attachment to gold domestically, and more internationally, but to carry on our internal business we use a paper-money (and bank deposit accounts) which has the supreme attribute of general acceptance."

So here you have the theory in a nutshell: Gold, paper-money, bank-notes, credit, all are interchangeable, one as good money as the other, and I assume all having the same short- and long-term effect on prices.

You probably noticed that Sproul says that money is a standard of value and a medium of exchange, without mentioning that it must be able to serve as a store of wealth.

It seems to me that if our times have revealed anything in monetary matters, it is that money must inspire confidence to the people. Money cannot serve properly even as a medium of exchange if people are not convinced that the purchasing power of the money will remain stable during a relatively long period of time. Since 1918 the people of most European countries were concerned mainly with the problem of the monetary stability of their incomes and wealth. Too many economists in our country dealing with monetary issues take for granted the element of confidence in the currency. Keeping in mind the lessons of monetary history, it seems unrealistic to me to deny the importance of money as a store of wealth. This fact is particularly obvious in countries which have suffered from serious monetary mismanagement, like France and Italy. Experience shows that the more the Government controls the printing-presses of money, the more people want gold as money.

Even if one admits that an isolated country might get along with a paper-money, it seems undeniable that an international currency must necessarily be a merchandise universally desired, as is the case of gold. In the final analysis, international balances can be settled only with a merchandise acceptable to and desired by the creditor.

Now that we have examined the concept of money held by Sproul and most other economists, let us see what our gold policy is:

(1) We maintain an internation gold bullion standard by buying and selling gold freely at a fixed price of $35 a fine ounce in transactions with foreign governments and central banks.

(2) Gold serves as the monetary reserve of the country as a backing for our money supply (currency and demand deposits in banks).

(3) Gold serves as a means of adjusting international balances.

(4) Gold should not be available for hoarding purposes.

The fact is that people are anxious to hoard gold only if they lose confidence in their national currency. Our people did not hoard gold in the 1920's even at the peak of inflation in 1929. We deny to our people the right to hold gold under the pretext that people misuse gold, while at the same time the governments confiscate it to their own advantage.

While I am prepared not to insist on gold coin convertibility, I think that people should be free to buy, sell, import or export gold under whatever shape or form. At the origin of all national currencies there is a metal currency. If people are deprived of the right and habit of holding gold, the gold standard gives the impression of an artificial device, which it is not. Besides, free transactions in gold make it easier for the average citizen to discern inflation in the early stages. I believe that Professor Rist is right in his opinion that governments prohibit people to hold gold merely because they have a bad conscience. In the name of what moral principle did our government confiscate the gold held by Americans in 1933?

From his remarks before the American Bankers Association, Mr. Sproul appears not to see much use for gold domestically as a backing of our money supply. He seems to think that "paper money," by which I suppose he means bank notes, has the supreme attribute of general acceptability. Why then should he be so worried about people in the United States hoarding gold?

Referring to a higher price for gold requested by the gold mining industry in order to increase the supply of gold, Mr. Sproul observes:

"There is no lack of monetary means of carrying on the business of the country nor is there likely to be. It is the economics of perpetual inflation to argue that a rise in the commodity price-level should be followed by an arbitrary increase in the price of gold and hence in the reserve base, thus permitting and perhaps promoting additional deposit expansion and a further upward movement of prices. We have been plagued, if anything, with an over-supply of money in recent years, and the United States gold stock, at the present price, is large enough to support whatever further growth in the money supply may be needed for years ahead."

This is indeed an extraordinary statement. The confusion between gold, paper money, bank notes, bank credit (debt) is complete. Mr. Sproul seems to forget that the rise in the commodity price level to which he is referring is the result of paper money inflation which served to cover the budgetary deficits of the government during the war. He is afraid of an increase in the gold reserve base, while he accepts a discretionary control of the reserve base (including, of course, monetizing of government debt) by a "monetary authority." Mr. Sproul also omitted to say that if the gold coverage of our currency and deposits with the Federal Reserve Banks seems more than adequate, it is simply due to the fact that in 1945 Congress arbitrarily reduced the gold coverage to 25% from 40% on currency, and 35% on deposits as provided in the Federal Reserve Act. If the gold coverage had not been reduced, even our huge amount of gold would soon prove inadequate. Furthermore, what does Mr. Sproul exactly mean when he states:

"That the United States has large gold reserves (My note, artificially increased by decreasing the gold coverage since 1945) which could form the basis of an additional money supply, if we needed it?"

He can mean only either that that bank credit (debt) can be monetized or that banks have the possibility to expand credit (debt). Does Mr. Sproul not think that there is enough paper money in our monetary system backed by government bonds? Does he think that bank credit (debt) can be expanded indefinitely without serious dangers to our money and economy? As the "Wall Street Journal" recently rightfully said, there may be such a thing as easy money, but there is no such thing as easy debt. I am rather of the opinion that already the money supply, created by credit (debt) expansion is too large. **Gold is the only increase in money supply and money reserve which does not present any danger. Mr. Sproul takes exactly the opposite view.**

I wish also to ask the following question: If gold is to serve chiefly as a medium for balancing international accounts, which means that it is used mainly for its merchandise value, why should our government prevent our gold producers from selling gold at the best price they can get, and why should the people of the United States not be free to buy and hold gold? It is clear, I hope, that our present gold policy does not make any sense.

How to Restore Monetary Order

The fact is that we have mounted in this country the most powerful and streamlined inflation engine in the world, which will play havoc with our welfare and freedom and that of the rest of the world.

Substantial further paper money inflation based on monetization of budgetary deficits will destroy confidence in the currency and lead to chaos. Further increase of money supply by expansion of bank-credit (debt) has its natural limitation and is becoming increasingly dangerous.

The greatest gift we can make to the free world is to stop inflation and restore the soundness of our dollar. Keep in mind, however, that when you have accustomed an economic body to huge injections of money or credit, the mere stoppage of such injections creates serious strains and requires moral fortitude. Yet the only way to stop inflation is to stop.

Our great objective must be to restore the gold standard internationally as soon as the situation in the world will make such restoration possible. We must also be careful that the return to the gold standard should be done with the greatest technical skill, so as to avoid a deflationary trend of prices similar to the one we had in the 1920's after most countries had returned to the gold standard. Let me now present the skeleton of the scheme which should lead us to the restoration of monetary order.

We should avoid further paper money inflation and severely limit bank credit expansion during the rearmament period.

As soon as the world conditions permit, assuming no war, we should return to a gold standard, rearranged in such a manner as to limit the issue of currency and the expansion of bank credit to magnitudes proportional to gold acquisitions by the Federal Reserve Banks. Furthermore, all our influence should be exercised on the main European countries to remove exchange controls and resume the free convertibility of their currencies and at a later state to restore the stability of their exchanges.

When the principal government (and mainly ours) will have stopped paper money inflation, history teaches us that we should expect a resumption in the downtrend of prices. Not too long a time after the downtrend of prices will have become obvious, we should devalue our currency in terms of gold. The other currencies will meanwhile have been left free to find a realistic level in relation to the dollar. I do not share the view that we should wait for a period of severe depression in order to change the gold value of the dollar (and necessarily of the other currencies). Our aim must be to **prevent** a severe and prolonged depression like the one which began in 1929. The lesson of the Great Depression seems clear to me. By avoiding abuses of credit, by right wage and farm policies, and by devaluing the main currencies (and mainly the dollar) in terms of gold, we may still have an ordinary business cycle, but we can avoid a severe depression. Having permitted our price level to rise by 120% above 1939 as a result mainly of the paper money inflation during the war, we should try to avoid a severe deflation of prices due to the stoppage of inflation. This can best be accomplished by devaluing the dollar (and other currencies) in terms of gold, but the timing is important. The devaluation would be merely a sanction of the fall in the purchasing power of the dollar. A change in the gold parities (devaluation) of the main currencies would:

(1) Increase the production of gold.

(2) The foreign countries would have perhaps in excess of $2 billion a year (depending on the amount of devaluation) more to meet deficits in current international payments. (This is sounder than gifts.)

(3) The international gold liquidity has been impaired as a result of the war inflation. There is no doubt that all countries need substantial cash reserves (gold) to take care of the value of trade and credit outstanding in the world. As long as monetary order is not restored and exchange controls and import quotas are not eradicated, large swings in international payments will continue, and the gold reserves need be much higher than they otherwise would have to be. One way to economize gold is to restore free trade and to pursue with vigilance the objective of equilibrium in the balance of international payments.

Meanwhile and until world conditions permit the realization of the above sketched program, we should maintain our present gold bullion standard and permit the free purchase and sale of gold as well as the importation and exportation of gold. The U. S. Treasury should be permitted, at its discretion, to sell or buy gold at $35 per ounce in the free gold market.

The greatest service we can render the free world is for us to restore the soundness of our dollar. Barring war, the future of the free world is mainly in our hands. Freedom will be saved only if we begin to show restraint and wisdom in our economic and monetary policies, and by restoring the gold standard as soon as world conditions will permit. The alternative is regimented and controlled economies all over the world.

McAndrew & Co. in New Enlarged Quarters

SAN FRANCISCO, Calif.—McAndrew & Co. Incorporated have just completed refurnishing and redecorating their offices at 1900 Russ Building. Additional space is being taken and relocation of the trading and accounting departments have been made to improve the efficiency of the operation and to provide office accommodations for retail salesmen covering Northern California.

Mark C. Steinberg

Mark C. Steinberg, head of Mark C. Steinberg & Co., St. Louis, passed away Oct. 21 at the age of 70.

Carter Corbrey Joins Oscar F. Kraft Co.

Carter H. Corbrey

LOS ANGELES, Calif.—Carter H. Corbrey has become associated with Oscar F. Kraft & Co., 530 West Sixth Street. Mr. Corbrey formerly conducted his own investment business, Carter H. Corbrey & Co., in Chicago and Los Angeles.

West Virginia Turnpike Deemed Attractive From Investment Standpoint

A scarcity of adequate competing highways or railroads combined with an engineering estimate of exceptionally heavy freight revenues make the proposed $90,000,000 West Virginia Turnpike particularly interesting from an investment standpoint. The proposed turnpike which will run north-south, will extend initially from Princeton, near the Virginia border on the south to Charleston, a distance of 86 miles.

The West Virginia Turnpike offers more advantages to motor traffic, truck traffic in particular, than any of the other three turnpikes (Pennsylvania, Maine, New Hampshire) now in operation, according to Coverdale & Colpitts, consulting engineers. This latter firm has recently completed an exhaustive one and one-half year study of the estimated traffic and revenue that would accrue to the turnpike.

Preliminary studies indicate, the engineers say, that truck traffic will be responsible for 70% of the total operating revenue from the West Virginia Turnpike, which compares with 63% of the total from the Pennsylvania Turnpike. Coverdale & Colpitts went on to say, however, that this figure represented percentage of revenue, rather than percentage of vehicles using the Turnpike. Estimates show that approximately 62% of the users of the Turnpike will be passenger cars, while 38% will be trucks.

The West Virginia Turnpike is estimated to carry a higher proportion of motor truck traffic than any of the presently operating turnpikes.

In the case of the Pennsylvania Turnpike, says the engineering firm, competing highways have relatively heavy grades and circuitous routes, but the total mileage saved is less and the limiting effect of the grades on loads is less than is the case on highways which compete with the West Virginia Turnpike. In the latter case there are many steep grades which reduce the speed of a motor truck to a crawl for four or five miles. In addition, competing highways are narrow and tortuous.

The Turnpike forms a part of a central trunk line system which eventually will connect the Piedmont section of North and South Carolina and Georgia with the industrial districts of the Central north embracing the area between Detroit, Toledo, Cleveland and Pittsburgh. It also forms part of a route from the south and southeast to northwest and from southwest to north and northeast.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Insurance stocks as a group have acted very well in the recent decline in the equity market.

The reaction of the past week has been substantial and included most stock groups. Of course, some stocks show declines greater than the averages. On Oct. 15, 1951, the Dow-Jones Industrial Average of 30 stocks was at 275.74. At the close on Oct. 23, 1951, the average had declined to 263.50 or a decline of 12.24 At one time during the reaction the market sold as low as 259.76 in the Dow-Jones Average.

Most of the decline occurred during the trading of Friday, Saturday and Monday. Leading stocks in these three sessions showed declines of several points. The market steadied on Tuesday and showed some recovery in the next trading session.

During this period insurance stocks, although they experienced some declines, did not participate in the general liquidation which took place in other stock groups.

Most of the leading fire insurance shares show declines of only fractions. A number of stocks, of course, experienced larger losses. It is interesting to note that the two issues which show the largest declines in the following tabulation are those listed on the Stock Exchange—Continental Insurance and Fidelity-Phenix. Some of the issues did not decline at all.

The following table shows the current price, market on Oct. 15, 1951, the change between the two periods and the price range so far this year for 26 fire insurance stocks:

	Current Bid Price	Market Oct. 15, 1951	Change	1951 Price Range
Aetna Insurance Co.	52¼	55½	—3¼	61¼— 49
Agricultural Insurance.	68	68½	— ½	75 — 68
Amer. Insur. (Newark)	21⅜	21⅝	— ¼	22¾— 19¼
Boston Insurance	61½	62	— ½	62¾— 54
Camden Fire	20	20¼	— ¼	22½— 20⅜
Continental Insurance	69	72¾	—3¾	78 — 64½
Federal Insurance	86½	88	—1½	89 — 75
Fidelity-Phenix	68½	72¾	—4¼	78 — 65
Fire Assoc. of Phila.	57	59	—2	62½— 52¼
Fireman's Fund	49½	53	—3½	58¼— 47
Fireman's Ins. (Newark)	22	22	--	22⅞— 19¾
Glens Falls Insurance	54¾	56¼	—1½	59¼— 52
Great American	34½	35¼	— ¾	36½— 30¾
Hanover Fire	32½	33	— ½	34 — 31
Hartford Fire	126	128	—2	142 —122
Home Insurance	34¼	34¾	— ½	37¾— 34¼
Ins. Co. of North Amer.	64½	65¼	— ¾	73½— 62
National Fire	58	59	—1	62 — 55¼
National Union Fire	35¼	37½	—2¼	38½— 23¼
New Hampshire Fire	39½	40½	—1	42 — 38
Phoenix Insurance	75¼	77¼	—2	84¼— 74
Providence-Washington	26½	26¾	— ¼	30½— 26¾
St. Paul Fire & Marine	31	31	--	33¼— 28½
Security Insurance	30¼	30¼	--	34½— 31¼
U. S. Fire	38¾	39½	— ¾	41¼— 34½
Westchester Fire	21	21¼	— ¼	22¼— 19¾

Possibly one of the reasons for the market action of insurance stocks in the past week is that these stocks have not been among the favored groups in the stock market in recent months. In contrast to such issues as the oils, metals and chemicals, insurance shares have attracted little attention. Thus, they were not vulnerable to a sharp decline.

Operating difficulties such as increasing losses on automobile and fire lines have not been particularly favorable for an upward move in insurance stocks. At the same time, increasing investment income gives assurance that dividend payments will be maintained, so there was no reason for investors to sell their holdings.

In fact, the outlook for investment earnings is sufficiently favorable to justify larger payments in a number of instances. Within the last month two companies, Fireman's Insurance of Newark and U. S. Fire, have increased their distributions.

Fireman's Insurance of Newark increased its semi-annual payment from 35 cents to 40 cents and U. S. Fire paid a 10 cent extra to bring payments up to a rate of $1.50 a share.

During the next three months many of the other insurance companies will be considering dividend payments including year-end and extras. It is not expected there will be any reduction in payments over those of last year and some further modest increases are a definite possibility.

The above considerations are undoubtedly responsible to some extent for the recent market action of insurance stocks.

Securities Salesman's Corner

By JOHN DUTTON

If you were the proprietor of a ladies apparel store and a buxom female stalked into your establishment, and you could easily discern that she weighed well over two hundred on the hoof, and she asked you to show her some dresses, you wouldn't take her to the rack where you kept your size twelves, would you? You would tactfully guide her over to the place where she would find her exact size, without any discussion on your part. You would know at a glance (if you understood your business) just about the right amount of decoration she would have to use for the purpose of covering her ample corpus. You would let the sale be decided by her choice of materials, cut, styling and the rest. But her size, that, you would keep out of the discussion. Experience would have taught you long ago that there are certain things better left undiscussed under such circumstances.

Knowing Your Customer

I heard recently that a certain firm sent a very young man into an adjacent town to sell Mutual Funds. He had taken a course of training and, so fortified, the brave young fellow took up his headquarters in a new community and went to work. He lasted about a month. Discouraged and with no business to show for his efforts he went back to the home office. I don't know what happened to him but I can assure you that his firm did him no favor by putting him through such an experience. I have some idea why he failed and, for the record, I can give you right here and now the actual case history of one of his calls. It was later followed by an experienced salesman from the same firm who reworked the leads.

The young salesman went out with his prospect cards and he had learned a sales talk. So he called, and he talked, and he didn't sell. It so happened on one of his calls that he interviewed a business executive who was about 48 years of age. This man had two children in college, and owned his home. But high expenses and taxes kept his nose to the grindstone to such an extent that all he could do, regarding his savings, was to keep up his life insurance. The young salesman had a pleasant interview. He told this prospect about diversification, about supervision, about a fair return on his money, about the way Mutual Funds would relieve him of investment worries; and all in all, he presented his proposition ably and well. The business executive thanked him and told him that he was glad to know about such a fine investment and if some day he had some extra money he would keep it in mind. The prospect card was sent back to the sales manager marked —no prospect—no money.

Then an experienced salesman took over. He picked up this same card and decided to try and see for himself what the real situation might be. He called the man on the telephone and thanked him for the nice interview he had granted the young cub salesman. Then he suggested that **if the prospect, or his wife, or any one in his family owned any securities**, possibly he could have them carefully reviewed without any charge or obligation. That suggestion immediately disclosed that the prospect had some investments which he had made years ago, and he was not very happy about them. An appointment was made, and as a result, a reinvestment in other situations that had a better future outlook were used to replace the unattractive holdings.

Essentially, this was an account that had no need for Mutual Funds. At best, all this man desired to do was to take the money out of the unattractive speculative items he held, and put it to work where he might have a better chance to make a speculative profit. He told the second salesman that he was not interested in any savings plan, or any slow income producing investments. All he wanted to do with the money he had invested was to try and make some profit out of it. If he lost all, or most of it, he was willing to do so. The reason for his preference for speculative stocks was that he had a guaranteed pension for his old age, and that his insurance program and social security provided all he desired as to retirement income. He wanted to speculate, but he needed some better vehicles than the ones he held for the purpose.

Some people can use savings plans, some need income; some desire to speculate, some should have a combination of safety, income and capital gains, some need competent counsel and someone with whom they can discuss their investments. Others just want you to take their orders and wait until they call upon you. You can't sell a size 12 when they want a 44.

Toronto University Investment Course

TORONTO, ONT., Canada—The University of Toronto Extension Course "How to Invest Your Money" began on Oct. 10 and will run until Dec. 12. The course is given by a panel of five lecturers: P. J. Anderson, A. E. Ames & Co. Limited; L. E. Barlow, McLeod, Young, Weir & Co., Ltd.; B L. Coyne, Deacon Findley Coyne Limited; T. P. N. Jaffray, Dominion Securities Corpn. Ltd.; and W. P. Wilder, Wood, Gundy & Co., Ltd.

Sides, Morse Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Marilyn B. Lewis has been added to the staff of Sides, Morse & Co., Inc., 199 Washington Street, members of the Boston Stock Exchange.

Continued from page 7

Is the Cycle of War Bond Selling Completed?

less of this war was financed by creating money and bank credit (about 10%) than of World War I.

One peculiar feature of World War II securities was that all issues of the same term had the same interest rates. This was the famous wartime "Pattern of Rates," shown in the following tabulation:

Issue	Interest rate
90-day Treasury bills	.375
1-year Treasury ctfs.	.875
8- to 10 year bonds	2.000
Long-term bonds	2.500

Each bond drive was not characterized by a higher rate than the previous one as was usually the case in World War I. The highest rate of all was 2.9% on the E or savings bonds when held to their 10-year maturity. From the Treasury's viewpoint this consistently low pattern of rates kept down the service cost of government securities.

As in World War I, people were urged to save by buying bonds. It was even hinted that spending these savings after the war would prevent a depression. Partly to remove any fear of not being able to market the bonds favorably, as had been the case in 1920-22, the price was virtually guaranteed. That was essential, too, to maintain the "pattern of rates." It was done by the cooperation of the Federal Reserve System. The New York Federal Reserve Bank bought the securities at pegged prices if there were no other buyers. This pegging of government security prices was probably the most conspicuous feature of World War II securities. It was also their worst. And this pegging continued after the war and was still practiced as late as early 1951. True, the pattern of rates was allowed to rise somewhat.

Federal Reserve Bank support-purchases of government securities pumped bank credit into circulation just at the time when some of it should have been drawn off. When the price level rose, that put pressure on interest rates to rise. That forced security prices down, which in turn obliged the Federal Reserve to buy more government securities to protect the government security price level that the Treasury wanted maintained. And that put more demand deposits into circulation and paved the way for a second round of the same process. The process was so subtle, however, that most laymen did not understand it.

Only a combination of circumstances in the winter of 1950-51 finally broke the vicious circle. The price level rose as much as 1% a month during the latter part of 1950. This greatly disturbed the American public and Congress. The feeling grew that something would have to be done to stop the inflation. Newspapers gave the public some idea of the cause. The Board of Governors of the Federal Reserve System finally came to believe that the time was propitious for taking action. A $3 billion budgetary surplus made the Treasury less resistant. Still, both the Treasury and the President protested a rise in interest rates and a removal of the bond "pegs." These protests served to highlight the controversy. On March 3 an agreement to remove the pegs on bonds was announced. Since then bond prices have fallen and interest rates have risen. Actually, that is two ways of saying the same thing. All this reflects an improved situation for the time being. But is it sufficiently improved and how long will it remain improved?

The Korean War may be nearing a settlement. The Iranian incident may not prove so serious as at first appeared. But Russia is very likely to create other situations. Therefore the big armament program must go ahead. It will really get under way this autumn. Meanwhile the membership of the present seven-man Board of Governors of the Federal Reserve System which mustered the courage to raise interest rates is due for further changes. Marriner Eccles has resigned, M. S. Szymczak is contemplating resigning, and one or even two others may also depart. It seems probable that President Truman will appoint men more sympathetic with the Treasury view. There is also considerable refinancing to do this year. Either it must be all on a short-term basis, which solves little, or the Federal Reserve must temporarily "make a market" for the longer issues. Sooner or later there must be some longer issues. Can we be sure that the market that is then "made" is only temporarily "made"? We might readily find ourselves back on a long-term bond-support basis, with the only difference that bond prices are lower and interest rates higher. That is the background against which World War III or the big armament program must be financed. It is still an explosive situation.

Present-Day Bonds

Three generations have been born and many persons have lived out their lives and died since the Civil War. Once again a great industrial nation that is militarily weak is pitted against a great agricultural nation that is militarily strong. Again our financial health is not good. Taxes are high; local, state and Federal taxes take almost 30% of the national income. This tax rate right now, before any large-scale hostilities, is as high as it was on the average over World War II. It is above the rate (25%) which the Australian tax expert, Colin Clark, contends curbs incentives to work and leads to inflation.

People still have vivid memories of the OPA price controls and of the World War II inflation. They are sophisticated about price controls. They want no more inflation, but they fear that there will be more.

The public is growing distrustful of bonds. As millions cash in their savings bonds and get back dollars that buy only 55 to 70% as much as those that they invested in 1941, 1942, 1943, and 1944, that distrust mounts. Congressional and Treasury permission to keep their funds invested in savings bonds at 2.9% is not likely for long to allay that fear.

If people are to continue to buy bonds, something better than that must be offered. Something must be done to rehabilitate the government's credit so that taxes will not have to be raised to levels that will unquestionably discourage productivity, and so that further creation of money and bank credit can be avoided, or at least limited.

Suggested Solutions

Last year Professor Sumner Slichter of Harvard University suggested that the Treasury issue a bond bearing a Treasury guarantee to return to the holder the same purchasing power in dollars that the original investor put up. The great flaw in this outwardly attractive proposition is that such bonds, if issued in any great quantity, would force down the value of other unprivileged bonds. That would speed up monetization of the debt or cause heavy losses to financial institutions holding the unprivileged bonds. So also would a resurrection of the Civil War plan of making government bonds payable, interest and principal, in gold dollars of the present weight and fineness. Likewise blanket increases in interest rates on all government securities would cause sizable readjustments in the markets for all other securities.

What then can be done to rehabilitate the bond market? The nation has had considerable experience with war bonds since the Civil War. Why not draw on that experience? Why not learn something from the advantages of the methods used in three great wars, and yet avoid the disadvantages of those same methods as much as possible?

The chief advantage of the Civil War system was that the bonds were redeemable, interest and principal, in gold and hence the purchaser believed that his purchasing power was protected. The chief disadvantage, of course, was

TABLE 4

Ratio of Gold to Currency Outside Banks and Demand Deposits Adjusted, 1914-1951

Year—	(1) Gold Holdings	(2) Currency Outside Banks and Demand Deposits Adjusted	Ratio of (1) to (2)
1914	$1,500,000,000	$11,600,000,000	12.9%
1915	2,000,000,000	11,400,000,000	17.0
1916	2,600,000,000	13,800,000,000	18.9
1917-1919 (Gold standard suspended.)			
1920	2,600,000,000	23,700,000,000	11.0 (low)
1921	3,400,000,000	20,800,000,000	16.3
1922	3,600,000,000	21,400,000,000	16.8
1923	4,000,000,000	22,900,000,000	17.5
1924	4,200,000,000	24,600,000,000	17.1
1925	4,100,000,000	26,100,000,000	15.7
1926	4,200,000,000	25,500,000,000	16.5
1927	4,100,000,000	26,400,000,000	15.5
1928	3,900,000,000	26,700,000,000	14.6
1929	4,000,000,000	23,400,000,000	15.1
1930	4,300,000,000	24,600,000,000	17.5
1931	4,300,000,000	21,900,000,000	19.6
1932	4,200,000,000	20,400,000,000	20.6 (high)
1933-1934 (Gold standard suspended. Resumed in 1934 following 41% devaluation.)			
1935	10,100,000,000	27,000,000,000	37.4
1940	22,000,000,000	42,300,000,000	52.0
1945	20,100,000,000	106,000,000,000	19.0
1948	24,200,000,000	111,600,000,000	21.6
1950	22,700,000,000	117,700,000,000	19.4
1951, June	21,800,000,000	114,500,000,000	19.0
Avg. Ratio for gold standard years 1914-32			16.35

SOURCE: Board of Governors, *Banking and Monetary Statistics*, pp. 34, 536; *Federal Reserve Bulletin*. Gold figures are for December unless otherwise indicated; currency and deposit figures are for June, 1914-22, thereafter for December. Devaluation in 1933-34 increased our dollar holdings of gold by 69% and tremendously stimulated gold mining; for it assured gold producers $35 an ounce instead of $20.67.

permitting such bonds to be purchased with depreciated greenbacks.

The chief advantage of World War I bonds was that the government did not worry much about their market price. The major disadvantages were two: namely, that too many were sold to banks, and that the market for their resale was temporarily very poor in the depression of 1920-1922.

The chief advantage of World War II bonds was that the government made an apparent, if somewhat unsuccessful, effort not to sell them to banks. Their chief disadvantage was the guaranteed market price.

For the present situation a bond is needed that will avoid most of the disadvantages just cited and will combine most of the advantages. Such a bond would be purchasable with currency that is not depreciating and would be payable in gold. It should not be sold to banks, and its value should be established through sales in markets in which the Federal Reserve would participate as little as possible. Is it possible to have such a paragon of a bond? We can come close to having such a one, although, like World War I bonds, it would not be immune from market declines.

Return to a Gold Coin Standard

As was said before, if we are to avoid more and more monetization of the national debt we must find a substitute for bond supports. We need something to supplement higher interest rates, something that will make bond supports seem less necessary, and something that will reduce the chances that the Treasury will insist on them again. What can we put in place of these bond supports that will give the public more confidence in the bonds? The best feature of the Civil War bond, gold payments, should be adopted. We may do this simply by making money and demand deposits again redeemable in gold. Passage of the Reed bill now before Congress would put us back on a gold coin standard. Making all monies redeemable in gold coin would not guarantee the dollar's purchasing power completely, but it would help considerably. It would reassure both those who are selling their bonds because they fear more serious inflation and those who are hesitating to buy bonds for the same reason. It would put all securities on the same basis and remove the problem of market readjustments. Admittedly, there might be some interest rate increases but, with gold to share the burden of reassuring the public against inflation, interest rates would probably not rise as much.

The question arises as to whether there is enough gold to do this. There is. In the period of the gold coin standard, 1914-32, we had less gold back of our currency and demand deposits than we have today. The average then was $16.35 per $100 as compared with $19.00 today. (See Table 4.) Our present gold reserve is one of our greatest and one of our least used assets. We should use it. Gold convertibility would stem the tide of inflation and it would rehabilitate the bond market. Both results would necessarily lighten the tax burden.

If there was any justification in 1933-34 for abandoning the gold coin standard because of the depression and unemployment (I doubt that there was), certainly such justification no longer applies in today's era of prosperity and full employment. A condition now exists which not only favors a return to the gold coin standard but cries out the need for it.

Conclusion

The original title for this article was "This is where great-grandfather came in." Continuous shows repeat themselves and so does history. By the time a show repeats itself most of the audience is new and that is true of history, too. So the cynic says, "The chief thing that we learn from history is that we do not learn from history." That is too often true, but it is not always true and does not have to be this time.

In the matter of war bonds, we have completed a cycle and are back to a situation closely resembling that of the Civil War. Let us learn from the experiences our country has had since then. We must not expect the results to be perfect, of course, but they should be better than if we take the chance of reverting to the World War II method. The conditions justifying bond supports have passed, if indeed they ever existed. We should not even think of reviving this method. The bond-support system has too many serious faults. It inflates the currency, discourages bond buyers, and dilutes the tax dollars. We need instead a system that will reduce currency inflation, encourage bond buyers, and stretch tax dollars. Return to a gold coin standard to supplement our freer bond market system seems most likely to accomplish this.

Continued from page 2

The Security I Like Best

value, or twice as much as the Dow-Jones industrial average, they are still the favorites for people who are planning their programs for the next decade. Some of these stocks have been bought so enthusiastically during the past two years that they may need a deserved rest, but the outlook for continued growth of sales and earnings should make them attractive, especially when they are available at prices not over 12 and 15 times estimated earnings. They are candidates for inclusion in a list of stocks that should rise to new peaks in future bull markets and that should be popular for accumulation by investment companies, trust funds, insurance companies, and pension funds during bear markets.

Industries where representation should be sought are drugs, chemicals, electronics, atomic energy, petrochemicals, plastics, synthetic fibres, electronic business machines, air conditioning, air transportation and television. While there are many deserving issues that could be included in a portfolio for conservative investors, the following would give broad representation in a few of the better established companies: du Pont, Pfizer, Corning Glass, Minneapolis-Honeywell, Radio Corporation, Sperry, Westinghouse, Firestone, Johns-Manville, U. S. Plywood, International Business Machines, Remington Rand, Celanese, Food Machinery & Chemical, Eastern Airlines, Mathieson Chemical, and Davison Chemical.

Where a greater degree of risk can be assumed and where good diversification can be maintained, the profit possibilities could be even greater in some of the smaller companies, such as Consolidated Engineering, Collins Radio, Ultrasonic, American Research & Development Corporation, Fansteel, Tracerlab, Haloid, National Research, and Beryllium. These issues look like healthy speculative acorns and at least some of them should, in time, develop into profitable investment oaks.

Investors who feel unqualified to judge the outlook for individual companies or who do not have sufficient funds to obtain good diversification, might well consider the shares of investment companies that specialize in growth and scientific companies. Among these are United Science Fund, Chemical Industry Series, Drug Shares, Chemical Shares, Chemical Series, Chemical Fund, Television and Electronic Industries. An investment in such stocks would provide a part ownership in a broad list of leading scientific research companies, and would place the problem of selecting the most deserving securities in the hands of the managers of these funds. Scientific discoveries are being made so fast that it takes an expert to evaluate the future for individual companies. The premiums that have to be paid for acquiring such investment company shares are small compared with the advantages of having specialists who can best judge the influence of scientific developments on future investment values.

ROBERT N. TULLER

Partner, Tuller, Crary & Ferris, New York City
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Public Utility District No. 1 of Chelan County, Washington

I would nominate the obligations of Public Utility District No. 1 of Chelan County, Washington, as being the most attractive tax-exempt offering at this time in a comparable rating class.

Robt. N. Tuller

This issue of $33,600,000 was sold for the purpose of providing funds for raising the height of the existing Rock Island dam on the Columbia River and installing an additional 150,000 kva. of rated capacity.

These bonds were brought to market on May 7, 1951, and were favorably received. The longer bonds were marked up by dealers at that time. Recent dullness in the tax-exempt market has made these bonds available at the original offering prices which represented substantial value.

I thought this issue soundly conceived at the time of issuance, and still believe so. The main points which impressed me are these:

(1) There exists a real need for the power which this project will supply not only presently because of the war emergency, but in the normal peacetime pursuits of this growing area. The project has been given the highest priority status by the defense agencies.

(2) It appears likely that this project will (because of its unique position in building onto previous low-cost construction) be in a position to supply power at a unit cost per kw. lower or as low as any competitive source in the Northwest.

(3) The contracts with Aluminum Company of America, Puget Sound Power and Light Company and the Distribution System of the District give an assured outlet for all firm power produced at a service-at-cost rate which will maintain a constant coverage of 1.35 times debt service of the bonds.

(4) The three main takers of power from the project are represented by such facts as the following:

(a) The Aluminum Company of America plant investment is estimated at $58,000,000.

(b) The Distribution System of the District is represented, presently, by over 11,000 customers, and a service population of 36,000.

(c) Puget Sound Power and Light Company is regarded as a well-managed utility with approximately 158,000 customers, after sale of its Seattle properties.

(5) I can find no other tax-exempt revenue bond in the bank rating class possessing the above-described qualities and showing exempt yields of:

Yield—	Maturity
3.35%	1983
3.40%	1987
3.50%	2005

The maturities mentioned above should certainly command the interest of insurance companies and buyers of so-called businessman's risk obligations. It is likely as well that a corporation tax on savings banks could give these tax-exempt bonds a special attractiveness to such institutions.

Blyth Group Offers Pac. Gas & El. Stock

Blyth & Co., Inc. heads an investment banking group comprising 202 firms which offered publicly on Oct. 24 an issue of 1,500,000 shares of Pacific Gas & Electric Co. 5% redeemable first preferred stock ($25 par value) at $25.50 per share.

Proceeds from the sale will be added to treasury funds and will help finance the company's construction program which is estimated to cost $65,000,000 for the last five months of 1951 and $450,000,000 during the years 1952-54 inclusive.

Pacific Gas & Electric Co. is the second largest public utility in the country. It supplies electricity to 1,371,265 customers and gas to 1,058,991 customers in 46 counties in northern and central California, including the cities of San Francisco, Oakland, Sacramento, Fresno, Richmond and Berkeley. Gross revenues are derived 69% from the sale of electricity, 30% from gas and 1% from water. The company is now in its 55th year of operation, including predecessor companies.

Giving effect to this financing, outstanding preferred stock will amount to 11,284,825 shares.

Consolidated gross operating revenues for the 12 months ended July 31, 1951 amounted to $260,202,085, and net income was $36,273,356.

Complete Air America Offering

Edward V. Otis (left) of Gearhart, Kinnard & Otis, is shown handing a check for $261,000 to Theodore A. Colombo, trust officer, Colonial Trust Co., as Fred A. Miller, President of Air America, Inc., looks on. The check represents payment of the proceeds of an offering of Air America, Inc., Equipment Trust Certificates sold by Gearhart, Kinnard & Otis on behalf of the air line.

The equipment trust type of financing has been used successfully by the railroads for buying rolling stock for more than 50 years and its adaptation to the aircraft industry which has been pioneered by Gearhart, Kinnard & Otis, has been watched closely by the financial community.

Under the plan the trustee retains title to the planes purchased until the certificates are fully paid. Thereupon title to the equipment is turned over to the air line. This is known as the Philadelphia Plan.

That this type of financing for airlines is becoming accepted is shown by the fact that this entire issue was oversubscribed in a matter of a few hours.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market again finds its greatest demand and activity concentrated in the short-term end of the list. The 144-day tax anticipation bill is still a focal point of interest, along with the 91-day Treasury bills and certificates. The latter two issues, because of the liquidity preference among commercial banks, are being bought as an offset to expanding loans. There is considerable switching from the long to the short bills, with the former being taken up by corporations at substantially better yields than would have been obtained at the average subscription rate. The intermediate- and longer-term obligations have been in another one of those minor up and down trends, on light volume. There seems to be only very moderate interest in these securities from both the buy and sell side.

Commercial banks, as a whole, appear to have eyes only for the shorts, aside from the partially-exempts, which seem to be able to find a home whenever they are available. A few of the longest maturities came out of hiding the past week. Pension funds have been very modest buyers of the longest tap issues, but this took place largely on a scale down basis.

New Bill Issue Helps Market

The tax anticipation bills went at an average yield of 1.55%, which was a mild surprise to many money market followers. To be sure, the commercial banks went in for the kill in these bills, because of the attractiveness of this security to them from the standpoint of Treasury special deposits that were created on their books. As long as these deposits remain with the banks, only the normal reserve requirement will have to be set up. This is a cheap way to get funds that can be used to add to the revenues of the deposit institutions. Even though some of the tax bills were sold in the open market at yields that were higher than the average of 1.55%, it is believed there will still be considerable benefits that will accrue to the selling banks, because of the importance to them of the Treasury deposits that were brought into being through the subscription to the 144-day tax anticipation bills.

This borrowing by the Treasury should clear the decks, until at least the middle of next March, and it should ease the strain on the money markets on that tax day. Because of the ticklish international situation the Treasury is not in a position to draw down its balances. The 144-day bills went at a rate that should not be distasteful to the Treasury. Also by the time this security is due, there will be quite a bit of water over the dam, and the monetary authorities should be in a position to again tailor their offerings to meet the prevailing conditions. A breather like this should not have an adverse effect upon the money markets.

The rise in the prime bank rate from 2½% to 2¾% should not have an unfavorable influence upon the short-term market. There is the time element to be considered and that is how long can the higher rate be maintained? Then, again, as the commercial banks increase these loans, which have an element of risk attached to them, there will be the need to keep more and more funds in the riskless securities such as Treasury bills and certificates. The liquidity and riskless phase of the picture can be taken care of adequately by keeping funds invested in short-term Treasury obligations. This would seem to augur well for the near-term obligations.

Non-Governments Attracting Attention

The other sectors of the government market, while not as much in the forefront as the shorts, again have been backing and filling with an uncertain tone prevailing. There is still a lack of volume and more than a passing amount of professionalism in the scheme of things. Buyers are cautious and are putting funds to work only as it is necessary in order to get income.

There are still more attractive avenues of investment for most of the institutions other than government securities. Nonbank buyers continue to find private placements and new marketable issues to their liking because the return is more attractive than what they can get on government obligations. Commercial banks are really making hay with the demand for loans as strong as ever. This does not make them as conscious or dependent upon government securities, except for the shorts, which are being acquired for liquidity purposes as an offset to the larger commitments in commercial loans.

Savings Banks Alter Policy

There has been and still seems to be some spotty but not sizable liquidation of the tap bonds by savings banks. The taxing of these institutions is no doubt responsible for this action. When this selling will be over is not a point of great concern because it is not likely to reach substantial proportions. However, the change in the tax status of these institutions has probably removed them as buyers of long Treasury obligations for quite some time to come.

Pension funds, as a whole, are still on the sidelines save for a somewhat enlarged interest in the short-term obligations. They have also been making some limited commitments, nonetheless, in the Vics but only on price weakness. There appears to be a scale demand, for the highest yielding issues, from the pension funds, but the scale appears to be quite flexible and not too sizable at the moment.

The longer partials have been a bit more active, according to reports, even though quotations have given some ground, mainly quoting down. The 1960/65 issue has again been the one that appears to have the greatest tax shelter appea'

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Visible Factors in Business Outlook for Next Five Years

are low by possibly as much as $10 billion.

For in making these estimates several major assumptions are unavoidable, among them (1) that there will be no major war prior to June 30, 1956; (2) that average prices of articles purchased by the Defense Department will not go up beyond the level reached last April; (3) that the size of our armed forces will not exceed present planned levels of 3,500,000 men, the equivalent of 24 army divisions, an airforce of 95 air wings, an active fleet of 1,100 ships and a fleet marine of 2½ divisions; (4) that the military pay scale will remain at about the level of last March (it was recently increased 10% by Congressional action, thus adding over a billion dollars to military costs); (5) that present schedules for increasing plant capacity, for stockpiling and for delivery of munitions, tanks, planes, guns, and other hardware will not be stepped up; and (6) that active fighting though more or less continuous during the next five years will be substantially less severe than that carried on during the first year of the Korean War.

The impact of military expenditures of such magnitude upon business is more or less obvious. Business is, of course, by far the largest beneficiary. In the fiscal year ending next June business will directly receive about 53 cents out of every dollar the government is spending. The men in uniform will get 13 cents, bondholders including banks, insurance companies and corporations will get about 9 cents, veterans something like 7 cents, the farmers less than 3 cents, and all those on social security and old age relief less than 2 cents. See Table II.

These expenditures, it should further be noted, are bound to occur unless Congress quickly reverses actions it has just taken—that is, cuts existing authorizations and appropriations. Actually steps have been taken to get a 140-air group under way instead of 95 and to expand atomic energy programs. These will mean many additional billions of dollars.

Thus national security programs are likely to account for 70% and more of the Federal budget in the next five years. Interest on the public debt and veterans' benefits account for an additional 16%. In short, about 86% of all Federal outlays will go for wars, past and future. And the lion's share of these enormous outlays will go to business.

Large and Persistent Government Deficits

It is a political axiom, especially in years divisible by four (usually characterized by curious political goings-on) that legislators resist or vote against tax increases and foster or vote for increases in appropriations. The year 1952 promises to provide no unexpected exception.

Federal receipts seem likely on the basis of recent tax legislation to fail by 3 billion or more to balance the Federal administrative budget next June, and may come short by 12 to 15 billion in each of the next two years. The Federal debt which is now over $257 billion seems bound to rise to $290 billion or more in the next 30 months. See Table III.

There is, therefore, no prospect of a balanced budget until 1956 unless two things are done: first, a drastic reduction and spacing out achieved in military expenditures; secondly, more taxes raised.

Congress thus far has failed in both respects. Scheduled military appropriations have been raised, not lowered. Instead of limiting military expenditures to $55 billion, as so wisely advocated by Senator Flanders of Vermont, Congress has now appropriated over $61 billion. The time is overdue for rigid and scrupulous scrutiny of all military outlays. What kind of an emergency are we preparing for? On the other hand, instead of raising an additional $10 billion in taxes, the measures thus far enacted will increase revenues by less than $6 billion.

Clearly this is no time for fiscal cowardice. So far as military outlays are concerned, the Joint Economic Committee in its unanimous report on the President's Economic Report of 1951, laid down a highly necessary and salutary procedure when it recommended (three members dissenting):

"This Committee emphatically endorses the proposition to put defense on a pay-as-you-go basis. It, in fact, would wish to go further. It feels that the defense garment should be cut to the revenue cloth. Measuring with care the things that must be done, Congress, short of all-out war, should make no military appropriation unless and until adequate Federal tax revenues are definitely in sight. In a long period of heavy defense expenditures such as now face us, there does not exist the urgency to spend first and then look around and see how much the Government will need to borrow in order to pay its bills. Instead, total Federal Government spending for defense, including not only the military items but also foreign aid, atomic energy, and other non-civilian programs—even if administered by civilian agencies—should be limited to a figure not in excess of 20% of national income. . . . Until there seems a more imminent danger of all-out war soon, we recommend that appropriations for military defense be limited to the amounts we are willing to raise in taxes."

Similarly, wherever possible, non-military governmental expenditures must be held down. The cuts summarized by the Joint Economic Committee in their 1951 annual report on the President's Economic Report, while involving about 50 actions by the Congress, would seem to be a minimum. Total cuts there outlined would effect an over-all economy of nearly 10% in civilian items.

Furthermore, a long range program for controlling such Federal expenditures must be developed. Instead of a piecemeal attack upon the problem of outgo, consideration should be given to such policies as putting direct governmental services as nearly as possible on a fee basis adequate to cover the costs, limiting grants-in-aid to the States, and encouraging and developing private enterprises to carry on essential operations now deemed to be inadequate by Government, such as the financing of housing, supplying capital to small business, etc.

On the other hand, we cannot afford the indiscriminate curtailing of needed normal governmental functions. During the 10- or 15-year period of two-way preparedness ahead (preparedness for peace and preparedness for all-out war) this country cannot tolerate the reduction in productive efficiency nor increase in military rejects which would result from indiscriminate cuts in school budgets, or in development of basic power and other natural resources, or in the completion of long-needed public works. Governmental deficits, if held down to moderate size, are less of an evil than restricted productive capacity which constitutes the industrial might of this nation and considerably less of an evil than limitation of the military effectiveness of our youth.

The Specter of Inflation

The almost inevitable result of such astronomical military outlays and continuing deficits is, of course, inflation, especially since these outlays and deficits are taking place at a time when nearly all available manpower and productive capacity are being fully utilized.

Let no one be deceived by the tapering off of wholesale prices that began last March. It represented for the most part merely a correction of the excesses of hysterical consumer and business buying last winter and may, I am sorry to say, soon end. In the first quarter of this year consumer expenditures reached a high of $208.2 billion (annual rate), and savings were only $9.2 billion.

TABLE II

Who Gets the $68.9 Billion in 1951-2?

	Billions
Payments to business firms:	
Makers of guns, tanks, etc.	$15.8
Aircraft makers	7.3
Supplies of uniforms, food, etc.	5.0
Firms with foreign aid orders	2.0
Building contractors	1.9
State and Federal public works	1.6
Atomic industry	1.5
Raw material suppliers, stockpiling	1.2
Subsidies to newspapers, magazines, shipping firms, etc.	0.7
Total payments to business	$37.0
Payments to holders of U. S. bonds, to a substantial extent banks, life insurance companies, etc.	6.0
Payments to men in uniform—pay allowances	12.5
Payments to veterans	4.9
Payments to farmers	1.6
Social Security and old age assistance	1.3
General government, including retired Federal workers, postal services, etc.	5.6
Total probable Federal Government expenditures	$68.9

TABLE III

Federal Expenditures, Gross National Product, Federal Receipts, and Federal Debt, 1950-1954.

(Billions of Dollars)

Year	Federal Expenditures	Gross National Product	Federal Administrative Budget Receipts	Federal Administrative Surplus or Deficit
1950	$40.2	$285.0	$37.0	— 2.8
1951	44.6	315.3	48.1	3.5
1952	68.4	*340.0	†65.0	— 3.4
1953	87.3	*335.0	†73.0	—14.3
1954	84.0	*365.0	†77.0	— 7.0

*Prices as of June, 1951. †Assuming tax laws as of October, 1951.

During the third quarter, despite an increase of $8.2 billion in disposable income, consumers spent $4.2 billion less, and saved $21.7 billion. A savings ratio of 9½% can not be expected to last indefinitely.

While manufacturers' inventories in August of this year were 38% higher than a year ago, practically all of the recent rise has been necessary to fill defense orders now being placed at the rate of $1 billion a week. Department store and retail inventories have gone down steadily since April.

The long delayed "big pinch" has come in civilian supplies with drastic cutbacks in the early 1952 allocations of steel, copper, aluminum and other vital defense materials. A corresponding cut in the supplies of consumer durables is coming precisely at a time when the prices of steel, copper, automobiles and other goods are being raised, when new and higher excise taxes are becoming effective, and when labor unions are getting ready to demand and obtain substantial wage boosts.

Moreover, Congress has virtually emasculated price and credit controls. Consumer credit outstanding expanded $170 million during August in the third and largest monthly increase in 1951. Bank loans rose $600 million during August to exceed the previous all-time record high reached in June. Privately-held deposits and currency have expanded without interruption by $4.5 billion in the five months from March to August of this year.

It is reasonably certain that the enforcement of price and wage controls, gutted by Capehart and other amendments, will become steadily less efficient. In the absence of some overriding emergency there will be increasing debate about the wisdom of such measures during the months and years ahead which is likely to result in their virtual if not express abolition soon.

In addition to the cost-push of higher wages and materials on prices, there will be the booming impact on the prices of our imports and on our economy of galloping inflation throughout the rest of the free nations of the world. Wholesale prices in most European countries have increased by more than twice as much as ours have. In Japan, the Near East, Latin America and other areas prices since 1949 have gone up more than three times as much as in the United States.

Several of these countries are not only incurring large budget deficits but their scheduled programs of industrial reconstruction, military rearmament, and economic development, in part induced by expanded military and economic aid from us are likely to accentuate world-wide shortages of vital materials and accelerate spiraling world-wide inflation.

In short, the specter of inflation will continue to haunt the council tables of governments, of business firms, and of individual householders all over the world. Of course, no one need necessarily expect that prices during the next five years will rise at any such rapid clip (17% in nine months) as they did from June, 1950 to March of 1951. But there will be a persistent upward thrust in world price levels which can only be offset or contained if business and government mobilize every possible bit of economic wisdom and statesmanship.

More Rapid Technological Change

Perhaps the most startling factor upsetting business plans and calling for new business techniques in the near future is technology. The Industrial Revolution far from being over is only beginning. Dozens of inventions and discoveries are merely in early stages of development: plastics, chemicals, new textiles, anti-biotics, light metals, atomic energy, kybernetics, and new applications of the techniques of psychology and the humanities to industrial, racial, and international relations.

The effect of such vast revolutionary developments is likely to be both anti-inflationary and inflationary. The most important anti-inflationary effect will, of course, result from rapid increases in man-hour productivity. Few business men seem to realize that the real output of this economy rose more than a third as much in the three years from 1948 to 1951 as it did in the previous 20 years. Yet total employment increased only 4%.

In other words, man-hour productivity seems recently to have risen 6% more per year, twice the long run average rate of increase (3% for manufacturing and 2% for the economy as a whole). Indeed, in the three-year period 1948 to 1951 the Federal Reserve index factory output rose 17% while man-hours rose 7%.

Such increases in productivity result primarily, of course, from the $110 billion spent for improved plant and equipment since 1945, a boom which has reached a peak this year without parallel in American economic history. Private investment is now taking place at the rate of nearly $25 billion a year, a third higher than in 1950, five times the level of 1939, three times that of 1929. It represents 19.1% of gross national product, the highest ratio ever recorded.

New basic expansion in over-all productive capacity together with the rapid increase in man-hour productivity not only provides the broad base of industrial strength requisite for military effectiveness but promises a supply both of consumer goods and armament that will greatly alleviate the stringencies of expanding defense requirements.

However, there is a long run exhilaration effect that should not be ignored. The steady rise in industrial research, the increasingly rapid replacement of equipment due to faster technological obsolescence, the new products, new outlets, and expanded markets—all these factors mean increased stimulus to business expansion and new investment opportunities for new business.

In addition, during a considerable part of the next five years, continuous and substantial encouragement to private investment wil be afforded by various defense policies of the Federal Government, both directly and indirectly.

As direct aids to business finance, one might mention government purchase contracts to buy the total output of new or expanded plant, prepayments on government contracts, direct financing through Navy V loans and government guarantee of loans. Moreover, the granting of certificates of necessity, the encouragement of plant dispersal, high priorities in allocations of materials, together with permission to depreciate plant tax-wise in five years will assure continued high-level investment in basic industries such as steel, aluminum, fuel, the mineral industries, power and transport.

In short, the next five years seem likely to be years of such high expenditures not only for plant and equipment, but for residential construction, and for maintenance and obsolescence that gross domestic private investment may stay up at levels of $40 billion or over. This, to be sure, is considerably less than the $63.5 billion peak reached in the second quarter of this year, but a third higher than in 1947, and four times higher than in 1939.

The Quantitative and Qualitative Will to Progress

As had Adam Smith in his famous classic "The Wealth of Nations," the eminent Swedish economist, Gustav Cassel, in his book "The Theory of Social Economy" repeatedly emphasized that the most important of all forces affecting business is the human factor. No analysis of basic trends can possibly ignore considering the human stuff that constitutes the fundamental strength and resources of a nation.

What is happening to the population quantitatively and qualitatively? If increases are occuring, in what age groups? If goals or levels of consumption are changing, in what direction? What improvement is in the offing in their vocational, economic, social, and political skills? These are some of the facts which Cassel referred to as the nation's quantitative and qualitative will to progress.

During the next five years to 10 years there will be rather marked changes in the number and character of the American population. An upward surge in the birth rate and survival rate has been taking place during the last decade. Not only will our population increase by 10 to 12 million, which means an additional home market roughly equal to the State of California, but during the next five years the number under 15 years of age will increase relatively the most.

Sometime after 1960 will come a considerable increase in the proportion of those over 60 years of age but that is a different story which I shall not go into here.

Already the crop of postwar babies, 40% larger than normal, is beginning to overcrowd the kindergarten and first grade rooms in the schools. Cities are even now crying for steel for new school buildings. It is, therefore, readily understandable why the retail sales of some items in 1951 should considerably exceed 1950 levels.

On the West Coast, for example, the sales this fall compared with a year ago are higher for children's shoes and infants' wear by 10%, low-priced dresses up to 3% to 11%, toys up 4%, and books and magazines up 12%. Despite lower sales of household appliances (—45%), radios and television sets (—21%), and rugs and floor coverings (—33%) the total sales of West Coast Department stores are up 4% over the boom period of 1950.

This baby crop will soon be progressing from the primary grades into the grammar schools and high schools. Teachers there will be as hard to get as primary school teachers are now. Communities will need larger educational facilities, roads, more recreational facilities. Municipal tax rates and debt may readily rise. Moreover, GI's who have thus far been happy with two bedrooms will increasingly be in the market for three and four bedroom houses.

As any experienced group of boy-growers and girl-growers can tell you, the young, especially the teen-agers, are the ones who consume food in almost limitless quantities, wear out shoes and clothing in no time, and rapidly use up books, sportswear, recreational facilities, and the like. The need for farm products and fibers is therefore likely to increase in the near future. The food industries, the clothing manufacturers and merchants, farm owners and operators on good locations ought to do right well.

So far as occupational and citizenship skills are concerned, there seems little doubt that this generation of young people will far exceed in competence any that has preceded it. Most of them will have had the benefit of high school, and many of them due to the GI Bill of Rights (which in my judgment will almost certainly be extended in some form or other) will have had even more advanced vocational and civic training. Most of them will likewise have gone through the rapid process of becoming mature and more experienced which results from service in the armed forces.

Many will have the additional leadership training which is now being provided by private corporations, by government service, and by trade unions. The generation now reaching maturity will, let us hope, make fewer mistakes in business and finance, in fundamental economics, in national policies and in world affairs. They will have to.

In short, there will be more young people in our population, better trained, better informed, more skilled, more productive, creating rising levels of living, demanding higher standards of performance from both business and government.

The American Revolution

This brings me to the sixth, last, and most important item that seems to me to loom large in the business horizon — namely, the spread of those red-blooded American ideals which in their togetherness describe what Americans mean by democracy.

To a group of American business men the fact needs not be labored that the most precious of all our ideals is individual freedom based on full recognition of the integrity and dignity of the individual irrespective of his birth, creed, race, or financial standing. We Americans "hold these truths to be self-evident: that all men are created equal, that they are endowed by their Creator with certain inalienable rights, among them life, liberty and the pursuit of happiness, that to secure these rights governments are instituted among men deriving their just powers from the consent of the governed."

And, as the American Federation of Labor editorially observes in its publication "Labor's Monthly Survey" for September, 1951: "Certain economic rights are safeguarded so that everyone may have full freedom to carry out this desire: the right to own property, to choose one's job, to engage in any business and earn a fair profit, to organize a union and bargain collectively for wages and benefits, to organize a business association; the right of business concerns to compete freely with each other and above all the right of each person to use his own judgment and make his own decisions. These rights are the basis of the individual initiative and responsibility which build economic progress."

Freedom for us, therefore, is not merely a heritage to be defended, it is a weapon to be used in increasing economic productivity. It is a way of life to be broadened and deepened. It is a challenge to tyrannical totalitarianisms whether of the right or of the left to give to their citizens the same continuous possibilities of initiative that ours enjoy in pursuing each his carefully selected but self-chosen path toward full and balanced development of his creative abilities. It is a protest by John Q. Citizen against being pushed around by political commissars, by special privilege or by pressure groups of any kind.

Since the beginning of our history this nation has meant to the patient, toiling masses of the world what is so superbly symbolized by the Statue of Liberty in New York Harbor: respect for the dignity of man, recognition of the essential quality of all peoples; freedom of speech, press, thought and worship; selection of public servants and public policies by vote of the people; scrupulous observance of the bill of rights, trial by jury, protection of person, family and home against violence by secret police; a government of law continuously responsive and responsible to the will of the people; the exercise of political or economic power solely on the basis of consent secured from the governed; tolerence of minorities and protection against majority tyranny; free public schools; government the servant of the people, not the master; a maximum of home rule and local, creative voluntaryism.

The most important revolutionary force causing political and economic disturbances all over the world today and likely to continue to do so is the American political and business system. It has demonstrated through the unleashing of individual energy that science and technology can create increased opportunity and abundance for the common man everywhere. Its "know how" and "show how" are a perpetual challenge to all regimes where tyranny, hunger, and poverty exist.

American business has intensified and drive by peoples everywhere for higher levels of consumption and for more useful and productive lives. Every new social creed—whether Nazism, Fascism, or Communism—has had to promise a more abundant life and has made its followers believe that its program would raise per capita incomes closer to American levels. Probably the most disrupting of all international statistics are comparisons which show average incomes in the United States not merely two or three or 10 times but indeed 50 and 60 times that in many other countries. The masses everywhere are demanding an answer from their rulers—why?

In the measure that we by our deeds give our citizens these freedoms and increasing standards of living, in that measure peoples elsewhere will intensify their demands for similar freedom and prosperity. In Asia, in the Near East, in Africa, in Latin America there is an awakening, a challenge, an unrest that it growing in geometric ratio as higher standards of living and greater freedoms are achieved in the American economy. Foreign tensions and economic upheavals abroad are therefore likely to be more severe and more frequent in the period ahead than they were even in the 20s and 30s.

If this outlook for the future seems to you full of hazards—and it is—may I note in closing that at least two of the most ominous shapes that some observers profess to see in the obscurity that blankets the future have not been mentioned—namely, catastrophic depression such as occurred in 1932 and World War III. Frankly I do not believe that either is likely to occur during the next five years. I am sure that we all devoutly hope, at least in that particular, that the account I have tried to give of what may lie immediately ahead may be correct.

Guy Gadbois Joins Wagenseller & Durst

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Guy Gadbois has become associated with Wagenseller & Durst, Inc., 626 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Gadbois, who has been in the investment business for many years, was formerly with Douglass & Co. and prior thereto was an officer of Atlas Securities, Inc.

Joins Neary, Purcell

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Fletcher Purinton has become associated with Neary, Purcell & Co., 210 West Seventh Street. He was formerly with Barbour, Smith & Company.

With C. G. McDonald

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Herbert L. Waller has become affiliated with C. G. McDonald & Co., Penobscot Building, members of the Detroit Stock Exchange. In the past he was with Baker, Simonds & Co.

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As We See It

good policy—but somehow, somewhere leaders to produce the aroused public must emerge.

Of course, a really aroused public could bring this state of affairs to a speedy end, but it needs leadership—leadership to point up the real issues; leadership to expose the smooth buncombe of the professional politician; leadership to make clear the nature of the claims and the demands of the so-called pressure groups; leadership to lay bare the true inwardness of the immense mass of spurious panaceas for ills, real and imaginary, which plague the individual voter; and leadership to point the way to sound statesmanship. Such leadership obviously could begin with a very simple but carefully camouflaged state of affairs which cries to heaven for correction. We refer, as careful observers may well surmise, to the Federal fiscal situation.

Federal Outlays

The real statesman would not begin with taxation and inflation as is now so customary, nor would he merely harp on the matter of a balanced budget. Such subjects as these would naturally come in for appropriate attention when the time for it arrived, but first and foremost, or so we think, he would bring up the matter of Federal outlays. Here is a subject which has been very lightly passed over, thanks probably to the insidious propaganda to the effect that most of the budget is "fixed" and irreducible. A few legislators, such, for example, as Senators Byrd and Douglas, have had a good deal to say about extravagance, and in one degree or another have come forward with specific suggestions for reducing expenditures. Congress (and, we may add, the President) regularly ignore them. In the abstract, as it were, they gain some applause from the general public which seems in a vague, general sort of way to be ready to regard them as courageous, able men, but that is about all.

Now the fact of the matter is that real reductions in Federal outlays are perfectly possible and perfectly feasible (in every sense, at least, except possibly the political sense), reductions which would make a real impression upon the staggering outlays to which both Congress and the American public have become accustomed. It would, as a matter of fact, be quite possible for the Federal Government to do all that it is now doing and still make appreciable reductions in annual outlays, but, of course, real economy must rest upon a reduction in the functions which the Federal Government has assumed during the past two decades. The trouble is that each and every one of these new burdens the central government has taken on has created a new and usually large vested interest in largesse—and these vested interests, just as other vested interests of past decades, control votes. It is for this reason that fiscal issues touch virtually all other issues.

Some Day!

Some day, we believe, the American public will awake to the fact that what used to be termed the pension abuse has now grown into an incredible "veterans'" scandal. We suppose that we shall have to say along with the politician that we are heartily in favor of doing what is right by the boys we draft and send into the field of battle where they must risk their lives, although we should hope that the reader would assume such to be the fact. At any rate, we deplore the practice of catching the votes of veterans by all sorts of extremely costly pampering of the veterans of our fighting forces even when they have never seen a battlefield or when they come back from the wars in better health, better trained, and in every way much better able to look after their own affairs than they would have been had they been left at home. Some day someone will take the trouble to add together and to publish all the bounty, Federal, State and local, heaped on the veterans—and if it is well done, that may be the day when the rank and file may awake to the extent to which they are being taxed to pay political homage to the veterans. At least, we hope that something of the sort will occur, for otherwise this load bids fair to grow until it may be all but unbearable.

Another field in which few, or indeed almost none, appear willing to tread is that which has to do with military expenditures. Here again it is easy for the political demagogue to cry holy, holy when it comes to military matters and the budget. There never has been a military force in the history of the world which was anything like as expensive as ours is. And we are not here referring to the fact that our men are more abundantly equipped than those of other fighting forces; we refer merely to that which is simply wasted by carelessness, faulty management, and want of interest in maintaining forces at something approaching a minimum cost. The time may come, should we remain in this fighting business on the scale that has obtained in recent years, when we, like all the other nations of the world, shall be obliged to be at least reasonably efficient. How much better it would be if we did not wait for circumstances to force us into it.

These are but two of the many facets of fiscal management which usually are left severely alone by the economizers. There are dozens of others, and effective action would promptly bring into consideration much of the work now carried on by the Federal Government. How encouraging it would be should realistic consideration of these matters characterize the preparations for the elections next year.

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The Gold Standard vs. Irredeemable Currency

cannot be avoided, that nation is economically bankrupt, and that if it employs an irredeemable currency, when it can be avoided, that is evidence of moral bankruptcy and of irresponsibility on the part of the government that employs it.

Why Should We Discriminate Against Our People and in Favor of Foreign Central Banks and Governments?

Our monetary statutes provide for dollars in gold, silver, the metals of our minor coins, paper, and bank deposits. By what process of logic may our government properly compel our people to accept the dollars made of the cheapest materials while it takes for itself and places at the disposal of foreign central banks and governments the dollars made of the most valuable material—gold? These dollars, made of different materials, can be equal in exchangeability and as stores of value only if freely exchangeable at the parity rate with the dollars made of the most expensive material. With the gold dollar as our standard monetary unit, dollars in all other forms are merely convenient substitutes; but they are not equal in value to the standard of gold unit unless redeemable in it.

If there is to be any discrimination among those who may obtain the most valuable variety of our dollars, that discrimination surely should be in favor of our own people and against foreigners rather than in favor of the foreigners and against our own people. During World War I, we maintained redeemability for our people and discriminated against the foreigner. Since 1933 we have reversed the process.

While under our law the reserves of the Federal Reserve banks, in the form of gold certificates, and the gold reserves of the United States Treasury, are held against all deposits in Federal Reserve banks, Federal Reserve notes, and some other varieties of our paper money, in practice these gold reserves are at the disposal only of foreign central banks and governments. Our people cannot touch those reserves for monetary use domestically.

If our currency were made redeemable, all our dollars would be interchangeable at the parity rate; our people would have the same rights as do foreign central banks and governments in deciding what variety of dollar they prefer to use; and the gold reserves of the Federal Reserve banks and United States Treasury would be at the disposal of our people as well as of foreign central banks and governments.

The Question of the Universal Goodness of Our Dollar.

In the days before March, 1933, when all holders of our dollars could redeem them in gold, our dollars, regardless of type, passed in principle at parity everywhere, the only discount being that involving the costs of conversion into gold at parity rates. Today our non-gold dollar, like other irredeemable currencies, has fallen to a low estate and is hawked about over the face of the globe at various rates of discount that have no relation to conversion into gold at parity rates. Only in our government's dealings with foreign central banks and governments do our dollars pass at parity with gold dollars. All other holders of non-gold dollars pay a premium for gold, thus revealing the degree of discount at which our non-gold dollars are accepted because of our government's unwillingness to make all our dollars redeemable at par for all holders anywhere, any time. Redemption for some but not for others is the principle of this policy; and it has no valid defense.

Besides our government's failure to take the proper steps to extend to all the benefits we have been according foreign central banks and governments since Jan. 31, 1934, we are being subjected to proposals, advanced by gold-mine interests, that we go in the opposite direction and not redeem any dollars for any one at the standard rate of $35 per fine ounce. In other words, the proposal is that we scuttle that portion of a gold standard and redeemable currency that we now have, demonetize gold by reducing it to the status of a non-monetary metal, to be bought and sold like any other non-monetary commodity, and to plunge ourselves into a thorough-going irredeemable currency system. This proposal comes from gold-mine interests in South Africa, France, England, Canada, and this country. It is generally wrapped in a deceptive package, labeled "free gold market," and in a larger deceptive package labeled "advancement of free private enterprise." The advocates of this program also claim that it provides the quickest way back to a gold standard, that it is a means by which to place gold in people's hands again, and that it is the proper method by which to test the true value of gold. Our present standard rate of $35 per fine ounce of gold is said by these people to be artificial. All these contentions are indefensible. Nevertheless, a considerable number of good people, not at home in the field of monetary principles, have been persuaded by these enticing labels and arguments to give their support to the proposal of these gold-mine interests.

It is important to understand that a free gold market under a thorough-going irredeemable currency is one thing and that a free gold market which accompanies a gold standard and a redeemable currency is a very different thing. In the former case, the tendency is for an irredeemable currency to depreciate and to fluctuate widely in value against gold; for the price of gold to rise, since an irredeemable currency cannot equal the value of the same amount of dollars made of gold; for foreign exchange rates to fluctuate widely, since there would be no parity fixed in terms of gold; for great uncertainty and risk to enter business enterprise and for it to be reduced to the status of gambling.

The free gold market, which accompanies a gold standard and a redeemable currency, would mean, simply, in our case, that gold could be bought and sold freely at the fixed price of $35 per fine ounce. Stability in our standard monetary unit and in foreign exchange rates, in so far as our dollars are involved, would be the result. Gold would not be demonetized. As money and as a commodity it would be of equal value. On such a basis, business could plan and make progress.

The proposal of the gold-mine interests, if made effective, would throw us into a thorough-going system of irredeemable currency—the worst system known to man. A purpose, apparently the central purpose, of their recommendation is to obtain a higher price for their product, though often, if not usually, other reasons are given as excuses for their gold program.

The Insidious Undermining Influences of Our Irredeemable Currency.

It is a well-established fact among experienced monetary economists that the great mass of people do not understand the insidious undermining influences of an irredeemable currency until much too late, if at all. One of its major characteristics is its tendency to depreciate in value. For example, after redemption of our currency in gold was suspended in this country in March, 1933, our non-gold dollars depreciated 36% in terms of the gold dollar by Sept. 20, 1933. In 1864, our greenbacks, following suspension of redeemability in 1861, had depreciated 65% in terms of the gold dollar.

Depreciation of irredeemable currencies in terms of all goods and services also proceeds apace. By March, 1951, the purchasing power of our dollar, as measured in terms of wholesale prices, reached the lowest level on record since the establishment of our Federal Reserve System.

This unprecedented depreciation in the purchasing power of our dollar came under the guidance of money managers who have insisted that, if freed from the restraints imposed by requirements for redemption, they could and would provide our people with a currency having greater stability in purchasing power than we ever enjoyed under a redeemable currency.

Despite the fact that the evidence has already proved them wrong in their contentions, as they should have known, from the start, would be the case, they still cling to their powers and fail to inform the people that their major contentions have been refuted. If facts and principle were respected, these men would explain what has happened, resign, and ask that a redeemable currency be instituted lest the depreciation of our currency become even more pronounced.

There is no valid defense for any scheme of monetary management which provides no effective brakes to control the money managers. World experiences with such management teach lessons, uniformly unpleasant, from which we should profit.

An irredeemable currency generates a multitude of stresses and strains, many of them conflicting. It poisons the bloodstream of the national economy, brings on fever and chills, induces a flush having the appearance of abnormally good health, causes bloats here and there that look like real growth in size, makes possible quick accumulation of fortunes, generates dishonest practices in a multitude of ways, creates doubts, fears, and distress, invites and generally leads to government attacks on symptoms, and, if it becomes sufficiently virulent, it can reduce the nation to a state of prostration. The longest period of business contraction we have had in our history came in 1873-1878 under an irredeemable currency. It lasted 65 months as against 45 months for that of 1929-1933. After that severe business recession and depression of 1873-1878, we resumed gold payments in 1879 and embarked upon a period of recovery. Other nations have gone from irredeemable currencies to revolutions. That is a common course unless a statesman appears, as did John Sherman in this country in the 1870s, to lead the people into the area of safety provided by a redeemable currency.

A redeemable currency of itself never causes trouble. It is abuse in the use of credit or other factors of danger that cause monetary problems. An irredeemable currency, on the other hand, is born of trouble and carries within itself the seeds of trouble.

Since no John Sherman has yet appeared in this country, we may learn an old lesson the hard way. As matters stand, we are inviting that result.

As part of our widespread confusion and gullibility, we are, in general, behaving much like the prodigal spendthrift and waster who, having borrowed to the limit, spends freely and wrecklessly, and points to his increase in activity as proof that he is operating on a new high level, that his assets are greater, that his prosperity is unusual. All these things may be true. But sensible people offset their debts against their assets, and they attempt to weigh all pertinent aspects of their picture.

Our tendency today is to comment favorably upon our apparently relatively great activity and to ignore our large and mounting debt and the great depreciation in the purchasing power of our currency. For example, although the Institute of Life Insurance reports that total life insurance in effect in August, 1951, was $243 billion, it does not state that this had a purchasing power, in terms of 1926 dollars, below that of the $101,-559,000,000 in effect in 1932 and the $111,651,000,000 in effect in 1939.

Although we read much of the increase in people's savings, the fact is little known that the loss, because of the depreciation of our dollar, on the average value of life insurance policies, time deposits in banks, and E, F, and G savings bonds for the years 1941-1951, in 1950 dollars as compared with 1941 dollars (using the index of prices at wholesale), amounted to $116,-565,524,000. This huge loss, hardly recognized, is 61 times the estimated total loss of $1,901,000,000 by depositors in suspended banks during the years 1921-1933. We were greatly agitated over the latter loss. The former, which is 61 times greater, is discussed, if discussed at all, in terms of innocuous platitudes. This phenomenon should jar us into some realization of how far we have traveled into the dream world of irredeemable currency and how intoxicated we are by its insidious influences.

Similarly, as we boast of the great increase in our national income, we neglect to emphasize the effects on it of our depreciating dollar and to remind ourselves that figures on national income can be pushed to any height by means of currency depreciation.

As we look at our index of industrial production, we should remind ourselves that much of our so-called prosperity rests upon scarcities fostered by our government, upon destruction and dissipation of our real wealth by war and by giving it away, and upon the blood of our boys, and that a large portion of all that prosperity is deceptive because it is measured in terms of a sharply depreciated currency.

Although the figure for gross national product in 1950 was 124% above that of 1941, gross public and private debt was 130% above that of 1941; consumer credit was approximately 130% above that for 1941; the purchasing power of the dollar had declined 46%; the real value of current savings, without adjustment to a per capita basis, was down approximately 40%.

These are samples of important data that we generally neglect to mention and scrutinize as we regard our activity and prosperity. There are elements here that should stand out as a warning to us. And let us not forget to remind ourselves with emphasis as we tend to speak or think approvingly of our so-called prosperity that much of it rests upon the blood of our boys and upon related waste and destruction.

Shall We Return to a Redeemable Currency While There Is Yet Time?

The basic question here is whether we can muster enough intelligent leadership to institute a redeemable currency in this nation while the ratio of our gold to money and deposits is adequate, or whether we will delay action until institution of redeemability becomes impossible unless the dollar is devalued again or there is an enforced and sharp contraction in the supply of non-gold money and deposits.

Our margin of safety is growing narrow and could soon disappear. According to latest available figures, the ratio of our gold stock to non-gold money and deposits is approximately 10.4%. This compares with an average ratio of 8.6% for the years 1915-1932, during which period the range of yearly ratios was from 6.7 to 10.9%. Evidence would seem to indicate that when the ratio falls to approximately 7% we will have reached the lowest limit within which resumption of gold payments could be instituted with a reasonably good chance of success. The distance from 10.4% to 7% is not great. In 1941, the ratio was 24.6%, the highest in our history since 1914; yet under those most favorable conditions our government could not be induced to institute redeemability of our currency.

What will be the situation in this country if we should fall below the 7% apparent limit and the members of the Economists' National Committee on Monetary Policy and of the Gold Standard League, who have led the fight for redeemability, are compelled to state that it is at last too late?

Time is running out on us in this country. Each of us needs to do all he can to persuade influential Senators and Congressmen to act before it is too late. That is our only hope for success.

Human freedom and a redeemable currency are inseparable. Government economy can be enforced only if there is a redeemable currency. A nation's banking system can perform its functions properly only if there is a redeemable currency. The people have protection against government dictatorship and disaster only when there is a redeemable currency.

Even with a redeemable currency, management of credit has presented more problems than we have thus far been able to solve to our satisfaction. We should not attempt to run without brakes a locomotive that we have not been able to manage well when equipped with the best brakes man has thus far been able to devise. Such an endeavor does not fall within the limits of prudence; and we are not being prudent.

If we of this generation are worthy of the great heritage handed down to us by our ancestors, we will bring our system of irredeemable currency and our march into government dictatorship to an end in the very near future. Surely past generations did not work and save and invest, and develop and fight and die, to pass on to us a great patrimony and freedom merely to have them squandered and dissipated by an unworthy generation.

Public Utility Securities

By OWEN ELY

Potential Labor Savings in Electric Utility Operations

Mr. C. P. Guercken of Ebasco Services, Inc. recently prepared a 38-page brochure on the "Comparative Analysis of Labor Utilization in the Electric Utility Industry." His general conclusion is that the electric utility industry, together with some other segments of American industry, has not been able to match its technological progress in the use of labor as an offset to the inflation which has been imposed on the national economy. While the output per employee has increased along with the installation of modern generating equipment, etc., the increase has been relatively slow, amounting to 3.12% per annum from 1930 to 1940 and 2.13% per annum from 1940 to 1950.

In the same periods weekly salaries increased at the rate of 1.10% per annum and 6.70% per annum, respectively. Because of the latter change, the effective utilization of the payroll dollar showed a drastic reversal in the last decade as compared to the previous period. While during 1930-40 the coefficient of labor utilization per dollar of weekly wages showed a satisfactory increase of 2% per annum, during 1940-50 this ratio showed a decline of 4.40% per annum compounded. Substantially the same results are obtained when manhours are used instead of employees, in making calculations.

Comparing labor costs with "wages of capital" Mr. Guercken points out that "the same employees have shared to an increasing extent in the total wages of both capital and labor, their participation increasing from 29.0% in 1933 to 51.0% in 1950, or a relative increase of 76.0%. In the same period the total wages of labor increased 242%, while the wages of capital rose only 45.9% and its participation in the total wages of both capital and labor declined from 71.0% to 49.0%, or a relative decrease of 31.0%."

The study indicated that the average utility worker has greater security of employment than workers in manufacturing plants or the railroads; the chances of continuous employment in the utility industry ranged from one and two-thirds to twice that in other industries. As regards utility salaries, both the long-term level and the relative stability were considerably above the general average.

While the utility industry has made considerable progress in better use of manpower through installing larger items of equipment, using gas and oil as fuels, installing automatic devices and improved managerial techniques, it is obvious that additional efforts are necessary through better control of operations and careful evaluation of the economic purpose and necessity of each job. It should then be determined whether each job is being done by the right person at the right time, in the correct manner and in the right place. Also careful analyses should be made of the effect of larger operating units with respect to labor savings.

The brochure points out that the sharp rise in electric operating expenses has been principally due to increases in taxes, payroll and fuel costs, with the wages of labor now occupying the second position slightly below taxes. The following table shows the percentages of operating revenues of major expense items compared with operating income.

	1939	1943	1947	1948	1950
Payroll	17.5%	14.7%	21.6%	21.0%	20.6%
Taxes	16.4	24.1	18.9	19.3	21.0
Fuel	7.9	12.9	17.3	17.2	17.1
Depreciation	11.6	10.9	9.8	9.5	9.8
Operating Income	34.8	25.0	22.4	21.9	21.5

These figures indicate that payroll costs are now virtually as important as capital costs (operating income above) although in 1939 they were only about half as important. The efficient utilization of personnel is one of the most important sources in which to obtain additional economies and improvement in earnings. Since no major changes can be expected in hourly rates of pay (except as they may reflect changes in purchasing power of the dollar) the industry's only hope is to plan greater mechanization and more careful job analysis. Very important savings might be effected by such studies, Mr. Guercken believes. The detailed tables and charts shown in the brochure should be of considerable interest to utility executives.

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We Need New Business Ventures —Large and Small

nomic theories afford them either the incentive or the opportunity to perform a similar service for their fellow men.

The Calamity Johns have made progress.

They have never quite succeeded, however, in foisting upon the American public the greatest hoax of all—the idea that big business grows only by crushing small business. They tell us that a certain company employing 499 people is a small business, and that it is good for the country; but if that company hires one more man, they classify it as a big business, and insist that no small business can ever hope to compete successfully against it.

Well, I guess they never heard of a man named Charles M. Schwab, who was born right here in Blair County. He learned the steel business under Carnegie, and he helped to create the United States Steel Corporation.

Now when it was put together, fifty years ago, United States Steel was the biggest corporation that had ever been seen in this country — or anywhere else, for that matter. It was five times as big as the next largest company in America, and a great many people had never suffered from a midget complex before were thoroughly frightened by it. They said it would crush its competitors, corner the steel market, and gouge the consumer forever and a day.

Yes, almost everybody was afraid of it . . . almost everybody, that is, except Charles M. Schwab. He was the President of U. S. Steel, and he knew all about its so-called monopoly power—but it didn't scare him at all. In fact, he left the corporation and decided to go into business for himself, as a competitor. So he purchased a little outfit called Bethlehem Steel. You may have heard of it somewhere. Today it is the second largest steel producer on earth; it pours almost as much tonnage as all the companies in Britain put together; and if you'll glance at its latest annual report, you'll notice that it hasn't been crushed perceptibly by anybody! It is doing all right, thank you, and so are more than 200 other iron and steel companies which compete against us every day in the year.

No, the truth is that size in itself has never given any business the power to crush its competitors. If it had, the National Radiator Company wouldn't even be here, in all probability.

Ever since the day it was started, National Radiator has always competed against companies much larger than itself; and now that it has branched out into new fields, it has challenged some of the very biggest enterprises in our country.

Some years ago, in fact, it started to produce a condensing unit that put it squarely into competition with all the big steel companies in the United States—including ours. If it could sell these units successfully, it would take away our market for thousands of tons of steel pipe; but it sold them just the same. It even had the brass to try to sell some of them to us for use in our own plants. And what do you think happened?

Well, we bought them. We bought them because they were better than the old, steel-pipe equipment that we had been using—and so did a lot of other steel companies. And that's how National Radiator took from us the only customer in the world that we could have prevented it from getting—United States Steel, itself.

Does that surprise you? Well, it shouldn't, for it happens all the time. Some of America's biggest companies, who used to manufacture their own iron powder, have gone out of that branch of the business completely. They buy it now from National Radiator, becaues they can get it cheaper, or better, or more conveniently.

And that's how it always is in America. The customer wants nothing but the best—the best product at the best price . . . and the customer is king. He alone determines which companies shall be big or small; and which shall live or die. He is the jury and the judge and the court of last appeal; and all the Calamity Johns in the world cannot alter his decision.

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Wnat Have We Learned from Our Experience With Inflation?

tural production in these regions and made countries in this part of the world importers of food instead of exporters as they had been before the war. As a result of these conditions, foodstuffs and raw materials, which had risen more than prices in general during the war, continued to increase at a substantial rate for over two years after the war.

(3) The rise in wages: The influence of rising wages upon prices was particularly great prior to June, 1946 because during this period wages were rising faster than prices. Between October, 1939 and October, 1945, the so-called "urban wage rates," which are a fairly close approximation of the price of labor, rose 38%. Since there was much fictitious upgrading of labor in this period, the rise in the price of labor is perhaps more accurately indicated by the change in straight-time hourly earnings weighted by constant distribution of employment. These rose from 47% between 1939 and October, 1945. Between 1939 and October, 1945, the index of wholesale prices rose about 37%. Between October, 1945 and June, 1946, wages continued to outrun prices. Straight-time hourly earnings in manufacturing rose 11.2%, the consumers' price index less than 1%, and wholesale prices 6.6%. The rise in wages between October, 1945 and June, 1946 is particularly significant because it occurred while consumer goods prices were rising only rather slowly and while there was still general expectation of postwar deflation. Furthermore, the most important wage increases (in the petroleum, automobile, steel, and coal industries) were achieved only after strikes.

It is desirable to note how a rise in costs may accelerate a rise in prices because under some circumstances a rise in costs may be deflationary rather than inflationary. The rise in costs during the war and postwar inflation, however, tended to increase the upward pressure on prices because prices were too low in relation to demand for goods. This meant that a rise in payrolls did not limit the volume of employment. It tended to increase the consumer demand for goods without producing an offsetting drop in the business demand for goods. Indeed, during the postwar inflation the rise in wages did not limit business spending at all. It increased the tendency for enterprises to finance part of their demand for capital goods either by borrowing from banks or by drawing on idle bank deposits. Thus the rise in wages was an independent influence (1) in accelerating the increase in the volume of money, and (2) in increasing the rate at which money was spent This was particularly true, as I have just said, during the period when wages were rising ahead of prices. Even after June, 1946, when prices for most of the time rose earlier than wages, the short lag of wages behind prices tended to limit the ability of business enterprises to finance expenditures out of profits rather than by borrowing or drawing on idle deposits. Had the lag of wages behind prices been greater, the increase in prices would have been smaller.

(4) The reduction in taxes effective January 1946: This reduction occurred at a time when most people expected a postwar deflation rather than a postwar inflation. The reduction was estimated at about $6 billion a year. The net effect of the reduction cannot be accurately estimated. The cuts in the personal income tax undoubtedly increased expeditures for consumption goods. The repeal of the excess profits tax undoubtedly increased corporate expenditures, but probably by less than the amount of the tax saving. The tax reduction of 1948 came almost exactly when it was needed to help limit deflation.

(5) The drop in the balances of the Federal Government: Between the end of 1945 and the end of 1947 the balances of the Federal government dropped by $24.2 billion. About $22.1 billion of the drop occurred during 1946 and $2.1 billion during 1947. The drop occurred in spite of a substantial increase in the cash surplus of the Federal government. The drop in the balances of the Federal government and the cash surplus of the government enabled the government to reduce the Federal debt held by the public from $251.7 billion in December 1945 to $222.6 billion in December 1947. The reduction in the Federal debt out of the Treasury balance either helped to increase the public's holdings of cash and demand deposits or, in case the debt repaid was held by banks, reduced the earning assets of the banks and increased their interest in making loans.[1] To the extent that the cash surplus of the government was used to reduce the Federal debt, the surplus was prevented from reducing the public's holdings of money. All of this was either inflationary or at least anti-deflationary—anti-deflationary to the extent that decreases in the public's holdings of cash were averted and inflationary to the extent that the public's holdings of money were increased or the banks' desire to lend was increased.

(6) The substantial rise in the loans of commercial banks: Between the end of 1945 and the end of 1947, the loans of all commercial banks increased nearly 50%—from $25.8 billion to $37.6 billion. This rapid expansion meant that some persons and businesses were able to spend more than their incomes without reducing the ability of other persons or businesses to spend. The rise was particularly large in commercial loans which increased by $8.5 billion between the end of 1945 and the end of 1947. Real estate loans increased by $5.2 billion and loans to consumers only $1.4 billion. Consumers obtained most of their credit from business enterprises because the total expansion of consumer credit between the end of 1945 and the end of 1947 was $6.2 billion.

(7) The rise in the turnover of money: The velocity of demand deposits in the principal cities outside New York increased about 14% between 1945 and 1947. Such an increase was, of course, inevitable because during the war, when goods were scarce and the money supply was growing, the turnover of money sank to abnormally low levels. The drop in velocity during the war meant that much of the inflationary effect of the wartime increase in money was not felt until after the war. I have pointed out, however, that there was an important difference in the postwar behavior of business enterprises and individuals. Business concerns soon started to spend their deposits and cash at pre-war rates, but individuals have not yet raised the rate at which they spend their holdings of cash and demand deposits to the rate of 1939. Thus the large growth in the holdings of cash and demand deposits by individuals during the war has turned out to be much less inflationary than the increase in the holdings of cash and demand deposits by corporations. This is important because the personal holdings of cash and demand deposits quadrupled between 1939 and 1945, whereas in the same period the holdings of cash and demand deposits by corporations did not quite double.

Why have corporations increased their rate of spending so much more than individuals? I think that there are several reasons. One reason is that individuals have the habit, much more than do business concerns, of adjusting their rate of spending to their incomes. Although many individuals spend more than their incomes, they do not as a rule push their spending substantially above their incomes without compelling reason. The fact that individuals buy largely consumer goods limits both their willingness to finance their purchases by borrowing and the willingness of banks or retailers to extend credit to them. Business concerns, on the other hand, spend for productive purposes. Consequently, they are less inclined than individuals to limit their spending by their incomes.

IV

Why Did Not Prices Rise Faster Between 1945 and 1948?

Why did not prices rise faster and higher than they actually did between 1945 and 1948? The following are the principal influences that have limited the rise in prices:

(1) The very general fear that the war would be followed by a depression: Many people remembered the difficulties of 1921. Furthermore, their painful experience in the depression of the thirties made them "depression-minded." Both individuals and enterprises were inclined to husband their resources partly in expectation that goods would later be obtainable at lower prices and partly as protection against a possible drop in income.

(2) The great efficiency of agriculture and the rapid technological progress in agriculture: In 1947 the physical output of agriculture was 22% above the 1939 average, but employment in agriculture was 14% below 1939. Agricultural prices, it is true, rose more than prices in general. Nevertheless, the advance in agricultural prices would have been greater had farmers not done such a remarkable job of increasing output while farm employment was dropping. Part of the gain in farm output, to be sure, was obtained by using more factory labor. The number of tractors on the farms, for example, more than doubled.

(3) The high rate of corporate savings: In the two years 1946 and 1947 corporations ploughed back into their businesses about $20.2 billion of profits. This was anti-inflationary partly because it reduced the necessity of corporations' financing expenditures by borrowing from banks or drawing on idle deposits and partly because it limited the dividend receipts of the owners of corporations and hence the ability of the owners to buy consumer goods. The purchasing power of corporate dividend disbursements failed by a large margin to keep pace with the growing output of industry: In 1947, the total dividend disbursements of corporations were $7.0 billion, as compared with $3.8 billion in 1939—a rise of only 12% in the purchasing power of dividends. In the same period the physical output of the economy increased 64%.

(4) Sales of government surplus property: The sale of surplus property was particularly important in the fiscal year 1946-47 when these sales were about $2.9 billion.

(5) The substantial increase in personal holdings of cash and demand deposits in 1946 and 1947: In 1946, personal holdings of cash and demand deposits increased by $4.5 billion: in 1947, by $1.1 billion. This increase in personal assets held in the form of cash or demand deposits helped, of course, to limit the demand for goods.

(6) The moderate increase in the rate of spending by consumers: I have pointed out that in the postwar years individuals have not been spending their cash and demand deposits as rapidly as in 1939. It is true that between 1945 and 1946, and again between 1946 and 1947, the rise in expenditures for consumer goods considerably exceeded the growth in personal incomes, so that the volume of personal savings dropped as incomes rose. Between 1945 and 1946, for example, when personal incomes increased by 5.8 billion, personal consumption outlays rose by $23.8 billion; between 1946 and 1947, when personal incomes increased by $13.3 billion, personal consumption expenditures rose by $19.3 billion. It is unusual for expenditures on consumption to grow faster than personal incomes, and the fact that they did indicates that consumers were spending quite vigorously. Nevertheless, consumers might have spent even more vigorously. This is shown by the fact that outlays for consumer goods in 1946 and 1947 were substantially lower in relation to personal holdings of cash and demand deposits than in 1939.

(7) Substantial repayment of loans for carrying or purchasing securities: Between 1945 and 1947 loans by commercial banks for carrying or purchasing securities were reduced from $6.8 billion to $2.0 billion.

(8) The substantial surpluses of the Federal Government: The cash surplus of the government in 1946 was $0.2 billion, and in 1947, $5.7 billion. Part of the anti-inflationary effect of the cash surplus was lost by its use to decrease the Federal debt in the hands of the public. This prevented it from reducing the public's holdings of cash and demand deposits. Nevertheless, the surplus did mean that the disposable income of individuals and corporations was smaller than it would have been if taxes had been lower. Since the volume of expenditures is determined by recent incomes more than by the size of holdings of cash and demand deposits (especially in the case of individuals), the taxes that limited personal incomes and made possible the surplus did limit the volume of spending.

V

What Brought the Inflationary Movement to a Halt in 1948?

What brought the inflationary movement to a halt at the beginning of 1948? This is an important question. Indeed, it is surprising that the inflationary movement did come to a halt because many conditions were still favorable for expansion. Credit was cheap and plentiful, there were still large and unsatisfied demands for housing and automobiles. Federal corporate and income taxes were reduced in 1948, and government expenditures for goods and services, which had been falling for several years, were rising (though slowly) throughout 1947, and were rising quite rapidly throughout 1948. Nevertheless, the inflation did come to a halt.

Five principal influences seem to have brought about the halt. These influences all began to make themselves felt early in 1948. The first was the drop in net foreign investment; the second, the end of the rise in agricultural prices; the third was the increasing accumulation of inventories; the fourth was a rise in the rate of personal saving; and the fifth was a continuation of a large cash surplus in the Federal budget.

(1) The drop in net foreign investment: Throughout 1947 net foreign investment had been high and was $8.9 billion for the year. It dropped, however, from an annual rate of $7.8 billion in the fourth quarter of 1947 to $3.8 billion in the first quarter of 1948, and $3.0 billion in the second, and in the second half of 1948 it virtually disappeared.

(2) The end of the rise in the prices of agricultural products: Agricultural prices had been rising rapidly in 1947. They reached a peak in January, 1948, when the index touched 199.2. Thereafter they moved more or less horizontally until July, when the index was 196.0. After July the drop was rapid—to 183.5 in October and 178.0 in December. The levelling off and eventual drop in the prices of farm products was confined to the United States and is attributable to conditions here. In other countries prices of agricultural products continued to rise throughout 1948.

(3) The accumulation of inventories: In 1947 there had been no accumulation of inventories. In 1948, however, the recovery of industrial and agricultural production was sufficient to permit an accumulation first at a moderate rate and then at a rapid rate. In the first quarter the annual rate of change in business inventories was $2.0 billion; in the second quarter, $4.9 billion; in the third quarter, $7.1 billion; and in the fourth quarter, $8.0 billion. Inventories did not become large, but, as they increased in size, goods were bid for less eagerly.

(4) The increase in the rate of personal saving and the accompanying limit to the demand for consumer goods: As the more urgent needs that had accumulated during the war were met, increases in personal incomes were less effective in producing increases in consumption expenditures. After the first quarter of 1948 a fairly rapid rise in personal incomes produced virtually no rise in personal consumption expenditures after seasonal adjustment. The annual rate of personal saving, which had been $3.9 billion in 1937, jumped to $10.5 billion in the second quarter of 1948, $12.8 billion in the third quarter, and $14.8 billion in the fourth quarter. Thus, expanding productive capacity had a chance to catch up with the demand for consumer goods.

It is important to notice that the rise in personal saving in 1948 was accompanied by an increase over 1947 in purchases of houses and plant and equipment by individuals and unincorporated enterprises. Hence, it was the demand for consumer goods, not goods in general, that was limited by the rise in personal saving. But the check to the demand for consumer goods soon limited the willingness of enterprises to spend on plant and equipment, as a comparison of 1948 and 1949 will show.

(5) The continuation of the surplus in the cash budget of the Federal Government: The surplus in the cash budget of the Federal Government, which had been an important restraint on the rise in prices in 1947 continued in 1948. Indeed, it was even larger in 1948 than in 1947, rising from $5.7 billion to about $8 billion.

VI

The Resumption of Inflation in 1950 and the Halt in the Spring of 1951

Why did inflation resume in 1950? Until the outbreak of the

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1 In view of the policy of supporting the prices of government securities that was in effect at this time, the repayment of part of the government debt held by the banks cannot strictly be said to have increased the banks' power to lend. The banks were always in a position to increase their reserves by selling part of their government securities.

fighting in Korea the inflation was quite mild. The rise in wholesale prices during the first half of 1950 was attributable almost entirely to advances in the prices of farm products—a result of the growing demand for such products as industrial output throughout the world was raised.

The effect of the world crisis precipitated by the Korean War upon the demand for goods and upon prices requires no discussion. I turn, therefore, to the question of why this second postwar inflationary movement came to a halt in March, 1951. This was the month in which the wholesale price level reached a peak. This halt to inflation is even more surprising than the halt of 1948 because it occurred in the face of rising personal incomes, of expanding government expenditures, and of growing outlays by business on plant and equipment. Furthermore, the halt to inflation began at almost the precise time that the cash surplus of the Federal Government changed to a cash deficit and when the government balance began to drop rapidly.

The immediate causes of the halt to inflation in 1951 were (1) a drop in the new orders received by business concerns and (2) a drop in expenditures by individuals for consumption. How are these two immediate causes of the halt to inflation to be explained?

The drop in new orders may be said to begin after March, 1951. Actually, new orders in January, 1951 were slightly larger than in March, but the period from January to March was really one of no significant change in the volume of new orders. The reason for the drop in new orders is found partly in the increase in inventories. These increased in physical volume at the annual rate of $11.8 billion in the last quarter of 1950, and $9.3 billion in the first quarter of 1951—a rise of roughly 10% in physical volume. Far more important than the increase in inventories in halting the rise in new orders was the large growth of unfilled orders. The increase in unfilled orders meant that many enterprises had placed orders on which they could not expect delivery for many months. Between July, 1950 and March, 1951, the unfilled orders of manufacturers had risen from $27.0 billion to $51.9 billion. Under the circumstances it is not surprising that the new orders of manufacturers should drop moderately. Between March and July, 1951 they dropped from $28.6 billion to $21.0 billion. Even in the face of falling new orders, unfilled orders in the durable goods industries continued to rise. They increased from $44.3 billion in March to $49.9 billion in July.

Why did personal consumption expenditures drop in the face of rising personal incomes after taxes? There were several reasons. One is that in the third quarter of 1950, after the beginning of the Korean War, and in the first quarter of 1951, after the entrance of the Chinese into the fighting, individuals spent at an abnormally high rate. This is shown by the fact that between the second and third quarters of 1950 and the last quarter of 1950 and the first quarter of 1951, the rise in personal consumption expenditures was considerably greater than the rise in personal incomes after taxes. In the first period, when the annual rate of personal incomes after taxes rose by $9.6 billion, consumption expenditures rose by $13.8 billion; in the second period, when the annual rate of personal incomes after taxes rose by $2.3 billion, personal consumption expenditures rose by $9.8 billion. A second important cause for the drop in personal consumption expenditures was the tightening of consumer credit. This is indicated by the fact that between the first and second quarters of 1951 expenditures on nondurable consumer goods (exclusive of services) dropped only 1.8%, whereas outlays on durable consumer goods decreased nearly 18%. The larger down payments required were undoubtedly especially effective in limiting purchases. A third cause for the drop in consumer demand was undoubtedly the growing abundance of goods. This diminished fears of immediate scarcities and of higher prices. The growing abundance of goods is reflected by the fact that even during the hectic scare buying of the first quarter of 1951, the physical volume of inventories was growing at a fairly rapid rate.

Why was it possible for inventories to grow in the face of such strong demand? The growth of inventories was partly a result of the increase in physical output—a tribute to the remarkable productivity of American industry. But it was also a result of the rise in retail prices—that is, of the process of inflation itself. The rise in retail prices (about 11%) was sufficient so that the physical volume of retail sales in the first quarter of 1951 was only about 3.3% greater than in 1950. The rise in prices, therefore, by limiting the physical quantities that people purchased, helped industry produce faster than goods were being sold. Thus rising prices helped bring inflation to a halt.

But why did not rising prices raise incomes sufficiently to cause buying power to keep pace with physical production? There were three reasons. One was that the personal tax liability of individuals increased as their incomes rose—the rise of $5.8 billion in the annual rate of personal incomes between the fourth quarter of 1950 and the first quarter of 1951 was accompanied by a rise of $3.5 billion in the seasonally adjusted annual rate of personal tax liability. A second reason is that the profits tax liability of corporations grew rapidly—it increased by $6 billion as an annual rate between the last quarter of 1950 and the first quarter of 1951. A third reason is that corporations do not promptly pay out increases in profits in the form of dividends. Dividend disbursements in the first quarter of 1951 were considerably below the fourth quarter of 1950.

VII
How Has Inflation Affected the Economy?

How has the substantial inflation of the last 12 years affected the economy? It would be wrong to assume that the effects of this particular inflation would be the effects of all inflations. Nevertheless, the effects (or, in some cases, the apparent lack of effects) are worth noting. In discussing the effects of inflation, I mean the effects of the strong demand for goods that produced the inflation—I do not attempt to make a distinction between the effects of this strong demand and the specific effects of the rise in prices which it created.

(1) **The inflation has not prevented a rapid accumulation of capital:** Fears are sometimes expressed that inflation will retard the accumulation of capital. In extreme cases this may happen, as when the rise in prices is so rapid that capital expenditures cannot be carefully planned or when inflation is the result of political insecurity and when savers endeavor to transfer their assets out of the country. In this last case, the real source of the difficulty, of course, is the political insecurity, not the inflation.

During most of the postwar period of inflation, business capital formation has been going on at a high rate. For the five years 1946-1950 inclusive, expenditures on plant and equipment (including agriculture) were 10.2% of the gross national product. This was virtually as large as during the boom of the 'twenties. Between 1922 to 1929, expenditures on plant and equipment were 10.6% of the gross national product. The physical expansion of plant and equipment (including agriculture) between the end of 1945 and the end of 1950 was approximately 25%.

(2) **Wage earners as a group have done well in keeping their incomes rising as fast as prices—though there have been great differences among different groups of employees:** In 1939 compensation of employees was 52.9% as large as the gross national product; in 1945, 57.2%; and in the second quarter of 1951, 54.5% as large. The greatest benefit that inflation has conferred on wage earners has been to keep the rate of unemployment low and to increase the proportion of the adult population who are members of the labor force. During most of the postwar years unemployment has been less than 5% of the civilian labor force in contrast with 17.2% in 1939.[2] The rise in the proportion of adults in the labor force was brought about by the war, but the strong postwar demand for goods prevented the proportion from dropping to prewar levels. In 1940, 55.2% of persons 14 years of age or over were in the labor force; in 1947, 56.5%; in 1950, 57.5%. The strong demand for labor has been particularly helpful to older workers because it has led to the postponement of retirements and has increased by a moderate amount the proportion of older workers in the labor force. In 1940, about 42% of males of 65 years of age or more were in the labor force; in 1950, the proportion was about 45%.

One may ask whether it was necessary to have inflation in order to reduce unemployment to low levels. Is it not sufficient that demand be large enough to produce full employment without producing a rise in prices? If demand exceeds the "full employment demand," does it not simply raise prices without adding to production? Unfortunately, the problem is not as simple as these questions might suggest. The supply curves for various types of goods are rising curves because various enterprises have different costs. Hence, the volume of production depends upon the relationship between prices and costs. As prices rise relative to costs, production in larger volume becomes advantageous and the employment of both men and capital increases. There is not a sharp dividing point between increases in demand that produce only increases in the volume of output and the increases in demand that produce only rises in prices.

(3) **The high level of operations of industry that has accompanied inflation has been good for corporate profits:** Under the faulty methods of accounting used by most (but not all) corporations, profits have been overstated by the amount of the rise in the cost of replacing inventories in years of rising prices.[3] In several years (1946, 1947 and 1950), the overstatement of profits was quite large—in excess of $5 billion during each of those years. Even when correction is made for the overstatement of profits, however, corporations did well in most of the years of inflation. In 1947, profits (corrected for changes in the cost of replacing inventories) were 5.5% as large as the gross national product; in 1948, 7.3%; in 1949, 7.4%. On the other hand, in 1939 profits were only 4.7% as large as the gross national product. Even in the years of inflation, however, profits did become as large relative to the gross national product as they had been in 1929 when they were 8.6% of the gross national product.

(4) **The high level of employment and production that has accompanied inflation has meant, of course, greater abundance of goods and a higher level of consumption in the community.**

(5) **There has been a considerable lag in the adjustment of the size of public pensions to inflation:** The Federal pension scheme was revised in 1950. Between 1941 and the end of 1947, however, when the consumers' price index rose 59%, the average primary pension paid under the Old Age and Survivors Plan was increased only about 10%. The amendments to the pension scheme in 1950 restored the pre-war purchasing power of pensions.

(6) **Inflation has had surprising little effect upon investment policies—particularly the investment policies of individuals:** It is true that some institutional investors, such as college endowments and pension funds, have been showing a growing interest in common stocks in recent years. Even savings banks and insurance companies have been asking for the right to invest a small part of their assets in common stock. This growing interest in common stocks, however, seems to be due more to the higher return that they pay in comparison with bonds rather than to the fear of inflation. There has also been a large increase in the personal holdings of real estate (a good hedge against inflation), but this increase has been primarily a result of a desire for more and better housing than of a search for protection against inflation. Investment trusts have been growing rapidly, but not rapidly enough to raise substantially the number of stockholders in American industry. Right through the inflation of the last 12 years individuals have continued rapidly to increase their holdings of the very type of assets that lose purchasing power during periods of inflation. During the last year there has been a moderate drop in the holdings of E bonds, but this seems to have been limited in the main to the larger holders. Quite obviously, most individuals need to review their investment policies and to decide whether their assets are properly divided between inflation hedges and non-inflation hedges. The increase in personal holdings of assets of the none-hedge has been as follows:

	(In Billions) Dec., 1939	Dec., 1945	Dec., 1950
Currency	$4.2	$20.8	$19.7
Demand deposits	7.2	24.9	29.6
Time deposits	24.1	44.4	53.1
Savings and loan shares	3.9	6.9	13.1
U. S. Government securities	5.7	41.6	50.1
Ordinary life insurance in force	77.2	101.9	149.8

money. This is important because it indicates an important limitation on the capacity of the community to control the level of prices. There are ways in which both the volume of money and the volume of income can be controlled, but ways are lacking to control the rate at which people choose to spend their money. And it is not practicable to offset changes in the rate of spending by changes in the quantity of money.

The recent experience with inflation shows that the demand for consumer goods is determined in the main by the volume of recent incomes. There are, of course, other influences, such as the volume of accumulated needs, the state of expectations, and the size of individual holdings of cash, demand deposits or other liquid assets. Nevertheless, the volume of recent income seems to be by far the principal determinant of the size of personal consumption outlays. This was true even in 1946 and 1947, a period of great accumulated needs. In this period, willingness to draw on large recent acquisitions of liquid assets was quite limited. Perhaps it cannot always be counted upon to be as limited as it has been in recent years.

The war and postwar inflations show that consumers have been a powerful stabilizing element in the community. There have been exceptions to this rule (the third quarter of 1950 and the first quarter of 1951) but in general consumers have been slow to increase their spending. They have been inclined in periods of recession to maintain their spending. On the occasions when they bought vigorously, they have not kept up this behavior very long.

The war and postwar inflations do not sustain the frequently expressed view that "controls will not permanently prevent a rise in prices once the volume of money has been allowed to increase."[4] It is true that between 1946 (when most price controls were removed) and 1948, the gross national product increased until it was almost as large in relation to adjusted demand deposits and currency outside of banks as in 1939. But this rise in the gross national product was not entirely a price rise. Between 1946 and 1948, the physical output of the American economy increased nearly 14%. By holding down prices until the economy was ready to increase its output of civilian goods, price controls did more than retard the rise in prices. They more or less indefinitely limited the rise in prices by permitting the restoration of pre-war relationships between the supply of money and the gross national product to be brought about partly by an increase in production.

The view that there is a more or less "normal" relationship between the quantity of money and the gross national product overlooks changes in the distribution of the money supply. The war not only greatly increased the money supply, but also changed its distribution. The share of privately owned cash and demand deposits held by corporations (the fast spenders) dropped from 38.2% in 1939 to 26.8% in 1945 and the shares held by individuals (the

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VIII
Some Conclusions from Recent Experience With Inflation

What can we learn from the recent experience with inflation? Recent experience reminds us that the demand for goods is determined in large measure by the rate at which money is spent as well as by the volume of money. This is not exactly new knowledge. Recent experience also reminds us that the rate at which money is spent is subject to considerable change and that changes in prices may be due more to changes in the rate of spending than to changes in the quantity of

2 In 1929 unemployment averaged only 3.2% of the civilian labor force. This is less than in any of the postwar years. The low figure for 1929 demands an explanation. The estimate of the unemployed in 1929 was, of course, not comparable to the estimates that have been based in the monthly labor market surveys since 1940. Furthermore, the higher unemployment rates in postwar years may mean that the labor force contains a relatively large number (by historical standards) of persons who are loosely attached to the labor market.

3 In years of falling prices, such as 1949, profits have been understated by the amount of the drop in the cost of replacing inventories—$2.2 billion in 1949. When proper accounting methods are used, it appears that 1949 was the most profitable year in the history of American corporations.

4 The quoted phrase is from the Twenty-First Annual Report of the Bank of International Settlements, "Federal Reserve Bulletin," September, 1951, p. 1121.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Last week's piece was hardly in your hands when the market whipped around, skedaddled like a frightened rabbit and started looking for holes to hide in. I pointed out that the market was high enough to make a reaction highly dangerous. The fact that the reaction came so soon after I wrote this piece was a revelation but should not have been surprising to readers of this corner.

* * *

I also wrote that though I expected the market to go higher, I didn't think it was wise to get aboard on strong days; I preferred buying on sell-offs. Well, you got the sell-offs and that was the time to get in.

* * *

There are all kinds of stories now current explaining the most recent reaction. I won't bother repeating all or even most of them, because post mortems serve very little purpose in the stock market. But the most widely circulated yarn is that an early "cease-fire" in Korea is the chief reason for the sharp break.

* * *

I wish I were in a position to discuss it, or even make sense out of it. But all I know I read in the papers and anybody else who can read has access to the same papers.

* * *

I don't for a minute believe that any "cease fire" talks will end in more than a nervous peace. We have been spending and arming too much to pull away in the foreseeable future. Our entire economy is now tied to a cold war, looking toward a hot war, and inflation is the order of the day.

* * *

Whether our Far Eastern policy is at fault I'm not prepared to say. But I can read the handwriting as well as the next man. What this will do to business and our economy is also clear to anybody who can rip through the propaganda that is dominating our daily lives. Forget the ramifications; anyway I can't clear them up. All I can do is take peeks at the market and determine from those what lies ahead.

* * *

Dow theories are one thing. A nation committed to an economy of cannons and less butter is another. If you agree that the latter is true then it means that defense industry will continue to prosper. The major fly in the ointment is taxes. If too much taxes are taken off the top the prosperity evident in earnings reports will seldom be seen in the balance sheets.

* * *

The new taxes aren't surprising. They were expected. The reaction also wasn't surprising. It, too, was expected. But the time to take advantage of situations is when everybody is rushing to sell.

[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.]

Martin to Manage Dickson Branch

GREENVILLE, S. C.—Joel E. Martin is now manager of the Greenville office of R. S. Dickson & Co., Inc., People's National Bank Building. Mr. Martin was formerly in the firm's Charlotte office and prior thereto was with Bache & Co.

Whittington Mgr. for Varnedoe, Chisholm

SAVANNAH, Ga.—Henry Whittington has become associated with Varnedoe, Chisholm & Co., Inc., Savannah Bank & Trust Building, as office manager. Mr. Whittington was formerly with W. E. Burnett & Co. of New York City for many years as head of the cashier's department.

Paul Gardiner Opens

(Special to THE FINANCIAL CHRONICLE)

BELMONT, Calif.—Paul H. Gardiner is engaging in the securities business from offices at 888 El Camino Real.

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What Have We Learned from Our Experience With Inflation?

slow spenders) rose from 43.4% in 1939 to 53.3% in 1945.

The experience of the last 12 years strongly suggests (though it does not prove) that a slow rise in prices over the long run is to be expected. There are two reasons for this conclusion. The first reason is that recent experience indicates that the public is prepared to support moderately strict restraint on credit and moderately restrictive fiscal policies, but that there is powerful political opposition from quite diverse parts of the community to really vigorous credit or fiscal policies. The conclusion follows that, while credit and fiscal policies will be an important restraint on the rise in prices, they will not prevent moderate advances during booms. The advances will also be increased by some cyclical rise in the turnover of money.

The second reason for expecting a slow long-run rise in prices is that recent experience indicates that unions will probably be able to raise wages and insurance benefits rapidly enough to produce a slow rise in labor costs. During periods of boom they are likely to push up wages about as rapidly as the rise in the consumer price index. About 3 million workers now work under contracts that automatically adjust wages to changes in the consumer price index with a three months' lag. In addition, these contracts provide for wage increases based upon an improvement factor. Other unions will insist that the wages of their members rise about as rapidly as the wages of men working under the escalator clause contracts. In addition, recent experience shows that unions are likely to raise wages and insurance benefits even in periods of price stability or recession—as they did in 1948 and 1949.[5] Technological progress will probably not be sufficiently rapid to prevent a rise in costs. Hence, the price level will have to adjust itself to a slowly rising level of costs.

Finally, the experience of the last twelve years provides impressive evidence that the danger of a runaway inflation in the United States is remote. This evidence is important because many economists believe that, after a slow rise in prices has continued for a few years, it will develop into a galloping rise. The two recent interruptions to inflation, one in 1948 and the second in 1951, indicate that the economy contains various arrangements and characteristics that prevent upward (or downward) spirals from lasting very long before being reversed. Upward spirals are limited by the stiff personal income tax which takes a growing proportion of rising incomes, by the social security taxes, by the stiff corporate income tax, by the well-established practice of corporations financing a large part of their capital requirements by plowing back earnings, by the lag between increases in corporate profits and increases in dividend disbursements, by limited willingness of business concerns to increase their inventories in response to rising prices, by a limited willingness of individuals to increase their indebtedness (especially short-term indebtedness) in response to expectations of higher prices or increases in their own incomes.

All of this points to the conclusion that the movement of prices in the United States is likely to be jerky—as it has been in the last five years, and, in fact, as it always has been. The underlying movement of costs will be slowly upward — unless technological progress turns out to be faster or unions to be less aggressive than now appears likely. The price level, either with or without some help from public policies, will adjust itself to slowly rising costs. During periods of boom, prices will rise faster than costs. But the rise will soon be interrupted, as it was in 1948 and in 1951. But much the same influences that halted the rise will, acting in reverse, soon halt the contraction.

Thus prices will oscillate around the level of costs, and the long-run trend of the price level will be determined by a sort of competition between managers and engineers on the one hand and the unions on the other hand—the managers and engineers striving to hold down costs by increasing output per manhour and the unions constantly endeavoring to raise wages higher and higher. The money supply will be adjusted to make possible a high level of employment at the level of costs fixed by technological progress and collective bargaining.

[5] In the two years from January 1948 to January 1950, when the consumers' price index showed virtually no change and wholesale prices dropped nearly 9%, straight-time hourly earnings in manufacturing increased over 9%.

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The State of Trade and Industry

tion. Mid-day losses ranged up to $1.30 a bale in cotton and five cents a bushel in grains. But short covering brought partial recoveries in the afternoon.

It was learned late last week that the nation's railroads petitioned the Interstate Commerce Commission to reconsider its past decision on freight rate increases and grant the full 15% requested by the carriers last March.

The increase sought would approximate an advance in present levels of about 7.2% for the country as a whole. The Commission last August approved a temporary 9% freight boost in the eastern territory and a 6% increase in other territories. Special increases were also allowed on certain commodities.

The volume of building permits for September was seasonally lower than in August, but showed a rise over the corresponding 1950 month for the first time since last January. Permits issued in 215 cities reporting to Dun & Bradstreet, Inc., amounted to $411,796,992 last month, or a gain of 0.9% above the $408,266,993 for September a year ago. There was a drop of 5.9% from the August valuation figure of $437,636,400.

Three regions reported higher permit valuations than in September last year. New England, up 58.4%, showed the best advance, followed by West Central, up 34.9%; and East Central, up 1.8%. The largest declines appeared in the Middle Atlantic and Mountain groups, with losses of about 16.0%.

For New York City alone, plans filed during September fell 18.4% to $25,034,632, from $30,673,613 last year, and 67.3% below the previous month with $76,505,151.

Steel Output Scheduled for Further Mild Improvement The Current Week

Steel allotments for first quarter generally will be smaller, says "Steel," the weekly magazine of metalworking. Tonnage grants for the period are appearing as the National Production Authority completes screening consumer applications, and allotments so far, for the most part, are below the volume requested. This is especially true in plates, bars and shapes. Freight car and shipbuilding are among defense-support production lines that appear to have received cutbacks. Further reductions in supplies for civilian goods also are indicated. On the other hand, stepping up of allocations for combat tanks, aircraft, guns, atomic energy and electronic requirements, and certain other prime military programs is seen, it adds.

A better balance between steel supply and demand is likely in first quarter, "Steel" magazine asserts. Supplies will be no more plentiful, but steelmakers say more realistic allotting by the NPA encourages hope for increased orderliness in distribution under the Controlled Materials Plan. No sharp change in supply is looked for over rest of the current quarter. Cancellations as result of NPA's regulation ordering consumers to charge third-quarter carryover tonnage against their fourth-quarter allotments have not been heavy. Most of the cancellations to date appear to be in sheets, largely reflecting slowing down in consumer durable goods.

Government restrictions on building are holding down structural steel awards, the magazine continues. Fabricators are more concerned with getting steel for approved work on their books than they are over limitations on new business. Cutbacks in the ship building program may release some plate tonnage earmarked for December rolling. It is not likely to satisfy more than a small percentage of unplaced business. Bar producers had substantial carryover from third quarter and expect an overflow into the first quarter. The railroads are placing 1952 rail requirements, the Pennsylvania Railroad last week ordering 100,000 tons, divided among three producers. Sheets are under somewhat less pressure. Cutbacks in civilian goods are resulting in some order cancellations. Tight supply is indicated through first quarter, but steelmakers think there will be noticeable easing in second quarter when additional rolling facilities are scheduled to come into production.

The shortage of scrap presents an increasingly serious threat to continued high-level steel operations, this trade journal declares. Some encouraging results are reported from the collection drives under way, but over-all supplies still are not gaining. In fact, some steelworks are operating on virtually a day-to-day inventory. Unless a substantial increase in the flow of material is experienced in the weeks immediately ahead, steelmakers say severe curtailment in open-hearth operations is inevitable.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 93% of the steel-making capacity for the entire industry will be 102.9% of

capacity for the week beginning Oct. 22, 1951, or an increase of 0.8 of a point from a week ago.

This week's operating rate is equivalent to 2,057,000 tons of steel ingots and castings for the entire industry, compared to 102.1%, or 2,041,000 tons a week ago, and 102.1%, or 2,041,000 tons a month ago. A year ago it stood at 102.6% of the old capacity and amounted to 1,978,900 tons.

Electric Output Turns Moderately Downward in Previous Week

The amount of electric energy distributed by the electric light and power industry for the week ended Oct. 20, 1951, was estimated at 7,149,458,000 kwh., according to the Edison Electric Institute.

Output in the latest reporting week reversed its upward course and declined moderately.

The current total was 10,922,000 kwh. above that of the preceding week; 646,918,000 kwh., or 9.9% above the total output for the week ended Oct. 21, 1950, and 5,430,338,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Show Decline from Previous Week

Loading of revenue freight for the week ended Oct. 13, 1951, totaled 868,683 cars, according to the Association of American Railroads, representing an increase of 9,933 cars, or 1.2% above the preceding week.

The week's total represented a decrease of 20,206 cars, or 2.3% below the corresponding week in 1950, but an increase of 284,735 cars, or 48.8% above the comparable period of 1949, when loadings were reduced by strikes in the coal and steel industries.

Auto Output Shows Steadiness in Latest Week

Combined motor vehicle production in the United States the past week, according to "Ward's Automotive Reports," advanced to 114,781 units, compared with the previous week's total of 114,433 (revised) units, and 180,321 units in the like week of 1950.

Passenger car production last week in the United States was about 1% under the previous week and about 41% below the like week of last year.

For the United States, total output rose to an estimated 114,781 units from last week's revised total of 114,433 units. In the like week of last year output totaled 180,321 units.

Total output for the current week was made up of 90,388 cars and 24,393 trucks built in the United States, against 91,130 cars and 23,303 trucks last week and 154,311 cars and 26,010 trucks in the comparable 1950 week.

Business Failures Register Pronounced Increase

Commercial and industrial failures, after a four-week decline, rose to 157 in the week ended Oct. 18 from 126 in the preceding week, Dun & Bradstreet, Inc., reports. Despite this increase, casualties were below the 165 and 181 which occurred in the comparable weeks of 1950 and 1949, and they were down sharply, 43%, from the prewar level of 277 in 1939.

Failures involving liabilities of $5,000 or more climbed to 123 from 94 in the previous week and were almost even with last year when 127 of this size occurred. A slight increase also took place among small casualties.

Wholesale Food Price Index Declines to 1951 Low

A decline of two cents last week brought the Dun & Bradstreet wholesale food price index for Oct. 16 to $6.77, duplicating the year's low point touched a month ago. This represents a rise of 4.5% over last year's index of $6.48, but it shows a drop of 7.4% from the 1951 high of $7.31 recorded on Feb. 20.

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 Makes Further Gains in Week

The general level of wholesale prices remained quite steady during the past week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., finished at 304.90 on Oct. 16, comparing with 303.54 a week earlier, and with 290.44 on the corresponding date of last year.

Grain prices at Chicago were mostly steady to slightly firmer the past week with fluctuations holding within a narrow range. Marketings of Spring wheat in the Northwest continued in heavy volume although below that of recent weeks. There was a fairly active domestic demand, but export business was confined largely to sales under the International Wheat Agreement. The latest official crop estimate placed the total wheat production this year at 994,000,000 bushels.

This was a drop of 6,000,000 bushels from the Sept. 1 forecast, and the first time since 1944 that the crop yield has fallen below 1,000,000,000 bushels.

Cash corn markets were firm, reflecting smaller offerings, active domestic demand, and a reduction in production estimates. The new crop is currently estimated at 3,105,000,000 bushels, a decline of 23,000,000 bushels from the Sept. 1 estimate, due principally to frost damage in late September. Trading in grain futures on the Chicago Board of Trade last week dropped sharply to a daily average of about 28,000,000 bushels, from 42,000,000 bushels the previous week, but were above the average of 20,000,000 bushels in the like week a year ago.

Flour prices were steady with domestic bookings spotty as most large users continued to draw on their balances. Export demand remained dull. Cocoa values declined moderately in fairly active trading. Coffee was firm with demand stimulated by reports of further restrictions of exports from Rio. Lard prices moved lower under the influence of heavy hog marketings. Hog values broke sharply last week following the unseasonal rise of the preceding three weeks.

Domestic cotton prices drifted mildly downward in the week after the sharp advance which followed the unexpected drop shown in the Government's Oct. 1 crop forecast. The easiness was attributed mostly to profit taking and increased hedge selling, but the declines were moderated to some degree by price-fixing for foreign and domestic account and by buying influenced by reports of holding in the South and the possibility of a high Government loan rate for 1952. Reported sales in the ten spot markets increased moderately to 357,100 bales last week, from 316,700 the preceding week, and compared with 258,200 in the corresponding week a year ago. Domestic mill demand and export buying continued light with inquiries mostly for prompt delivery. Farmers were selling more freely in some sections, but the holding movement continued greater than usual. Entries of cotton into the 1951 Government loan stock for the week ended Oct. 4 totaled 87,700 bales, bringing total entries for the season through Oct. 4 to 369,800 bales.

Trade Volume Rises With Increased Store Promotions

Intensified promotions spurred store patrons to increased buying in the period ended on Wednesday as the dollar volume of consumer purchases edged slightly above high 1950 levels in most regions. Although there was somewhat more spending for durable goods in the week, a smaller portion of the shopper's dollar went into hard goods purchases than at this time last year, states Dun & Bradstreet, Inc., in its latest summary of trade.

Total retail volume in the period ended on Wednesday of last week was estimated to be from 2% below to 2% above a year ago. Regional estimates varied from 1950 levels by the following percentages:

New England +2 to +6; East and Midwest —3 to +1; South —2 to +2; Northwest —1 to +3; Southwest 0 to —4, and Pacific Coast +1 to +5.

While the majority of civilian goods buyers continued to confine their ordering largely to filling in popularly selling merchandise, the tempo of new order placement assumed a more rapid pace the past week and the total dollar value of bookings, including military commitments, surpassed that of the comparable 1950 week by an appreciable margin.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 13, 1951, increased 5% from the like period of last year. In the preceding week a decrease of 2% was registered below the like 1950 week, but an increase of 1% was registered for the four weeks ended Oct. 13, 1951. For the year to date, department store sales registered an advance of 3%.

Store promotions were responsible in large measure the past week for lifting the level of retail trade, despite the prevailing warm weather.

According to Federal Reserve Board's index, department store sales in New York City for the weekly period ended Oct. 13, 1951, showed no change from the like period of last year. In the preceding week a decrease of 5% was registered below the similar week of 1950. For the four weeks ended Oct. 13, 1951, a decrease of 4% was recorded below that of a year ago, and for the year to date volume advanced 5% from the like period of last year.

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Too Much Waste in Government

Administration of the Department of Commerce, for instance, over $3 million was saved through improvements in operation—in streamlining of organization and management. In the Patent Office, one of the smaller bureaus in my department, savings to the government of over $123 thousand were brought about through reductions in printing costs alone.

These savings are laudable, but the agency head should get something besides praise. He should be able to feel that what he has accomplished brings some reward to his particular agency. **We need a recognition of the value of incentive.** We must devise and make effective **incentives for saving** the taxpayers' money, instead of **incentives for spending** it. If the agency head were permitted to retain for purposes of administration money received from the sale of publications and documents or similar services, we could cut down by these amounts the requests for appropriations. If he could spend as he chose on agency activities even a part of the money he had saved, it would furnish a powerful incentive for economy.

I am convinced that an inherent weakness in the present Federal budget system is the tendency for the Congress to make many separate appropriations for separate functions in a single department. For example, the appropriations in my department are made separately to the Civil Aeronautics Administration, the Weather Bureau, the Coast and Geodetic Survey, and so forth. It would be helpful if the Congress were to make the several appropriations to the head of a department, so that he, as a matter of operation within his overall budget, could see that the agency was spent in the best possible manner. This would permit the department head to do a better management job by holding costs to a minimum. If a department head is to be fully responsible for running his agency, he should have full authority for all expenditures in his department.

There has recently been exhibited in the Congress a feeling that the only way the Executive Branch can be forced to save money is by "across-the-board" cuts. This feeling is understandable. I would like, however, to make this suggestion: If the Congress feels that a percentage cut is necessary, let it permit the department head to distribute this cut throughout his department as he sees fit. Let **him** decide where the cut should be made.

Difficulties in Effecting Economies

I realize the difficulty of carrying out these suggestions. Members of Congress themselves have very definite ideas as to where money should be spent. Furthermore, they face continued and vigorous appeals from constituents for the financing of various projects. Any action by a department head which would adversely affect a particular project would meet with prompt and loud objection in some quarter. Nonetheless, I know that these suggestions are sound. The appropriation committees of the Congress could still, of course, exercise final authority over the executive expenditures. If they felt that the administrative head had been arbitrary, frivolous or unwise, they could make their own suggestions for the next budget. I am certain that the executive head would give preferred attention to these suggestions.

Another point should be made with reference to the impact of these "across-the-board" cuts. If one department has been run extravagantly, spending much more than was necessary, a cut in that **department's budget would not affect its operation, except perhaps to improve it. The same would not be true of a department which had been rigidly economical. The department head whose sincere wish is to economize is halted continually by the feeling that others are not being equally economical; that his economy will penalize his own operations while others benefit, or at least are not similarly penalized.**

If the President were authorized to make a flat cut of a certain percentage in the over-all expenditures, with discretion as to where the cuts should be made, it would tend to reduce, although it would probably not eliminate, the discrepancy between the department which is economically managed and the one which is not. I'm well aware of the difficulties which such a plan would present and the arguments which might be made against it; but the arguments in its favor outweigh those against it, and I'm certain that adoption would bring about many helpful economies.

One desirable change in **the Federal bookkeeping and budget-making would be a separation of the capital from the operating account.** When Congress is appropriating money for capital expenditure it is doing something quite different from appropriating for an operating expenditure. There is no reason why capital investment of the Federal Government should not be treated as such an good accounting practices applie to appraising its value, writing of in a way similar to that done b private business. Furthermore, i is not only proper, but in my judgment highly desirable to set up and maintain continually th difference between a capital ex pense, which is theoretically pe manent, or semi-permanent, an operating expense which is no recoverable.

Since the department head and the bureau head do not at presen receive credit for savings made, they have no great incentive to retain and encourage the more ef ficient employees and to get ri of the opposite kind.

Civil Service Delinquencies

In an effort to protect the civ service and remedy the evils c the so-called "spoils system" have created a body of practic precedents and laws which tend treat employees as automatic u or robots and which do not a quately recognize the differe in quality of service which e ployees render. In spite of years of contact with governm procedures, I am not yet acc tomed to hearing an employee ferred to, not by his name, as "that GS-12 or 16"—referred in other words, by his sala grade.

If government service is to improved and the taxpayer is to get more for his money, certain things in the field of government employment must be accomplished. First of all, the prospec tive employee and his employ must proceed on the basis th employment by the Federal Government is a privilege—not right. Many seem to labor und the concept that a citizen has vested interest in employment the Federal Government, or last an inherent right to a j once obtained. In judging an e ployee, recognition must not o be given to his loyalty and ho esty, but to his competence. It not sufficient to get only qualif employees; it is essential to g the best qualified available with the present pay scales. This lea to vesting in the department he greater responsibility in the sele tion of employees than the prese mere drawing of names from so-called eligible list. It is necessary to recognize that while all

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Too Much Waste in Government

men may be created equal they rapidly develop differences. Some are alert—some sluggish; some industrious—some lazy; some brilliant—some stupid. We should make a more determined effort than has so far been made to distinguish between a person's real qualifications and a paper record of achievements and to reward those who are efficient and get rid of, or at least not promote, those who are second rate.

In connection with the budgets which are presented to me periodically, one of the always-recurring items is "within-grade salary increases." This means in effect that automatically, since now almost all employees are rated "Satisfactory," the employee gets an advance. Almost no supervisor will face the risk of time and effort necessary to prove an "Unsatisfactory" rating or to make the decision which would prevent the automatic raise.

It should be easier than at present to eliminate incompetents. An American citizen has certain inalienable rights, but guaranteed employment by the Federal Government is not one of them. Every agency head has learned over the years that any effort to remove an employee is fraught with a most annoying and disappointing, if not disastrous result. It is, of course, obvious that the agency head should not from whim or caprice be able to discharge an employee. He should, however, have more leeway than he has at the present time. In all fairness, it can be said that the regulations and procedures and the philosophy back of them are designed primarily to keep the employee in his job. Frequently the trial of an employee for incompetence results instead in the trial of the agency head for prejudice or intolerance or worse. I recognize there is some risk involved in granting greater latitude to the agency head to discharge or demote an employee, but in my opinion he should have such latitude.

Many an agency head has finally come to the conclusion that he will leave incompetents on the payroll rather than go through the unpleasant ordeal of trying to get rid of them. Having learned his lesson, he gives up his attempt to crash through all the maze of procedures and gradations which have been established and moves unenthusiastically with the current. It seems to me that greater administrative discretion, with protection of the individual from whim or prejudice, should be allowed without interminable appeals, some of them outside the agency—at least in the important policy-making positions.

On the other hand, there are in the public service, just as there are in business or elsewhere, those employees, devoted to their work, who will try in every possible way to do a superior job and give everything they have to the public service. To encourage and promote and adequately reward such employees is of the utmost importance. Here, as elsewhere, the question boils down to one of real incentive. The importance of this concept cannot be overlooked or minimized.

I have discussed some possible methods by which government expenditures can be cut down.

Excessive Government Activities

The real solution to mounting government expenditures and perhaps the only solution is, however, wholly different. It is drastic but simple. It is embodied in the statement that there is a limit to what we can do. No amount of streamlining of government service will be a substitute for facing this unpleasant fact. There is a limit to the number of government activities we can undertake. When we face this fact and move on from there we immediately confront almost insuperable but not really insuperable difficulties — for the question then is: What things can be eliminated? Which among the many laudable and worthwhile undertakings of government are to be abandoned?

One way to keep out of this distressing dilemma is not to add new agencies where it can be avoided; new agencies which must later painfully be endured or liquidated. It is easier to prevent the creation of a new agency than to kill an old one.

We have a mania for new agencies, commissions, and study groups. When a new problem confronts us, it is common practice to suggest that some outstanding man of great ability (the theoretical man is always one of great ability) be brought to Washington to head up a new commission or agency to handle the problem. He is usually given a large amount of money to operate with. I will give you two illustrations.

One of the objects of solicitude of many both in and out of public office, and one of the matters deserving close and continued attention, is the situation and in some cases the plight of the small businessman. It is, of course, not true, as some claim, that the small businessman has been or is being completely crushed out in this country. Until recently the growth in the number of business enterprises has been steady and great. There are now slightly over four million business enterprises, most of them small. About 300 thousand are manufacturers. At this time, however, the small businessman does have his problems — plenty of them. There are in the government, and have been, several agencies which are undertaking to be of help to the small businessman. This is true in the General Services Administration, the various branches of the Armed Services, the Reconstruction Finance Corporation, the Department of Commerce, and others. Within the Department of Commerce the National Production Authority, which handles critical materials and allocates them, has given particular attention to the small businessman's problems and is making great efforts to help him solve them.

The Congress has also been considering his problems, and has come up with a new agency. It is to be called the Small Defense Plants Administration, and the law specifically provides that it shall not be affiliated with or be within any other agency or department of the Federal Government. It has been proposed that this agency be given a total of $50 million to spend. The administrator is to receive $17,500 salary and his two deputies are to be paid at the rate of $15,000 each. While I shall, of course, do everything in my power to help carry out the wishes of the Congress, I feel, as I have stated before several Congressional committees, that the work could have been done by existing agencies effectively and with great saving of the taxpayers' money. Here, as elsewhere, the creation of a new agency to supplant a number of old ones results only in the new agency being added to the old ones.

I will give you a second illustration of my point. We have since World War II spent on foreign aid of one kind or another many billions of dollars. It is, aside from our military expenditures, the biggest item in our budget. These foreign aid activities are carried on by many government agencies. There has been a growing move lately, supported by many men of prominence and organizations of importance, to create a new super agency to handle foreign aid. The recent Act of Congress dealing with foreign aid discloses disturbing progress along this line. In my opinion, as I said recently in a letter to Senator Connally, this would create serious if not insoluble administrative and foreign relations problems, and in the long run would produce an unbearable drain upon the taxpayers.

"We Don't Need a Santa Claus Department"

Aside from other arguments which might properly be brought against this suggestion, one is, in my judgment, unanswerable. No department at Cabinet level should be created whose function is to give away money. We don't need a Santa Claus Department. Santa Claus should operate as a private—not a public—enterprise.

In connection with the problem involved in curtailing the agencies which we already have, we must begin with the realization that we are not dividing the sheep from the goats. We are not retaining only those activities which are beneficial and eliminating those which are useless. In almost every case we will be forced to a decision to retain or abandon activities which are in varying degrees beneficial. Obviously, this presents a difficult problem and will prove to be a very unpopular job.

We are faced initially with the question of the relative importance of government activities; in fact, that is the fundamental question. Let us take, for instance, the matter of research. The oldest and certainly the most eminent governmental research authority in the country is the National Bureau of Standards, of the Department of Commerce. The Bureau was appropriated about $8.5 million for its operation this past year. In contrast, the annual appropriation for the Department of Defense currently for research and development is $1.4 billion. The Office of the Secretary of Defense alone is given $90 million for these purposes. This latter figure itself is about the equivalent of all the money which has been appropriated for research and development in the National Bureau of Standards since it was organized 50 years ago. The typical question, therefore, would be: If appropriations for research and development are to be cut, where is the cut to be made? The question is not simply between civilian and military expense since the Bureau of Standards, outside of its regular appropriation, does a vast amount of research for other agencies, chiefly the Department of Defense.

Two years ago there was passed out to the potato growers of this country the sum of $190 million. This was more than the total amount spent that year in my department for the Weather Bureau, the Coast and Geodetic Survey, the Patent Office, the Bureau of the Census, the Office of Business Economics, all the field offices of the Bureau of Foreign and Domestic Commerce, and the Office of International Trade.

Last year the United States, through the Economic Cooperation Administration, provided western Europe with $374 million for machinery and equipment to be used in constructing or rebuilding its plants and $817 million for raw materials to be used in European industries—a total of $1.2 billion. In connection with national defense during the past year there was committed a billion dollars for defense plants and an additional $1.1 billion for defense supporting facilities in the United States. Here a possible alternative confronts us.

I am not undertaking in any one of these cases to suggest which of the contrasted appropriations is more important. The answer may be clear to you. It is clear that when we talk about economy and mean it, we are facing a very tough problem. We really must answer the question — "the $64 question"—or shall I say the $64 billion question: What do we eliminate? It seems clear that the first thing required is a certain community of approach by the Legislative and Executive branches. There is, however, no reason to be discouraged, and if the American people mean business the savings can be accomplished.

The backbone of our capitalistic system is government credit. Lenin once said that the surest way to destroy a capitalist regime is to debauch its currency. That is still true. I do not suggest that we must at all times and under all circumstances balance the budget. The failure to recognize an emergency may be just as fatal as the failure to recognize the end of an emergency. We cannot avoid, however, the unpleasant task of self-discipline which is involved in meeting this problem of economy. There is a limit to what we can do. We should be making choices continually. Eventually we must make some drastic ones.

Continental Can Debs. And Pfd. Stk. Offered

Offerings of $15,000,000 3¼% debentures due Oct. 15, 1975 at 100¾% and accrued interest, and 104,533 shares of $4.25 cumulative second preferred stock at $102 per share of Continental Can Co., Inc., are being made today (Oct. 25). Goldman, Sachs & Co. and Lehman Bros. head an underwriting group that is offering the debentures and the company is offering the second preferred stock to its common stockholders in the ratio of one share of new preferred stock for each 30 shares of common stock held of record on Oct. 24, 1951. The transferable subscription warrants will expire on Nov. 7, 1951. Shares of the new second preferred stock not subscribed for by common stockholders will be purchased by the underwriters.

The debentures are entitled to a sinking fund providing for the retirement of not less than $450,000 nor more than $900,000 of the debentures for each of the years 1954 through 1975. They are redeemable otherwise than by operation of the sinking fund at prices scaled down from 103¾% to 100% in the last year. If redeemed by operation of the sinking fund the redemption prices are scaled from 100¾% to 100% in the last year. Each share of the new preferred stock is convertible into 2.3 shares of common stock prior to Nov. 1, 1961.

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Dealer-Broker Investment Recommendations and Literature

Mountain Fuel Supply—Analysis—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah. Also available are analysis of **Equity Oil** and **Utah Southern Oil.**

Nekoosa-Edwards Paper Company—Analysis—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis. Also available is an analysis of **Texas Eastern Transmission Corporation.**

New England Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

New York Central Co.—Analysis—Van Alstyne, Noel & Co., 52 Wall Street, New York 5, N. Y.

Oak Manufacturing Co.—Analysis—Sills, Fairman & Harris, Inc., 209 South La Salle Street, Chicago 4, Ill.

Ohio Oil—Data—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y. Also available is a brief bulletin on **Studebaker.**

Pacific Power & Light Co.—Bulletin—Pacific Northwest Co., Exchange Building, Seattle 4, Wash.

Pennsylvania Railroad Co. vs. Southern Pacific Co.—Bulletin (No. 73)—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y. Also available is a memorandum on **Columbian Carbon Co.**

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

Pure Oil Co.—Review—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Rieke Metal Products Corp.—Bulletin—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

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

Seneca Oil Company—Analysis—Genesee Valley Securities Co., Powers Building, Rochester 14, N. Y.

Snap-On Tools Corp.—Memorandum—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill.

Solar Aircraft Co.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Soya Corp. of America—Analysis—W. C. Doehler & Co., 15 Exchange Place, Jersey City 2, N. J.

Sunray Oil Corp.—Analysis—Dempsey & Co., 135 South La Salle Street, Chicago 3, Ill.

Technicolor, Inc.—Memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Texas Gulf Producing—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y. Also available is a memorandum on the **Lehman Corp.**

Union Oil Co. of California—Review—Dean Witter & Co., 14 Wall Street, New York 5, N. Y.

U. S. Thermo Control—Data—Raymond & Co., 148 State Street, Boston 9, Mass. Also available is information on **Thermo King Railway.**

West End Chemical—Circular—F. Reilly & Co., Inc., 61 Broadway, New York 6, N. Y. Also available is a circular on **Lone Star Steel.**

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)	Oct. 28	102.9	102.1	102.1	102.6
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 28	2,057,000	2,041,000	2,041,000	1,978,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Oct. 13	6,329,150	6,337,600	6,282,200	5,851,750
Crude runs to stills—daily average (bbls.)	Oct. 13	¶6,426,000	6,536,000	6,544,000	6,124,000
Gasoline output (bbls.)	Oct. 13	21,330,000	21,446,000	21,720,000	20,090,000
Kerosene output (bbls.)	Oct. 13	2,437,000	2,656,000	2,558,000	2,366,000
Distillate fuel oil output (bbls.)	Oct. 13	8,799,000	9,329,000	8,833,000	8,874,000
Residual fuel oil output (bbls.)	Oct. 13	8,396,000	8,330,000	8,598,000	8,472,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 13	112,000,000	112,703,000	114,318,000	103,807,000
Kerosene (bbls.) at	Oct. 13	33,632,000	33,704,000	32,945,000	28,555,000
Distillate fuel oil (bbls.) at	Oct. 13	100,190,000	98,198,000	92,528,000	80,959,000
Residual fuel oil (bbls.) at	Oct. 13	49,139,000	47,966,000	47,972,000	42,910,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 13	868,683	858,750	850,812	888,889
Revenue freight received from connections (number of cars)	Oct. 13	694,738	709,524	670,779	727,715
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 18	$195,220,000	*$220,702,000	$232,381,000	$260,750,000
Private construction	Oct. 18	124,169,000	*108,463,000	63,843,000	183,265,000
Public construction	Oct. 18	71,051,000	112,239,000	168,538,000	77,485,000
State and municipal	Oct. 18	52,682,000	86,234,000	101,345,000	72,659,000
Federal	Oct. 18	18,369,000	26,005,000	67,193,000	4,826,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 13	10,965,000	10,865,000	10,860,000	11,573,000
Pennsylvania anthracite (tons)	Oct. 13	1,020,000	981,000	784,000	1,073,000
Beehive coke (tons)	Oct. 13	137,600	*139,900	132,600	147,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE = 100	Oct. 13	339	318	329	322
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 20	7,149,458	7,160,380	7,013,950	6,502,540
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 18	157	126	160	165
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 16	4.131c	4.131c	4.131c	3.837c
Pig iron (per gross ton)	Oct. 16	$52.69	$52.69	$52.69	$49.36
Scrap steel (per gross ton)	Oct. 16	$43.00	$43.00	$43.00	$40.67
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 17	24.200c	24.200c	24.200c	24.200c
Export refinery at	Oct. 17	27.425c	27.425c	27.425c	24.425c
Straits tin (New York) at	Oct. 17	103.000c	103.000c	103.000c	112.500c
Lead (New York) at	Oct. 17	19.000c	19.000c	17.000c	16.000c
Lead (St. Louis) at	Oct. 17	18.800c	18.800c	16.800c	15.800c
Zinc (East St. Louis) at	Oct. 17	19.500c	19.500c	17.500c	17.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 23	97.86	97.98	98.81	101.39
Average corporate	Oct. 23	110.34	110.88	111.62	115.24
Aaa	Oct. 23	114.85	115.63	116.41	119.41
Aa	Oct. 23	113.89	114.66	115.43	118.40
A	Oct. 23	109.42	109.97	110.34	114.85
Baa	Oct. 23	103.80	104.14	105.00	108.88
Railroad Group	Oct. 23	107.09	107.80	108.30	111.25
Public Utilities Group	Oct. 23	110.15	110.70	111.25	115.82
Industrials Group	Oct. 23	114.08	114.46	115.43	119.00
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 23	2.64	2.63	2.58	2.39
Average corporate	Oct. 23	3.15	3.12	3.08	2.89
Aaa	Oct. 23	2.91	2.87	2.83	2.68
Aa	Oct. 23	2.96	2.92	2.88	2.73
A	Oct. 23	3.20	3.17	3.15	2.91
Baa	Oct. 23	3.52	3.50	3.45	3.23
Railroad Group	Oct. 23	3.33	3.29	3.26	3.10
Public Utilities Group	Oct. 23	3.16	3.13	3.10	2.86
Industrials Group	Oct. 23	2.95	2.93	2.88	2.70
MOODY'S COMMODITY INDEX	Oct. 23	459.0	464.8	457.3	468.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 13	171,817	287,590	201,011	231,419
Production (tons)	Oct. 13	211,413	215,312	222,702	237,498
Percentage of activity	Oct. 13	90	88	94	102
Unfilled orders (tons) at end of period	Oct. 13	486,887	528,885	538,949	752,556
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE = 100	Oct. 19	148.9	148.9	149.5	137.8
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	Oct. 6	35,600	29,815	25,553	39,129
Number of shares	Oct. 6	1,054,653	867,872	754,988	1,182,139
Dollar value	Oct. 6	$45,273,573	$37,739,448	$33,031,337	$52,921,967
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Oct. 6	31,437	26,625	24,588	42,548
Customers' short sales	Oct. 6	181	149	166	314
Customers' other sales	Oct. 6	31,256	26,476	24,422	42,234
Number of shares—Total sales	Oct. 6	907,734	753,464	706,004	1,233,440
Customers' short sales	Oct. 6	6,453	5,046	5,840	12,011
Customers' other sales	Oct. 6	901,281	748,418	700,164	1,221,429
Dollar value	Oct. 6	$35,613,509	$30,723,051	$28,476,518	$48,142,457
Round-lot sales by dealers—					
Number of shares—Total sales	Oct. 6	237,170	216,000	222,380	396,460
Short sales	Oct. 6	------	------	------	------
Other sales	Oct. 6	237,170	216,000	222,380	396,460
Round-lot purchases by dealers—					
Number of shares	Oct. 6	399,260	320,350	266,030	379,880
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR—1926 = 100:					
All commodities	Oct. 16	177.7	*177.4	176.4	168.9
Farm products	Oct. 16	195.3	*193.1	168.6	177.0
Grains	Oct. 16	189.0	185.1	180.2	163.0
Livestock	Oct. 16	257.4	257.2	256.7	222.8
Foods	Oct. 16	191.6	*191.2	187.9	172.4
Meats	Oct. 16	283.0	285.1	280.0	240.9
All commodities other than farm and foods	Oct. 16	165.1	165.0	165.4	161.4
Textile products	Oct. 16	157.1	*157.1	163.2	162.9
Fuel and lighting materials	Oct. 16	136.8	138.9	138.6	135.4
Metals and metal products	Oct. 16	190.9	190.9	189.4	178.3
Building materials	Oct. 16	223.2	*223.2	222.0	219.7
Lumber	Oct. 16	344.5	*344.5	341.0	‡
Chemicals and allied products	Oct. 16	141.2	140.9	140.4	132.4

*Revised. ‡Not available. ¶Includes 410,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN PETROLEUM INSTITUTE—Month of July:			
Total domestic production (bbls. of 42 gallons each)	206,729,000	199,830,000	185,019,000
Domestic crude oil output (bbls.)	190,362,000	183,898,000	170,017,000
Natural gasoline output (bbls.)	16,357,000	15,920,000	14,985,000
Benzol output (bbls.)	10,000	12,000	17,000
Crude oil imports (bbls.)	16,940,000	16,889,000	15,076,000
Refined products imports (bbls.)	7,500,000	9,385,000	9,900,000
Indicated consumption domestic and export (bbls.)	218,888,000	210,844,000	201,514,000
Increase—all stocks (bbls.)	12,281,000	15,260,000	8,481,000
BANKERS' DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of September 30:			
Imports	$210,083,000	$217,753,000	$264,149,000
Exports	103,662,000	109,211,000	78,549,000
Domestic shipments	10,214,000	12,099,000	11,497,000
Domestic warehouse credits	16,504,000	13,199,000	17,532,000
Dollar exchange	3,338,000	5,651,000	2,268,000
Based on goods stored and shipped between foreign countries	30,702,000	26,408,000	23,137,000
Total	$374,563,000	$384,321,000	$397,132,000
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of September:			
New England	$28,279,685	$41,387,438	$17,850,803
Middle Atlantic	53,804,845	111,643,528	64,278,712
South Atlantic	41,026,632	34,420,897	41,685,633
East Central	96,322,803	96,812,345	94,648,731
South Central	70,032,298	62,566,795	74,086,205
West Central	39,506,703	25,745,212	29,289,999
Mountain	13,381,945	11,533,904	15,938,670
Pacific	69,442,081	53,556,281	70,488,240
Total United States	$411,796,992	$437,666,400	$408,266,993
New York City	25,034,632	76,505,151	30,673,613
Outside of New York City	386,762,360	361,161,249	377,593,380
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of September (000's omitted):			
Total U. S. construction	$917,158	$1,145,715	$959,530
Private construction	455,652	601,455	590,648
Public construction	461,506	544,260	368,882
State and municipal	304,805	376,887	327,128
Federal	156,701	167,373	41,754
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of September 30 (000's omitted)	$377,000	$368,000	$308,000
CONSUMER PURCHASES OF COMMODITIES —DUN & BRADSTREET, INC. (1935-1939 = 100)—Month of September	328.0	*333.7	325.2
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (excl. of linters) to Oct. 1	5,467,911	------	2,771,959
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100) Month of September:			
Adjusted for seasonal variations	312	*319	320
Without seasonal adjustment	323	*267	331
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—Month of July (000's omitted)	25,663,089	25,716,567	22,636,887
Revenue from ultimate customers—month of July	$457,799,100	$456,313,300	$412,436,800
Number of ultimate customers at July 31	46,066,441	45,919,171	44,087,312
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS ASSN.) — Month of August:			
Total number of vehicles	549,708	*492,316	818,123
Number of passenger cars	426,932	381,407	682,782
Number of motor trucks	121,993	*110,244	134,884
Number of motor coaches	783	665	457
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Sept.	£15,524,000	£6,465,000	£7,825,000
NEW YORK STOCK EXCHANGE—As of Sept. 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debt balances	$1,290,056	$1,260,404	$1,285,016
Credit extended to customers	40,558	41,079	122,232
Cash on hand and in banks in U. S.	387,670	370,710	338,655
Total of customers' free credit balances	843,090	816,311	738,698
Market value of listed shares	108,911,371	108,306,539	88,673,390
Market value of listed bonds	97,924,892	99,271,015	118,860,724
Member borrowings on U. S. Govt. issues	59,558	61,697	204,162
Member borrowings on other collateral	667,237	643,941	678,754
RAILROAD EARNINGS — CLASS I ROADS (ASSOCIATION OF AMERICAN RRS.)—Month of August:			
Total operating revenues	$909,944,607	$816,811,659	$889,796,085
Total operating expenses	700,651,363	683,823,556	626,264,865
Operating ratio	77.00%	83.72%	70.38%
Taxes	$110,726,003	$73,139,048	$126,197,664
Net railway operating income before charges	80,881,476	41,934,985	122,343,180
Net income after charges (est.)	55,000,000	17,000,000	96,000,000
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of September:			
Net sales	------	------	------
Net purchases	$2,807,800	$4,651,000	$5,017,500
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS — Month of August (000's omitted):			
Exports	$1,263,800	$1,189,700	$911,000
Imports	899,400	893,300	857,864
U. S. GOVT. STATUTORY DEBT LIMITATION As of September 30 (000's omitted):			
Total face amount that may be outstanding at any time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	$257,352,895	$256,644,152	$257,215,671
Guaranteed obligations not owned by the Treasury	33,311	32,404	19,862
Total gross public debt and guaranteed obligations	$257,386,206	$256,676,556	$257,235,533
Deduct—other outstanding public debt obligations not subject to debt limitation	673,257	675,208	714,013
Grand total outstanding	$256,712,949	$256,001,347	$256,521,520
Balance face amount of obligations, issuable under above authority	18,287,050	18,998,652	18,478,479
ZINC OXIDE (BUREAU OF MINES)—Month of July:			
Production (short tons)	16,618	17,570	17,987
Shipments (short tons)	15,084	15,870	19,542
Stocks at end of month (short tons)	16,796	15,262	14,571

*Revised figure.

Securities Now in Registration

★ REVISIONS THIS WEEK
• INDICATES ADDITIONS

New Registrations and Filings

American Bosch Corp., Springfield, Mass.
Oct. 18 (letter of notification) 6,200 shares of common stock (par $2). **Price**—At market (about $16 per share). **Underwriter**—None. **Proceeds**—To F. William Harder of New York. **Office**—Main Street, Springfield, Mass.

American Cladmetals Co., Carnegie, Pa. (10/29)
Oct. 18 (letter of notification) 40,000 shares of common stock (par $1). **Price**—$2.12½ per share. **Underwriters**—Graham & Co., Pittsburgh, Pa., and Graham, Ross & Co., Inc., New York. **Proceeds**—For working capital.

Arcum Pharmaceutical Corp., Washington, D. C.
Oct. 16 (letter of notification) 100 shares of 7% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For clinical research for medicinal and other such products. **Office**—1204 Wisconsin Ave., N. W., Washington, D. C.

Augusta Chemical Co., Augusta, Ga.
Oct. 19 (letter of notification) 100,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—For working capital. **Office**—Glass Factory Avenue, Augusta, Georgia.

Badger Telephone Co., Inc., Webster, Wis.
Oct. 15 (letter of notification) 390 shares of common stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For new lines and to install new equipment.

Blakeslee Forging Co., Plantsville, Conn.
Oct. 15 (letter of notification) 12,000 shares of 5% cumulative preferred stock **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For working capital and plant improvements.

Buhner Fertilizer Co., Inc., Seymour, Ind.
Oct. 19 (letter of notification) 3,000 shares of 5% cumulative convertible preferred stock (convertible at rate of one share for each two common shares). **Price**—At par ($100 per share). **Underwriter**—City Securities Corp., Indianapolis, Ind. **Proceeds**—To repay bank loan and for working capital. **Office**—First National Bank Bldg., Seymour, Ind.

Canadian Atlantic Oil Co., Ltd. (11/14)
Oct. 19 filed 1,350,000 shares of common stock (par $2—Canadian), of which 700,000 shares are for the account of the company and 650,000 shares for Pacific Petroleums Ltd. of Calgary, Alberta, Canada. **Price**—To be supplied by amendment. **Underwriters**—In United States: Reynolds & Co. and Bear, Stearns & Co. **Proceeds**—To liquidate outstanding bank loan.

Capital Transit Co., Washington, D. C.
Oct. 18 (letter of notification) 300 shares of capital stock (par $100). **Price** — At market (estimated at $54 per share). **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, Washington, D. C. **Proceeds**—To Doran S. Weinstein, the selling stockholder. **Office**—36th and M Sts., N. W., Washington 7, D. C.

Consolidated Tungsten Mines, Inc., Phoenix, Arizona
Oct. 15 (letter of notification) 10,000 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For equipment for mines. **Office**—15 So. First Ave., Phoenix, Ariz.

Dobeckmun Co., Cleveland, O.
Oct. 24 filed 90,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Blyth & Co., Inc., New York and Cleveland. **Proceeds**—To repay loans and for general corporate purposes.

Fedders-Quigan Corp., L. I., N. Y. (11/8)
Oct. 19 filed 62,041 shares of 5% cumulative preferred stock, series A (par $50—convertible into common stock prior to Nov. 1, 1961) to be offered for subscription by common stockholders of record Nov. 8 at rate of one preferred share for each 20 common shares held. **Price**—To be supplied by amendment. **Underwriter**—Allen & Co., New York. **Proceeds**—To retire short-term bank loans and for general corporate purposes.

Gulf States Utilities Co. (11/19)
Oct. 18 filed $10,000,000 of first mortgage bonds, due Nov. 1, 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and A. C. Allyn & Co. Inc. (jointly); Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Lehman Brothers; Carl M. Loeb, Rhoades & Co. and Lee Higginson Corp. (jointly). **Proceeds**—To pay off short-term loans and to provide the company with funds to carry forward its current construction program to the Spring of 1952, at which time company expects to undertake additional financing. **Bids**—Expected to be opened at noon (EST) on Nov. 19.

Hein-Werner Corp., Waukesha, Wis.
Oct. 15 (letter of notification) 9,190 shares of common stock (par $3). **Price**—At market (approximately $10.50 per share). **Underwriters**—Northern Trust Co., Chicago, Ill., and The Marshall Co., Milwaukee, Wis. **Proceeds**—To E. G. Bach, Executor of the Estate of I. Hadcock.

Homasote Co., Trenton, N. Y.
Oct. 22 (letter of notification) 30,000 shares of 5% cumulative convertible preferred stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For redemption of outstanding preferred stock ($41,900) and working capital (a maximum of $258,100).

Invalift, Inc., Seattle, Wash.
Oct. 12 (letter of notification) 10,000 shares of common stock (no par). **Price**—$5 per share. **Underwriter**—None. **Proceeds** — For working capital. **Office** — 4617 Airport Way, Seattle, Wash.

James Mfg. Co., Fort Atkinson, Wis.
Oct. 18 (letter of notification) 12,900 shares of common stock (par $5). **Price**—$23.25 per share. **Underwriters**—Loewi & Co., Milwaukee, Wis.; Shearson, Hammill & Co., New York; and Bell & Farrell, Inc., Madison, Wis. **Proceeds**—For general corporate purposes.

Keystone Custodian Funds, Inc., Boston, Mass.
Oct. 22 filed 250,000 shares of series B-3; 450,000 shares of series B-4; 1,915,000 shares of series K-1; 25,000 shares of series S-1; and 100,000 shares of series S-4. **Price**—At the market. **Underwriter**—Keystone Co. of Boston. **Proceeds**—For investment.

Las Vegas Thoroughbred Racing Association
Oct. 8 (letter of notification) 7,500 shares of common stock (no par). **Price** — $5 per share. **Underwriter** — None. **Proceeds**—To Frances Adkins Smoot, the selling stockholder. **Address**—Highway 91 at Vegas Park Way, Box 1588, Las Vegas, Nev.

Lockheed Aircraft Corp.
Oct. 17 filed 27,000 shares of capital stock (par $1), issuable upon exercise of certain options granted to a selected group of officers and employees of company and its subsidiaries, together with 19,370 shares previously registered and issuable upon exercise of options heretofore granted to officers and employees. **Price** — $19.35 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes.

Lowell Gas Co., Lowell, Mass. (11/8)
Oct. 19 filed 30,000 shares of 6% cumulative preferred stock (which had been offered to holders of the outstanding 12,000 shares of preferred stock at rate of 2½ shares for each share held by them with rights expiring Oct. 5, 1951): none subscribed for. **Price**—At par ($25 per share). **Underwriter**—To be disclosed by amendment. **Proceeds**—To retire outstanding preferred stock and to reduce construction notes.

McDonough Foundry & Machine Co., McDonough, Ga.
Oct. 18 (letter of notification) $100,000 of 6% 15-year debentures to be issued under plan of recapitalization at rate of $10 of debentures for each $10 par share of stock. It is estimated that about 90% will be issued for stock and 10% for cash. **Price**—At par. **Underwriter**—None. **Proceeds**—To reduce mortgage debt.

Mines Management, Inc., Wallace, Ida.
Oct. 17 (letter of notification) 40,000 shares of common stock. **Price**—60 cents per share. **Underwriter**—Louis Payne, Spokane, Wash. **Proceeds**—To explore and develop mining claims. **Offices** — 507 Bank St., Wallace, Idaho, and 612 Chronicle Bldg., Spokane, Wash.

Morrow (R. D.) Co., Inc., Pittsburgh, Pa. (10/29)
Oct. 19 (letter of notification) 10,000 shares of 5% cumulative convertible preferred stock. Convertible into common stock, share for share, on or before Jan. 1, 1962 (redeemable at $12 per share). **Price**—At par ($10 per share). **Underwriter**—Graham & Co., Pittsburgh, Pa. **Proceeds**—For installation of new TV antenna systems and for working capital. **Office**—6504 Frankstown Avenue, Pittsburgh 6, Pa.

Murmax Drilling Co., Inc., Pocatello, Ida.
Oct. 15 (letter of notification) 1,000,000 shares of common stock (par 10 cents). **Price**—25 cents per share. **Underwriter**—None. **Proceeds**—To drill five wild cat oil wells in Wyoming.

National Credit Card, Inc., Portland, Ore.
Oct. 19 (letter of notification) 250 shares of 6% cumulative preferred stock (par $1,000), 250 shares of common stock (par $100) and 250 shares of common stock (no par) to be offered in units of one share of each. **Price**—$1,000 per unit. **Underwriter**—None. **Proceeds**—For working capital. **Office**—207-208 Times Building, Portland 4, Ore.

Pacific Telephone & Telegraph Co. (11/20)
Oct. 19 filed $30,000,000 30-year debentures due Nov. 15, 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Lehman Brothers and Union Securities Corp. (jointly); White, Weld & Co. **Proceeds**—To repay bank loans and for new construction. **Bids**—Expected to be received on Nov. 20.

Pacific Telephone & Telegraph Co.
Oct. 19 filed 633,274 shares of common stock to be offered for subscription by common and preferred stockholders in the ratio of one share of common stock for each nine shares of common and/or preferred stock held. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To reduce bank loans and for plant improvements.

Paramount Fire Insurance Co., N. Y. (11/1)
Oct. 23 (letter of notification) 50,000 shares of common stock (par $10) to be offered for subscription by stockholders of record Oct. 31 at rate of one new share for each two shares held. (Transamerica Corp. owns 91,674⅓ out of 100,000 shares outstanding); rights will expire on Nov. 21. **Price**—$30 per share. **Underwriter**—None. **Proceeds**—For working capital.

Phillips (Robert R.), Los Angeles, Calif.
Oct. 16 (letter of notification) 15,000 shares of common stock (par $10). **Underwriter**—None. **Proceeds**—For organizational expenses for formation of new company to manufacture, process and fabricate metal products. **Office**—7662 Hollywood Blvd., Los Angeles 46, Calif.

Pillsbury Mills, Inc., Minneapolis, Minn.
Oct. 18 (letter of notification) 3,000 shares of common stock (par $25) to be offered to employees under a payroll deduction plan. Price—At market (approximately $38 per share). **Underwriter**—None.

Preferred Pressroom Products, Inc., Lynn, Mass.
Oct. 19 (letter of notification) 500 shares of common stock (par $10). **Price**—$40 per share. **Underwriter**—None. **Proceeds**—For research and development of new products. **Office**—90 Jenness Street, Lynn, Mass.

Puritan Fund, Inc., Boston, Mass.
Oct. 23 filed 200,000 shares of capital stock (par $1). **Price**—At market. **Underwriter**—None. **Proceeds**—For investment.

Real Fresh Milk, Inc., Beverly Hills, Calif.
Oct. 18 (letter of notification) 25,000 shares of 6% cumulative preferred stock (par $10) and 40,000 shares of common stock (par $1). **Price**—At par. **Underwriter**—None. **Proceeds**—For plant construction and equipment. **Office**—424 South Beverly Drive, Beverly Hills, Calif.

Seattle Steam Corp., Seattle, Wash.
Oct. 12 (letter of notification) 3,000 shares of class B stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds** — To pay part of purchase price of Seattle steam heating properties and for working capital. **Office**—1411 Fourth Ave., Seattle, Wash.

Sherwood & Roberts, Inc., Walla Walla, Wash.
Oct. 12 (letter of notification) $300,000 of notes in units of $100 and multiples thereof. **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital. **Business**—Mortgage loan and finance business. **Office**—First National Bank Building, Walla Walla, Wash.

Sicks' Seattle Brewing & Malting Co., Seattle, Washington
Oct. 12 (letter of notification) 70,000 shares of common stock (par $1) to be offered in exchange for 44,125 shares of preferred and 183,421 shares of common stock of Sicks' Brewing Co. (Ore.) at rate of one share of Sicks' Seattle stock for each three shares of Sicks' (Ore.) stock. **Underwriter**—None.

Silex Co., Hartford, Conn.
Oct. 19 (letter of notification) 53,750 shares of common stock (no par), to be offered for subscription by common stockholders. **Price**—$5 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—80 Pliny Street, Hartford, Conn.

Standard Oil Co. (Ohio) (11/7)
Oct. 18 filed 364,727 shares of common stock (par $10) to be offered for subscription by common stockholders of record Nov. 7 at rate of one share for each 10 shares held; rights to expire Nov. 21. **Price**—To be supplied by amendment. **Underwriter**—F. S. Moseley & Co., Boston, Mass. **Proceeds**—For capital expenditures and working capital.

Sterling, Inc., New York
Oct. 22 (letter of notification) 10,000 shares of common stock (par $1). **Price**—At market (approximately $4.50 per share). **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, Chicago, Ill. **Proceeds**—To David S. Berry, Vice-President, who is the selling stockholder.

Toklan Royalty Corp., Tulsa, Okla.
Oct. 10 (letter of notification) 10,000 shares of common stock (par 70 cents). **Price**—At market (estimated at $6.75 per share) **Underwriter**—None. **Proceeds**—To Curtis F. Bryan, President, the selling stockholder. **Office**—635-644 Kennedy Building, Tulsa, Okla.

Toklan Royalty Corp., Tulsa, Okla.
Oct. 11 (letter of notification) 25,000 shares of common stock (par 70 cents). **Price**—$4.50 per share. **Underwriter**—None. **Proceeds**—To purchase for investment 450,000 shares of capital stock of Palmer Stendel Oil Co. **Office**—635-644 Kennedy Building, Tulsa, Okla.

Tulsa Chamber of Commerce, Tulsa, Okla.
Oct. 18 (letter of notification) $300,000 of second mortgage bonds on real estate in Tulsa (in denominations of $1,000, $500 and $250 each). **Price**—At par. **Underwriter**—None. **Proceeds**—To pay for construction and equipment of the Home Office Building. **Office**—Tulsa Building, Tulsa, Okla.

Viking Plywood & Lumber Corp., Seattle, Wash.
Oct. 23 filed 22,500 shares of common stock (no par) to be offered to employee-stockholders in minimum units of 125 shares per unit. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—To purchase 50% of capital stock of Snellstrom Lumber Co.

Vulcan Iron Works, Wilkes-Barre, Pa.
Oct. 17 (letter of notification) not to exceed 17,000 shares

of common stock (par 50 cents). **Price**—At the market (approximately \$2 to \$2¼ per share). **Underwriter**—None, but Eaton & Co., New York, will handle sales on the over-the-counter market. **Proceeds**—To John A. Roberts, Chairman, who is the selling stockholder.

Previous Registrations and Filings

Acme Industries, Inc., Jackson, Mich.
Sept. 12 (letter of notification) 14,840 shares of common stock (par \$1), of which 4,840 shares are to be offered to officers and employees of company and 10,000 shares to the public. **Price**—To employees, \$3.08 per share and to public \$3.50 per share. **Underwriters**—Stoetzer, Faulkner & Co. and Wm. C. Roney & Co., both of Detroit, Mich. **Proceeds**—To Estate of Roy C. Weatherwax, the selling stockholder.

Air Reduction Co., Inc., N. Y. (11/2)
Oct. 10 filed 248,805 shares of cumulative preferred stock, 1951 series (par \$100) to be offered for subscription by common stockholders of record Nov. 2 at rate of one preferred share for each 11 common shares held; rights to expire about Nov. 19. **Price**—To be supplied by amendment. **Underwriters**—Morgan Stanley & Co. and Harriman Ripley & Co., both of New York. **Proceeds**—For expansion program. **Meeting**—Stockholders will vote Nov. 1 on creating an authorized issue of 500,000 shares of preferred stock (par \$100) and/or increasing authorized common stock from 3,000,000 to 5,000,000 shs.

Allegheny Ludlum Steel Corp. (10/31)
Oct. 11 filed 81,347 shares of cumulative convertible preferred stock (no par) to be offered for subscription by common stockholders of record Oct. 31 at rate of one preferred share for each 20 shares of common stock held; rights to expire Nov. 14. **Price**—To be supplied by amendment. **Underwriters**—The First Boston Corp. and Smith, Barney & Co., New York. **Proceeds**—For expansion of plant facilities.

Aluminium, Ltd., Montreal, Canada
Sept. 21 filed 372,205 shares of capital stock (no par) being offered for subscription by stockholders of record Oct. 19 at rate of one new share for each 10 shares held; rights to expire on Nov. 8. **Price** — \$65 (Canadian) per share. **Dealer-Managers** — The First Boston Corp. and A. E. Ames & Co., Ltd. **Proceeds** — For working capital to be available for expansion program.

American Brake Shoe Co.
June 29 filed 50,000 shares of common stock (no par) to be offered to certain officers and key employees through a stock purchase plan. **Price**—To be not greater than the market price on the date of the offering, or no less than 85% of such price. **Underwriter**—None. **Proceeds**—To be added to general funds.

American Investment Co. of Illinois
Aug. 16 filed 167,105 shares of \$1.25 cumulative convertible preference stock, series A (par \$25), being offered in exchange for common stock of Domestic Finance Corp., Chicago, Ill. on basis of one American share for each five Domestic common shares; the offer to expire on Oct. 25. **Dealer-Managers** — Kidder, Peabody & Co., New York, and Alex. Brown & Sons, Baltimore, Md Statement effective Sept. 5.

Bell & Gossett Co., Morton Grove, Ill.
Sept. 27 (letter of notification) 1,000 shares of common stock (par \$5). **Price** — At market (approximately \$26.25 per share). **Underwriter**—Ames, Emerich & Co., Inc., Chicago, Ill. **Proceeds**—To Clarence E. Pullum, Vice-President, who is the selling stockholder.

Blackwood & Nichols Co., Oklahoma City, Okla., and Davidson, Hartz, Hyde & Dewey, Inc., Madison, N. J.
Sept. 27 filed \$2,000,000 of contributions in oil property interests (1952 fund) in amounts of \$15,000 or more **Underwriter**—None. **Proceeds**—To acquire and develop oil property.

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.

California Tuna Packing Corp., San Diego, Calif.
Oct. 4 (letter of notification) \$300,000 of 6% convertible sinking fund debentures due Oct. 1, 1966. **Underwriter**—Wahler, White & Co., Kansas City, Mo. **Proceeds**—For general corporate purposes. **Price**—At 100% and accrued interest. **Office**—2305 East Belt St., San Diego 2, Calif.

★ **California Water & Telephone Co. (11/1)**
Oct. 15 filed 50,000 shares of common stock (par \$25). **Price**—To be supplied by amendment. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To pay off bank loans and for new construction.

Coca-Cola Bottling Co. of St. Louis
Sept. 26 (letter of notification) 2,500 shares of common stock (par \$1). **Price**—At the market (approximately \$30 per share). **Underwriter**—G. H. Walker & Co. and Wm. F. Dowdall & Co., both of St. Louis, Mo. **Proceeds**—To Willard Cox, the selling stockholder. **Office**—2950 No. Market St., St. Louis, Mo.

Commonwealth Edison Co., Chicago, Ill. (10/30)
Oct. 10 filed 1,716,500 shares of cumulative convertible preferred stock (par \$25) to be offered first for subscription by common stockholders of record Oct. 30 on basis of one share of preferred for each eight common shares held; rights to expire on Nov. 14. **Price** — To be supplied by amendment. **Underwriters**—Glore, Forgan & Co. and The First Boston Corp., New York. **Proceeds**—For new construction and to repay bank loans.

NEW ISSUE CALENDAR

October 29, 1951

American Cladmetals Co.	Common
Family Finance Corp.	Preference
Maracaibo Oil Exploration Corp.	Common
Morrow (R. D.) Co. Inc.	Preferred
Sharon Steel Corp.	Common
Utah Power & Light Co., noon (EST)	Bonds

October 30, 1951

Commonwealth Edison Co.	Preferred
Goodall-Sanford, Inc.	Preference
Ohio Power Co., 11 a.m. (EST)	Bonds & Notes
Shellmar Products Corp.	Preferred
West Texas Utilities Co., 11:30 a.m. (CST)	Bonds

October 31, 1951

Allegheny Ludlum Steel Corp.	Preferred
Southwestern States Telephone Co.	Common

November 1, 1951

California Water & Telephone Co.	Common
Northern Pacific Ry.	Equip. Trust Ctfs.
Paramount Fire Insurance Co.	Common
Ritchie Associates Finance Corp.	Debentures

November 2, 1951

Air Reduction Co., Inc.	Preferred

November 7, 1951

Denver & Rio Grande Western RR.	Bonds
Rockland Light & Power Co., 11 a.m. (EST)	Bonds
Standard Oil Co. (Ohio)	Common

November 8, 1951

Fedders-Quigan Corp.	Preferred
Lowell Gas Co.	Preferred
Seaboard Air Line RR., noon (EST)	Eqp. Tr. Ctfs.

November 13, 1951

Parker Penn Co.	Common

November 14, 1951

Associated Telephone & Telegraph Co. 11 a.m. (EST)	Preferred
Canadian Atlantic Oil Co., Ltd.	Common
Detroit Edison Co., 11 a.m. (EST)	Bonds
Florida Power & Light Co., noon (EST)	Bonds
Pittsburgh & Lake Erie RR.	Equip. Trust Ctfs.

November 15, 1951

Metals & Chemicals Corp.	Common
Silver Buckie Mining Co.	Common

November 19, 1951

Gulf States Utilties Co., noon (EST)	Bonds

November 20, 1951

Pacific Telephone & Telegraph Co.	Debentures

November 21, 1951

New York Central RR.	Equip. Trust Ctfs.

November 27, 1951

Central Illinois Light Co.	Bonds
Erie RR.	Equip. Trust Ctfs.

December 6, 1951

Texas & Pacific Ry.	Equip. Trust Ctfs.

December 10, 1951

Virginia Electric & Power Co.	Bonds

★ **Consumers Power Co., Jackson, Mich.**
Sept. 20 filed 561,517 shares of common stock (no par), being offered for subscription by common stockholders of record Oct. 17 at rate of one share for each 10 shares held; rights to expire on Nov. 2. Unsubscribed shares to be offered employees of company and its subsidiary, Michigan Gas Storage Co. **Price**—\$32 per share. **Underwriter**—Issue was awarded on Oct. 17 at competitive bidding to Lehman Brothers. **Proceeds**—For property additions and improvements. Statement effective Oct. 9.

★ **Continental Can Co., Inc.**
Oct. 5 filed 104,533 shares of \$4.25 cumulative convertible second preferred stock (no par) being offered for subscription by common stockholders of record Oct. 24 at rate of one share for each 30 shares of common stock held; rights to expire on Nov. 7. **Price**—\$102 per share. **Underwriters** — Goldman, Sachs & Co. and Lehman Brothers, New York. **Proceeds**—For plant and equipment replacements, and working capital.

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. Temporarily deferred.

Crown Finance Co., Inc., New York
Oct. 10 (letter of notification) \$200,000 of 5% subordinated debentures due March 1, 1982. **Price**—At principal amount. **Underwriter**—Hodson & Co., Inc., New York. **Proceeds**—To reduce debt and for expansion, etc. **Office**—165 Broadway, New York 6, N. Y.

Deardorf Oil Corp., Oklahoma City, Okla.
Sept. 24 (letter of notification) 175,000 shares of common stock (par 10 cents). **Price**—40 cents per share. **Underwriter**—None. **Proceeds**—For operating expenses. **Office**—219 Fidelity Building, Oklahoma City, Okla.

★ **Detroit Edison Co., Detroit, Mich. (11/14)**
Oct. 17 filed \$40,000,000 of general and refunding mortgage bonds, series K, due Nov. 25, 1976. **Underwriter**—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.; Kuhn, Loeb & Co. **Proceeds**—For construction program. **Bids**—Expected to be opened at 11 a.m. (EST) on Noc. 14.

★ **Dresser Industries, Inc., Dallas, Tex.**
Oct. 11 filed 187,500 shares of common stock (par 50¢). **Price**—To be supplied by amendment. **Underwriter**—Reynolds & Co., New York. **Proceeds**—For general corporate purposes. **Offering**—Expected today.

Eureka Corp., Ltd., Toronto, Canada
Oct. 9 filed 4,312,404 shares of common stock (par 25 cents—Canadian), of which 3,234,303 shares are to be offered to stockholders on basis of two shares for each three shares of \$1 par value common stock held. Subscribers will receive for each three shares subscribed for, a warrant to purchase one additional share at \$1.25 per share—Canadian—within 18 months. **Price**—55 cents per share—Canadian. **Underwriter**—None. **Proceeds**—For working capital.

★ **Family Finance Corp. (10/29-30)**
Oct. 9 filed 80,000 shares of cumulative convertible preference stock, series B (par \$50). **Price**—To be supplied by amendment. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane and G. H. Walker & Co., New York. **Proceeds**—To reduce bank loans and commercial paper.

Fidelity Electric Co., Inc., Lancaster, Pa.
Sept. 26 (letter of notification) 2,000 shares of common stock (par \$1). **Price**—At market (approximately \$3.50 per share). **Underwriter**—Dunne & Co., New York. **Proceeds** — To J. D. Cleland, President, the selling stockholder.

Florida Power & Light Co. (11/14)
Oct. 10 filed \$10,000,000 of first mortgage bonds due Nov. 1, 1981. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Carl M. Loeb, Rhoades & Co. and Bear, Stearns & Co. (jointly); The First Boston Corp.; Harriman Ripley & Co., Inc.; Shields & Co.; White, Weld & Co.; Lehman Brothers. **Proceeds** — For new construction and equipment. **Bids**—Expected to be received at 12 noon (EST) on Nov. 14.

★ **General Acceptance Corp.**
Sept. 28 filed \$5,000,000 10-year 3½% sinking fund debentures due Oct. 1, 1961. **Price** — To be supplied by amendment. **Underwriter** — Paine, Webber, Jackson & Curtis, New York. **Proceeds** — To prepay senior notes and other borrowings and for general corporate purposes.

General Fuse Corp., South River, N. J.
Oct. 15 (letter of notification) 50,000 shares of 5½% convertible preferred stock to be offered for subscription by common stockholders at rate of one preferred share for each 12 common shares held. **Price**—At par (\$5 per share). **Underwriter**—None. **Proceeds**—For expansion program.

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.

Goodall Rubber Co., Trenton, N. J.
Oct. 4 (letter of notification) 13,500 shares of class A common stock (par \$5) and 1,000 shares of 5% cumulative preferred stock (par \$100) being offered to stockholders of record Oct. 15 on the following basis: One new share of preferred stock for each share held and one share of class A common stock for each seven common shares held, with an oversubscription privilege. Rights will expire on Nov. 15. **Price**—Of class A common, \$13.50 per share and of preferred, \$100 per share. **Underwriter**—None. **Proceeds**—To increase stock interest in Whitehead Brothers Rubber Co. and for working capital. **Office**—Whitehead Road, Trenton 4, N. J.

★ **Goodall-Sanford, Inc. (10/30)**
Oct. 5 filed 80,000 shares of preference stock (par \$50) —convertible up to and including Nov. 1, 1961. **Price**—To be supplied by amendment. **Underwriters** — Union Securities Corp. and W. C. Langley & Co., New York. **Proceeds**—From sale of stock, together with \$3,000,000 to be received from private placement of 15-year debentures, will be used to provide additional working capital required in connection with increased volume of business, and to reduce short-term loans.

Grand Union Co., New York
Aug. 7 filed 64,000 shares of common stock (par \$10) to be issued pursuant to an "employees' restricted stock option plan." **Price** — To be supplied by amendment. **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—50 Church St., New York.

Continued on page 40

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★ Gulf Sulphur Corp., Washington, D. C.
Oct. 12 (letter of notification) 299,999 shares of common stock (par 10 cents). **Price**—$1 per share. **Underwriter**—Peter Morgan & Co., New York. **Proceeds**—To purchase all outstanding stocks of Compania de Azufre Vera Cruz, S. A., and for working capital. **Office**—1346 Connecticut Avenue, N. W., Washington, D. C. **Offering**—Expected at any time.

Hathaway (C. F.) Co., Waterville, Me.
Oct. 2 (letter of notification) 12,000 shares of 5.8% cumulative preferred stock (par $25), with common stock purchase warrants attached. **Price**—Expected at par. **Underwriter**—H. M. Payson & Co., Portland, Me. **Proceeds**—For working capital.

Hex Foods, Inc., Kansas City, Mo.
Aug. 1 (letter of notification) 89 shares of 6% cumulative preferred stock (par $100) and 424 shares of common stock (no par). **Price**—For preferred, at par; and for common, at $20 per share. **Underwriter** — Prugh, Combest & Land, Inc., Kansas City, Mo., will act as dealer. **Proceeds**—For plant improvements and general corporate purposes. **Office**—412 W. 39th St., Kansas City, Mo.

★ Hydrocarb Corp., East Orange, N. J.
Oct. 5 (letter of notification) 599,880 shares of convertible class A stock (par five cents). **Price**—50 cents per share. **Underwriter**—Stanley, Pelz & Co., Inc., New York. **Proceeds**—To purchase equipment, to repay notes payable and for other corporate purposes. **Office**—545 North Arlington Avenue, East Orange, N. J. **Offering**—Now being made.

Inland Steel Co.
Aug. 27 filed 250,000 shares of capital stock (no par) to be issuable upon exercise of stock option issuable under the company's proposed stock option plan. **Price**—To be 85% of current fair market value of the stock. **Proceeds**—For working capital.

★ Iowa Southern Utilities Co.
Oct. 5 filed 79,048 shares of common stock (par $15) reserved for conversion of 39,524 shares of 5½% convertible preferred stock which will be called for redemption. Starts on Oct. 24 and ends Nov. 23. **Price**—To be supplied by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—To reimburse company for money expended for redemption of unconverted portion of 5½% preferred stock.

Key Oil & Gas Co., Ltd., Calgary, Canada
Oct. 3 filed 500,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None, but sales will be made by James H. Nelson, promoter and a director of company, of Longview, Wash. **Proceeds**—To drill well, for lease acquisitions and properties held pending development work, and for other corporate purposes.

★ Kimberly-Clark Corp.
Oct. 5 filed 102,424 shares of 4% cumulative convertible preferred stock (par $100), to be offered in exchange for outstanding 4½% cumulative preferred stock on a share-for-share basis, plus cash payment of 37½ cents per share; the offer to expire on Nov. 9. **Price**—To be supplied by amendment. **Underwriter**—Blyth & Co., Inc., New York. **Proceeds**—To retire unexchanged 4½% preferred stock. Underwriters have agreed to purchase a maximum of 37,424 shares of 4% preferred stock, providing at least 65,000 shares of 4½% preferred stock accept exchange offer. Expected to become effective today (Oct. 25).

Las Vegas Thoroughbred Racing Association
Sept. 14 (letter of notification) 20,000 shares of common stock (no par). **Price**—$5 per share. **Underwriter**—None. **Proceeds**—To William A. Albury, the selling stockholder. **Address**—Highway 91 at Vegas Park Highway, Las Vegas, Nev.

Lawyers Title Insurance Corp., Richmond, Va.
Oct. 16 filed 60,000 shares of capital stock (par $5), to be offered to stockholders at rate of one share for each nine shares held. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To enlarge capital and for investment.

Long Island Lighting Co.
Oct. 3 filed 100,000 shares of cumulative preferred stock, series A (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc., and First Boston Corp. (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co. Inc.; Smith, Barney & Co.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly). **Proceeds**—From sale of preferred stock, together with proceeds from proposed sale of about $25,000,000 of first mortgage bonds in December, 1951, will be used to retire $14,493,400 of bonds of former subsidiaries, to pay off bank loans, and for construction program.

Long Island Lighting Co.
Oct. 3 filed 524,949 shares of common stock (no par) being offered for subscription by common stockholders of record Oct. 24, 1951, at rate of one new share for each seven shares held; rights expire Nov. 8. **Price**—$13 per share. **Underwriters**—Blyth & Co., Inc. and The First Boston Corp., New York. **Proceeds**—To reduce short-term loans borrowed for construction.

Loven Chemical of California
Oct. 8 (letter of notification) 200,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds** — For working capital. **Office** — 244 South Pine St., Newhall, Calif.

MacMillan (H. R.) Export Co., Ltd., Vancouver, B. C.
Sept. 26 filed 2,281,582 shares of class B capital stock (no par) to be offered in exchange for stock of Bloedel Stewart & Welch, Ltd. on the following basis: 44.54596 shares for each ordinary share of Bloedel; two-fifths of a share for each preference share of Bloedel. Following such acquisition, name of MacMillan Export will be changed to MacMillan & Bloedel, Ltd. Statement effective Oct. 17.

★ Maracaibo Oil Exploration Corp. (10/29)
Sept. 20 filed 49,500 shares of capital stock to be offered to stockholders at rate of one share for each nine shares held on Oct. 24, with an oversubscription privilege; rights to expire Nov. 21. **Price**—$9 per share. **Underwriter** — None. **Proceeds** — To acquire new properties and for general corporate purposes. Statement effective Oct. 17.

Miles Laboratories, Inc., Elkhart, Ind.
Oct. 12 (letter of notification) 6,000 shares of common stock (par $2). **Price**—Maximum, $18 per share; minimum, $16.50 per share. **Underwriter**—Albert McGann Securities Co., Inc., South Bend, Ind. **Proceeds**—To Estate of Rachel B. Miles.

Miles Laboratories, Inc., Elkhart, Ind.
Sept. 5 (letter of notification) 2,000 shares of common stock (par $2). **Price**—$16.75 per share. **Underwriter** — W. F. Martin, Inc., Elkhart, Ind. **Proceeds**—To Georgia C. Walker, the selling stockholder. **Offering**—Indefinite.

National Motor Bearing Co., Inc.
Sept. 26 (letter of notification) 3,200 shares of common stock (par $1). **Price**—$31.25 per share. **Underwriter**—Blyth & Co., Inc., Los Angeles, Calif. **Proceeds**—To Lloyd A. Johnson, President, who is the selling stockholder.

National Plumbing Stores Corp.
Oct. 15 (letter of notification) $123,500 of 20-year 3½% income notes due Oct. 1, 1971. **Price**—100%. **Underwriters**—None. **Proceeds**—For general corporate purposes. **Office**—79 Cliff Street, New York, N. Y.

Nickel Offsets, Ltd., Toronto, Canada
Oct. 8 filed 500,000 shares of common stock (no par) to be offered for subscription by stockholders at rate of one share for each five shares held. **Price**—$2.25 per share. (Canadian funds). **Underwriter**—None. **Proceeds**—To repay loans from Cliff Petroleum Co. and for expansion program. **Business** — To acquire, explore and develop mining properties in Canada.

Norfolk & Carolina Telephone & Telegraph Co.
Oct. 11 (letter of notification) 2,000 shares of common stock to be offered for subscription by stockholders of record Oct. 15, with rights expiring Nov. 10. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To retire notes and for expansion program. **Office**—South Road Street, Elizabeth City, N. C.

Ohio Power Co. (10/30)
Sept. 28 filed $15,000,000 of first mortgage bonds due 1981 and $7,000,000 of serial notes to mature annually on Oct. 1 as follows: $250,000 annually in 1955 and 1956; $500,000 annually 1957 through 1960; and $750,000 annually 1961 through 1966. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.; Glore, Forgan & Co.; White Weld & Co. and Union Securities Corp. (jointly); Harriman Ripley & Co. and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp.; Kuhn, Loeb & Co. **Proceeds**—From sale of bonds and notes (together with $8,000,000 from sale of 1,700,000 shares of common stock to American Gas & Electric Co.) to retire $14,000,000 bank loans and for new construction. **Bids**—To be received up to 11 a.m. (EST) on Oct. 30 at 30 Church Street, New York 8, N. Y.

Pacific Telecoin Corp., San Francisco, Calif.
Sept. 14 (letter of notification) 59,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Underwriter**—Gearhart, Kinnard & Otis, Inc., New York. **Proceeds**—For working capital. **Office**—1337 Mission St., San Francisco, Calif.

Pan American Milling Co., Las Vegas, Nev.
Jan. 24 filed 200,000 shares of common stock. **Price**—At Par ($1 per share). **Underwriter**—None. **Proceeds**—To purchase machinery and equipment, to construct a mill in Mexico and for general corporate purposes. Statement fully effective Aug. 29, 1951.

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**—Indefinitely postponed.

Phoenix-Campbell Corp., N. Y.
Sept. 20 filed 203,000 shares of capital stock (par $1) and 100,000 warrants. Of the 203,000 shares, 100,000 will be reserved against the warrants and 3,000 shares have been purchased by the promoters. **Price**—For stock, $10 per share; for warrants, 5 cents each. **Underwriter**—Morris Cohon & Co., New York. **Proceeds**—To acquire an interest in so-called "special situations" and for working capital.

Phoenix Industries Corp., N. Y.
Oct. 12 filed 1,465,167 shares of common stock (par 10¢) to be offered to holders of outstanding common stock of National Power & Light Co. at rate of one-half share of Phoenix Industries Corp. (name to be changed to National Phoenix Industries, Inc.) for each N. P. & L. common share held. **Price**—To be supplied by amendment. **Underwriter**—Reynolds & Co., New York. **Proceeds**—To pay expenses of existing business, to pay final instalment of purchase price on shares of Nedick's, Inc., and for acquisition of other businesses.

Pittsburgh Plate Glass Co.
June 27 filed 450,000 shares of common stock (par $10) to be offered to certain employees of the company and its subsidiaries under a stock option plan. **Price**—At 85% of the market price on the New York Stock Exchange at time options are granted. **Underwriter**—None. **Proceeds**—For working capital.

Prugh Petroleum Co., Tulsa, Okla.
Sept. 25 (letter of notification) 60,000 shares of common stock being offered for subscription by stockholders of record Oct. 1, on basis of any number of shares not to exceed present holdings; rights to expire Nov. 15. **Price**—At par ($5 per share). **Underwriter**—None, but Prugh, Combest & Land, Inc., Kansas City, Mo., will act as agent. **Proceeds**—To develop properties and retire indebtedness. **Office**—907 Kennedy Bldg., Tulsa 3, Okla.

★ Pubco Development, Inc., Albuquerque, N. M.
Sept. 18 filed 605,978 shares of common stock being offered for subscription by stockholders of Public Service Co. of New Mexico between Jan. 1, 1955 and March 31, 1955 at rate of one share of Pubco Development for each Public Service common share held of record Oct. 1, 1951. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To be used by Public Service in general fund. **Business**—To prospect for oil and gas. Statement effective Oct. 11.

★ Public Service Electric & Gas Co.
Sept. 26 filed 249,942 shares of cumulative preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriters**—Morgan Stanley & Co., Drexel & Co. and Glore, Forgan & Co. **Proceeds**—For plant additions and improvements and to reimburse treasury for expenditures made for such purposes and for retirement of long-term debt. **Offering**—Postponed.

Puritan Life Insurance Co., Providence, R. I.
Oct. 9 (letter of notification) 2,000 shares of capital stock (par $25). **Price**—$75 per share. **Underwriter**—None. **Proceeds** — For working capital. **Office** — Turks Head Bldg., Providence 1, R. I.

Ritchie Associates Finance Corp. (11/1)
Sept. 18 (letter of notification) $200,000 of 6% 15-year debentures, dated July 1, 1951, to be issued in multiples of $100. **Underwriter**—Cohu & Co., New York. **Proceeds**—To retire debts and purchase building. **Office**—2 East Church St., Frederick, Md.

★ Robbins Mills, Inc., New York
Sept. 25 filed 166,864 shares of series A 4.50% cumulative convertible preferred stock (par $50) being offered for subscription by common stockholders of record Oct. 15 at rate of one share of preferred stock for each five shares of common stock held; rights to expire on Oct. 30. **Price**—$50 per share. **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—For working capital. Statement effective Oct. 16.

Rockland Light & Power Co. (11/7)
Sept. 21 filed $6,000,000 of first mortgage bonds, series D, due 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co., Union Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers and A. C. Allyn & Co. (jointly); Stone & Webster Securities Corp.; Carl M. Loeb, Rhoades & Co. and Equitable Securities Corp. (jointly); W. C. Langley & Co.; Estabrook & Co. **Proceeds**—To reduce bank loans and for construction program. **Bids**—Expected to be received on or about Nov. 7 at 11 a.m. (EST).

★ Russell Manufacturing Co., Middletown, Conn.
Oct. 4 (letter of notification) 13,321 shares of common stock (no par) being offered to common stockholders of record Oct. 17 at rate of one share for each 10 shares held; rights to expire on Oct. 31. **Price**—$15.75 per share. **Underwriters**—Coburn & Middlebrook, Inc., Hartford, Conn., and Granbery, Marache & Co., New York. **Proceeds**—For working capital. **Office**—400 E. Main St., Middletown, Conn.

Sharon Steel Corp. (10/29)
Oct. 9 filed 174,137 shares of common stock (no par). **Price**—To be supplied by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—For expansion program and working capital.

★ Shellmar Products Corp. (10/30)
Oct. 9 filed 100,000 shares of cumulative preferred stock (par $50), convertible into common stock on or before Dec. 31, 1966. **Price**—To be supplied by amendment. **Underwriter**—Glore, Forgan & Co., New York. **Proceeds**—To retire 4¾% preferred stock and for additional capital expenditures.

Silver Buckle Mining Co., Wallace, Ida. (11/15)
Sept. 25 (letter of notification) 290,000 shares of common stock (par 10 cents). **Price**—32½ cents per share. **Underwriter**—Standard Securities Corp., Spokane, Wash., and Kellogg, Idaho. **Proceeds** — To six selling stockholders. **Address**—Box 469, Wallace, Idaho.

Southwestern Associated Telephone Co.
June 15, filed 17,500 shares of $5.50 cumulative preferred stock (no par). **Price**—To be supplied by amendment. **Underwriters**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp., both of New York, and Rauscher, Pierce & Co., Inc., Dallas, Texas. **Proceeds**—To retire $1,500,000 of bank loans and the balance added to general corporate funds. **Offering** — Postponed.

★ Southwestern States Telephone Co. (10/31)
Oct. 15 filed 70,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Central Republic Co., Inc., Chicago, Ill. **Proceeds**—For construction program.

Specialized Products Corp., Birmingham, Ala.
Sept. 26 (letter of notification) 50,000 shares of common stock **Price**—$1 per share. **Underwriter**—Carlson & Co., Birmingham, Ala. **Proceeds**—For operating capital and advertising costs. **Office**—2807 Central Ave., Birmingham 9, Ala.

Texas Southeastern Gas Co., Bellville, Tex.
May 16 (letter of notification) 19,434 shares of common stock to be offered to common stockholders through

transferable warrants. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—For working capital.

Touraine Apartments, Inc., Phila., Pa.
Oct. 16 (letter of notification) 100,000 shares of common stock (par $1) to be offered to common stockholders Oct. 5 at rate of five new shares for each 67 shares held; rights expire on or about Nov. 7. **Price**—$2 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1520 Spruce Street, Philadelphia 2, Pa.

United Canadian Oil Corp., Washington, D. C.
July 31 filed 1,000,000 shares of common stock (par 10 cents. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For exploration and drilling activities. Statement effective Oct. 8.

U. S. Vitamin Corp., New York
Sept. 28 filed 120,650 shares of common stock (par $1). **Price** — To be supplied by amendment. **Underwriters**—Allen & Co. and Blair, Rollins & Co., Inc., both of New York. **Proceeds**—To repay $1,000,000 loan from insurance firm and $700,000 bank borrowings, with the remainder added to working capital to be used for expansion program and other corporate purposes.

Utah Power & Light Co. (10/29)
Aug. 9 filed $9,000,000 first mortgage bonds, due Oct. 1, 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: 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). **Proceeds**—To repay bank loans and for construction program. **Bids**—To be received up to noon (EST) on Oct. 29. Statement effective Sept. 5.

★ **Vinco Corp., Detroit, Mich.**
Oct. 11 (letter of notification) 8,973 shares of common stock (par $1). **Price**—$10.50 per share. **Underwriter**—Reynolds & Co., New York. **Proceeds**—To Joseph J. Osplack, the selling stockholder. **Office**—9111 Schaefer Highway, Detroit 28, Mich.

West Texas Utilities Co. (10/30)
Sept. 24 filed $8,000,000 of first mortgage bonds, series C, due Nov. 1, 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Hemphill, Noyes, Graham, Parsons & Co. and Drexel & Co. (jointly); The First Boston Corp.; Kidder, Peabody & Co.; W. C. Langley & Co.; Union Securities Corp.; Equitable Securities Corp.; Harriman Ripley & Co.; Kuhn, Loeb & Co. and Lehman Brothers (jointly); Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To retire bank loans and for construction program. **Bids**—To be received up to 11:30 a.m. (CST) on Oct. 30 at 20 No. Wacker Drive, Chicago 6, Ill.

Western Air Lines, Inc., Los Angeles, Calif.
Sept. 17 filed 25,000 shares of capital stock (par $1) under option at $9.37½ per share since Dec. 10, 1946 to T. C. Drinkwater, President. Agreement provides that, upon request of Mr. Drinkwater, the company agrees to register the optioned shares to the end that he may be in a position promptly to exercise his rights under the option and to transfer and dispose of any of the shares acquired thereunder which he may wish to dispose of. (The stock sold at $14.50 per share on Sept. 17 on the New York Stock Exchange.) **Underwriter**—None. **Proceeds**—For working capital. ($9.37½ per share).

Wilcox-Gay Corp., Charlotte, Mich.
Sept. 13 (letter of notification) 165,250 shares of common stock (of which 82,625 shares represent stock to be issued on exercise of stock purchase warrants issued in connection with sale of 110,000 shares on or about Oct. 24). **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital.

★ **Wilson Brothers, Chicago, Ill.**
Aug. 3 filed $2,200,000 of 5% sinking fund debentures due Aug. 1, 1966, with non-detachable common share purchase warrants for the purchase of 154,000 shares of common stock. **Price**—To be supplied by amendment. **Underwriter**—Blair, Rollins & Co., Inc., New York. **Proceeds**—To pay off outstanding indebtedness and for other corporate purposes. **Withdrawal**—Statement withdrawn on Oct. 15.

Prospective Offerings

Abbott Laboratories
Oct. 10 it was announced stockholders will vote Nov. 13 on approving an issue of 106,851 shares of 4% cumulative convertible preferred stock (par $100), convertible prior to Jan. 1, 1962, to be initially offered for subscription by common stockholders at rate of 1 preferred share for each 35 common shares held. **Price**—To be determined later. **Underwriter**—A. G. Becker & Co. Inc., Chicago, Ill. **Proceeds**—For expansion program.

American Consolidated Freightways
Sept. 14 it was reported that there may shortly be a public offering of about 100,000 shares of common stock. **Underwriters** — Probably Blyth & Co., Inc., Walston, Hoffman & Goodwin and Shields & Co.

● **Associated Telephone & Telegraph Co. (Del.) (11/14)**
Bids will be received up to 11 a.m. (EST) on Nov. 14 by the Office of Alien Property, 120 Broadway, New York 5, N. Y., for the purchase from it of 5,201 shares of $6 cumulative first preferred stock (no par), being 17.4% of that issue outstanding.

Atlantic Coast Line RR.
Sept. 14 it was stated that the company may refund its outstanding $22,388,000 first consolidated mortgage 4% bonds due July 1, 1952. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp. Offering expected some time in November.

Bing & Bing, Inc.
Aug. 30 it was reported company is contemplating sale of additional common stock following approval of 3-for-1 stock split (approved Sept. 5.) Traditional underwriter: Lehman Brothers.

● **Central Illinois Light Co. (11/27)**
Oct. 19 it was announced company plans to sell $8,000,000 of first mortgage bonds due 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co.; Lehman Brothers; First Boston Corp.; Equitable Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For new construction. **Registration**—Expected on Oct. 26. **Bids**—Scheduled to be opened on Nov. 27.

Central Louisiana Electric Co., Inc.
Oct. 10 it was reported company plans in November to issue and sell $4,000,000 of debentures due 1971. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp., W. C. Langley & Co. and Carl M. Loeb, Rhoades & Co. (jointly).

Central Maine Power Co.
Oct. 5 company sought SEC authority to issue and sell $7,000,000 first and general mortgage bonds, series T, due Nov. 1, 1981. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc., and The First Boston Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); Lee Higginson Corp.; Harriman Ripley & Co. Inc. **Proceeds**—To repay bank loans.

Central Maine Power Co.
Oct. 5 company applied to SEC for authority to offer 315,146 shares of common stock (par $10) for subscription by holders of 6% preferred and common stock, with exception of New England Public Service Co., which owns 48.46% of the presently outstanding common stock. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); Coffin & Burr, Inc.; Harriman Ripley & Co. Inc. **Proceeds**—To repay bank loans and for new construction.

Chicago & Western Indiana RR.
June 2 it was reported company expects to be in the market late this year or early in 1952 with a new issue of approximately $70,000,000 of first mortgage bonds, due 1981, of which about $65,000,000 will be sold initially. **Price**—Not less than par. **Underwriter**—To be determined by competitive bidding. 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. **Proceeds**—To refund $49,988,000 of 4% non-callable consolidated first mortgage bonds due July 1, 1952, and to redeem $13,747,000 first and refunding mortgage 4¼% bonds, series D, due Sept. 1, 1962. The remainder will go towards property improvements, etc.

Colorado Fuel & Iron Corp.
Sept. 26, Charles Allen, Jr., Chairman, announced that the company plans to issue and sell $30,000,000 of 4¼% first mortgage bonds due 1972 and $10,000,000 of 15-year debentures. The former issue may be placed privately and the latter issue offered publicly through Allen & Co., New York. The proceeds are to be used to redeem $14,367,500 of outstanding first mortgage 4% bonds and the remainder used to pay for construction of a new mill at Pueblo, Colo. Stockholders will vote Nov. 14 on approving financing program.

Colorado Interstate Gas Co.
Aug. 20 it was reported that the holdings of the Union Securities Corp. group of stock of Colorado Interstate (531,250 shares) will probably be sold publicly in October or November.

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.

Consolidated Grocers Corp.
Oct. 8 it was stated company plans issuance and sale of about $10,000,000 of preferred stock. **Underwriter**—A. C. Allyn & Co., Inc., New York. **Proceeds**—To expand output of company's eight divisions.

Cott Beverage Corp., New Haven, Conn.
Aug. 22 it was stated that the company plans issuance and sale of 30,000 shares of preferred stock (par $10), each share to carry a bonus of common stock. **Underwriter**—Ira Haupt & Co., New York. **Proceeds**—For expansion program.

● **Denver & Rio Grande Western RR. (11/7)**
Oct. 23 it was announced bids will be received by the RFC up to and including Nov. 7 for the purchase from it of $5,200,000 principal amount of first mortgage 4% series A bonds due Jan. 1, 1993. The agencies of the RFC are located at 143 Liberty St., New York 6, N. Y., and 811 Vermont Ave., N. W., Washington 25, D. C.

Diamond Alkali Co.
Oct. 16 it was reported company is planning some new financing in connection with purchase of additional equipment. There are outstanding $8,000,000 of bank loans. Traditional underwriter: The First Boston Corp., who handled private placement of $2,500,000 of notes in 1948.

Eastern Stainless Steel Corp.
Oct. 8 it was announced stockholders will vote Oct. 25 on increasing authorized capital stock to 750,000 shares from 500,000 shares, of which 420,000 shares are outstanding. Additional shares may be issued to stockholders, and the proceeds used for expansion. Traditional underwriter: J. Arthur Warner & Co. Inc., New York.

El Paso Natural Gas Co.
Sept. 18 stockholders approved an increase in the authorized first preferred stock from 100,000 to 300,000 shares, the second preferred stock from 200,000 to 300,000 shares and the common stock from 3,800,000 to 5,000,000 shares; also authorized an increase in the aggregate principal amount of bonds issuable under the company's indenture of mortgage, dated June 1, 1946, from $157,000,000 to $300,000,00. **Traditional Underwriter**—White, Weld & Co., New York.

Erie RR. (11/27)
Oct. 8 it was announced that company is considering sale on Nov. 27 of $5,400,000 of equipment trust certificates, maturing semi-annually over a 10-year period, in order to finance about 80% of the cost of acquiring new diesel locomotives and gondola cars to cost about $6,915,000. Probable bidders: Halsey, Stuart & Co Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Granite City Steel Co.
Oct. 15, it was announced company plans to offer to common stockholders for subscription the latter part of November an initial series of 100,000 shares of convertible preferred stock (par $100). **Underwriter**—Probably Merril Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—From sale of stock together with proceeds from contemplated sale to insurance companies of $25,000,000 of first mortgage bonds, will be added to general funds of the company, for use in connection with company's steel production expansion program. **SEC Registration**—Expected near end of this month. **Meeting**—Stockholders will vote Nov. 14 on approving authorized issue of 200,000 shares of preferred stock, issuable in series, and on mortgaging the company's assets.

Hahn Aviation Products, Inc.
Aug. 24 it was announced company proposes to offer 12,500 additional common stock (par $1), in addition to 17,500 shares recently offered. **Underwriter** — None. **Proceeds** — For engineering, acquisition of machinery and other corporate purposes. **Office**—2636 No. Hutchinson St., Philadelphia 33, Pa.

Illinois Bell Telephone Co.
June 27 W. V. Kahler, President, announced that this company (approximately 99.31% owned by American Telephone & Telegraph Co.) plans issuance and sale, sometime before the end of the year, of 682,454 additional shares of capital stock to its stockholders. **Underwriter**—None. **Proceeds**—To repay short-term loans and for new construction.

Interstate Petroleum Co.
Sept. 11 it was reported that the sale of 38,433 shares of class B stock has been temporarily postponed. **Underwriter**—White, Weld & Co., New York.

Iowa-Illinois Gas & Electric Co.
Oct. 8 it was announced that the company contemplates issuance and sale over the next three years of about 60,000 shares of preferred stock (par $100) or $6,000,000 in debentures; also an issue of about $12,000,000 in first mortgage bonds. **Underwriters**—For bonds, to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc., Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; Glore, Forgan & Co.; Harris, Hall & Co. (Inc.); Lehman Brothers; Blyth & Co.; The First Boston Corp.; Smith, Barney & Co. The following may bid for preferred stock: Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co., in addition to those mentioned as probable bidders for the bonds, with the exception of Halsey, Stuart & Co. Inc. Proceeds from the sale of the preferred stock or debentures (probably late this year) will be used to retire a $6,000,000 bank loan used to finance, in part, the company's construction program.

Jacobsen Manufacturing Co., Racine, Wis.
Sept. 21 it was stated that company plans to issue and call approximately 120,000 additional shares of common stock. **Underwriters**—A. C. Allyn & Co., Inc. and Shillinglaw, Bolger & Co., both of Chicago, Ill. **Proceeds**—For working capital.

● **Lehigh & New England RR.**
Oct. 17 it was reported company expects to sell $1,875,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler. Expected late November or early in December.

Lehmann (J. M.) Co. (N. J.)
Sept. 1 it was reported that the Office of Alien Property expects to call for bids in October on all of the outstanding stock of this corporation.

Long Island Lighting Co.
Oct. 3 it was announced company plans to issue and sell in December about $25,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lehman Brothers; Kidder, Peabody & Co.; The First Boston Corp.; Union Securities Corp.; Equitable Securities Corp.; White, Weld & Co. **Proceeds**—From sale of bonds, together with proceeds from sale of 100,000 shares of preferred stock (par $100), will be used to retire $14,493,400 of bonds of former subsidiaries, to repay bank loans and for construction program. **Additional**

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Financing—It is further estimated that company will require approximately $100,000,000 additional to complete the construction program through 1954.

• Mathieson Chemical Corp.
Oct. 25 it was announced that following proposed merger with and into this company of Mathieson Hydrocarbon Chemical Corp., it is the intention of the company to sell a substantial portion of 250,000 shares of new preferred stock on terms to be set at a later date. The proceeds will be added to working capital and used for research and product development.

★ McKesson & Robbins, Inc.
Oct. 23 stockholders approved a proposal to increase authorized common stock by 500,000 shares to 2,500,000 shares. No immediate financing contemplated. Probable underwriter: Goldman, Sachs & Co., New York.

Mengel Co.
Aug. 10, Alvan A. Voit, President, stated that the company plans to spend from $15,000,000 to $20,000,000 for expansion, but that plans for financing have not yet been completed. Traditional underwriter—F. S. Moseley & Co.

★ Merritt-Chapman & Scott Corp.
Oct. 23 it was announced stockholders will vote Jan. 15, 1952 on approving the creation of an authorized issue of 100,000 shares of convertible preferred stock (par $50). **Underwriter**—Carl M. Loeb, Rhoades & Co. **Proceeds**—For expansion program.

Metals & Chemicals Corp., Dallas, Tex. (11/15)
Oct. 3 it was stated company plans issue and sale of 100,000 shares of common stock. **Price**—$3 per share. **Underwriters**—Beer & Co. and Binford, Dunlap & Reed, both of Dallas, Texas, and Stuart M. Wyeth Co. of Philadelphia, Pa. **Proceeds**—For working capital, etc.

New England Power Co.
Sept. 6 it was reported that company plans to sell about 50,000 shares of preferred stock this Fall. **Underwriters**—To be determined by competitive bidding. Probable bidders: Lehman Brothers; Equitable Securities Corp. and Carl M. Loeb, Rhoades & Co. (jointly); The First Boston Corp.; Merill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; The First Boston Corp.; W. C. Langley & Co.; Harriman Ripley & Co., Inc. **Proceeds**—To repay bank loans and for construction program.

• New York Central RR. (11/21)
Oct. 17 it was reported company plans sale of $8,100,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler. **Bids**—Expected to be received Nov. 21.

Northern Indiana Public Service Co.
Oct. 4 it was stated that stockholders will vote Oct. 25 on increasing authorized common stock to 4,500,000 shares from 4,000,000 shares and on approving the creation of 240,000 shares of new cumulative preference stock (par $25). The new preference stock will be first offered to common stockholders. Probable underwriters—Central Republic Co. Inc.; Blyth & Co., Inc.; and Merrill Lynch, Pierce, Fenner & Beane.

• Northern Pacific Ry. (11/1)
Oct. 17 it was reported company expects to issue $3,420,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler. **Bids**—Expected to be received Nov. 1.

• Oxford Paper Co.
Oct. 16 it was reported company may issue and sell late in November about 100,000 shares of capital stock. **Underwriter**—The First Boston Corp., New York.

Parker Pen Co. (11/13)
Oct. 9 it was reported that sale of from 90,000 to 100,000 shares of class B common stock (par $2) is contemplated on or about Nov. 13. **Price**—To be announced later. **Underwriters**—A. G. Becker & Co. Inc., Chicago, Ill., and Robert W. Baird & Co., Milwaukee, Wis. **Proceeds**—To selling stockholders.

Parkersburg Rig & Reel Co.
Aug. 1 A. Sidney Knowles, Chairman and President, announced that the directors have approved in principle a plan to offer a modest amount (not exceeding $300,000) of common stock for subscription by common stockholders. This may involve the issuance of 24,700 additional shares on a one-for-eight basis. There are presently outstanding 197,600 shares of $1 par value. **Probable Underwriter**—H. M. Byllesby & Co., Chicago, Ill. **Proceeds**—For working capital.

★ Penn Control, Inc., Goshen, Ind.
Sept. 21 it was reported that company plans to issue and sell 100,000 additional shares of common stock. **Underwriter**—F. S. Moseley & Co., Boston, Mass. **Proceeds**—For expansion program and working capital. **Change in Name**—Stockholders on Oct. 19 approved change in name of company from Penn Electric Switch Co. to Penn Control, Inc. **Registration**—Expected soon.

Pennsylvania Water & Power Co.
July 25, stockholders approved issuance of 78,507 shares of cumulative preferred stock (par $100). Proceeds will be used for expansion program.
Aug. 7, it was reported company may issue and sell $8,000,000 to $10,000,000 of first mortgage bonds. Probable bidders may include: Halsey, Stuart & Co. Inc.; Lehman Brothers; White, Weld & Co. Proceeds will be used for expansion program. Financing not considered imminent.

Philadelphia Electric Co.
Sept. 30 company announced that about $200,000,000 will have to be raised through the sale of additional securities, spaced at intervals, and in amounts which will permit ready absorption by the investment market. The overall construction program has already cost $217,000,000, and will require expenditures of about $365,000,000 more in the years 1951 to 1956.

• Pittsburgh & Lake Erie RR. (11/14)
Oct. 17 it was reported company plans issuance and sale of $6,435,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler. **Bids**—Expected to be received on Nov. 14.

★ Pittsburgh Steel Co.
Oct. 11 it was announced stockholders will vote Dec. 5 on increasing authorized 5½% prior preferred stock, first series, from 225,927 to 400,000 shares and the authorized common stock from 1,500,000 to 2,500,000 shares. **Traditional Underwriters**—Kuhn, Loeb & Co.

Public Service Co. of New Hampshire
Sept. 25, it was reported company may issue and sell late in November 150,000 to 200,000 shares of additional comomn stock. Probable bidders: Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); The First Boston Corp.; Harriman Ripley & Co. Inc.

Public Service Co. of North Carolina, Inc.
July 12 it was announced company plans to issue and sell several million dollars of first mortgage bonds in the Fall. In July last year, $1,200,000 of bonds were placed privately with two institutional investors.

• Purex Corp., Ltd.
Oct. 25 stockholders will vote on increasing authorized common stock to 1,000,000 shares from 500,000 shares. Traditional underwriters: Blyth & Co., Inc., New York; William R. Staats & Co., Inc., Los Angeles, Calif.

Rochester Gas & Electric Corp.
Aug. 1 it was announced that company expects to issue $5,000,000 additional first mortgage bonds and additional debt securities or preferred or common stocks, bank borrowings, or some combination thereof, in connection with its construction program. The method of obtaining such additional cash requirement has not been determined. Previous bond financing was done privately.
July 18, it was reported that the company expects to raise money through the sale of some preferred stock later this year. **Underwriter**—Probably The First Boston Corp., New York. **Proceeds**—To finance, in part, a $10,000,000 construction program the company has budgeted for the next two years.

Ryan Aeronautical Co., San Diego, Calif.
Aug. 4 it was announced company plans to increase its authorized capital stock (par $1) from 500,000 to 1,000,000 shares in order to place it in a position to do appropriate financing of some form of its own securities if and when advantageous to the company. The new financing may take the form of a general offering for sale to the public or granting of rights to stockholders; or the reservation for conversion of long-term indebtedness which could be issued with provision for convertibility into common stock. The company presently has outstanding 439,193 shares of capital stock, of which 45,350 shares are held by the wholly owned subsidiary, Ryan School of Aeronautics.

Schering Corp.
Oct 3 it was reported that the sale of the company's entire common stock issue (440,000 shares) was not expected for at least two months. The sale will be made to the highest bidder by the Office of Alien Property. Probable bidders: A. G. Becker & Co. (Inc.), Union Securities Corp. and Ladenburg, Thalmann & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; F. Eberstadt & Co.; Allen & Co.; new company formed by United States & International Securities Corp., Dillon, Read & Co.; F. S. Moseley & Co.; Riter & Co.

• Seaboard Air Line RR. (11/8)
Bids will be received up to noon (EST) on Nov. 8 by the company at the office of Willkie Owen Farr Gallagher & Walton, 15 Broad St., New York 5, N. Y., for the purchase from the company of $8,070,000 equipment trust certificates, series K, to be dated Nov. 15, 1951 and to mature serially in 30 equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

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: Halsey, Stuart & Co. Inc.; Lehman Brothers; Blyth & 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 Edison Co.
Aug. 29 it was announced company may have to raise approximately $49,900,000 more through additional financing to take care of its 1951-1952 construction program. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co., Inc. (jointly). These bankers bid for the $30,000,000 issue of 3⅛% first and refunding mortgage bonds which were sold last week. The nature, amounts and timing of the new financing cannot now be determined, and will depend in part on market conditions existing from time to time and may include temporary bank loans.

Southern California Gas Co.
April 4, the company indicated it would this year 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). **Offering**—Expected in the Fall.

Southern Natural Gas Co.
July 31 it was announced company has filed an application with FPC for permission to construct additional facilities to cost an estimated $13,641,000, of which approximately $9,187,000 is expected to be spent in 1951.

Sylvania Electric Products, Inc.
Oct. 10, it was announced that the company contemplates issuance and sale of not more than 200,000 shares of new convertible preferred stock (about $20,000,000) and about $25,000,000 of new 20-year sinking fund debentures. **Underwriter**—Paine, Webber, Jackson & Curtis. **Proceeds**—To retire $17,200,000 of 3¼% debentures, to finance expansion program to cost more than $18,000,000 and for working capital. **Meeting**—Stockholders will vote Nov. 19 on approving financing program.

• Texas-Ohio Gas Co., Houston, Tex.
Oct. 17 company applied to FPC for authority to construct a 1,350-mile natural gas transmission line extending from Texas into West Virginia. The project is estimated to cost $184,989,683.

• Texas & Pacific Ry. (12/6)
Oct. 17 it was reported company plans sale of $2,900,000 equipment trust certificates, series N. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler. **Bids**—Expected to be received Dec. 6.

Texas Utilities Co.
Sept. 24 it was reported company may issue and sell around 400,000 additional shares of common stock early in 1952. Probable bidders: The First Boston Corp. and Blyth & Co., Inc. (jointly); Union Securities Corp.; Lehman Brothers and Bear, Stearns & Co. (jointly); Goldman, Sachs & Co. and Harriman Ripley & Co. Inc. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly).

Tide Water Power Co.
Sept. 17 it was reported company has applied to the North Carolina Utilities Commission for permission to borrow $1,500,000 on 3% notes. These notes would be refunded through the sale of common or preferred stock. Traditional underwriters: Union Securities Corp. and W. C. Langley & Co., New York. Proceeds from notes to be used to pay for construction costs.

United Gas Corp.
Aug. 1, N. C. McGowan, President, announced that "it will be necessary to arrange for an additional $50,000,000 to complete the total financing, and it is presently anticipated this will be done by the sale of first mortgage and collateral trust bonds during the latter part of the year." **Underwriters**—To be determined by competitive bidding. Bidders for an issue of like amount sold on July 24 were Halsey, Stuart & Co. Inc.; Morgan Stanley & Co., White, Weld & Co. and Equitable Securities Corp. (jointly); The First Boston Corp., Harriman Ripley & Co., Inc., and Goldman, Sachs & Co. (jointly). **Proceeds**—For expansion program of United Gas System and for other corporate purposes.

★ Van Norman Co.
Oct. 18 it was announced company plans to issue and sell to public $2,500,000 of 20-year convertible debentures to bear interest at a rate between 3¼% and 4¼% per annum. Stockholders will vote Nov. 15 on increasing authorized common stock by an additional 200,000 shares of common stock and on authorizing issuance of all or any part of such increased shares by the directors without prior offering to stockholders. **Underwriter**—Paine, Webber, Jackson & Curtis, Boston, Mass. **Proceeds**—For working capital.

• Vertientes-Camaquey Sugar Co.
Oct. 22, it was announced stockholders will vote Nov. 27 on authorizing the sale of 481,307 additional shares of common stock to present stockholders at rate of one share for each two shares held. **Price**—At par ($6.50 per share). **Proceeds**—For working capital.

Virginia Electric & Power Co. (12/10)
Sept. 25, Jack G. Holtzclaw, President, announced the company proposes to issue and sell $20,000,000 of first and refunding mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Stone & Webster Securities Corp.; Union Securities Corp.; White, Weld & Co. **Proceeds**—For construction program. **Bids**—Expected to be opened on or about Dec. 10.

Western Leaseholds, Ltd. (Canada)
Oct. 8 it was reported that between 1,000,000 and 1,200,000 shares of common stock will soon be offered to public. **Price**—In the neighborhood of $11 per share. **Underwriters**—Probably Morgan Stanley & Co.; Carl M. Loeb, Rhoades & Co., and A. E. Ames & Co., Ltd. **Proceeds**—To Dome Mines, Ltd., the parent. **Registration**—Expected early next month.

★ Western Maryland Ry.
Oct. 16 it was reported company plans issuance and sale of about $15,000,000 of new bonds to refund the outstanding first mortgage 4% bonds due in October, 1952 ($15,865,866 at Dec. 31, 1950). **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co.; Salomon Bros. & Hutzler.

Westinghouse Electric Corp.
Sept. 26, it was announced stockholders will vote Dec. 14 on increasing authorized indebtedness to $500,000,000 from $150,000,000 in connection with a $296,000,000 expansion program. Company plans sale of debt securities the type and amount of which are undetermined (may be private). Traditional underwriter: Kuhn, Loeb & Co., New York.

Wisconsin Public Service Corp.
Sept. 4 C. E. Kohlepp, President, announced company plans to build a $12,000,000 steam turbine power plant in Marathon County, Wis. Method of permanent financing has not yet been determined. If bonds, probable bidders may include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harris, Hall & Co. (Inc.); Kidder, Peabody & Co.; Carl M. Loeb, Rhoades & Co.; Salomon Bros. & Hutzler; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Shields & Co.

Our Reporter's Report

The corporate new issue market is a "touch-and-go" affair at the moment. Uncertainty in the secondary market has not brought about any wholesale tendency to defer prospective new financing.

But events of the last fortnight have certainly had the effect of making the rank and file of institutional investors fidgety to say the least. They don't seem to know just what they want to do and whereas a certain basis was fine 10 days ago, now the picture has changed and dealers are encountering a good bit of haggling.

Meanwhile this week's second gigantic emission of housing bonds, under the auspices of the Public Housing Administration, tended to bring about a stiffening of spines and prices in the tax-exempt market generally.

The "split-deal," a large dealer syndicate taking down the lion's share of the $162,000,000 of assorted issues, with a bankers' group absorbing the balance, had a marked influence on the municipal situation.

Many dealers were inclined to withdraw offerings and wait for the market's response to the public offering of the housing bonds, which, incidentally, gave indication of being a fast operation.

Others were disposed to anticipate just such a development and proceeded to mark up quotations on inventories on the theory that this was justified by the price ranges commanded by the housing securities.

Big Offering Made

Neither the issuer nor the bankers handling the huge Pacific Gas & Electric preferred stock underwriting appeared deeply concerned with the recent behaviour of the market.

On the contrary that operation, involving 1,500,000 shares of $25 par preferred stock of the big utility, went through as scheduled with the offering price set at $25.50 a share for a yield basis of around 4.90%.

Preliminary demand had indicated that this operation would be a big success and presumably these calculations were well-founded judging by the response to the opening of subscription books.

Continental Can Issues

Continental Can Co.'s $15,000,000 of 25-year debentures, carrying a 3¼% coupon, were on schedule for today, barring any unforeseen last minute obstacle.

In this case, it is understood that the terms were modified slightly from original ideas, doubtless a reflection of the change in market conditions since the undertaking was placed in registration.

Reports had it that originally it had been planned to fix a 3⅛% interest rate and price the issue at a slight premium. The latter phase of the operation remained unchanged, the price being fixed at 100¾, but the edging up of the company rate fixed the yield at around 3.21%.

Meanwhile the company is offering to its stockholders an issue of 104,625 shares of no par convertible, cumulative second preferred stock, with bankers agreeing to take up any unsubscribed balance.

Commonwealth Edison

Next week's major undertaking will embrace 1,716,500 shares of $25 par convertible preferred stock of the Commonwealth Edison Co., of Chicago, which expects to raise upward of $40,000,000 via this route.

Here again the offering will be made initially to common stockholders in the ratio of one share of preferred for each eight shares of common held.

A banking group has agreed to underwrite the offering on which such details as record date, price and other details will be made public probably within the next few days.

With Crowell, Weedon

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Arthur L. Calude has joined the staff of Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with Lester, Ryons & Co.

With Standard Inv. Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—John P. Masterson has joined the staff of Standard Investment Co. of California, 210 West Seventh Street. He was formerly with J. Henry Helser Co.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—The story behind the temporary House victory of the taxpaying masses against the government spending classes is simply this: The House leaders fell down on their routine job of "leading" in a boner comparable to that of the captain of a ship sleeping while a junior officer ran the vessel aground in dangerous waters.

Everybody knew what some Republicans were going to do and what some CIO Democrats were going to do.

Republican strategy is to use high taxes as a campaign argument against the Truman Administration. This must be done, however, without at the same time giving the Trumanites a good counter argument, to wit, that Republicans killed the tax bill and helped to contribute to the Federal deficit which, in due course, will be some multiple of the revenue which would be raised by the tax bill.

The CIO-inclined Democrats, on the other hand, whilst not deserting their President, wanted to register a protest for the record against the bill because it didn't "soak the rich" enough to suit the walking delegates.

So the set-up was for Republicans to record a protest and the left-wingers also to record a protest.

The captain should have had the leadsman in chains sounding these shoal waters, as it were, instead of taking a siesta in the sack. In this case the Democratic leaders, and to some extent the Republicans as well, were hitting the sack.

One of the routine things the leaders do before votes on major pieces of legislation is to take a poll to see how many votes they can count upon. When you know there is going to be a protest vote and you are a leader you canvass your own boys in private, put them on the spot, and by guessing and/or political espionage, try to figure out as near as you can what the opposition will do.

In this case the leaders were so sure that they would pass the conference or final version of the tax bill, that they made no attempt to take soundings. If they had, they simply would have laid it on the line to enough of the left-wingers needed to secure passage, and told them to go down there and back up their Harry.

Curiously enough, and by sheer coincidence, it is the GOP which has come out best in this little comedy. Since the tax bill was passed, the Trumanites can't say the Republicans killed it and are responsible for mounting deficits. Since the tax bill passed, the Republicans will be able to tell the world that they "killed" the tax bill in the House but Truman pressure upon Democrats caused the House to switch and levy them there taxes on you'se taxpaying suckers.

* * *

While raising the benefits under the railroad retirement set-up just before closing, Congress provided for a joint House-Senate study of changes in the whole railroad retirement picture. The immediate boosts were about 15% in pensions for retired workers, 33% for survivors, and 25% in lump sum payments.

The real tricky stuff will come out next year as a result of this "study" by a joint committee composed of members of the House and Senate committees with jurisdiction over railroad retirement legislation.

The background on this is that initially the powerful railroad unions got themselves a super-duper special old-age pension program, very roughly, and only roughly, almost twice as good as that provided under the general Federal contributory plan. The payroll taxes are also very much higher. The total payroll take is currently 12% and on Jan. 1 it goes up to 12.5%, divided equally between the company and the employee.

However, by its Social Security Act changes in 1950, Congress in many types of cases, provided a relatively more attractive deal, especially for those only a couple of years or so away from retirement, than is obtainable under the special railroad retirement plan. This has got the railroad boys anxious for some of the better features of the general plan, especially for those who have worked less than 10 years on the railroad.

So the proposed Congressional study is for the purpose of "integrating" the railroad retirement scheme with the general contributory plan. The idea will be to give the railroad boys the best benefits available in any given class of circumstances, under either plan. Thus, for example, the older, near-retirement railroad workers will be "thrown on" social security, the general plan. On the other hand, things not available under the general plan, such as disability benefits, but which are now available to the railroad workers, will be retained.

This, of course, will throw a greater financial burden on the general plan's so-called reserves. However, the thinking in Congress is that since the Administration by the 1950 revision, in fact if not in name, abandoned the self-supporting theory of the 1935 general act, and is prepared to abandon its solvency still more to provide "health insurance" at "no extra cost" for pensioners, then there is no point in not raising the Old Age and Survivors' Trust Fund still more for the railroad workers.

At present, it seems fairly safe that the railroads will not be asked next year to kick in more dough for railroad workers' retirement. Their present annual outlay of about $300 million will not be hiked for this deal. The raid instead will be on the general trust fund. So the word "integration" will cover a legal (because enacted by Congress) misapplication of trust funds collected for other purposes.

* * *

Put down for some time in 1952 as one of your certain new and additional liabilities as a taxpayer, the provision of $832 million annually for a raise in pay, quarters, and allowances of 10% for all military personnel.

Such a bill was reported out unanimously by the House Armed Services Committee. It was intentionally delayed until next year. It was delayed because it would have postponed adjournment to consider it. Also, certain members felt that some taxpayers might be a little sensitive to having a military pay raise considered almost simultaneously with a new tax bill, a raise in pay for postal employees, and a raise in pay for all other Federal tax eaters.

However, the bill is backed by Republicans and Democrats, Congress and the Administration. The latter tried to limit the raises to not more than $800 per individual, on the theory that this would give the legislation class popularity. The Committee pointed out, however, that about a company of top brass would be deprived of an aggregate of $450,000, and threw out this gimmick. The Administration accepted it and is for the bill.

* * *

Behind the drive of Rep. Wright Patman (D., Tex.) to lambast the Federal Reserve System for its alleged independence of the Administration, there is another movement. That is to turn the forthcoming Patman inquiry into a sober, scholarly, careful review of the 39 years of the Federal Reserve System.

Idea of the latter movement is to answer the question: (1) How has the actual development of the Federal Reserve System matched the plans both of its framers and of those who have amended it? (2) Where does the System go from here?

The inquiry is to be conducted by a subcommittee of the Congressional Joint Economic Committee, of which the Reserve System's vehement foe, Rep. Patman, is the Chairman.

Part of the motive for this long-look approach for the Patman inquiry is based upon the belief, voiced by Chairman Wm. Martin of the Board, that such a review and analysis is long overdue.

In part, it is also motivated by the desire to escape a cat-and-dog fight between Patman and the Board.

It is possible that a more sober study may be made, but from this distance it appears doubtful. The session of a Presidential election year is always an intensely hot political session. The President may be expected to try to keep Congress playing with more controls and with more advances into the Welfare State. Most of these nostrums will have to be handled by the members of the Banking Committees.

And it is members of the Banking Committees who comprise the bulk of the membership of the JEC Committee. They are unlikely under the circumstances to have either the time or the patience to go into what, for politicians, are largely theoretical questions.

Finally, there is nothing on any horizon which would indicate that the hectic problems of inflation and deficit financing will ever settle down to any stable pattern which is an atmosphere requisite to setting any fundamental and long-run changes in monetary laws.

* * *

Senator Robert A. Taft, in his National Press Club speech, slew one of the ancient shibboleths of political writing, the "independent vote" and its so-called paramount importance. Since about half the people don't ordinarily vote, Senator Taft said that what he wanted to interest was the "indifferent vote," the millions who don't read about public issues and usually don't care to. This, the Senator said, is of far greater significance, or could be, than the "independent" vote.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"I think it would be a better act if you could pull a dollar out of the air worth 100 Cents instead of Fifty Cents!"

Business Man's Bookshelf

Economic Approach to Antitrust Problems, An—Clare E. Griffin—American Enterprise Association, Inc., 4 East 41st Street, New York 17, N. Y.—paper—$1.00.

Expanding Your Income — The know-how and know-when of investing for income and capital growth — Dept. 6, David McKay Co., Inc., 225 Park Avenue, New York 17, N. Y.—$2.00.

Office Library of an Industrial Relations Executive, The—Industrial Relations Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—paper—$1.00.

Ontario Mining Association, Report of Directors 1950-1951 and Accident Prevention in Ontario Metal Mines—Ontario Mining Association, 320 Bay Street, Toronto, Ont., Canada—paper.

Patents for Technical Personnel —Dr. Worth Wade—Chemonomics, Inc., 400 Madison Avenue, New York 17, N. Y.—paper—$3.00.

Policies and Practices in Corporate Finance: An application of Principles and Techniques—Louis P. Starkweather, Erich A. Otto and H. Randall Kreger — New York University Bookstore, 18 Washington Place, New York, N. Y.—spiral binding, paper cover.

With Westheimer

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio — Earl J. Carson has become associated with Westheimer & Co., 326 Walnut Street, members of the New York and Cincinnati Stock Exchanges. He was formerly with Russell, Long & Burkholder of Lexington, Ky.

With Stephenson Leydecker

(Special to THE FINANCIAL CHRONICLE)

MEDFORD, Ore. — Collier H. Buffington is now connected with Stephenson, Leydecker & Co. of Oakland, Cal.