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A Happy New Year to All

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 174 Number 5076 New York, N. Y., Thursday, December 27, 1951 Price 40 Cents a Copy

EDITORIAL

As We See It

Numerous current happenings serve to remind the thoughtful among us—if indeed they needed any reminder—that the position of "leadership" which we have assumed in world affairs is anything but a simple and easy one. The course of the apparently almost never-ending "negotiations" with the Communist forces in Korea, and the increasingly evident fact that our associates in this Korean enterprise are often as Laodicean in their support of our policies in that troubled peninsula as they are in helping to implement any decision that is made, are but simple reminders of our dilemma. For the most part, we have been able to summon majority support for our stands in the meetings of the United Nations, but no one who has cut his eye-teeth needs to be told that there are many who support us who are often more than doubtful about the wisdom of what we are doing and the way we are doing it. There is no good reason to doubt the reports which come almost daily from many parts of Europe and from non-Communist dominated parts of Asia to the effect that the United States of America is distrusted about as much as the Kremlin—in more than one case, perhaps, even more.

These facts are not pleasant to face, but they are facts, and as such must be taken into account at all times. In some part, doubtless, they are the natural, perhaps the inevitable consequences of the role which we have assumed. Nationalism, national jealousies, international suspicion and intrigue, and the like, have always been dominant in what is known as world politics. Historically, these forces have been really important chiefly

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Why Our Money Supply Increased

By L. SUMNER PRUYNE

Vice-President, First National Bank of Boston

Boston banker explains factors in increased money supply and postwar inflationary trend. Reviews history of wartime and postwar period financial developments, and attacks Treasury's "easy money" policy. Says Administration "missed opportunity" to reduce money-supply in postwar period and thereby curb inflation. Blames Congress and Administration for not providing a budgetary surplus and points out "jokers" in Treasury's statements. Expresses pessimism regarding reduction in government spending, but is optimistic regarding effects of restored independence of Federal Reserve and return of higher interest rates.

Each of us knows in a general way what inflation is and each of us is all too conscious of the impact of inflation on our daily living. We may all feel poor in terms of the purchasing power of our dollars, but we are conscious that there has been a marked increase in the money supply of the country in the past decade. Had this increase been advertised as due to the unrestrained printing of dollar bills by our government, it would be easily understandable. The increase, however, took place largely in the field of bank deposits, and since this method of inflating the supply of money is more roundabout and less noticeable, but the means by which it comes to pass are far less generally understood. To the extent that this study adds to an understanding of what lies behind the ballooning of our money supply in the past 10 or 12 years, it will accomplish its purpose. Inflation has been rather inelegantly described as "too many dollars chasing too few goods." This phrase immediately indicates that there

L. S. Pruyne

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Business and Financial Outlook for 1952

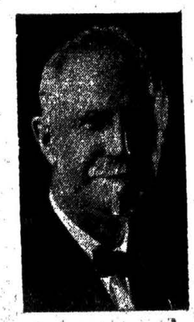
By ROGER W. BABSON

Mr. Babson discusses outlook for 1952 relating to various phases of industry, labor, commodity prices, domestic and foreign trade, and stock market prospects. Favors stocks of good chain variety stores, moving picture and air transportation companies. Says only convertible bonds should be purchased.

(1) Excluding defense orders, the total business volume in 1952 will be less than that for 1951. However, National Income in 1952 will be very high, as war orders take the place of peace production.

(2) The outstanding feature of 1952—barring all-out war—will be the Presidential Election on Nov. 4, 1952. I comment further upon this under paragraph 48.

(3) The Administration and its economic advisors appear firmly convinced that radical inflation is about to break out next year. But the "brain trusters" are overlooking the fact that the boom is already old and that it was creaking badly when the Korean War broke out. The date of the slide has only moved ahead.



Roger W. Babson

(4) Farm income will continue high in 1952.

(5) As 1952 wears on, the effect of controls, increased taxes, and high prices will cause a decline in legitimate business. If civilian production declines too much, the public may then cry, "This is a government-made slump; let's change the Administration."

(6) If in 1952 it becomes evident that business is declining too much as a result of government curbs, the planners at Washington will rush their patient into an oxygen tent.

Labor Outlook

(7) Many labor groups will be successful in getting another round of wage increases in 1952. Although there

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PICTURES IN THIS ISSUE—Pictures taken at Annual Christmas Party of Seattle Security Traders Association appear on page 19, while slate of new officers of Texas IBA Group appears on page 20.

The Security I Like Best

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

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

This Week's Forum Participants and Their Selections

Union Carbide & Carbon Corp.—George L. Barone, Security Analyst, Van Alstyne, Noel & Co., New York City. (Page 2)

Pabco Products—I. Komanoff, of Herzfeld & Stern, New York City. (Page 2)

GEORGE L. BARONE
Security Analyst,
Van Alstyne, Noel & Co.
Members, New York Stock Exchange

Union Carbide & Carbon Corp.

From its very inception, Union Carbide & Carbon Corporation was a success. Incorporated in New York in 1917, the new concern fused together a group of four companies whose activities appeared to hold exceptional promise. Expansion was rapid and in the years that followed, thirteen corporations were acquired and seven divisions formed in order to increase capacity. The activities of Union Carbide have grown steadily and now embrace five major fields:

George L. Barone

(1) Chemicals.
(2) Plastics.
(3) Alloys and metals.
(4) Electrodes, carbon and batteries.
(5) Industrial gases and carbide.

The company is producing about 300 different chemicals which are used by practically every major industry. Being the founder of petrochemistry, Union Carbide has maintained a leading position in this rapidly growing field. The recently developed wool-like synthetic fibre Dynel has outstanding possibilities. It is warmer than wool, as soft as cashmere, shrink-proof, dyeproof and allergy-proof. This new fabric could revolutionize the textile industry. Dynel is but one of the many developments which have proved commercially feasible. A broad field has been uncovered, the fruits of which remain, for the most part, untouched.

The plastics division has its romance too, and here again Union Carbide is in the vanguard. An increasing number of products are being constructed from these man-made materials. One of the most recent products to be developed is polyethylene, which is actually a solidified gas. While it has been in existence for only a relatively short time, the demand for it is great. Currently, over 90% of the output of this product is going to the Armed Forces. However, a huge civilian market is awaiting polyethylene. Used in making squeezeable bottles, flexible tumblers and in food packaging, other uses are likely to appear when a sufficient supply becomes available. Chemicals and plastics account for approximately 46% of sales.

Alloy and metal products comprise about 24% of total volume. Through nine alloy-making plants strategically located throughout the country, 50 different alloys and metals are produced, one of the most important of which is magnesium. This division also operates what is probably the world's largest tungsten mine at Pine Creek, California. Research on rare minerals is intensively pursued. Recently an economical method of capturing vanadium was discovered. Such developments as this are continually widening the scope of the company's activities and new markets are the usual result.

The last two divisions together account for 30% of the company's sales. Here too, research is emphasized and this often leads to a superior product at a lower price.

The expansion program undertaken by the company since the end of World War II is one of the most daring in the history of American industry. In the last five years UCC has invested $423 million in new plant facilities. Of 1950 expenditures, which aggregated $70 million, 60% was directed toward increasing the output of chemicals and plastics, 29% for alloys and metals, and 11% was divided between the remaining two divisions. This expansion program is now being accelerated. The company recently announced that a $300 million loan, running for 100 years, had been arranged with the Metropolitan and Prudential companies. It is probably the longest loan agreement ever made by a corporation. But it is not a rigidly fixed contract. There are ample provisions which provide flexibility. To begin with, Carbide will get the money as it is needed, thus avoiding the payment of interest on funds not in use. The company can repay the loan before maturity if it elects to do so. Moreover, the loan can be converted into a 3½% note at any time before Nov. 1, 1959.

The policy of continuous expansion which has been followed has materially increased the company's earning power, and further advances are almost assured. The confidence exhibited by both the management and lending agencies attests to this fact.

Sales in 1950 reached a new high of more than $758 million. But records made by Union Carbide rarely last for any length of time. This year, sales are running well ahead of 1950 and for the first nine months totaled $691 million compared with $537 million for the comparable period last year. It is not unreasonable to expect close to a billion in sales for the full year.

Quite naturally, profits are on a sharp upward trend, although higher taxes may change the picture temporarily. Earnings for 1951 should approximate $4 per share, which is somewhat below last year. Dividends, paid in every year since 1917, have been conservative. The heavy demand for new capital has necessitated the investment of a major portion of profits. However, the patient investor may not have to wait too much longer before he begins to reap some of the benefits that have been accruing.

Certainly, Union Carbide has an excellent record. But this is not the only reason why I favor this stock. It is the tremendous promise which the future holds that attracts me. Products of this company that were unheard of just a few years ago are quickly becoming necessities of life. Today, UCC can almost be considered an industry in itself. From 200 plants, factories, mines, mills and laboratories, and 1,100 warehouses its products are flowing into the industrial and consumer channels of the United States. Yet, with this extensive productive capacity, the demand for almost every item produced is far ahead of supply. While Union Carbide has grown quickly, it has not yet reached full maturity. Perhaps the day is not far distant when it will be full grown. Until then, or until the brilliant future that awaits is fully discounted by the market price, it will remain the security I like best.

I. KOMANOFF
Herzfeld & Stern, New York City

Pabco Products

The common stock of Pabco Products, selling on the New York Stock Exchange at 16½, represents an unusual opportunity for long-term investors to acquire a thoroughly deflated issue holding out a promise of a possible 100% appreciation over a reasonable period of time.

I. Komanoff

Pabco is one of the finest and oldest names in the building material field and sells a wide variety of products ranging from floor coverings to paints, insulation material, etc.

Of these, the floor covering division, which makes a variety of linoleum and cork products, is by far the most important. Up till now Pabco has been known primarily on the Pacific Coast—but with the final completion of its new and modern New Jersey plants, Pabco will unquestionably become an important factor in the East, rivaling Armstrong Cork and Congoleum Nairn.

However, this writer is not selecting Pabco as the stock he likes best merely on Pabco's prospects and the outlook in the building and floor coverings industries. In this connection, with earnings running at the rate of about $2 per share after heavy tax accruals, the common stock of Pabco at about 16½ would seem nevertheless to be reasonably priced. The element of romance and appreciation possibilities inherent in Pabco are rather accounted for by Pabco's interest in the Fibre Board Products Company, a large Pacific Coast manufacturer of corrugated and solid fibre shipping cases, cartons and other similar items.

Pabco owns 50% of the class B, 56% of the class A, and 60% of the $7 preferred of Fibre Board Products. The rest of Fibre Board stock is owned by the Crown Zellerbach Company. Pabco is carrying its investment in Fibre Board at $7,241,083 compared with equity in net asset value of $21,160,693.

Fibre Board Products, in the author's opinion, represents a most valuable earnings asset for Pabco.

For many years the earnings of Fibre Board have been ploughed back into new plants and new equipment; and today Fibre Board is one of the most valuable properties in its field, with tremendous current and potential earning power. For 1951, had Pabco included its proportionate share of Fibre Board earnings with its own, Pabco's earnings would have been nearly $4.50 per share, as against reported earnings of $2.07. Thus, instead of selling for ap-

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Basic Conflicts in Our Economy

By RAYMOND RODGERS*
Professor of Banking, Graduate School of Business Administration
New York University

Among basic conflicts in the economy discussed by Dr. Rodgers are: (1) internationalism vs. isolationism; (2) "public power" as opposed to private electric facilities; (3) public as against private housing; (4) "tax-eaters" vs. income producers; (5) inflation vs. deflation; (6) rearmament goods production vs. consumers goods; (7) competition vs. unfair trade and other encroachments; and, finally, the conflict between the Federal Reserve and the Treasury. Warns, in these opposing forces, facts must be distinguished from propaganda, and says time for action and decision is here.

It is becoming more difficult every day to maintain perspective and form sound judgments based on real facts. The famous English statesman Disraeli once said, "There are three kinds of lies: lies, damned lies and statistics!" And that observation was made before propaganda became a necessity to survival in a sick world; and it was made before there were pressure groups on every hand and in every department and sub-department of government.

Raymond Rodgers

Never have there been wider discrepancies between the economic facts of life and the pleas and wails which rend the ether, clutter the newspapers and fog legislative halls. An illustration or two of this "What can a man believe?" type of dissemination will amply demonstrate the difficulty of keeping one's feet on the ground and head in the air—instead of the opposite! For example, after months of much vaunted air supremacy in Korea, we are now urged to believe that despite the billions and billions spent for the Air Force, all we have is a few planes which wouldn't even have been good enough to use in the wars with Sitting Bull and his Indian braves!

Or, for another example, take the complaints that business is bad. While it is true that some lines, and some enterprises in all lines, are not doing well, the overall picture could hardly be more rosy. As you will know, some organizations will fall by the wayside no matter high the level of general activity. So, these widespread complaints may simply mean that businessmen have become spoiled. War and inflation have so distorted their figures and their judgment that if the sales curve doesn't point straight up, many of them think business has collapsed!

Well, then, as Bruce Barton put it, "What can a man believe?" Or, putting it a little more broadly, and in the vernacular: What chance does an honest man have? Answering this question, whatever his chances may be, they will be far better if he understands that there are many powerful, basic conflicts in our economy today, and that the relative positions of these contending forces vary widely with the winds of fortuitous circumstance, as well as with normal pressures.

Basic Conflicts

What are some of these basic conflicts which condition our lives today?

In the political sphere, we have internationalism versus isolationism. As these change in relative strength, the economy is both directly and indirectly affected. In the months ahead, internationalism will be in the ascendancy; consequently, international developments should be followed very carefully for clues to domestic trends.

Another basic issue of long standing, but still very much alive, is that of so-called "public power" as opposed to private development of electric facilities. The resulting public policy has already had a controlling influence on the economic evolution of many parts of this country. This Washington bias in favor of governmental development of power resources will have even more effect in the future unless it is countered by public opinion.

Public housing is still another issue which grows in importance, war or rearmament notwithstanding. As was so greatly emphasized at the convention of the real estate fraternity here in Cincinnati last month, private housing is being held back by credit controls, materials limitations and other restrictions; but public housing is going ahead at an ever-growing pace. English voters may get false teeth, but American voters get real housing!

Tax-Eaters vs. Producers

Probably the most fundamental conflict in America is that of government waste as opposed to decent respect for the tax dollars wrung from the sweat of American producers. Unfortunately, those who live on the earnings of others soon acquire a strange contempt for those who produce the very earnings on which they live! The bureaucratic attacks on business and the break-down of morality evidenced by the deep-freezes, mink coats and income tax bureau scandals are reflections of this contempt.

The question as to whether tax-eaters, or producers, will control the future of this country is of vital importance to all of us. As

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*An address by Dr. Rodgers at a Dinner of the Cincinnati Association of Credit Men, Cincinnati, O., Dec. 5, 1951.

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Articles and News

Regular Features

Published Twice Weekly
The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
Thursday, December 27, 1951

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

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

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

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

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

Subscription Rates

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

Other Publications

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

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

1952—Anticipation And Vaticination

By IRA U. COBLEIGH

Author of "Expanding Your Income"

At a season of the year traditionally prolific with prophecy, you are offered today an imaginative capsuled conjecture about almost everything from general conditions to Gen. Eisenhower

You know it would have been easy to start off today's fantasy with such standard titles as "A Look Ahead" or "What Cooks for you in '52," but no — I have to get fancy. After hearing all those Christmas Carols sung in Latin nothing will do but to entitle this forward look, by using two words snatched almost bodily from the pages of Virgil; and instead of saying "Look" at my predictions of things to come, I classically urge you to "ecce," a word somebody told me means "behold."

Ira U. Cobleigh

Well then, behold 1952; a final departure from all that mid-century hullaballoo stuff; and a rude dousing into the icy waters of peace and preparedness politics and plums, petroleum and Petrograd, prices and Peron, production and profit, pelf and pelts (mink that is) through which we may swim in the next 12 months.

Peace Assured for Many Years

Clearly the possibility of peace is more assured than for some years, because of our own expanded output of military hardware, our bigger supply of lethal atom bombs, and our development of guided missiles and atomic warheads; plus the important military coordination of our defensive military allies in Europe. The Russians, while waging a brutal and ominous aggression in Korea, even though thousands of miles nearer their supply sources than we are, have failed to penetrate our basic U. N. defenses. They seem eager for a truce that will not disgrace them in the eyes of their Chinese pink allies, who no doubt expected stouter support, and more strategic success, than the Muscovite malefactors have shown. There will be no World War III in 1952. There may, however, be a period of mourning within Russia over the passing (presumably from natural causes) of the most famous bank robber of all time, and the propagator of Commie Rot, Stalin.

Assuming the termination of Korean fighting, our total armament production will not be reduced. We may not go ahead so rapidly with standardized assembly-line production of tanks, planes or artillery; but in that event we would surely continue at greater pace our research to develop the most effective fighting prototypes of every sort. Korean air warfare showed the need to improve our jets; our guided missles can be bettered in accuracy and range, and we have already made vital changes in land warfare by use of helicopters. These whirling transports perform a sacred mission in providing swift return of wounded from a battlefield; as against agonizing jolting journeys formerly requiring hours by ambulance over bomb torn roads. On the offense, helicopters provide new tactical mobility. Effective troop elements can be moved rapidly into fighting areas in low flying 'copters, without being sitting duck targets like paratroopers; and they become instantly ready for battle, the moment they land. Look for a big surge in helicopter size and production in 1952. Bell, Sikorsky and Piesecki are leading producers.

Taft vs. Eisenhower

About politics, we must contemplate frankly the abuses that stem from one political party remaining in power for a score of years. Surely my province does not lie in excoriating the Caudles, the minks, the deep freezes, the callous camaraderie of a few Internal Revenue collectors and some of their quarries. If the searing blowtorch of publicity is played on this political scene, however, it may well be that trustworthy Taft, will by November, emerge as the champion of government with honor and honesty. Perhaps then, integrity and intelligence will be more highly esteemed by the electorate, than politically induced in action. In that event, Robert Taft, who, for more than a decade, has patiently waited in the wings of the Republican theater, may go front and center. So, although Eisenhower is reputed to be a sure winner, he can't win without the nomination. And unless he moves quickly, with all the musicians now climbing on the Taft bandwagon, no one may be left to blow his horn. Coyness and club-house politics have seldom merged, so unless the five star general puts his show on the road, his star may never ascend. Thus, for 1952, I predict that all Taft has to do is to select a popular and effective running mate, and he has a good chance to enjoy the $5 million improvements in the White House. Taft and Warren, Taft and Stassen or—don't gasp—Taft and Senator Lodge could return Truman to the foulard department. So it's Taft and who in '52.

High Industrial Production in 1952

Some augury was suggested about production and profit—so here goes. Gross national product will exceed 1951 by roughly 6% and guns will lead butter as the major goal of our economy. But the line may not actually be so sharply drawn as in 1951. Remember last January. Rubber with alleged inelastic supply, and steel so scarce that the government threatened to essay production. Well what happened? Rubber, synthetic and natural, came bounding into supply. Ditto steel! Why right now, we have steel production 20% above peak output of 1945 and there is technically no more of a shortage here than of jokes about Sinatra. Copper is scarce, but aluminum is getting as plentiful as pickles at a picnic.

So we won't have a real short year in production; but new taxes and the labor bite are sure to louse up profits. Take the top 20 companies that come to your mind, discount 1951 net after taxes by 7%, and you're gearing your 1952 estimates not far from reality.

About labor we still have a "laboristic" economy—out for its own, and devil take the future, and everyone else. So here add $1 a day to the base price of labor in steel, rubber, manufacturing, railroads, buses, and you can calculate the new inflationary pluses which will be added to the price of everything you buy. Collective bargaining has already become largely mythical, with all the big disputes chronically winding up on the President's grand piano—and every settlement apparently dictated more by political than economic considerations. Frankly, short of depression or at least, a rugged recession, the price of labor in 1952—or any other year—is indefinitely up.

Easy Money Era Ended

Throughout the last decade, probably the most unreal prices in this whole baffling world, have been those of money and gold. Well, 1951 started what you will see carried on importantly in 1952 — a boost in the price of money. Canadian long-term rates are now well above 3%, London long-term bonds have sold to yield 4%, we've hit the 2¾% marker ourselves, and bank loan money in New York rose this past week to 3%. The easy money era is over, so look for higher interest (and lower bond prices) in 1952, and expect savings institutions to be more generous.

For instance, New York State savings banks will emerge with a 2¼% rate on deposits, nudged perhaps up to 2½% by the year end; and incidentally they, too, will be buyers of top-flight common stocks by Labor Day.

Higher Gold Price Forecast

I mentioned gold. It's been hog-tied to $35 an ounce officially since 1934. Well, this year somebody is going to slip the knot. You'll see at least $45 an ounce, and maybe more if actual production costs are taken into account. "There's gold in them thar hills" and more of it will be brought out if the price is right! So jot down in your notebook Homestake, Dome Mines, Frobisher. These will be rewarding equities if the official gold rate glides upward, as I expect in 1952.

Stock Market Outlook

About the market, there being no great shortages anywhere (except perhaps of ability) and profits being of a lower order, 1952 should not be a year for roaring bulls. Prospects more favor hitting 225 than 300 on the Dow-Jones scorecard. Oils and chemicals may again supply leadership. Of the American oils, Pure, Skelly, Socony-Vacuum seem most favorably priced; and of the Canadians, Imperial, British American, Calgary and Edmonton, Canadian Superior, and National Petroleum seem most likely to cost you more a year hence. Don't forget TXL, however, and Superior Oil. Both should make new highs in 1952, with Superior at even money to cross a grand.

For others that might stage advances, quite unrelated to the general market trend, gather ye the latest information about Molybdenum Corp., International Minerals, now 39, Chicago and Northwestern now 16, Zenith at 69, Soo common at 18, Alexander Smith at 15½, and for plump cash yields ponder over income rail bonds like Soo, Northwestern and Central of Georgia, plus Denver $5 convertible preferred at 74.

The late Bill Klem, acknowledged dean of baseball umpires, immortalized the phrase, "It ain't nothin' till I call it." Well to paraphrase that, "It ain't nothin' if I call it." Frankly, however, it's been a lot of fun to apply a few wisps of logic and perception of trends, in an attempt to foretell the doings of next year. Also, is it too much to hope, for 1952, that we shall return to those ideals of integrity, industry, and belief and trust in religious guidance of our lives, that have made our country great? Once there was a man in the White House called Honest Abe. Happy New Year!

Securities and Security

By DR. MAX WINKLER*

Partner, Bernard, Winkler & Co., Members, N. Y. Stock Exchange

Economist describes collapse of monetary systems in Europe after war, concluding that the dollar, because of our large favorable trade balance, vast resources and self-sufficiency, and absence of foreign debt, faces no similar prospects. Regarding stock price outlook, maintains although market is high by historical criteria, it is still lagging behind last decade's rise in the economy.

Shortly before World War I, two investors, subjects of and residing in Imperial Germany, purchased each 1,000 marks worth of securities. One, the more conservative of the two, selected the 3½% bonds of his government, which had, within the country, the highest investment rating, were legal for savings banks and trust funds, constituted excellent collateral, and were available at about par to yield 3½%. The other, somewhat less conservative and hence willing to assume a slight risk, selected the shares of a well entrenched electric company. These were also available at par and paid about 5% annual dividends.

Dr. Max Winkler

Within less than nine years, the German mark, the monetary unit of the country, had deteriorated to one-thousand-billionth of its 1913 value. Interest on the 3½% bonds continued to be paid promptly at the stipulated rate. The conservative owner of a 1,000-mark bond was receiving 35 marks a year, the same amount he had received nine years earlier. The rate of interest was fixed and the virtually complete collapse of the currency simply destroyed the value of the money due on the bond—and, of course, all other fixed-income bearing securities.

The less conservative investor in the shares of a well established corporation fared much better. Since the enterprise was manufacturing and selling its products, the price of the latter rose in relation to the fall in the value of the money realized from the sale. While before the war, the corporate income was counted in millions, it was now running in the trillions and quadrillions. For the year 1923, when the mark had reached its lowest point, the company declared a dividend on its common shares of one hundred billion per cent! Even though in real money the distribution amounted to only 25 cents (U. S.), it was almost 30 thousand million times as large as was received by his more conservative fellow investor.

The above is not fiction. It has actually occurred in Germany after the First World War, in which Germany was defeated, lost her monetary reserve, her overseas investments, her merchant marine her colonies, her markets, and portions of her continental territory. She was dependent upon the rest of the world for foodstuffs and raw materials for which she could pay only with the aid of the printing press.

Wars and Inflation

What happened in Germany happened in most European countries which had been at war. Russia, Austria-Hungary and the succession states. Rumania, Bulgaria, Greece, Yugoslavia, Italy, France, and, to a lesser degree, England. Why the monetary systems collapsed and why the extent of the collapse in some countries was greater than others, can be explained by the nature of the resources of the countries in question and the resultant degree of confidence in them on the part of the rest of the world.

There are those who are apprehensive over the future of the American dollar. Is it going to share the fate of the mark, the ruble, the crown, the franc or the lira? If the decline will not be quite so drastic, how much in purchasing power is it going to lose and what can one do to protect one's investments and income against further depreciation?

In order intelligently to answer these questions, it is necessary to understand the reasons for the prevailing fear over the fate of the American dollar. A careful evaluation of the situation will afford abundant proof that there is no justification for such fear. To be sure, the dollar has lost about half of its purchasing power within the last decade and the downward trend does not seem to have been arrested as yet. However, it is safe to state that the fate of the dollar is definitely not like that of the European currencies to which reference has been made. The vastness of our resources, the absence of any foreign debt, a large favorable trade balance, as well as relative self-sufficiency justify this view.

Excessive Spending

What is it that makes for inflationary processes in spite of the existence of these factors, which are admittedly strong enough effectively to combat inflation?

You will recall the advice given by Mr. Micawber to David Copperfield, in Charles Dickens' novel of the same name:

"Annual income, twenty pounds; annual expenditure; nineteen nineteen six; result happiness.

"Annual income twenty pounds;

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*Address at Dinner Meeting at University Club, before Syracuse Dental Society on Dec. 11, Syracuse, N. Y.

The State of Trade and Industry

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

Total industrial output for the country at large showed a slight increase the past week as many plants stepped up their pace to meet the challenge of defense requirements. In the aggregate, output held moderately above the level of 1950. On the employment front layoffs continued to affect some parts of New England the past week. New record highs were set in both steel and electric power production a week ago.

The steel mills added over 2,090,000 tons to their 1951 output, eclipsing the previous weekly high output rate of 2,089,000 tons established in the week ended Nov. 4. Output for the year is expected to top 105,145,000 net tons for a new all-time record.

Early this week strike fear had turned the steel market into a turmoil, according to "The Iron Age," national metalworking weekly. Near-hysterical efforts of consumers to get "quick" steel reflected their uncertainty of future supply. The rush for steel was made more urgent by the prospects of a steel strike scheduled to take place on Jan. 1. Another strike hedge was seen in renewal of interest in premium-priced metal.

Even a short steel shutdown would cause havoc to all the production programming of the government. Loss of even a week's production would total more than 2,000,000 tons of steel ingots, and all chance of early stability in the Controlled Materials Plan would be lost. Market emphasis would shift to worthless CMP tickets which would create a multitude of hardship cases, this trade paper states.

The rescheduling job would be terrific—for mills and government alike. And many customers who thought they were safely on mill schedules would find themselves caught in the shuffle.

The main hope for steel peace was based on urgent national need. Union strategy had committed it to a mandatory policy of "no-contract-no-work." And, although there seemed hardly a chance that it could win a "satisfactory" contract before the Dec. 31 deadline, it was expected the workers would respond to a back-to-work plea from the White House. None of the parties could afford the responsibility for a long tieup of steel production, "The Iron Age" points out.

Regardless of what results from wage mediation efforts, plates, structurals and bars are bound to be in tight supply for many months. These are the products from which defense and supporting industries are taking the biggest bites. No letup in demand for these best sellers is anticipated in the foreseeable future, this trade authority observes.

Need for scrap is desperate. Early this week some mills had exhausted their own stocks and were operating with borrowed scrap. They had promised to repay the loan in the first quarter of 1952.

Cold, snow and ice which have gripped major steelmaking centers for the past two weeks reduced some collections more than 50%. Mills are working blast furnaces to the limit in an effort to replace as much scrap as possible with hot metal charge in their open hearths, concludes "The Iron Age."

Bad weather conditions caused car output in the United States to drop about 7% last week compared with the previous week, according to "Ward's Automotive Reports." Compared with a year ago, production was off more than 33%.

"Ward's" said Chrysler had slight output losses the past week as heavy snows bogged down dealer "drive-aways" of new cars and jammed factory storage facilities. Several General Motors out-of-state Buick-Oldsmobile-Pontiac assembly plants were prevented from completing 1951 model programs last week by the weather and "other factors" and have postponed the windup until the current week, the agency added. Reduced Ford output was the cause of declined truck production.

Lincoln, which had been down for model changeover since late October, resumed production the past week, according to "Ward's." Mercury, however, down for changeover since Dec. 12, is not expected to return to volume production until Jan. 2 or later.

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Breyer to Manage Dept. at Cohu & Co.

Arthur W. Breyer, Jr., a partner of Cohu & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, is taking over the management of the Mutual Fund Department as of Jan. 1.

D. D. Walker Partner In Newhard, Cook

ST. LOUIS, Mo.—Newhard, Cook & Co., Fourth and Olive, members of the New York Stock Exchange, have announced the admission of D. D. Walker to limited partnership in their firm.

John Norwood With Union Securities

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—John K. Norwood has become associated with Union Securities Corporation, 75 Federal Street. Mr. Norwood was formerly Vice-President of Blair Rollins & Co., Incorporated, in charge of their Boston office.

H. L. Logsdon With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Harold L. Logsdon has become associated with E. F. Hutton & Company, 623 South Spring Street. In the past he was in the trading department of Bingham, Walter & Hurry.

Charles Clark, Jr. Is With Winslow, Douglas

Winslow, Douglas & McEvoy, 120 Broadway, New York City, members of the New York Stock Exchange, announced that Charles A. Clark, Jr. has become associated with that firm.

Mr. Clark was formerly with the New York office of Montgomery, Scott & Co. of Philadelphia.

Reynolds Wire to Doherty Roadhouse

Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that Doherty Roadhouse & Co., Toronto, has become the firm's correspondent and a member of the Reynolds' expanding wire system. In making the announcement, Reynolds & Co. said that "the establishment of this new connection reflects the growing American interest in Canadian markets and securities."

With du Pont, Homsey

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—John S. Nesbit has become affiliated with du Pont, Homsey & Company, 31 Milk Street, members of the New York and Boston Stock Exchanges. He was formerly with Minot, Kendall & Co.

To Be Benton & Co.

Effective Jan. 1, the firm name of Benton & Nicholas, 11 Wall Street, New York City, members of the New York Stock Exchange, will be changed to Benton & Co.

To Be Wilson & Creem

Herbert D. Fransioli, member of the New York Stock Exchange, will retire from partnership in Fransioli & Wilson, 50 Broadway, New York City, on Dec. 31, and effective Jan. 1, the firm will be known as Wilson & Creem. Both Robert Wilson and John J. Creem, Jr. are exchange members.

Observations . . .

By A. WILFRED MAY

The Investment Company as a Solution for Committee-Investing Difficulties

The currently growing ramifications and complexities of the investment community highlight the advantages of using the investment company as an instrument for overcoming the continuing difficulties obstructing "committee administration" of investment portfolios.

A. Wilfred May

These difficulties lie wholly outside the well-known exigencies of inflation and the decline in interest rates. They are both psychological and administrative, and apply to the committee set-up in its various forms, including formal trusteeship. Anyone having served on an investment committee charged with managing an educational or philanthropic institution's fund must realize that it is well-nigh impossible for the members, no matter how expert and conscientious they may be as individuals, to manage the portfolio with system and balance, and pursuant to scientific investment policies.

This is so partly because of procedural difficulties; such as infrequency of meetings, unwieldiness in caucusing for majority decisions between meetings, and tendency toward brevity of meetings when they do take place. A meeting of the investment committee of an important New York City educational institution scheduled to be held one day last week, was postponed for 10 days because of "inclement weather."

The Psychologically-Rooted Difficulties

The difficulties of joint management more largely have psychological roots. The strong tendency toward *Blue Chip-itis and window-dressing* which affects *all* handlers of other people's money, is even greater in the case of committee members subject to continued checking on each other's results and to reciprocal recrimination—or even to mere guilty conscience. Also interfering with the optimum in investing decisions here is the desire to be an agreeable fellow and opinion log-rolling.

In addition to Blue Chip-itis and window-dressing in the selection of issues, there also results general following of the lines of least resistance including unwillingness to "buck" the prevalent market climate of the moment. The individual is more prone to "stick his neck out" if left on his own and responsible only to himself.

Additionally, as with all investors, with institutional managers also, there is the psychological disadvantage of emotional interference with objective judgment arising from involvement in one's own decisions. Even though individual *A* and individual *B* have precisely the same investing ability, *A* will do better with *B*'s capital than with his own, because of greater freedom from subjective emotional obstacles.

The investment company can go a long way toward overcoming these difficulties. It has the basic procedural advantage toward simplification of all trustee problems by requiring only a once-and-for-all investigation, discussion and commitment to provide a vast amount of investment coverage over the very long term.

Open-End Funds Already Being Used

The constructive use of investment company management to meet these attributes of joint responsibility which obstruct ordered portfolio management, is already becoming recognized as evidenced by ownership of *open*-end funds. While exact detailing of institutional ownership of fund shares is unavailable, it is apparent that it is growing. For example, the Massachusetts Investors Trust is held by 367 religious organizations, 228 homes and hospitals, 147 schools and colleges, 60 libraries and 154 other charities. National Investors Corporation (another *open*-end fund) is presently held by 23 religious organizations, 12 schools and colleges, 13 homes, foundations and other charitable organizations, and five sanitarium and hospital funds. Broad Street Investing Corporation is held by 6 schools and colleges, 25 religious organizations, 11 societies and associations, and 8 charitable organizations and homes.

Opportunities in the Closed-Ends

In contrast to such widespread adoption of the *open*-end

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Bigness in Government—Our Greatest Danger

By HON. EVERETT McKINLEY DIRKSEN*
U. S. Senator from Illinois

Senior Senator from Illinois stresses dangers of heavy government spending and concentration of powers and functions in the Federal Government. Scores lack of efficiency and inadequateness of nation's budgetary system and calls present method, "budgetary guesswork." Advocates crusade to make citizens realize bigness in government spells higher taxes, and recommends adoption of a single-package budget. Wants Congress given adequate machinery to work with.

I have always gotten a great thrill out of Thoreau, the American philosopher who carried on so many years along the edge of Walden Pond in Massachusetts. I go back every once in a while and read about his bean rows, and his $24 house, about his uncanny instinct for dipping his hand in the water and taking out a fish. Then I go back on those solid observations he made in the field of human behavior. It was that philosopher who once observed that for every man hacking at the root of a tree, there were over a hundred hacking at the branches.

Everett M. Dirksen

I am not sure, but that in part, at least, that is true with respect to the inflationary problem which confronts every custodian of people's money, whether it is the life insurance industry, the banks, or any other industry of which I can think.

So we go back and think in terms of hacking at the branches instead of the root. I know all the simple answers, at least. Over the years, I served on the Banking Committee of the House of Representatives, and for reasons quite unknown to me, I was assigned to the Senate Committee on Banking and Currency, which has dealt with this whole problem of production, price controls, rent controls, wage controls, credit controls, curbs on consumer spending, and all these other things with which almost everybody is familiar today. So, in the jargon of the day, we think of course of inflation as nothing more than a disparity or a disproportion between the available consumer goods and the spending power in the hands of the consumers.

If I remember the figures correctly, I suppose our spending money both of the check-book variety and the long green variety, has probably increased by 170-odd percent in the last 10 years. Our productivity, however, in the field of consumer goods has probably not increased over a 100%. So that, roughly at least, there is a ratio between an increase in money and an increase in productivity that matches the increase in prices over the last 10 years.

I believe that it stands up in the face of orthodox law, nearly everything I have learned in courses of economics, and so I hear it beat into my ears day after day as I think of this inflation problem, but I wonder whether we go back far enough. We attach so much significance to the business of spending. We say, of course, so long as government and individuals are going to pour so many spending dollars into the economic blood stream of the country, you are going to have this inflationary force, whether or no, and so the axe ought to be placed at the spending root. I am of the opinion, frankly, that we do not go back far enough, and so I want to examine with you this afternoon just a few general considerations that I think you, as identified with one of the great industries of America, should have in mind as we wrestle with this common problem.

I know, of course, the danger of going back, and I have been scolded and admonished about it on many occasions. I think often of the man who went into the restaurant, got the napkin around his neck, and when the waiter came, he said, "What kind of soup do you have?"

The waiter said, "Ox-tail."

He said, "Oh, why go back that far?"

But I think it is necessary to go back quite a way in order to establish a premise or two that is worthy of the thinking of people who are concerned about this problem today.

Now, if we in preliminary fashion simply examine the logic of the situation, first of all, we come up with the theory that spending requires taxes, so that there is no kind of an inflationary gap. But I have discovered this over 16 years in the House of Representatives, and the beginning of a term in the United States Senate, that the lawmakers, by and large, are a little reticent and reluctant about imposing too heavy a tax burden upon the people of the country. Obviously, it has political implications. Certainly there are many who are interested in sound and stable and solid policy, and they do not want to put too great a burden upon industry where the law of diminishing returns may set in. That's one thing.

The other thing, of course, is that Congress always has in mind that affirmation made by Emerson a long time ago, that of all debts, people are least willing to pay taxes. It, therefore, has a tremendous political implication, and Congress is mindful of it.

On the other hand, if taxes are inadequate to the current spending of government, there is a gap. We call it a deficit. That is just another happy word for going in the hole, and you can cover it with the lovliest and glossiest and least severe terms, but that is precisely what it means, and when you go in a hole, you almost automatically set up certain wage and price spirals that become self-generative they begin to kick up the economy, and that simply means that prices are kicked up.

All this, of course, is a good deal like that farmer down in Georgia who was pulling a motorist out of a mud hole. The motorist handed him $3, and being inclined toward some conversation, he said, "Do you do this day and night?"

The farmer said, "No, we don't. My boy and I only do this during the day.

"Well, what do yo do at night?"

He said, "At night we are busy filling up that mud hole again."

So it is one of those roundabout spiral affairs that become automatic, and a kind of self-generating engine of inflation.

I think one of the most engaging bits of cross-examination that I ever indulged in in my life was with Charlie Wilson. It is a great thing when you count noses on the Senate Banking Committee and you decide you have about one hour to spread among 12 members, so you get five minutes to discuss and cross-examine on this tremendous problem that may prove so costly in disruption and dislocation of our economy. So I was at the tail end of the string, being a junior member. I simply said this to Mr. Wilson: "Will you agree that rising costs out of this spiral that is effective in America at the present time must necessarily be reflected in prices?"

He said, "That is obvious."

I said, "Now, it runs in my mind that your first wage order undertook to set up a January, 1950, base plus 10%, if the 10% had not been allowed before."

He said, "Mr. Senator, that is substantially correct."

I said, "Mr. Wilson, you have gotten out a new wage order."

He said, "That is right."

I said, "Under the new wage order, it is proposed that where there are voluntarily negotiated wage agreements, looking toward an increase, or escalation, as they call it now, unless there is something in the way that would argue that it be denied, it probably will be agreed upon?"

He said, "That's substantially correct."

I said, "How many cases are presently pending before the Wage Board?"

He said, "I couldn't tell you."

I said, "Mr. Wilson, I make it my business to find out, and so, since you are the boss and do not know, perhaps I ought to refresh you with the fact that there are something over 5,000 cases pending before your Stabilization Board at the present time."

"Well," he said, "if you say so, it must be so."

I said, "Now, is it a fair assumption that most if not all of those cases will be approved?"

He said, "I presume so."

I said, "When they are approved, what happens? It means, of course, that the farmer who has to buy things under a parity formula will have to pay a higher price, and that in turn will kick up this so-called parity formula, which is an agricultural gauge of the price level for commodities."

He said, "I suppose that is right."

I said, "And that, in turn, will kick up the living cost?"

He said, "That is an obvious assumption."

I said, "Then, what you have really done is to have created an automatic inflation engine and you have lost control."

His final answer was, "We cannot expect to control inflation. The best we can do is to slow it up."

So, there we are today in this inflation picture, as all eyes are fastened upon the real culprit, namely, spending in government. But I wonder if it has ever occurred to you, as we think of spending as a cause, that possibly spending can also be an effect? It is one thing that isn't ventilated very much, and so I want to take a few minutes just to discuss spending as an effect rather than as a cause.

Growth of Federal Power

One of the first factors, of course, that in my judgment makes spending an effect rather than a cause, is the growth of Federal power. Federal power grows, and especially so in times of moral confusion, such as obtain at the present time. Let's look

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*From an address by Senator Dirksen before the Life Insurance Association of America, New York City, Dec. 11, 1951.

From Washington Ahead of the News

By CARLISLE BARGERON

It is in the Christmas spirit that I write this, a fellow of magnanimity toward my fellow men. And in that light I want to say something in behalf of Fellow Men, T. Lamar Caudle, Charlie Oliphant and their likes who have been on the political frying pan. I have casually met Oliphant. I don't know T. Lamar Caudle of the Old Southern family, and voice, at all.

Carlisle Bargeron

But it occurs to me that there has been a lot of snobbishness in the Congressional investigations of them. As I understand it, they have been guilty of no particular malfeasance but they have run with some of the darndest people, people who in their exalted positions they should not have run with. Mr. Truman, faced with a political problem here, is understood to be coming up with a plan which would prohibit his underlings running with such people.

I accept the professed dismay of Caudle and Oliphant over the experience they have had. That they find themselves out of jobs, Caudle by request, and Oliphant, to head such a request off, is, I am convinced, something they can't understand. Why would this befall me, they keep asking themselves, and I think I can understand their feeling.

They wonder, and I do, too, why Mr. Truman is looking down his nose at their associates, the fellows they went this and that place with, the fellows from whom they received relatively little picayunish presents. Why, their type constitutes the backbone of the Fair Deal. In fact, Messrs. Caudle and Oliphant must have been impressed by the relative genteelness of the group they associated with because, although they talk out of the side of their mouth and murder the King's English, they do carry their liquor well, which is an unusual attribute for the adherents here in Washington of the "great liberal" movement. Oldtime Washington hostesses were fairly showered with canape from the sputtering mouths of the early batch of Liberals to arrive here, but they have long since become immune, or rather, a new group of hostesses, to fit the times, has sprung up. I recall an earlier high official of the Justice Department who invariably became embarrassingly partly dressed after he had had a few cocktails, and unrestrainedly bold in his approach to women. That fellow has gone on to even higher places, and his hostesses are still putting up with him because he has "influence" in Washington.

I can understand that Messrs. Caudle and Oliphant even mistook the fellows they became too companionable with to be mild mannered men of letters, values and appearances having shifted so around here in recent years.

We have been told repeatedly, and indeed we now know, that we have a government of and for the common man. Are the underlings in the great Common Man movement to be common by day and at night sneak off and seek the companionship of the Union League Club? Are they expected to be Dr. Jekyl and Mr. Hyde's, so to speak, their commonness only a sham, or are they to be the genuine common thing, day and night?

What sort of helpmates, now, would Messrs. Caudle and Oliphant have been to Mr. Truman had they shunned the association of such Truman admirers, such "Liberals," as Nathan and Naster and Henry the Dutchman? It strikes me that had they done otherwise than they did they would have been guilty of undermining their chief, just as does the tony wife who won't accept her ambitious husband's rough associates.

Much to do is made by Democratic Congressman King, head of the tax investigating committee, that Charlie Oliphant, who never had a job in his life except with the government and who had become general counsel for the Internal Revenue Department, that he held up prosecution of a tax fraud case too long, because Congressman Morrison of Louisana insisted he wanted to talk with him about it first.

Now, what nonsense, Congressman King! Your colleague has been a "supporter" of the Administration. He has voted for everything the President wanted, wars, controls, more money, whatnot. Don't you suppose he has something coming to him for this great statesmanship? In the name of heavens, don't you think this duly elected public stamp has something coming to him? He has played ball with the Administration; the least he can expect is that he will be played ball with in the matter of helping one of his constituents in tax trouble. So help me goodness, a Congressman is supposed to have some influence in these days of overwhelming Bureaucracy! Just what purpose is he to serve?

Is he what you would call a bad associate of Mr. Oliphant's?

Frankly, when they come to talking about the associations of men like Oliphant and Caudle, I think that is perfectly splendid for the Republicans, but crocodile indignation on the part of Mr. Truman and his propagandists. They have made, for a long time, mockery of those who take daily baths and wear clean shirts and undergarments, the stuffed shirts of Wall Street, the exploiters of the poor, the "economic royalists," the men who are ignorantly comfortable in their well upholstered clubs.

These people are enemies of progress, we are told, and certainly they are enemies of the present ruling caste. Well, you can't expect them to issue invitations to dinner or to wrap in the warmth of their well stocked clubs, the Caudles and the Oliphants. Regardless of any predilection these latter might have, they have got to seek companionship elsewhere. They have got to get it with the Nathans and the Nasters.

But it is my belief they would be disloyal to an Administration that made a fetish of the common man if they did not act common and associate with common men. There can't be any such thing as the crime of bad associations on the part of those of an Administration which is devoted to exploiting such common people as it does. When T. Lamar Caudle says he can't understand why he was fired for his gregariousness with common men, I think you can believe him. What else would Mr. Truman want? You just can't please some people.

Investment Principles in Municipal Financing

By TOWNSEND WAINWRIGHT*
Partner, Wainwright, Ramsey & Lancaster
Consultants on Municipal Finance, New York City

Mr. Wainwright, in explaining nature of municipal finance consultant services, particularly in matter of financing improvements by means of revenue bonds, lists as information which both investor and consultant wish to know: (1) nature and economy of the debtor community; (2) its form of government and that of over-lapping agencies; (3) condition of community's general finance; (4) description of physical properties; (5) financial history and financial condition; and (6) nature of the obligation.

The services of municipal financial consultants and the problems they undertake to solve are many and varied. In a few months my firm will have put behind it 20 years in this field. My efforts here will be to try to give you some of the highlights developed during those years of experience and to try to outline to you some of the more interesting undertakings accomplished. Brief mention will be made of activities which, while limited in their nature, indicate the wide scope existing in this field of work.

T. Wainwright

Perhaps I should preface any further remarks by saying that while many jobs we have undertaken have been similar in nature to those undertaken on other occasions, we have yet to find one that does not have some angle that is new and unique and which requires a type of treatment that can be applied only to the particular case in question.

The modern concept of municipal finance started soon after the unfortunate consequences of the depression of the early 1930s upon the finances of all types of governmental units in all areas of the country. In Florida, of course, municipal difficulties started ahead of the rest of the country when the real estate bubble burst in 1926.

The defaults and serious debt difficulties that arose at that time were not something new in the history of municipal finance. They were a repetition of an ancient tradition of borrowers. Toward the end of the fourth century B.C., two out of thirteen Greek municipalities belonging to the Attic Maritime Association which had contracted loans with the Delos Temple were guilty of complete default while eight defaulted partially. In this country more than 200 years elapsed between the time the first colony was founded and the date of our first municipal default. The City of Mobile, Ala., in 1839 was the earliest major defaulter on record in this country. Others arose out of the depression of 1837, and during the next 100 years each succeeding depression brought new defaults, some because of the issuance of railroad aid bonds, others because of the collapse of real estate booms in various sections of the country, others from difficulties incurred by irrigation, drainage, and reclamation projects, some because of the after effects of the War between the States, and others for purely local reasons. Not all defaults occurred in periods of depression and very few were the result of absolute bad faith.

Our eye teeth were cut a few years after the troubles in Florida, largely in New York and in New Jersey in the early 1930s. In those years much of the work of my firm involved reorganizing existing debt structures, the funding of accumulated floating or current debts, and the refunding of long-term debts with maturities spread out over a period of years in amounts that could be met from revenues without straining the capacity of the community to pay taxes.

In solving problems of large current debt accumulations and poorly spaced payments of outstanding permanent debt, one principle had to be observed if new money was to be obtained, or if it was necessary to have the cooperation of the holders of long term bonds. This cardinal principle was that something had to be done to prevent the recurrence in the future of the same difficulties.

The best approach to this problem in those days was expressed in the well-known "cash-basis" law of New Jersey, Chapter 60 of the Pamphlet Laws of 1934. This act authorized the funding of floating indebtedness via the issuance of 1-to-15-year serial bonds, but the communities that availed themselves of the financing provisions of this act had to covenant to balance their operating budgets on a strict "cash basis" for as long as such bonds remained outstanding. This fundamentally sound approach to municipal financing was soon generally recognized and the provisions of the 1934 Act were later incorporated into the general bond and budget laws of the State when they were revised in 1935.

You may be interested to know that my firm had a hand in the creation of the laws mentioned, and also has contributed in writing similar provisions into the laws of other states, as well as the charters of a number of our leading cities. You might also be interested to know that in handling the refinancing of the debt of the City of Tampa, a covenant as to the operating budget was incorporated into the contract between Tampa and its bondholders that is virtually identical in effect with the "cash-basis" law of New Jersey. The same may be said for other cities we have served, such as Knoxville and Chattanooga, Tenn.

Let us now turn from debt reorganization to new money financing. Many of the communities that needed to have their debt structures rearranged also needed new improvements. Until their permanent financial structures were established on a sound basis, the markets for any new improvement issues, of course, were closed to them. Once it could be demonstrated, however, that their financial affairs had been worked out on a sound basis, money for any reasonable amount of new improvements could be obtained at reasonable rates of interest.

Perhaps the most interesting example of this kind that I can recall is the work my firm did for the State of Tennessee. In 1936, the State of Tennessee had about as bad a debt structure as the human mind could conceive. The total amount of its obligations was then about $130 million with certain of the State's revenues pledged irrevocably to certain bond issues, and other revenues to other bond issues. Some issues had sinking funds accumulated for their payment, others did not. Some of the sinking funds could not even be invested, and moneys held for the payment of certain bonds simply were lying idle in cash. Virtually none of the debt issued by the State since the Civil War had ever been paid off. Each successive issue that matured was simply extended by a refunding issue. The State's credit was anything but good; the lowest rate of interest on any of its outstanding long-term bonds at that time was 4% and most of it carried higher interest rates.

Through the application of new principles of finance and with legislation resulting from what might at the least be called new legal thinking, both derived from the necessity of solving difficult financial problems, the structure of Tennessee's $130 million debt was completely rebuilt into an orderly payment program that could easily be met from normal revenues. The necessity of refunding was thus eliminated. As a result, the State by 1939 was getting new money at 2¼%, by 1941 at 1½%, and by 1946 some of its permanent borrowing cost 1%, with some as low as ¾ths of 1%. While a general decline in interest rates during that period accounted for some of the enormous savings in interest costs, the main reason for the great improvement in the State's credit was the fact that its permanent debt structure had been recreated upon a sound basis, and the maturities of its new money borrowings were "dovetailed" into the new pattern of payments which the State had demonstrated it could readily meet.

Raising new money for any municipal body on favorable terms involves primarily the ability to demonstrate that the money can and will be repaid. Economic circumstances, of course, are not improved by high debts, and poor debt structures are not conducive to good credit. Some communities fail to tell the investing public how good their credit is. One of our present clients, the Washington Suburban Sanitary District, which serves the area bordering the District of Columbia, on the Maryland side of the Potomac River, a few years ago found its credit deteriorating simply because it had failed to put out sufficient factual data about its finances. The District had to undertake some large-scale borrowing to finance the demands for water and sanitary sewer services occasioned by rapid growth in population following the end of World War II, and even though its financial condition was entirely sound, nobody in the investment world could be sure of it without the facts. People won't just take the borrower's word for it that his condition is sound. In the case of this District, as soon as adequate information was made available to potential buyers of its bonds, its credit rebounded in a short period and its cost of borrowing decreased by about 80/100 of 1% within a year's time.

Every borrower should be sure that clear and up-to-date statements of its financial condition are made available to its actual or potential creditors at all times. This is just good business. Municipalities cannot kid people about their finances. The consultant's job, of course, is not only to design financial plans that are sound, but to see that all information is available which will allow the buyer to properly appraise

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*An address by Mr. Wainwright at a meeting of the Municipal Bondwomen's Club of New York, New York City, November 29, 1951.

Dealer-Broker Investment Recommendations and Literature

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

Air Transport Industry—Bulletin, with special reference to **American Airlines, Inc., United Air Lines, Inc.** and **Eastern Air Lines, Inc.**—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Average Stock Prices—Discussion—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Bank Stock Outlook—Bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Oil Companies—Bulletin on ten leading integrated companies offering above average attraction for long-term investment—F. P. Ristine & Co., 15 Broad Street, 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—National Quotation Bureau, Inc., 46 Front Street, New York 4, New York.

Railroad Common Stocks—Review—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y. Also available is a memorandum on **Electric Bond & Share Co.**

Selected Stocks for 1952—Brochure—Paul H. Davis & Co., 10 South La Salle Street, Chicago 3, Ill.

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Aircraft Radio—Data in current issue of "Highlight"—Troster, Singer & Co., 74 Trinity Place, New York 6, N. Y. Also in the same issue are comments on **Reaction Motors.**

Alliance Manufacturing Co.—Circular—Kearns & Williams, 11 Broadway, New York 4, N. Y.

Ampco Metal, Inc.—Analysis—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis. Also available in the current issue of "Business and Financial Digest" is a discussion of the **Revenue Act of 1951** and its effect on capital gains and losses.

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

Associated Investment Co.—Memorandum—F. S. Coseley & Co., 4 Wall Street, New York 5, N. Y.

Bulolo Gold Dredging Limited—Analysis—Oppenheimer & Co., 25 Broad Street, New York 4, N. Y.

California Electric Power Company—Analysis—Hill Richards & Co., 621 South Spring Street, Los Angeles 14, Calif.

Canadian Pacific—Review—Dean Witter & Co., 14 Wall Street, New York 5, N. Y.

Central Public Utility—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Champion Paper & Fibre—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y. Also available are memoranda on **Ex-Cello Corp., Joy Manufacturing,** and **Sharp & Dohme.**

Continental Oil Co.—Brief survey—Abraham & Co., 120 Broadway, New York 5, N. Y.

Cuneo Press, Inc.—Analysis—Freehling, Meyerhoff & Co., 120 South La Salle Street, Chicago 3, Ill.

Delaware Power & Light—Memorandum—Josepthal & Co., 120 Broadway, New York 5, N. Y. Also available are memoranda on **Gulf States Utilities, Iowa Power & Light, Ohio Edison St. Joseph Light & Power** and **West Penn Electric.**

Denver & Rio Grande Western Railroad—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Food Machinery and Chemical Corporation—Analysis—Bache & Co., 36 Wall Street, New York 5, N. Y.

Fresnillo Company—Analysis—Dayton & Gernon, 105 South La Salle Street, Chicago 3, Ill. Also available is a memorandum on **Trane Co.**

Gear Grinding Machine—Write-up—Lerner & Co., 10 Post Office Square, Boston 9, Mass. Also available are write-ups on **National Company, Riverside Cement "B,"** and **Seneca Falls Machine.**

Howard Industries, Inc. — Memorandum — Ames, Emerich & Co., 105 South La Salle Street, Chicago 3, Ill.

Kentucky Stone Company—Analysis—The Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville 2, Ky.

New England Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

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The Investor, the Treasury, And the Federal Reserve

By AUBREY G. LANSTON*
Aubrey G. Lanston and Co., Inc.

Replying to Patman Questionnaire, well-known authority on government securities market, maintains normal functioning of nation's banking and credit machinery must be administered in private hands; necessary banking and credit regulation should be achieved through impersonal application; and interest cost permitted to follow desirability of currency expansion or contraction. Disapproving of non-marketable government securities and restricted bonds, Mr. Lanston declares current borrowing should be confined to an E-type savings bond modified and limited to small maximum-purchase; and to short-term issues attractive to substantial investors.

The questions submitted to us by Congressman Patman's subcommittee concern largely the reactions of investors to the methods and judgments employed by the Treasury and the Federal Reserve, and with certain matters of a technical character.

Aubrey G. Lanston

The scope of the hearings seems likely to pierce, however, to the heart of a fundamental doctrine, namely, whether private banking and credit shall become subject to the control or domination of the Executive branch of the Government.

For this reason we wish to submit, as an **integral part of our reply to each question**, our conviction that each of the issues to come before the Committee on the subject of banking, debt, and credit should be resolved in a manner that will conform, in practice and in theory, to the following three principles:

One, the normal functioning of the nation's banking and credit machinery must be administered by private hands.

Two, the necessary regulation of private banking and credit activities by the Federal and State governments must be achieved through instruments and methods that are impersonal in their application.

Three, the essential difference between the printing of money by the Federal Government and the issuance of its bonds to private banks or central banks is the cost of interest. This must be permitted to increase or decrease consistent with the **desirability** of an expansion or contraction of the currency.

Specifically, therefore, we believe it to be of the utmost importance to the country that the Federal Reserve System be strengthened, if necessary, in its independence of the Executive branch of the Government and that it remain responsible and be responsive to the Congress.

The Committee also seeks to develop the need, and methods, for bringing about a greater coordination of objectives and policies with respect to the various lending agencies of the Government, the Treasury and the Federal Reserve.

We wish to suggest the following approach to the fundamental issue and the need for greater coordination.

(1) Place the respective lending and credit activities of the Government proper under the Treasury or the Federal Reserve, whichever seems the more logical.

(2) Transfer the powers of the Board of Governors over consumer, real estate and stock market credit, reserve requirements and discount rates to the Federal Open Market Committee.

(3) Make the Secretary of the Treasury a full member of the Federal Open Market Committee, and

(4) Cause the latter, as well as the Board of Governors, to become responsible to the Congress.

Additional directives should be given to the Treasury and to the Federal Reserve as follows:

The Treasury shall

(a) offer its securities under terms and provisions that seem best suited to the national credit objectives set by the Federal Open Market Committee, and

(b) expressly avoid setting any terms and conditions that, in the judgment of the Federal Open Market Committee, would require the Federal Reserve System to use its powers in contradiction to its credit objectives.

The directive to the Federal Reserve should state that it is the will and intent of Congress that the powers of the Federal Open Market Committee, the Federal Reserve Board, and the Banks shall be exercised solely

(a) in conformance with desirable national credit objectives as determined by the Federal Open Market Committee with full consideration of the problems that may arise from undesirable major shifts in debt ownership,

(b) in a manner that will permit the normal functioning of the nation's banking and credit activities to be administered by our private banking and lending institutions, and

(c) through instruments and by methods that are impersonal in their application.

Reserve Has Accelerated Money and Credit Expansion

In our view, the methods employed by the Federal Reserve increased the expansion in money and credit more, in this particular period, than would have been the case had the Treasury's views prevailed.

At the same time, there is no doubt whatsoever that the longer-run consequences of pegged markets for Treasury securities unnecessarily inflate the money supply during periods of business boom and complicate the problems of debt and credit management during periods of depression. For these reasons, the desire of the Federal Reserve officials to extricate themselves from a fixed interest rate policy was wholly consistent with their responsibilities for regulating the availability, amount, and cost of credit.

A retrospective judgment of the methods and policies employed by the Treasury and the Federal Reserve relate largely to the quality of personal decisions made during an unusually difficult period. Differences in the quality of such judgments have no bearing on the fundamental question, namely, the allocation of authority, from a structural point of view, within the Government or with respect to the Federal Reserve System.

The methods employed by the Federal Reserve during this trying period did turn an important instrument, namely, Federal open-market operations, into one that was highly personal. The importance of this is that it runs completely counter to the second principle enumerated in this reply. Just as the Federal Reserve System should have its independence preserved from domination by the Executive branch of the Government, private credit institutions and the market mechanism should be protected from personalized dealing by the Federal Reserve.

* * *

The Specific Queries and Replies

(1) What, in general terms, has been the response of your customers (in terms of buying, selling, and holding United States securities) to the various credit policy and debt management moves made by the Treasury and the Federal Reserve System since the outbreak of the war in Korea? Distinguish, if you desire, between successive phases.

Phase One. The First Six Months of 1950

In January, 1950, the Federal Reserve initiated two policies for its handling of the Treasury security market. It started to sell Treasury restricted bonds in volume and at declining prices. It also caused the prices of Treasury short-term securities to ease, by minute fractions, so that the Treasury's financing appeared to have been unsuited to prevailing market conditions. . . .

Under the circumstances, most investors based their investment decisions on the belief that the Treasury ultimately would prevail.

Phase Two. June 22—Aug. 16, 1950

Our acceptance of the Korean challenge caused investors to conclude that the Treasury-Federal Reserve feud over the level of short- and long-term rates would come promptly to an end with the Treasury the winner. . . .

It seemed likely to investors that non-bank institutions would continue to be buyers of Treasury securities and Federal Reserve holdings of restricted bonds were on the verge of exhaustion.

Phase Three. Aug. 17—Oct. 11, 1950

The Federal Reserve's announcement of Aug. 18 came as a complete surprise to investors. They were stunned by receiving, coincidentally, a Treasury financing announcement calling for no change in rate or term, for a refunding of unprecedented amount. The Board's approval of increases in the discount rates of the Reserve Banks made the entire situation incongruous. . . .

In a nutshell the reaction of investors is well expressed in the words of a commercial banker several weeks later. . . .

"I sold the whole blooming portfolio, including short-term notes and bonds, and put the money in Treasury bills."

Phase Four. Oct. 12—Dec. 13, 1950

Non-bank lending institutions became substantial sellers as mortgages and other investments were committed for in increasing volume. In some instances it seemed desirable to management to sell long-term Treasury bonds as commitments were made and to reinvest in short-term securities. . . .

Phase Five. Dec. 14, 1950—Feb. 28, 1951

The commitments of non-bank lending institutions were growing in size. Increased difficulty was being encountered as investors tried to sell Treasury bonds. Support was being confined increasingly to only the longer restricted issues. . . .

Moreover, the Federal seemed to be an increasingly reluctant buyer. . . . The Treasury was becoming an increasingly large buyer for its own accounts and funds. . . . Investors believed that if the differences between the two groups of officials were so marked that different support prices had to exist for two almost identical bonds the best thing to do was to sell. . . .

On the whole, the period was one in which conditions arising from the Treasury - Federal Reserve dispute were becoming more and more intolerable. This was recognized by practically every investor, and it inspired sales of Treasury securities in excess of actual needs. Moreover, it was increasing the demand for capital and credit by businesses and individuals who wished protection against higher interest rates or a decreased availability of money. . . .

Phase Six. March 1—April 4, 1951

The announcement of a Treasury-Federal Reserve accord was received with general relief. . . .

It was quite clear from the combination of announcements that the market would be deluged with sell orders. . . . Prices were stable because recognized dealers were forced by the Federal to quote nominal prices higher than those at which investors would gladly sell if they could make an actual sale. The Federal frequently required that the investor leave his bonds on order with a dealer Even then, and when the amounts were of moderate size, the investor might sell only a part, sometimes none, of his bonds. Thus, to some holders of a presumably highly liquid investment, Treasury securities, no market existed. Under the circumstances, the average investor's desire to hold his securities was weakened. . . .

Phase Seven. April 5—July 3, 1951

Treasury bonds were offered in substantial volume as other investments became available at higher rates of return. . . .

The bottom of the market was reached during the second week of May. A prospective slackening in the demand for capital and credit contributed to the stability of Treasury security prices as it reduced the selling needs of lending institutions. No one could tell, however, whether this was to be the customary summer lull or a more permanent situation. . . .

Phase Eight. July 5—Sept. 19, 1951

The steadying of Treasury bond prices brought in scattered investor demand, and this revealed to dealers that a number of sellers were no longer interested in bids. Some buying orders subsequently began to assert a measurable impact on prices. . . .

Running parallel with the improvement in the prices of Treasury securities was an encouraging upturn in the savings deposits of the various types of banking institutions. . . .

Phase Nine. Sept. 20—Oct. 10, 1951

This brief period is noteworthy because (1) the Federal Reserve System acquired a large amount of Treasury securities and (2) the action of the Treasury security markets suggested that the price improvement of the summer had been a secondary or technical adjustment. . . .

Phase Ten. Oct. 11—Oct. 31, 1951

During the period Treasury bonds continued to drift lower, a trend that, at the time of this reply, has carried prices back to approximately their May lows. . . .

(2) What has been the effect of the changes in credit policies since the outbreak of the war in Korea upon the preferences of your customers as between short-term, intermediate, and long-term United States securities? Distinguish between classes of customers.

This question has been largely answered in our reply to Question 1. Briefly, during 1950 up to Aug. 18, investors generally felt that the Treasury would be victorious in the dispute. Confidence in the maintenance of the 2½% rate, combined with the belief that private loans and investments would not be available in volume and that only fractional changes ever were likely in short-term rates, led to a general preference for intermediate and long-term bonds on the part of bank and non-bank institutions. This preference became especially strong after our involvement in Korea.

The announcement of Aug. 18 had a smashing effect, however, on confidence and on this preference. Many commercial banks shortened the maturity of their holdings, and there was a large demand for Treasury bills. Non-bank lending institutions, for a short time, felt that private loans and investments still would not

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*Extracts from the replies by Aubrey G. Lanston and Co., Inc. to questions from The Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, Nov. 16, 1951.

Mild Inflation May Be Expected in 1952

By GEORGE W. CLOOS*
Economist, Federal Reserve Bank of Chicago

Midwest Federal Reserve economist foresees in 1952 rising rate of defense outlays and continued high level of capital expenditures, with public having ample money to spend. Says this portends continuation of inflation trend, but it will not be drastic or dangerous.

The nation has enjoyed a nine month breathing spell following the hectic period of the post-Korea inflation. At the start of 1951, few observers would have been so bold as to predict the attainment of an extended term of months during which general prices would be remarkably stable amidst dynamic underlying pressures. Most of us felt that the price controllers would be busy throughout the year controlling prices rather than in justifying the continuance of their office. It was foreseen that military procurement and private capital outlays, the most inflationary types of spending, would rise rapidly. In view of the attainment of these goals, what did keep the lid on prices?


George W. Cloos

In retrospect, it would appear that the foremost factor contributing to the end of the price rise was the impressive achievement of American industry in turning out goods to meet heavy demand despite serious handicaps. The piling up of goods faster than well-heeled buyers could take them off the shelves satiated demand of some buyers and stilled fears of others that shortages or further price increases were imminent. After May, retail inventories began to fall off, reversing the build-up which had helped keep production schedules tight. The larger than expected first quarter Federal surplus coupled with credit restraint measures helped to draw the teeth of buyers, business and individual, who were still hungry for goods.

Even after their buying spree most Americans were well-stocked with liquid assets. Nevertheless, as buying leveled off somewhat below first quarter rates and personal income continued to rise, new savings jumped to unprecedented peacetime heights. Despite the sonorous pronouncements that Americans wouldn't save their money anymore—at least in liquid forms—it soon became apparent that somebody was doing it. Since March individuals have "not spent" almost one-tenth of their income in spite of a long-run tendency to put away about 5%. By far the greatest proportion of these funds were used to repay debt or to build up liquid assets such as bank accounts and savings and loan share accounts. These are the traditional places that the average American puts his extra cash. Only the poor E-bond appears to have fallen victim to the "protect yourself against inflation" talk, despite the fact that all liquid asset holdings are subject to the same hazard.

Outlook for 1952

Now for 1952: Once again, we may look forward with relative certainty to a rising rate of defense-connected outlays and a sustained high level of capital expenditures. Both of these spending categories create income without immediately increasing the supply of civilian goods. Retail inventories gradually have been worked down to safe levels and increases rather than further declines are probably in prospect during the coming year.

Most everybody will have ample money to spend, especially in relation to the supply of goods. Total business profits have probably reached a low, and rising depreciation deductions are permitting the retention of increasing amounts of cash. Most banks are in a position to increase their lending and the insurance companies are ready to handle a large volume of debt flotations as witness the $550 million total of new fundings recently announced by two large firms. In addition, personal income is likely to increase further, liquid asset holdings are at record levels, and consumer credit restraints have been relaxed. Finally, the present wage line will soon come under heavy pressure and will probably retire to a new defensive position.

Buyers, currently, are in the position of the woodsmen who responded twice to the cry of wolf. They aren't going to get excited quite so easily again. This time, however, it may be the real thing. In the Midwest, department store inventories in October had declined from the year before while sales had risen. Even stocks of television sets and household appliances were at moderate levels. In case of another buying raid, it will not be easy to replace goods, particularly durables, now that heavier allocations of materials have been diverted to essential uses.

For the fiscal year ending in June 1952 the Treasury will probably achieve a small cash surplus. After next March, however, the government will start spending in excess of current income once more. Even if fiscal '53 can be handled on a pay-as-we-go basis, a condition which is not now foreseen, it should not be assumed the inflationary effects of government spending have been neutralized. Defense needs will keep down the supplies of certain types of goods, and the net effect of higher taxes will depend upon who pays them.

All these factors would appear to add up to a resumption of inflation—but don't be too sure. This limited war economy is something new to us. In some sectors, notably the Detroit area, income has dropped as layoffs resulting from cutbacks in civilian goods have not been balanced by increased defense work. Tightness in the labor market in other areas has been relieved by new entrants who are seeking to supplement family buying power depleted by high prices and taxes. Many buyers, individual and business, will be wary of scare stories after their experiences of the past year. The proportion of income saved could conceivably rise from present levels. Finally, as 1952 rolls on more of the basic industrial facilities started in the past year and a half will begin to bear fruit by adding to total capacity.

On balance, I believe that inflationary forces will have the upper hand during the next 12 months. Nevertheless, fears that an all-out European style inflation might develop are probably not well-grounded. America is fortified with a vigorous tax system, devices to hinder extreme credit expansion, and best of all a growing productive machine which we may call tritely, but truly "the envy of the world."

*A talk by Mr. Cloos to the University of Chicago Alumni, Chicago, Illinois, December 5, 1951.

Admitted to Partnership in Chas. W. Scranton Co.


Edward A. Burgess


Frank M. Johnson


Edgar B. Grier

NEW HAVEN, Conn.—New Partners of Chas. W. Scranton & Co., 60-year-old New Haven securities firm, on Jan. 2, 1952 will be Edward A. Burgess, Frank M. Johnson and Edgar B. Grier, all of the home office, 209 Church Street, it has been announced. All of the new partners have been connected with the Scranton organization for many years.

Mr. Burgess was born in Petersburg, Va., and graduated from Randolph-Macon College. He served overseas in World War I and was at one time American Vice Consul at Rio de Janeiro, Brazil. He is a trustee of the Church of the Redeemer, member of the Quinnipiack Club and a past President of the New Haven Lions Club.

Following graduation from Wesleyan University and service in World War I as a Naval aviator, Mr. Johnson came to New Haven to enter the securities business. He has been active in church and charitable affairs, having served as vestryman at St. Thomas Church, a member of the advisory board of the Children's Center and Chairman of the New Haven Committee for the Gaylord Farm Sanitorium. He is a member of the Graduate Club.

Mr. Grier entered the securities industry in New York in 1913 upon completion of his education and, except for three years Army service at the Mexican Border and in France, has been engaged in it ever since. He is a native of Elizabeth, New Jersey. Mr. Grier is a member of the Finance Committee of the Episcopal Diocese of Connecticut and a vestryman of St. John's Church. He is also a member of the New Haven Country and Quinnipiack Clubs.

Present partners of Chas. W. Scranton & Co., which is a member of the New York Stock Exchange, are W. G. Hoye, P. W. Redfield, W. J. Falsey, all of New Haven, B. B. Bailey of Waterbury, and Paul W. Sampsell of New London.

An Appraisal of the American Economy by the End of 1952

By S. H. NERLOVE*
Professor of Business Economics, University of Chicago

Professor Nerlove questions estimates of a Gross National Product in 1952 of $360 billion, which is 10% above that of previous year. Looks for decline in residential construction, as well as reduction of $20 billion in private sector of economy, including net foreign investments. Sees, however, heavily increased government spending that will keep business activity up to present level, with approximately same price level but with greater unemployment.

Competent observers have recently revised their views with regard to the general business situation that is likely to prevail throughout the coming election year, 1952. They have taken the position that the gross national product, the dollar measure of all goods and services that will be produced in the American economy, will continue to rise during 1952 substantially above the levels reached in the third quarter of 1951. They indicate that toward the end of 1952 the gross national product may be in the neighborhood of 10% greater than the approximately $328 billion, at an annual rate, reported for the third quarter of 1951.


S. H. Nerlove

In arriving at an estimate of roughly $360 billion gross national product, at an annual rate, for the end of 1952, these observers take account of increases in government spending on defense which will, according to them, more than offset probable decreases in gross private investment, including new residential construction. The associated increase in personal disposable incomes, according to their views, will induce higher absolute consumption spending than the amount which prevailed during the third quarter of 1951. Accordingly, they expect aggregate real output to be larger, the general commodity price level to be higher, and employment to be greater by the end of 1952 as compared to the levels reached during the recent months of 1951.

The implications of the pattern they expect toward the end of 1952, in quantitative form, is likely to be roughly as shown in Table I when compared to the third quarter of 1951.

The appraisal of the American Economy by the end of 1952, as shown in Table I, should be seriously questioned. Instead, there is a real chance that during this coming year the Gross National Product will not rise above the high levels reached during the third quarter of 1951. Indeed, in spite of the large increase in defense spending that is now being projected, the present indications are the Gross National Product by the end of 1952 probably will not be above the level reached in the third quarter of 1951.

Even though Gross National Product, at an annual rate, fell by an insignificant amount between the second quarter of 1951 and the third quarter of 1951, the sharp decline in the private sector of the economy was ominous. It reflected an imbalance reminiscent of the turning points from prosperity to depression that have been experienced in the past.

Changes in Gross National Product in 2nd and 3rd Quarters 1951

Let us analyze the changes between the second and third quarters of 1951 as set forth in Table II.

Comparing the second quarter of 1951 with the third quarter of 1951, the sharp decline of approximately $9 billion in corporate gross private investment, at an annual rate, was offset by an equally sharp increase of $9 billion in government spending, almost entirely due to enlarged defense spending. Household and unincorporated spending remained at approximately the same level, and, accordingly, the dollar measure of all goods and services did not appreciably change.

The substantial decline in new corporate investments reflected almost entirely a desire on the part of private business to reduce the rate at which inventories were accumulating since the fourth quarter of 1950. This accumulation arose largely out of the inability of important segments of private business to sell goods at the rate they had expected. With commodity prices spotty since March, 1951, in spite of a rise in personal disposable income, it is likely that this trend of restricting new investments in inventories will continue. Indeed, there is a real possibility private business will begin actually to liquidate inventories some time in 1952. This means that toward the end of 1952 the additions to inventories are likely to be either nothing or even less than nothing.

The increase of approximately $1 billion, at an annual rate, in corporate plant and equipment investments was entirely due, in the net, to the indirect effects of augmented defense expenditures. The drastic decline in corporate net earnings, after taxes, between the fourth quarter of 1950 and the third quarter of 1951 does not augur well for continued large new investments in plant and equipment. This kind of investment has been at a high level for some time, significantly above the annual capital allowances being made by corporate business. These investments were supported largely by relatively high corporate net earnings, after taxes. Only recently some support came from the indirect effects of heavy defense spending. The first support will be seriously weakened throughout 1952 and without such support investments in plant and equipment might easily be reduced considerably below the approximately $37 billion annual rate projected by those expecting a $360 billion gross national product by the end of 1952. This important segment of the gross national product could drop back to levels of the second quarter of 1950 when, at an annual rate, it was some $7 billion less than in the third quarter of 1951 and when, it should be noted, the corporate net earnings, after taxes, were around $2-$3 billion higher than those that will be reported for the third quarter of 1951.

Even though household and unincorporated spending remained at approximately the same level in the second and third quarter of

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*An address by Prof. Nerlove before the University of Chicago Business Alumni, Chicago, Ill., Dec. 5, 1951.

Factors in Bond Price Trend

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

Stock Market analyst, in enlarging on his prediction of forthcoming heavy volume of bond offerings, holds bond prices are likely to continue downward trend. Cites as possible offsetting factors: (1) renewed heavy inflow of gold; (2) greater amount of bank funds seeking investment; and (3) accumulation of life insurance and pension funds available for placement in bonds.

There has been a slow erosion of bond prices since 1946. The decline has been quite sharp at certain times, only to recover part of the lost ground as time progressed. The first sharp decline occurred during the spring of 1946; the second, which was more widespread, happened in the fall of 1947. There ensued a long but slow recovery which carried through until early 1950 on government and high-grade Corporate Bonds, and until early 1951 on Municipals and Secondary Corporates, but the 1946 highs were not achieved on either occasion. The subsequent downturn in almost all types of bonds early in 1951 was unmistakable and appears to be conclusive evidence that the crest in bond prices was achieved almost six years ago.

William Witherspoon

An important development marking the downturn in bond prices early in 1951 was the "accord" between the Treasury Department and the Federal Reserve Board. The agreement to withdraw the Federal Reserve pegs from the government bond market, thereby permitting certain bonds to decline below par, was clear evidence that at least one strong element of artificiality in the attempted preservation of low interest rates has been discarded.

Since that time there has been some evidence of support administered by the Open Market Committee of the Federal Reserve System, but the prevailing trend in prices has been predominantly downward. However, there is much more to the outlook for the bond market than is to be found in just this one sector. In my article in last week's "Chronicle" attention was called to the possibility of enlarged financing during the coming years in order to accommodate the prevailing level of capital formation. It was pointed out that only about 20% of this capital formation was currently being financed through the sale of bonds and stocks, but that in the 1920s (the previous general period of capital formation) about 50% of the expansion was so financed, and in 1929 virtually all of the expansion was financed through the sale of securities. Hence, it might be expected that enlarged security flotations could well be expected in the coming years, which will be largely composed of bonds.

Demand Factors

If this greater volume of security offerings does occur in coming years, it will have the tendency to depress the bond market even further, unless the demand for bonds increases proportionately. This rests upon the ancient and abiding law of supply and demand. Hence, it is well to examine some of the demand factors. The principal ones seem to be: the gold inflow, bank funds, life insurance funds, and pension funds.

The inflow of gold is of primary importance to our economy; it enlarges basic bank deposits upon which the credit structure can be erected through the banking operations of making loans or of purchasing bonds. After an outflow of gold lasting almost two years which erased about 10% of the gold stock in America, gold is once more flowing in to pay for the foreigners' unfavorable balance of trade. This rising trend should not advance above the previous crest, and further outflow of gold might eventually be expected in view of the recent actions taken by Canada and Great Britain to free foreign exchange.

Concerning the availability of bank funds, loans will offer strong competition to bonds for bank investment assets. If our economy progresses, as suggested in these letters, the demand for commercial bank accommodation will be very great and will become greater as time progresses. Hence, even though we might have a reasonable inflow of gold into this country continuing into 1952, it would appear probable that banks may be a seller of bonds on balance to provide funds for loans. Therefore this source of demand for bonds may be negative rather than positive.

Life insurance funds are probably the greatest single source of demand in the bond market. Mr. James J. O'Leary, director of investment research for the Life Association of America, has estimated that total assets of all United States Life Insurance Companies would increase approximately $4.5 billion during the year of 1951. This would just about duplicate the increase of 1950. However, Mr. Bruce Sheppard, manager of the Association, recently pointed out that life insurance sales in the United States during 1951 will be about 6% under the 1950 volume. If this trend continues, somewhat less might accrue to the life insurance companies in 1952 for investment purposes. Furthermore, Mr. O'Leary noted that the estimated increase of $4.5 billion in insurance company assets in 1951 was not sufficient to provide all the funds required by home buyers and business enterprises. There may be some shading of mortgage demand next year, but there is a question whether or not it will be of sufficient magnitude to offset the greater demand of corporate borrowing. About 1.1 million dwelling units have been started this year and 1952 may not be far, if any below this figure. Hence, in spite of mortgage restraint life insurance demand for bonds may not meet the offerings of new bond flotations.

The fourth and last general area of demand for bonds will come from the rapidly growing pension funds. It is virtually impossible to set a figure of this demand as based upon available statistics because of rapid growth in this sector. It might reasonably be expected, however, that the enlargement of these funds will provide an important demand for bonds. Nevertheless, the managers of these funds have been turning more and more toward common stocks to provide a larger return and also to provide some hedge against the inflationary developments in our economy. Therefore, it might be reasoned that some enlargement in the demand for this source might be expected, but it could hardly be of sufficient size to offset the lower demand from the other sectors enumerated above.

In summary it is suggested that with an enlarging volume of bond offerings in 1952, without a proportionate increase in the demand, bond prices will continue in the long-term downward trend that was begun some six years ago; if bonds decline, high grade preferred stocks will also decline and even more forcibly. Irrespective of intermediate developments, the outlook for the price of money-rate securities is obviously downward for some years to come.

Buttenwieser Again Kuhn, Loeb Partner

Benj. J. Buttenwieser

Benjamin Buttenwieser will become a limited partner in Kuhn, Loeb & Co., 52 William Street, New York City, members of the New York Stock Exchange, on Dec. 31. Mr. Buttenwieser was a partner in the firm, which he joined in 1918, from 1932 until 1949 when he withdrew to enter the service of the United States Government as Assistant High Commissioner for Germany.

The Street Club of San Francisco Elects

SAN FRANCISCO, Calif.—At the annual election of the Street Club of San Francisco, the following officers were selected to serve for the year 1952:

President — Kenneth C. Koch, Walston, Hoffman & Goodwin

Vice-President—Harold D. Barnard, Jr., Dean Witter & Co.

Secretary—Grosvenor Farwell, Jr., Blyth & Co., Inc.

Treasurer—Andrew C. Gaither, Pacific National Bank of San Francisco.

Barrett & Co. to Admit O. K. Williams

Barrett & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Oscar K. Williams, member of the Exchange, to partnership on Jan. 1. Mr. Williams will retire from partnership in E. D. Fox & Co. as of Dec. 31. On the same date Carl Sholtz, member of the Exchange, will withdraw from partnership in Barrett & Co.

M. E. Goldstein to Be Cowen Co. Partner

Morris E. Goldstein, member of the New York Stock Exchange, will become a partner in Cowen & Co., 54 Pine Street, New York City, members of the Exchange. Mr. Goldstein has been active as an individual floor broker.

On Dec. 31, Leo Trencher, member of the Exchange, will retire from partnership in Cowen & Co.

May, Borg Admits

May, Borg & Co., 61 Broadway, New York City, members of the New York Curb Exchange, admitted Gladys Y. Frank to partnership on Dec. 1.

Investment Banker's Role In Revenue Bond Financing

By WINTHROP S. CURVIN*
Smith, Barney & Co., Members, New York Stock Exchange

Stressing continuing responsibility of investment banker to his customers, Mr. Curvin explains his work in creating a market for bonds of what may be a new and untried enterprise, but on which he has passed a favorable financial judgment. Comments on banker's role as financial adviser to municipalities contemplating issuing bonds, and lists as matters to be considered: (1) need for the new facility; (2) its legal validity; (3) its protection against undue competition; (4) protection given investors in trust indenture; and (5) adequacy of earnings to meet charges.

An investment banker is usually looked upon as a merchandiser of securities—in much the same light as a merchandiser of shoes or automobiles—and the various types of merchants have much in common. As a matter of fact, when a banker bids for and distributes an issue of general obligation bonds which have been put up for competitive bidding, he is functioning as little more than a merchandiser. It is true that his wares are intangibles, the evaluation of which requires of seller and buyer alike a fairly broad range of knowledge, but nevertheless, the banker is offering his product "as is" so to speak. If he is not satisfied with the product offered to him by the issuing municipality, he does not attempt to change the product, but, instead, refuses to bid for the issue or to recommend it to his valued customers.

Winthrop S. Curvin

In the field of revenue bond financing, however, the investment banker often finds that there are at least three principal ways in which he may serve a municipality or other public agency, and his responsibility to the issuer varies in each instance.

Let me say, however, that the banker's responsibility to his customer remains constant, regardless of the nature of the security offered or the manner in which the offering is made. The banker is required, in the first place, to make full disclosure of all facts which can have a bearing upon the value of the security offered. Secondly, he must make a thorough analysis of the security to be sure that the uniformed purchaser is fully protected on such points as validity of the issuance of the securities and the enforceability of his contract. Third, he should make an effort, insofar as it is possible, to determine that the particular type of security offered adequately meets the needs of the particular investor. Finally, he should stand ready to keep his customer informed of changes in the intrinsic value of the securities and to make recommendations of portfolio changes when weaknesses become apparent.

The three ways in which an investment banker may enter the picture in revenue bond financing are, briefly (1) as bidder at competitive sale for a ready-made bond issue; (2) as financial advisor, working for a fee on the same footing as attorneys and engineers; and (3) as an underwriter in a negotiated sale. The main portion of my talk will be a discussion of the role of the banker in each of these circumstances, for they differ materially.

Competitive Bidder

As bidder for a competitively offered revenue bond issue, the banker is in very much the same position as in bidding for general obligation bonds The issuer places the bonds on the market as a "take it or leave it" proposition. The bidder obviously has no responsibility to the issuer and is expected to assume none, but nevertheless, for a relatively small profit per bond he performs a valuable public service by creating a market for what is more often than not a new and untried enterprise, dependent upon estimates of engineers and the vicissitudes of construction. The banker assumes a far greater responsibility to his own customer who depends upon his banker for assurance that the project is economically necessary and feasible, that the provisions for the conservation of construction moneys and revenues are adequate, that the project will be efficiently operated and that, in the event of a default, the bondholders' interests can and will be protected. In many instances, the banker also takes upon himself the responsibility for maintaining a market for the bonds.

In recent years, there has been offered an ever increasing volume of new revenue bond issues, and an increasing number of these have been offered at competitive bidding—many without the assistance of investment bankers. It seems to me that bankers have every right to be extremely critical in their analysis of issues offered in this manner, and should be extremely careful about accepting issues which are not fully supported by independent engineering surveys as well as a fully adequate indenture or bond resolution. The practice of financing new facilities on the basis of a city engineer's report—or merely an estimate by the city comptroller—should not be condoned.

Let me cite two instances in which cities in the recent past made costly mistakes by attempting to market securities without banking advice. You may recall an issue of bonds to finance the expansion of the Indianapolis Gas Plant. The bonds were offered at competitive bidding with a call price starting at 110%. Within a few years, the issue was called from excess earnings and upon payment of a premium of from five to seven points more than was necessary. In another case, the City of Nashville attempted to refund a portion of its electric revenue debt to save interest, but found, to the surprise of few in the Street, that the market just would not provide any saving.

Financial Advisor

In order to obviate errors of this sort and to insure that the bond issue is not only properly set up but properly presented as well, issuers occasionally employ investment bankers to serve as financial advisors, the second principal way in which the banker can serve. In serving as financial advisor, the banker puts himself on the same plane as the bond attorneys and engineers as an expert with expert advice to offer. His

*A talk by Mr. Curvin before the Municipal Bondwomen's Club of New York, New York City, Nov. 8, 1951.

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No Upward Revaluation of Sterling

By PAUL EINZIG

Dr. Einzig, calling attention to deterioration of Britain's balance of payments, and the argument of R. F. Harrod that the remedy lies in upward revaluation of sterling, points out plan would be effective only in a seller's market, which Britain does not have in most exportable products. Predicts new Conservative Government will not change value of sterling.

LONDON, Eng.—As a result of the deterioration of Britain's balance of payments during the second half of 1951, the formerly persistent pressure in favor of a revaluation of sterling abated considerably. Indeed, it gave way to speculation about the possibility of a devaluation, on the ground that the government might decide to resort to that desperate device in order to stimulate exports. Towards the end of the year agitation in favor of a revaluation revived to some extent. Its leading advocate was Mr. R. F. Harrod. In a number of articles he pressed the government to solve the balance of payments problem not by increasing the quantity of exports, but by raising the price of the exported goods by means of a revaluation of sterling.

Dr. Paul Einzig

Mr. Harrod's argument runs on the following lines: In order to counteract inflation, it is necessary to cut down government expenditure, spending on capital investment, and consumers' purchasing power. In addition, the supply position in the domestic market could be improved by reducing the volume of exports. In his opinion, this could be done without a further deterioration of the adverse trade balance—in fact, it could cause an improvement of the trade balance—through changing the terms of trade in Britain's favor, by means of raising the exchange value of sterling. He is strongly opposed to the pursuance of an export drive in the form of cutting the prices of exported goods. In his view, the desired result could be achieved more easily by selling less abroad at higher prices. He brushes aside the argument that, while a revaluation would have been justifiable so long as Britain had an influx of gold it would be a mistake in present circumstances in view of the persistent outflow of gold.

In Mr. Harrod's opinion, it is not to be taken for granted that devaluation must necessarily improve a balance of payments and revaluation must necessarily make it worse. It depends on whether the country's productive system is underemployed or overemployed. If industry is not fully occupied then a devaluation, by causing an increase of the output, can produce beneficial results. If, however, there is overfull employment, then the output cannot be increased by means of devaluation, and an increase in the volume of exports through a devaluation would lead to a depletion of domestic supplies and would thus aggravate domestic inflation. Mr. Harrod might have added, to strengthen his case, that while devaluation might be beneficial in a buyers' market—such as was developing in 1949—it would be a mistake in a sellers' market that is developing now as a result of rearmament.

In spite of these arguments there seems to be no likelihood of the adoption of Mr. Harrod's proposal by the new British Government. Mr. Harrod, like most economists, is inclined to think in terms of global figures without trying to analyze the detailed effect of a revaluation on various categories of exports. He overlooks, for instance, the vital importance of maintaining and, if possible, increasing the volume of textile exports. This was emphasized by members of the former government and of the present government on many occasions. Since rearmament keeps engineering, automobile, electrical, etc., industries fully occupied they are not in a position to play a very active part in the export drive. For this reason, Britain must depend largely on the textile industry to fill the gap. Possibly Mr. Harrod may argue that this could be done by exporting less textiles at higher prices. In view of the growing international competition in the markets for textiles, however, no practical businessman could possibly endorse this argument. If sterling were to be revalued Britain would impose a grave handicap on textile exporters.

While there is undoubtedly a sellers' market in respect of goods affected by rearmament, there is decidedly a buyers' market in respect of textiles, pottery and many other secondary necessities and luxuries. In theory Mr. Harrod may appear to be right in assuming that a decline in the volume of the exports of these goods resulting from the increase of their price through a revaluation of sterling would be more than offset by the increase of the proceeds per unit exported. In practice, however, in a buyers' market the decline in the volume of exports might prove to be so heavy as to result in a substantial net decline in the proceeds in spite of the higher price of the goods exported in terms of foreign currencies. While there is everything to be said in favor of raising the prices of engineering goods in which there is a sellers' market, it would be difficult to make out a case for raising the prices of goods in which there is a buyers' market. Nor is there any reason to believe that conditions might change in favor of British exporters of textile and other goods not affected by rearmament. In many countries efforts are made to check inflation by curtailing consumers' purchasing power. Markets are likely to contract, and low-priced goods will stand a better chance of maintaining their share in the shrinking markets.

The least that one can say against revaluation is that it would be a gamble. It would entail risks which Britain could ill-afford to take in prevailing conditions. During a period of gold influx a miscalculation would not entail unduly grave consequences. Possibly a revaluation would slow down the influx, or check it altogether. Possibly it might reverse the flow of gold. But the country could afford to re-export some of the recently imported gold. During a period of heavy gold outflow, however, an accentuation of the pace of the outflow through an error of judgment about the incalculable consequences of revalution might prove fatal. This is the reason why the trend of the flow of gold is bound to affect the weight of arguments for and against revaluation.

For the same reason, a devaluation appears, however, fully as inexpedient as a revaluation in prevailing conditions. Its results would be equally incalculable. In case of unsatisfactory results the consequences would be equally grave; in fact, more so, because a devaluation would aggravate the inflationary trend.

Allowing for all the above arguments it seems safe to assume that the Conservative Government will ignore the advice of devaluationists and revaluationists alike.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market got another helping of that "Christmas Pudding," which it had four year ago, and it wasn't any more palatable now than it was then. This time, however, it came about through an increase in the prime bank rate by the commercial banks from 2¾% to 3%, instead of through a pulling of the "pegs" by Federal. The market was caught rather flatfooted by this rise in rates, even though it had been realized some time ago that higher prime rates were well within the realm of a possibility. The whole market was under pressure as a result of this development with the near-terms giving ground as well as the more distant maturities.

The spotlight, nevertheless, was focused upon the higher-income issues, which gave way sharply and very readily in still very light trading. It is reported more of the decline was due to a quoting down of prices than to the pressure of selling due to the volume of securities in the market. Also the spreading out of bid and offered prices tended to accentuate the decline. However, the real reason, as always, was the lack of buyers.

Impact of Bank Rate Increase

The increase in the prime bank rate from 2¾% to 3% really put the skids under the government bond market, as far as prices were concerned. New all-time lows were registered in some of the longer-term obligations. However, from the standpoint of volume and activity, there was very little different from what had been going on. Quotations were moved down by dealers, with only a handful of bonds changing hands. The following remark was made in a descriptive way about the volume involved in the very sharp price decline: "We would be willing to bet a substantial sum that the total volume involved in the sharp recession did not amount to $15,000,000 of bonds."

Nevertheless, for a short time the whole Treasury market was rather thoroughly disorganized and that went for the shorts as well as the longs. The rise in the prime rate was not altogether a surprise, and the seriousness of the reversal largely emphasized the poor psychological condition of the market. A market that is so heavily dependent upon official props for support must be expected to be subjected to wide price gyrations from time to time. This appears to be the "open market policy" of the monetary authorities, and they will beyond doubt keep the market guessing as long as the pressure of loans is as great as it is. However, there will be the same so-called "stability support" when it is needed. This probably means that in order to put greater uncertainty into the situation, bids will not be there when expected and they will be there when not expected.

Bank 2½s Suffered Heavily

The price decline in the highest income issues took some of them down to the lowest levels they ever sold at. The bank 2½s due Sept. 15, 1967/72 were the weakest of all these securities because there were practically no buyers at all for this obligation. To be sure, the restricted issues went down in like fashion, but there were nonethelss stabilizing bids for these issues, some from private sources—small to be sure—and others more substantial from the monetary authorities. Treasury trust accounts, according to reports, were the main buyers with Federal doing the job for them.

How far the decline in Treasury issues will go appears to be the leading question at the moment. No one can answer this accurately, save the monetary authorities, and they do not appear to be talking at this time. It is, however, being guessed that the short-term rate will tend to stabilize below what has been reached here recently, because after Jan. 15 the money markets should show an easing trend. It could happen well before that time with some help from the authorities. The reason for the belief that money will be more plentiful after the turn of the year is due to the fact that substantial tax payments to the government the middle of next month should begin to flow back into the money market. The tax payments, if kept by the Treasury in commercial banks, will bring about investments by these institutions in the short-term market. This should have a favorable effect upon near-term rates.

Continued Uncertainty Likely

As to the longer-term, higher-income issues, where the greatest demoralization has been, there will be stabilization only when the monetary authorities want it that way—most likely on a wider fluctuating scale than has been seen—but again, this depends upon the powers that be. The budget will be of prime importance to these obligations because the deficit and its size—or the lack of it—will be one of the determining factors. It will take time to get the answer to this one, but unless defense expenditures are substantially larger—and this is a debatable point—many of the financial experts are looking for a balance on a cash basis. This would be helpful to the long market. From a purely arithmetical standpoint a yield of 2.74% to 2.75% for the longest bond issue is looked upon as the rock bottom by some members of the investment fraternity.

Happy New Year to All

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The Security I Like Best

proximately eight times earnings per share, Pabco is really selling for less than four times earnings per share, if earnings were reported on a consolidated basis. Moreover, were Pabco interested in disposing of its ownership in Fibre Board, there is no question in my mind but that a sum considerably in excess of the $21,000,000 would be realized by Pabco. When one considers the fact that there are approximately 1,500,000 of Pabco common shares outstanding, it can be seen that with Pabco common at 16½, or a value of about $23,000,000, that when one buys Pabco at today's price he is paying practically nothing for Pabco's own earning power and plant and equipment.

At its current price of 16½, Pabco is selling within a few points of its lowest price in the last eight years. In 1946 Pabco sold at $30 a share with earnings of only 62 cents per share. In 1948 Pabco sold at $28 a share with earnings of $2.40.

Since 1948, Pabco itself has built two new modern plants in New Jersey in order to expand its own scope of operations, and has seen its equity in its Fibre Board subsidiary appreciate very sharply in value. It is obvious, therefore, that the shrewd investor now has an opportunity to acquire the common stock of this very strong company at a bargain price. With the increasing earnings that Pabco derives from its Fibre Board investment, together with its own growth, it hardly seems likely that the common stock of Pabco will stay at this price of 16½ for very long.

Gill to Be Partner In Rodman & Linn

Robert Lee Gill, member of the New York Stock Exchange, will become a partner in Rodman & Linn, 209 South La Salle Street, Chicago, members of the Exchange, on Jan. 1. Mr. Gill, who is retiring from partnership in Havener, Gill & Co., will make his headquarters in New York City.

Benjamin E. Bampton, Exchange member, will withdraw from the firm Dec. 31.

Rights and Duties of Stockholders

By LEWIS D. GILBERT*

Minority shareholder representative, asserting ten-share vote is important as at national ballot box, gives advice on treatment of the proxy statement. Asserts importance of small stockholders' votes far exceeds their number, and urges all shareholders at least to read their companies' proxy statements. Concludes intelligent voting at company elections will importantly further rise of American economy as well as protect individual investor's interests.

Ownership means more than the right to receive dividends! Because, whether or not you realized it, when you bought stock and received your certificate you became a partner in American big business.

Lewis D. Gilbert

Certainly you can ignore your rights and take no part in the running of your corporation, just as any citizen in the United States can also take no part in civic affairs or any interest in his government.

But if too many citizens do this, they generally get the kind of government they deserve; similarly when too many investors take little or no interest in the corporation's affairs they too also find that in the long run the value of their investment deteriorates and sometimes the dividends cease. I think all must agree that your ten share or 100 share vote is just as important as your one vote in the ballot box on election day. Both may be small items in themselves, but it is the grand total which make up the final results on election day in both the corporation and governmental worlds.

As a stockholder you will have the right to be informed when and where your next election of directors—those who manage your business—will take place. In the corporation world this happens sometime in the spring of each year, in the great majority of cases.

After you have received your notice it will be up to you if you choose to attend the meeting in person, as many now do, or if you prefer to be represented by proxy.

A proxy is merely the power to allow someone else to represent you at the meeting. That is the sole purpose of the proxy card which you will find with your notice of the meeting.

That someone may be the representative of the management in power, an opposing slate, if there should happen to be a contest, or other independent stockholders or accredited representatives of organizations such as the Federation of Women Shareholders, who expect to be at the meeting.

Since many of you will have other business on the day of the meeting or the location of the meeting may be far removed from the area in which you live, you will probably in many cases wish to use the proxy form.

Read the Proxy!

However, before you sign and execute the proxy to the management or to any independent group, you should read your proxy statement in order to find out what is to take place at the meeting. As a general rule you will find that in addition to the election of directors, there will be other business of importance to the owners.

I cannot impress too strongly the need for reading your proxy statement. For you would be surprised if you knew how many stockholders tell me that if they had read their proxy statements first they would have voted differently.

This does not mean that you have to read every line of a proxy statement. Do not be frightened by its size. If it is bulky you will find it summarized in an accompanying letter from the President, giving you the high spots at a glance. You will also find after you have read several proxies that they generally follow similar patterns and therefore once you have made up your minds how you wish to vote on an issue you will generally want to vote the same way at other meetings. I will now pick at random a typical proxy statement which came out last year. It will help you understand other proxy statements when they start coming in your mail in a few weeks. A proxy statement is required of every corporation which is fully listed on the New York Curb or Stock Exchange, if your proxy is solicited.

This is one of the many fine rules devised by the Securities and Exchange Commission for the protection of the American investor and which assures him the right to be a full partner in deed as well as name. At present most unlisted corporations do not send out as informative a proxy statement, but even here the trend is in this direction. Eventually I expect Congress to pass the Frear Bill which would require the unlisted corporations to send out the same kind of proxy statements, and personally I trust that when the time comes, you will urge your Representatives and Senators to vote for its passage.

The proxy statement we are now looking at is that of American Tobacco for their April, 1951 meeting. American Tobacco is owned by about 75,000 stockholders, all of whom receive the same document. You will notice that the first page is devoted to the notice of the meeting. Stockholders are told where it will be held and what matters the management will propose for a vote. Stockholders are also told what proposals independent stockholders expect to make at the meeting.

Candidates for Office

On the next page you will find the names of the candidates for the office of directors of the corporation. Likewise the number of shares they own in the corporation. This information will be found in every proxy statement which passes the examining hand of the SEC. I might say, of course, that SEC acts merely as a Board of Elections in giving stockholders these data—it takes no sides in how shareholders vote—its function is limited quite properly to seeing that you get the facts.

This information as to how many shares those who ask your suffrage own may help you decide that your proxy should be voted for the management nominees, either through returning the proxy to the corporation or asking your independent representatives to do so. Or on the other hand you may think that the amount of stock owned by some nominees is insufficient or in some cases you may find they do not own any at all and you think they should. You have the right to make a notation on your proxy that your shares should be voted only for the directors owning at least 100 shares, for example. Your proxy will automatically be so voted by both the management or the independents who have your proxy, as they are bound to follow your instructions.

Incidentally, I might say here that you will find that more and more managements take into consideration comments on these proxy cards when returned. The old days of putting them in the waste basket are over. So never hesitate to note your views on any pertinent subject when returning a proxy or asking someone to vote it.

But let us proceed with our proxy. The next item you will find is a management proposal to reduce the amount of money paid out in bonus payments to officers. Note I said this is a management proposal, not an independent one. You may wonder how this came about. Partly, it was just because so many stockholders have learned to vote independently and that 10-share ballots add up to respectable blocks of stock. Also because so many of us are learning to be quite vocal on these subjects at our meetings.

At this particular company for a number of years many independent stockholders felt the payments to executives of the corporation were out of line with that paid competing companies and contrary to present day standards of thought. The reason for this state of affairs dates back to 1912 at a time the ladies did not smoke. Naturally, those devising the bonus plan then never expected the amounts to be paid to anyone person to reach the size they did in later years.

Therefore we used the proxy statement of the corporation to bring up this question at a number of meetings. Each year, although of course still just a minority vote, the size of the number of ballots continued to grow. By 1950 we had over 8% of the stock voting with us. We were prepared to use the proxy statement again in 1951, but Paul M. Hahn, the capable new President of the corporation, realized (since he had been presiding over these meetings for a number of years) that there was a sufficient amount of interest in this question to justify the Board making reductions. The figure chosen as a new maximum is only slightly in excess of the $200,000 we had suggested, assuming present tax rates continue in effect, and since democracy means compromise we accepted their proposals and did not renew our own.

I have gone into some detail in regard to the background of this question, because it shows how effective 10-share votes can be in getting corporation reform.

The next management proposal is one to increase the amount of stock authorized. This kind of proposal comes up frequently and you must judge for yourself if you think the increase in number of shares is warranted. Remember, new stock does dilute your equity and more stock outstanding means it takes more money to pay the same dividend you have been getting. On the other hand, if the company thinks it can use the extra amount of stock advantageously through purchase of other companies and so on, as opportunity comes up, then the earnings may be increased and the move may be a wise one. Or again the amount of present earning power may be such as to justify the issuing of new stock in the form of stock dividends as so many have been doing in recent years.

Now at this point a word about how you mark your proxy. If you decide you are in favor of the management proposals, vote an X

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*A talk by Mr. Gilbert before Adult Education Group, Montclair, N. J., under the auspices of the Federation of Women Shareholders in American Business, November 20, 1951.

Devaluation: What It Is, and Why

By ROBERT VAN CLEAVE*
C. F. Childs & Company, Inc.

Mr. Van Cleave explains meaning of devaluation, and describes its mechanics. Points out both devaluation and revaluation are parts of a managed currency system, and resort to them is no longer considered dishonorable. Says economic nationalists want managed currencies, but their efforts to fix artificial exchange rates cannot offset workings of supply and demand and results of their actions are deceptive. Concludes, currency instability is product of "too much management" and quotes late Dr. Anderson on greater advantage of gold based currency.

Devaluation today, in the world of modern economics and government management, is simply a downward change in the ratio of one national currency unit to another. It used to mean a change in the "mint parity," which was the number of grains of gold, of specified fineness, in each relative to the other. Now it is merely a rise in the price which governments announce they will pay for foreign currencies in terms of their own. As such it has all the virtues, and is subject to all the weaknesses, of any attempt of government to name and enforce any prices different from those which would be established in free markets. The question of "why?" can be covered by saying it is an effort by one national government to achieve some advantages for itself against the rest of the world. Let me enlarge upon these rather flat statements.

Devaluation, the change of a local currency value downward, is much more frequent than its opposite. In fact, the opposite change is so infrequent that we have no convenient word to describe it, and are forced to such awkward phrases as "upward revaluation," or "appreciation of one's currency." It was mentioned in these terms no more remotely than last June, when the U. S. Economic Commission for Europe (ECE) recommended "drastic revisions" of European currency values in its Economic Survey of Europe in 1950. On several occasions during 1950 there were rumors that Australia, Canada, Mexico, the United Kingdom, and perhaps others, were about to "appreciate" their currencies. Nothing came of these rumors, and Secretary of the Treasury Snyder put his foot down firmly on the ECE recommendation.

The usual purpose in devaluation is deliberately to make one's currency cheaper in terms of another's, and the idea here usually is that if local prices of goods are high relative to a second country's prices, this trade disadvantage can be corrected by keeping them so but making the currency in which they are expressed available more cheaply to foreign buyers. Thus the internal inflation can be maintained and continued; the alternative would be a deflation. Today the word deflation is anathema. No one in his right mind, especially one in public office, would even mention it as a possibility seriously to be considered.

But times and ideas can change. To prove it, I can cite a brief passage from the work of a modern economist, Lester V. Chandler.[1] Writing of a period 20 years ago, he says:

"Some countries opposed such a depreciation of their money in exchange markets for various reasons: (1) In some of them, notably Germany and Austria, exchange depreciation was popularly associated with inflation of internal price levels. The people of those countries would have viewed a fall of their money in exchange markets as a forerunner of disastrous price rises at home and would have penalized any government that permitted it to happen. In 1931 some of these people were still **less frightened by deflation than by the possibility of inflation.** They did not yet realize fully the disastrous effects of a prolonged deflation, and the British **had not yet demonstrated that an inconvertible paper money can be managed successfully.**" (Emphasis supplied.)

The British have not yet demonstrated it, either, if the present unhappy conditions there are any sort of measuring stick. But Dr. Chandler's book was completed by the end of 1947, and so he had not yet observed either the 1949 or the 1951 British crises.

Americans, I firmly believe, can write like this because it is only Europeans (and Chinese, more lately) who in recent times have had actual experience with inflation. Our currency value has been so relatively stable for so long a time that we, apparently, do not really fear inflation at all. We still think we can control it. That we can is open to doubt, because we still fail correctly to identify symptoms and describe causes, just as people all over the world always have done. In post-revolutionary France, for example, rising prices were attributed to the greed of shopkeepers rather than to the flood of paper money, and the guillotine was relied upon to enforce control of prices.[2] In the inflation of 1920 in England, "the preponderant opinion stoutly maintained that more money was necessary in order to do business on the new price level, but that the new money was in no sense a cause of high prices. The real cause was sought for, writes Edie[3] "in profiteering, scarcity of goods, high wages, consumer extravagance, and a host of other phenomena."

Just a couple of months ago there was a London dispatch to the "Wall Street Journal" saying, in effect, that the rise in banknotes and deposits was no occasion for alarm, since it was necessitated by higher prices.

Devaluation No Longer Dishonorable

But this is a digression, although into a closely related matter. Devaluation and its opposite, appreciation, are instruments employed in the techniques of currency management. No longer is devaluation thought of as something shameful, or even dishonorable. It is now perfectly respectable and legitimate, and rules can be laid down as to when to employ one, and when the other. Crowther says: "The rough rule-of-thumb, therefore, is: in times of war and scarc-

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*An address by Mr. Van Cleave before the Municipal Analysts Group, New York City, Dec. 14, 1951.

1 Lester V. Chandler, "The Economics of Money and Banking," p. 407.

2 See Andrew Dickson White, "Fiat Money Inflation in France."

3 Lionel D. Edie, "Money, Bank Credit, and Prices," p. 366. He also quotes Edwin Cannan, "An Economist's Protest," p. X.: "It is almost incredible now, but it is a fact that everywhere most of those who were regarded by the public as monetary experts refused to believe that the paper issues of their own particular country had anything to do with the rise of prices in that country."

Mutual Funds

By ROBERT R. RICH

THE APPEAL of mutual funds is broadening to include the lower income as well as the middle- and higher-income groups. An instance of this trend was furnished recently in the purchase of two shares of Wellington Fund by Theodore R. Holloway of Melvern, Kan.—a railroad track laborer as he described himself in letters to A. J. Wilkins, Vice-President to the Fund.

The Kansan's letters reveal him as a homespun philosopher who earns his money the hard way, saves it, and then invests his surplus cash in a share or two at a time. "I want to be a shareholder not a sharecropper," he wrote.

The first of Mr. Holloway's letters, written in pencil, opened with a polite acknowledgement: "Greetings," he wrote, "I received your good letter and folders and prospectus for Wellington Fund. I have bought two shares and have received a dividend of 40 cents on Oct. 1, 1951."

The new Wellington shareholder then went on to explain that he now owns 14 shares in a variety of companies including several mutual funds. He concluded with this assurance: "I am not disappointed with the Wellington Fund shares. I like to be a shareholder or stockholder. I am a railroad track laborer and do not have a rich uncle to be my financier, so I buy one or more shares at a time. Thanks for your letter, etc."

The Wellington executive was so struck with the humor and common sense of the Kansan that he wrote him and asked permission to use the letter publicly.

Here are some of the comments from Mr. Holloway's reply: "You may use my letter in ways to help sell Wellington Fund shares to railroaders, labor union men or others you have in mind.

"I believe," he continued, "it is a good idea to buy shares of Wellington Fund and other shares of other Funds, besides keeping some for use here in Melvern when I need it badly."

The Kansan revealed that his largest single stock purchase in any one week amounted thus far to $74. Of this transaction he wryly commented: "I do not aim to corner the market for any Fund or company." He concluded with the recommendation: "It would be good for many other people to become shareholders of Wellington Fund."

THE LEVERAGE of Republic Investors Fund has averaged about 6.1% since it has been under the management of E. W. Axe & Co. The leverage was used primarily for income purposes, although the net asset value of the Fund increased by 27% from March 15, 1950 to Oct. 31, 1951.

On Oct. 31, leverage through bank borrowings amounted to $800,000, with cash and equivalents equal to $831,929 and gross assets valued at $5,446,226, compared with $1,803,945 on April 1, 1950.

The Fund is in a relatively defensive position at the present time—52.9% in common stocks, 31.5% in preferred and 15.6% in cash and bonds. In fact, Republic is being run currently as a balanced fund.

TRUSTEES of Massachusetts Life Fund announced that, on the number of shares outstanding after the Dec. 14 four-to-one stock split, a dividend of 37½ cents per share from investment income and a distribution of 45 cents per share from realized profits will be paid Dec. 31 to holders of record on Dec. 24.

Dollar at New Low

The purchasing power of the dollar dropped to an all-time low on Sept. 15, 1951, according to a report by the Labor Department's Bureau of Labor Statistics. In terms of 1935-39 prices, the purchasing power of the dollar had fallen to 54.8 cents by mid-September.

The trend of purchasing power of the consumers' dollar in New York City between 1914 and September 1951 reveals that the dollar was at its highest in 1914, when it stood at $1.47 (1935-39=$1.00). At the beginning of World War II in 1939, the value of the dollar had fallen to $1.01, and by the end of the war it stood at 77¢.

By June 15, 1950, just prior to the outbreak of hostilities in Korea, the purchasing power of the dollar had declined to 60¢. From June 15, 1950 to Feb. 15, 1951, when the General Ceiling price Regulations were becoming effective, the dollar declined an additional 5¢.

Since Feb. 15, 1951, the rate of decline in the consumers' dollar has slowed up considerably, declining by one-half of a cent from mid-February to mid-September 1951.

SHARES OF Axe-Houghton Fund B are now free of the Pennsylvania Personal Property Tax, it was announced by Axe Securities Monday, Dec. 24.

Because the Fund has qualified as a foreign corporation in Pennsylvania, it is only subject to and has paid the foreign franchise tax. Consequently its shares are tax-free in Pennsylvania.

REPORTING on its Aviation Group Shares, Hare's Ltd. says that the net operation income of the country's 15 major airlines more than doubled for the first nine months of 1951 over the same period in 1950. Aviation Group's investments, in addition to holdings in aircraft manufacturing, cover stocks of airlines which are presently carrying over 80% of all domestic and overseas passengers and freight.

Hare's stated, "In our opinion, present prices of aviation stocks, in relation to anticipated increasing net earnings, seem low and thus appear to leave plenty of room for appreciation. Prices moved to values over the long term, thus the most advantageous time to purchase stocks is prior to a general realization by the public that net earnings should rise."

OPEN-END REPORTS

TOTAL NET assets of Nation-Wide Securities on Nov. 30, 1951 were $18,066,268 compared with $15,601,721 on Nov. 30, 1950. Net asset value on Nov. 30 amounted to $15.04 on 1,201,490 shares, compared with $14.90 on 1,046,779 shares on the same date last year.

During the three-month period ended Nov. 30, holdings of preferred stocks were increased from 17.10% to 19.04%. Holdings of U. S. Government bonds at Nov. 30, 1951 amounted to 16.27% of total net assets; other bonds, 15.39%, common stocks, 45.91%; and cash, etc., 3.39%.

At Nov. 30, 1951, largest industry group holdings of common stocks were utilities, 9.37% of total net assets; oil, 6.19%; retail trade, 3.99%; railroads, 3.13%; and automotive, 3.07%.

TOTAL NET assets of Television-Electronics Fund, Inc. rose to $9,792,619 on Oct. 31, 1951, end of its fiscal year, from $5,560,022 on Oct. 31 last year, an increase of more than $4,230,000, according to the Fund's annual report issued by Chester D. Tripp, President.

Net asset value stood at $12.91, as compared with $12.01 a year ago.

Since Oct. 31, total net assets have passed $10,000,000 for the first time. On Oct. 31, 758,445 shares of Television-Electronics Fund were outstanding, as against 462,953 a year earlier. Total distribution of dividends from net income for the year ended Oct. 31 amounted to more than 59 cents a share; in addition, a distribution of nearly 46 cents a share from net capital gains was paid.

In his report to shareholders, Mr. Tripp said that reception of the Fund's shares by Dutch investors had been quite favorable. In August of this year the Fund became the first mutual fund to be listed on the Amsterdam Stock Exchange since the Netherlands Bank established the approved list of American securities in 1940.

Output of television sets for the first nine months was about 4,000,000 units of which well over half were produced in the first quarter, indicating, Mr. Tripp said, that the industry should manufacture more than 5,000,000 units in 1951.

TOTAL NET ASSETS of Dividend Shares, Inc. at Oct. 31, 1951 were $97,327,210, a record high for the end of any fiscal year in the history of the company according to the 1951 annual report issued to stockholders.

Assets were equal to $1.79 a share on 54,181,431 shares outstanding and compared with total net assets of $82,490,652, equal to $1.62 a share on 50,956,652 outstanding shares a year earlier. Included in total net assets on Oct. 31, 1951 was unrealized appreciation of $24,307,307 compared with $15,360,608 one year earlier.

In noting that the growth in assets results not only from an appreciable gain in the value of securities owned, but also from an increase in the number of shares purchased by investors, the report points out that 54,000,000 shares were owned in 1951 compared with 36,000,000 in 1945, an increase of 50%. More than 53,000 persons now own Dividend Shares as contrasted with 49,000 on Oct. 31, 1950. The purchase of shares on a periodic basis through use of the Dividend Thrift Plan has contributed materially to the increase in shareholders, the report adds.

TOTAL NET assets of Investors Stock Fund rose from $1,619,942 to $28,383,764, a gain of nearly $12,000,000 during the fiscal year ending Oct. 31, shareholders were told in the Fund's annual report.

At its fiscal year-end, Investors Stock Fund's principal investment holdings included 11.20% of its assets in petroleum securities, 9.03% in chemicals, 7.15% in electrical machinery and 3.90% in building materials.

BOSTON FUND reports total net assets of $71.2 million on Oct. 31 compared with $563 million a year ago. The largest common stock holdings were utilities at 11.5%, oils at 11.1%, and chemicals at 6.6%.

VALUE LINE Fund's assets on Nov. 30 totaled $7,700,000 compared with $1,700,000 at the beginning of the year.

LOOMIS-SAYLES Mutual Fund had assets of $10.5 million on Oct. 31, compared with $7.7 million a year ago. The Loomis-Sayles Second Fund reported assets of $11.9 million on the same date, as against $10 million a year ago.

COMPOSITE FUND reported to shareholders on Oct. 31 total assets of $1.3 million for a gain of approximately $200,000 in the last six months. Forty-six percent of the fund was in cash, 13% in preferred stocks, 24% in bonds and 17% in cash.

SINCE REOPENING for the issue of new shares in the spring of 1950, Scudder, Stevens & Clark Common Stock Fund has more than quadrupled in size, with total net assets on Dec. 10, 1951 amounting to $3,096,485, equal to $29.08 per share on 106,499 outstanding shares. The per share net asset value a year ago was $25.32, on 52,499 shares.

Scudder, Stevens & Clark Fund, Inc. reports total net assets on Dec. 10, 1951 of $37,362,000, equal to $58.91 per share on 634,220 shares outstanding on that date. This compares with total net assets a year ago of $33,475,000, equivalent to $55.88 on 599,028 shares outstanding at that time.

Mutual Fund Notes

Lord, Abbett & Co. who manage more then $200,000,000 of assets of investment companies, have agreed to a reduction in the management fee paid on American Business Shares from ½ of one per cent to ⅜ of one per cent per annum, effective retroactively to Dec. 1, 1951, the beginning of American Business Shares current fiscal year. The action is in conformity with a desire to reduce costs to investors in investment companies whenever it is practicable to do so.

Diversified Investment Fund reports that 1951 was one of the best years in its history. Total net assets increased by more than $5,000,000,000—over 25%.

Common stocks acquired by Nation-Wide Securities during the three months ended Nov. 30, 1951 included 1,000 Bigelow-Sanford Carpet Company, Inc., 1,800 Equitable Gas Company, 3,000 Falstaff Brewing Corp., 5,000 Interlake Iron Corp., 2,000 Pfeiffer Brewing Co., 2,000 J. P. Stevens & Co., Inc., 1,700 West Penn Electric Co. Sales of common stocks included 1,200 Illinois Central Railroad Co. and 2,300 Socony-Vacuum Oil Co. Holdings of the common stocks of Consolidated Natural Gas Co., General Public Utilities Corp., United Paramount Theatres, Inc. and United States Gypsum Co. were eliminated from the portfolio.

Robert F. Bradford has been elected to the trustees of Investment Trust of Boston. Mr. Bradford is a senior partner of the prominent Boston law firm of Palmer, Dodge, Garner, Bickford & Bradford, a member of the Board of Overseers of Harvard University, a trustee or director of financial, charitable and educational institutions and former Governor of Massachusetts.

As was reported in full in the Dec. 20th issue of The Chronicle, the trustees of Investment Trust of Boston have also voted, subject to a favorable tax ruling, to distribute pro rata to the shareholders part of the Trust's holding of Sheraton Corp. of America. The Trust owns 38,600 shares of Sheraton purchased at a cost of less than 60 cents per share, compared with a present market value of approximately $11 per share. The special distribution should take place some time in 1952.

Other trustees and members of the Advisory Board are Chandler Hovey, a senior partner of Kidder, Peabody & Co.; William B. Snow, President of the Suffolk Savings Bank for Seamen and Others; Ernest and George Henderson and Robert Lowell Moore of Sheraton Corp. of America; Charles C. Cabot, attorney, and director, Old Colony Trust Co.; Joseph Furst of the Securities Co. of Mass.; and H. S. Payson Rowe, Treasurer of the John Hancock Mutual Life Insurance Co.

Providing facilities needed to serve the nation's expanded suburb markets will be one of the most challenging jobs facing the nation in 1952, executives of the mortgage division of Investors Diversified Services predicted in a year-end statement.

"The remarkable growth of outlying residential areas near metropolitan cities during the past 10 to 30 years presents an entirely new set of pioneering responsibilities and opportunities not only for real estate, building and mortgage investment industries, but also for government, business and industry in general," said Donald E. Ryan, Vice-President in charge of Investors' nationwide mortgage operations.

Since 1920, it was pointed out, growth of suburban area population has greatly exceeded growth of central city population in such metropolitan areas as New York; Los Angeles; Chicago; Washington, D. C.; Detroit; St. Louis; Portland, Ore.; Houston; Dallas; San Antonio; San Francisco-Oakland; Miami; Atlanta; Minneapolis-St. Paul, and Cleveland.

REGISTRATIONS

Affiliated Fund on Dec. 17 filed with the Securities and Exchange Commission a registration statement covering 20,000,000 shares of capital stock to be offered at the market through Lord, Abbett.

Cincinnati Fund on Dec. 17 filed with the Securities and Exchange Commission a registration statement covering 10,000 shares of capital stock to be offered at market through Cartwright & Co.

Guardian Mutual Fund on Dec. 17 filed a registration statement with the Securities and Exchange Commission covering 200,000 shares of stock to be distributed through Neuberger & Berman, New York.

Rockford Dealers Conduct New Sales Experiment

Stage joint meeting of clients to hear talk on inflation.

Something new in getting a message across to investors was a highly successful project recently accomplished when the Rockford (Illinois) Securities Dealers Association staged a joint meeting for their clients and prospects. The project was unusual from two angles: (1) The fact that these dealers were willing to have their clients meet competitors; most dealers regard their clients and prospects as highly secret assets. (2) The fact that the speaker had a selected audience of known investors; as a rule a speaker on economics addresses investment dealers and salesmen, or some general group, such as a business club, where a portion of those present may, but many may not, be interested in securities.

The method of organizing this project was unique. The six dealers constituting the Rockford Securities Dealers Association sent the same letter to 1,500 of their clients and prospects, inviting them to attend a forum at which Edward P. Rubin, of Chicago, was to speak on "Dynamic Growth or Inflationary Bust?" They enclosed a penny postcard on which the recipient was asked to indicate if he would or would not attend; and if he did or did not have an interest.

Some 800 replies were received; 400 requesting tickets to the meeting and more than 200 thanking the dealer for the invitation even though the person was unable to attend.

The Rockford newspapers cooperated with advance publicity. A week before the meeting, the dealers mailed admission tickets to those who had indicated they would attend, along with a note of thinks for the interest shown.

Approximately 350 persons were present at the meeting, held at 8 p.m. on Dec. 5, in the ballroom of the Faust Hotel in Rockford. They were greeted at the entrance by members of the dealer organization, who collected the admission tickets. It had been agreed that no one would be admitted without a ticket, thus setting a standard of value for future meetings.

With Robert G. Lewis, President of the Association, presiding, the first hour was devoted to introductions, discussion of the purpose of the meeting, and the talk by Mr. Rubin. There followed a full hour of questions from the floor and Mr. Rubin's answers. A copy of the talk and the questions and answers is being sent by the dealers to all who expressed interest, as well as those who attended the meeting. This, it is hoped, would stimulate interest in the series of meetings planned for the early future.

Prior to the meeting the dealers, speaker and their wives met for dinner. This proved an extra dividend, stimulating the wives' interest in economics and in their husbands' business.

While the talk at the meeting was a general one on economics, it is interesting to note that afterward people voluntarily asked for literature regarding the fund of which Mr. Rubin is President. The dealers had available prospectuses and sales literature, and the supply was rapidly exhausted although there was no promotion effort in this regard.

Members of The Rockford Securities Dealers Association are: Conrads & Co.; Boyd J. Easton; King Olson Surprise & Co.; Robert G. Lewis & Co.; Ralston Securities Co., and S. A. Sandeen & Co.

Defense, Taxes and Your Business

By BEARDSLEY RUML*

Formerly Chairman, Federal Reserve Bank of New York

Asserting "we are in process of changing one kind of civilization for another," former Federal Reserve Bank executive sees ahead a world in which we shall be alerted to constant threats to our security and welfare. Says Federal deficits, prudently incurred in times of unemployment, are deflationary rather than inflationary, and most important purpose of Federal taxation should be maintenance of stable dollar. Advocates stable tax rates except in great emergencies, despite changes in revenue receipts, and calls for reorganization of whole Federal tax structure.

When we speak of defense, what are we defending? We must defend something more than a piece of real estate and the right of the present tenants to do what they collectively please in managing it.


Beardsley Ruml

We are defending a way of life, not as it is, but as it may become. The objectives of our defense effort are to protect the territory of the United States and its people, to safeguard the essential principles basic to our evolving way of life; to guard against the dangers of defense itself; and to join with other nations and other peoples in establishing peace with justice permanently throughout the world.

If these things are what we are defending, for how long a period is our defense effort likely to continue? It is generally assumed that the defense requirements which we see before us are the result of an abnormal situation. But is this true? Perhaps it's the other way around. Perhaps the period which we left in 1914 was the abnormal period.

The human animal, throughout most of human history, has always had to allocate a substantial portion of his resources and energy for defense. And we do not have for the world today a system of law, justice, and the enforcement of justice. Until we do, defense expenditures and defensive alliances must be the normal way of life for those who believe they have something material and moral to safeguard against the pressures of their predatory cousins.

The need for defense establishments will end only when there have been established in the world law, justice, and the enforcement of justice. There will be no peace until there is total peace. And even after the world has achieved peace with justice, the new order will have to be defended against negligence, inner corruption and decay. For this reason we may truthfully say that the moral aspects of defense will last forever.

We are not ony making short-time sacrifices to meet an emergency. We are changing permanently the fabric of our lives. There will be no return to the dream-world that seemed to exist during the three generations before 1914.

Because of the high point of defense requirements two or three years from now, it is true, in a special sense, that these years are emergency years. But the end of the short period will still leave defense requirements that, by past standards, will be very large indeed.

In view of these high and probably long-continuing requirements of men, materials and money for defense, the question is being raised more and more frequently as to whether new civilian controls on defense expenditures are not urgently needed. The National Planning Association has just issued a statement on "Efficient and Economic Management of Military Expenditure," recommending that a highly qualified civilian body be established as a regular agency of government for specific investigation of the defense expenditures. It seems clear to the National Planning Association, and to others too, and I suspect it will become evident to a growing body of opinion as the months go by, that neither the Executive nor the Congress, separately or working together, can give the reassurance to the public that is required to obtain from it the sacrifices that are required in a large and long-continuing defense program.

The Transition Now Taking Place

The profound nature of the transition now taking place cannot be overstated. We are in the process of changing from one kind of civilization to another. We are leaving a world which was dominated by aspiration for gentlemanly leisure, with all the comfort, vanity and cynicism that adorns it at every income level. We are moving into a world in which we shall be alert, and in which we shall be alerted, to continuing threats to our security and welfare.

The Taxation Problem

The subject which I shall discuss this evening in connection with the economics of defense is the taxation problem—and closely related questions in the area of fiscal and monetary policy.

Many changes are occurring in the world, and we cannot wish them away. Management and statesmanship that do not take the new technology into account are living in a dream world. The discoveries and insights coming out of World War II are not limited to the physical sciences. Advances have also been made in the fields of finance and economics.

For example, during World War II the national debt rose from $45 billion to $275 billion on a declining rate of interest—and it was at no time a limitation to our productivity. Despite forecasts that we would have to choose between guns and butter, our standard of living in 1944 was at least as high as in 1941, and in addition we produced some $80 billion worth of armament. The miracle of production came out of productivity that had been growing unnoticed beneath the surface of actual output for 15 years.

We also learned that a deficit in the Federal budget is not inflationary. Federal deficits prudently incurred in times of unemployment tend to be deflationary rather than inflationary.

These discoveries or insights in the field of economics and finance are just as real as radar, D. D. T., and atomic energy. The plain fact that the war was actually financed on a declining rate of interest

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*A talk by Mr. Ruml at Banquet of Manufacturing Chemists Association, New York City, Dec. 13, 1951.

How Bad Is Inflation?

By HAROLD G. MOULTON*
President, Brookings Institution

Dr. Moulton reviews recent movement of prices, and ascribes increased price level to rising costs and not to heavier consumer buying. Says, if costs continue to rise, inflation will continue, whether Federal budget is balanced or not. Sees necessity of greater credit and increased money supply to meet business expansion.

At the Congress of American Industry two years ago I emphasized the remarkable vitality and resiliency of the American economic system over the course of the last two turbulent decades. Since then the system has been buffeted by new forces, arising out of the world military problems.


Harold G. Moulton

The situation is, however, not without some reassuring features. Following eight months of rapid price advances we have had some healthful readjustment. Of primary importance has been the phenomenal increase in over-all production and in man-hour output. Thus far we have been able to continue a high level of consumption despite the requirements of war.

But this evening we shall confine our attention to the recent movement of prices. My views are sharply at variance with those of many economists. Hence, instead of contenting myself with generalities, I shall cite the evidence in support of my position.

(1) From May 1950 to February 1951 prices of basic commodities rose 48%; manufactures 15%; and retail commodities (excluding rent) only 10%. Retail prices lagged all the way. The competitive "bidding-up" of prices was not at the consumer end but in business inventory accumulation and government stock-piling.

(2) During this period production of consumer goods increased faster than consumption—which is further evidence that competitive consumer buying was not the source of the price inflation.

(3) From February, 1951 to August 1951 basic commodities fell about 17%; manufactures remained about stable; and retail goods rose 1%. The initial readjustment preceded the decline in retail buying.

(4) Increasing raw material and wage costs necessitated advances in prices of manufactures.

(5) In short, instead of competitive consumer buying pulling up the whole price structure, progressively rising costs of materials and labor gradually forced price advances all along the line.

(6) Price changes are not directly related to budget deficits and surpluses. The facts show no correlation between the budget situation and prices. For example, in fiscal 1951 while prices were sharply rising, we had a large budget surplus. In the five fiscal years July 1, 1946 to June 30, 1951, there was a net aggregate cash surplus of $22 billion; and wholesale prices rose roughly 50%.

(7) If costs continue to rise, wholesale and, in turn, retail prices will continue to advance—regardless of the state of the budget.

(8) Many argue that price stability could have been maintained simply by restricting the quantity of money in circulation. Additional quantities of money enter the income stream chiefly in response to business requirements. The volume is determined by the scale of operations and the level of costs as fixed in business contracts. As a result of expanding employment and increases in rates of pay, wage and salary disbursements increased in fiscal 1951 over fiscal 1950 by $24 billion. To prevent this increase in the quantity of money in circulation would have required freezing the level of production and the rates of pay.

(9) Some contend that a restriction of bank credit will do the trick. But in a period of expanding business and rising costs the enlarged dollar contracts could not be carried out if the credit supply were frozen. The most that could be accomplished would be to restrain somewhat excessive inventory speculation.

(10) Raising interest rates when business is flush would have no effect. In manufacturing industry the interest item is but a fraction of 1% of the total costs. Business decisions do not revolve around the least significant element in costs.

(11) Experience in former wars, and in this and other countries, has demonstrated that to be effective controls must start with raw materials and wage rates. Lest it be feared that I am here arguing in favor of the present direct control program, I hasten to add that experience has also demonstrated that direct controls cannot be enforced except in time of all-out war.

(12) My conclusion is that for some time to come prices will continue to advance — not spectacularly but gradually. Raw material prices apparently reached bottom in September and are now about 15% above May, 1950. Wage rates are up 12% and may be expected to rise further. These costs fix the floor for prices. As they advance both wholesale and retail prices will work higher. And because of the agricultural parity formula, as city prices rise farm prices will be automatically advanced—which in turn provides the basis for further increases in industrial costs and further demands for higher money wages. This is the merry-go-round on which we are whirling.

We may, I think, hope to restrain the rate of price advances through ever-increasing productive efficiency. Since the end of World War II this country has had a phenomenal expansion of plant and equipment and an extraordinary increase in productive efficiency. This is true in agriculture, in the mineral industries, in public utilities and transportation, as well as in manufacturing. The full fruits of this great upsurge of producing capacity have not as yet been realized—though there has been a striking increase in man-hour output during the past year.

Our increase in productive efficiency is the result of four factors: (1) a vast increase in the *quantity* of capital goods; (2) a great improvement in the *quality* of plant and equipment; (3) better organization and management of business enterprises; and (4) rising labor efficiency, in consequence of improved industrial relations. As a result of this combination of factors it takes progressively fewer people to produce a given result.

Such increases in efficiency may, however, be nullified—so far as prices are concerned—by more than proportional increases in the costs of labor and materials. If every time we have a reduction in costs—due to increasing efficiency—of say 5%, wage rates are raised say 10%, the dollar price of goods could not be reduced. The crux of our problem is to maintain a proper relationship between productivity, wages, and prices.

*A statement by Dr. Moulton at the 56th Congress of American Industry, sponsored by the National Association of Manufacturers, New York City, Dec. 5, 1951.

Miss Bleich Partner In Gross & Co.

Miss Mabel Bleich who has been a Registered Representative for Gross & Company of 509 Fifth Avenue, Members of the New York Stock Exchange, will be admitted to the firm as a general partner effective as of Jan. 1, next, it has been announced. She will continue servicing customers and be a co-resident Manager at the Fifth Avenue office. Miss Bleich is the 42nd woman who has become a general partner in a stock exchange firm. She is a sister of Isidor Bleich, former Corporation Counsel for the City of New York.


Mabel Bleick

Moreland on Curling Team Against Scots

An American curling team composed of 26 members has been formed for a tour of Scotland in competition with the Royal Caledonian Curling Club. Paul I. Moreland of Moreland & Co., Penobscot Building, Detroit, has been selected as a member of the American team.


Paul I. Moreland

After the completion of the scheduled tour, which will last 30 days, two men from Chicago and two from Detroit (including Mr. Moreland) will compete in the British open championships.

Stevenson, Spence to Be Partners in Firm

On Jan. 3, Walker W. Stevenson, Jr., and Robert R. Spence will be admitted to partnership in Hemphill, Noyes, Graham, Parsons & Co., 15 Broad Street, New York City, members of the New York Stock Exchange. Mr. Stevenson is sales manager for the firm. Mr. Spence is manager of the Statistical Department.

Robert H. Atkinson Forming Own Company

PORTLAND, Ore. — Robert H. Atkinson is forming Atkinson and Company with offices in the U. S. Bank Building. Mr. Atkinson was formerly a partner of Atkinson-Jones & Co.

Joins Hawkins Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Fred C. Hoffman has become associated with Hawkins & Co., Leader Building, members of the Midwest Stock Exchange. He was formerly for many years with Otis & Co.

Securities Salesman's Corner

By JOHN DUTTON

Today there is a definite swing to "income" among security buyers. Many people are looking around for stability and a better return. They are also thinking of securities that will hold up, if we run into some rough financial weather in the years ahead. This seems to be especially true among the clients of firms that have been appealing primarily to the investor, rather than the speculator groups in their communities.

I recently noticed a list of 49 over-the-counter common stocks representative of the public utility industry. Their yields today are almost 50% higher than in 1946. The average for the group as a whole is considerably above 6%. Thirteen issues were available on better than a 7% current return basis. Twenty-eight were yielding between 6% and 7%. Earnings in most instances were holding up well compared with the same 1950 period, and in many cases were forging ahead. Where industrial stocks have had a rise of over 100 points since 1946, sound utility stocks are still near the same prices at which they were selling back in July, 1946.

There may be many people in the investment business who are well aware of all this. Yet it appears that the investing public is just becoming interested in this very neglected segment of the market. It is quite possible that many investors have too much of their present portfolios still geared to the inflation hedge favorites of the past few years. A sound program nevertheless allows for the inclusion of stocks in industries that should fare well in peace or war—certainly good operating public utility common stocks fall into that category. Then again, where it is possible to purchase values that have not been over-inflated by speculative enthusiasm, this is also good, solid, investment horse sense at anytime. Certainly it is true during the latter phases of a long bull market such as we have been having for two and a half years.

This Idea Could Be Used to Create Investor Inquiries Now

If the thought appeals to you, it might be a very good time to start an advertising campaign based upon the opportunities that are available in the good operating utility stocks. First of all, the time seems to be right. People are now interested in safety and income, more so than they were several months ago. Next, the merchandise is available. The over-the-counter market offers some of the choicest investment opportunities in this field. If you like the idea you might even make up a package of 10 different stocks—thereby offering diversification both as to companies as well as geographically. You could stress the fact that income returns are exceptionally high compared to 1946 levels.

You could bring out the stability of the earnings of these companies. The fact that electric power, and a growing population make excellent companions is now well recognized. You can even dramatize this story a bit. The utilities are the Cinderella stocks of today and they may become the most popular investments tomorrow. If past history runs true to form, undervalued stocks have always been profitable investments for those who had the foresight, and the patience, to buy them when they were not popular with the investing and speculating public.

There is another reason for such an advertising campaign, which seems to recommend it to any firm that is desirous of enlarging its clientele of investors. The people who will answer direct mail, or newspaper advertising, along these lines, should be interested primarily in income and safety. They make the best clients for any firm.

A WAY TO
A HAPPY NEW YEAR

To leave the old
With a burst of song,
To recall the right
And forgive the wrong;
To forget the things
That bind you fast
To the vain regrets
Of the year that's past.
To have the strength
To let go your hold,
Of the not worth while
Of the days grown old;
To dare to go
With a purpose true,
To the unknown task
Of the year that's new.
To help your brother
Along the road,
To do his work
And lift his load;
To add your gift
To the world's good cheer,
Is to have and give
A Happy New Year.
—Robert Brewster Beattie

John Coman Partner In C. J. Devine Co.

C. J. Devine & Co., 48 Wall St., N. Y. City, announces that John J. Coman has been admitted to the firm as a general partner, effective Jan. 2, 1952. Mr. Coman joined the firm in 1937. He was previously associated with the Guaranty Trust Co. and Harriman Ripley & Co. Inc.


John J. Coman

Du Pasquier & Landeau To Be Formed in N. Y.

Pierre Du Pasquier and Serge Landeau will form the New York Stock Exchange member firm of Du Pasquier & Landeau with offices at 61 Broadway, New York City, on Jan. 4. Mr. Landeau will hold the firm's Exchange membership.

Cohu & Co. to Admit Two Partners

Cohu & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Henry G. W. Parmele and Charles W. Snow to partnership on Jan. 3. Mr. Snow has been associated with the firm for many years.

Mitchell to Be Thomson McKinnon Partner

Daniel J. Mitchell will be admitted to partnership in Thomson & McKinnon, 11 Wall Street, New York City, members of the New York Stock Exchange on Jan. 2. Robert J. Kiernan will retire from the firm on Dec. 31.

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Rights and Duties of Stockholders

in the box provided in the proxy. If you are opposed to it, mark your proxy square marked against.

These two proposals were the ones the management asked the stockholders to vote on. At other meetings there were proposals on pensions and stock options to executives. You know how you feel on these questions, and that is the way your own ballot should be cast.

Independent Proposal

To proceed with our examination of the proxy statement of American Tobacco. We next find a number of independent proposals. These are to be found increasingly in many corporation proxy statements today. Every independent proxy proposal should be read over with care, they should never be automatically supported or opposed. They should stand on their own merits and you should mark your X after you have read what both sides had to say. Remember however that at the present time if you do not mark your X it is automatically cast against an independent proposal. I hope to see this rule changed someday, but that is the way the rule works at present.

However, one should never be concerned as to whether or not the proposal will carry. Because of the handicap just mentioned, I know it will not; that is not the purpose of introducing the proposal. It has been introduced in order to air the difference of opinion, and to find out if many other stockholders share the same viewpoint. In many cases this is shown to be so and as we have just seen if this is the case an eventual change of management policy often results even though the protest vote was still merely a minority one.

Now last year there were two such independent proposals at American Tobacco. The first, introduced by the writer, was for the purpose of raising the question of whether or not there should be outside directors on the Board. American corporations are run in two ways. Some, like American Tobacco and Standard Oil of New Jersey, still only have management officials on the Board of Directors. The other way is to have several non-management officials on the Board too in order to have the benefit of more disinterested counsel in deciding issues and also to afford better representation to the public shareholders. This is becoming increasingly the case today and among corporations having this method of election are United Aircraft, Swift, Westinghouse and many others. Socony Vaccum and Atlantic Refining have recently changed their policy and are now in this second school of thought. I am not going to tell you which kind you should favor; a reading of the arguments in the various proxy statements where the issue comes up can be consulted and you can read the arguments for yourselves.

Cumulative Voting

In this proxy statement, which I am using purely as an example, you will see our proposal calls for cumulative voting to accomplish this change. This is because we think this kind of voting provides the best way of electing outside directors who can really be independent, since they would be elected through pooling of stockholder votes, when required, thus allowing roughly 10% of the shares to elect a director.

Place of Meeting

So let us turn to the second independent proposal. It is one to change the place of the meeting from Flemington to New York where the head offices of the corporation are. It was sponsored by members of the Federation of Women Shareholders. I must say here that Flemington is most hospitable to visiting shareholders and we have only the kindest thoughts for their courtesy, but nevertheless it does represent an all day trip, so that many feel it would be more convenient if the meeting took place in a more central location.

You will note that the management does not oppose this proposal, as it did in the case of the first independent proposal. It simply takes no position, leaving it completely up to the shareholder vote. Nevertheless the uninstructed proxies were still cast against the proposal—showing you again why it is so important to read your proxy statement and to be sure to mark your ballot the way you want your shares voted. In spite of this handicap it polled nearly 700,000 votes from about 7,600 proxies, thus showing considerable stockholder sentiment for a change in the meeting place. No doubt this proposal will be reintroduced and if sentiment continues to rise for a change in the place of meeting, it is quite possible that the management may feel that enough stockholders favor the change to justify its adoption.

The Compensation Factor

On the next page of the proxy statement we find some very important data which is also obligatory reading in every proxy statement. This is the amount of compensation and pension payments which officers have or can receive. It is from a reading of this data that shareholders are able to express themselves as satisfied or dissatisfied with the management take-home. This they do of course from the floor of the meeting, or, if sufficiently displeased, in the form of independent resolutions in the proxy statement.

On the next to last page you will find a statement that the management of American Tobacco will send a post-stockholder meeting report to any stockholder on request. At many other corporations, such as Standard Oil of New Jersey, Macy, Spalding, Lorillard, for example, such a report will reach you automatically. But if it goes out to you only on request, as at American Tobacco, be sure to write for it as this is the best way you will have of really knowing what takes place at the meeting.

If you are in doubt as to whether your company sends a post-meeting report, mark on your proxy that you want one when you send it in or give it to an independent. If enough shareholders urge this, these managements which still do not send out post-meeting reports will change their policy or improve their reports, giving more details about your company's business as reflected in the discussion at the annual meeting.

In conclusion I want to say a few words about proxy contests and the voting of proxies then. The cases I have mentioned such as American Tobacco are not proxy contests. But every year there are about half a dozen or so proxy fights. Then both sides will bombard you with letters. Do not vote until you have read what both sides have to say. Even after voting for one side, if some subsequent letters of the other side induce you to change your mind, then sign and vote a late proxy.

If you prefer to let independent groups decide on the floor of the meeting which way your shares should be cast, then merely give both sets of proxies to your representatives.

Remember that by voting carefully at both contested and non-contested elections you will do much to further the steady rise of economic democracy in America, to say nothing of really doing something to protect your own investment and the future of the system of American enterprise.

Smart, Clowes and Phillips to Be Formed

LOUISVILLE, Ky. — Effective Jan. 1, the firm of Smart, Clowes & Phillips, Inc., will be formed with main office in the Washington Building, Louisville, and a branch in the St. Paul Building, Cincinnati. Officers will be John W. Smart, President and Treasurer; Howard E. Phillips, Executive Vice-President; and John R. Clowes, Vice-President. Mr. Smart has recently been in business as an individual in Louisville, prior thereto he was a principal of Smart & Wagner.

John W. Smart

R. W. Saxton With Walsh & Chapman

Reginald W. Saxton has become associated with Walsh & Chapman, 84 State Street, Boston, Mass., wholesale distributors of Television Electronics Fund and Hudson Fund, as wholesale representative in the states of New Jersey, Delaware, Maryland, District of Columbia, Virginia, and West Virginia. Mr. Saxton, who has been in the investment business for many years, has been with Hare's, Ltd. for the past 14 years.

W. H. Newbold Admits Fifth Generation

PHILADELPHIA, Pa. — John Sargent Newbold will become a partner of W. H. Newbold's Son & Co., 1517 Locust Street, on Jan. 1, 1952, the fifth generation of the family to join the 108-year old Stock Exchange member firm. Mr. Newbold's admission as a partner of the Philadelphia firm was approved today, Dec. 20, by the Board of Governors of the New York Stock Exchange. W. H. Newbold's Son & Co. was founded in 1844 by Wm. Henry Newbold.

Mr. Newbold, 30 years old, is a great-great grandson of the founder and began his business career with the firm in 1946, after serving as a Lieutenant in the U. S. Naval Reserve. He attended St. George's School in Newport, R. I., and was graduated from Princeton University in 1943.

With Hamilton Managem't

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Edward J. Ott, Jr. is with Hamilton Management Corporation, 445 Grant Street.

Rejoins Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Christian H. Oberheide has rejoined Paine, Webber, Jackson & Curtis, 209 South La Salle Street.

With Shields & Company

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Lawrence M. Ripley is with Shields & Company, 24 Federal Street.

Railroad Securities

Carriers and the ICC

Once again the rail market is forced to labor under the psychological handicap of the wide publicity given management's pleas of poverty. The Interstate Commerce Commission has reopened the rate case. Briefs supporting the request for additional rate relief have been filed and the opening hearing has been set for Jan. 14. The carriers are attempting to get the full 15% increase that was requested last March and against which the Commission a few months ago granted an average of 9% for the Eastern roads and 6% for the rest of the country. It is indeed unfortunate that under the present system the companies virtually have to prove probable bankruptcy before they can get any relief.

In the exhibits filed with the Commission last week the railroads pointed out that gross revenues of the industry this year will be at a new record peak. Mounting costs, however, have taken a heavy toll. Net operating income will not come up to last year's level and will be well below that realized during the war years. Net operating income for 1951 was estimated at $903 million, compared with $973 million in the preceding year. This would represent a return of only 3.54% on net investment. It was further pointed out that even if recent freight rate increases had been in effect throughout 1951 the rate of return would have been only 3.77% compared with 3.96% in 1950.

Forecasting the future, it was estimated that unless some further rate relief is granted net operating income next year will fall to $879 million. If the full rate increases requested are granted quickly this could be increased to $1,161 million. On the basis of past experience, it appears idle even to hope for the granting of the entire amount the roads are seeking. Arguments for some further hikes, however, are compelling and the general feeling among security analysts is that the Commission will adopt a sympathetic attitude. The time lag is one of the most important considerations and on that score the prospects do not appear to be too encouraging. All through the inflationary period since the end of World War II the major difficulty of the railroads has been their inability to raise their prices immediately to offset increased costs as they were incurred. They have always had to wait out protracted ICC hearings.

Taken by itself net operating income of over $900 million would by no means represent a poor railroad year. It is only when it is related to the peak gross revenues that it is discouraging. If no more than that can be earned at the present level of business and traffic the question arises as to just how much of the revenue dollar the carriers will be able to carry through under less favorable conditions. Obviously peak business can not be expected to last forever.

In particular, the predicament of railroads in the East gives cause for concern. Two of the largest units in the industry, New York Central and Pennsylvania, are even now hard pressed to show any real earning power despite the heavy freight volume and huge sums spent in recent years for property improvements and modern efficient equipment. The Commission has itself taken cognizance of the peculiar problems faced by these large Eastern carriers in that larger freight rate increases have been allowed in that territory than in other sections of the country. It is obvious from the figures, however, that such action has not completely solved the question.

The feeling is growing, particularly among railroad analysts, that what is needed is an entirely new approach to the whole rate making theory and machinery. One of the big troubles in the case of many of the Eastern carriers is their extensive terminal operations. Terminal costs have gone up way out of line with road haul costs and the increase has been much more difficult to offset by capital improvements. This factor is not recognized in the present rate structure nor in the rate making machinery. There is considerable feeling that some means will have to be devised to compensate directly for such costs. Eventually some such action presumably will be taken but there is no indication that such a logical and direct approach is in near term prospect.

John M. Mayer Rates Congratulations Today

John M. Mayer

John M. Mayer, Merrill Lynch, Pierce, Fenner & Beane, New York City, is celebrating his birthday today, Dec. 27.

Louis McClure & Co.

TAMPA, Fla.—Effective Feb. 1, Louis C. McClure, Tampa Street Building, will do business as Louis C. McClure & Company.

John H. Mason

John H. Mason, Chairman of the board of Janney & Co., Philadelphia, passed away Dec. 22 at the age of 83.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb. — Edwin L. Stratton has joined the staff of Waddell & Reed, Inc., Barkley Building.

With Kirchofer & Arnold

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C. — James W. Tabb III is with Kirchofer & Arnold Associates, Inc., Insurance Building.

Canadian Securities

By WILLIAM J. McKAY

Although the Dominion of Canada strangely enough is not a member of the Sterling Area, nevertheless the current grave crisis of this vast British economic group can not fail to have serious repercussions within the senior Dominion. Canada of course will be represented, and it is to be expected will play a leading role at the highly important meeting of the Commonwealth members early next year. At this time vital and probably dramatic decisions will be made in order to avoid the disastrous consequences of the extreme economic disorder of the sterling bloc.

It is generally believed that the economic decline of the British Isles has been brought about essentially as a result of the financial ravages of two world wars. This is not strictly correct as the deterioration of British fortunes had already set in prior to World War I. No drastic policies were adopted to arrest this trend and generally speaking the various British governments concerned were content to bury their heads in the sand and ignore unpleasant realities. This course of short-sighted expediency was rendered possible by the ability to live on the capital built up during Britain's great era of commercial supremacy and the fruits of her rich colonial territories. These have long been insufficient to fill the gap of current trade and the increasing requirements of a redundant population. Then to add to the disastrous impact on the British economy of two global conflicts the Labor Government in the last postwar period placed a further crushing burden on the crumbling economic fabric. Social benefits of an order that even this country could not afford were recklessly granted, and freedom of enterprise, the mainspring of previous British commercial greatness, was deliberately stifled.

Happily the leader of the new British Government, Winston Churchill, is fully aware of the stern facts of the situation. Already he has diagnosed the root cause of Britain's economic ills when he stated that the British Isles with a growing population of more than 50 million is now able to support only 30 million. The solution is obvious but hitherto no government has had the courage to propose the mass emigration necessary to bring about a domestic economic balance. The absence of emphasis on further external grants and loans points to the probability that it is now resolved to make the herioc attempt to find a solution to overcome the Sterling Area's economic crisis within the British Commonwealth. Following the meeting of the members of the Commonwealth there is little question that bold proposals along these lines will be formally announced.

No country within the British orbit can contribute more to the success of a plan for greater Commonwealth economic cooperation than the Dominion of Canada. This vast but relatively empty land area with its tremendous wealth of natural resources could alone absorb the redundant population of the British Isles without approaching its ultimate potential. In the initial stages of course the acceptance of British immigrants on a scale now envisaged would involve considerable sacrifice on the part of the Dominion.

In the event of a British mass migration to Canada a severe strain would be imposed on the closely managed Canadian economy. As the experience of Australia has clearly demonstrated it is difficult to sustain a large immigration influx and avoid severe inflationary pressures. At the same time it is impossible to adopt strictly deflationary policies as this would jeopardize the success of any plan for large scale immigration. During the early stages also Canada would be more dependent than ever on external capital for the development of the expanded economy. Similarly the need particularly for conveniently available U. S. manufactured goods would be further accentuated.

Thus the Canadian economy, which at the present time, has reached a balanced stage comparable with the mature economies of older countries, is likely to revert to a state more in keeping with its youthful stage of expanding development. The opportunity is now offered for Canada to play an appropriate part in a British effort to permit the British Commonwealth to stand on its own feet. This can not be achieved without the adoption of bolder and more imaginative economic policies. If at the outset it is necessary to disturb the present state of comfortable economic balance, the future results will benefit not only the Dominion itself but also the British Commonwealth and the entire free world.

During the week both the external and internal sections of the market were again lower but dealings continued on a restricted scale. The Canadian dollar was steady around 2¼% discount but at this level there was a distinct resistance to further improvement. Stocks were dull and mostly lower although the Western oil and gold groups continued to attract moderate support. The removal of the exchange restrictions and the resultant arbitrage operations with New York brought inter-listed quotations into closer alignment with the volume of transactions on only a small scale. Eventually it is to be anticipated that the new freedom of action will create a trend in favor of U. S. issues at the expense of their Canadian counterparts.

With Paul H. Davis Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, Wis.—Freeman F. Kemmerer is now associated with Paul H. Davis & Co. of Chicago. He was formerly associated with the Wisconsin Company and Robert W. Baird & Co.

Continued from page 9

The Investor, the Treasury, And the Federal Reserve

absorb the funds to be available to them. As this outlook reversed itself, they became sellers of long-term Treasury bonds. The intensifying of the public dispute between the Treasury and the Federal led investors to have decreasing confidence in support rendered only at successively reduced prices. The reluctant and personalized methods employed by the Federal Reserve were a factor of importance in increasing the desire of lending institutions to sell long-term bonds in advance of their immediate needs and to display an increasing preference for short-term issues.

Insurance companies and other long-term investors continued to prefer private loans and investments, even when, following the Treasury-Federal Reserve accord, Treasury bond sales had to be made at several points below par. As old commitments were taken up and new commitments were made many investors accepted such losses in lieu of reducing their liquidity position. The decline in the market prices was stopped finally only because the Federal continued to buy substantial amounts and evidenced a more realistic attitude.

The present situation is one in which investors generally have a reduced desire to hold intermediate and long-term Treasury securities, and little or no confidence in the level of long-term bond prices. The preference for short-term issues, such as bills, has broadened partly because of the desire for liquidity via maturity and because of the increase in corporate tax liabilities.

(3) 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?

In view of the situation that had been developed in the Treasury security market from December, 1949 through March, 1951, the deficit outlook for the Treasury's cash budget, and the prospective large demand for private loans and investments, a less opportune moment than March, 1951 to abandon par support could hardly have been chosen. . . .

Three requirements should have been met before unexpectedly withdrawing par support. One was that the Treasury be fortified with an extraordinarily large cash surplus to be used to redeem the short-term holdings of investors, particularly banks and institutional investors and to underwrite an orderly market condition. Second, the authorities should have been prepared to permit a wide increase in rates (and decline in prices) overnight. Third, the background of the business economy should have been such that the resultant sharp increases in interest rates could be counted upon to decrease marginal capital and credit demand to the point that the then prospective demand would be preferably less and certainly not more than the amount of money willing to accept such investments. . . .

The worst possible conditions against which par support could have been withdrawn were:

(1) when the prospective supply of private loans and investments was substantially in excess of to-be-available funds,

(2) the Treasury faced a deficit which would have to be financed largely by short-term issues after the withdrawal of support, and

(3) if it were likely that such financing would be done against a level of interest rates that might be insufficiently high to reverse the balance between the supply of private loans and investments and the supply of investible funds. Each of these were present in March, 1951.

Several far more appropriate opportunities have existed. The first was before the opening of the books on the Victory Loan in the fall of 1945.

The second was in the middle of 1949 when the Federal reversed an unduly prolonged program of selling bonds coincident with a general policy statement that, at the time, was incapable of adequate interpretation by most investors and held differing meanings for those who believed they could understand it.

The next best occasion was in January, 1950. A clear-cut withdrawal of support of both long- and short-term rates would have had fewer adverse repercussions then, than the policies and methods subsequently pursued.

The last possible occasion on which support might have been advisedly withdrawn was shortly after our involvement in Korea.

(4) To what extent is the demand for long-term United States Government and other high-grade, fixed-interest-bearing securities by nonbank investors influenced by (a) the current level of interest rates, (b) expectations with respect to changes in interest rates, (c) other factors?

Once the minimum requirements of the investor for United States Government securities have been met, such securities became a residual investment. . . .

If an excess of investible funds exists relative to desirable non-Treasury media, it may be expected that such excess should flow into Treasury securities under all ordinary circumstances.

In the latter instance the question is primarily whether the excess of investible funds will assert a preference for short, intermediate, or long-term Treasury securities. In part, the preferences expressed will be determined by: (a) the investors' estimate of the price fluctuations likely to be incurred in each of these maturity classifications, and (b) the changing rates of return at which non-Treasury media may become available in increasing quantity in the future. . . .

When investors contemplate that an excess of investible funds, relative to other media, may be a long-run prospect, or if they contemplate an increase in their minimum Treasury security requirements, a greater preference will be shown for intermediate and long-term Treasury securities. To the extent that the time element is short or the prospects favor higher rates of return from non-Treasury media, an increasing preference may be expected for short-term Treasury securities. . . .

When . . . the trend seems clearly to be toward higher rates, the demand for Treasury securities, if any, will be largely for shortest-term securities.

If the likely trend of rates is reasonably certain to be stable or toward lower yields, then, and only then, is the level of rates a factor of importance. In such circumstances investors must determine whether the period of stability or the trend will be short-lived or of long duration. If the trend is apt to be short-lived a continued preference for short-term securities may exist, but this would be less likely if intermediate and long-term bonds offer a yield equal to or greater than the investor's earning requirements.

Also, when the prospective trend of rates is stable or toward lower levels, and the trend is apt to be of long duration, the investor may be required to adjust his requirements to the yields offered by long-term Treasury bonds. In such a case, the preference would then be for such securities. . . .

One circumstance, in which investors would be bound to assert a strong preference for short-term securities (or cash) would be when an immediate decline, or slow decline in the price of intermediate and long-term securities was taking place or seemed highly probable. When such a market condition exists or is indicated and, at the same time, the supply of private loans and investments is likely to exceed the availability of investible funds, a maximum incentive to sell intermediate or long-term Treasury bonds is set up. . . .

(5) What types of securities do you believe should be the principal vehicle of United States Government borrowing (a) under present conditions, (b) in the event of the necessity for substantial net Government borrowing? Discuss both marketable and non-marketable securities.

Non-marketable securities are undesirable media for Treasury financing except where these are designed for individuals, and are made available subject to relatively small maximum-purchase limitations. . . .

The present types of non-marketable securities, once offered, tend to cause them to be held in increasing amounts during periods of business depression, and in decreasing amounts during periods of boom. This is exactly the antithesis of the objective toward which debt management should aim. . . .

Non-marketable securities are also too inflexible to suit our needs. This is clearly demonstrated in the lack of changes in the terms offered by the savings bonds of various series. . . .

We believe, therefore, that non-marketable securities should be discontinued except for individuals, that is, except for a modified Series E type of bond, and these should be subject to small maximum-purchase limitations.

We suggest that . . . a guaranteed minimum interest rate . . . be provided, probably not to exceed 2%. Changing rates of interest would be paid on both current income and appreciation bonds and would be determined by fluctuations in the yields available on long-term Treasury bonds.

During the Spring of 1949 such a bond might have paid interest at a rate of 2¾%, compared with the guaranteed minimum of 2%. In the Spring of 1950, the applicable rate might have been 3%. Today, it might be 3½%. It would follow the trend of general market rates, which should be high in periods of inflation and low in periods of recession.

Restricted bonds, ones that cannot be generally purchased by commercial banks, are undesirable and should be discontinued. They serve to compartmentalize Treasury debt and to interfere with the fluidity of the market. . . .

In a period such as the present when the government faces substantial net government borrowing, its offerings should be confined to (a) a savings bond of the type described above, and (b) to issues of whatever type will meet the preferences of investors who have substantial amounts available for investment in this residual type of security. At the moment, this is confined to shortest-term securities.

Since the difference between money and Treasury securities lies in the interest paid on the latter, it becomes relatively unimportant during such deficit financing, whether the securities offered are of short- or long-term character. In fact, during subsequent periods, when a divestment of Treasury securities may be expected, the problems would be decreased if the deficit were to have been financed largely, in the initial instance, by short-term securities.

Intermediate and long-term bonds should be sold during the deficit period only as a bona fide investment demand appears. . . .

Obviously, if the government is forced to incur large deficits of this order, long-run inflation can be avoided only as the government later provides the Treasury with substantial cash surpluses.

At the present time, the lowest short-term rate that might conform to such a program, and to the potential inflation in the economy, might be 2½% or 3% for securities of one-year term, with whatever yields this would bring about in the longer-term areas. . . .

Investment Course to Be Given in Edmonton

EDMONTON, Alberta, Can.—Preliminary arrangements have been made for the offering of the Second Edmonton Investment Course under the joint auspices of the Edmonton Public School Board and the Alberta District of the Investment Dealers Association of Canada. Mr. Eric M. Duggan, D. M. Duggan Investments Limited, Vice-Chairman of the Alberta District Public Relations and Education Committee, will act as Course Co-ordinator.

Plans call for the Course to run from Jan. 14 through to Feb. 18, 1952.

The lecturers are as follows:

R. T. Morgan, Wood, Gundy & Co. Limited; Carl A. MacDonald, Tanner & Co. Limited; George Heywood, James Richardson & Sons; R. B. Brookes, Royal Securities Corporation Limited; Walter Jackson, C. L. Jackson & Company; J. E. Sydie, Sydie, Sutherland & Driscoll Limited; and Eric M. Duggan, D. M. Duggan Investments Limited.

Ontario Speakers Panel Program in 1952

TORONTO, Ont., Can.—Speakers Panel of the Ontario District of the Investment Dealers Association of Canada, announces the following engagements scheduled in 1952:

Kinsmen Club of Bowmanville Jan. 15—Mr. A. D. Armour, Brawley, Cathers & Company.

Rotary Club of Preston Jan. 3—Mr. N. H. Gunn, Bell, Gouinlock & Co., Ltd.

Rotary Club of Port Hope Jan. 11—Mr. C. W. McBride, Midland Securities Corpn. Ltd.

Kiwanis Club of Lindsay Jan. 15—Mr. D. S. Beatty, Burns Bros. & Denton Limited.

Kiwanis Club of Sault Ste. Marie Jan. 16—Mr. B. K. Marshall, W. C. Pitfield & Company Ltd.

Rotary Club of Orangeville Jan. 10—Mr. F. D. Lace, Matthews & Company.

Rotary Club of Acton March—Mr. T. J. Bradbury, Brawley, Cathers & Company.

London Rotary Club Speaker to be selected.

St. Catharines Lions Club Apr. 15—Mr. P. J. F. Baker, Wood, Gundy & Company Limited.

SEATTLE SECURITY TRADERS ASSOCIATION

Annual Christmas Party

December 7th

Gene Erckenbrack, *Grande & Co., Inc.;* Richard Langton, *Conrad, Bruce & Co.;* Reilly Atkinson, Jr., *H. P. Pratt & Co.;* Townley W. Bale, *Dean Witter & Co.;* Donald H. Brazier, *Donald H. Brazier & Co.;* William T. Patten, Jr., *Blyth & Co., Inc.*

Officers of Seattle Security Traders Association: Waldemar L. Stein, *Bramhall & Stein,* Treasurer; Homer J. Bateman, *Pacific Northwest Company,* President; Clyde Berryman, *Merrill Lynch, Pierce, Fenner & Beane,* Secretary; Paul Johnson, *Blyth & Co., Inc.,* Vice-President

Members of the Party Committee: Kenneth Easter, *Dean Witter & Co.;* Sidney J. Sanders, *Foster & Marshall;* William H. Oper, *Walston, Hoffman & Goodwin;* C. Arnold Taylor, *Wm. P. Harper & Son & Co.;* Robert A. Nathane, *Merrill Lynch, Pierce, Fenner & Beane;* John I. Rohde, *John R. Lewis & Co.*

George D. Sherwood, *McMahon & Burns, Ltd.;* Charles Dale; Harold Lefever, *A. E. Jukes & Co.;* Carl I. Hall, *Hall Securities, Ltd.;* Harry Duke, *A. E. Ames & Co., Ltd.;* Royden Morris, *Nelson & Co., Ltd.;* Ron Gunn, *A. E. Ames & Co., Ltd.;* guests of the Association, all from Vancouver, Canada

H. W. Jones, Jr., *National Securities Corp.;* J. H. Waterman, *Earl F. Waterman & Co.;* J. Barney Lee, *Hughbanks Incorporated;* M. Lawrence Bissell, *Securities Exchange, Inc.;* John R. Lewis, *John R. Lewis, Inc.;* G. Edward Ledbetter, *Merrill Lynch, Pierce, Fenner & Beane;* Josef C. Phillips, *Pacific Northwest Company*

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

Operating earnings of New York City banks, to be published next week along with the year-end condition statements, are expected to show final results for the year about the same as those reported for 1950.

While there will be variations among the different institutions with some showing gains and others declines, changes are expected to be relatively minor.

Profits from securities, on the other hand, may compare unfavorably with those of last year. The rise in interest rates which has occurred during the past year has been considerable and adjustments in the market values of securities have been substantial. Thus, some losses in this phase of operations are to be expected. In recent years, however, such transactions have not been particularly important and the results for the current period will not be too significant in the overall showing.

The final results for 1951 would, thus, be a reflection of the trends in evidence over the past year. Operating figures for past quarters have generally shown large gains in gross earnings. Most of this increase resulted from the expansion of income from loans. The loan portfolio has increased rapidly over the past year.

At the end of 1950 the total of loans of 16 large New York banks was $9.8 billion. As of Sept. 30, 1951 expansion of loans had increased the total to $10.6 billion, and by the end of the year the figure will be close to $11.0 billion.

This increase in loans has been accompanied by firming interest rates. The combination of these two factors has meant a large increase in the earnings from loans.

Interest and dividends from security holdings have been generally lower, reflecting the smaller holdings of such investments. Although the rate of return on these holdings has improved, the increase has not been sufficient to offset the smaller total of holdings.

Earnings from other activities, including service and trust departments, have been increasing. The contribution to higher gross earnings from this source, however, has not been large as most of the gain results from the income from loans.

Operating expenses have continued to increase. The record volume of business being transacted has meant increased employees. At the same time the banks along with industry generally have had to absorb higher wage costs.

These increases in operating expenses have been less than the gain in gross earnings with the result that income before taxes has been considerably higher.

The necessity of providing for increased taxes has absorbed a large part of the gain in earnings. While a few banks in the September quarter earmarked funds for the higher corporate taxes which were imposed in October, most of the institutions computed the tax liability at the old 47% rate. Thus, in the final period an allowance to provide for the retroactive feature of the revenue bill will be necessary as well as current earnings on a 52% basis.

This will mean that some banks which were successful in reporting higher operating earnings in the first nine months, may not show as much of a gain, if any, for the full year.

The net result should be a level of earnings approximately equal to that of last year or possibly a little higher.

Looking forward to 1952, current indications are that the banks should enjoy a favorable period of operations.

Commercial loans are at a record high and the prospects of a continued high level of business activity seems to indicate that loan volume will be maintained.

Interest rates have been increasing. The latest advance occurred during the past ten days when the prime rate in New York was increased by most of the major banks from 2¾% to 3%. Obviously this change will have little influence on this year's earnings. As old loans are renewed at the higher rates, however, the benefit to earnings should be considerable.

Taxes, of course, will remain a major problem for the banks. With many of the banks approaching a point where they will be subject to an excess profits tax, it will be difficult to show any material increase in earnings.

Because of conditions peculiar to banking, responsible banking officials are endeavoring to obtain some special consideration for banks with respect to income taxes. As any consideration obtained could be of major significance to the banks, the efforts of these officials will be followed with considerable interest.

Midwest Exch. Member

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange has elected to membership War O. Brooks, Sullivan, Brooks Co., Inc., Wichita, Kans.

Wood, Walker to Admit

George S. Cochrane on Jan. 1 will be admitted to limited partnership in Wood, Walker & Co., 63 Wall Street, New York City, members of the New York Stock Exchange.

IBA Texas Group Installs Officers

Dana T. Richardson

R. R. Gilbert, Jr.

W. E. Knickerbocker

William C. Porter

Thomas Beckett, Jr.

R. A. Underwood

Edward H. Austin

Chas. B. White

Lewis F. Rodgers

R. B. Smith

DALLAS, Tex. — The following officers were installed Nov. 30, by the Texas Group of the Investment Bankers Association of America:

Chairman—D. T. Richardson, Milton R. Underwood & Co., Houston.

Vice-Chairmen—R. R. Gilbert, Jr., First National Bank in Dallas, and Waldo E. Knickerbocker, McClung & Knickerbocker, Houston.

Secretary-Treasurer—William C. Porter, Dittmar & Co., San Antonio.

Committeemen — Thomas Beckett, Jr., First Southwest Company, Dallas (3 years); Robert A. Underwood, R. A. Underwood & Co., Inc., Dallas (2 years); Edward H. Austin, Austin, Hart & Parvin, San Antonio (1 year).

Ex-Officio—Charles B. White, Chas. B. White & Co., Houston, and Lewis F. Rodgers, Central Investment Company, Dallas.

Executive Secretary—R. B. (Brud) Smith, Texas Bond Reporter.

Continued from page 3

Basic Conflicts in Our Economy

our good friend, Captain Henry Heimann, head of your great Association, put it recently, "If there were no hope of lower costs in government, then there would be very little hope for the type of government we have." In short, the very future of democracy depends on our ability to substitute self-discipline for political expediency, that is, to trim our dreams to fit our means!

Inflation vs. Deflation

Until that happens, the government will continue to load the balance between inflation and deflation very heavily in favor of inflation. After all, the Administration is publicly committed to an expanding economy program. Likewise, the strong inflation bias of the Congress is clearly demonstrated by the insistence on business-as-usual during the Korean fighting and rearmament, by the refusal to cut non-military spending, by the maintenance of agricultural price supports, by the opposition to controls legislation with teeth, and by the inflationary interferences in the administration of mortgage credit and consumer credit. Clearly, we shall have to look elsewhere for comfort in the fight on inflation.

Fortunately, when we look to business we find no end of comfort. The reversal of the inflationary trend last March, temporary though it was, should be sufficient answer to those who say we are condemned to perpetual inflation—that is, to an ever smaller and smaller dollar. While we must frankly admit that both government and labor can condemn us to the cruelties of creeping, or even galloping, inflation, it is hard to believe that either bureaucrats or labor leaders will be that stupid.

So far as business itself is concerned—despite the recent attacks from Washington—there can be no question as to ability to produce what is really needed. There could be no better proof of this than what happened last March. Who could have expected that America could carry on a war in Korea, rearm for defense, aid the free world, maintain the highest standard of living in history, and, at the same time, produce so much goods that inventories would become so large they would cause an "inventory recession"? But, as you know, that's exactly what happened! And, remember, it can happen again if American business is given half a chance.

It must never be overlooked that the productive capacity of this country is very great and is continually increasing. For several years, capital expenditures have been so large that they can properly be characterized as abnormal. More specifically, production facilities were greatly expanded in World War II; and since then, nearly $110 billion more in plants and machinery have been added to our industrial might! In addition, capital expenditures recently have been running at a yearly rate of more than $25 billion and will continue at a high level throughout most of next year. As a matter of fact, the rearmament program is primarily concerned with expansion of facilities for the production of military goods. It follows that the recent wave of criticism of military output is not fairly based. It misses the point, as the rearmament goal is future, not present, production.

Rearmament vs. Consumer Goods

In the battle between military goods and consumer goods, every effort has been made to maintain civilian production at high levels in order to maintain not only large stocks of goods—particularly in consumer inventories—but also to have just that much additional production facilities that can be quickly, and conveniently, converted to military production if all-out war should materialize. This gives us an industrial reserve-in-being which can be quickly called on in case of full-scale war.

Under this policy, civilian production has been at much higher levels than was expected, as many businessmen have learned to their sorrow. Other than the reductions in output caused by restrictions on the use of metals in short supply, this high level of civilian production may be expected to continue. The pressure groups of both business and labor will insist on maximum possible production.

As a result of this high civilian output policy, contradictory tendencies will rule the economy in the coming months. Whereas shortages and increasing government controls will plague sectors of the economy dependent on the allocation of metals, the remainder of the economy will continue to emerge from the recession which started last Spring.

This recovery for the lines depressed since last spring is quite unusual, as it is being caused by increasing consumer income rather than declining prices. Such a recovery will not cause people to call on their savings unless, of course, another buying rush materializes. Now that the man in the street and his wife in the kitchen have regained faith in America's capacity to produce, a third stampede to buy does not seem likely — and the favorable developments in Korea support this conclusion. This means that **the current recovery will be limited to the increase in disposable income and, thus, will not have the dangerous further impetus of the use of savings and other liquid assets.**

Durable Consumer Goods vs. Soft Goods

Many businessmen expect that the decline in output of durable consumer goods will cause the rising disposable income to "spill over" into the soft goods field. While it is quite true that this may happen, the effect will not be as great as most people think. In fact, competition will be keen in the soft goods sector in general. This conclusion is based on the conviction that savings will continue at a high level because consumer inventories are large and people think prices are high. In addition, taxes are taking some $12 billion more than before.

This conclusion is also based on the knowledge that soft-goods production capacity in this country and those countries with which we trade has been considerably expanded, and that only an insignificant part of that output will be needed for military use.

Any businessman waiting for rising consumer income which can't be spent for consumer durable goods to rescue him, should ponder the paradox of **increasing income** and **declining spending**, which prevailed from last March until just a few weeks ago. It not only can happen; it has happened; and, it could continue at a rate which would offset the increased military spending of the next few months.

In the competition between durable and soft goods for the consumer's dollar, it by no means follows that what one does not get the other will get. Savings and taxes must be reckoned with!

Competition vs. "Fair" Trade, "Unfair" Trade and Other Encroachments

Another issue on which the battle lines are being drawn in the American economy is that of preservation of competition. The uning under normal conditions is fully appreciated by the general public as well as by business. But the equally undesirable economic and social consequences of the so-called "Fair" Trade, "Unfair" Trade, "Cost" Survey and similar types of legislation, designed to protect sellers from the rigors of competition, are not sufficently recognized. Fundamentally, all such price legislation reflects a lack of confidence in the functioning of free markets. Protecting the inefficient producer or distributor from competition means that the consumer gets less for his money. Protecting the efficient from competition means that an ever-increasing subsidy is given, and it comes directly out of the consumer's pocket! The adverse effects on the standard of living and future progress are obvious.

Competitive capitalism has made America great. Competition is the one advantage capitalism offers which no other system can even approach. In fact, it is not too much to say that the preservation of capitalism depends on the preservation of competition. So, it must be preserved from all encroachments, whether from without or within business.

The Federal Reserve vs. the Treasury

Still another basic conflict in the economy is that between the Treasury and the Federal Reserve System. You may wonder why I mention this controversy in a discussion of what lies ahead for business, but the answer is close at hand. The so-called compromise, in which the pegs under government bonds were lowered and market support became flexible, is merely an uneasy truce—the real issue, which is whether the Treasury or the Federal Reserve shall set the terms and conditions of access to central bank credit, has by no means been settled.

Nor can we view the forthcoming Congressional hearings on this problem with equanimity. Congressman Patton, who heads the sub-committee, is a known inflationist of many years standing. Furthermore, in the past, he has favored the nationalization of the Federal Reserve banks and an increase in the powers of the Treasury over the central banking mechanism. This means that those who oppose control of credit by the administration in power — whatever political party it may be—had better get ready to stand up and be counted. It is of the utmost importance to the future of private enterprise that such a vital national problem as the control of credit, particularly reserve credit, be solved on economic, and not partisan, lines.

Conclusions

There are more basic conflicts in our economy today than ever before. This makes it doubly necessary, difficult though it may be, to cut through the fog of propaganda and welter of counterclaims to the bedrock of facts. When you do this, you will often find that things are not what they seem to be; so, nowadays it's particularly dangerous to jump to conclusions. It has become imperative to ascertain and carefully weigh the real facts, if serious mistakes are to be avoided.

These basic conflicts of inflation versus deflation, tax eaters versus producers, rearmament versus consumer goods, durable goods versus soft goods, maintenance of competition against encrachments, and the many other vital issues permeating our economy, can, beyond question, be solved in favor of the future of our great country —in favor of your children and my children — if the American people can only be made to see the issues involved. Now, more than ever before, the future will be what we make it. There is a time for action and this it is. Are you doing your part in this vital battle?

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Investment Banker's Role In Revenue Bond Financing

counsel must be independent, unbiased, and based upon a fund of knowledge which can come only from experience in the field of finance.

The role is often a difficult one for the banker since he is called upon to subjugate to a certain extent his usual role as watchdog for the investor in preference to advising the issurer as to how best to set up his bond issue to make it attractive to bidders.

The financial advisor should enter the picture as early as possible in the financing of a revenue bond project, since his advice may be helpful in the earliest stages of planning—even in the formulation of the authorizing legislation —but it is seldom that his advice is sought at so early a juncture. Let us say, then, that the banker comes in after the legislation is passed and the preliminary planning of the project has begun. The financial advisor, among other things, is required to cooperate with the engineers in studying the economic feasibility of the undertaking and with the bond attorneys in drawing up a bond indenture which will provide the necessary safeguards to issuer and investor alike. The preparing of a sound bond issue is a joint venture of issuer, attorneys, engineers and bankers, and none should reasonably be expected to assume responsibilities outside of his particular sphere.

Once the terms of the bonds are determined, the financial advisor is expected to prepare the bond issue for market. This will involve the preparing of an official statement or offering circular, stimulating interest in the bonds not only among prospective bidders but among logical institutional investors as well, arranging for the receipt of bids for the bonds, and generally holding the hand of the issuer to be sure that everything possible is done to assure the receipt of the highest possible bid for the bonds.

Customarily, the financial advisor does not bid for the bonds when he is employed as an independent expert. This, obviously, is as it should be, since it places the banker in such a position that his advice can be completely unbiased.

Underwriter in a Negotiated Sale

Projects involving large amounts of new construction or a complete revamping of the financial structure of the issuer are most frequently financed through the method known as a negotiated sale. That term may need a bit of explanation. It implies that the issuer and the banker come to an agreement as to the conditions under which the banker will purchase an issue of bonds when ready for market. In most cases, it does not mean that there is no competition—for the competition among bankers for a purchase contract is often as keen as at open competitive bidding. For one reason or another—price, reputation, favorable contacts, or perhaps salesmanship—let us assume that a banker is able to obtain a contract for the purchase of a new revenue bond issue. That contract will customarily provide for the services the banker is to render and may or may not stipulate the price which he will pay for the bonds. In some cases, a bottom limit of the purchase price is included.

If the banker is brought into the picture at a very early stage, the contract may provide that he will furnish, at his own expense, the necessary traffic and construction engineers' surveys and preliminary attorneys' opinions, such expenses in most cases to be reimbursed from the proceeds of the bonds, when, as, and if issued. At any rate, the banker assumes a certain amount of expense which may be lost should the project prove to be impracticable. For this reason, and because the contract to purchase at a future date involves other risks, the spread—or per bond profit—in this type of financing is usually greater than in financing through competitive bidding.

As in the case of the financial advisor, the banker proceeds to cooperate with engineers and attorneys in setting up a salable bond issue, taking cognizance of the peculiar legal and engineering features of the particular situation. Much as they may seem to parallel each other, in the mind of the average person, revenue bond issues have many points of dissimilarity, and it cannot safely be said that what will be sound in one issue will be equally sound in another.

Since revenue bond issues do vary so widely, it is particularly difficult for the banker or the analyst to compare new and outstanding revenue issues when attempting to arrive at an evaluation of a new project. However, you may be interested in hearing the criteria of one analyst.

There are five questions which I ask myself when analyzing a revenue bond issue. (The questions are very simple, but the answers are often very difficult to ascertain.)

(1) Is the facility needed?

The answer to this first question comes readily enough when we are considering an important crossing over the Hudson River, like the George Washington Bridge, or a high speed route which will avoid the congested areas of northern New Jersey, as in the case of the new Turnpike; but the necessity of a publicly owned vs. a privately owned transit system in Chicago (Chicago Transit Authority), or a public power project in an area already served by private enterprises, is less easily determined.

(2) Is it legally valid? (Has the borrower the legal right to borrow money and to carry out the project?)

Has the enabling legislation been well drawn? We can have the utmost assurance in the validity of an issue when it has been reviewed by the State Supreme Court in a test case. Since the legal work of preparing the indenture, securing necessary enabling legislation, and arguing the test case may take a considerable period of time, a revenue bond issue may be in process for two or three years before the public at large ever hears of it.

Insuring the validity of an issue before it comes to market may save both the borrower and the ultimate investor much future grief and costly litigation. Where such precautions have not been taken, the investor may find that he has an invalid instrument and an unenforceable contract.

(3) Is there adequate protection against competition?

Are there any toll-free facilities sufficiently close as to draw traffic in the event of an increase in rates on the facility? A slow ferry, with infrequent trips, would not create serious competition for a modern bridge on a main route, even if it were necessary to raise toll rates moderately on the bridge. However, a free bridge on an alternative route, involving a detour of several miles, might absorb a substantial amount of traffic if the rate on the toll bridge were raised.

In the case of utilities such as electric power systems, the presence of any other body having jurisdiction over the rate-making powers of the municipality or authority would be an important consideration. The enabling legislation should give the administrators of the project absolute control over its rate-fixing policy.

(4) Are the issuer and the investor protected by the trust indenture?

(a) Is the investor protected in the event of a default?

Careful study of the trust instrument is required here. The indenture should not place so many restrictions on the borrower as to hamper the proper operation and management of the project. An indenture which too rigidly directs the flow of revenues, restricting operating expenses, for example, to a certain stipulated dollar amount, may actually prove detrimental to the interests of the investor and the borrower alike, should some future contingency arise which would require a larger outlay for some legitimate operating need. While it may be possible to overcome such an obstacle by then obtaining specific authorization from the bondholders to modify the restrictive provision, such a process is cumbersome and time-consuming at best, and at worst may result in a serious deterioration of the facility, or perhaps default on its obligations.

On the other hand, there should be adequate safeguards against mismanagement or diversion of project funds. Provision should be made for the building up of bond and interest reserve funds in an amount sufficient to provide for all current principal and interest requirements and to provide a "nest-egg" in the event of a future decline in the earning power of the project.

Some provision should be made in the trust indenture, giving the borrower the right to accelerate retirement of the issue through call. The call premiums should be so set as to provide the bondholder with adequate compensation for the shortened life of his investment, but should not be so high as to penalize the borrower unduly, and thereby prevent him from exercising prudent debt management policies.

The rights of the investor in the event of default, and a clear statement of just what constitutes a "default" should be contained in the indenture. In most revenue bonds, the investor has a lien on revenues, but no mortgage on the properties themselves. The rights of the investor with regard to court action to enforce carrying out of the terms of the indenture should also be considered.

(5) Are the earnings adequate?

This is the most difficult of the five questions to answer, because it depends for the most part on individual judgment. Most revenue bond issues are sold to finance construction of a new facility or acquisition of some existing one which had been privately operated. In the first case, there can be no actual operating experience to draw upon so the analyst must rely upon the estimates of engineers and others as to the possible earning power of the project. While on the average, engineers' estimates have proven reliable (although too conservative in some cases), we have been passing through a series of "abnormal" periods—depression, World War II, post-war boom. It is difficult to estimate how these projects would behave under a "normal" economy. Many projects depending upon motor vehicle traffic were severely affected by the restrictions on the use of gasoline and tires during World War II; and many transit facilities have been pleasantly surprised by the steady rise in highway revenues since the end of the war.

Since each revenue project has its own peculiar problems, it is impossible to set up absolute criteria for what constitutes satisfactory coverage, and it is up to the analyst to decide whether or not the earnings coverage as indicated by the estimates will provide an adequate margin of safety for the particular issue. For a relatively stable undertaking such as a water system, where the user has no real alternative but to subscribe to the service, a relatively slim margin may be adequate (ex. coverage of 1.25-1.50). On the other hand, when we are considering a facility such as a toll highway or bridge used primarily by pleasure vehicles, a substantially higher margin may be considered necessary.

To summarize, the problems encountered by the investment banker in connection with a revenue bond issue are many and varied. His association with an issue may begin long before the project has arrived at the permanent financing stage, and continue long after the bonds have been placed in the hands of the permanent investor. When sought early enough and conscientiously followed, his advice, based on sound knowledge and supported by experience, may serve to protect the best interests of borrowers and investing public alike.

Elliot Stein Forms Own Firm in St. Louis

Elliot H. Stein

ST. LOUIS, Mo.—Elliot H. Stein has formed Elliot H. Stein & Co. with offices at 411 North Seventh Street, to engage in the securities business. Mr. Stein was formerly associated with Mark C. Steinberg & Co.

Now Shaver Co.

ST. PETERSBURG, Fla.—The firm name of Shaver & Cook, has been changed to Shaver & Co. Offices are in the Florida Theatre Building.

Robert B. Fogg

Robert B. Fogg, in charge of the municipal department of Blyth & Co., Inc., Boston, Mass., passed away Dec. 18.

Public Utility Securities

By OWEN ELY

Southwestern Public Service Company

Southwestern Public Service Company operates in the Panhandle section of Texas, and in New Mexico, using natural gas as fuel. Growth has been rapid, revenues have doubled in five years, to around $21 million. Selling over-counter around 18 and paying $1.12, the stock yields 6.2%. The annual dividend payments have increased in each of the last eight years; and the market price of the stock, after adjustment for slit-ups, has advanced from 1¾ during this period, with each year's median price (between high and low) showing some gain. The common stock record is as follows:

Year Ended Aug. 31—	Revenues (Millions)	Share Earnings	Dividends	**Approximate —Range—
1951	$21.30	$1.31	$1.12	17½-15
1950	18.48	1.34	1.08	18¼-13¾
1949	16.62	1.36	0.98	17¼-13
1948	14.73	1.32	0.80	14¾-10¼
1947	11.88	1.16	0.63	12¾-10
1946	10.10	0.99	0.50	11¾- 8½
1945	10.58	0.58	0.31	10½- 5%
1944	9.64	*0.72	0.26	6¼- 3¾
1943	8.48	1.08	0.13	5 - 1¾

*After provision for contingencies equal to $0.42 a common share.
**Calendar years.

$1.35 as earned in the 12 months ended Oct. 31, and for the fiscal year ending August, 1952, earnings are budgeted at $1.45-$1.50 on an increased number of shares. The 6-7c saving on the omission of the electrical energy tax will exceed the increase in the income tax rate in 1952 (as compared with the 1951 tax rate). The company is budgeting a 20% increase in revenues in the current fiscal year, reflecting higher rates, new defense business requiring use of about 50,000 kw., and growth of the regular business. Actually during the fiscal year which began Sept. 1 revenues have been running about 25% over last year and 4% above the budget.

The company has not yet benefitted by television to any great extent but within 12 to 18 months coaxial cables should be ready to serve this area and the television load may mean an extra $500,000 in revenues, it is estimated.

The company has pursued an aggressive policy in the postwar period with respect to construction, so that it has had excess power available for sale to other utilities. They are now building a large new steam generating unit called "Plant X," in the center of the system. It is located "out in the open" (not near any large city) on a 1,000-acre plot. It is within a mile of a natural gas pipe line, so that gas will be readily available for fuel. The company has obtained water rights on 10,000 acres in order to provide the necessary water supply for the plant.

The first generating unit will be 50,000 kw. to be installed in June, 1952, and about a year later a second unit of 100,000 kw. will be installed. Also, the company has on order two 50,000 kw. units for installation in 1954, one at its Moore County, Texas plant, and one at a new plant in Eddy County, New Mexico. In addition, an 18,000 kw. unit will be installed at Carlsbad in August, 1952. This program will provide 268,000 kw. name-plate rating (perhaps 10-20% more in actual capability), as compared with present capacity of about 350,000—a projected increase of 75% over the next three years.

The company's financing program has been consistent and regular. Beginning in 1947, the company early in each year has issued rights for additional common stock; each of these issues have included an over-subscription privilege, and the last four have been well over-subscribed. They have been underwritten by a syndicate headed by Dillon Read & Co., who have acted as bankers for the company since its metamorphasis from a holding company to an operating company in 1944. Senior securities have been largely placed with institutions. During 1951 the company sold about $3.5 million common stock, $1 million 4.25% preferred stock (sold to two institutions), and $12 million bonds also sold privately. In 1952 some $4 million common stock will be offered on a 1-for-13 or 1-for-14 basis around Feb. 1. It is understood that the company has arranged to place privately $10 million bonds.

The company has no plans to list its common stock. A number of utility stocks have been transferred from the over-the-counter list to the Big Board or the Curb, and the management feels that remaining over-the-counter issues may attract greater interest from over-the-counter dealers for that reason.

Following the two-for-one stock split on Aug. 1, 1950, the number of stockholders has increased some 25%, with new holders in almost every state. The management takes an active interest in keeping stockholders advised of current earnings and developments. It has just completed its annual series of meetings with investment dealers and utility analysts, including talks by officers and color sound movies.

An interesting new feature of the stock is the fact that part of the dividends are "tax-free." On Nov. 29, the company sent a notice to stockholders, stating that on the basis of the Federal income tax return to be filed by the company for the fiscal year ended Aug. 31, the three 28c dividends, paid March 1, June 1, and Sept. 1, were nontaxable to the extent of 40.63%. The words "tax-free" or "nontaxable" mean that the dividend (or the designated portion thereof) is not considered income on the basis of earnings as reported to the Treasury Dept. As in the case of most utilities, these taxable earnings vary considerably from earnings as reported to stockholders. The company's income as reported to stockholders is computed according to the uniform system of accounts of the Federal Power Commission and among the principal items of difference are the amounts charged for depreciation and the item of interest during construction which is not considered as income for tax purposes. A considerable portion of the 1949 and 1950 fiscal year dividends would have been nontaxable but for the fact that the company then had an accumulated excess of taxable income over dividends paid in prior years. However, the remaining balance of this excess was applied to the Dec. 1, 1950 dividend, so that taxability of subsequent dividends is determined solely by a comparison of the dividends paid with taxable income for the current year. Thus, the excess of dividend over taxable income represents a return of capital, and treated as such by the stockholder, who marks down the cost of his stock on his tax books by this amount.

Since the 1951 return has not yet been examined by revenue agents, the percentage remains subject to final determination, but it is believed that any adjustment will not be large. The company's budget for the fiscal year ending Aug. 31, 1952, indicates that if dividends are continued at the present rate, about 20% of them will be nontaxable. Accordingly, stockholders were advised to report 20% of the Dec. 1 dividend nontaxable. In the fiscal years 1953-54, the company anticipates that the nontaxable portion of the dividends will be considerably greater than in 1952 if accelerated amortization is granted on a portion of the cost of new plant facilities. Application with respect to over $34,000,000 of such facilities (in the company's defense area) are now pending before DPA.

The company does not pay any EPT, and it is estimated that earnings could increase substantially before such a tax would be payable.

Continued from first page

Business and Financial Outlook for 1952

may be more important strikes in the first part of 1952, there should be a decline in work stoppages in the last half-year.

(8) Tightness in the labor supply will continue through 1952, particularly of highly skilled workers. Wages of such workers will be advanced voluntarily in order to hold them.

(9) The Taft-Hartley Law will not be repealed during 1952, but may be amended. The administrators of the law will continue to wink at some of its clauses.

Commodity Prices Will Remain Firm

(10) Wholesale prices of many commodities will suffer a mild decline in 1952 when compared with the price level for Dec. 31, 1951. In some lines the drop may be quite steep from the high levels of 1951. Retail prices for 1952 will hold steady.

(1) Commodity speculation for a rise will not pay in 1952. Furthermore, our expanding stockpiles of strategic materials present a real price threat in the event of a peace scare. Such stockpiles could then act strongly as a depressant on prices. Wise merchants will operate with only a conservative inventory.

(12) The cost of living will remain high during 1952. This prediction recognizes that living costs next year may continue above the lower levels that existed during the first half of the year now closing. I also predict further rises in freight and passenger rates.

Farm Outlook Good

(13) Congress will not take any action during 1952 to legally bolster so-called Fair Trade price maintenance. It's too risky politically when consumers are complaining about the cost of living. But some manufacturers will tighten up on distributors, eliminating those who won't sign Fair Trade contracts.

(14) Barring crop failures, the total supply of food available should be larger in 1952 than for 1951, since the government will raise planting quotas as part of its attack on inflation. If the weather is extremely favorable, the government will be asked to give away surplus crops.

(15) With prospects good for a rising supply of feed grains, most meat should be more plentiful next year than in 1951. Prices for beef, however, will be held up by high wages and military needs.

Local Taxes Will Be Higher

(16) The burden of Federal taxes, both corporate and personal, will not be increased again during 1952 above the advance late in 1951. State and municipal taxes, however, will go higher again.

(17) The above forecast is based on the assumption that unless Stalin starts World War III during the early months of 1952, he has made up his mind to forget World War III until the United States and our Allies again "go to sleep," which may be some years hence. We give this as a definite prediction as to the outlook for World War III.

(18) There are three ways of preventing inflation: (1) increased production; (2) decreased spending; and (3) **as a last resort**, increased taxes. I forecast that the current exploitation and accompanying fear of inflation are not yet at their peaks for this business cycle.

(19) States and municipalities will again be under pressure to find adequate sources of revenue. Further increases in sales taxes by states and municipalities can be looked for next year.

(20) There will be no increase in "luxury taxes" during 1952.

Domestic Trade Uncertain

(21) Credit curbs will continue to hold down the demand for automobiles and certain household equipment. Completions of fewer dwellings will also act as a damper on furniture sales.

(22) Falling demand for hard goods should stimulate the public's spending for food and lower-priced soft goods.

(23) The above trend forecast will mean a decline in department store **volume**. I predict a rise in the sales of variety and drug chains.

Foreign Trade Outlook

(24) I believe that armament is to become a new and permanent industry at least for many years to come. Airplanes, tanks, artillery, guns, and munitions will constantly be replaced as they become obsolete. This new activity will operate much as the automobile industry has operated. I forecast that this will be more and more recognized throughout 1952.

(25) Barring new war developments, I look for continued shrinkage in our civilian exports during 1952. Imports, however, may rise further. Exports to South America will be off. Total foreign trade should not be changed much, but the exporters will be on the short end of this business with the importers gaining.

(26) Except for war supplies, it will become more difficult to convince Congress that additional heavy credits should be granted abroad.

(27) Many domestic manufacturers will feel increasing competition from foreign merchandise. A cry for increased tariff protection will be heard; but no radical tariff legislation will result.

More Deficit Financing

(28) The first quarter of 1952 may actually see a budget surplus as a result of high National Income and increased taxation. But a Federal deficit will surely arise during the balance of the year.

(29) Government loans will gradually increase during 1952 and there will be some strengthening of basic interest rates.

(30) Government bonds will continue to be held tightly between the floor of Federal Reserve support purchases and the ceiling of Federal Reserve anti-inflation sales. Under such conditions price changes should be negligible during 1952.

(31) While Canada and South Africa have permitted "free markets" or revaluation of gold, because of increases in costs of production, the Administration is still **opposed**. The Gold Stock of the United States is, however, likely to be revalued upward when the nation, in the opinion of government economists, "needs another shot of inflation." This will not be in 1952.

Stock Market and Bond Market Outlook

(32) Until the danger of war is past, wise people who can easily do so will move out of large bomb-vulnerable cities and avoid having investments in such areas.

(33) Sometime during 1952 stocks will sell lower than current quotations. This applies especially to oils and certain "blue chips."

(34) Stocks now in the best position for 1952 should be many of those that have not been popular as inflation hedges in the past months. I like good chain variety store stocks, certain movie stocks and possibly the air-transportation issues.

(35) Investment Trust funds, pension funds, and insurance companies may provide an excellent backlog of demand for sound Income Stocks where good values can be demonstrated.

(36) Successful investors of 1952 will be those who have the PATIENCE to follow a carefully planned investment program. Such a program will emphasize diversification—not only by company and industry, but also by quality and cash.

(37) Highest grade taxable corporate bonds should hold in a narrow price range during 1952, but I see no reason for individual investors to buy them unless they are CONVERTIBLES.

(38) With present high income taxes, tax-exempt bonds should continue in good demand. Investors should see to it that their bond maturities are carefully diversified, with some part of their bond funds maturing each year. As there usually is not a good market for tax-exempts when an estate is liquidated, it is wise to hold only such bonds as will mature near the time of one's probable death.

Real Estate Activity

(39) Much of the recent real estate boom was the result of easy credit—almost nothing down and small payments for years hence. Under the recent legislation there will be fewer small homes built in 1952; but some credit restrictions will be modified. Mortgage money should soon be had on more liberal terms.

(40) Nonessential commercial building will be hit in 1952—but, barring World War III, controls will be lessened rather than increased.

(41) The decline in new building will continue to throw a wet blanket over speculation in vacant suburban lots during 1952.

(42) The scare caused by the Korean-China War and fears of an early outbreak in other sections

will adversely affect the demand for big city real estate. This fear, however, is declining and many who had put their city properties up for sale are withdrawing them.

(43) Small sustenance farms should hold up well in price as these continue to be valuable inflation hedges. Demand for large commercial farms, however, should weaken as the year progresses.

(44) Any swing back toward rent control will act as a further damper on new apartment house building. There is as yet no incentive to build homes for rental income, although rent control is gradually lessening.

(45) Tighter credit controls will make it more difficult to improve older residential properties. Hence the prices for these should weaken even though these are now the best buys.

(46) Volume of money and credit in circulation will continue to increase to about the peak of a few years back. The big rise has been in credit. Much of the credit increase is "secured" by commodity and property values that can shrink greatly when defense spending ends.

Defense Orders and Politics

(47) Those who can do so should attempt to get defense orders if needed to hold up production volumes and reduce overhead. Not too much profit from such war business should be expected. These contracts will be subject to tight-fisted renegotiations.

(48) The political outlook for 1952 will be completely dominated by jockeying for position in the Presidential race for 1952. Barring World War III, Congress will pass very little new legislation except some sops to labor and the veterans.

(49) Congress will still be dominated by a conservative coalition of Northern Republicans and Southern Democrats. This North-South coalition will still be able to curb onslaughts by New Dealers.

(50) Democrats, as well as Republicans, in Congress are making every effort to avoid antagonizing farmers. Again, in 1952—as in 1948—the farmers will hold the balance of power in the Presidential and many Congressional elections. Midwest states can make or break the Presidential candidates. The labor vote is overrated.

E. F. Waterman Admits J. H. Waterman to Firm

Joslyn H. Waterman

SEATTLE, Wash. — Effective Jan. 1, Earl F. Waterman will admit Joslyn H. Waterman to partnership in the firm of Earl F. Waterman & Co., 1411 Fourth Avenue Building. Both have been associated in the business for many years.

Gora-Lee Corp. Director

Gora-Lee Corp. (Stratford, Conn.), manufacturer of fine plastic and rubber products, announced that Matthew Robinson has been elected a director to represent Schroder Rockefeller & Co., Inc., financial advisers to the company.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The Board of Directors of **J. P. Morgan & Co. Incorporated, of New York**, at the regular meeting held on Dec. 19 elected Thomas Rodd, John E. Hopkins, and Ellmore C. Patterson to the office of Vice-President, Mr. Rodd continuing to hold the office of Treasurer. The directors also appointed P. Hurley Bogardus, Assistant Vice-President, and D. Raymond Bowen and George Klemann, Assistant Treasurers. Mr. Rodd was graduated from Yale University in 1935, and joined the staff of J. P. Morgan & Co. in that year. He became Treasurer of J. P. Morgan & Co. Inc. in 1949. Mr. Hopkins joined the staff of Drexel & Co., Philadelphia, in 1922, and after a year on the staff of Morgan, Stanley & Co. Inc., joined J. P. Morgan & Co. in 1936. He became Assistant Treasurer of J. P. Morgan & Co. Inc. in 1944, and Assistant Vice-President in 1948. Mr. Patterson was graduated from the University of Chicago in 1935. He joined the staff of J. P. Morgan & Co. in 1935, and became an Assistant Vice-President of J. P. Morgan & Co. Incorporated, in 1948.

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Three officers of the banking department of **Bankers Trust Company of New York** have been elevated to the post of Vice-President, it was announced on Dec. 24 by S. Sloan Colt, President. At the same time 11 men were promoted to Assistant Vice-Presidents, while another was elected Trust Officer. Thirteen members of the staff were also elected to official positions. The new Vice-Presidents in the banking department are Paul Bonynge, Jr., who handles business in the Middle West District; J. Morden Murphy, of the Foreign Division banking staff, who travels in the Far East, and John F. Rath, who supervises the Securities Custodian Division. Mr. Bonynge joined the bank staff in 1930, Mr. Murphy came with Bankers Trust in 1946 and Mr. Rath has been with the bank since 1913. Other promotions included: Assistant Vice-Presidents:—Russell W. Billman, James L. Craft, John Keat, David W. Lewis, Charles G. Miller, Jr., Carl M. Mueller, Jean F. Robert, Joseph C. Swayze, R. V. Voorhees, Guy R. Byam, George F. Valentine and Edward D. Weatherhead, Trust Officer, Hugh F. Curran; Assistant Treasurers: Victor C. Anderson, Alfred Brittain, III, Daniel B. Elliott, John W. Hannon, Jr., Kennedy Randall, Jr., H. Carleton White, George B. Denious, Frederick R. Hall, Leon R. Shaffer, Edward F. McDougal and C. Gordon Tebbitt; Assistant Secretary, Ledlie C. Pitt, and Assistant Trust Officer, James H. Raprager.

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The election of Edward F. McGinley of New York City as President of the **Liberty Bank of Buffalo, N. Y.**, at a special meeting of the directors of the latter on Dec. 6 was recently announced. Mr. McGinley, who is a Vice-President of the **Chemical Bank & Trust Co. of New York**, will succeed as President of the Buffalo institution, George G. Kleindinst, who has become Chairman of the Liberty Bank's Executive Committee. According to advices in the Buffalo "Evening News" (Dec. 6) relative to the foregoing, Mr. McGinley was elected a director of the Liberty Bank on the 6th and will assume the Presidency of the Liberty Bank on Jan. 1. He relinquishes his past in the Chemical on Dec. 31. The Buffalo "Evening News" reports that Mr. Kleindinst reliquishes the Presidency of the Liberty Bank after serving in that capacity for 24 years. From the Buffalo paper we also quote:

"Mr. Kleindinst spent his entire banking career with the Liberty Bank. He joined its staff as a clerk on June 3, 1906. He soon took over executive responsibilities and, after moving to various departments, was placed in charge of the bank's investments. He was made President July 13, 1927.

"He has been President of the Buffalo Clearing House Association on many occasions. As a director of the Buffalo branch of the New York Federal Reserve Bank, he has played an active role in shaping banking policies.

"Mr. McGinley took up banking as his career immediately upon graduation from the Wharton School of Finance and Business at the University of Pennsylvania in 1925.

"He was with the National Bank of Commerce and the Guaranty Trust Company from December, 1925 to September, 1930. These institutions were merged in May, 1929. He joined the Chemical Bank & Trust Company in September, 1930, and was elected Assistant Secretary in 1934 and Assistant Vice-President in 1936. He was elected Vice-President in 1939.

"Since 1946 Mr. McGinley has been Chairman of the Chemical Bank's Metropolitan Supervisory Committee, and has been responsible for supervision of metropolitan business at its main office and the management of its 18 branch offices."

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Horace C. Flanigan, President of **Manufacturers Trust Company, of New York**, announced on Dec. 20 that Gerald W. L. Andrew, Philip H. Milner and Thomas E. Speer, all formerly Assistant Vice-Presidents, have been named Vice-Presidents. Mr. Andrew, who serves in the bank's Out-of-Town Business Department, began his banking career with the Bank of Nova Scotia and has been with Manufacturers Trust since 1930. Mr. Milner, who is also in the Out-of-Town Business Department, came to Manufacturers Trust in 1934. Mr. Speer, who is located at the bank's 149 Broadway office, was with the State Bank & Trust Company from 1908 until the merger of that bank with Manufacturers Trust in 1929.

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The Liberty Club of New York, comprising of employees of the **New York Trust Company**, held its annual Christmas party at the Hotel Astor on Dec. 28. Over 800 of the bank's staff attended. Charles J. Stewart, President of the trust company, addressed the staff.

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Announcement has been made by President Charles D. Behrens, President of the **Kings County Savings Bank of Brooklyn, N. Y.**, that Adam C. Muller has been elected a trustee of the bank. Mr. Muller started with the bank in 1916 and has been its Treasurer since 1945. The Brooklyn "Eagle" reports he is a past President of the Savings Banks Auditors and Controllers Forum of New York State and is now a member of the Committee on Administrative Procedure of the Savings Banks Association of New York.

* * *

Jere E. Brown, President of the **Bushwick Savings Bank of Brooklyn, N. Y.**, since 1906, died on Dec. 10. Mr. Brown, who was born in the Bushwick section of Brooklyn, went to work, according to the Brooklyn "Eagle," as an office boy at the Bushwick Bank after graduating from public school in 1878, the year the bank was established. Twenty-eight years later he became head of the institution.

Mr. Brown had been a resident of Garden City, Long Island, for the past eight years. He was 88 years of age at his death.

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A tentative agreement has been reached for the merger of **The Mount Vernon Trust Company of Mt. Vernon, N. Y.**, with **The County Trust Company of White Plains, N. Y.**, following a series of conferences between Andrew Wilson, Chairman, and Joseph E. Hughes, President of The County Trust Co.; Fred E. Goldmann, President, and a committee of directors of The Mount Vernon Trust Co., according to a joint statement released by officers of the two institutions. The directors of both institutions have already voted to go forward with the proposal and to submit the same to their stockholders, provided it meets with the approval of the State Banking Department, the Federal Reserve Bank and other supervisory authorities. Mr. Wilson, Chairman, Dr. Joseph E. Hughes, President, and other executive officers of The County Trust Co. will retain their posts. Mr. Goldmann, now President of The Mount Vernon Trust Co. and other officers now associated with him will be added to the executive staff of the merged institution. The stockholders of the Mount Vernon Trust Company will be offered shares of County Trust stock in exchange for their present stock holdings in the ratio of 8 shares of County Trust for each 9 shares of Mount Vernon Trust Company stock now held, or 1 share of the former for 1⅛ shares of the latter. Fractional shares will be adjusted in cash and for this purpose a value of $45 per share for County Trust stock has been agreed upon.

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The New York State Banking Department approved on Dec. 3 a certificate providing for an increase in the capital stock of the **Schenectady Trust Company of Schenectady, N. Y.**, from $1,500,000 to $1,600,000. The stock is in shares of $100 each.

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An addition of $25,000 by the sale of new stock has been made to the capital of the **Martha's Vineyard National Bank of Tisbury, Vineyard Haven, Mass.**, as a result of which the capital, effective Nov. 19, was raised from $100,000 to $150,000.

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The Federal Reserve Bank of New York, through Allan Sproul, President, announced on Dec. 14 that the **First National Bank in Westport**, a newly organized bank in **Westport, Conn.**, was granted a charter by the Comptroller of the Currency on Dec. 12, and on the same day became a member of the Federal Reserve System. This new bank opened for business on Dec. 15. Under the primary organization the President is G. H. Niemeyer, and George B. Lougstreth is Cashier. The capital is $150,000.

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Appointment of James H. Meister as Assistant Cashier of **The First National Bank of Jersey City** was announced on Dec. 20 by Kelley Graham Chairman of the Board. Mr. Meister began his banking career in 1940 with the Harrison National Bank, which became part of the First National organization by merger in 1945. During World War II he served with the Navy overseas, rising to the rank of Lieutenant Commander. At the termination of hostilities he returned to the bank, joining the staff of the Trust Department. Subsequently he was engaged in new business activities and is, at present, assistant to Edward N. Dean, Vice-President and Cashier, in the operations of the bank.

The Board of Directors of The First National Bank of Jersey City, at its regular meeting on Dec. 19, declared the 261st consecutive dividend of $1 per share and in addition declared the 11th extra dividend of $1 per share of the bank's common stock. Both dividends are payable on Dec. 26 to stockholders of record at the close of business Dec. 24. This year's extra dividend is a 100% increase over the 1950 extra of 50 cents per share. Payment of dividends for the year 1952, at the rate of $5 per annum, based on the $100 per share par value, is planned by the Board; the current dividend rate is $4 per share. Since its founding in 1864, the bank has an unbroken record of consecutive dividend payments to its stockholders.

The annual Christmas celebration for staff members of The First National Bank was held on Dec. 19 in the Main Office lobby. Close to 300 officers and members of the staff gathered in the office to hear the Christmas message of Chairman Kelley Graham. Entertainment was provided by Richard Du Bois, television and radio star.

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F. Raymond Peterson, Chairman of the Board of **The First National Bank & Trust Company of Paterson and Clifton, N. J.**, announced that at the regular directors' meeting on Dec. 17, Edward F. Sheridan was promoted from Assistant Cashier to Assistant Vice-President. Mr. Sheridan was born in Jersey City and took courses at New York University School of Commerce, and The American Institute of Banking. He began his banking career in The First National Bank of New York in 1924 and a year later went with the Chemical Bank & Trust Company where he remained until 1945. In 1946 he became affiliated with the Second National Bank of Paterson, and upon the merger of that institution into the First National Bank in 1948 he assumed the title of Assistant Cashier which he had held in The Second National Bank.

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B. H. Mercer, President of the **Fidelity and Deposit Company of Maryland, at Baltimore**, has been elected to the same position in the F&D's subsidiary, the **American Bonding Company of Baltimore**. The action took place on Dec. 19 at a special meeting of the American Bonding Company's directors.

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Chairman of the Board Ben R. Meyer recently announced that the directors of **Union Bank & Trust Co. of Los Angeles** at their December meeting declared a regular quarterly dividend of $1.50 per share for the quarter ending Dec. 31, and a special dividend of $1 for the year 1951. This is the 141st successive quarterly dividend paid by the bank and the 8th year in which the $1 extra has been declared. Both dividends are payable Jan. 2, next, to shareholders of record on Dec. 17. The share dividend aggregating 5,000 shares voted by the directors on Oct. 11 to shareholders of record at the close of business on Dec. 17 will also be distributed on Jan. 2 at the rate of one share for each 14 now outstanding. In connection with this share dividend, bearer scrip will be issued in lieu of fractional shares. Details of the declaration of a stock dividend of 5,000 common shares, to be distributed Jan. 2 to stockholders of record Dec. 17 were noted in our issue of Oct. 18, page 1471.

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J. F. Cade and B. F. Macdona have been appointed General Managers of **Barclays Bank (Dominion, Colonial and Overseas).**

Continued from first page

As We See It

among a relatively small number of so-called first-class powers. The vast areas and the vast populations constituting what we now call underdeveloped areas or backward peoples did not count except as prizes for the mighty.

Characters Changed

There is a very large admixture of all this in the international machinations of this day and time, but the caste of characters has changed considerably and the roles assigned have been radically altered. Fully as important, perhaps more important, techniques have been revolutionized. The older imperialist nations—Holland, Spain, Great Britain, Denmark, France and others, if we go back far enough into history—have (some long ago, some more recently) lost place. Some lost to others in their own class; others have more recently suffered from unrest, if not active rebellion, among the exploited. Remnants of some of the older empires remain, and international rivalries built around them are at times still in evidence, but the positions of such countries as Britain, Holland, and France in the Far East, the Middle East and neighboring areas are far from what they were even a decade or two ago.

These developments are in part, of course, historical trends which probably had to come at one time or another, but world events have unquestionably hastened their arrival. Such cataclysmic struggles as the two world wars always reverberate 'round the world. But there are other elements which have had a great deal to do with all this. There has arisen in Russia (a land always seeped with imperialistic notions) a regime built upon intrigue and permanently cast in the role of the protector, the liberator, the savior of the oppressed throughout the world. Of course this concern for the under-dog is spurious, either a simple fraud or the product of self-deception, or a mixture of both; but the Kremlin for three decades or more has succeeded in convincing a very substantial number of people, both in the backward areas of the world and among the more advanced nations, that it and its communism are their best hope.

What is more, the Kremlin, itself established by exploiting the exploited, is past master at fishing in troubled waters the world over. It has succeeded in drawing a substantial and influential group of Chinese leaders into its orbit. It has infiltrated with one degree of success or another all the discontented areas and peoples of Asia. This is but another effort to exploit peoples who themselves have been exploited by one strong power or another for centuries, but the situation at best (from the standpoint of the West) is that in the eyes of these unhappy peoples it is merely a question of who exploits them, Western might or Soviet might. As between the two, many are inclined to prefer the Kremlin—the more so since it seems to them that the Russians are in a position to have their way in these regions anyhow. Thanks to the techniques now used, those who harbor rational doubt are in no position to exert their influence.

Now, if it were possible to ascertain the facts in the matter, one would, we suspect, find that the historically imperialist nations or the majority of the people who compose them, are but little interested in what happens in China, India, Iran, or any of the other areas now in ferment except as it seems to affect the financial interests of the imperialist peoples. The cries about freedom, self-determination, self-rule, and all the rest of it, except as a concession upon which hopes of a continuation of much the same old relations are founded, leave most peoples in other countries cold. In some of these lands liberty has always been a prescription for their own constitution only; in others freedom as we know it has never existed in any event any more than popular faith in its curative powers has flourished.

A Complicated Situation

Into such a situation the United States of America steps and "assumes" leadership—a situation complicated by centuries-old and devious relationships, a situation in the past always dominated by intrigue and unpublished "bargains," a situation where migrations of peoples, changes in state boundaries, semi-colonization and all the rest have left a whirlpool of confusion and ill-will. And this United States of America, with a few relatively minor exceptions, has come to maturity and pursued its own course aloof from all this. Small wonder the "oldtimers" are assailed by doubt about the understanding of world problems in a country so wanting in experience. Nor are these doubts and apprehensions ameliorated by our habit of seeing everything as black and white, almost all of which, in the eyes of other peoples of the world, appears in many shades of gray and even of other colors. And this disposition of ours to force upon others our code of right and wrong! And our willingness to concede a great deal to expediency! These are traits which are costing us many friends and supporters these days.

Then there is the theory—to question which is almost treason in this country—that we must have bases and other concessions almost everywhere in order to defend our shores, often on the other side of the globe. Never mind what our motives really are. The fact remains that were we bent upon vast imperialistic designs we should almost certainly proceed in some such way as this. We must not be surprised, then, that many exploited lands see nothing but imperialist designs in our activity of this sort.

And, finally, there is our plain blundering, our hasty changes of mind, and our inconsistency. We are not doing very well as world leaders for freedom. We should be wise to recognize the fact at once.

Continued from first page

Why Our Money Supply Increased

are two components involved in inflation: namely, money and goods. However, for the purpose of this discussion we shall make only the briefest mention of the second component by assuming that a shortage of goods was not, and is not, the primary cause of our present inflationary dangers.

It is perfectly true that we have had shortages of particular items at particular times in the recent past. During the war, for example, we obviously could not have an adequate supply of tanks simultaneously with a normal supply of automobiles. Furthermore, in the first few years after the war the factories of the country could not suddenly supply both the normal civilian demand and the abnormal demand resulting from wartime shortages. However, in spite of these particular periods when certain items were limited, there were relatively few actual necessities of life missing from our daily living, certainly in contrast with the rest of the world. Actually, except for a short period during the war itself, the supply of civilian goods has been far above prewar levels. We learned, in other words, the tremendous productive capacity of this nation, its ability to turn out both guns and butter, and its resiliency to very great obstacles. Because of our productive capacity shortages of goods have been, and seemingly will be, only temporary. On this basis the assumption appears justified that inflation in this country is far less the result of shortages of goods than the result of an excess money supply.

Two Forms of Money

When we focus our attention on the money supply, we are immediately confronted with a realization that there are primarily two forms of money: currency and bank deposits. It is true that money in circulation between the end of 1939 and the end of 1945 quadrupled from $6 billion to $26 billion. However, this increase cannot be regarded as too surprising in view of the intense business activity during that period, greatly increased employment, higher wages, and higher prices. Large as was the rise in currency in circulation, it was almost dwarfed by the rise in bank deposits during that same six-year period, such deposits having almost tripled from $58 billion to $150 billion, for the staggering increase of $92 billion.

Up to this point we have narrowed down our line of thought from an over-all discussion of inflation to a concentration on the increase in the money supply and have moved from that to a further concentration on the increase in bank deposits. From here on the going will become more rough due to the unfortunate fact that any discussion of bank deposits requires an understanding of how the banking system functions in the creation of deposits and particularly of the role of the Federal Reserve Banks in the over-all picture. Thus some of the succeeding discussion will be of a technical nature, even though every effort will be made to phrase the discussion in language reasonably familiar to the layman.

To understand the "why" and the "how" of a change in the deposits of commercial banks, it is necessary to go back to our college economics for a review of the factors which cause such deposit changes. There are five major factors which individually or collectively will always be found to be primarily responsible for any marked increase in commercial bank deposits. Each of these will be described briefly, though not necessarily in the order of their respective importance.

The first factor might be described as an inflow of gold to this country. Irrespective of who the seller may be, the government will pay for the gold by the issuance of a check to the order of the importer and when the importer deposits that check in his own bank, the deposits of the banking system automatically are increased.

The second factor tending to increase bank deposits is found in a reduction of actual currency. We previously noted that money takes the form either of currency or of bank deposits, and since they are interchangeable, a reduction in currency automatically increases deposits. For example, at the end of the Christmas season a department store will find itself holding much more actual currency than it needs for its normal operations. When it returns the excess currency to its bank, its account at the bank goes up and the deposits of the banking system have been increased by that amount.

The third factor increasing deposits of the commercial banking system is found in an increase of loans made by those banks. For example, the "XYZ Corporation" borrows $1,000,000 from "Bank A" and receives the amount of the loan in the form of a deposit credit on the books of "Bank A." Deposits have been increased $1,000,000. Even though the borrowing corporation may draw the money out of "Bank A" immediately by issuing 10 checks of $100,000 each, those checks in turn may be redeposited by the recipients in 10 different banks, perhaps located in different sections of the country. The fact remains, however, that the original increase in the deposits of the banking system is not extinguished until the loan is repaid.

The fourth factor of increase is similar to the third. For the commercial bank described as "Bank A," instead of making a loan, purchases securities. For example, "Bank A" may buy government bonds directly from the government or from one of its customers. In either case it pays for the bonds by crediting the seller on the books of the bank, thereby increasing deposits. Again the seller—whether it be the government, an individual, or a corporation—can check this deposit out of "Bank A," but it will reappear in some other bank in the system and will not be lost as an increase in the total deposits of the system until "Bank A" or some other bank sells an equivalent amount of securities.

The fifth factor of deposit increase results from a purchase of securities by the Federal Reserve Banks. Assume, for example, that the Federal Reserve, through a dealer as an intermediary, buys $1,000,000 of government bonds from the "ABC Insurance Company." The minute the insurance company deposits that money in "Bank A" or in any other bank, deposits are increased correspondingly.

Having outlined the five major factors resulting in deposit increase, it is now necessary to note a highly important distinction between the potential effect of the fourth factor, in which "Bank A" (i.e., the commercial banking system) purchased the securities, and the fifth factor, in which the Federal Reserve Bank was the purchaser. If the purchase in each case was $1,000,000, the actual initial increase in deposits was $1,000,000, whether "Bank A" made the purchase or whether it was made by the Federal Reserve Banks. The *potential* effect, however, was very different.

Effect of Reserve Requirements

The difference arises from the requirement that the commercial banks carry with the Federal Reserve Banks a reserve amounting to approximately 20% of deposits. Because of this reserve requirement, the commercial bank described as "Bank A" actually would have been unable either to make a loan or to buy securities in an amount which would raise its deposits $1,000,000 unless it already had excess reserves at the Federal Reserve Bank in an amount at least $200,000 greater than its actual reserve requirements on the date of the purchase. Assume, however, that the Federal Reserve Bank buys $1,000,000 of securities from a customer of "Bank A." In this case we have already seen that the deposits of "Bank A" rise by $1,000,000. The more important significance, however, of this latter transaction is the fact that when the customer deposits in "Bank A" the check on the Federal Reserve Bank, the *reserves* of "Bank A" at the Federal are increased $1,000,000. With its reserves at the Federal thus up by $1,000,000, "Bank A" is potentially in a position to make loans or to purchase securities in amounts which will result in a total increase of deposits of $5,000,000. This is because its excess reserves at the Federal potentially can become required reserves when needed and $1,000,000 excess reserves at the 20% rate thus will support a $5,000,000 increase in deposits.

Because this distinction between the activity of "Bank A" (the commercial banking system) and the activity of the Federal Reserve System is as important as it may seem complicated, perhaps it can be restated and summarized as follows. On the initial transaction a purchase of securities either by "Bank A" or by the Federal Reserve is equally effective in raising deposits by the amount of the purchase. *Potentially*, however, a purchase by the Federal Reserve is five times as effective as a purchase by "Bank A" since the purchase by the Federal Reserve creates excess reserves, the ultimate use of which will lead to an increase in deposits five times as great as that which results when "Bank A" is the purchaser.

Money Supply in Postwar Period

With this necessary background behind us, we can now return to our original study of how and why the money supply as represented primarily by bank deposits has risen so drastically in recent years. For the sake of clarity the time since the beginning of World War II will be divided into two periods. The first period is one of six years, beginning at the end of 1939, when we were first conscious of the necessity of rearming, and ending at the close of 1945 shortly after the end of the World War. The second period is represented by the first five postwar years beginning at the close of 1945 and ending at the close of 1950.

For any periods of this length and for any subject as complicated as that of the money supply, one has to chose between brevity and clarity on one hand and detailed discussion of all factors concerned on the other hand. In what is to follow we shall pursue the former course and attempt to hit only the major highspots of what has happened. We admit in all frankness that by so doing the discussion will seem to ignore some of the more minor factors which had a bearing on this problem and will also seem to ignore shorter-term periods within the full eleven years when trends were somewhat divergent from the main trend which we shall follow.

First let us look at the six-year period from the end of 1939 to the end of 1945, which we shall refer to as the Wartime Period. During those six years the fact of major interest to us is this: The supply of money as represented by total deposits plus currency in circulation practically tripled from $64 billion to $176 billion, a staggering increase of $112 billion. As previously mentioned, a relatively small part of this was represented by an increase in currency. By far the largest part, however, represented an increase in bank deposits. This increase in bank deposits, in turn, was caused primarily by an increase of $105 billion in the holdings of government bonds by the banking system.

The background of this terrific increase in bank-held government debt is not difficult to discern. We had a tremendously costly war to finance, so costly in fact that it obviously could not be financed as a practical matter out of current taxation but had to be financed in part by borrowing. Everyone connected with the financing effort recognized that as much of the borrowing as possible should be accomplished through sales to individuals and institutions outside the banking system in order to avoid the inflationary dangers of a drastic deposit increase. All of us well remember the strenuous efforts made to sell bonds to the public and to non-banking institutions. In spite of those efforts more bonds had to be sold than could or would be absorbed in the non-bank field. The balance or residue of the financing necessarily had to be placed with the banks.

Remembering our previous discussion of bank reserve requirements, the commercial banks could only buy if they had access to increased reserves. Those reserves could only be supplied by the Federal Reserve Banks themselves, and they were supplied through Federal Reserve purchases of part of the government security offerings. In view of our previous discussion it is interesting to find that the actual figures for this Wartime Period bear out the techniques previously described. The Federal Reserve Banks absorbed approximately 20% of the residual financing, or $22 billion. Their purchases and the reserves which were created thereby allowed the private banking system to absorb the other 80% of the residual financing, or approximately $83 billion.

War Financing Through Banks

From the standpoint of our post-war and future economy, we well might wish that it had not been necessary to finance as much of the wartime borrowing through the banking system as was actually the case. However, it probably would be difficult and unfair to assign the blame for what happened to any one individual or group other than possibly Mr. Hitler. The main job was to win the war and to the extent that money to finance it was not available, it was necessary to manufacture it, not in this case by the printing of currency but by the printing of bonds. Tax rates were relatively high and there was a natural and general reluctance to raise them further. Individuals as a class subscribed to the bonds in relatively heavy amounts both directly and through savings banks and insurance companies. Whether they saved and subscribed to the fullest extent possible probably varies greatly in the case of one individual or another, but we do know that it was a period during which individual saving was necessarily diminished by high taxation. The subscriptions of the commercial banks and of the Federal Reserve Banks were necessarily as large as, but limited to, the amount of financing which could not be absorbed by other investors.

It would be difficult to be dogmatic about the role of the Government during this period of wartime financing. Considering the fact that the government debt during the six years in question increased by a total of $231 billion, any fair observer should give the Treasury Department and the Federal Reserve Banks distinct commendation for an adroit job of raising this colossal sum of money. The adroitness and their technique is particularly noteworthy when one remembers that during the raising of this money, rates on government securities were not allowed to rise from the time the wartime pattern of rates was set in early 1942 to the end of the period in 1945. The free spending and easy money proclivities of the Administration proir to the war may have had something to do with a reluctance on the part of some investors to subscribe for their full quota of securities, and the burden of debt and taxation which had been built up in the pre-war years did not add to the ease of financing the war itself. On balance, however, the Government should be given all due credit both for raising the money and for their efforts to place it outside the banking system. Furthermore, although the yields afforded by the securities offered during the war were relatively meager, especially after the impact of taxation, the future interest burden of the Government was reduced thereby and it is questionable whether a much larger proportion of the financing would have found its way into non-bank hands had interest rates at that time been slightly higher.

Objectives of Postwar Period

Having completed our study of what happened during the Wartime Period, it is interesting to visualize the situation and the problem which, at the end of 1945, faced those charged with the management of our debt and of our fiscal affairs. Included in that latter group are particularly the Executive Department, the Treasury Department, Congress, and the Federal Reserve System. Any student of our economy could hardly fail to be impressed with the dangers inherent in a money supply which had practically tripled over a six-year period as a result of the staggering increase in that supply of $112 billion. Furthermore, he could know with certainty that, unless drastic measures were taken to offset it, the money supply would be automatically increased by a rise in loans necessary to finance the resumption and enlargement of our productive facilities in order to make up for all of the shortages of goods created by the waste of war. Even though we are looking at this problem with the benefit of hindsight, it seems rather obvious that certain steps were absolutely requisite in attacking this problem. These would include immediate and continuing curtailment of unnecessary government expenditures; a continuation of relatively high rates of taxation; a consequent budget surplus which would allow some reduction of government debt to decrease, at least in part, the money supply in a manner converse to the manner in which it was increased; a willingness to see interest rates rise by an amount necessary to attract individuals and non-banking institutions to purchase government securities held by the banks; a policy on the part of the Federal Reserve System to restrict and to contract credit to the greatest extent possible without interfering with the creation of legitimate credit for productive purposes.

If these were logical objectives for the Postwar Period, we are justified in critically examining the years after the war and in using as our criterion of success or failure the extent to which these objectives were reached. Unfortunately, the picture which we find is not a happy one and if the Wartime Period could be characterized as one of "necessary evils," the Postwar Period probably should be characterized as one of "missed opportunities."

One of the objectives on which special stress was laid was a reduction of the supply of money as represented by total deposits plus currency. If we describe as the Postwar Period the five years between the end of 1945 and the end of 1950, it is discouraging in the extreme to find that the money supply not only did not decrease at all but actually increased $4 billion. Incidentally, it should be remembered that this particular five-year period includes only six months of the Korean War and that, although the so-called "cold war" had started earlier, the five years in question were essentially years of peace.

Considering the objectives which seemed so logical for our money managers to consider and to stress at the end of 1945, it seems almost incredible that no progress was made in reducing the money supply during the next five years. To seek the causes for this failure within the framework of both brevity and clarity, again it is necessary to concentrate entirely on the major highlights in analyzing the happenings of that period. The two chief factors affecting the money supply in those five years were represented by an increase of loans of approximately $30 billion and a decrease of outstanding government debt of $22 billion. Because of the importance of these two factors each of them will be discussed briefly.

Since the increase of loans obviously tended to hold up the total supply of money, it would be only natural to ask if this loan expansion were not inflationary. Logical as the question is, it cannot be answered categorically. The reason is this. The loans created deposits, or money, and to that extent they were inflationary. On the other hand, there is little question but that the great bulk of those loans were for the primary purpose of rehabilitating or enlarging our nation's facilities for the production and distribution of goods, and to this extent they were anti-inflationary. It would be useless to argue and impossible to prove the net effect of this loan increase as far as the single issue of inflation is concerned. It is probably safe to assume, however, that on balance the largest part of the loan increase was both desirable and almost necessary for the particular period in question.

In view of this necessary and large expansion of loans, it was indeed fortunate that a large part of the deposit increase resulting from the loan expansion could be offset during the same period by a reduction of $22 billion in the government debt. Unfortunately, however, the Government cannot be given credit for any part of that debt reduction because of one very large "joker" in the situation. In December, 1945, just before the start of this Postwar Period the Government borrowed about $23½ billion at the time of what was called the Victory Loan Drive. Since the war was over at that time, there has always been a question as to why the Government thought it needed to borrow such a colossal sum, but at least the financing was successful in the sense of placing a large amount of the debt outside of the banking system.

As a result of this financing the General Fund balance of the Treasury Department at the start of the Postwar Period on Jan. 1, 1946, was over $26 billion, or perhaps $22 billion in excess of normal cash requirements. It became evident quite soon that they had overborrowed in excess of their actual needs by roughly that amount, and they started quite promptly to pay off debt. What this "joker" really indicates is that in the first five postwar years the Government simply reduced its debt by the amount of its overborrowing in December, 1945. Or to put it another way, there was no real reduction in debt during the entire five-year period.

Here again the reason is not hard to find because in those particular five calendar years the Government had a budget surplus of only about $1 billion. To call this a "missed opportunity" of the first magnitude would be to put it mildly in view of the high state of business activity during this particular five-year period. The Administration, for example, has always been more than willing to endorse the philosophy of Lord Keynes that governments are justified in operating at deficits for the sake of stimulating the economy during a period of depression. However, during this period of prosperity they showed all too clearly how difficult it is for a free-spending administration to follow that part of the Keynes philosophy which recommends the building of government surpluses during periods of high business activity. While giving lip service to economy and while urging a higher level of taxes than Congress was willing to vote, the Administration provided the poorest possible leadership in any real move to combat inflation by its unwillingness to cut non-essential spending and by its almost eager willingness to be found on the side of higher wages and higher farm prices. Congress also must accept its proper share of the blame during this same period for not insisting on the budget cuts about which so much was said and written but toward the achievement of which so little was done. It can also be charged with the failure to keep taxes high enough to provide a real budget surplus each year. Here again, however, Congress well knew that the voters and taxpayers would both resent and resist increased taxes at a time when the administrative leadership was making no real effort to control or to reduce the terrific cost of government operations.

If we return to the list of logical objectives which the money managers might have set as their goal at the end of the war, we will recall that one of those objectives was to reduce the money supply by transferring debt from the hands of the commercial banking system to the hands of individuals and other institutions. In other words, even if total debt were not really reduced, can we not at least hope to find that its ownership has been transferred to less inflationary hands? Remembering that the total debt during this postwar period was reduced $22 billion, we are at first pleased to find that holdings of government securities by commercial banks and by the Federal Reserve Banks declined during these five years by almost $32 billion. Thus at first blush it would appear that the Treasury Department had been able to effect a $10 billion transfer in ownership by the sale of securities to non-bank investors.

Another "Joker" in Treasury Financing

Immediately, however, we are confronted with another "joker" which is all too little understood by citizens generally. Each year the government collects in special taxes, particularly the Social Security Tax, substantial sums of money aggregating between $3 and $4 million. These taxes are invested in government bonds by the administrators of the various funds in question and the bonds are held against the future liabilities of the Social Security and other programs. During the first five postwar years the investment of those various funds in government bonds rose by $12 billion. Thus $12 billion of government debt found its way through the involuntary method of taxation into the portfolio of these government agencies, and we have already found that $22 billion of debt was retired by the proceeds of over-borrowing in 1945. Since this total of $34 billion is in excess of the actual $32 billion reduction in government securities held by the banking system, it is obvious that on balance the Treasury Department was not able to persuade individuals and non-banking institutions to add a single bond to their holdings during the five years in question. In fact, there was a net reduction in such non-bank holdings during that period.

The "Easy Money" Policy

If we are justified in looking upon this record as another "missed opportunity," we are also justified in seeking the reasons therefor. Chief among these appears to have been the reluctance of the Treasury Department during practically all of this period to depart from its almost stubborn fondess for very easy money and low rates on its security offerings. Any official of the Treasury Department can be pardoned for a natural tendency to wish to keep down the cost of debt service. However, the colossal rise in our money supply during the war obviously had placed a powder keg of potential inflationary dynamite under our whole economy. Under such circumstances it would have seemed that inflation was a considerably greater danger than a modest rise in the cost of borrowing. The logic of this statement becomes apparent when one consider the following three points:

(1) Any increase in interest cost would apply not to the total debt but only to that portion which is refunded at maturity or by exchange offers.

(2) The Treasury Department would automatically recapture a substantial part of any increased interest costs through taxes levied

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Why Our Money Supply Increased

on the income of holders of these securities.

(3) The Government is the world's largest single buyer and consumer of goods and services. The easy money policy of the Treasury Department following the war tended substantially to "freeze in" the inflationary potentials which resulted from the war. Thus the Government's own policies may well have raised the cost of everything which the Government buys by amounts far in excess of the relatively modest net cost of higher interest on its securities.

Not only did the Treasury keep rates low, but it insisted on confining practically all of its offerings to short maturities. For a period of four years— from the end of December, 1945, to December, 1949 — the Treasury offered to the public no securities with a maturity of over 18 months, other than savings bonds and savings notes. Even as late as December, 1949, when the potential demand for long-term securities by non-bank investors was indicated by a price of 103½ on the longest-term 2½% bond, the Treasury Department, instead of meeting that demand, offered a 4¼-year 1⅜% note of obviously no interest to long-term buyers. Thus its choice of maturities served to complement its easy money policy in failing to attract buyers outside of the banking system.

Conflicting Objectives of Federal Reserve

In earlier sections of this study we noted the potentially sharp impact which open market purchase and sales of securities by the Federal Reserve System could have upon the money supply. It therefore becomes pertinent to examine the role played by the Federal Reserve in these first five postwar years. Their operations admittedly are influenced and complicated by varying, and at times conflicting, objectives. For example, it should be granted that the size of their holdings was at times influenced by changes in the rates of reserves which the commercial banks were required to hold against deposits. During this period the Federal Reserve System also had to consider the desirability of creating credit conditions which would make it possible for industry to expand its productive facilities.

However, one would have thought it logical for the Federal Reserve System to consider inflation as Public Enemy Number One and to take as its primary objective the reduction of the money supply at the end of the war. In the light of that objective it is probably not unfair to determine what contribution, if any, the Reserve System made toward the attainment of that objective. We have previously found that the total debt of the Government was reduced $22 billion and that an additional $12 billion of the debt was transferred to the ownership of the various government agencies. If this total of $34 billion could have been applied to the reduction of debt held by the banking system, we would normally expect to find the holdings of the Federal Reserve Banks reduced at least by 20% thereof, or by $6.8 billion. Instead of that we find that the holdings of the Federal Reserve System in the first five postwar years were reduced by only $3½ billion. Thus, even making allowance for some necessity of creating an atmosphere favorable to productive loans, it seems evident that the Federal Reserve System can also be charged with a "missed opportunity" through its failure to contribute to the reduction of the money supply.

This failure on the part of the Federal Reserve System is attributable to the one basic fact that the open market operations of the Reserve System during most of the five years in question were geared to the preservation of the easy money rates favored by the Treasury Department. It has already been pointed out that during the war the Federal Reserve and the Treasury worked closely in cooperation with the result that the colossal amount of wartime financing was handled with remarkable smoothness and at a remarkably low rate of interest. There is good evidence to indicate that at least some prominent officials of the Federal Reserve were not equally enthusiastic about the easy money policy favored by the Treasury Department after the war.

Despite their reluctance, however, the actual open market operations of the Reserve System until the latter part of 1950 were handled in such a way as to support prices of government securities at levels designed to facilitate continued Treasury offerings at low rates in spite of the inflationary implications. For example, between November, 1947, and November, 1948, the Federal Reserve Banks purchased approximately $7 billion of long-term government bonds to prevent those issues from selling below par. In justification for this action the fact is sometimes cited that total holdings of the Reserve System went up in that one-year period by only $1 billion. This seeming inconsistency is explained by the fact that the Treasury had a very substantial cash surplus during that particular period. Had there been agreement that the fight against inflation was the number one objective, the cash surplus could and should have been used to reduce debt held by the banking system and consequently to reduce the money supply. Instead of that, the Federal Reserve operation of supporting the government bond market in effect practically used up and wasted the anti-inflationary ammunition which was available.

The illogical nature of the Federal Reserve operations during the Postwar Period becomes evident if we look at the primary function which has been delegated to the Reserve System. This primary function is "to regulate the supply, availability and cost of money with a view to contributing to the maintenance of a high level of employment, stable values, and a rising standard of living." Thus there seems little question that the proper function of the Federal Reserve in a period of inflationary pressures was to reduce the supply of money by reducing its holdings of government securities.

Contrast that normal and orthodox functioning of the Federal Reserve System with what actually happens under a policy whereby the Federal supports government bonds at fixed prices. Under a fixed support policy the Federal Reserve not only becomes a buyer on balance, instead of a seller, but loses all initiative as to the amount of securities which it has to purchase. In order to protect a fixed price level, it must purchase from all holders of government bonds irrespective of the use to which the proceeds are to be put. It no longer becomes a central bank for bankers but a residual buyer from bondholders generally, with the decision as to whether the Federal will buy and how much it will buy resting not with the Federal but with the individual and institutional bondholders. Instead of contracting the money supply, this central bank under a policy of fixed price support becomes potentially the most powerful factor in increasing the supply of money.

Fortunately, the completely illogical position in which the Federal Reserve System found itself came, in the latter part of 1949, under the scrutiny of a sub-committee of Congress under the able chairmanship of Senator Paul Douglas of Illinois. In January, 1950, this subcommittee released a report pointing out that the vigorous use of a restrictive monetary policy as an anti-inflationary measure had been inhibited since the war by the policy of supporting the prices of government securities. The committee in effect recommended restoring to the Federal Reserve freedom to restrict credit as an important contribution to the fight against inflation. It was recognized that such credit restriction might well involve a higher level of interest rates, some increase in the cost of servicing the government debt, and a possible abandonment of Federal Reserve support of government bonds at fixed prices. The recommendations of the subcommittee were never actually acted upon by Congress, but they undoubtedly helped materially to strengthen the backbone of the Federal Reserve officials in their continuing controversy with the officials of the Treasury Department on this vital subject.

Finally in March, 1951, announcement was made of an "accord" which had been reached between the Federal Reserve and the Treasury Department concerning the terms of a new bond issue carrying a higher rate than any which had been offered since the beginning of the war. There is nothing on the record to indicate whether the "accord" included a willingness on the part of the Treasury Department to allow outstanding long-term bonds to sell at prices below par. The fact remains that within a relatively short time of the announcement just mentioned long-term government bonds actually were allowed by the Federal Reserve to fall below par for the first time in a decade. Thus this particular phase of our study ends on a somewhat happier note than the other phases. In the five years ending with the close of 1950, the Federal Reserve System could be cited with other agencies of government for their failure to attack the swollen money supply. Shortly thereafter, however, the Reserve System regained its independence from the Treasury Department, and we can hope that it will continue to retain and to exercise that independence in the fight against inflation and in the maintenance of a more stable economy.

A Look Into the Future

Our study may be summed up briefly with a look to the future. During the Wartime Period our money supply was increased to a tremendous figure and no progress was made in reducing that supply in the first five postwar years.

In looking at the pessimistic side of the future outlook, we find an Administration which as yet has given no evidence of any constructive leadership toward economy in even the non-essential items of government operations. Most members of Congress appear interested in cutting expenses or in keeping taxes at realistic levels only if those economies and those taxes can be devised in a manner to hurt their particular constituents the least. There likewise remains the suspicion that the Treasury Department is less interested in the battle against inflation than in the maintenance of relatively easy money rates. Naturally, the most pessimistic factor of all is the international situation as exemplified by the attitude of Russia. One might not be accused of being too cycnical if he suspected that the Russian leaders hope by their series of warlike maneuvers and incidents to do more harm to this country by fostering further inflation here than they might be able to do by force of arms.

On the more optimistic side of the future outlook we can cite the regained independence of the Federal Reserve System and particularly the tremendous productive capacity of our country. There is a third factor which potentially could exert a powerful influence toward high level decisions which would put us back on the road toward a real and sustained attack on the basic causes of inflation. This factor would be found in a broadened understanding by the public generally of what has really happened to our money supply, the reasons behind it, and the cures for it. To the extent that this study makes any contribution to that understanding, it will have fulfilled its purpose.

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Devaluation: What It Is, and Why

ity, overvalue your currency; in times of slump and surfeit, undervalue your currency."[4]

Management of the international value of one's currency is the counterpart of, if not indeed the same thing as, domestic currency management. It is a weapon of economic nationalism, and its aim is to insulate the domestic economy from foreign influences.

In the old days of the true gold standard, money was, everywhere in the world, worth about the same in terms of similar commodities. The adjusting and equalizing mechanism was largely automatic; we then possessed, in actual fact, an international currency that really worked. It puzzles the managers nowadays to account for the fact that it did work, (they usually say it was due to accidental and non-recurrent circumstances), while the synthetic substitutes for it such as the European Payments Union (EPU) will not work at all without repeated injections of dollars.

But it worked because it was a fixed standard to whose discipline people submitted, and with which governments did not tamper. All currencies were interchangeable because their units were composed of known and fixed numbers of grains of a certain purity of gold. They exchanged readily for each other on this basis; and their exchange values in practice hardly ever got more than very small fractions away from the gold shipping points.

This had the effect, however, of tending to equalize commodity prices at home and abroad, and this does not please economic nationalists. They wish to be masters of events in their own countries, and a rise (or, more particularly, a fall) of prices, having its origin in events abroad, they regard as not to be tolerated. They therefore determine for themselves, the rates at which their currencies exchange for foreign currencies and change them from time to time as seems needful. This involves a paradox, as we shall see in a moment. If internal prices rise, due to unbalanced budgets and inflation of the money supply, for example, exports may fall off. It is therefore appropriate to reduce the value of the currency externally, in relation to other paper units. This is thought preferable to an internal deflation of the money supply and of prices. Where, on the other hand, there is the need to buy large physical volumes abroad, where these needs cannot be materially reduced, and where a lower external value for the currency is not thought likely to increase exports, "there is every justification for the government intervening to prevent the sharp fall in the external value of the currency that would occur in a market that was left free. Overvaluation is usually a desirable policy for any country that is under the sudden necessity of making very large purchases from abroad." So says Crowther.[5]

Purposes of International Monetary Fund

One of the purposes of the International Monetary Fund was to install and maintain a fixed schedule of exchange rates between all principal currencies. It was going to do this without any automatic gold standard, but by means of short-time advances to member nations suffering temporary disequilibria in their balances of payments. Over the long run, the rate should be fixed so precisely that it need not be changed; trade balances, apparently, should be adjusted to the rate and not the other way around. There was, it was believed, such a real and correct rate. In the early days of the Fund, Mr. Camille Gutt, its first executive head, said:

"By a real exchange rate I mean simply the real terms of trade that could restore the balance of payments. To these terms of trade a coefficient of prices would have to be applied to get the nominal exchange rates. . ."[6]

But this was not intended to mean so well-adjusted a rate for other currencies vis-a-vis the dollar, it appeared. In the same place Mr. Gutt continued:

"There is one possible misconception that should be dealt with. There may be a feeling on the part of some people that if European exchange rates and prices were properly adjusted the dollar shortage which these countries are experiencing would be corrected. I think there is no basis for such a view. The shortage of dollars in Europe is very largely a reflection of the exceptionally great need for real resources in these countries. In part, this may be a reflection of the phenomenon of inflation."

This is the situation Crowther apparently has in mind which, in his opinion, justifies maintenance of a currency at higher than its free market levels. That is, e.g., at $4.03 to the pound when the actual demand for dollars is such that pounds willingly would be offered for fewer dollars if the government permitted.

For, as a matter of fact, the prices of inconvertible paper currencies are fixed completely by supply and demand forces and by nothing else. These currencies are wanted for two purposes: to buy goods and services in the country of issue, and for the transfer of capital.

A government can interfere with these supply and demand forces in one of two ways (or a combination of them, as seems to be more often the case). It can enter the market itself to offset the force tending in the direction it does not want; and it can prevent some of the demand (or of the supply) from reaching the market by restriction, regulation,

4 Geoffrey Crowther, "An Outline of Money," rev. ed., p. 240.

5 Crowther, op. cit., p. 238.

6 Camille Gutt, "The Practical Problem of Exchange Rates," an address at Harvard University, Feb. 13, 1948.

or prohibition. It can dole out foreign exchange only for officially approved purposes; it can require that all foreign exchange earned by its citizens be surrendered forthwith.

The Paradox

Now we approach the paradox mentioned earlier. How can a government maintain a rate for its paper in terms of the currency of another sovereign power higher than the free market would establish? Only by having a supply of the demanded foreign exchange (say, dollars) large enough to meet all approved demands. Where can it get the supply? From the foreign funds taken from its nationals as the proceeds of their earnings abroad; by borrowing abroad, or by grants and gifts from abroad. Thus we have a nationalistic government in the very act of defending its unilaterally determined currency rate, dependent, to an extent, upon the friendly cooperation of a foreign government. To put it brutally, the maintenance even of the present dollar-pound rate is almost certainly tied to further American loans or grants, and the $4.03 rate could not have been maintained as long as it was without them.

For despite all the efforts of governments, supply and demand still determine the value of their currencies outside their own borders, and the same forces in the long-run make these values tend toward about the same levels in terms of similar commodities all over the world.

This principle has been reduced to computation, largely and at first, I believe, by Professor Gustav Cassel. By formula,[7] an attempt is made to determine the "purchasing power parity" between two currencies, and it was as a result of such figuring that some persons said, in September, 1949, that the British devaluation had been much too drastic. It would have been better, they said, to make the value about $3.20 instead of $2.80, because at the latter figure the pound was undervalued. In the absence of a free market, of course, there was no way of testing it, but today, a bit more than two years later, we find rumors of another devaluation from the figure then thought too low.

An Arbitrary Exchange Rate Is Deceptive

In any case, an argument can be made that the effort of a government to maintain any arbitrary rate for its paper currency in world markets deceives only itself; it pays, necessarily, the market rate. I do not wish to burden you here and now with the argument; it is that Dr. Ludwig von Mises,[8] and you will enjoy reading it for yourself.

I said a bit earlier that governments nowadays wish to alter the exchange value of their currencies when internal conditions make that seem convenient or desirable. They devalued in 1949, and at least considered putting rates up again in 1951. They speak, nevertheless, of exchange "stability," and they do not contemplate rates fixed openly by supply and demand. Even the Canadian abrogation of fixed exchange rate in 1950 does not mean a free market; all the old paraphernalia of controls still is in operation, at last report.

For instance, the Monetary Fund says:

"Those who advocate allowing rates to find their 'natural' level, permitting market forces to determine a rate of exchange that will be stabilized, seek to provide a simple solution for a very complex problem. There is no such thing as a 'natural' level for the rate of exchange of a currency. The proper rate will, in each case, depend upon the economic, financial and monetary policies followed by the country concerned and by other countries with whom it has important economic relationships."[9]

This seems to say, if I read it correctly, that policies internal and external will determine what the proper rate should be; nevertheless, stability is desirable and presumably the several governments should so form their policies that the rate will not change—or at least, not very often. And, it goes without saying, they should keep their exchange control board, or stabilization account, or whatever it is called, in good working order. Otherwise, there will be flights from the currency by wicked speculators, withdrawing their capital.

Now the fact is noticeable that so many of the fears of the speculators, leading to flights of capital, are so often well justified. Thus we have the spectacle of Sir Stafford Cripps, an honorable and an honest man, compelled to tell lies on the very eve of devaluing his country's currency. If any speculator believed him, and did not withdraw his funds, he suffered a rather substantial monetary loss the next day.

Currency Instability, Product of "Too Much Management"

I will no deny, of course, that speculation may actually compel devaluation in cases where the position is not very strong. But the speculators find a great deal of justification in the international monetary history of recent decades. During the accidental period of the gold standard, in contrast, such speculators living by these means would have starved to death. It is my conviction that the instability of currencies, upon which the most vicious type of speculation may thrive, is a product of too much management rather than too little.

I think I can do no better in closing this paper, which I realize has run too long, than to steal a quotation from the late Dr. B. M. Anderson, who was an old-fashioned economist:

"A country which is afraid of 'hot money,' money which may suddenly jump to another country, has a very simple way of avoiding this danger. It does not need to control capital movements. It protects itself from this danger by having a sound currency, firmly anchored to gold at a fixed rate, by keeping control of its money market so that its demand liabilities do not grow excessive in relation to its gold, by keeping a balanced budget—by making a financial environment in which money cools off and wants to stay."[10]

7 There are several difficulties in using the idea, including that of selecting a price index containing only suitable commodities, i. e., deciding what to include and what to leave out. Then a suitable "base period" must be chosen, some time in the past when everything was "normal," or at least satisfactory. Having these, however, the formula is simple. One adapted from Crowther is: Multiply the old par of exchange by the ratio of the old British price index to the new, and divide the result by the ratio of the old American index to the new. We use British and American just for example, of course.

8 Ludwig von Mises, section on "Foreign Exchange Control and Bilateral Exchange Agreements," in "Human Action," pp. 794-799. Mises' argument, in brief: The exporter is forced to hand over his dollars at the official rate, say 4 to 1. He could get a pound for only 3 dollars in the market, so the government must pay a subsidy or he will not export. Official rate plus subsidy equals market rate. Importers must buy dollars to pay for imports; the government, to maintain official rate, supplies them at 4 to 1. If the importer bought dollars in the market he could get only 3 for 1. Hence the government imposes a special tax, and the tax plus official rate equals market rate.

9 International Monetary Fund, "Annual Report," July 12, 1951, p. 38.

10 Benjamin M. Anderson, "Economics and the Public Welfare," p. 425.

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An Appraisal of the American Economy by the End of 1952

1951, there was an important decrease in residential construction and in the spending on durable consumption goods, all of which was offset by an increase in consumption spending on non-durables and services.

Residential construction has been declining since the third quarter of 1950, when it was some $4 billion larger, at an annual rate, than the amount reported in the third quarter of 1951. This trend is likely to continue into 1952, largely because of restrictions. Should this happen residential construction, including farm, could be reduced to $7 billion, at an annual rate, by the end of 1952.

It is difficult to see how consumption of durable goods will remain at levels that justify a projection of $220 billion, at an annual rate, for all consumption spending toward the end of 1952. At least two anticipatory waves of buying of these goods were recently experienced. The first in the third quarter of 1950 and the second in the first quarter of 1951. When this is coupled with the implementation of projected increases in defense spending that will divert even larger amounts of raw materials from the production of durable consumption goods, there is a real chance that there will be reduction of around $5 billion, at an annual rate, in this important segment of consumption spending toward the end of 1952. This reduction probably will be partially offset by increased spending on non-durable goods and on services. But this offset will occur only if the declines in the other segments of the private sector of the economy are not accompanied by an increase in unemployment and the associated reduction in disposable personal incomes. This kind of development is already being experienced in the Detroit area.

In full view of the recent curbing of dollar imports by Great Britain and France, the net foreign investment of $1.2 billion, at an annual rate, in the third quarter of 1951 might be reduced to the minus quantity of approximately $2.3 billion it was during the entire year, 1950.

Private and Government Outlays

Altogether, therefore, the private sector of the economy, including net foreign investments, may easily be subjected to a decline well over $20 billion, at an annual rate, by the end of 1952 from the levels reached toward the end of 1951. Will the projected expansion in the government sector of the economy, excluding net foreign investments, offset an incipient decline of this magnitude?

The source of the projected expansion in the government sector of the economy is almost entirely defense spending. In the fourth quarter of 1950, about $24 billion, at an annual rate, was being spent on defense. It is estimated that around $45 billion, at an annual rate, will be spent during the fourth quarter of 1951. Unless all-out war develops, it is hard to see how this rate of annual increase in defense spending can be maintained unless it is stepped up by political attempts to stop an over-all decline in business activity started by the incipient $20 billion reduction in spending and investing outlined above in the private sector of the American economy.

Up to almost the end of 1951, the increase in defense spending arose out of urgent needs to expand capacity for defense production, to modernize equipment for the armed forces, for stockpiling to supply a rapidly enlarged Army, Navy, and Air Corps; and the need for military aid to Western Europe. Unless we have all-out war, the most urgent needs probably will have been met by the end of 1951. There is a real chance, therefore, that the *projected* increase in defense spending at the same rate as between the fourth quarter of 1950 and the fourth quarter of 1951 will not materialize in 1952, unless it is more or less "artificially" implemented into *actual* spending on war material and services.

Accordingly, we may not witness an important over-all decline in general business activity during the coming election year only because outstanding appropriations by Congress for defense spending already exceed $100 billion and not because we had not yet reached in recent months a turning point in the level of new gross private investment with its probable negative multiplier effect on national incomes.

If such a pattern develops, in quantitative form, the end of 1952 is likely to compare with the third quarter of 1951 in roughly the manner outlined in Table III, instead of the implications of the $360 billion American economy expected by other observers which was shown above.

Should, however, the reduction in corporate gross private investment take hold before the rate of defense spending is actually increased sufficiently to offset this decline in the private sector of the economy, the resulting increase in unemployment accompanied by a reduction in personal disposable incomes will induce a substantial reduction in spending on nondurable consumption goods and on services by the end of 1952. Under these circumstances the recent approximate state of balance between inflationary and deflationary forces will not continue throughout 1952. Instead, there is a chance the deflationary forces will take control of the business situation, unless actual defense spending is stepped up beyond the more than $20 billion annual rate of increase between the fourth quarter of 1950 and the fourth quarter of 1951.

In any case, the present indications are that aggregate real output will not be larger, the general commodity price level will not be higher and unemployment will be greater, by at least the increase in the present labor force, toward the end of 1952 as compared to the levels reached during the recent months in 1951.

TABLE I

Gross National Product in Third Quarter of 1951 and at End of 1952

(Seasonally Adjusted at Annual Rates in Billions of Dollars)

	Third Quarter of 1951		The End of 1952 (Estimate)	
Government purchases of goods and services and net foreign investment		$69.4		$92.0
Corporate gross private investment:				
Plant and equipment	$38.6		$37.0	
Additions to inventories	6.1	44.7	2.0	39.0
Household & unincorporated spending:				
Personal consumption	$202.5		$220.0	
Residential construction (incl. farm)	11.0	213.5	9.0	229.0
Gross national product		$327.6		$360.0

TABLE II

Gross National Product in Second and Third Quarters of 1951

(Seasonally Adjusted at Annual Rates in Billions of Dollars)

	2nd Quarter 1951		3rd Quarter 1951	
Government purchases of goods and services and net foreign investment		$60.4		$69.4
Corporate gross private investment:				
Plant and equipment	$37.7		$38.6	
Additions to inventories	15.9	53.6	6.1	44.7
Household & unincorporated spending:				
Personal consumption	$201.7		$202.5	
Residential construction (incl. farm)	12.1	213.8	11.0	213.5
Gross national product		$327.8		$327.6

TABLE III

Gross National Product Third Quarter of 1951 and the End of 1952

(Seasonally Adjusted at Annual Rates)

	3rd Quarter of 1951	At End of 1952
Government purchases of goods and services & net foreign investment	$69,400,000,000	$90,000,000.000
Corporate gross private investment	44,700,000,000	31,000,000,000
Household and unincorp. spending	213,500,000,000	207,000,000,000
Gross national product	$327,600,000,000	$328,000,000,000

Bogie a Director

Mord M. Bogie, President of Schroder Rockefeller & Co., Inc., has been elected a director and Acting Chairman of the board of Railways of International Central America, the company announced. Mr. Bogie succeeds John L. Simpson who has resigned to accept the position of Chairman of the finance committee of Bechtel Corporation. Mr. Simpson had been a Director of International Railways since 1930 and Chairman of the board since 1935.

Mord M. Bogie

Joins Hannaford Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Everett S. Brown has joined the staff of Hannaford & Talbot, 519 California Street.

With Hooker & Fay

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Alfred R. Volandri is now associated with Hooker & Fay, 340 Pine Street, members of the San Francisco Stock Exchange. He was formerly with Davies & Mejia.

Continued from page 6

Bigness in Government— Our Greatest Danger

back for a moment and just spell out the size of government and its interesting growth.

When Washington was the President of the United States, the number of civilians upon the Federal payroll was, roughly, one for every 30,000 in our population. By the time Lincoln had piloted us through the Civil War, it had jumped from one to 30,000 to one to 360. When McKinley became President of the United States, in the year that I was born, the number of civilians on the roll had increase to one per 300, and under the present incumbent of the White House, the number on the roll is presently about one for every 60 men, women and children in our population. It is not a question of guesswork. I just took a look at the little sheet that Harry Byrd's Committee gets out: "Civilian Personnel in the Executive Branch in October, 1951 —total 2,498,110." Just divide it into the population of the country, and you come up roughly with an equation of one person on the rolls for every 60 men, women and children in the United States of America.

Now, those folks are there for a reason. Not all of them lay around. Not all of these pursue a sinecure position. They are on the rolls because some function has been created by Congress, and the only way that you can articulate or express a function is by creating an agency, staffing it with people, voting the necessary money, providing the supplies, and then let them carry out the so-called will and intent of the Congress.

So long as there is a reaching for power, so long as there are more and more functions added upon the Federal statute books, government is going to grow, the payroll is going to grow, and the expense of government is going to grow.

As you look at the amount that is involved here, it runs well over $8 billion a year for payroll alone. In September, the payroll was $691,434,000 a month. If you multiply it by 12, you see that the Federal payroll today is over $8 billion a year, and it is growing, because the effect of the inflationary spiral is just as disastrous to the person who is on Uncle Sam's payroll, and therefore he, like every other segment of our society, beats upon the doors of Congress and asks for a wage increase.

The wage increase in the first session of the 82nd Congress was, roughly, about $700 million a year, and that will not be the end, for in proportion as there are new demands, in proportion as there may be a price increase, postal workers, all civilian workers of government will be besetting the committees of the House and Senate for increases in pay, and that amount will go up.

But I make the thesis, of course, that as government moves into new functional ground, and as there are new purposes constantly thrown upon the Federal Government, it will grow in size, it will grow in expense, and so their spending is an effect which results from a larger cause.

Of course, so many of these things are the result of group demand and pressure today. It is rather interesting how they work. One of the first bills I encountered in the Senate had great support on both sides of the aisle. I think 18 or 20 Senators, both Democrats and Republicans, were the dual sponsors of the bill. It was one of the most disarming I ever saw. The idea was to extend the public health facilities and services to every county in the United States of America and bring them up to a standard that was fixed by the Surgeon-General of the Public Health Service. What is wrong with that? Isn't it nice? Isn't it desirable? Shouldn't there be more sanitariums, more nurses, more doctors, more of everything, in every one of the 3,105 counties of the United States, that they might minister to the health needs of the people? Offhand, there is nothing wrong with it. The only difficulty is that it costs a lot of money and the question is, can we afford it at a time when our deficit even in this year is variously estimated at $24½ billion and $7½ billion? Next year, it may be infinitely larger. But there you have an example of a demand that was in part espoused by the American Legion, the Council of the CIO and the AFL, some segments of the medical organizations, the deans of the medical schools scattered around the country, and just about everybody who thought that was a very desirable function of government.

The strange thing to me was that the proponents of the bill had forgotten what it was going to cost. It was a year before that they took testimony and the members of the committee themselves had forgotten what the testimony was.

I remember sitting on the Senate floor in the afternoon, patiently waiting my turn, having one Senator take two hours and then come over and say, "There is no objection to this bill. The clock now says five o'clock, so let's get it passed without a roll call."

"But," I said, "Senator, look, I am opposed to it."

"Well," he said, "I am astonished that you should be opposed."

I said, "Let's take a little look," and so I got my turn. I kept on until seven o'clock, got a quorum called, and there was no quorum because they had all gone to a dinner at the Statler Hotel.

But what happened actually was this. Here was a bill that sponsors said would cost $15 million a year. I read them their testimony, and I saw a good many embarrassed faces on the Senate floor. What was going to be the cost? Roughly, the cost was going to be $80 million a year out of the Federal Treasury, and $160 million a year out of State and local treasuries, or a total of $240 million a year. That would be a continuing cost with which to burden the taxpayers of the country in their Federal aspect, and so you add it to the burden of government, because there is a clamor—you spell it out in terms of people — and so government will do the spending for what is a desirable project, notwithstanding that we are going into the hole.

Incidentally, you being insurance men, certainly you must be interested in the socialized medicine program, that item that I encountered early in my Senatorial career was one of the first six titles of the old Wagner-Ellenbogen bill which addresses itself to the question of socialized medicine. Some months later, there came another bill. How desirable to dip into the Federal Treasury and say to the universities and medical schools of the country, if you will put on extra students, over and above your normal complement, we will give you $2,000 for each extra and $200 a student for your regular student body. What university and college wouldn't jump at that kind of a deal? But the thing to remember is that desirable as it may be, notwithstanding a lot of controversy and argument, some of which will not stand up with respect to our medical needs in the country, it simply means another $58 million a year.

Now, that is not the end. There will continue to be group demands, there will continue to be pressures upon government as you so well know. Think of the Brannan Plan and the socialization of agriculture. After all, if you are going to guarantee farmers something, you must have watchmen out in the field, you must have watchmen in Washington, and so you pyramid the payroll of another department of government and you add to its bigness and you add to its cost.

Are we going to nationalize the healing arts of the country? It has been variously estimated that it will take over 100,000 additional civilian employees on the Federal rolls in order to do that job, and that is understandable because by the chain of demand, it goes down to every village and hamlet and county in America, and the cost will be stupendous.

So you see in this element of bigness, in these accretions to Federal power, you make possible the funds that move into the blood stream of America and that aggravate the inflation problem that is so squarely before your industry today.

Overlapping and Duplication in Government

The second factor that disturbs me some is of course the waste and the inefficiency, the overlapping and the duplication in government. Away back in 1947, when I was still in Congress, we created the Hoover Commission. They hired 300 of the finest experts in the country. They organized them into groups and called them task forces. I think there were some 24 of them. They compiled 2½ million words of testimony and then got out some 60 recommendations, some of which have been adopted by the Congress, and others of which are either pending in committee or are in the process of preparation to be introduced in the session which will convene January next.

But what a bewildering thing they finally laid before the American people, a structure such as you have never seen before, and such lack of responsibility in so many agencies and bureaus of government. And then, of course, the waste and inefficiency and cost has become a household word.

Think, for instance, of our Indian Bureau. That used to be a pet with me. Many years ago, I sent John Collier, the head of the Indian Bureau, a note. I said: "Dear Collier: What is an Indian? (Signed) Yours, Congressman Dirksen." Four weeks later, I got four pages single-spaced, and when I got through I couldn't tell what an Indian was. So I sent another note to Mr. J. C. Capp, the head of the Census Bureau. I said, "Dear Mr. Capp, what is an Indian? Yours very truly, Congressman Dirksen." I think I got seven or eight pages. I still didn't know what an Indian was. But there was a suspicion that if you had 1/64 Indian blood in your veins, that justified and qualified your name on the trial balance rolls. So, if they find a teaspoonful of Indian blood in you somewhere, they will get your name on the rolls. They will add it to the Indian total, and that will justify more people to look after Indians. So today we have 12,000 full-fledged, full-paid workers looking after 393,000 Indians, and that makes one per 37 Indians. That is pretty good, isn't it. But you pay the bill.

And so it carries on and on, because Indians vote, as you know, in some areas, and so there are Senators and Congressmen who are rather solicitous about our Indian welfare. I make no bones about saying on occasion I think the Indians would be better off if the Indian Bureau were abolished in its entirety and Indians were regarded as normal American citizens. Probably they would be better off and the Federal Treasury would be better off. But it costs between $25 and $40 million a year.

You know something about the Veterans Administration. What an astonishing thing that a Veterans Hospital should be built in Dublin, Georgia, and it is 58 miles from the nearest railroad station. How does an indigent veteran get there? It would certainly be a tragedy if he had to walk. Or, to build a hospital at Miles City, Montana, where the bed cost is $50,000 per bed. Any private hospital that undertook to do that would go broke in a hurry. But it is an evidence of waste today.

I served for a while on the Post Office Committee. What a lot of fussing we had to do, and you get your heart torn out for it, but Uncle Sam at a cost of 2½ cents has for years been printing billions of commercial post cards which he sells for one cent, and if you keep that up long enough, you will not only break the post office department but the Federal Government as well.

There are some other rather intriguing samples of inefficiency, overlapping and duplicating and waste. I went down to see a Cabinet member a couple of years ago, a good friend of mine, and we were chinning in his office. We had served in the House together for a long time, and in fact, both of us served on the House Appropriations Committee together. An old man came in and so my friend, the Secretary, said, "Dirksen, you know that old man who was just in here is quite a 'tickle.' He has been on the rolls a long, long time." He said, "When I took over this Cabinet post, I called him in one day and said, 'Sam, why is it that you meet me at the door in the morning, and open the door? Then, when I get upstairs, there is somebody else who takes my hat and coat. About eleven-thirty, still another person brings in a tray with my lunch; at twelve-thirty, still another person comes in and takes out the dishes. And then somebody else hands me my hat and coat when I go home at six o'clock in the evening?' "

The old man just looked at him and said, "Well, boss, I'll tell you. You know, I has been serving a lot of Secretaries around here for a long time, and I always thought some day that the government ax would drop on my neck, and I want just as many buffers between me and that ax as possible."

Well, there you are. So it becomes a case of buffers, and you add to the rolls.

Then, of course, you have this strange business of pyramiding and stockpiling of personnel, on the theory that the more people you have working for you, the more likely you are to get a promotion and a very substantial increase in pay.

Why, and I can say this on my own authority, only three weeks ago a friend of mine who is a Colonel in the War Department, was roundly scolded by one of the Generals because he wouldn't put another 30 people on the rolls in his agency. He said, "You will get an increase in pay; you may get an increase in grade; and I will get one at the same time."

Stockpiling Personnel

That is what you call stockpiling personnel in Washington today. Finally, they fall all over each other.

Now, what happens out of this business? First, a sense of futility. There are lots of good people in government, but the structure becomes so big and labyrinthian, so bewildering, that they almost give up in sheer despair and say, "Oh, what's the use?"

Secondly, it destroys a sense of value. I had the head of a bureau invite me to dinner one night down at the Cosmos Club, because when I was Chairman of the subcommittee on Agricultural Appropriations, I took some money out of his estimates. When we were sitting around the dinner table, he said, "Dirksen, why do you fuss about $3 million. After all, it is only $3 million, and what is that against the whole amount that is reflected in the budget?"

Now, that is not something singular. That is a rather a common attitude in Washington today. The billion has nosed million off the front page and out of the budget figures, and what it has done is to distort a sense of values such as I have never seen before.

How do you get frugality? How do you get economy? How do you get a regard for the taxpayers' dollar when futility and frustration and destruction of values goes on day after day?

So there you have a cause of which spending is the effect, for as a very distinguished man, a great American, who lives in this hotel, stated to the Congress, "If the recommendations of the Hoover Commission could have been effectuated and you could put somebody to bear down upon the administrative heads of government and insist, the chances are that along the line, in the first full year of its application, you may save as much as $3 billion a year."

So there is the cause behind the extra spending that makes spending an effect.

Loose and Inadequate Budgetary Accounting

Now one other factor that I think we have got to consider, and that is the rather loose and inadequate budgetary and accounting procedures of the government. I think I can speak with some authority because I was on the House Appropriations Committee for nearly 12 years. In that time I was the Chairman of the sub-committee on Agricultural Appropriations and dealt in the billion dollar class, and more. I want to sketch for you briefly something that in my judgment is one of the most compelling and the most challenging problems both in and out of government today.

Prior to 1921, Congress was something of a wilderness. Every committee of Congress did its own appropriating. The Legislative Committee for the Navy Department not only authorized battleships and cruisers and submarines, but then it appropriated the money also. The Legislative Committee on Agriculture would do what it wanted in that field, and then it served as its own Appropriations Committee. It was a long time after Congress convened before anybody could tell what was authorized and how much had been expended. It got so bad, in fact, that students of the fiscal aspects of government finally organized and came to Washington, and out of their efforts there came the Budget and Accounting Act of 1921.

What it did roughly was this: It set up and put into one committee, the exclusive power to appropriate money, the Appropriations Committee of the House and Senate. Secondly, it created the Budget Bureau. It is the fiscal right arm of the President. Third, it set up the General Comptroller's office and marked out certain additional powers. So, at least, we had the framework of a reasonably good accounting system.

It is well now to look, because it has been on the books for nearly 30 years. So let's see what happened. The first astonishing thing you encounter in this business is that the people who spend the money are also the people who estimate their needs, and who ask for the money. Suppose you were the head of the budget service in any bureau of government and the head of the agency said, "Well now, it is September, it is about time to be thinking of the budget for the next fiscal year. I suggest, therefore, that you start making some estimates for the next year." If you are in that bureau, your friends work there, is your estimate going to be low or high? Well, my own experience over a long period of time indicates that invariably those estimates reach the ceiling. They will ask for everything except the kitchen stove, on the theory that Congress will scale it down. So when the preliminary estimates are made, the head of the bureau goes to sit down with the budget officer for the department.

Let's take agriculture as an example. If the Bureau of Agricultural Economics has made up its estimate, then it sits down with the head of the budget service for the whole department. They spar around; they estimate their needs. They talk about what might happen in the future and then contrive what they think is a reasonably firm figure for all agricultural and economic studies in that department, and also for the crop reporting service. When the other agencies have done likewise, it is all compounded in one volume, and that becomes the preliminary estimate for the department.

Then, what happens? The Secretary of Agriculture, his budget officer and two or three other people, move over to the Budget Bureau. Perhaps five hundred people work in the Budget Bureau, which was set up to assist the President. They sit down and they begin to examine these estimates. And what happens? There are questions, there are answers, there are suggestions that perhaps this is all right, or that ought to be cut, and after three or four sessions like that, they finally contrive a firm figure.

When it is all done for a whole department, involving billions of dollars, then what? The two men in the Budget Bureau who have handled it together with the Director of the Budget Bureau walk over to the White House and sit down with the President and indicate about what the estimates are for the next year for all agricultural functions.

I remember when I went through the lesson book with the Budget Bureau, I said to the Director of the Bureau, "Now, tell me, how much time do you spend with the people from the department who are asking for this money?"

"Oh," he said, "one period, two periods, three periods."

"How much is a period?"

"Oh, it could be an hour, maybe two hours."

I said, "All right. Let's take it at the maximum, two hours, three periods, six hours perhaps. It could be longer. But it is an awfully short period of time, it seems to me, to be thinking about billions of dollars in a package for a single agency of government."

"Now," I said, "Mr. Director, you march to the White House. You sit down with the President. How much time do you spend with the President?"

He said, "One period, two periods at the outside."

"How much is a period in the President's life?"

"One hour."

"In two hours, then," I said, "giving you the benefit of the doubt, you tell the President of the United States, here is a budget for a department of the government that has got $1,600,000,000 in it, and he is expected to know something about it and write a budget message when he sends it to the Congress for action in the following January."

I said, "Mr. Director, the members of Congress know more about the budget of the United States than the President and the Budget Bureau."

His answer was, "I wouldn't be a bit surprised."

But, you see, that is the way these estimates are made up, and suddenly you are confronted with a book the size of an unexpurgated edition of Sears Roebuck, that will probably show anywhere up to 70 billion dollars. The bills are drawn to correspond with the estimates, and then the hearings begin. Oh, I have been through it, not a hundred, maybe a thousand times.

So you sit yourself down with your subcommittee, and here come the men who are asking for the money and who are going to spend the money. Five members of the subcommittee, a room filled with experts to fortify a Cabinet member, so that in case he is a little wavery about an answer, he can look over his shoulder and suddenly there is one of the bright boys to give him the answer.

How many times I have had to caution them that I didn't want an answer from one of his research men, I wanted an answer from the Cabinet officer himself.

Six weeks of hearings, 400 witnesses. But, gentlemen, this is the key to the thing, and you can forget the buildup. But I have gone through the agony year after year of conducting appropriations hearings with not a single witness of my own at my elbow to help me with cross-examination. So, cross-examination is based on what you read. You poke through all the justifications that the department sends you, and they would fill this room for a single session, but you haven't got a single witness who has lived in the department, who has gone through their procedures and their techniques, and who can say to you "ask him this, or ask him that."

Budgetary Guesswork

How would you like to try a lawsuit, or how would you like to defend the life of a person before a jury when you didn't have a single witness in your corner? Year after year, Congress is going through that rather agonizing performance, and how does it show up? It shows up in guesswork. It shows up in the meat-axe technique when you ought to be using a scalpel, and it shows up in over-appropriation and in over-estimates that should not be, because they have to be reflected in the taxes that are ultimately levied against the people of the United States of America.

Now I give you one current example. We considered the Military Appropriation bill in the last session of the Congress, and I asked Senator O'Mahoney, who was piloting that bill, to tell me how many members he had on the Senate Appropriations staff who had lived in the department of the Army, Navy and Air Force, who had something more than a casual idea of what this spending was all about, and I never got an answer. The tragedy is that such staff as the Appropriations Committee of the House and Senate have at the present time do clerical business. They sit at your elbow up there. But we have nobody in the departments here or in the field to make a study to determine whether or not we are appropriating too much money and how much of it is wasted.

And so I got no answer. But I saw the strange spectacle of a United States Senator, Chairman of that Committee, agree to take a $1,500,000,000 cut in military appropriations on the floor of the Senate. Would you take that kind of a cut if you thought your bill was good when you brought it in in the first instance?

We were riding herd for an economy of $5 billion, and they accepted $1½ billion. That, to me was one of the most astonishing things that I have ever seen in government, and it is nothing more than a confession of the looseness of the appropriating technique, and if you ran your business on that basis, it would only be a question of a short time until you went broke.

Now I might say in connection with that that I have made some effort over a period of years in order to develop a staff, but the tragedy is today that Congress, being a political body, is so afraid of columnists and commentators, so afraid of criticism and abuse that they will not spend money on themselves.

After five years of effort, I managed to join in an endeavor to get the House to set up a $150,000 fund for a staff to implement the Appropriations Committee. Not all of it was spent, and it wasn't used very effectively. I have said a thousand times that if the Congress could be urged to spend $5 million for the best kind of staffing and talent that the United States of America would yield, it will show up probably in a saving of $500 million for every million that you spend. How else can you do the job and do it right?

And so we come to an intermediate conclusion. You have to look behind the spending business a little bit. When you think of spending as the moving cause for taxes and say, "All right, what makes you spend?" and once you come to growth in government, you come to waste and inefficiency, and then you come to weak and amorphous techniques in the whole field of appropriation, that necessarily begins to pyramid in the form of billions that must be extracted from the pockets of the taxpayers.

That is a very unhappy situation, as a matter of fact, and so we come then to the end of this little discourse. What do we do about it? You see, that is always the important thing. One can point out a good many weaknesses, but the question is, can one supply a practical remedy, and so I lay it out just as briefly as I can.

Conflict of Federal and State Authority

No. 1, I think the time has come for the creation of a commission similar to the Hoover Commission to examine into the whole field of conflict of authority between the Federal and State governments. Where do we draw the line finally? Is the Federal Government going to grow in power and authority to the point where it becomes a centralized dictatorship? It has many aspects, but not the least of them is one that came to my mind some years ago, when a friend of mine came back from the Ukraine.

He was over there helping them on some of their agricultural techniques on the collective farms. I think he was there for three years, and he became acquainted with a great many of the Commissars. They were rather unhappy to have him go. But in those meetings and those fellowships that they had, he came back with one conclusion that intrigued me a good deal, because this one Commissar, high on the ladder of authority over there, once made this observation to him. He said, "So long as you have got virile and strong state government, so long it will be impossible to do too much to the United States of America with our ideology. Our job will be to weaken the states. Our job will be to siphon authority from the grass roots and put it in a centralized government, for then we will deal only with one governmental instrumentality, and it will be infinitely easier to pressure it, to infiltrate that kind of a government, and probably move it in our direction no matter how long it may take."

I think the time has come for a Commission with real talent on it to demark these lines, for otherwise centralization in power will grow. You spell it out in terms of bigness and new bureaus. That means money, and spending will continue.

I think the second thing that must be done is to carry on some kind of a crusade that will make the average citizen realize that bigness in government spells itself out in terms of the citizens' pocketbook. Over the years, I have gone up and down the land and dramatized the budget issue as well as I could, but so often it left people cold, probably because they didn't appreciate that what goes on in Washington in the field of bigness and authority finally gets down to the grass roots level and to the average man in the form of taxes.

I doubt very much whether a campaign of that kind can be undertaken unless it is done by private organizations who are interested in ending the dilution of the dollar and the possible destruction of our economy, and it is going to take a real, honest-to-goodness crusade to do that job. I think, however, that it must be done. It isn't enough that a few people in government raise their voices because you cannot forget that the spenders are in authority today and the spenders have at their command the propaganda instrumentalities of government up to as much as $75 million a year. If we have a durable interest in the welfare of America and in the consummation of the value of the dollar against the forces of inflation and erosion, then such a campaign is necessary.

The third recommendation I would make is that Congress, which is, after all, the heart of government, must have the tools with which to work. It is an inadequate business. We tried it once and made some litte progress, and very promptly it was ignored or thrown overboard.

We had a joint committee down there some years ago consisting of six House members and six Senators who worked for several years upon the so-called legislative reorganization plan, to provide for a single package budget. There were plenty of safeguards in that bill. What has happened to it? Nothing. It has been ignored. It, in my judgment, was a pretty sound piece of legislation, because among other things, we had a proposal there that you couldn't raise an appropriation item on the floor unless it was within the ceiling that was established when the one package budget was brought to the attention of Congress. Don't you see how nicely that works?

If somebody out in Illinois wanted to get $25 million for Calumet Harbor, he would have to find at least some Congressman who was willing to have $25 million taken out from his state or district, and you know the impossibility of ever achieving that result. So we had some lovely balances in it, but it has been very nicely ignored. It had some of the tools that are necessary. So I say humbly, as a member of the legislative branch of the government, that it is an inadequate procedure today, but there is not going to be real relief until that procedure is tightened up and the tools are there in order to do it.

Those are the recommendations that I think one would make. And then, in addition thereto, to follow through on the fine recommendations that have been made by the Hoover Commission. They are good, but imagine a great many administrators and Cabinet members coming before an off-the-record session of a Senate Committee and saying, in so many words, they like the Hoover recommendations except that they are unequivocally opposed to those recommendations that require a reduction in personnel or a reduction in spending. Isn't that wonderful?

One of the weaknesses in it, of course, was the fact that it didn't provide for some person with authority to bear down upon every administrator in government and make him carry through until those recommendations had been effectuated. It is a simple program.

And then, at the end, I would add this one thing. I think as never before, as we consider this whole question of inflation and what it does to the insurance dollar, to be sure also that we don't take our eye off the one great thing that is involved, and that is the freedom of this country. You see, inflation begets danger. Danger begets fear. Fear causes people to think in terms of controls of greater dimensions, and the more control you have, the closer you come to this whole question of a modified socialism, like that which brings Winston Churchill to the United States of America the first week in January to say to us what he said in the Guild Hall in London five weeks ago, that there is a void in their agricultural commodity supply, there is a void in their supply of commodities to keep smoke in the chimneys, and there is a great big void in the British Treasury.

Needed: A Practical Program in Government

In view of all that, isn't it just about time that we give attention to a practical program, in government and out, that will go to the heart of this spending matter, keep it down within reasonable and measurable dimensions, and then perhaps it won't even be necessary to extend another tax bill in 1952 in order to close that gap between income and outgo which sets up an inflationary wage-price spiral and threatens the country and this basic freedom.

Keep your eye on that one consideration over and above everything else because our progress in that direction has been altogether too dangerous already.

I often think of the employer who said to the little boy, "Son," —well, there were four of five of them applying for a job—"I will give all you boys a little problem, a little anecdote.

"A farmer grabbed his gun and went out to the barn to shoot an owl. The blaze from the shotgun blast ignited the hay. The hay burned, the barn burned down. The farmer's wife came out to put out the fire and lost her life, and the farmer almost lost his life." So he just left it at that.

All these boys began to speculate about the burning barn and the burning hay, but there was one boy who had the right answer. He came up and said, "Mister, what happened to the owl?" Keep your eye on the owl.

Sellers, Doe Formed

MONTGOMERY, Ala.—Sellers, Doe & Co. has been formed with offices in the First National Bank Building, to engage in the securities business. Philip A. Sellers is a principal in the firm.

Inv. Management Corp.

T. I. S. Management Corp., 61 Broadway, New York City, has changed its name to Investment Management Corp.

Joins King Merritt

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Kenneth W. Kutter has been added to the staff of King Merritt & Co., Inc., U. S. National Bank Building.

Albert H. Poland

Albert H. Poland, partner in Miller & George, passed away on Dec. 7.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

By the time you read this the Christmas holiday will be over but you'll still have New Year's Eve and New Year's Day to look forward to. Here's hoping that whatever happens up to then won't make your head throb any worse than the celebrations on these days normally call for.

* * *

Starting next week you'll begin reading annual forecasts of what the market will do for the coming year. At this point, I too should say a few words about 1952. Don't think I don't want to. Trouble is I don't know what to say.

* * *

I could say if the market goes up and goes through certain figures (I gotta figure those out) it will then go to other figures — or something. Or I could get cute and say if they go down and penetrate still other figures (which I also haven't figured out) then so and so will happen. Oh well!

* * *

Sticking to facts, you know that stocks did little just before Christmas. They started to turn a little reactionary. The chances are this was the result of disinterest rather than any basic cause. The day before Christmas was just a short session with most of the traders away from their desks and off the floor. Probably home figuring who sent the Christmas cards and wondering if they should send any back.

* * *

Seriously though, the market doesn't look like any immediate Merry Christmas or Happy New Year. There are things in the immediate offing that spell decline rather than rally. All this, however, isn't new. I've said as much last week and the week before.

* * *

How much they'll go down, if they do, I'll leave to others to estimate or guess. When I think a reaction is coming, and other things are equal, I usually get out and wait until either the storm hits or is diverted in some fashion.

* * *

As I pointed out last week, this getting out and waiting isn't so simple any longer. There's the little matter of taxes to consider. And it's no longer such a little matter either. A man has to be an accountant to figure if taking a loss would be better than trying to save a profit.

* * *

This income tax bite puts a different picture on almost any transaction. If you have nothing to do New Year's Day, I suggest you sit down and figure some of this out. If you come to any conclusions I hope you'll drop me a line and tell me about it.

* * *

In the meantime here's a belated Merry Christmas and a wish that 1952 will make your subsequent Christmas a real celebration.

[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.]

Fullerton Mgr. of New Westheimer Branch

COLUMBUS, Ohio—Howard I. Fullerton has become associated with Westheimer and Company members of the New York and Cincinnati Stock Exchanges, as manager of their newly opened office at 30 East Broad Street. Associated with the new office will be Roland E. Bopp and John M. McCabe. Mr. Fullerton formerly President of Fullerton & Company, Inc., of which Mr. Bopp was also an officer. Mr. McCabe was with McDonald & Company.

Cornelius Cole II With Francis I. du Pont & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Cornelius Cole II has become associated with Francis I. du Pont & Co., 722 South Spring Street. He was formerly manager of the stock department for Shearson, Hammill & Co. in their Beverly Hills office. Prior thereto he was with Merrill Lynch, Pierce, Fenner & Beane and Schwabacher & Co.

Continued from page 4

Securities and Security

annual expenditure, twenty pounds ought and six; result, misery. The blossom is blighted, the leaf is withered, the god of day goes down upon the dreary scene, and—and, in short, you are forever floored. As I am!"

Let us in the light of this unquestionably sound philosophy examine the budgetary position of our government: For the fiscal year ending June 30, 1953, the Federal Government is scheduled to spend about $90 billion of which nearly three-quarters will be used for national defense. Against this, revenues are expected to provide about $70 billion, so that there may be a deficit of as much as $20 billion. These figures do not include probable additional appropriations for more air groups and for A and H bomb developments. These, together with more aid for our friends and allies overseas, may bring our total deficit up to $25 and perhaps $30 billion. Where will all this money come from? There are only four possible sources: Personal income taxes, corporate taxes, devaluation and new money.

How to Cover Deficits

Income taxes for 1951-52 are expected to produce 83% of the total income. The immenseness of this figure is evident from the fact that in 1939, income taxes yielded only 42% of the total income. In passing, it may be of interest to point out that in Great Britain, supposedly the most heavily taxed nation in the world, income taxes account for about one-half of the total income. It may well be doubted whether we could, with impunity, effect any further increases in personal income taxes. Remember that there is such a thing as point of no return. And we seem to be dangerously close to it. It has been stated authoritatively that if the Government were to tax 100% all incomes above $25,000, the total would be less than one billion dollars.

The situation in regard to corporate taxes is not different: For the period 1942-50, Federal, state and local taxes amounted to about 3½ times as much as was retained by the so-called owners of the corporations. Obviously, this is not the way to preserve the free enterprise system and what we proudly designated as the American way of life.

In this connection it may be of interest to refer to a recent study by the Chamber of Commerce of the United States according to which "President Truman's Administration had collected more taxes in its six years than the total of all previous United States administrations."

The Chamber also estimated that the present Administration had spent more than one-third of all expenditures incurred by the Federal Government since 1789. (See table I.)

TABLE I

	1789-1945 (June 30)	1945 (July 1)-1951 (Nov. 16)
Revenue	$254,200,000,000	$262,600,000,000
Disbursements	488,800,000,000	281,800,000,000

Although the Chamber realizes that because of the decline in the purchasing power of the dollar, receipts after July, 1945 had not been equivalent to those prior to that date, it is nevertheless aware that the financial operations of the Government are one of the major causes of "inflation."

A third source of additional revenue would be devaluation, that is, the increase in the price of gold from the present figure of $35 an ounce, and a corresponding enhancement in the value of our gold stocks. This, in turn, would make it possible to increase our currency in circulation. While this method would afford some relief, it would only be of a temporary nature. History is replete with instances of governmental attempts to create prosperity through currency manipulation. They have never succeeded and are not likely to succeed in the future.

There remains, thus, the fourth source: The creation of additional money, without at the same time providing for corresponding coverage, thereby furthering already existing inflationary trends.

Investor's Dilemma

It is in this connection that the present and potential investor requires financial aid and guidance. These may render it possible to preserve what may be lost through a decline in the purchasing power of our currency. It may perhaps be recalled that in the days of rampant inflation in Germany, bonds and other fixed-income securities which were created at the time, were scheduled to be paid, not in currency, but rather on the basis of the world prices for wheat, rye, sugar, kilowatts, etc.

In view of the above, one might to advantage refer to certain observations in the report issued by the Trust Investment Committee, Trust Division, New York State Banking Association:

"One of the most interesting conclusions from the study of corporation stock prices and earnings over the past hundred years is that well-managed private enterprise has, on the long pull, given a greater measure of protection to the savers and investors of the nation than has the government. While the value of the government dollar has declined in purchasing power from one decade to the next, the corporate dollar invested in 'risk securities' has continued to appreciate."

The question which the investor is apt to raise is: Since securities markets have been rising more or less continuously for the past several years, is it wise to enter the market at what may be an "abnormally" high level. It is difficult to accept this view at face value. To begin with, the term "abnormal" is misleading, because any situation may seem abnormal when compared with a certain other situation. Furthermore, any situation, however abnormal, becomes and is regarded as normal, if it continues for any length of time.

As to whether the market is high or low, a few statistics, as contained in Table II, may be of interest.

TABLE II

	*1951	1938	% Gain	% Gain Based on "True" Dollar
National income	274.4	67.4	307.1	123.9
Wages	176.3	42.8	311.4	126.6
Corporate profits bef. taxes	46.2	3.3	1,300.0	669.7
Corporate taxes	27.5	1.0	2,650.0	1,410.0
Corporate prof. after taxes	15.4	2.3	569.6	317.4
Dividends	9.3	3.2	190.6	90.6
Id., in % of prof. after taxes	53.1	139.1	----	----
†Industrial shares index	208.0	100.0	108.0	14.4

*Computed on basis of Jan.-Sept. figures. †Computed on basis of 1937 equals 100 of Standard and Poor's recent index of 365 stocks (Dec. 5, 1951).

Although national income has risen very impressively, amounting to more than four times the prewar figures, wages have advanced even more pronouncedly.

Corporate profits, despite a most spectacular gain in taxes of 2,650%, were still well over 6½ times the 1938 total. Dividend distributions have been less liberal than appears warranted by the increase in profits, amounting to slightly less than three times the prewar figure. What is particularly significant is the fact that dividends will absorb only about half the expected profits after taxes, while in 1938, disbursements aggregated the total reported profits plus a considerable portion of corporate surplus.

It would thus appear that prices as measured by dependable criteria have not only not advanced in accordance with the rise in our economy, but have rather lagged behind.

Economic Interdependence

What of the future? Our economy seems inextricably tied to the international situation and the rise and fall of our business volume will depend upon the extent of our participation in world affairs.

It has been stated that a settlement of the Korean problem, if and when it comes about, will have an adverse effect upon our business structure in that it may lead to a marked reduction in our defense expenditures and foreign aid program.

The United States seems irrevocably committed to a policy of cooperation to a very large degree with what we are pleased to designate as the Free World. We have taken over where Great Britain has left off, without realizing that times have changed very considerably since the days of Rhodes and Clive.

It is no longer easy to govern or control millions of natives. They have awakened and yearn for independence and freedom, even though in many instances they are not quite ready for them. Our effort must therefore be greater than ever before. Even if we reach an agreement in regard to Korea—and from all indications it may well be doubted whether a permanent or satisfactory solution is going to be found—what about numerous other sore spots throughout the world—China and Burma, Indo-China and Malaya, Formosa, Kashmir, Syria, Egypt, Iran, Germany, East and West, Yugoslavia, Trieste, Czechoslovakia, Hungary, Austria? How are we going to resolve all these and possibly other questions, foremost among which are the menacing expansionist policies of Russia and the designs of the men in the Kremlin, dreaming of and planning and plotting world conquest and domination?

We have been told again and again that in order to overcome the sinister forces of communism, it is necessary to "lead from strength." What one must bear in mind is this: Vast masses of humanity, notably in Asia, the Near East, Africa and Latin America, have aspirations and desires which, while resembling somewhat Marxist ideologies, are, in the final analysis, genuine ambitions to effect improvement in their unbelievably low standard of living, enormously high illiteracy and ignorance. If we could revise the slogan "to lead from strength" to one "leading to knowledge," i.e., if we could bring enlightenment to the ignorant; food to the hungry; clothes to the naked; shelter to the poor, we should accomplish much more concrete and lasting results than through the employment of guns and bombs of the various varieties. Let us hear what a prominent New York clergyman has to say on this point:

"Does the heart of the American people really go with their treasure as they pour it out to pay the bill of war? Do we believe that communism, against which we are all united, can be stopped by piling up of arguments or the drafting of 18-year-old boys? Twice in a generation we have tried this way. Each time the misery and hatreds of war have begotten new and greater terrors: Militant fascism after 1918 and militant communism before and after 1945. Both times these social malformations thrived amid miserably substandard living conditions, as democracy thrives amid high living standards and prosperity. We may succeed in blasting the Kremlin in the next war, but poverty, disease, hopelessness will stalk the earth and we shall be too exhausted to heal the global wounds.

"We can win the wretched of the earth from the communists, not by terrifying them with our military might (the Russians can do that, too) but by programs of good will on an unprecedented scale: food, plows and land for the hungry, and housing and tools for the homeless; medicine and instruction for the sick and ignorant; clothes, spindles and looms for the naked. These are the means of making friends and influencing people, not guns and planes and bombs.

"America, with the help of like-minded nations, can do this."

Let us hope and pray that Americans and their allies here and abroad will heed these wise exhortations. If we do, we shall pave the way towards the creation of a better world and the realization of the Evangelist's dream of—*In terra pax hominibus bonae voluntatis*—On earth, peace to men of good-will.

New York Stock Exchange Weekly Firm Changes

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

Interest of the late Adams Batcheller, Jr., in Dominick & Dominick will cease Dec. 31.

Raymond Ritti will withdraw from partnership in Colgate Hoyt & Co., Dec. 31.

Emmett Lawshe will retire from partnership in Carl M. Loeb, Rhoades & Co., Jan. 1.

J. Claire Sowers will retire from Mead, Miller & Co., Dec. 31.

Gilbert Stanley will retire from partnership in Merrill Lynch, Pierce, Fenner & Beane, Dec. 31.

Lambert Turner will withdraw from limited partnership in Moore, Leonard & Lynch on Dec. 31.

Frank Fletcher Garlock will retire from F. S. Moseley & Co., Dec. 31.

H. Prenatt Green will withdraw from partnership in G. H. Walker & Co. Dec. 31.

On Jan. 3 the Exchange will consider the transfer of the Exchange membership of Edward T. H. Talmage to Francis J. Sweeney.

Walston Hoffman Display

Bulls, Bears, or both—it makes no difference to Walston, Hoffman & Goodwin, investment brokers, who are this month operating a Lionel train in the firm's display window at 1370 Broadway. The exhibit is another segment in the company's program to present monthly operational displays of leading corporations quoted on the New York Stock Exchange.

John L. Weeks

John L. Weeks passed away Dec. 18 at the age of 67 after a long illness. Mr. Weeks was senior partner of Luke, Banks & Weeks, New York City, and a member of the New York Stock Exchange.

With Campbell & Robbins

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg.—James G. Robbin[illegible] has joined the staff of Car[illegible] Robbins, Incorporated, [illegible]tional Bank Bldg.

Continued from page 5

The State of Trade and Industry

Steel Output Scheduled to Decline 3.5 Points as a Result of Christmas Holiday

Approach of year-end finds the steel markets highly disturbed by threat of an industry-wide strike Jan. 1 unless a wage settlement is achieved before that date, says "Steel," the weekly magazine of metalworking the current week. Chances for working out of a formula satisfactory to union and management for settling the issue before the strike deadline are slight. The union and steel management at last week-end appeared miles apart in their thinking with union demands estimated to average around 35 to 40 cents per hour increase. Opposition by the government to price increases as an offset to a wage boost appeared to write off the possibility of settling the issue through straight collective bargaining. So solution of the problem appears to rest almost entirely with the government. A truce to delay the strike is, of course, possible, the magazine adds.

Meanwhile, the steel mills continue under pressure for tonnage although demands for the consumer durable goods manufacturers are noticeably off. The slack is more than offet by expanding defense requirements. The mills are sold out on virtually all products for the first quarter, declares this trade paper.

Severe shortages in many major products promise to extend well into 1952. In fact, all the signs indicate such items as pipe, plates and alloy bars will be in short supply throughout the year. However, many products will be in progressively better tonnage as 1952 advances with considerable new steelmaking facilities scheduled for completion. Light, flat-rolled steel will be in noticeably increased supply by mid-year, this trade weekly points out.

Direct defense and related production and construction, beginning the first quarter, will take more than 40% of the carbon steel supply, and about 60% of the supplies of aluminum and copper and brass mill products. These are estimates of the Defense Production Administration based on allotments for the period under the Controlled Materials Plan. The heavy take reflects the greatly increased defense order loan on suppliers as the military program gets into full swing.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 93% of the steel-making capacity for the entire industry will be 101.4% of capacity for the week beginning Dec. 24, 1951, equivalent to 2,027,000 tons of ingots and steel for castings, a decline of 3.5 points below last week as a result of the Christmas Holiday

Last week's operating rate was equivalent to 104.9%, or 2,097,000 tons of steel ingots and castings for the entire industry, compared to 104.0%, or 2,079,000 tons a month ago. A year ago production stood at 100.1%, or 1,930,600 tons.

Electric Output Breaks Through Historical High Level of Previous Week

The amount of electric energy distributed by the electric light and power industry for the week ended Dec. 22, 1951, was estimated at 7,823,731,000 kwh., according to the Edison Electric Institute.

The current total was 156,867,000 kwh. more than that of the preceding week and set a new all-time high record for the industry. It was 790,991,000 kwh., or 11.2% above the total output for the week ended Dec. 23, 1950, and 1,829,788,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Continue Decline of Preceding Week

Loadings of revenue freight for the week ended Dec. 15, 1951, totaled 753,194 cars, according to the Association of American Railroads, representing a decrease of 20,326 cars, or 2.6% below the preceding week.

The week's total represented a decrease of 19,937 cars, or 2.6% below the corresponding week of 1950, but a rise of 113,466 cars, or 17.7% above the comparable period of 1949, when loadings were reduced by a three-day working week in the coal fields.

Automotive Output in U. S. Declines as a Result of Bad Weather

Motor vehicle production in the United States the past week, according to "Ward's Automotive Reports," declined to 103,838 units, compared with the previous week's total of 111,410 (revised) units, and 152,812 units in the like week of 1950.

Passenger car production in the United States last week was about 7% lower than the previous week, due to bad weather conditions, and more than 33% below the like week of last year.

Total output for the current week was made up of 79,527 cars and 24,311 trucks built in the United States, against 85,483 cars and 25,927 trucks last week and 119,266 cars and 33,546 trucks in the comparable 1950 week.

Canadian output last week rose to 2,727 cars and 1,607 trucks, against 2,632 cars and 1,585 trucks in the preceding week and 5,868 cars and 2,353 trucks in the similar period of 1950.

Business Failures Dip Sharply Below Corresponding 1950 and 1949 Levels

Commercial and industrial failures dipped to 117 in the week ended Dec. 20 from 143 in the preceding week, Dun & Bradstreet, Inc., reports. This decrease brought casualties considerably below the corresponding 1950 and 1949 levels when 174 and 196 occurred respectively. In comparison with prewar 1939, failures were down 53% from the total of 249 recorded in the similar week of that year.

Wholesale Food Price Index Declines to New 1951 Low

Reversing the mild upward movement of the previous week, the Dun & Bradstreet wholesale food price index declined rather sharply last week to stand at $6.63 on Dec. 18, from $6.69 the week before. This represents a new low for over a year, or since Nov. 14, 1950, when it was $6.58. The current level compares with $3.80 at this time a year ago, or a drop of 2.5%. The 1951 high was $7.31 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 Adversely Affected by Lower Grain and Cotton Values

The general price level showed a further mild decline last week, due largely to lower grain and cotton values. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., stood at 308.95 on Dec. 18, comparing with 310.71 a week earlier and with 315.36 on the like date last year.

Grain markets were unsettled and reactionary last week with prices generally moving lower. Wheat prices slumped as export business fell sharply below recent weeks. Other factors in the decline in wheat included fairly heavy market arrivals coupled with slow domestic demand in both wheat and flour, and concern over the possibility of an armistice agreement in Korea. Corn displayed strength early in the period, influenced by unfavorable harvesting weather and reports of further deterioration, but later turned downward, due to more liberal receipts and weakness in other commodities. The final estimate of the Department of Agriculture placed the 1951 corn crop at 2,941,423,000 bushels, a drop of 147,000 below the estimate of a month ago, 435,000,000 short of the government's goal, and well below the 10-year average of 2,980,777,000 bushels. The latest forecast compares with a revised estimate of 3,057,803,000 bushels last year.

Cautiousness continued to rule in the domestic flour market. There was, however, a limited expansion in hard Winter wheat varieties, and a fair number of bookings were reported in Spring wheat flours as the week closed. Cocoa was irregular with a sharp rise at the finish canceling out earlier declines.

There was a sharp advance in coffee futures as the week ended. Bullish sentiment was aided by heavy buying by Brazilian interests, following the lower supply estimate by the Brazilian Government late last week. Raw sugar prices held fairly steady at a slightly lower level as traders showed little inclination to buy pending announcement of the 1952 consumption estimate of Department of Agriculture to be announced late this week. Market receipts of cattle and hogs were heavy last week with prices slightly lower.

Lambs declined sharply at the close on largest receipts in almost two years.

Domestic cotton prices lost considerable ground the past week following a mild dip the week before. The decline was largely attributed to year-end tax sales, continued dullness in cotton textiles, and weakness in outside markets. Some early selling resulted from the smaller than expected drop shown in the official Dec. 1 estimate of this year's crop. Activity in spot markets declined as demand slackened following release of the report. Sales in the 10 markets fell to 289,200 bales, from 414,200 the week before, and compared with 167,400 in the corresponding week a year ago. Foreign inquiries and sales held in moderate volume. Trading in cotton gray cloths remained dull. Movement of print cloths was slow with a slight easing of prices noted in both first- and second-hands.

Trade Volume Soars to All-Time High Point in Pre-Christmas Week

The dollar volume of retail trade reached a new all-time high in the period ended on Wednesday of last week as Christmas shopping continued at an accelerated pace, states Dun & Bradstreet, Inc., in its weekly summary of trade. Total trade was slightly higher than a year ago although retailers in some cities affected by severe weather had yearly declines. Shoppers, generally quite bargain-conscious, favored gift items of a practical nature.

Shoppers bought much more apparel than in the preceding week. The sharpest rises were in the demand for lingerie, hosiery, loungewear, sportswear and accessories. While haberdashery became increasingly popular, the interest in men's suits and coats remained limited. The total receipts of apparel retailers was slightly higher than a year earlier. Children's toggery sold in increased volume.

Total retail trade in the period ended on Wednesday of last week was estimated to be from unchanged to 4% higher than a year ago. Regional estimates varied from the levels of a year earlier by the following percentages:

New England —2 to +2, East and Midwest —1 to +3, South and Southwest +2 to +6, Northwest 0 to +4, and Pacific Coast +1 to +5.

Activity in the major wholesale centers slackened noticeably with buyer attendance about half as large as a week ago. The total dollar volume of wholesale trade declined slightly in the week, but remained slightly above the year-ago level. Reorders for seasonal merchandise were numerous as were inquiries for items suitable for special post-holiday sales.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 15, 1951, declined 4% from the like period of last year. In the preceding week a decrease of 1% was registered under the like 1950 week, but an increase of 1% for the four weeks ended Dec. 15, 1951. For the year to Dec. 15, department store sales registered an advance of 3%.

Retail trade in New York last week displayed a pronounced pick-up spurred by the impetus of Christmas buying. Sales volume, according to estimates by trade sources was expected to come within striking distance of the high level for the like 1950 pre-Christmas week.

According to Federal Reserve Board's index, department store sales in New York City for the weekly period ended Dec. 15, 1951, declined 6% below the like period of last year. In the preceding week, a decrease of 8% was recorded from the similar week of 1950, and for the four weeks ended Dec. 15, 1951, a decrease of 3% was registered below the level of a year ago. For the year to date volume advanced 4% above the like period of last year.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Dec. 30	101.4	104.9	104.0	100.1
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 30	2,027,000	2,097,000	2,079,000	1,930,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Dec. 15	6,225,200	6,221,350	6,237,150	5,723,320
Crude runs to stills—daily average (bbls.)	Dec. 15	‡6,553,000	6,610,000	6,616,000	5,925,000
Gasoline output (bbls.)	Dec. 15	22,276,000	22,381,000	22,114,000	20,254,000
Kerosene output (bbls.)	Dec. 15	2,523,000	2,705,000	2,802,000	2,267,000
Distillate fuel oil output (bbls.)	Dec. 15	10,270,000	10,113,000	9,688,000	8,864,000
Residual fuel oil output (bbls.)	Dec. 15	8,763,000	8,993,000	9,403,000	8,567,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 15	114,812,000	113,590,000	110,381,000	110,943,000
Kerosene (bbls.) at	Dec. 15	28,434,000	29,293,000	32,729,000	23,152,000
Distillate fuel oil (bbls.) at	Dec. 15	91,649,000	94,270,000	100,200,000	76,913,000
Residual fuel oil (bbls.) at	Dec. 15	44,157,000	46,218,000	48,434,000	41,598,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 15	753,194	773,520	814,435	773,131
Revenue freight received from connections (number of cars)	Dec. 15	668,914	694,345	687,557	680,428
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 20	$139,005,000	$192,563,000	$163,148,000	$692,041,000
Private construction	Dec. 20	66,734,000	87,982,000	93,962,000	112,439,000
Public construction	Dec. 20	72,271,000	104,581,000	69,186,000	579,602,000
State and municipal	Dec. 20	48,027,000	57,382,000	56,201,000	70,304,000
Federal	Dec. 20	24,244,000	47,199,000	12,985,000	509,298,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 15	11,350,000	*11,245,000	11,560,000	12,194,000
Pennsylvania anthracite (tons)	Dec. 15	935,000	927,000	993,000	847,000
Beehive coke (tons)	Dec. 15	160,900	*165,200	140,200	164,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE = 100	Dec. 15	611	550	374	638
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 22	7,823,731	7,666,864	7,157,038	7,032,740
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 20	117	143	149	174
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 18	4.131c	4.131c	4.131c	4.131c
Pig iron (per gross ton)	Dec. 18	$52.72	$52.72	$52.72	$52.69
Scrap steel (per gross ton)	Dec. 18	$42.00	$42.00	$42.00	$45.13
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 19	24.200c	24.200c	24.200c	24.200c
Export refinery at	Dec. 19	27.425c	27.425c	27.425c	24.425c
Straits tin (New York) at	Dec. 19	103.000c	103.000c	103.000c	155.000c
Lead (New York) at	Dec. 19	19.000c	19.000c	19.000c	17.000c
Lead (St. Louis) at	Dec. 19	18.800c	18.800c	18.800c	16.800c
Zinc (East St. Louis) at	Dec. 19	19.500c	19.500c	19.500c	17.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Dec. 24	96.39	97.05	96.91	101.40
Average corporate	Dec. 24	108.52	108.52	109.06	115.63
Aaa	Dec. 24	112.75	112.93	113.70	119.82
Aa	Dec. 24	112.00	112.19	112.56	118.60
A	Dec. 24	107.80	107.62	107.98	114.85
Baa	Dec. 24	101.97	102.13	102.80	109.60
Railroad Group	Dec. 24	103.97	103.97	105.00	112.00
Public Utilities Group	Dec. 24	108.70	108.70	109.06	115.82
Industrials Group	Dec. 24	113.12	113.31	113.50	119.00
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Dec. 24	2.74	2.70	2.71	2.39
Average corporate	Dec. 24	3.25	3.25	3.22	2.87
Aaa	Dec. 24	3.02	3.01	2.97	2.66
Aa	Dec. 24	3.06	3.05	3.03	2.72
A	Dec. 24	3.29	3.30	3.28	2.91
Baa	Dec. 24	3.63	3.62	3.58	3.19
Railroad Group	Dec. 24	3.51	3.51	3.45	3.06
Public Utilities Group	Dec. 24	3.24	3.24	3.22	2.86
Industrials Group	Dec. 24	3.00	2.99	2.98	2.70
MOODY'S COMMODITY INDEX	Dec. 24	461.0	457.5	456.1	507.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 15	169,359	265,609	186,612	204,724
Production (tons)	Dec. 15	200,151	201,888	208,429	239,164
Percentage of activity	Dec. 15	86	86	86	105
Unfilled orders (tons) at end of period	Dec. 15	387,000	428,921	426,284	681,676
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE 100	Dec. 21	147.1	147.2	149.3	146.5
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	Dec. 8	31,030	28,029	25,435	34,021
Number of shares	Dec. 8	896,086	784,854	715,703	1,018,326
Dollar value	Dec. 8	$40,201,080	$35,599,366	$31,940,676	$41,167,123
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Dec. 8	25,382	21,750	20,094	31,742
Customers' short sales	Dec. 8	268	232	267	319
Customers' other sales	Dec. 8	25,114	21,518	19,827	31,423
Number of shares—Total sales	Dec. 8	713,267	617,187	569,897	945,517
Customers' short sales	Dec. 8	8,301	7,932	9,255	11,716
Customers' other sales	Dec. 8	704,966	609,255	560,642	933,801
Dollar value	Dec. 8	$28,900,779	$25,109,638	$24,174,760	$36,398,654
Round-lot sales by dealers—					
Number of shares—Total sales	Dec. 8	199,240	165,730	148,840	291,120
Short sales	Dec. 8	------	------	------	------
Other sales	Dec. 8	199,240	165,730	148,840	291,120
Round-lot purchases by dealers—					
Number of shares	Dec. 8	384,250	380,680	300,600	396,690
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR— 1926=100:					
All commodities	Dec. 18	171.1	*177.1	177.2	[illegible]
Farm products	Dec. 18	193.2	193.7	195.7	187.6
Grains	Dec. 18	198.9	19[illegible].9	1[illegible].4	[illegible]
Livestock	Dec. 18	231.2	236.5	235.3	231.3
Foods	Dec. 18	189.3	188.4	189.8	179.0
Meats	Dec. 18	265.4	266.5	269.8	253.1
All commodities other than farm and foods	Dec. 18	165.6	165.6	165.1	167.2
Textile products	Dec. 18	160.1	159.6	158.6	172.2
Fuel and lighting materials	Dec. 18	138.8	138.8	138.7	136.1
Metals and metal products	Dec. 18	190.9	190.9	190.9	185.1
Building materials	Dec. 18	224.7	*224.7	224.8	221.9
Lumber	Dec. 18	347.9	*347.9	347.5	‡
Chemicals and allied products	Dec. 18	138.2	*138.0	140.0	140.1

*Revised. ‡Not available. ‡Includes 445,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION — For Month of October:			
Total gas (M therms)	3,601,959	3,179,383	3,104,200
Natural gas sales (M therms)	3,368,535	2,980,413	2,866,200
Manufactured gas sales (M therms)	100,912	90,700	145,000
Mixed gas sales (M therms)	132,512	108,270	92,800
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100)			
Month of November:			
Adjusted for seasonal variations	311	*303	290
Without seasonal adjustment	380	*322	355
COAL EXPORTS (BUREAU OF MINES) —			
Month of September:			
U. S. exports of Pennsylvania anthracite (net tons)	705,921	605,128	479,559
To North and Central America (net tons)	354,288	293,578	479,549
To South America (net tons)	10	208	------
To Europe (net tons)	351,623	311,228	------
To Asia (net tons)	------	14	------
To Africa (net tons)	------	------	------
COAL OUTPUT (BUREAU OF MINES)—Month of November:			
Bituminous coal and lignite (net tons)	49,035,000	51,530,000	45,512,000
Pennsylvania anthracite (net tons)	3,990,000	4,548,000	3,355,000
Beehive coke (net tons)	572,400	620,100	606,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—			
As of Nov. 30 (000's omitted)	$435,000	*$410,000	$325,000
CROP PRODUCTION — CROP REPORTING BOARD, U. S. DEPARTMENT OF AGRICULTURE—Final report (in thousands):			
Corn, all (bushels)	2,941,423	3,088,092	3,057,803
Wheat, all (bushels)	987,474	993,598	1,019,389
Winter (bushels)	645,469	650,738	740,682
All spring (bushels)	342,005	342,860	278,707
Durum (bushels)	35,820	36,369	37,212
Other spring (bushels)	306,185	306,491	241,495
Oats (bushels)	1,316,396	1,372,246	1,410,464
Barley (bushels)	254,668	254,409	303,533
Rye (bushels)	21,395	25,138	21,264
Buckwheat (bushels)	3,340	3,634	4,439
Flaxseed (bushels)	33,802	32,284	40,236
Rice (bags)	43,805	44,564	38,689
Popcorn (pounds)	191,579	------	242,070
Sorghum grain (bushels)	159,265	165,805	233,278
Sorghum forage (tons)	6,410	------	6,592
Sorghum silage (tons)	5,622	------	4,926
Cotton, lint (bales)	15,290	15,771	10,012
Cottonseed (tons)	6,186	------	4,105
Hay, all (tons)	108,351	113,859	102,340
Hay, wild (tons)	12,563	13,496	12,015
Alfalfa seed (bushels)	2,055	------	2,155
Red clover seed (bushels)	1,790	------	2,787
Alsike clover seed (bushels)	310	------	315
Sweetclover seed (bushels)	903	------	1,527
Lespedeza seed (pounds)	148,390	------	175,870
Timothy seed (bushels)	976	------	1,508
Beans, dry edible (bags)	17,446	16,607	16,886
Peas, dry field (bags)	3,763	3,717	3,206
Soybeans for beans (bushels)	280,512	277,590	299,279
Cowpeas for peas (bushels)	2,061	------	2,734
Peanuts picked and threshed (pounds)	1,595,025	1,637,985	2,021,730
Velvetbeans (tons)	242	------	258
Potatoes (bushels)	325,708	335,651	429,896
Sweetpotatoes (bushels)	28,278	34,796	49,825
Tobacco (pounds)	2,282,386	2,271,670	2,030,645
Sorgo sirup (gallons)	2,831	5,441	3,691
Sugarcane for sugar and seed (tons)	5,601	6,538	6,944
Sugarcane sirup (gallons)	5,140	7,056	9,230
Sugar beets (tons)	10,584	10,741	13,535
Maple sugar (pounds)	200	------	257
Maple sirup (gallons)	1,809	------	2,062
Broomcorn (tons)	34	33	27
Hops (pounds)	63,239	61,755	58,351
Apples, commercial crop (bushels)	112,935	113,268	123,126
Peaches (bushels)	70,265	69,932	53,485
Pears (bushels)	32,687	32,228	31,140
Grapes (tons)	3,281	3,199	2,707
Cherries (12 states) (tons)	236	232	242
Apricots (3 states) (tons)	181	177	215
Plums (2 states) (tons)	102	------	182
Prunes, dried (3 states) (tons)	186	------	150
Prunes, other than dried (3 states) (tons)	80	------	43
Oranges (5 states) (boxes)	122,325	------	121,610
Grapefruit (4 states) (boxes)	40,690	------	46,580
Lemons, California (boxes)	12,900	------	13,400
Cranberries (5 states) (barrels)	932	914	984
Pecans (pounds)	143,137	147,905	125,622
Tung nuts (5 states) (tons)	56	------	36
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (excl. of linters) to Dec. 13	13,554,489	------	9,178,376
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of November (1935-39 average=100)	122.2	120.6	125.2
PORTLAND CEMENT (BUREAU OF MINES)—			
Month of October:			
Production (bbls.)	22,797,000	22,269,000	22,461,000
Shipment from mills (bbls.)	26,140,000	23,256,000	24,167,000
Stocks (at end of month—barrels)	6,944,000	*10,287,000	5,945,000
Capacity used	99%	100%	102%
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) —Month of September:			
Net railway operating income	$75,724,640	$80,881,473	$122,955,546
Other income	15,356,194	17,340,841	22,849,587
Total income	91,080,834	98,222,314	145,805,133
Miscellaneous deductions from income	4,653,008	4,606,686	4,044,322
Income available for fixed charges	86,427,826	93,615,628	141,760,811
Income after fixed charges	53,364,711	58,606,561	103,002,284
Other deductions	3,109,724	3,109,639	3,583,906
Net income	50,254,987	55,496,922	99,418,378
Depreciation (way & structures & equip.)	40,900,933	38,064,525	36,867,333
Amortization of defense projects	4,386,012	4,236,294	1,368,408
Federal income taxes	52,551,476	55,911,400	81,420,421
Dividend appropriations:			
On common stock	11,386,349	24,558,491	14,788,783
On preferred stock	1,580,832	5,708,086	1,341,893
Ratio of income to fixed charges	2.61	2.67	3.66
WINTER RYE CONDITION—CROP REPORTING BOARD U. S. DEPT. OF AGRICULTURE—As of Dec. 1 (bushels)	89%	------	91%
WINTER WHEAT PRODUCTION — CROP REPORTING BOARD U. S. DEPT. OF AGRICULTURE—As of Dec. 1 (bushels)	918,303,000	------	645,469,000

*Revised figure. §Includes non-recurring tax credit of $12,766,497 resulting from adjustment of income taxes for war years.

Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Allied Kid Co., Boston, Mass.
Dec. 10 (letter of notification) 1,000 shares of common stock (par $5). **Price**—At market (estimated at $21 per share). **Underwriter**—Schirmer, Atherton & Co., Boston, Mass. **Proceeds**—To Benjamin Simons, the selling stockholder.

American Airlines, Inc., New York
Dec. 5 filed 740,750 shares of common stock (par $1), of which 135,750 shares are to be offered to executive employees through outstanding options at $11.70 per share, and 605,000 shares are to be offered to employees through above options. **Underwriter** — None. **Proceeds** — For working capital.

American Bosch Corp., Springfield, Mass.
Nov. 13 filed 65,450 shares of cumulative convertible second preferred stock, 1951 series, to be offered to common stockholders at rate of one share of preferred for each 20 common shares held (with over-subscription privileges). **Price**—To be supplied by amendment. **Underwriter**—Allen & Co., New York. **Proceeds**—For capital expenditures and working capital and other corporate purposes. **Offering**—Not expected until after Jan. 1.

★ **American Fire & Casualty Co., Orlando, Fla.**
Dec. 19 (letter of notification) 11,100 shares of common stock (par $10). **Price** — $27 per share. **Underwriter** — Guardian Credit Corp., Orlando, Fla. **Proceed** — For purchase of securities. **Office** — American Building, Orlando, Fla.

American Motor Racing Corp.
Nov. 14 (letter of notification) 60,000 shares of preferred stock (par $5) and 1,200 shares of common stock (no par, in units of 50 shares of preferred and one share of common stock. **Price**—$250 per unit. **Underwriter**—None **Proceeds** — For acquisition of property, construction of race track, etc. **Office**—c/o Morris Orenstein, 31 Mamaroneck Ave., White Plains, N. Y.

Arwood Precision Casting Corp.
Nov. 13 (letter of notification) $100,000 of unsecured 4% debentures due Oct. 1, 1961. **Price**—At par (in denominations of $100 each). **Underwriter** — None. **Proceeds**—For working capital. **Office**—70 Washington St., Brooklyn 1, N. Y.

Atlas Plywood Corp. (1/8-9)
Nov. 21, filed 240,000 shares of $1.25 cumulative convertible preferred stock (par $25), as amended Dec. 17. **Price** —To be supplied by amendment. **Underwriter** — Van Alstyne Noel Corp., New York. **Proceeds**—To repay $2,500,000 bank loans and for expansion and working capital.

Badger Manufacturing Co., Cambridge, Mass.
Nov. 5 (letter of notification) 17,500 shares of common stock (par $10). **Price**—$15 per share. **Underwriter**—None, but sales will be handled by H. W. Cooms, E. I. Clapp, R. W. Carlson and C. L. Campbell, all of Cambridge, Mass. **Proceeds**—For working capital. **Office**—230 Bent St., Cambridge, Mass.

Benbow Manufacturing Co., Burlingame, Calif.
Dec. 7 (letter of notification) 85,000 shares of capital stock (par $1), of which 10,000 shares are to be offered first to stockholders and 75,000 shares offered publicly. **Price**—$3 per share. **Underwriter**—None, but Davies & Co., San Francisco, Calif., acts as agent. **Proceeds**—To retire debt and for working capital. **Office**—1285 Rollins Road, Burlingame, Calif.

Birmingham Fire Insurance Co.
Nov. 1 (letter of notification) 12,500 shares of common stock, to be offered to stockholders of record Nov. 15 at rate of one share for each seven shares held. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To enlarge insurance business. **Office**—221 No. 21st St., Birmingham 3, Ala.

Blair (Neb.) Telephone Co.
July 18 (letter of notification) $175,000 of first mortgage 4% bonds, series A, due 1971. **Price**—101 and accrued interest. **Underwriter** — Wachob-Bender Corp., Omaha, Neb. **Proceeds**—To retire first mortgage (closed) 3½% bonds and to convert to dial operation.

Burlington Mills Corp.
March 5 filed 300,000 shares of convertible preferred 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.

Carolina Power & Light Co.
Dec. 14 filed 33,000 shares of $5 cumulative preferred stock (no par) to be offered in exchange for $1.35 cumulative preferred stock (par $25) of Tide Water Power Co. on basis of one $5 preferred share for each 4 shares of Tide Water preferred, in connection with proposed merger of the two companies. **Underwriter**—None.

Catalin Corp. of America
Nov. 16 filed 281,243 shares of common stock (par $1) to be offered for subscription by common stockholders at rate of one share for each two shares held. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds** —For capital expenditures and working capital.

NEW ISSUE CALENDAR

January 3, 1952

Dow Chemical Co.	Common

January 8, 1952

Atlas Plywood Corp.	Preferred
Uarco, Inc.	Common

January 9, 1952

Kaiser Aluminum & Chemical Corp.	Preferred
Kellogg Co.	Common
Marshall Field & Co.	Preferred
Philadelphia Electric Co.	Bonds
Southern Pacific Co.	Equip. Trust Ctfs.
Van Norman Co.	Debentures

January 10, 1952

Public Service Co. of North Carolina, Inc.	Interim Notes
South Jersey Gas Co., 11 a.m. (EST)	Common

January 15, 1952

Florida Power Corp.	Preferred
Mitchell (Harry) Brewing Co.	Common

January 16, 1952

Seaboard Finance Co.	Preferred

January 22, 1952

Indiana & Michigan Electric Co. 11 a.m. (EST)	Bonds & Notes
Pacific Power & Light Co.	Common

January 29, 1952

United Gas Corp., 11:30 a.m. (EST)	Bonds

February 1, 1952

Southwestern Public Service Co.	Common

Additional Financing Expected in January

Central Illinois Public Service Co.	Debs. & Pfd.
Disco Industries, Inc.	Common
International Resistance Co.	Common
Kansas City Power & Light Co.	Preferred & Com.
Olsen, Inc.	Common
Owens-Corning Fibreglas Corp.	Common
New Britain Machine Corp.	Common
Penn Controls, Inc.	Common
Penn Fruit Co., Inc.	Preferred & Com.
Pioneer Air Lines, Inc.	Common
Southern California Petroleum Corp.	Preferred
Southern Oxygen Co.	Debentures

★ **Chef Frozen Foods, Inc., Spokane, Wash.**
Dec. 17 (letter of notification) 20,000 shares of common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1327 No. Division Street, Spokane 2, Wash.

Columbus National Life Insurance Co., Columbus, Ga.
Dec. 13 (letter of notification) 5,000 shares of capital stock (par $10), to be offered first for subscription by stockholders. **Price**—$30 per share. **Underwriter**—None. **Proceeds** — For increased capital. **Office**—400 Murray Bldg., Columbus, Ga.

★ **Cooperative Grange League Federation Exchange, Inc., Ithaca, N. Y.**
Dec. 21 filed 100,000 shares of 4% cumulative preferred stock (par $100) and 1,000,000 shares of common stock (par $5), the preferred to be offered to farmer and non-farmer GLF patrons, and the common stock to farmer patrons only. **Underwriter**—None. **Proceeds**—To repay bank loans and working capital.

Dallas Smith Corp., Indianapolis, Ind.
Dec. 7 (letter of notification) 4,997 shares of common stock (par $8). **Price**—$18.50 per share. **Underwriter**—Raffensperger, Hughes & Co., Inc., Indianapolis, Ind. **Proceeds**—For working capital. **Office**—118 So. Pennsylvania St., Indianapolis, Ind.

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.

Disco Industries, Inc.
Dec. 4 (letter of notification) 299,500 shares of common stock (par 10 cents). **Price**—$1 per share. **Underwriter** — I. J. Schenin Co., New York. **Proceeds** — For new equipment and working capital. **Offering**—Not expected until after Jan. 1.

Distributors Candy Co. (name to be changed to Schutter Candy Co.), Chicago, Ill.
Nov. 19 filed 200,000 shares of class A common stock (par $10) and 50,000 shares of class B common stock (no par), of which the class A stock and 25,000 shares of class B stock are to be offered in units of eight shares of class A and one share of class B; the remaining 25,000 class B shares are to be issued for an option to acquire the Schutter Candy Division of Universal Match Corp. **Price** —$82 per unit. **Underwriter**—None. **Proceeds**—To be applied toward purchase of Schutter properties. **Withdrawal**—Request filed Dec. 19 to withdraw statement.

Dow Chemical Co., Midland, Mich. (1/3)
Nov. 16 filed 180,000 shares of common stock (par $15) of which about 133,202 shares will be offered to common stockholders of record Dec. 14 at rate of one share for each 50 shares held. Subscriptions must be filed between Jan. 3 and Jan. 25, 1952. Approximately 46,798 shares are to be offered to employees of the company and its subsidiaries. **Price**—$82.50 per share. **Underwriter**—None. **Proceeds**—For capital additions to plants and facilities and for other corporate purposes. Statement effective Dec. 10.

Empire Southern Gas Co., Ft. Worth, Texas
Dec. 10 (letter of notification) 10,300 shares of common stock (par $10), to be offered to stockholders, employees and officers of the company. **Price**—$26.75 per share. **Underwriter**—None. **Proceeds**—To purchase natural gas distribution systems in Pampa and Panhandle, Texas. **Office**—2509 West Barry Street, Fort Worth 9, Texas.

Exolon Co., Boston, Mass.
Nov. 21 (letter of notification) 12,653 shares of common stock (no par), being offered to stockholders of record Nov. 28 at rate of one share for each 10 shares held. **Price**—$16 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—60 State St., Boston, Mass.

Falstaff Brewing Corp., St. Louis, Mo.
Dec. 10 (letter of notification) 20,000 shares of common stock (par $1). **Price**—At market (approximately $12.50 per share). **Underwriter** — J. H. Williston & Co., New York. **Proceeds**—To Estate of Frederick R. Bauer.

First Western Co., Seattle, Wash.
Dec. 10 (letter of notification) 6,000 shares of class B common stock. **Price**—At par ($50 per share). **Underwriter**—None, but A. F. Crawford and R. B. Magner will handle sales. **Proceeds**—For construction and working capital. **Office**—8050—35th Street, Seattle, Wash.

Florida Power Corp. (1/15-16)
Dec. 12 filed 51,550 shares of convertible preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriters**—Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane, both of New York. **Proceeds**—For construction program.

Forbes & Wallace, Inc., Springfield, Mass.
Dec. 13 (letter of notification) 1,050 shares of class B common stock (no par). **Price**—$20 per share. **Underwriters** — Tifft Brothers, Springfield, Mass., and F. S. Moseley & Co., Boston, Mass. **Proceeds**—To A. B. Wallace, the selling stockholder. **Office** — 1414 Main St., Springfield 2, Mass.

★ **Form Moulding, Inc., Marion, Ind.**
Dec. 17 (letter of notification) 31,740 shares of class B stock (par 10 cents), of which 20,000 shares will be issued to holders of class A stock in ratio of one-fifth share of class B to each share of class A held, with a value for each share of $1.25. The balance of 11,740 shares will be offered publicly. **Price**—To public, $1.15 per share. **Underwriter**—American Shares Corp., New York. **Proceeds**—To clear up dividend arrearages on class A stock.

Fosgate Citrus Concentrate Cooperative (Fla.)
Nov. 13 (amendment) filed 452 shares of class A common stock (par $100); 5,706 shares of 5% preferred stock (par $100), cumulative beginning three years from July 10, 1950); 7,597 shares of 4% revolving fund class C stock (par $100); 2,000 shares of 4% revolving fund class C stock (par $50); and 4,000 shares of 4% revolving fund class C stock (par $25). Of the 5,706 shares of 5% class B stock, 706 shares are for the account of Fosgate Growers Cooperative. **Price**—At par. **Underwriters** —None. **Proceeds**—To construct and equip frozen concentrate plant at Forest City, Fla.

Giant Portland Cement Co.
Nov. 7 (letter of notification) 16,650 shares of common stock (par $1). **Price**—At market (about $6 per share). **Underwriter**—Craigmyle, Pinney & Co., New York. **Proceeds**—To Louise Craigmyle, the selling stockholder.

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.

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.

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Hawkeye-Security Insurance Co.
Nov. 5 (letter of notification) 2,000 shares of 5% cumulative preferred stock (par $50). **Price**—At market (currently $50 per share). **Underwriter**—Quail & Co., Davenport, Ia., and Becker & Cownie, Des Moines, Ia. **Proceeds**—To six selling stockholders. **Office**—1017 Walnut St., Des Moines 9, Ia. **Offering**—Temporarily delayed.

Helio Aircraft Corp., Norwood, Mass.
July 31 (letter of notification) 7,750 shares of non-cumulative preferred stock (par $1) and 7,750 shares of common stock (par $1) to be offered in units of one share of preferred and one share of common stock. **Price**—$25 per unit ($20 for preferred and $5 for common). **Underwriter**—None. **Proceeds**—For development and promotion expenses. **Office**—Boston Metropolitan Airport, Norwood, Mass.

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.

Hoover Co., No. Canton, O.
Oct. 22 (letter of notification) 4,000 shares of common stock (par $2.50). **Price**—$18 per share. **Underwriter**—Hornblower & Weeks, New York. **Proceeds**—To William W. Steele, the selling stockholder.

Ideal Cement Co., Denver, Colo.
Nov. 9 filed 250,000 shares of capital stock (par $10) being offered in exchange for shares of $10 par stock of Pacific Portland Cement Co. of San Francisco on basis of one share of Ideal for each two shares of Pacific stock. Offer is subject to condition that 80% or more of Pacific outstanding stock must be tendered in exchange for Ideal stock. If exchange offer is consummated, it is Ideal's intention to operate the Pacific company as a subsidiary. **Dealer-Managers**—Boettcher & Co., Denver, Colo.; J. Barth & Co., San Francisco, Calif. **Offer**—To expire Dec. 31. Statement effective Nov. 29.

★ **Indiana & Michigan Electric Co. (1/22)**
Dec. 19 filed $17,000,000 of first mortgage bonds due Jan. 1, 1982 and $6,000,000 of serial notes due Jan. 1, from 1956 to 1967, inclusive. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Union Securities Corp.; Harriman Ripley & Co. Inc. **Proceeds**—To repay bank loans and for new construction. **Bids**—To be received up to 11 a.m. (EST) on Jan. 22.

Industrial Research, Inc., Miami, Fla.
Dec. 13 (letter of notification) 8,000 shares of class A 6% preferred stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—4016 N. W. 29th St., Miami, Fla.

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.

International Aggregates Corp., Denver, Colo.
Dec. 10 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For mill machinery and working capital. **Office**—209 Equitable Building, Denver 2, Colo.

Iowa Public Service Co.
Nov. 26 (letter of notification) 2,000 shares of common stock (par $5). **Price**—At market (approximately $19.50 per share). **Underwriter**—A. C. Allyn & Co., Inc., Chicago, Ill. **Proceeds** — To Ray P. Stevens, the selling stockholder.

Kaiser Aluminum & Chemical Corp. (1/9)
Nov. 27 filed 350,000 shares of cumulative preferred stock (par $50), convertible into common stock through 1961. **Price**—To be supplied by amendment. **Underwriter**—The First Boston Corp., New York, and Dean Witter & Co., San Francisco, Calif. **Proceeds**—From sale of stock, together with proceeds from private sale to institutional investors of $33,500,000 additional first mortgage bonds and from $50,000,000 bank loans, to be used to finance the company's $100,000,000 expansion program.

Kankakee Water Co., Portland, Me.
Oct. 29 (letter of notification) 2,186 shares of 5½% cumulative preferred stock (par $100). **Price**—$105 per share. **Underwriter**—H. M. Payson & Co., Portland Me. **Proceeds**—For additions and improvements. **Office**—95 Exchange Street, Portland 6, Me.

Kellogg Co., Battle Creek, Mich. (1/9)
Dec. 12 filed 415,060 shares of common stock (par 50 cents), of which 30,200 are for the account of the company and 384,860 are owned by W. K. Kellogg Foundation. **Price**—To be supplied by amendment. **Underwriters**—Morgan Stanley & Co., Clark, Dodge & Co. and Glore, Forgan & Co., all of New York. **Proceeds**—To company, to be used for working capital.

Key Oil & Gas Co., Ltd., Calgary, Canada
Oct. 3 filed 500,000 shares of common stock, of which 5,000 shares have been reserved for issuance to company counsel for services. **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.

Kingsburg Cotton Oil Co., Kingsburg, Calif.
Oct. 22 (letter of notification) 2,000 shares of capital stock (par $1). **Price**—$4.25 per share. **Underwriter**—Fewel & Co., Los Angeles, Calif. **Proceeds**—To Richard W. Fewel, the selling stockholder. **Address**—P. O. Box 277, Kingsburg, Calif.

Knorr-Maynard, Inc., Detroit, Mich.
Oct. 31 (letter of notification) $250,000 of 6% 10-year debentures due 1961. **Price**—At par (in denominations of $1,000 each). **Underwriter**—Lang-Heenan & Co., Detroit, Mich. **Proceeds** — For working capital. **Office**—5743 Woodward Ave., Detroit 2, Mich.

Kohn & Co., Columbia, S. C.
Oct. 22 (letter of notification) 925 shares of common stock, to be offered to present stockholders for subscription and in exchange for outstanding debentures. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To retire debt. **Office**—1526 Main St., Columbia, S. C.

Lindemann (A. J.) & Hoverson Co.
Nov. 28 filed 112,500 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—To eight selling stockholders. **Offering**—Date indefinite.

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.

Lubrication Engineers, Inc., Fort Worth, Tex.
Nov. 20 (letter of notification) 750 shares of common stock to be offered first to stockholders, and then to public. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds** — For operating capital. **Office** — 2809 Race St., P. O. Box 7303, Fort Worth 11, Tex.

Marshall Field & Co., Chicago, Ill. (1/9)
Dec. 19 filed 150,000 shares of cumulative convertible preferred stock (par $100). **Price**—To be supplied by amendment. **Underwriters**—Glore, Forgan & Co. and Lee Higginson Corp., New York. **Proceeds**—To retire bank loans.

McKesson & Robbins, Inc., New York
Dec. 5 filed 100,000 shares of common stock (par $18) to be offered under an "executive stock purchase plan" to employees of company and its subsidiaries. **Underwriter** — None. **Proceeds** — For general corporate purposes.

Mercantile Acceptance Corp. of California
Oct. 24 (letter of notification) $100,000 of 10-year 5% junior subordinated debentures (in various denominations) and 306 shares of 5% first preferred stock (par $20). Of latter, 271 shares will be offered to public and 35 shares to employees only on an instalment basis. **Price**—At par. **Underwriter**—Guardian Securities Corp., San Francisco, Calif. **Proceeds**—For general corporate purposes.

★ **Mercantile Acceptance Corp. of California**
Dec. 13 (letter of notification) $33,902 of 10-year 5% junior subordinated debentures. **Price**—At par. **Underwriter**—Guardian Securities Corp., San Francisco, Calif. **Proceeds**—To Harold G. Snodgrass, the selling debentureholder.

★ **Merchants Petroleum Co., Inc., Los Angeles, Calif.**
Dec. 17 (letter of notification) 4,000 shares of common stock (par $1). **Price** — At market (approximately 65 cents per share). **Underwriter**—Akin-Lambert & Co., Los Angeles, Calif. **Proceeds**—To R. Wayne Hudelson, the selling stockholder. **Office**—639 So. Spring Street, Los Angeles 14, Calif.

Midwestern Insurance Co., Oklahoma City, Okla.
Dec. 10 (letter of notification) 3,000 shares of preferred stock to be offered to present stockholders. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For increased capital.

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.

Mineral Products Co., Pittsburg, Kansas
Oct. 4 (letter of notification) $225,000 of second mortgage 5% bonds to be offered to stockholders in ratio of $300 of bonds for each share of stock held as of record June 30, 1951, with an oversubscription privilege. **Price**—At principal amount. **Underwriter**—None. **Proceeds**—For equipment. **Office**—314 National Bank Bldg., Pittsburg, Kansas.

Mitchell (Harry) Brewing Co. (1/15)
Dec. 12 filed 99,500 shares of common stock (par $1). **Price**—$6 per share. **Underwriters**—Russ & Co., Inc., San Antonio, Texas, and Harold S. Stewart & Co., El Paso, Texas. **Proceeds**—To certain selling stockholders.

Montana Hardwood Co., Inc., Missoula, Mont.
Sept. 26 (letter of notificataion) 2,970 shares of 6% redeemable preferred stock (par $100) and 2,970 shares of common stock (par $1) to be offered in units of one preferred and one common share. **Price**—$101 per unit. **Underwriter**—None. **Proceeds** — To purchase land and erect plant. **Office**—123 West Main St., Missoula, Mont.

Moore International Television, Inc., N. Y.
Dec. 5 (letter of notification) 299,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For production of films for television presentation and general working capital. **Office**—20 East 53rd Street, New York, N. Y. **Offering**—Expected in January.

Muntz TV, Inc., Chicago, Ill.
Nov. 28 (letter of notification) 30,000 shares of common stock (par $1). **Price**—At market (approximately $2.87½ per share). **Underwriter**—John R. Kauffmann Co., St. Louis, Mo. **Proceeds**—To Earl W. Muntz, the selling stockholder. **Office**—1735 West Belmont Ave., Chicago, Illinois.

Nash (F. C.) & Co., Pasadena, Calif.
Dec. 7 (letter of notification) $200,000 of 5½% convertible debentures to be first offered to common stockholders on a pro rata basis; unsubscribed shares first to exchange, par for par, for $92,600 of outstanding 5½% cumulative preferred stock (par $100); remainder to be publicly offered. **Price** — At 100%. **Underwriter**—Pasadena Corp., Pasadena, Calif. **Proceeds**—To redeem unexchanged preferred stock and for working capital. **Office**—141 East Colorado Street Pasadena 1, Calif.

National Marine Terminal, Inc., San Diego, Calif.
Oct. 24 (letter of notification) 26,650 shares of 6% cumulative preferred stock (par $10) and 26,650 shares of common stock (par $1) to be offered in units of one share of each class of stock. **Price**—$11 per unit. **Underwriter**—None. **Proceeds** — For working capital and to purchase an additional interest in tuna clippers. **Office**—1592 So. 28th St., San Diego 13, Calif.

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.

Nevada Oil & Gas Co., Reno, Nev.
Dec. 6 (letter of notification) 48,350 shares of common stock. **Price** — At par ($1 per share). **Underwriter** — None. **Proceeds** — To purchase drilling equipment. **Office**—304-305 Clay Peters Building, 140 N. Virginia Street, Reno, Nev.

Nu-Enamel Corp., Chicago, Ill.
Nov. 8 (letter of notification) $220,000 of 5% convertible notes, dated Dec. 1, 1951, and due Dec. 1, 1959. **Price**—At par (in denominations of $100 each). **Underwriter**—None. **Proceeds**—For working capital. **Office**—444 Lake Shore Drive, Chicago, Ill.

Ohio Edison Co.
March 30 filed 150,000 shares of pfd. stock (par $100). Removed from registration by amendment filed Dec. 18.

Overseas Merchants Corp.
Nov. 16 (letter of notification) 10 shares of common stock (no par). **Price**—$1,000 per unit. **Underwriter**—E. M. Warburg & Co. Inc., New York. **Proceeds**—To Eric M. Warburg, the selling stockholder. **Office**—52 William St., New York.

★ **Pacific Power & Light Co. (1/22)**
Dec. 20 filed 552,792 shares of common stock (no par), of which 200,000 shares are for account of company and 352,792 shares for the account of selling stockholders. **Price**—To be supplied by amendment. **Underwriters**—Lehman Brothers; Union Securities Corp.; Bear, Stearns & Co.; and Dean Witter & Co. **Proceeds**—From sale of 200,000 shares, to be used for property additions and improvements.

Pacific Telephone & Telegraph Co.
Oct. 19 filed 633,274 shares of common stock being 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 as of Nov. 27; with rights to expire on Dec. 28. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To reduce bank loans and for plant improvements. Statement effective Nov. 20.

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.

Penn Controls, Inc., Goshen, Ind.
Oct. 25 filed 100,000 shares of common stock (par $2.50). **Price**—To be supplied by amendment. **Underwriter**—F. S. Moseley & Co., Boston, Mass. **Proceeds**—For expansion program and working capital. **Offering**—Not expected until after Jan. 1.

Penn Fruit Co., Inc., Philadelphia, Pa.
Nov. 21 filed 30,000 shares of 5% cumulative convertible preferred stock (par $50) and 60,000 shares of common stock (par $5), the preferred to be sold for the company's account and the common stock for the account of six selling stockholders. **Price**—To be supplied by amendment. **Underwriter**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To company, to reimburse treasury for expenditures made for fixtures and equipment and the balance will be added to working capital. **Offering**—Expected in about ten days.

Pennsylvania Salt Mfg. Co.
Nov. 7 filed 88,497 shares of common stock (par $10) offered in exchange for common stock of Sharples Chemicals Inc. on basis of 5.15 shares of Pennsylvania Salt stock for each Sharples share (conditioned upon deposit for exchange of at least 13,748 of the 17,184 outstanding shares of Sharples stock; offer will expire on Jan. 21. **Underwriter**—None. Statement effective Dec. 19.

Pennzoil Co.
Dec. 3 (letter of notification) 39,658 shares of common stock (par $10) to be offered to common stockholders of record Dec. 10 at rate of one share for each 13 shares held; rights will expire on Dec. 28. South Penn Oil Co., parent, will subscribe for 31,693 shares, or 79.915% of the issue. **Price**—$33.25 per share. **Underwriter**—None. **Proceeds**—To retire debt incurred through expansion of

refining and sales activities. **Office**—Drake Theater Bldg., Oil City, Pa.

★ **Penobscot Chemical Fibre Co., Bangor, Me.**
Dec. 17 (letter of notification) 520 shares of common stock (no par). **Price**—At approximately $15 per share (to be offered at public auction conducted by R. L. Day & Co., Boston, Mass.). **Underwriter**—None. **Proceeds**—To Miss Mary A. Clapp, the selling stockholder. **Office**—6 State Street, Bangor, Me.

Philadelphia Electric Co. (1/9)
Dec. 10 filed $35,000,000 first and refunding mortgage bonds due 1982. **Price**—To be supplied by amendment. **Underwriters**—Drexel & Co., Philadelphia, Pa.; and Morgan Stanley & Co., New York. **Proceeds**—To repay bank loans and for new construction.

Pioneer Air Lines, Inc., Dallas, Tex.
Nov. 29 filed 120,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Cruttenden & Co., Chicago, Ill. **Proceeds**—To purchase new equipment. **Offering**—Expected some time in January.

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 25% of the market price on the New York Stock Exchange at time options are granted. **Underwriter**—none. **Proceeds**—For working capital.

Procter & Gamble Co.
Nov. 29 Procter & Gamble Profit Sharing Dividend Plan and Procter & Gamble Stock Purchase Plan filed 2,000 participations in Profit Shaving Dividend Plan, 1,100 participations in Stock Purchase Plan, and 34,000 shares of common stock (no par) to be purchased by trustees for the plans for company stockholders from selling stockholders. **Underwriter**—None.

Public Service Co. of North Carolina, Inc. (1/10)
Dec. 11 filed $2,400,000 three-year interim notes due Jan. 1, 1955 (to be payable at maturity at company's option in an equivalent par value of convertible preferred stock of $25 par, at rate of one preferred share for each $25 principal amount of notes). **Price**—To be supplied by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—To help finance expansion program and company's changeover to natural gas. **Offering**—Expected to take place about Jan. 9, 1952.

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.

Queen City Fire Insurance Co.
Nov. 5 (letter of notification) 500 shares of common stock (par $100) to be offered to stockholders of record about Nov. 12. **Price** — $400 per share. **Underwriter** — None. **Proceeds**—For working capital. **Office**—Sioux Falls, S. D.

Ritchie Associates Finance Corp.
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.

★ **Rose Marie Mining Co., Las Vegas, Nev.**
Dec. 14 (letter of notification) 300,000 shares of common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For mining machinery. **Office**—124 So. Sixth Street, Las Vegas, Nev.

Seaboard Finance Co. (1/16)
Dec. 17 filed 175,000 shares of convertible preferred stock (no par), each share to be convertible into 1½ common shares. **Price**—To be supplied by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—For working capital.

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.

Silver Buckie Mining Co., Wallace, Ida.
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.

Skyway Broadcasting Co., Inc., Ashville, N. C.
Sept. 10 (letter of notification) 6,000 shares of common stock. **Price**—$50 per share. **Underwriter**—None. **Proceeds**—For construction and operating capital for a proposed television station.

Smith (Alexander), Inc.
Dec. 3 (letter of notification) 6,250 shares of common stock. **Price**—Approximately $16 per share. **Underwriter**—Alex. Brown & Sons, Baltimore, Md. **Proceeds**—To Alexander S. Cochran, the selling stockholder.

Snoose Mining Co., Hailey, Idaho
July 19 (letter of notification) 1,000,000 shares of common stock. **Price**—At par (25 cents per share). **Underwriter**—E. W. McRoberts & Co., Twin Falls, Ida. **Proceeds**—For development of mine.

Sonic Research Corp., Boston, Mass.
Oct. 8 (letter of notification) 9,000 shares of common stock (no par). **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—15 Chardon St., Boston, Mass.

Southern Oxygen Co., Bladensburg, Md.
Dec. 10 filed $1,400,000 of 6% convertible subordinated debentures due Jan. 1, 1962 (convertible on basis of five shares of common stock for each $100 debenture). **Price**—To be supplied by amendment. **Underwriter**—Johnston, Lemon & Co., Washington, D. C. **Proceeds**—To repay notes and for working capital. **Offering** — Expected in January.

★ **Southwest Lumber Mills, Inc., McNary, Ariz.**
Dec. 14 (letter of notification) 3,000 shares of 5% cumulative convertible preferred stock, series A. **Price**—At par ($100 per share). **Underwriter**—The Mondet Corp. **Proceeds**—For working capital.

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.

★ **Tape Production Corp., Tampa, Fla.**
Dec. 18 (letter of notification) 28,000 shares of common stock (par $1). **Underwriter**—None. **Proceeds**—For organizational expenses and to purchase machinery. **Office**—c/o Furman O. Ruff, 3817 Bay-to-Bay Boulevard, Tampa, Fla.

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.

Texstar Corp., San Antonio, Tex.
Nov. 27 (letter of notification) 10,000 shares of common stock (no par). **Price**—$10 per share. **Underwriter**—Wood, Struthers & Co., San Antonio, Tex. **Proceeds**—To purchase Aztec Ceramics, Inc., and for working capital. **Office**—2409 Transit Tower, San Antonio 5, Tex.

★ **Tokheim Oil Tank & Pump Co., Ft. Wayne, Ind.**
Dec. 18 (letter of notification) 5,600 shares of common stock (no par). **Price**—$16.50 per share. **Underwriters**—Glore, Forgan & Co., Chicago, Ill., and Fulton, Reid & Co., Cleveland, O. **Proceeds**—To Sarah N. Hall and Rosemary N. Hallman, two selling stockholders.

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.

Trans Caribbean Air Cargo Lines, Inc.
Dec. 3 (letter of notification) 20,000 shares of class A stock (par 10 cents). **Price**—At market (about $2.37½ per share). **Underwriter**—Gearhart, Kinnard & Otis Inc., New York. **Proceeds**—To O. Roy Chalk, President, the selling stockholder.

Transgulf Corp., Houston, Tex.
Dec. 3 (letter of notification) 200,000 shares of capital stock (par 10 cents). **Price**—$1.05 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1 Main Street, Houston, Tex.

Uarco, Inc., Chicago, Ill. (1/8)
Dec. 14 filed 65,000 shares of common stock (par $10). **Price**—To be supplied by amendment. **Underwriter**—Kidder, Peabody & Co., New York. **Proceeds** — To repay bank loans and for working capital.

United Fire & Casualty Co., Cedar Rapids, Iowa
Nov. 16 (letter of notification) 2,161 shares of capital stock (par $10) to be offered for subscription by stockholders. **Price**—$26 per share. **Underwriter**—None. **Proceeds**—To restore capital. **Office**—810 First Ave., N. E., Cedar Rapids, Ia.

★ **United Gas Corp. (1/29)**
Dec. 20 filed $50,000,000 first mortgage and collateral trust bonds due 1972. **Underwriters**—To be determined by competitive bidding. Probable bidders: 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**—To finance in part the 1951-52 construction program of corporation and its subsidiary, United Gas Pipe Line Co. **Bids**—Tentatively scheduled to be received up to 11:30 a.m. (EST) on Jan. 29.

United Minerals Reserve Corp., Chicago, Ill.
Dec. 14 (letter of notification) 1,100,000 shares of common stock (par 10 cents). **Price**—25 cents per share. **Underwriter**—Greenfield & Co., Inc., New York. **Proceeds**—To develop mining properties. **Office**—231 So. La Salle St., Chicago 4, Ill.

United Oil Corp., Oklahoma City, Okla.
Dec. 4 (letter of notification) 400,000 shares of common stock. **Price**—At par (10 cents per share). **Underwriter**—None. **Proceeds**—To Forrest Parrott, the selling stockholder. **Office**—3109 Apco Tower, Oklahoma City, Okla.

United States Radiator Corp., Detroit, Mich.
Oct. 22 (letter of notification) 5,085 shares of preferred stock (par $50). **Price**—At market (estimated at $44 per share). **Underwriter** — None. **Proceeds** — For working capital. **Office**—300 Buhl Bldg., Detroit 25, Mich.

Van Norman Co., Springfield, Mass. (1/9)
Nov. 21 filed $2,500,000 of convertible sinking fund debentures due Dec. 1, 1971. **Price**—To be supplied by amendment. **Underwriter**—Paine, Webber, Jackson & Curtis, Boston, Mass. **Proceeds**—For machinery and working capital.

Vertientes-Camaguey Sugar Co. of Cuba (Compania Azucerera Vertientes-Cameguey de Cuba)
Nov. 23 filed 481,307 shares of common stock being offered to common stockholders of record Dec. 18, 1951 at rate of one share for each two shares held, with an oversubscription privilege; rights expire Jan. 18. **Price**—At par ($6.50 per share). **Underwriter**—None. **Proceeds**—To reduce short-term indebtedness and for working capital. Statement effective Dec. 12.

Viking Plywood & Lumber Corp., Seattle, Wash.
Oct. 19 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 Extension, Inc., Wallace, Idaho
Dec. 13 (letter of notification) 120,000 shares of capital stock (par 20 cents). **Price**—82 cents per share. **Underwriter**—J. A. Hogle & Co., Salt Lake City, Utah. **Proceeds**—To Callahan Zinc-Lead Co., the selling stockholder. **Co's Address**—P. O. Box 709, Wallace, Ida.

Warner-Hudnut, Inc.
Dec. 12 filed 293,960 shares of common stock (par $1) to be offered in exchange for 146,980 shares of Maltine Co. on a two-for-one basis. **Underwriter**—None. (F. Eberstadt & Co. is financial consultant for Warner-Hudnut, Inc.)

Westinghouse Electric Corp., Pittsburgh, Pa.
Nov. 27 filed 500,000 shares of common stock (par $12.50) to be offered under the company's "restricted stock option plan" to certain oficers and executive employees. **Price** — Based on market (about $38.75 per share). **Underwriter** — None. **Proceeds** — For general corporate purposes.

Prospective Offerings

Allied Electric Products, Inc., Irvington, N. J.
Nov. 9, Nathan Chirelstein, Chairman, said it is probable that the company within a short time will register with the SEC an issue of long-term convertible debentures, part of which will be offered in exchange for any outstanding three-year convertible notes dated Nov. 1, 1951. **Underwriter**—Hill, Thompson & Co., Inc., New York.

Amurex Oil Development Co.
Dec. 6 it was rumored that about 500,000 shares of class A stock may be issued. **Underwriter**—Probably A. G. Becker & Co. Inc., Chicago, Ill.

Arkansas Louisiana Gas Co.
Dec. 6 it was reported company may issue and sell $35,000,000 of first mortgage bonds. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Lazard Freres & Co. (jointly); Union Securities Corp.; Smith, Barney & Co.; Equitable Securities Corp. **Proceeds**—To repay bank loans and for new construction.

★ **Central Illinois Public Service Co.**
Dec. 20 it was stated that company soon plans to register with SEC an issue of $5,000,000 of bonds or debentures and 50,000 shares of $100 par preferred stock. **Underwriters**—For preferred, probably The First Boston Corp. and Blyth & Co., Inc. For bonds, to be determined by competaitive bidding, with the following probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kuhn, Loeb & Co. and A. C. Allyn & Co., Inc. (jointly); Lehman Brothers and Bear Stearns & Co. (jointly); Salomon Bros. & Hutzler; The First Boston Corp. and Central Republic Co. (jointly); Glore, Forgan & Co. **Bids**—Expected late in January.

Central Louisiana Electric Co., Inc.
Dec. 3 it was announced that company contemplates sale of $2,980,000 of additional debentures (probably privately) and $1,500,000 additional common stock early in 1952 (probably to stockholders through rights), following the merger into company of Gulf Public Service Co., Inc.

Chicago & Western Indiana RR.
June 2 it was reported company expects to issue and sell early in 1952 approximately $65,000,000 of first mortgage bonds due 1981. **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.

Cincinnati Gas & Electric Co.
April 7 it was reported company expects to market early in 1952 between $25,000,000 and $30,000,000 of new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc., and The First Boston Corp. (jointly); Union Securities Corp.; Glore, Forgan & Co. and White, Weld & Co. (jointly); Lehman Brothers; Harriman Ripley & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane. Proceeds will be used for construction program.

Columbia Gas System, Inc.
Nov. 26 it was announced that it is the present intention of the company to sell securities in 1952 for the purpose of refunding the $20,000,000 of 2½% bank notes due June 15, 1952. The type or aggregate amount of securities which may be sold during 1952 cannot be determined at this time.

★ **Columbus & Southern Ohio Electric Co.**
Dec. 21 it was announced company contemplates expenditures of at least an additional $50,000,000 through 1953 to meet the demand for electric service. Further financing is planned.

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Consolidated Grocers Corp.
Oct. 8 it was stated company plans issuance and sale of $10,000,000 of preferred stock (par $50). **Underwriter**—A. C. Allyn & Co., Inc., New York. **Proceeds**—To retire present outstanding 5% preferred stock and 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.

County Gas Co., Atlantic Highlands, N. J.
Nov. 15 it was announced company will pay about $15,000,000 for the gas properties of Jersey Central Power & Light Co. Method and type of securities to be sold to finance this purchase not yet determined.

Dayton Power & Light Co.
Nov. 13 it was reported that company may soon do some additional financing in connection with its construction program. **Underwriters**—For any bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly); Lehman Brothers; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Harriman Ripley & Co., Inc. If common stock, underwriters may include Morgan Stanley & Co. and W. E. Hutton & Co.

Eastern Stainless Steel Corp.
Oct. 25 the stockholders approved a proposal increasing the 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.

Foote Bros. Gear & Machine Corp.
Oct. 25 it was reported that company may offer additional common stock early next year. Probable underwriter—A. C. Allyn & Co., Inc., Chicago, Ill.

★ Foote Mineral Co.
Dec. 24 it was announced company plans to increase authorized common stock from 300,000 shares (259,422 shares outstanding) to 500,000 shares of $2.50 par value. The company states that "there is no present plan of capital financing either of an equity type or loan." The directors, however, "are studying several plant expansion programs which may eventually require more capital." A group headed by Estabrook & Co. underwrote an issue of common stock to stockholders in April, 1951.

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.

Idaho Power Co.
Dec. 14 company applied to FPC for authority to borrow from banks up to a total of $15,000,000 during the first seven months of 1952. Of this amount, $10,225,000 would be required for interim financing of new construction during 1952. The balance would be used, if required prior to the time of permanent financing, to renew temporary bank loans outstanding.

Illinois Central RR.
Nov. 16, the directors authorized, pending a favorable market, the issue and sale of up to $25,000,000 of consolidated mortgage bonds. **Underwriters** — May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co. **Proceeds** — To retire debt maturing in next four years and to replace depleted working capital.

International Resistance Co., Philadelphia, Pa.
Dec. 18 it was announced company plans to issue and sell 250,000 additional shares of common stock (par 10 cents), with registration expected shortly. Stockholders will vote Jan. 9 on increasing authorized common stock from 1,097,225 shares (1,067,163 shares outstanding) to 1,500,000 shares. **Underwriters**—F. Eberstadt & Co., Inc., and Zuckerman, Smith & Co., both of New York. **Proceeds**—For additional working capital and for product development.

Interstate Power Co.
Nov. 28 it was reported company plans to issue and sell about $2,000,000 of first mortgage bonds and $3,000,000 of common stock before April 15, 1952. **Underwriters**—To be decided by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Merrill Lynch, Pierce, Fenner & Beane; Smith, Barney & Co.; Salomon Bros. & Hutzler. Probable bidders for common stock: Blyth & Co., Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Smith, Barney & Co.; Harriman Ripley & Co. Inc.

Iowa Southern Utilities Co.
Nov. 14 it was announced company plans to issue and sell in the near future first mortgage bonds and contemplates sale of approximately $5,000,000 additional securities in 1953. Previous bond financing was done privately. **Proceeds** from bond sale, to repay $7,000,000 bank loans.

Jamaica Water Supply Co.
Dec. 3 it was stated that company has applied to New York P. S. Commission for authority to issue and sell $1,200,000 of first mortgage bonds (probably privately) and approximately 13,600 shares of common stock. **Traditional Underwriter**—Blyth & Co., Inc.

Kansas City Power & Light Co.
Dec. 19 the directors approved a financing program designed to raise about $18,000,000 by issuance and sale early in 1952 of 100,000 shares of cumulative preferred stock and 317,792 shares of additional common stock, the latter issue to be offered first to common stockholders at rate of one share for each six shares held. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—To reduce bank loans and for new construction. **Registration**—Expected early next month (probably Jan. 2).

Kentucky Utilities Co.
Dec. 10 it was reported company plans to issue and sell in April or May $12,000,000 30-year first mortgage bonds, series D. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Lehman Brothers and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc.; Union Securities Corp. and Merrill Lynch, Pierce, Fenner & Beane (jointly).

Laclede Gas Co.
Nov. 10 it was announced company has requested Mississippi River Fuel Corp. to dispose of its Laclede Gas Co. (248,400 shares, or 8.2% of total 3,039,860 shares outstanding). Latter has appealed to Missouri P. S. Commission and the SEC.

★ Lehmann (J. M.) Co., Inc., N. J. (1/30)
Bids will be received up to 11 a.m. (EST) on Jan. 30 at the office of Alien Property, 120 Broadway, New York 5, N. Y., for the purchase from the Attorney General of the United States of 1,225 shares of capital stock (par $100) of this company. This constitutes 84.19% of the issued and outstanding capital stock.

Martin (Glenn L.) Co.
Dec. 13 it was announced that Smith, Barney & Co., New York, has been appointed as the company's financial advisers to work out a plan to help finance a backlog of $425,000,000.

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.

Metropolitan Edison Co.
Dec. 11 it was reported company is considering a $16,000,000 financing program for early next year, which will include issue and sale of 40,000 shares of preferred stock (par $100) and about $8,000,000 of bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders for bonds—Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Union Securities Corp.; Drexel & Co.; The First Boston Corp.; White, Weld & Co. and Equitable Securities Corp. (jointly); Kidder, Peabody & Co.; Carl M. Loeb, Rhoades & Co. Probable bidders for preferred—Kidder, Peabody & Co.; Smith, Barney & Co. and Goldman, Sachs & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Drexel & Co.; Harriman Ripley & Co. Inc. and Union Securities Corp. (jointly); Salomon Bros. & Hutzler; The First Boston Corp. **Offering**—Expected at end of February or the middle of March.

Middle East Industries Corp., N. Y.
Oct. 31 it was announced company plans to expand its capitalization in the near future and to register its securities with the SEC preliminary to a large public offering, the funds to be used to build new industrial projects in Israel.

Midway Airlines, Inc.
Dec. 15 it was announced Illinois Commerce Commission has authorized issuance and sale of 87,200 shares of common stock (no par). **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes.

Mississippi Valley Gas Co.
Nov. 19, it was announced that subject to approval of SEC and FPC Equitable Securities Corp. has agreed to purchase the natural gas properties of Mississippi Power & Light Co. for approximately $11,000,000, effective about Jan. 1, 1952. It is planned to organize Mississippi Valley Gas Co. to operate these properties and later expects to issue and sell first mortgage bonds and common stock, following final approval by the Commissions.

National Union Radio Corp.
Nov. 29, Kenneth C. Meinken, President, announced company plans to raise more than $5,000,000 of "new money" through sale of stock or from loans. **Proceeds**—For expansion program, involving a new plant to be constructed in Philadelphia. **Underwriter**—Probably Collin, Norton & Co., Toledo, O. **Registration**—Expected in two months.

★ New Britain Machine Co.
Dec. 18 it was announced stockholders will vote Jan. 17 on increasing authorized common stock from 200,000 to 400,000 shares. It is planned to offer 70,000 additional shares for subscription by present stockholders on a one-for-two basis. **Underwriter** — None. **Price** — Probably $20 per share. **Proceeds**—For working capital. **Offering**—Expected late in January, with warrants to expire four weeks after commencement of offering.

★ New England Power Co.
Dec. 12 company applied to SEC for authority to increase authorized bank borrowings from $12,000,000 to $16,000,000. A major portion of this indebtedness may be financed through issuance of common stock to parent (New England Electric System) and first mortgage bonds early in 1952. **Underwriters** — For bonds, to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Blyth & Co., Inc.; Equitable Securities Corp. and Blair, Rollins & Co. Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Harriman Ripley & Co., Inc.; The First Boston Corp.; Kuhn, Loeb & Co., Union Securities Corp. and Salomon Bros. & Hutzler (jointly).

New England Power Co.
Sept. 6 it was reported that company plans to issue and sell about 50,000 shares of preferred stock. **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.; Merrill 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 England Telephone & Telegraph Co.
Dec. 20, F. A. Cosgrove, Vice-President, said a permanent financing program will have to be undertaken next year to repay about $43,000,000 short-term bank borrowings.

Northern Natural Gas Co.
Nov. 16 it was reported that permanent financing is not expected to be concluded until 1952 (probable in January or February) to repay $42,000,000 of bank loans and to provide additional funds for company's construction program. This financing may consist of about $32,000,000 of debentures and $18,000,000 of common stock. Latter may be offered to common stockholders, without underwriting. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Kidder, Peabody & Co. (jointly).

Northern States Power Co. (Minn.)
Oct. 25 it was announced company estimates that approximately $32,500,000 of new money will be required to finance its construction program for 1951 and 1952 through the sale next year of common stock, and senior securities. Probable bidders for stock and bonds: Smith, Barney & Co.; The First Boston Corp.; Glore, Forgan & Co.; Lehman Brothers and Riter & Co. (jointly); Equitable Securities Corp.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and White, Weld & Co. (jointly). Probable bidder on bonds only: Halsey, Stuart & Co. Inc.

Olsen, Inc., Elyria, O.
Oct. 19 it was reported early registration is planned of about 225,000 shares of common stock. **Underwriter**—McDonald & Co., Cleveland, O. **Proceeds**—To certain selling stockholders. **Business**—Manufactures hot air furnaces. **Offering**—Expected in January.

Owens-Corning Fibreglas Corp.
Dec. 7 it was reported that early registration was expected of between $15,000,000 and $20,000,000 common stock, part of which will be additional financing by company and part for benefit of Corning Glass Works and Owens-Illinois Glass Co., which each own 42% of the outstanding Fibreglas common stock. Probable underwriter: Goldman, Sachs & Co., New York. **Registration**—Expected in January.

Pacific Power & Light Co.
June 29 it was announced company plans issuance and sale of $15,000,000 of mortgage bonds in the early part of 1952. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blair, Rollins & Co. Inc. and Carl M. Loeb, Rhoades & Co. (jointly); Lehman Brothers; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp.; Kidder, Peabody & Co.; Blyth and Co., Inc., White, Weld & Co. and Harris, Hall & Co., Inc. (jointly). **Proceeds**—To repay bank loans and for new construction (latter estimated to cost $26,450,000).

Public Service Electric & Gas Co.
Dec. 7 it was announced stockholders will on Jan. 17 vote on approving a proposal to increase the amount of authorized preferred stock from 500,000 to 1,000,000 shares and to increase the limit of unsecured indebtedness. There are, however, no present plans for additional financing. In November, the company sold through Morgan Stanley & Co., Drexel & Co. and Glore, Forgan & Co. an issue of 249,942 shares of 4.70% cumulative preferred stock (par $100), thus exhausting the amount of presently authorized preferred stock.

Robertson (H. H.) Co., Pittsburgh, Pa.
Nov. 16 it was announced stockholders will in April, 1952, vote on a proposal to increase the authorized common stock from 250,000 shares (all outstanding) to 1,000,000 shares in order to make additional stock available for such corporate purposes as acquisition of new properties, to provide additional capital funds or declaration of stock dividends.

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 late in 1951. **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.

San Diego Gas & Electric Co.
July 19, L. M. Klauber, Chairman, announced that the company plans to sell $10,000,000 of bonds early in 1952. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp.; White, Weld & Co. and Shields &

Co. (jointly); Lehman Brothers. **Proceeds**—For expansion program.

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.

South Jersey Gas Co. (1/10)
Dec. 21 the United Corp. asked for bids up to 11 a.m. (EST) on Jan. 10 for the purchase from it of its entire interest, amounting to 28.3%, or 154,231.8 shares of $5 par South Jersey common stock. Probable bidders: Lehman Brothers and Bear, Stearns & Co. (jointly); Allen & Co.

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 Petroleum Corp.
Dec. 17 stockholders approved proposal to create 250,000 shares of 6% cumulative preferred stock (par $25) in place of the previously authorized 75,000 shares of preferred stock (par $10), none of which is outstanding. T. F. Woodward, President, states that company tentatively plans to issue and sell 112,000 of the new shares to net about $2,475,000. **Underwriter**—The First California Co., Inc., San Francisco, Calif. **Proceeds**—To purchase outstanding stock of Culbertson & Irwin, Inc., independent oil producer. **Registration** — Expected in January.

★ **Southern Pacific Co. (1/9)**
Bids will be received Jan. 9 for the purchase from the company of $8,170,000 equipment trust certificates to be dated Jan. 1, 1952 and to mature in ten equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

★ **Southern Union Gas Co.**
Dec. 19 it was reported company is expected to do some equity financing before June 30, 1952. Traditional underwriter: Blair, Rollins & Co.

Southern Utah Power Co.
Dec. 21 the FPC authorized the company to issue and sell 15,761 additional shares of its common stock (no par) to common stockholders at rate of one new share for each four shares held. **Price**—$11.50 per share. **Underwriters** — Smith, Polian & Co., Omaha, Neb.; Glidden, Morris & Co., New York and C. D. Robbins & Co., Short Hills, N. J. **Proceeds**—For construction program.

Southwestern Public Service Co. (2/1)
Dec. 10, H. L. Nichols, Chairman, announced company plans to raise about $4,000,000 through an offering about Feb. 1 of additional stock for subscription by common stockholders at rate of one share for each 13 or 14 shares held. **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—From sale of stock, together with funds from $10,000,000 bank loans or long-term debt, to be used for 1952 expansion program. It is anticipated that about $16,000,000 will be raised in 1952 from the sale of securities.

Spear & Co.
Nov. 5 announced that the management, headed by A. M. Kahn, President, which now owns 100% of the 18,750 shares of no par second preferred stock (dividend rate to be changed from $5.50 to $5 per annum), will offer this stock to common stockholders for subscription at rate of one preferred share for each 12 common shares held. **Price**—$105 per share. **Meeting**—Stockholders were to vote on Dec. 11 among other things, to make the second preferred stock convertible into common stock (initial conversion rate to be 12 shares of common for each share of preferred).

Texas Gas Transmission Corp.
Dec. 6 company applied to FPC for permission to construct additional natural gas pipeline facilities at an estimated cost of $33,752,705. It is planned to finance project through sale of first mortgage bonds and other securities and from cash in treasury. **Underwriter**—Bonds may be placed privately. Previous preferred stock financing was handled by Dillon, Read & Co. Inc.

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. **Underwriter**—Kidder, Peabody & Co., New York.

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).

Thiokol Corp., Trenton, N. J.
Nov. 16 directors authorized an offering to stockholders of about 23,539 shares of capital stock (par $1) on basis of one new share for each 13 shares held (with an oversubscription privilege). **Price**—$9 per share. **Underwriter**—Probably J. G. White & Co., Inc., New York. **Proceeds**—For expansion and working capital.

Toledo Edison Co.
Nov. 20 it was reported that the company expects to spend approximately $46,500,000 for expansion in 1952 to 1955, and it has been stated that no further financing is contemplated before late 1952, when about 400,000 shares of common stock is anticipated. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane; W. C. Langley & Co.; Lehman Brothers and Smith, Barney & Co. (jointly).

Transcon Lines, Los Angeles, Calif.
Nov. 19 it was reported company may be considering issuance and sale of additional common stock (par $10) which will involve about $200,000. **Underwriter**—Cruttenden & Co., Chicago, Ill.
ceived up to 11:30 a.m. (EST) on Jan. 30.

Upstate Telephone Corp. of New York
Dec. 10 corporation applied to New York P. S. Commission for authority to issue $1,000,000 first mortgage bonds (probably privately) and 4,000 shares of common stock (par $100) to General Telephone Corp., the parent.

Virginia Electric & Power Co.
Dec. 12 it was announced that company expects to spend $40,000,000 or more for new construction in 1952, of which about $30,000,000 may be raised through new financing. The company is said to be considering a stock issue next spring and a bond sale in the fall. **Underwriters**—For stock, probably Stone & Webster Securities Corp. For bonds, to be determined by competitive bidding, with the following probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Salomon Bros. & Hutzler; Stone & Webster Securities Corp.; White, Weld & Co.; Kuhn, Loeb & Co. and Wertheim & Co. (jointly).

West Penn Power Co.
Dec. 6, Earle S. Thompson, President of West Penn Electric Co., the parent, will require about $23,000,000 of new capital in connection with its 1952 construction program, with about one-half to be raised by West Penn Power Co. by way of a bond issue and the remaining one-half to come from the sale of West Penn Electric Co. common stock. **Underwriters**—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers, Blyth & Co., Inc.; W. C. Langley & Co.; The First Boston Corp. Probable bidders for stock: Harriman Ripley & Co. Inc:; W. C. Langley & Co. and The First Boston Corp. (jointly); Lehman Brothers and Goldman, Sachs & Co. (jointly). **Offering**—Of stock expected in February and of bonds in March.

Our Reporter's Report

Industry came into the money market for a total of slightly more than six billions of new capital this year to aid in financing total outlays which ran to approximately $25 billion, year-end estimates indicate.

Thus it can be seen that corporations provided by far the bulk of their new investments during the year by recourse to internal resources.

They contributed in good measure by calling upon their depreciation reserves and by plowing back into the business liberal portions of current profits thus taking advantage of the rapid amortization provisions of the Defense Production Act where the money spent went into plants that could qualify as essential to the rearmament program.

Of the $6.1 billion which it is estimated corporations raised in the open money market, a breakdown shows that about 75%, or $4.6 billion took the form of new debt securities. The balance of about $1.5 billion came from the sale of new common and preferred stocks.

Last year's total new capital investment of industry compared with $19 billion so invested in the preceding year and with $20 billion put into new plant, equipment, etc., in 1949.

It brought the total of such investments in the six years since the end of World War II to something more than $100 billion, providing a graphic picture of the capital needs of modern industry in keeping abreast of technological improvements and widening markets for its products.

Utilities $1.37 Billion

Public utilities continued to rank at the top as a single industry in seeking out new capital. These corporations came into the market for a total of almost $1.4 billion, very largely in the form of new money, since with the hardening of interest rates refundings are currently out of the question.

The utilities floated $876 million through the sale of bonds, or about 64% of the total. They turned more to common stocks this year, with frequent offerings on "rights" and through the medium of convertible issues, lifting the total of such flotations to $330 million, with the balance of $164 million coming from preferred stock sales

This year's utility financing, which was exceeded only by 1949's $1.55 billion offerings, compared with about $1.25 billion raised in 1950. The latter total included $735 million in bonds; plus $269 million in common stock and $252 million in preferred shares.

Municipals Bulk Large

Although the volume of municipals (state and sub-divisions) was somewhat smaller than in the preceding year, the total, nonethe-less, was enormous.

These political entities marketed an aggregate of $3.2 billion in new securities, swelled substantially, of course, by large emissions of new housing issues, including two huge packages sponsored by the Federal Housing Authority.

The foregoing total was down about $500 million from the 1950 figure which, in turn, was distorted considerably by a number of state-sponsored veterans' bonus bond issues.

Rail Equipments

The country's railroads, pushing their programs of dieselization, kept a goodly supply of serial paper coming into the market through flotations of equipment trust certificates.

Something like $540 million of such paper reached investors during the year. Of this about $293 million was originated via the "Philadelphia plan" — that is by public bidding. The balance was floated by roads choosing the "sales contract" or direct placement methods.

For a brief period early this month, new issues in this field showed a tendency to "back-up", but a resurgence of demand within the fortnight lowered dealers' stocks until it is estimated the year-end carryover will be less than $10 million.

Need For Reappraisal

The underwriting fraternity must, of necessity, take a searching look at the secondary bond market as the new year begins before venturing forth into new operations.

The mid-December firming of bank money rates, which has brought about renewed adjustment in the Treasury's list, naturally will make potential buyers, especially institutions, cast baleful eyes at yields which heretofore had been "in line" so to speak.

Fortunately the investment banking industry will have all of next week to consider the situation, since there is not a single important new issue on tap for that period. The first offering negotiated is Philadelphia Electric's $35,000,000 of 30-year, first and refunding bonds.

Simple and Easy!?

"I have today referred to the Wage Stabilization Board the labor dispute between the United Steelworkers of America, CIO, and various companies in the steel industry. This dispute has now arrived at a stage where it gravely threatens the progress of national defense.

* * *

President Truman

"This Board will give both sides an opportunity to present the facts and arguments they think the Board should consider. Then the Board will consider the case, trying to find the best solution from the standpoint of labor, industry and the public—balancing the equities and the interest of all three. The Board will consider the case promptly on its merits and make recommendations for a fair settlement, consistent with sound stabilization policies.

* * *

"After the decision is reached as to wages, the Office of Price Stabilization will be responsible for determining whether or not any wage increase justifies a price increase. The law and regulations assure that the steel companies will get price increases if they are entitled to them. No other advance assurances are necessary."—President Harry S. Truman.

* * *

A simple and easy solution—or so it would seem, we suppose, to those with any faith left in the wisdom and courage of governmental bodies of this sort—wisdom and courage sufficient to cope with governmentally instigated and encouraged monopolies like the unions today.

Continued from page 8

Investment Principles in Municipal Financing

the intrinsic worth of what he is buying. It seems unnecessary to add that the consultant's "know-how" on this subject is money in the bank to his client.

Let us now consider the nature of the services a consultant on municipal finance must render a municipality which needs capital improvements. Let us suppose that the community involved needs money to expand its water and sewer services, and that such new facilities can best be financed via the issuance of revenue bonds. With the present constitution and laws of some states, notably Florida, that is about the only way such financing is going to be done anyway. Furthermore, the investing public is gradually becoming more aware that a properly conceived revenue bond issue for such purposes is a type of obligation that is well worth looking into. As a matter of fact, the well conceived revenue issues of many communities will outsell the *ad valorem* tax bonds of such communities.

The following is an outline of the consultant's duties in connection with such a financing program.

Duties of the Consultant in Financing Improvements by Means of Revenue Bonds

First, the consultant is confroted with the necessity of knowing and thoroughly understanding how much money is needed by the utility and exactly what it is needed for. Investors are aware that utility services, both public and private, must be expanded when the population increases. When money to finance such expansion is needed and when the only security for the repayment of the loan is a mortgage on the earnings of the utility there are many things the investor will want to know about the physical properties of the utility before he will extend credit. The consultant will obtain this information, later to be passed on to the investor, from working closely with the consulting engineers. Knowledge of the character and the necessity of the improvements is essential to him before he can construct a financing program that is feasible and sound.

Second, the consultant must study the financial operation of the utility, past and prospective, and work out a suitable plan for financing the new requirements on the most reasonable terms attainable. He must see to it that revenues that may be anticipated will accrue in amounts sufficient to pay the expenses of operating and maintaining the utility, to meet the principal of and interest on its outstanding obligations, to provide for appropriate reserve funds, to pay the costs of ordinary renewals and replacements, to provide a moderate amount to care for extensions and improvements occasioned by normal growth, and to allow a margin of safety against any likely loss in earnings occasioned by a downward trend in the economy of the community. The safeguards incorporated into the plan of financing must offer adequate protection to the bondholder. At the same time they must not be such as to interfere with the sound future operation of the utility.

Third, after the general outline of the plan has been conceived, the consultant must confer with the bond attorney who will prepare the indenture, or ordinance, under which the bonds are to be issued and who will issue the opinion approving their validity. The drafting of the document authorizing the issuance of the bonds requires very considerable care to be sure that all of the provisions are so drawn that the plan adopted will operate in the manner intended. The financing plan and the indenture, or ordinance, must then be reviewed with the city officials so that each detail and the reasons for each provision are thoroughly understood. The final document, of course, must be approved by the governing body.

Fourth, following adoption of the financing plan and approval of the legal proceedings to be taken, consultant must prepare the "Prospectus" or "Official Statement" which will represent the formal offering of the bonds. I will describe a little later what such a document must contain.

Fifth, the consultant must advise as to when and to whom the indenture will be distributed, and also supervise other constructive steps to publicize the offering.

Sixth, the consultant must personally review **all** aspects of the program, including the prospectus and the indenture, with those agencies reporting on or rating municipal credits so that they may have the fullest possible data and understanding of the financing before presenting their reports to their clients.

Seventh, the consultant must make himself available to the larger potential purchasers such as banks, fraternal organizations, insurance companies, estates, etc., for discussion of any and all aspects of the financing program. He must do the same for underwriting groups formed for the purpose of bidding for the bonds.

Eighth, the consultant must advise the issuing body as to appropriate conditions of sale, help the bond counsel draft the appropriate "Notice of Sale," advise as to the time of publication, and select an appropriate sale date so that the issue does not conflict with other offerings in order that the underwriters may devote as much of their attention as possible to the sale in question.

Ninth, the consultant must arrange for the signing and delivery of the new obligations.

Tenth, the consultant must keep himself informed after the sale as to the progress of construction and the earnings of the utility, and pass this information on to interested investors, bankers, etc.

Eleventh, there are many other incidental and collateral services which may be performed that cannot properly be assigned under any particular item above. Sometimes it is necessary and advisable for the consultant to meet with local civic organizations to describe the work being done, and what is to be accomplished by the financing. Sometimes it is desirable and effective for the consultant to arrange luncheon meetings for members of prospective underwriting groups and officers of financial institutions to describe the issue and to answer questions concerning the project. In the final analysis, the consultant will take every action which in his experience and judgment will obtain the best results for his client. The results he gets, of course, are what make his reputation.

The Prospectus or Official Statement

Let us now examine the type of information that must be furnished to the prospective purchaser through the medium of a financial statement.

Among the many things that the purchaser of a revenue bond wishes to know, that might be grouped under the heading "general data," are:

(1) *What is the Nature and Economy of the Community?*—To give an appropriate description of a community, so that the investor will understand what makes it "tick," there must be presented in the fewest possible well-chosen words, together with charts, statements, maps and pictures, an appropriate description of its location and the area which surrounds it, its population characteristics, its natural resources, its industries, its banking resources, its wholesale and retail trade facilities, its transportation facilities, its agricultural development, and its social feaures. To make such a presentation requires a considerable amount of work in accumulating the necessary data. Then a careful review and a selection must be made of the data assembled to present a factual and undistorted picture not only as to detail, but over-all. Such data must also be presented to show, as conclusively as possible, the nature and direction of the growth and development of the community.

(2) *What is the Form of Local Government, and What Are the Agencies of Government Overlapping the Community?*—This description must be carefully and accurately written so that the investor will know how the affairs of the community and the surrounding area are administered. Investors want to know the extent and the cost of all of the services rendered by the various local units of government to the people of the community.

(3) *What is the Condition of the Community's General Finances?*—This requires a presentation of general budget operations over a period of years, the present outstanding debt, the overlapping debt, and the future general debt service requirements. Here again, of course, there is need for careful assemblage, review, and presentation of appropriate data.

* * *

All of the foregoing information is necesary in addition to the presentation of the data related to the specific revenue project to be financed. We are discussing here the financing of a going enterprise. This, of course, presents a different problem from the financing of a new enterprise. From this point on I am confining myself to the financing of expansion of existing facilities.

* * *

(4) *Description of the Physical Properties*—This description must be made carefully in cooperation with competent engineers who must edit the material to be presented to be sure it is factual and all-inclusive. Such a report could fill volumes, but the investor wants a concise description of the important elements of the two utility systems. Judgment must be exercised to give him enough to be able to form an opinion and yet not so much detail that it becomes confusing.

(5) *Financial History and Existing Financial Conditions*—The operating data must be presented for a period of years. The investor wants to know the trend of income and expense over a sufficient period of time to ascertain its soundness and stability. He wants to see the present balance sheet position and a pro forma statement reflecting the financing to be accomplished. There must also be shown the structure of the existing debt and the future requirements to meet principal and interest charges after the new obligations are incurred. The method of charging for the services rendered by the utility over a period of years must be presented, together with any contemplated changes in the schedule of rates and fees. The investor also wants to know what powers exist to enforce the collection of charges. The investor will also wish to know what the future capital requirements may be and how they are to be financed. Involved in the latter subject, of course, is work not only for the financial consultant, but also the engineer and the bond attorney. For instance, the engineer will have to present his views of future growth possibilites and the problems that will entail.

(6) *The Nature of the New Obligation*—Prior to the presentation of the description of the new obligation to the investor, as I have stated previously, there must be completed the trust indenture, or ordinance, under which the revenue bonds are to be issued. That document must be drawn by the attorney acting as bond counsel in collaboration with the financial consultant who must advise the attorney of the nature of the provisions to be incorporated therein. Such an indenture will contain, among other things, (a) a definition of terms used therein, (b) a description of the particular bonds and the manner of their issuance, (c) provisions under which additional bonds may be issued and delivered, (d) provisions as to the redemption of the bonds prior to their stated dates of maturity, (e) provisions as to the application of the bond proceeds, (f) provisions as to the applicaion of revenues with a description of the operation of each particular fund into which revenue is distributed, (g) particular covenants made to the bondholder including covenants to maintain adequate charges, to maintain the system in good repair, to keep it properly insured, to keep it free of encumbrances, to maintain proper records, to furnish proper reports, to cut-off water service for failure to pay bills, and to pay the bonds and coupons, (h) provisions as to remedies, (i) provisions as to the trustees' powers and duties, (j) provisions as to supplemental indentures, and (k) other miscellaneous provisions. All such provisions must be reviewed by consultant with bond counsel, as stated previously, to be sure they are appropriate and will achieve the results conceived in the financing plan.

The "Prospectus", "Official Statement", or "Circular", presented to the prospective purchaser must paraphrase the more important provisions of the indenture. This is done by the consultant and reviewed by the bond counsel. Great care must be exercised in the choice of language to be sure that the presentation cannot in any way mislead the buyer or result in any misinterpretation of the actual indenture provisions.

Conclusion

You will appreciate that the foregoing discussion about the duties of the consultant and the document by which the revenue bonds are formally offered has been merely an outline. The consultant must interest himself and probably advise on many related matters.

The nature of the rates and charges made for the services rendered by the utilities should be studied and perhaps improved. Care should be taken that any existing inequities in the rate structure should be eliminated. Provisions should be included in sewer rate ordinances to take care of unusual sewer situations, such as some industrial process contributing an unusual burden upon the sewage works, or, if charges for sewage are based on the volume of water used, some provision should be made for establishments such as nurseries which use large quantities of water that never get into the sanitary sewers at all. Billing and collection methods and provisions as to enforcement of collections may need to be improved.

It is possible that a consultant may be called in in event of litigation where the testimony of what the lawyers and courts refer to as an "expert witness" may be required. We have represented municipal clients in such matters as municipal bankruptcy, sales tax cases, annexation proceedings, and public toll bridge financing.

When you undertake to serve all types and characters of governmental or public agencies it is hard to say with what problems you may be confronted. Times and conditions change, and new types of financing are continually coming along. You would be surprised to know how many things are being financed today on a revenue or "user-pays" basis. Cities in some of our southern states have lately taken to building factories and other industrial or commercial buildings, and selling revenue bonds secured by mortgages on such buildings and by rentals received therefrom. This type of financing is today a cause of deep concern to consultants and to bond attorneys who are considering the long range interest of their municipal clients.

In conclusion, I would summarize as follows:

Financing of public works through the sale of revenue bonds is not a job for amateurs. To bring the sale to a successful conclusion, three types of professional services are required: (1) A recognized bond attorney to draw the proceedings and to issue the approving opinion, without which the bond cannot be marketed; (2) A qualified firm of consulting engineers to design and supervise the construction of the project and to obtain certain of the basic data necessary to the financing; and (3) A qualified financial consultant to "custom tailor" the loan, to provide the appropriate information which the investor will require and to give the municipality the benefit of his experience and judgment in connection with the many details necessary to get the money on the most favorable terms possible.

With Blair, Rollins

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, Mich.—Carroll M. Smith has become associated with Blair, Rollins & Co., Inc., 60 Monroe Avenue. In the past, he was with Dudley H. Waters & Co.

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Dealer-Broker Investment Recommendations and Literature

Radio Corporatin—Bulletin—Wm. M. Rosenbaum & Co., 285 Madison Avenue, New York 17, N. Y.

St. Louis San Francisco Railway—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Seneca Oil Company—Analysis—Genesee Valley Securities Co., Powers Building, Rochester 14, N. Y.

Simpsons, Limited—Analysis—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canda and Royal Bank Building, Toronto, Ont., Canada.

U. S. Thermo Control—Data—Raymond & Co., 148 State Street, Boston 9, Mass. Also available is information on **Thermo King Railway**.

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Observations . . .

funds by institutional investors, they have barely begun to nibble at the *closed*-ends. In the university field, Princeton, Swarthmore, Vanderbilt and Rice Institute, are known to hold closed-end preferred issues; but we can find no record of university purchases of commons.

This is so despite the fact that the fund advantages exist to an even greater degree through use of those *closed*-end "trusts" whose shares are habitually available at discounts from underlying asset values, ranging from 10% to 40%.

Benefit Derived Income-Wise

While the possibility of cashing-in *capital-gain-wise* on the discount existing on some *closed*-end companies is theoretical, this is only of secondary importance. The benefit is derived directly *income*-wise (accentuated for institutional holders through the tax-free character of their own income.) This is seen by noting the frequent excess of the market discount of their shares over the deduction from normal income for annual management expense, as in the following table.

MANAGEMENT EXPENSE AND DISCOUNT OF CLOSED-END INVESTMENT COMPANIES*

Company—	1950 Ratio of Management Expense to Gross Income %	Current Market Discount of Shares %
Adams Express	10.9	23
American European	13.0	11
American International	13.9	20
Atlas	14.6	30
Capital Administration	8.4	45
Carriers and General	13.5	19
Electric Bond and Share	16.0	16
First York	18.0	23
Niagara Share	15.0	33
Petroleum Corp.	7.4	16
Railway and Light	16.5	17
Shawmut Association	12.6	45
Tri-Continental	12.6	41
U. S. and Foreign	8.9	29

*Source: "Investment Companies" (1951 ed.), Arthur Wiesenberger; and "Wiesenberger Investment Report, Supplement 1," December, 1951. Discounts shown do not include any allowance for possible future tax on currently-existing unrealized appreciation.

A "Free Ride" on Management

When the discount enjoyed by the "trust" shareholder exceeds the deduction for management services which is taken from the income derived from the securities in the portfolio, the cited benefits from the investment company management are gained literally free of cost. The professional full-time managers of insurance company portfolios likewise have turned to investment companies.

This "free ride" should eliminate trustees' or other investment committeemen's qualms over possible criticism for delinquency and incurrence of expense from enlistment of outside professional services. Assuredly they are performing constructive service in taking advantage of value wherever they find it.

That criticism for duty-dereliction or delegation of powers is baseless, is strongly evidenced by existing permissive legislation and judicial decisions regarding fiduciaries. Beginning with Massachusetts in early 1948 the law already specifically permits fiduciaries' investment in investment company shares in at least 12 *Prudent Man* or partial *Prudent Man* States (some of the States, incidentally, limiting it to the closed-end funds exchange-listed units).

It is also highly significant to this question that one important *open*-end fund (the acquisition of whose shares of course entails a buying-premium) has wisely acquired over 70,000 shares (aggregating a value of $1,000,000) of a large-discount *closed*-end (high-leverage) unit; and that the entire holdings of another *open*-end fund (Investment Company Shares of Group Distributors) consist of various *closed*-end companies. The professional full-time managers of insurance company portfolios likewise have turned to the investment company medium.

Usefulness of the Industry Fund

An investment company-type specializing in securities of a particular industry, offers the advantage of avoiding committee squabbling and recrimination over differences of opinion as to which particular issues intro-industry to select. The shares of Petroleum Corporation, for example, fills this bill in the popular oil category. As shown in the table above, it is presently selling at a discount of 16%, which far exceeds its 7.4% ratio of management-expense.

Investment Limitations

In weighing the advantages of the closed-end type, there are of course other elements besides the discount and management expense to consider. There is, for example, the degree of leverage. Such presence of prior capitalization is vital, particularly in accelerating the fluctuations in dividend. However, this drawback of leverage to institutional investors can be partially counteracted by offsetting investment in "defensive" common stock issues (as of insurance companies, utilities, banks, etc.) or by "pairing" with stable fixed interest securities.

Also the problem of the handling of capital gains dividends must be faced; that is, whether to consider them as current income available for spending, or as the equivalent of a return of capital for reinvestment. I believe that a wise policy for institutional investors would be to consider at least one-half of such dividends as a return of capital, to be reinvested.

The Capital Gains Tax and the Testamentary Fiduciary

The advantage of the investment company medium to trustees under a will is enhanced by the provision providing for the elimination of tax on accrued capital gain at death, and instead setting the price basis as that existing at the testator's death date. Trustees entering the picture after the decedent's death thus can switch from long-held individual issues on which appreciation had accrued, to "discount" investment companies, and thus avoid the perhaps sizable capital gains tax which had obstructed prior liquidation by the testator while still living.

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Defense, Taxes and Your Business

means a new relationship has been created between the private money market and the national state.

We have learned that the most important single purpose to be served by the imposition of Federal taxes is to aid in the maintenance of a dollar which has stable purchasing power over the years.

Briefly the idea behind our tax policy should be this: that our taxes should be high enough to do their part in protecting the stability of our currency—and no higher. They should be as low as they possibly can be without putting the value of our money in danger of inflation. The lower our taxes are, the more purchasing power will be left at home in the hands of the people.

The new tax principle is this: tax rates should be set to balance at high levels of employment. Having been set, these rates should be left alone, except as there may be important changes in public policy or significant shifts in the level of potential productivity. Moving into an emergency defense period is one of these important changes of public policy that requires revision of tax rates.

It should be noticed that the setting of stable tax rates to balance the budget at high employment means that surpluses will automatically arise in times of boom, and deficits will likewise occur under conditions of depression. But the surpluses and deficits will only be in proportion to the swing in the production cycle that causes them, and their creation will in itself be an important factor in bringing the economy back to accepted levels of high employment.

Reorganization of Tax Structure

Under this principle we can move forward as rapidly as budgetary requirements and increasing efficiency permit to a reorganization of our whole Federal tax structure. Never again need we repeat the errors of 1930 and 1931 of increasing tax rates against a declining national income in a futile and disastrous attempt to balance the budget. Under this new principle the budget will be balanced when it should be balanced when a high level of employment is supported by a balancing demand.

The Federal tax system which we have today is a patchwork of measures, exemptions, and special considerations that will some day force a general review and perhaps even result in some measure of reform.

The actions of the past year, particularly in the field of corporate taxation, have changed so fundamentally the outlook and the responsibilities of management, that before the time for large-scale tax reduction arrives, we shall doubtless see plenty of examples of tax-oriented business decision. Whether we like it or not, we have moved into a new and different business economy.

The excess profits tax has produced a multiple currency system in the United States, with the companies with the cheap 18-cent dollars in the best competitive position. Management generally is only beginning to develop the possibilities which have been recently created. Management will not tolerate waste and extravagance, even if expense dollars are cheap. However, long risks are more interesting—in fact, in this competitive economy, they are imperative as never before.

So also with corporate contributions to scientific, educational and welfare organizations. Naturally the contribution must be of benefit to the corporation. But the question of benefit to the company was one thing at a time when a corporation saved one dollar when it appropriated four, and is quite different now when for many companies a net contribution of one dollar brings four tax dollars along with it.

I am surprised at the number of companies that are letting 1951 slip by without taking the most elementary measures for protecting the company's tax position.

We must strive today for two objectives: one, to create the moral, psychological and natural resources for defense; the other, and equally important, to attain the establishment of world law, justice and the enforcement of justice. When we achieve total peace, then we can devote our time and our goods, our labor and our products, to peaceful ways of life.

Washington ... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — From the Rural Electrification Administration has come a good, standard, barnyard specimen of misleading government propaganda. This particular specimen smells less fragrant than some of the thousands of government press releases issued each week, but is a good type to put under the microscope, it being average. The release reads, in part:

"The percentage of American farms with telephones is almost back to the level of 30 years ago, according to an analysis by the U. S. Department of Agriculture of preliminary 1950 Census statistics. This is the first State-by-State tabulation which has become available showing farms with telephones. The analysis was made by the Rural Electrification Administration which in 1949 was given responsibility for the telephone loan program.

"Census takers last year found that 38.3% of all United States farms had telephone service, according to preliminary returns, as compared with 38.7% in 1920, the first year the Census included farm telephone statistics.

"Numerically, 400,000 fewer farms had telephones in 1950 than in 1920. Preliminary reports show that last year there were 2,059,474 telephones on farms. In 1920 there were 2,498,493 farms that had telephones."

There followed some comparisons of farm telephones by states, and the release concluded with this clincher:

"In contrast with the farm telephone situation, in the 16 years since the Rural Electrification Administration was established, the percentage of farm homes with central station electricity has jumped from around 11% to more than 84% today."

* * *

It is conceded to be within the realm of possibility that the REA propaganda division wanted to give the simple impression (1) that the private telephone industry was doing a heck of a poor job in establishing rural telephones, and that although percentagewise the proportion of farms with phones is "almost" up to 30 years ago, there are actually 400,000 fewer phones, and (2) that since REA in 1949 was put into the telephone business, things have begun to pick up.

From checking around town a somewhat different picture unfolds. The year 1920 was a wonderful base year for REA to pick because this represented the peak of three years of World War I farm prosperity, just before the bust. And 1920 was also a useful year to contrast, because it doesn't show what has happened in between.

After the bust of 1921, the number of farm telephones, silk shirts, and other luxuries took a beautiful nose dive, but between 1940 and 1950, after the invention of war was developed as the first successful make-work project, the number of telephones began to rise, climbing over 500,000 between 1940 and 1950. The government, however, did not finance this phone recovery except as it promoted inflation,

Furthermore, the number of farms has steadily declined while the number of farm telephones has continued to climb in the last decade. Here is a table showing the number of farm phones and the number of farms for specified years, as reported by the Census Bureau:

Year	No. Farm Phones	No. Farms
1920	2,498,000	6,448,000
1930	2,139,000	6,288,000
1940	1,526,000	6,096,000
1945	1,866,000	5,859,000
1950	2,087,000	5,384,000

Thus from 1930 to 1950, the number of farms decreased 904,000 in 20 years while the number of farm phones declined only 52,000.

The implication that the REA, "which in 1949 was given responsibility for the telephone loan program" had something to do with this, is somewhat misleading. REA did not announce the operation of its first rural telephone project until Sept. 20, 1950. The census of 1950 was taken the previous April.

* * *

REA's background was that it cleaned up all but the dregs of the rural electrification business back in 1949, and was looking for some activity that could keep the boys on the payroll. So they hit upon the rural telephone business and managed to land it.

Several years from now, if generous government money continues and government subsidized rural phone lines are fairly well along, and the government is neither strapped for customers to lend money nor gifted with a prudent Administration, REA will be back in the legislative market for new activities.

It's almost a logical bet that what REA will next propose is the financing of farm house plumbing systems on easy, long-term loans. It will probably find no difficulty organizing somewhat similar government facades for this lending activity, dummy associations which also can be called "cooperatives." What may slay REA, however, in indulging in this activity would be the logical suggestion that it then change its name to the Rural Sewer Administration.

* * *

How much the above kind of propaganda costs the taxpayers is something which may never become known. The Byrd committee has never been able to nail down propaganda expenses fully. REA will admit that its "information" staff totals 29 with an annual payroll of $162,250. According to the Senate Finance Committee, under its version of the tax bill, substantially the same as the final law, a person with $5,000 of income after deductions but before personal exemptions and without children, will pay $840 per year in direct personal income taxes under the present set-up.

So about 193 plus U. S. income taxpayers in the lower middle income brackets are parting with their $840 per year to support this kind of "information." Actually, salary expenses are only a small part. There is the cost of the beautiful South building of the Department of Agriculture which, like all the other government monuments of steel and stone erected in the last 20 years, is unpaid for except to the contractors who built them. There is also stationery, typewriters, heat, light, phones, printing, and travel expense.

In many respects Canada's action in tossing all its remaining foreign exchange controls into the ash can is viewed by observers as remarkable.

For one thing, it is said, it demonstrates that when Canada said, as she repeatedly has said since she first imposed import and exchange controls, that she meant some day to remove them, that Canada really meant it.

Canada has junked exchange controls in a year in which her adverse merchandise balance will run upwards of $300 millions. This alone would afford a sufficient excuse to any of the other several nations among the State Department's wards (Canada is not one of the wards), who profess to want to get rid of import and exchange controls but in practice will not do it, to renege on the promise.

Furthermore, Canada is facing a substantial drain on her exchange accounts because of her particular military build-up. Ottawa has gone whole-heartedly along on arms standardization with the U. S. As a result, she has placed to date some $500 millions in war orders in the United States.

This country, on the other hand, has let contracts in Canada for only $158 millions of defense items.

When the new version of the World War II Hyde Park agreement was reached in the fall of 1950, it was understood on both sides of the border that the U. S. would order liberally in Canada, where the Dominion had the manufacturing facilities and costs were not too far out of line, for the specific purpose of putting Canada in U. S. dollars so that her defense program would not suffer on exchange account. This prospect has not panned out yet.

The story from Canada's exchange standpoint, however, is not by any means all adverse. Canada has had two large sources of U. S. funds. The lesser is new municipal borrowing in the U. S. market. The other and more important is the widespread flow of investment funds from the U. S. into Canada.

It is considered here a safe bet that the net inflow of investments in calendar 1951 will at least offset the adverse merchandise balance.

What Canada has done, it is said, is to manifest her faith in her own future, and cut the final control ropes. Canada is experiencing a capital boom, in oil, in iron ore, in titanium, in aluminum, and in other lesser things. Ottawa has confidence that the progress of large capital investment will continue, and one factor which will encourage its continuance is a smashing of the last vestiges of control on capital movements.

This has been done. Whereas for some time new money going into Canada could be withdrawn freely, pre-war investments were still subject to exchange controls. Now an American investor can place his money into any form of Canadian investment and withdraw it at will—even at his own caprice — and the availability of U. S. dollars is free to Canadians as well as to foreigners.

Ottawa is using her store of U. S. dollars acquired when that government required its citizens to turn them over to the government, as a sort of "by-product" stabilization fund. Canadians are no more required to surrender their U. S. dollars to their government. The U. S. dollars on hand will be employed, it is expected, to cushion sharp swings in the market price of the Canadian dollar. Ottawa, however, is not setting up additional funds for this purpose or a full-fledged price stabilization program by any means.

It is also pointed out that there was no connection between the action of the Churchill government in making a timid step toward liberalizing exchange restrictions, and Ottawa's action. The two were unconnected and coincidental.

(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

"Here's your electric fan, Mr. Sneezer — Hope we didn't keep you waiting too long"