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EDITORIAL

As We See It

This is normally the busy season for crystal balls; the time of the year is here when custom demands that economists at least—and quite often practical businessmen likewise—express opinions about the outlook. It is a period of stock taking, as it were, and of estimation of what the coming months demand in the way of business policy. Perhaps, activity of this sort this year is rather more intense than usual as a result of the fact that a "change in Washington" is scheduled to take place shortly after the turn of the year, and among those who are specially interested in making that change permanent there seems to be a disposition to look somewhat farther ahead than is customary.

No exceptional powers of observation are required to see that the prevailing sentiment at this time is definitely optimistic as to the early future, and that there seems to be a disposition on the part of a good many to extend their confidence farther in time. "The boom seems to be gaining headway all the time," as they are wont to say, adding that not much evidence is yet in sight to suggest any definite date of its termination. At the same time wiser heads are fully cognizant of the fact that depressions are the spawn of overworked booms, and there are those who remember that the 1920's induced the 1930's, and that the depression of the early 'Thirties brought the New Deal to flower and fastened the terrible burdens of its nonsense upon us for two decades.

And so it is that there is rather wide agreement that danger exists of another depression prior to the end of the first Republican Administration in 20 years. So it is that a great deal of

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Free Exchange And Free Markets

By RENE LEON
Princeton, N. J.

Laying down as twin objectives of fiscal policy: (1) the stabilization of our price structure at existing levels, and (2) systematic reduction of our public debts, Mr. Leon states "it is not rational to saddle the American taxpayer with cost of raising living standards throughout world." Urges, instead, developing larger world trade through free exchange and free markets. Objects to price fixing of currencies as creating imbalance in rates of exchange, and urges lower tariffs as means of bringing international trade in balance. Calls attention to foreign hoarding of U. S. currency notes.

No surer road to national disaster could be taken than to make the objective of our fiscal and monetary policy the restoration of the Dollar to its former purchasing power. For a sharp reduction of prices in terms of the Dollar would entail the reduction of wages which make up the almost totality of all costs of production. Not alone would wage reduction prove well-nigh impossible under our present union-labor set-up, but it would also penalize the many who have contracted debts based on the recent level of prices.

Rene Leon

The key to our price structure is the sum total of all our debts—public and private—which now amounts to well over $500 billion. The people of the United States must carry this burden or go bankrupt. Tax-wise they must service their Federal, State and Municipal debts if these governments are to function. They must meet the payments on loans, mortgages, instalment purchases, etc., if they are to remain solvent. Thus it is that, were we to carry out a policy of raising the Dollar's value, the weight of the debt, in-

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The 1953 Business and Commodity Outlook

By ARTHUR C. BABSON*
Vice-President, Babson's Reports, Inc.

Mr. Babson forecasts in 1953 a moderate decline in business activity and mixed prices for common stocks. Sees some improvement in such industries as aircraft, armaments, air conditioning, electronics, air transportation and natural gas, but looks for decline in iron and steel products, lumber, railroad equipment, and residential building. Predicts high level of employment will be maintained, but looks for from 3% to 5% decrease in cost of living.

General Eisenhower's election to the Presidency is a most significant event. It is one of those rare occasions in political history when an opposition leader has been voted into power during a time of active business and virtually full employment. Without deep dissatisfaction on the part of the rank and file of our citizens, such a rebuke to the nation's political leaders could hardly have been brought about.

A. C. Babson

It is most encouraging to see that the mass of the people have put spiritual considerations above material desires. For there is no denying the fact that we have advanced greatly during recent years in both scientific discovery and economic welfare. Our great need is to catch up spiritually.

The Presidential election showed conclusively that the majority of the voters were aware of the spiritual void that was ever widening. That, to us, is the most encouraging thing about the election's outcome. We are sure that President-elect Eisenhower will be greatly comforted by the aroused spiritual aware-

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*An address by Mr. Babson at the Annual New York Babson Clients' Conference, New York City, Nov. 20, 1952.

IBA CONVENTION ISSUE SHORTLY—The "Chronicle" of Dec. 18 will be devoted to Annual Convention of the Investment Bankers Association of America currently in progress at Hollywood, Fla. Besides addresses and committee reports delivered at the Convention, the issue will include a 16-page pictorial section.

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

Williston Basin Oil Royalties — Thomas John Hughes, President, Statistics, Inc., Boston, Mass. (Page 2)

Pressed Steel Car Company — Henry Oetjen, partner, McGinnis & Co., New York City. (Page 2)

THOMAS JOHN HUGHES
President, Statistics, Inc., Boston, Mass.

Williston Basin Oil Royalties

The Williston Basin encompasses an area of about 300,000 square miles. It includes sections of Southern Canada, Eastern Montana and parts of North and South Dakota. In April, 1951, Amerada Petroleum brought in its now famous Clarence Iverson well. This discovery established the fact there was oil in North Dakota. As a result of this well, Amerada Petroleum and Northern Pacific, both of which companies have under lease large areas of land in North Dakota, became two of the stock market favorites during 1951 and scored sensational gains. As of September, 1952, there were 15 producing fields; five in Canada, six in Montana and four in North Dakota. At the present time, and the picture changes daily, there are 155 new wells drilling or located.


Thomas J. Hughes

Production at the present time is at the approximate rate of 5,000 barrels a day. It is believed this production will increase to 10,000 barrels a day by the end of 1952 and 200,000 barrels a day by 1960. The oil potential, now estimated at 2,500,000,000 barrels, may well turn out to be conservative.

Sands that are 10,000 feet deep in the western section of the state are much shallower in the central and eastern sections. As a result, drilling is considerably less expensive in these areas. In the Williston Basin, oil has already been found in four known zones and possibly in six, with additional drilling needed for more exact defining of geologic age. Amerada's discovery was in the Devonian.

It now appears that the Williston Basin may contain many small or even large pools separated by great distances. This makes it promising for wildcat drilling.

The prospects of finding oil in North Dakota have resulted in wholesale leasing during the last two years. More than 60 large oil companies have leased acreage. It is believed 90% of all potential oil-producing land is now under lease.

The land is leased to a prospective driller, often a large oil company. The lease provides that any production from this land shall be divided seven-eighths to the lessee and one-eighth to the lessor. This one-eighth is called an oil royalty. It is represented by a mineral deed and is given to the lessor who may keep or sell it.

The lessee generally leases the land for a stipulated period of time, often 10 years. In addition to a down payment, the lessee pays an annual amount for each acre leased. This payment is made to the holder of the oil royalty and essentially gives permission to delay actual drilling another year.

If the land is drilled, all costs are assumed by the lessee. The holder of the oil royalty has a free ride. If a well comes in, he is entitled to one-eighth of the production. There are no land taxes to be paid on this acreage. They are mineral deeds rather than land deeds.

For the speculator, oil royalties are an interesting medium of investment. If oil is discovered on his land, the profits could be fantastic. Royalties in the area where Amerada brought in its first wells were selling for about $2.00 to $5.00 an acre a few years ago. They now sell in four figures.

Royalties in the quiet central and eastern sections of North Dakota sell for around $7.00 to $15.00 an acre. As drilling operations accelerate, it is believed the entire price level will move upward. This generally happens in any particular district when a new well is located nearby. In older and better known oil-producing sections of the country, the price range of similar mineral rights is rarely below $40.00 to $50.00 and often much higher.

From a tax angle, royalties are especially advantageous. If oil is discovered, the holder receives one-eighth of the production and is permitted a depletion allowance of 27½%. If the land is held more than six months and then sold at a profit, it is subject only to a 26% capital gains tax. If, on the other hand, several dry wells are drilled and the land becomes worthless and is abandoned, the oil investor may write it off as a 100% tax loss.

With the price of royalties low in relation to other oil-producing areas, an estimated 300 wells to be drilled in 1952 and the tax advantages inherent in this situation, royalties in the quieter sections of North Dakota appear to be an interesting speculation.

HENRY OETJEN
Partner, McGinnis & Co., N. Y. City
Members, New York Stock Exchange

Pressed Steel Car Company

As a specialist in railroad securities, our attention is often called to an interesting situation in a kindred industry. It is our considered opinion that the common stock of *Pressed Steel Car Company*, currently selling at 10¼ offers possibilities of capital appreciation and fairly imminent dividend return.


Henry Oetjen

The background of this company has been similar to that of all railroad equipment companies—either "feast or famine."

In 1948 new management was injected into the company. Under this leadership, new policies and plans were formulated. The primary change in policy is diversification of production through acquisition of various manufacturing units not in the rail equipment field, and also a further extension of products in these acquired divisions to consume total plant capacities and increase profits. These policies naturally have been a long and arduous task and it speaks well for the management that each and every acquisition and expansion has added to the net sales and augmented the profit potential of the company.

The following companies have been acquired:

In December, 1949, The Solar Sturgis Manufacturing Company, one of the largest makers of milk cans in the United States.

In April, 1950, The Rice & Adams Corporation, producers of milk can washing machinery and various other dairy equipment. Also, the C. R. Jahn Company, makers of heavy duty, low-bed truck trailers. This company is operating at capacity and has a substantial backlog of business. Also, the Erie Manufacturing Company, manufacturers of auto-radiator grilles and bumper guards.

In June, 1951, the Chicago Steel Tank Company was acquired.

Last, but far from least, the Axelson Manufacturing Company was acquired on Oct. 9, 1952. This latter company has had a very steady growth in the last few years reporting sales ranging from $9,400,000 in 1949 to $17,000,000 in 1951. In the first half of 1952 sales amounted to $11,669,000 with a net profit of $1,275,000 before taxes.

The above companies, with Koppel (Philippines), Inc., an old line subsidiary which is a distributor and sales representative of heavy industrial equipment for prominent American manufacturers, such as Caterpillar Tractor, John Deere, Ingersoll-Rand, Westinghouse International, Clark Equipment, Hyster and others form the present nucleus of Pressed Steel Car Company. Under this present setup the building of freight cars in the year 1953 will amount to less than 50% of total net sales.

The present capitalization of the company is as follows:

Debt	
V. Loan:	$3,500,000*
Short term notes	337,905†
Bank loans	1,537,273‡
Total Debt	$5,365,178
	Shares
Preferred Stock—	
(4½% conv. $50 par)	78,555
Com. Stk. ($1 par value)	1,583,430

*Loan acquired with Axelson Company. †Issued to acquire Chicago Steel Tank Company. ‡Loans against sales of freight cars under Equitable Life Plan.

For the first nine (9) months of 1952 the company showed earnings of $924,000. It is estimated by the President, in a statement released on Monday, Nov. 24, 1952, that they would earn about $700,000 after taxes, in the last quarter. In this same statement it was stated that at a meeting to be held early in December, consideration would be given to a dividend payment which outside sources believe will be 20c quarterly, equivalent to an initial 80c annual payment.

Next year should be a banner year for Pressed Steel Car Company. Conservative estimates place the net sales of the company at $80,000,000 with net income before taxes of $6,200,000 and after taxes of $3,500,000 or 2.08 per share common.

If certain other developments were to occur, then the above estimates could be expanded.

My reason for selecting the common stock of Pressed Steel

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Identifying Statements And the Prospectus

Recent SEC release on identifying statements continues to impede sale of new issues. Inadequate and long-delayed permissives still will interfere with the free flow of capital and also will hamper the performance of commitments made by the new Administration calling for a sound dollar and a balanced budget without unemployment. The emergence of a concise and readable prospectus under the aegis of the Securities and Exchange Commission doubted.

The Securities and Exchange Commission recently issued its "Release No. 3453" in the form of a notice that after considering "all of the comments and suggestions received" it has adopted "Rule 132" which is "designed generally: (1) to provide a means, consistent with the statutory prohibition against selling effort before the effective date of the registration statement, for achieving widespread dissemination of information during that period, and (2) to further the aim of achieving prospectuses which are reasonably concise and readable."

After declaring the intent of the rule to be the "widespread dissemination of information," the Commission goes on to say:

"Rule 132 is designed to permit the use of a brief 'identifying statement' which is intended for use as a screening device to locate persons who might be interested in receiving the proposed form of prospectus pursuant to Rule 131 (the 'red herring prospectus') or the final prospectus. The identifying statement is not intended to be a selling document."

Declaring that the purpose of the Securities Act of 1933 is to "encourage the dissemination of information," the SEC proceeds to circumscribe those terms by enunciating what the identifying statement "must" contain, what it may contain and what is prohibited.

It also makes this release subject to the opinions of its General Counsel contained in Securities Act Releases 464 and 802.

An example of the extent of the control which the Commission seeks to exercise over identifying statements is contained in the following excerpt from Release No. 3453:

"Among other things, the identifying statement sets forth 'the general type of business of the issuer'; it is contemplated that this statement regarding the nature of the business will not exceed a line or two."

The test of the permissible form of the identifying statement is that it shall not constitute an "offer to sell," "offer for sale," "attempt or offer to dispose of," or "solicitation of an offer to buy."

The SEC defines the term "identifying statement" as a written communication or advertisement which meets the Commission's requirements.

According to the opinion of SEC counsel the identifying statement may not contain any recommendation or opinion as to the merits of the security, nor may it in any way emphasize the favorable against the unfavorable aspects of such security.

Heretofore in pre-registration advertising, underwriters could tell the public virtually nothing, so severe were the restrictions.

If, after more than 16 years of existence, the best that the SEC can come up with is Rule 132, then, indeed, it has given birth to a mouse.

The underwriter has been put strictly on the defensive. This is made plain by the contents of some of the identifying statement advertisements.

Here is a typical extract from one of these:

"This is not an offer to sell these securities. They are subject to the registration and prospectus requirements of

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Articles and News

Regular Features

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

Prosperity Will Continue Through 1953!

By ROBERT R. DOCKSON*

Economist, Bank of America, N. T. & S. A., San Francisco

Predicting high level of economic activity during 1953, West Coast bank economist lists controlling factors in maintaining the current high Gross National Product as: (1) recent heavy private investment; (2) high level of government expenditures, and (3) stability of consumer spending. Foresees some drop in private investment and in exports, but contends these reduced forces will be offset by other factors favoring rise in business activity.

For the last seven years American businessmen have worried over the "inevitable" recession or depression that was "just around the corner."

Robert R. Dockson

That corner has yet to be turned. Not more than a year ago many forecasters were predicting a downturn in general business activity during 1952. Even as late as June of this year, many felt that by year-end we would experience a severe adjustment in business activity. Many of you probably have banking customers who have found it difficult to maintain sales and profit levels. But you know that, in general, the aggregate level of business activity is high and business conditions are good. In fact, the majority of the basic economic indicators are either currently establishing new records or are registering very respectable levels. Incomes, output, consumption and employment continue to climb in spite of the many warnings that our prosperity is nearly over.

Now that the election has past and we know that "Ike" will be residing in the White House after Jan. 20 we are in a position to reach our economic conclusions with little regard for their political implications. The beginning of a new Republican era is an excellent time for us to take a good look at our economy in order to familiarize ourselves with some of the basic economic forces that are at work.

Economists are expected to forecast business conditions and for that reason I will state bluntly, and I hope clearly, my general conclusion regarding the economic outlook. I believe that the present high level of our economic activity will be continued during 1953. Not all of our economic indicators will be moving upward during the coming year. In all probability, many indices will reverse their current upward trend while others presently going down will turn up or move sidewise. What is really meant by this prediction is that unemployment will not become a problem in 1953. Jobs will remain available and the real income of consumers will rise during the year. In spite of this, however, there will be many businessmen with good reason to complain about such things as rising costs, decreasing sales, falling prices or high inventories. Business earnings will vary greatly, as they have during 1952.

I am fully aware that many business economists and analysts disagree with this general outlook. You have probably heard a number of outlook talks that predict dire things for 1953, particularly the second half. You will recall that dire predictions were also made for 1952 and the earlier postwar years. Economists are by nature pessimistic and one who takes a fairly optimistic view of the future is open to charges of being impractical, or a Westerner. I hope that I can maintain my status as a Westerner without pleading guilty to impracticability.

Perhaps our Western business climate does make us a little more optimistic than our Eastern colleagues. I earnestly believe, however, an objective analysis of some of the major economic forces justifies an optimistic outlook.

It is extremely difficult to obtain a balanced picture of our highly complex economy. There are so many forces pushing in various directions that it is nearly impossible to give careful consideration to them all. For that reason, I am limiting my remarks to an examination of the four main components of our gross national product, which represents the total value of all the goods and services produced in our economy.

The four components are: (1) gross private investment expenditures, (2) government expenditures, (3) net foreign expenditures, and (4) expenditures by consumers.

A look at the present magnitude of these various components enables one to place them in their proper perspective. According to the latest statistics the total current value of all goods and services produced in our economy is running in the neighborhood of $345 billion, nearly four times the dollar value of the goods and services produced in 1939. Gross private investments will amount to $50 billion or approximately 14.5% of the total; government purchases of goods and services will be about $78 billion, or 22.6% of the total, while net foreign investments will be about 0.3%. This year's personal consumption expenditures or sales to consumers will approximate $216 billion or 62.6% of the total of all goods and services produced. Any analysis of our economy must take into account the forces working within each of these components. Here, today, we will review these briefly and then draw our conclusions based upon this review.

*An address by Mr. Dockson before the Arizona Bankers' Association, Phoenix, Ariz., November 22, 1952.

Government Purchases of Goods and Services

We all are well acquainted with the role Federal Government spending has been playing in the post-Korea economy. Barring a drastic adjustment of the defense program, it is likely that such spending will continue for some time to come. The rate of current spending for the national security program is about $50 billion annually. It has remained at this level for the last two quarters. According to the Treasury this expenditure should total $58 billion during the current fiscal year and then level off. For the same period, the Treasury has estimated that total Federal spending should be a little below $79 billion. Actually the outlay will probably be below this because defense expenditures are running below expectations. This $79 billion compares with a total of $66.1 billion spent in fiscal 1952, and runs approximately $10 billion more than the estimated revenues.

Of course, these estimates of revenues and expenditures will undergo revisions as the year progresses. However, if the present estimates of defense expenditures are realized there will still be a carryover of approximately $74 billion of authorized expenditures on June 30, 1953.

It is extremely difficult to estimate precisely Federal expenditures and revenues for fiscal 1954. Certainly Congress and our new Administration will take an entirely new look at the defense program. Even if the appropriations requested by the defense agencies for fiscal 1954 should be reduced it is obvious that the expenditures for that year will still be at a high level. It is also a certainty that if government expenditures remain anywhere near the present levels government revenues cannot be cut unless further deficit financing is advocated and approved.

Under existing legislation the Excess Profits Tax expires on June 30, 1953. By the end of that year the latest increase in personal income taxes also expires. We are rather sure that the new Congress desires to cut taxes but it must be recognized that the emergency tax rates are largely responsible for the fact that our total public debt has not increased significantly since the beginning of our post-Korea defense program. And again it should be recognized that with a reduction in taxes, revenues will decline, and unless expenditures are cut correspondingly, the government's only recourse will be further borrowing.

Our high level of defense expenditures for 1953 will continue to place expendable dollars in the hands of military personnel, wage earners in defense plants and workers in related activities without increasing the available supply of consumers' goods and services. If our current standard of living is to be maintained or to be improved it thus falls upon the remainder of the nation's productive capacity to increase its production.

We have been discussing the expenditures of the Federal Government only. Since the end of the war, expenditures by state and local governments have increased steadily from $8 billion to approximately $23 billion this year. As I see it, there is no reason to believe that such expenditures will decrease in the next few years. The need for better highways, bridges, hospitals, parks, sewers and schools is becoming more and more apparent. During the past two years municipal and state officials have been hampered by Federal Government regulations, by the scarcity of manpower and materials. As these obstacles are removed we can expect a renewed effort on the part of state and local governments to attempt once more to modernize their existing facilities or to build new ones to take care of the expanding populations.

On the 4th of this month the voters were asked to approve more than $1.4 billion worth of state and local bond issues to finance various types of construction. Reports show that practically all of this sum was approved. This approval is probably the forerunner of tremendous building programs that will be undertaken over the next decade. Several studies have been conducted for the purpose of estimating the volume of needed public improvements. One estimate is that more than $100 billion will be required over the next ten years.

Although it is impossible to guess, in dollar terms, the exact amount of all the goods and services that will be purchased by the different levels of government, I believe it can be seen from these remarks that government expenditures will continue to have a substantial bolstering effect upon the economy for some time to come.

Gross Private Investment Expenditures

Many forecasters have been pointing to the possible drop in the amount of funds going into capital formation as the reason a recession can be expected during 1953. If present capital spending intentions are realized, new plant and equipment expenditures for all of this year should be somewhat over $27.5 billion, or about 4% above 1951. To date, we have little information on the spending intentions for 1953 but if the McGraw-Hill survey can be used as any indication total capital spending should be down about 4% or at approximately the 1951 level. Manufacturing industries usually account for a little under half of the total. Expenditures by this group are expected to drop about 8%. Of course, spending intentions vary widely among different industries. The largest declines will probably be in the defense related activities. The greatest increases are likely to be in those industries where building programs have been held back because of labor and material shortages; or in industries where new consumer products and important advances in technology are ready for large-scale production.

A visit to any major research laboratory provides sufficient proof that strides are being taken to increase greatly the productivity of this country. As the innovations are tested and prove their worth more and more companies will place orders for them. Production facilities will have to be provided and an expansion of capital spending will take place.

Electrical utilities are planning a continued high level of capital spending as are commercial establishments and recreation enterprises.

Another important segment of investment expenditures is, of course, residential construction. The boom in this field has been one of the main supports of business activity during the postwar years. Between 1946 and the end of this year nearly 7,000,000 permanent dwelling units will have been added to our housing inventory. In spite of these additions a large demand for homes still plays an important role in our economy.

We all know the number of homes constructed depends upon several different factors. New family formations are proceeding at the rate of nearly one million per year. The trend is down since 1947 when 1.5 million families were formed but it is likely to be between 850,000 to 950,000 in 1953.

Another factor of prime importance is the availability of funds. We can probably expect the new Administration to re-examine interest rates on Government guaranteed and insured loans. Should these rates be increased more funds are likely to be available for home building.

What happens to business inventories is another part of our private investments that should be borne in mind. Total business inventories have increased about $2 billion so far this year but all of this has been due to the rising needs of the defense program. Wholesale and retail inventories have been dropping since August, 1951, and are now just slightly above the June, 1950 level. If it were not for the defense expenditures total inventories would have dropped significantly during this year. Next year we are likely to see a continued accumulation of the inventories related to the defense program as well as an increase in those more directly tied in with civilian needs. I believe an accumulation of as much as $2 billion in our total business inventories might be expected. If this does occur it will have the same effect on the level of our economy as an equivalent increase in any other form of investment.

On the whole, the evidence seems to indicate that total investment expenditures for inventory accumulations, for capital plant and equipment and other forms of construction will be down in 1953. The exact amount of this decline is difficult to guess but it will play an important role in determining the level of business activity for the coming year.

Net Foreign Expenditures

An increase in the production of goods and services for export would have a sustaining effect upon gross national product. However, I cannot see how we can look forward to any increase in foreign demand for American products in 1953 unless some positive steps are taken by the new Administration. Exports have slumped badly in recent months and show no signs of improving. It is likely that exports from the United States for 1953 will run about $1 billion below the level for 1952.

There are two primary reasons for this drop: (1) United States imports have been declining and (2) a number of the countries which built up large holdings of gold and dollars immediately after Korea have now spent these funds and, as a result, are husbanding their remaining reserves more carefully. Unless we find a way to stimulate foreign demand for American products this is one component that will have to be offset by increases elsewhere if full employment is to be maintained.

Purchases of Goods and Services by Consumers

We have already noted that it is the consumer who takes the largest portion of the goods and services produced in our economy. His purchases largely determine the direction the economy takes.

As mentioned, a major uncertainty as far as 1953 is concerned, is the amount of our total production that will be taken for investment purposes. No one can be certain how much investments will drop, if they drop at all. However, the real solution to this potential problem is to increase consumption expenditures at least as much as the expected drop in investment expenditures. This must be done if we are [illegible]

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The State of Trade and Industry

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

The close approach to record level industrial output attained in recent weeks was sustained for the period ended on Wednesday of last week.

As was true of recent months, total industrial production last week continued at a perceptibly higher level than a year earlier; however, it held about 7% under the all-time high reached during World War II. Joblessness remained slightly above one million, the lowest level touched in seven years. New production records were achieved the past week in the output of electricity and crude oil. Steel output, however, was slightly below the all-time peak reached four weeks ago.

Employment contined at near-record levels in early November, with job-holders numbering 62,228,000, the United States Department of Commerce reported. This was a new high for the month and one million above the like period last year. Non-farm employment swung sharply upward, rising 900,000 in the month ended November 8. This brought the non-farm job total to 55,454,000—also a new high for November.

In their race for consumer markets manufacturers are keeping terrific, unrelenting pressure on their steel suppliers, according to "The Iron Age" national metalworking weekly. Chances are their strong appetites for steel will continue to dominate the market until record breaking production by the mills finally swings the balance in favor of supply about the middle of next year, it added.

This seems to reflect the thinking of steel officials, who have seldom been more optimistic over the outlook than they are now. A survey of key officials in major steel companies shows them nearly unanimous in believing that business will continue at very high levels—at least through the first half of 1953. Of some surprise was the willingness of a number of them, by implication at least, to extend their optimism through the entire 12 months of the New Year, this trade authority notes.

Most steel officials believe that capacity operations are all but assured for the first and second quarters of next year, states this trade paper. Outlook beyond the first half is still good, but most steel people are cagey about spelling out just how good.

Ever since Korea they have been turning out every possible ton of steel. This has required operation of some marginal, high-cost facilities. When the ingot rate declines, these will be the first units to be taken out of production. Because of this, the net operating results might be fully as favorable as at present, if operations fall only moderately.

Another area of potential cost saving is in overtime wage payments. Rising wage scales have made overtime pay an increasingly heavy burden, declares this trade weekly.

Steel company expansion programs, in addition to raising total capacity, have been carried forward with an eye toward raising overall operating efficiency. Steel officials think this will work to their advantage as the pressure on quality and cost grows more intense, concludes "The Iron Age."

Automotive production the past week declined 10% below the level of the preceding week and was off about 3% from the like week a year ago.

Thanksgiving Day pushed production down to 87,088 cars compared with 97,172 the week before, according to "Ward's Automotive Reports."

Auto output so far this year is 3,917,300 units, 22% below the like period a year earlier.

"Ward's" said United States plants this month put together 397,000 cars and were laying plans to turn out 410,000 cars in December, "providing a whirl-wind finish to their fourth best year in history."

Industrial output, in November was the highest since April, 1945, The Federal Reserve Board revealed. It placed its index of industrial output for the month at 229% of the 1935-39 average, or two points above the October figure, the previous post-World War II peak. The record high was 247% in October and November, 1943.

"Since September," the board pointed out, "output at factories and mines has averaged about 3% above the levels prevailing during 1951 and early 1952." Steel production in October and November ran at a record rate — 106% of the industry's stepped-up capacity. Television outturn was close to record levels, hitting a yearly pace of 10 million sets.

Manufacturers' sales in October were the highest in history, climbing to $26.2 billion, compared with $24.3 billion a year ago, United States Department of Commerce discloses. After adjustment for seasonal factors, October sales were 4% above the September total.

At the same time, incoming business rose to the best level this year. New orders booked by manufacturing firms amounted to $25.9 billion, 3% more than in September. Their unfilled orders on October 31 totaled $75.4 billion. This was $10 billion above a year ago, but $300 million lower than a month earlier.

Steel Output Scheduled at Slightly Lower Level The Present Week

Steelmakers are putting aside their fears of a raw materials shortage this winter, says "Steel," the weekly magazine of metal-working.

A Dec. 1, inventory indicates their stocks of iron and steel scrap and coke are much larger now than they were a year ago and iron ore supplies have been building up after a setback from the steelworkers' strike that halted ore shipments during the summer.

This time last year, states this trade magazine, there was a nationwide drive to get out the scrap. Then mills had 4.4 million

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Greene & Co. Admits Topol as Partner

Robert M. Topol

Greene & Company, 37 Wall Street, New York City, announces that Robert M. Topol, manager of their Trading Department, has been admitted to general partnership.

Bacon & Ford Formed In San Francisco

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—The firm of Bacon & Ford, members of the San Francisco Stock Exchange, has been formed with offices at 235 Montgomery Street. Partners are William R. Bacon and John J. Ford, general partners, and E. H. Bacon, limited partner. Mr. Bacon was formerly a partner in Francis I. du Pont & Co. and prior thereto was a partner in Bacon & Co. for many years.

E. J. Matthews Joins Shearson, Hammill

Shearson, Hammill & Co., members of the New York Stock Exchange and other principal stock and commodity exchanges, announces that Edward J. Matthews is now associated with the firm in its office at 522 Fifth Avenue, New York City.

Mr. Matthews was formerly with Starkweather & Co., where he participated in that firm's formation in 1933 and where he has been manager of the uptown office since 1946.

Charles Dobbrow, Jr. Joins Hardy Staff

Charles Dobbrow, Jr. has become associated with Hardy & Co., 30 Broad Street, New York City, members of the New York Stock and Curb Exchanges. Mr. Dobbrow was formerly Vice-President of Templeton, Dobbrow & Vance, Inc., investment counsellors.

Andrew M. Law Joins Calhoun & Company

(Special to THE FINANCIAL CHRONICLE)

SPARTANBURG, S. C. — Andrew M. Law has become associated with Calhoun & Company, 130 Morgan Square. Mr. Law will make his headquarters in Tryon, N. C.

F. I. du Pont Adds

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, Fla. — Daniel A. Doherty has been added to the staff of Francis I. du Pont & Co., 212 Datura Street.

Hodgdon Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Alfred J. Dineen has become associated with Hodgdon & Co., 10 State Street. He was formerly with R. H. Johnson & Co.

Joins Keller Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — William C. Prout has become connected with Keller & Co., 50 State Street.

Observations . . .

By A. WILFRED MAY

The Investor and Inflation Now!

Surely one of the major consequences of the genesis of the change in Washington Administration is the reorientation of the public's attitude toward "inflation." In the case of the investor, there has occurred a turnabout from the former climate of inflation to dis-inflation; largely a reversal in the public's psychology that would have gone the whole-hog to outright de-flation were it not for the unexpected emergence of a stock market rise (per the habitual fitting of economic "analysis" to follow the course of market quotations).

A. Wilfred May

In any event the Republican victory, even in the face of a major extension of the bull market and continued Cold War tension, has probably scotched the possibility of a *New Era* philosophy, with monetary depreciation this time supposedly making stocks "cheap at any price." The new Administration's prospective ushering-in of a spending-curtailment climate and solvency to accompany national security, over the short-term at least will relegate inflation to a minor role as a market factor.

We are of course, here speaking of inflation in its broad economic functioning (defining it as "a major rise in prices resulting from an increase in the money supply which exceeds the amount of goods and services available for use"). Inflation is not necessarily to be identified with *expansion*, or with

Comparative Changes in Cost-of-Living, Bond and Stock Prices. 1938-1952 (September)

	Cost of Living %	Bond Prices %	Stock Prices %	Prop. of cost-of-living rise offset by stock rise %
* Japan	+2,040	--	+ 592	29
India	+ 211	—20	+ 11	5
Argentina	+ 486	+54	+ 264	54
Israel	+ 453	— 7	+ 17	4
Italy	+5,455	— 7	+2,306	42
Spain	+ 235	--	+ 47	20
Portugal	+ 89	+ 9	+ 9	11
Sweden	+ 102	—29	+ 103	100
Norway	+ 114	+58	+ 72	63
Belgium	+ 289	— 2	+ 126	44
Switzerland	+ 72	+14	+ 39	54
Australia	+ 148	—17	+ 78	53
United Kingdom	+ 119	—21	+ 34	29
† United States—				
Through 1949	+ 70	+13	+ 21	30 ‡
Through 1950	+ 72	+12	+ 46	64 ‡
Through 1951	+ 86	+ 1	+ 77	90 ‡
Through 1952	+ 91	— 4	+ 90	99 ‡

*1946-1952. †Base period 1935-39. ‡The four different periods used for the U. S. exemplify the importance of the specific interval which is selected for analysis.

mere demand-and-supply changes resulting from consumer or supplier preferences—or, particularly in the investment area, with budgetary deficits or an increase in the money supply *per se*. There is no historical correlation of either commodity or stock rise following monetary or credit expansion, as exemplified in the contradictory behavior between monetary inflation and commodity prices during both the 1946-'48 and 1929-'51 intervals. And also disproving alleged correlation between the cost of living and credit expansion is the record during the quarter century following World War I. It was not until 1946, and the occurrence of another

Continued on page 8

Outlook for Stocks and Bonds

By H. CLYDE BALDWIN*

Investment Expert, Babson's Reports, Inc., Wellesley, Mass.

Predicting a further small rise in basic interest rates and a resulting decline of from 2 to 5 points in prices of long-term bonds, investment expert looks for mixed situation in stock price trends, with food and utilities offering most stability while some appreciation may be expected in natural gas, packing, tobacco, television and some insurance issues.

It was our opinion before this election, and even now after the election, that the results would have no decided effect on the market the rest of this year and into next year, but that the governing factor would be underlying business trends. The election has been psychologically bullish on the market but this is not a permanent factor. We pointed out a while ago that inflation was becoming somewhat less of a factor in business and in the markets than it has been for over two years. It now is likely to be less of a factor since Eisenhower was elected.

H. Clyde Baldwin

Among a certain segment of investors, the inflation argument and its lifting effect on the market continues to be stressed, but those people seem to forget that we had a very large monetary and economic basis for inflation back before 1937 when we had a sharp decline in business volume as well as in the stock market. Likewise, there was surely even more of an inflation basis in 1946 in the tremendous war debt we built up between 1941 and 1945. Yet it did not prevent quite a sizable reaction in the market in 1946. In fact, the reaction began in business in the latter part of 1945.

We do not question that theoretically there is still a tremendous inflationary base to our economy, and that over a longer period of years following such interruptions as we had in 1937 and 1946, the tendency is likely to be to new high levels in business volume and in the stock market. As for the near future there are a number of factors in the business situation which point to a moderate recession in business volume, which we believe are likely to be felt to some extent in the stock market, probably most likely in the second half of the year. We are not predicting anything so drastic as began in 1929, and we certainly have grave doubts of anything so drastic as that which began in 1937, but quite a measure of downward adjustment in the market we believe will be seen before 1953 is over. There will be, however, some few selected stock issues which we would be very willing to carry through such a period of readjustment. The market will become extremely selective.

Reasons for Adjustments

Why do we look for some adjustments in business and in the markets by the second half of 1953? First of all, we might point out that defense expenditures, according to most authorities, will reach their peak by the middle of the year. There are a few authorities who feel we are now at the peak. At any rate, all seem to agree that, granting no additions to the present armament program, defense expenditures will gradually decline during the second half of next year, and since they have been a very important factor in the so-called prosperity we have been enjoying for the past 2½ years, it is small wonder that a gradual removal of their impact on the whole economy could bring some readjustments.

A second reason why so many expect some trouble in the second half of 1953 arises in the consumers' field. Here, we would not expect that the consumers' total expenditures would show any substantial increase over the current rate, whereas we shall find that total production of goods will show a considerable rise. Certainly there is an increased capacity for production which will tend to intensify competition and narrow profit margins.

Many people see some decline in the second half of next year because of their increasing fears about the downtrend in many world commodity prices which will create difficulties in a number of countries producing raw materials, or greatly dependent upon raw material business as in the case of England. These developments could have worldwide repercussions.

Then, there is a considerable group of people who might class themselves as amateur forecasters and who fear we are passing the crest of the major business cycle and that the postponed war slump will catch up with us before next year is over, or at least begin to in the latter part of the year.

We find there are also a few business men who are worried about the fact that an increasing number of businesses are gradually getting into a weaker financial position as a result of government policies. Their fear is that if many more get into this position, they will act as a drag on the whole economy, and that could be felt not only in business, but in commodities, as well as in the stock market. Eisenhower's election should tend to nullify this factor.

While we have taken the position that business volume is likely to drop from 5-8% this coming year, and no more, it seems an appropriate place to point out that there are certain political factors which should be considered as having an ameliorating effect on any decline and prevent a very serious one. For instance, everyone must realize there are some counter moves that the government itself can make which can be moderately effective, if used whenever there is the slightest evidence of a decline. If the leveling off of defense expenditures after the middle of next year brings a serious unbalance between demand and supply of consumer goods, the government can make an effective move to offset this by reducing taxes, which would stimulate demand, although it might mean still operating at a heavy deficit. Even Mr. Eisenhower has promised he is not going to permit any serious depression, accompanied by heavy unemployment.

For those who are fearing the spread of troubles abroad with countries that are raw material producers, we might say that the government could make a counter move by sharply stepping up stockpiling programs, and incidentally, we anticipate the government will be doing more of that this coming year than at present. It looks very much as though this would have to be done with those commodities bought in any large amount from any countries within the orbit of the English pound, unless we are prepared to pour a great deal more money into the English treasury.

The probable use of these possible counter moves on the part of the government makes the timing of the next downturn in business and in the markets a rather difficult matter. We might add here there is no reason whatever to believe that the government could ever entirely prevent some degree of business correction, and we think that the latter half of 1953 is going to bring a serious test of this.

We must pause for thought as we realize in looking over the banking figures that our current prosperity is based largely on the creation of debt. For instance, the total amount of consumer credit in 1945 was $5,600,000,000 and right now it is running about $21,200,000,000. Since 1949, business loans have risen $20,000,000,000 and home mortgages have nearly doubled in value. There, of course, must eventually be an end to this creation of debt and theoretically the higher the debt goes, the worse the problem of readjustment could be. A borrowed money prosperity can become a very dangerous one but factors like these are nothing that we need bother about between now and the end of the year. However, they could become quite important in the second half of next year. Certainly we believe the rise in debt of all forms will be topped off before then, and barring any economic catastrophe abroad, that would have repercussions here, we would not bother about the heavy debt unless there is a further sharp rise within the next 6-8 months.

A Lowered Inflationary Policy Expected

In our judgment, for the longer term, the Eisenhower policy will be less inflationary than would have been the Stevenson policy, who, undoubtedly, would have largely followed the New Deal program. As more and more people realize this, at least the investor class should become more conservative. They will assume that the election on the whole has been a constructive development and there certainly would be a better feeling in the whole business world. Remember the Eisenhower policy is not going to come to a head, however, until he makes his address to Congress in the latter part of January. This is another reason why we would not expect any important change in the market or business picture before then.

Generally, we feel that the investor, where stressing appreciation, will have to be very nimble in seeking long-term profits. There undoubtedly will be some good situations in individual stocks. There will continue to be some very attractive income issues which will have little or no appeal for those seeking appreciation. The favorite stocks for stability of income will probably be in the food and utility fields. For appreciation we may look to natural gas, packing, tobacco, television, certain electric utilities and insurance issues.

Possibly railway and equipment issues, too, which have been especially unsatisfactory to those who are at all interested in appreciation, could become much more popular than they have been for the past few years, but in this field there are great differences in outlook among individual issues.

Moving picture stocks have certainly been a depressed lot for a long time. Perhaps most people would agree that the basic trouble has been the competition arising

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*An address by Mr. Baldwin before the Annual Babson's Clients' Conference, New York City, Nov. 20, 1952.

From Washington Ahead of the News

By CARLISLE BARGERON

Notwithstanding the belief on the part generally of those newspaper writers who specialize in labor matters that the recent deaths of Phil Murray and Bill Green paved the way for unification in the organized labor movement, in the opinion of this observer there is no more likelihood of this now than there was ten, or even two, years ago. Apparently the belief that unity is in the making is based on nothing more substantial than that Green and Murray were rival Presidents and both wanted to hold their jobs. One of them would, of course, have lost his job if the A. F. of L. and the CIO had merged.

Carlisle Bargeron

To say the least this is over simplification. In the two organizations there are dual sets of officers all down the line, not only in the international structure but in the various constituent organizations. These constituent organizations are in many instances rivals trying to organize the same group of workers. Not infrequently this struggle for members is responsible for jurisdictional strikes. Merger of the A. F. of L. and the CIO would not only involve the loss of jobs on the part of union officials, many organizations themselves would have to be amalgamated.

For example, an established A. F. of L. union would not tolerate a CIO union operating in the same field to come into the A. F. of L. and keep its identity. In the past ten years the Machinists have moved back and forth between membership in the A. F. of L. and an unaffiliated organization because of their differences in the matter of recruiting with the Carpenters' Union. They couldn't get an agreement that the Machinists were to have a certain class of workers and the Carpenters another.

With this situation between two A. F. of L. unions you can imagine the size of the job that would be involved in a merging of the whole A. F. of L. and the CIO. And certainly there is no sign of unification in the bitter struggle waged in the CIO over the successor to Phil Murray as President of that organization.

The only way a joining of the two groups will ever be brought about, in my opinion, is through the gradual weaning away by the A. F. of L. of CIO unions, and before that happens there has got to be some signs of weakness in the CIO. If a weakness developed, it is possible that constituent groups would drop away from the CIO like flies.

There are no signs of this weakness at present but they could be in the making with the appointment by General Eisenhower of an A. F. of L. man, Martin P. Durkin, as his Secretary of Labor. This is the first real gesture towards the A. F. of L. by the government since the CIO was created in the early days of the New Deal. The CIO has been the pet; it has been a part of the prevailing government throughout the New Deal. Roosevelt's Administration created it, developed it and it continued to be nurtured by Truman. A. F. of L.'s Bill Green occasionally went to the White House with CIO's Phil Murray but this was simply for show. It was the CIO that turned the wheels; the A. F. of L. has been but a stepchild. In turning to the A. F. of L. for his Labor Secretary, Eisenhower said, in effect: "You are my kind; you are the gentlemen with whom I would like to work."

It goes without saying that Durkin's name was not just pulled out of a hat. There was considerable basis for the speculation that either John Danaher, former Senator from Connecticut, or Dean Manion would get the labor post. Certainly the General had plenty of advice to the effect that the only way to steer a clear course between the CIO and the A. F. of L. was not to take a man from either organization. He not only ignored this advice but turned his back on the more politically minded, the more politically aggressive CIO. Undoubtedly, it is very plain to the CIO just what has been done.

As I see it, no longer is the CIO to be an adjunct of the government; no longer is the government to help it organize, to help it win strikes. I know of instances, even in wartime, when the government tried to help the CIO to take over the A. F. of L. workers of several West Coast shipyards. I know of instances in which the government sought to aid the CIO by threatening government seizure of plants which the CIO had struck—this in peacetime. In return for the government's support the CIO threw its highly efficient political and propaganda machinery behind the government, not only in matters in which labor had a direct interest but in the broad field of government policy.

Apparently all of this is to be ended. It does not follow—indeed, it is not to be the case—that there will be any such tie-up between the A. F. of L. and the government. But the A. F. of L. does seem to me to have been given such recognition from the government as it has not enjoyed since the CIO came on the scene.

Now, the question arises seriously as to whether the CIO can long endure, at least as the powerful organization it is, without that support of the government which it has had. I have my serious doubts.

I doubt General Eisenhower could have found a better way, short of a direct announcement, that the relationship between CIO and the government has come to an end than the selection of an A. F. of L. man for his Labor Secretary.

Stocks for Christmas Stockings

By IRA U. COBLEIGH

Author of "Expanding Your Income"

Outlining some attractive and highly acceptable Xmas gifts that may be purchased on week-days from 10 a.m. to 3:30 p.m. There are but 15 share-shopping days until Christmas!

Are you scratching your head for Christmas gift ideas? Well, stop. Here's your answer—stocks! They're highly personalized gifts with the name and address of the donee (alias recipient) embedded on the face of each certificate. Four times a year, on dividend dates, that is, the object of your generosity will be pleasantly reminded of you, and new zest may be added to his or her life, if your selection turns out to be another Amerada on the market. And even if, perchance, the gift stock you select should turn out to be a turkey, remember that bird is always in season at Xmas; and the receiver (appointed by you—not by court, trust) will have but slight complaint, since the stock was acquired at such a reasonable price; to wit and viz., zero.

Ira U. Cobleigh

Further, having read during the year that there are only 6,500,000 stockholders in America, you, as an apostle of free enterprise, and a believer in the American way of life, have some obligation to do your bit to increase share ownership in our fair land. Well, this is the time and the way. And, with some 3,000 issues listed on major Exchanges, and 25,000 odd traded over-the-counter, I thought you wouldn't mind a little seasonal screening and sorting, just to ease your task of stock selection.

For the "Upper Brackets"

There are four separate lists jotted down for you to choose from, Table I being addressed to the plush platinum, polo and Palm Beach set. This year, instead of plying your plutocratic friends with say, a $1,000 British fowling piece, or, for the duchess, an alligator bag with earrings, girdle and anklets to match, why not be practical and pick out a cozy financial bauble?

Perhaps you'll like Superior Oil of California, selling at a lowly 530, one of the most impressive oil-bearing enterprises in America, with a long record of retaining the lion's share of earnings, thus building up book and intrinsic value year by year — a technique persuasive to ultimate capital gain. And as you know, such gain is the desideratum of your opulent friends; they'll like it, too!

Look also at Travelers Insurance, and Hartford Fire; in their field they're the Tiffanys; conservative additions to book value have been made here for decades; and dividend coverage is as wide as Eisenhower's victory margin! Among banks, a couple of financial Gibraltars are surely Northern Trust (about to give out a 100% stock dividend) and J. P. Morgan whose shares make elegant financial lining for any safe deposit box. Fact is, most any of these would prove to your mink-laden friends that you are a connoisseur of corporate quality.

Some "Dividandies"

The second table is for your income-conscious friends—they like fat cash dividends, so you browse for high yielders. Technicolor has plenty of romance and you'll notice more and more movies bearing this label. Boeing, a leading aircraft manufacturer, developer of a fantastic new gas turbine engine, is a powerful company in war or peace. Allied Stores is one of the very largest merchandising organizations in America with a management rated among the best. Bethlehem, second steel enterprise in the World, should earn perhaps $6.50 for 1952 giving reasonable coverage for indicated dividend of $4.00. Fill up the stocking with Louisville and Nashville and Phelps Dodge and you will have spliced together a well rounded list of issues with good fortune geared to provide a Happy New Year via the dividend-contentment route.

"Expanding Horizon Stocks"

Table III is beamed toward the progressive, forward looking, yet patient, individual who likes some income, yes, but also honeyed horizons of possible growth. The six set down have apparently found wide favor when the above goals are sought. Surely a classic chemical is American Cyanamid. Wonderful management, laboratory moxie, and sales oomph. This grows as it goes and it remembers its stockholders. Rayonier has a lot of forward motion if plastics and synthetics mean anything at all, and people seem to like its management and the rate of earnings growth. Continental Can with General Lucius Clay as top brass, has been moving steadily in the right direction. The stock is found in many leading investment trust portfolios and on grounds of financial condition, productive efficiency, and managerial vision, Continental Can is a leading industrial enterprise.

International Mineral and Chemicals is among the largest producers of phosphate rock and potash, which it converts into many types of plant foods and fertilizers. It also turns out amino acid products. Quite possibly the flavor of some dishes at your Christmas dinner will be brought out more forcefully by International's exclusive product "Ac'cent". Read the prospectus of Nov. 12, 1952 to perceive the impressive and logical progress of this well directed company.

International Paper Co. is the largest and probably the most diverse pulp and paper company in the world. Whether in the newspaper you read, the carton your groceries arrive in, the towel you wipe your face on, the paper cups you drink out of, or the wrapping for your Xmas gifts, you'll find every day you're paying tribute to International Paper. Progressively, paper is replacing cloth, wood or glass, and International is the acknowledged leader. At but eight times indicated earnings, International Paper common does not appear inflated.

Houston Lighting & Power is one of the fastest growing major electric utilities and there's nothing in its territory or management to suggest any likelihood of stagnation.

For the "Sportsmen"

Table IV is, as the heading suggests, strictly for sportsmen. Here, dividend return is looked upon with some disdain and the whole pitch is slanted toward the hopes of speculative gain. Great risks are present but handsome rewards on a percentage basis may be lurking here like a trout in a pool.

Take Frobisher—a call on gold in Canada, in South Africa and the most imaginative sort of management. Lithium Corp., producer of one of the newly found Alkali metals having a weight per pound one-fifth of that of aluminum. Lithium is valuable in the field of atomic energy and this company may have a most interesting future. Calgary and Edmonton owns the mineral rights to 1,142,019 acres of mineral land in Alberta and has had producing wells long before the current Canadian boom set in. Sherritt-Gordon is another fascinating mineral enterprise with a vast program for nickel and copper and cobalt production in Manitoba. It enjoys excellent sponsorship.

Allegheny common is a marginal but highly leveraged equity, in an investment trust with sagacious management in the portfolio department. Recent straightening out of the preferred stock situation throws more light on the long-range possibilities of this speculation. If your gift-receiver doesn't mind risk and market swings, he may get a kick out of these lowly certificates.

For "Diesel-Minded"

In addition to the formal lists given maybe you have a friend who likes to play around with trains. In that case, perhaps you'd want to pick up for him (or her) a few shares of New York Central at 22, or B & O at 24. A most brilliant railway analyst whose judgment is widely respected, crossed my path this week and waxed lyrical about the gain possibilities of these two in 1953. He rails against those who belittle rails.

Issues in "Season"

Then there's another list I might have made up along whimsical lines—shares selected solely for their topical and seasonal appropriateness. Such a list would surely include BETHLEHEM Steel, NAZARETH Cement, HOLLY Sugar, JOY Manufacturing, BELL and Howell, SANTA FE, and possibly by stretching a point Third Avenue Railway (NO EL, this is).

The foregoing was written with the very best wishes to all investors and speculators, present and prospective, and the injunction to get the complete facts before you buy anything.

The lists do contain some very worthy securities indeed, as well as some quite "iffy" ones; and I am nagged by the thought that, by the law of averages, at least two of these will probably double in value in the next two years. If we could only be sure which ones they are, buying stocks for Christmas stockings would be a darn cinch!

(Quotations from Market of 11/28/52)

TABLE I

Merry Christmas for the Upper Brackets

Issue	Price About	Indicated Dividend	Approx. Yield
Superior Oil of California	530	$3.00	Why bother?
Travelers Insurance	690	14.00	2.1%
Hartford Fire Ins.	160	3.00	1.9
J. P. Morgan & Co.	290	10.00	3.4
Northern Trust Co.	800	24.00	3.0

TABLE II

Dividandies

Issue	Price About	Indicated Dividend	Approx. Yield
Allied Stores	38	$3.00	8.0%
Bethlehem Steel	53	4.00	7.5
Technicolor	27	2.00	7.4
Louisville and Nashville	64	4.50	7.1
Phelps Dodge	37	3.00	8.1
Boeing	37	3.00	8.1

TABLE III

Expanding Horizon Stocks

Issue	Price About	Indicated Dividend	Approx. Yield
American Cyanamid	55	$2.00	3.6%
Rayonier	34	1.50	4.4
International Min. & Chem.	40	1.60	4.0
Continental Can	48	2.00	4.1
International Paper	52¾	3.00	5.7
Houston Lighting & Power	25	1.00	4.0

TABLE IV

For Sportsmen and Speculators

Issue—	Price About
Frobisher, Ltd.	5½
Lithium Corp.	6
Calgary & Edmonton	12
Sherritt-Gordon	4¾
Allegheny	4

Dealer-Broker Investment Recommendations & Literature

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

Air Conditioning Industry—Analysis—Harris, Upham & Co., 14 Wall Street, New York 5, N. Y.

Excess Profits Tax—Bulletin—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Favored Stocks — List of issues which appear interesting—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Food Chains — Analysis of the industry in Canada — Ross, Knowles & Co., 330 Bay Street, Toronto 1, Ont., Canada. Also available is special review of **Dominion Stores Limited.**

Over-the-Counter Index—Folder 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 13-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, New York.

Over-the-Counter — Bulletin discussion how 60 over-the-counter stocks might benefit from elimination of E. P. T.—Troster, Singer & Co., 74 Trinity Place, New York 6, N. Y.

Railroad Earnings—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Retirement Plans—Booklet for employers considering new retirement plans giving the highlights of 61 retirement programs—request on business letterhead—Kidder, Peabody & Co., 10 East 45th Street, New York 17, N. Y. Also available is a booklet entitled **What Experts Say About Mutual Funds.**

Treasury Security Market and Debt Management—Analysis—Aubrey G. Lanston & Co., Inc., 15 Broad Street, New York 5, N. Y.

Yield Tables on Preferred Stocks—Booklet—Union Securities Corporation, 65 Broadway, New York 6, N. Y.

* * *

Bendix Aviation Corp.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y. Also available is a special report on **Copeland Refrigeration Corporation.**

Compo Shoe Machinery Corporation—Bulletin—deWitt Conklin Organization, 100 Broadway, New York 5, N. Y.

Famous Players — Memorandum—G. E. Leslie & Co., 360 St. James Street, West, Montreal, Que., Canada.

Interprovincial Pipe Line—Memorandum—Intercity Securities Corp., 330 Bay Street, Toronto, Ont., Canada.

Iowa Southern Utilities Company—Analysis—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

National City Lines, Inc. — Analysis—Faroll & Company, 209 South La Salle Street, Chicago 4, Ill. Also available in the same bulletin is an analysis of the **Oliver Corporation.**

Parvue Mines — Memorandum—L. S. Jackson & Co., 132 St. James Street, West, Montreal, Que., Canada.

Pennsylvania Railroad in the Coming Year 1953—By Thomas G. Campbell—$6.00 per copy—Visual Valuations, Inc., 80 Wall Street, New York 5, N. Y.

Riverside Cement Co. — Analysis and review of the Cement Industry—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

St.Louis-San Francisco Railway Co. — Analysis — Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Socony-Vacuum Today — Reprint of a report by B. Brewster Jennings before the New York Society of Security Analysts, Inc.—Socony-Vacuum Oil Company, Inc., 26 Broadway, New York 4, N. Y. Also available is a reprint of an address by Mr. Jennings—**"Oil and American Security"**—delivered to the Rocky Mountain Oil and Gas Association of Denver.

Wisconsin Public Service Co.—Memorandum—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Our Reporter's Report

The wheels of the investment underwriting business are grinding slowly to the customary year-end halt, or at least a full-sized slowdown. Institutional buyers, the major outlet for new securities these days, are already "putting up the shutters" and going to work on the job of toting up their final positions for 1952.

Underwriters recognize that such buyers won't be easy to reach through the next several weeks. But they are not particularly concerned on that score, having met the situation year-in and year-out over a long period.

They have gone right along with their business of taking on new issues as these come to hand, quite satisfied, it appears, with the more or less accepted fact that they will most likely find it necessary to carry such material as inventory for a spell.

Pacific Telephone & Telegraph Co.'s new issue and that of Florida Power Co., are cases in point. Bankers undoubtedly took these securities with full knowledge that they were not going to move right out.

As some dealers noted, it was not a case of one or two basis points in yield, but from .05 to .15 points which separated them from quick sale. The secondary market, it was pointed out, has been improving so far as corporates are concerned.

But the betterment, at least up to this stage, has not been of proportions which would make the marketing of new offerings a speedy operation

Always a First Time

The California Public Utilities Commission rang up another "first" this week when it directed that the Southern California Edison Co. adopt the competitive sale method in marketing its projected 500,000 shares of new common stock.

Until this time the big coast utility has been permitted to undertake such financing through the medium of negotiated sale. What brought about the change in the State agency's attitude has not yet been made known.

But the company expected to register with the Securities and Exchange Commission shortly to cover sale of the stock probably around the middle of next month. No "rights" to present holders will be involved in the operation designed to raise some $15,000,000 for new construction.

Southern Railway Refunders

Southern Railway Co. is due to open bids today for $8,000,000 of New Orleans Terminal refunders. And a week hence it is scheduled to market the second half of this undertaking in the form of $15,000,000 of Southern Railway, New Orleans, Northeastern division bonds.

It had been the intention of the company to retire these debts out of cash. But restudy of the proposal led to the decision to refund these obligations and make the cash available for retirement of other obligations.

The road has outstanding under a general mortgage, maturing in 1956, some $55,000,000 to $60,000,000 of non-callable 4s, 6s and 6½s. Rather than gamble on market conditions at the maturity of such issues, it was decided to use available cash to take up as much of these obligations as may become available at proper levels in the market.

Heading for Record

Underwriters attending the Investment Bankers Assn. of America convention in Hollywood, Fla., got something of an eye-opener when its Municipal Securities Committee filed its report for the current year.

The group noted that new long-term tax-exempt issues floated in the first 10 months this year topped the $3 billion figure. This was some $60 million more than put out in the entire year of 1950, the previous peak period.

For the same current period the aggregate of long- and short-term bonds has topped $5 billion, exceeding by a a billion the comparable 1950 period. Next year was seen as equalling or topping this year.

COMING EVENTS

In Investment Field

Dec. 4, 1952 (New York City)
Investment Association of New York Second Annual Dinner at the Waldorf-Astoria.

Dec. 5, 1952 (New York City)
Security Traders Association of New York annual meeting at The Antlers.

Dec. 5, 1952 (Seattle, Wash.)
Seattle Security Traders Association annual Christmas party at the Olympic Bowl.

Dec. 9, 1952 (Chicago, Ill.)
La Salle Street Women Annual Christmas Dinner at the Chicagoan Hotel.

Dec. 10, 1952(Boston, Mass.)
Boston Investment Club annual Christmas party at the University Club.

Dec. 11, 1952 (San Antonio, Tex.)
Investment Women of San Antonio Annual Christmas Party at the Party House on San Pedro Avenue.

Dec. 12, 1952 (Pittsburgh, Pa.)
Pittsburgh Securities Traders Association annual election and dinner at the William Penn Hotel.

Dec. 19, 1952 (San Francisco, Cal.)
San Francisco Security Traders Association annual Christmas party at the St. Francis Yacht Club.

Jan. 16, 1953 (New York City)
New York Security Dealers Association 27th Annual Dinner at the Biltmore Hotel.

May 7-8, 1953 (San Antonio, Tex.)
Texas Group Investment Bankers Association of American Spring Meeting at the Plaza Hotel.

Sept. 14, 1953 (Sun Valley, Idaho)
National Security Traders Association 20th Annual Convention.

Continued from page 5

Observations . . .

wartime expansion, that commodity prices at last re-attained their levels of 1921.

Capital Gains Tax Now the Market Inflater

Much more certain than economic forces as a prospective element of stock market inflation is the capital gains tax. Increasingly is it inexorably freezing large market areas—namely, those issues on which large paper gains have accrued during the trebling of the market averages which has occurred since 1942. This 26% tax take, emasculating value considerations from investing decisions on issues participating in the bull market advance, is functioning as the major, if not actually the sole source of market inflation and distortion. And the greater the price advance the greater the degree of distortion, as particularly evidenced currently in the Blue Chip-itis-priced issues. To be realistic, the investor not expecting to remain altogether out of an equity replacement, must be convinced that the issue which he is considering for liquidation is comparatively overpriced by at least 26% of the profit accrued thereon.

Some other factors importantly on the anti-inflation side-of-the-medal are: The nation's great productive capacity, especially in the absence of wartime stimuli; and high *individual* income taxation severely reducing the actual take-home pay of the investor.

Investor's Inflation Experience Abroad

The European citizen's actual results from use of the equity share to defend himself from the ravages of inflation, furnishes an interesting laboratory test—particularly in view of the chronically far stronger monetary-depreciation fear on the Continent than here.

In the interval including World War II and its aftermath, the *rentier* naturally has fared the worst. In France the individual who fled into common stocks, in an effort to hold his ground against the concurrently rising price level over the long-term, secured partial protection, albeit not as much as he would have gained from land or gold. In the United States and the United Kingdom market "inflation" has not resulted from flight from the currency. In the United States particularly, despite the exploitation of "inflation" for bullish propaganda purposes, market levels have been constantly justified by criteria of value. And over the long-term here there has been no consistent correlation between stock prices and the cost of living.

The degree to which the holders of stocks and of bonds in various countries have maintained their positions during the course of inflation in the general economy from the pre-World War I period to the present, is shown in the table at the beginning of this article.

Conclusions

From this record of actual experience abroad, the American investor can glean the following major conclusions:

(a) He should take into account inflation influences on the economy and business as one of many factors determining over-all portfolio policy, as well as the selection of individual issues.

(b) In general common stocks should never be held *only* because of their inflation-hedge attributes. Now in the American market, fortunately, they need not be held with that as an important motivation. Since current stock prices are in general fully-justified by value criteria, today's buyer of equities is getting their inflation-hedge benefit thrown in as a bonus. And our foregoing tabulation shows that this inflation-hedge feature has considerable value.

Steel's Future—A Producer's Point of View

By A. B. HOMER*
President, Bethlehem Steel Corporation

Industry leader maintains, in view of nation's rate of growth and increased requirements stimulated by rising living standard, steel capacity is not excessive. Expects business to maintain good volume, despite recurring cyclical fluctuations and buyers' markets. Expresses satisfaction with progress made in beneficiating low-grade iron ore.

I think I can assume that you people are professionally interested from an investment point of view in the steel industry and in our own company, Bethlehem Steel Corporation, as a major factor in that industry.

A. B. Homer

It is my intention to present to you some of the important matters concerning the industry and our company which may be a guide to judging our ability to succeed and grow in this world of economic uncertainty.

Right here at the outset I would like to warn you that I believe you will detect an overtone of optimism as I proceed. I am not so sure that such a note could honestly have been sounded very loudly or clearly a few short weeks ago. Then, the people of the United States were in doubt and any discussion of an industry's future would have had to reflect that doubt.

To anticipate the future is difficult enough, even at short range, but it is much more difficult if we do not know what the underlying sentiment of the electorate is going to be on the great issues that make history.

Of course, the decision at the polls didn't undo over-night two decades of tinkering with natural economic forces, of increasing national debt, planned inflation, crippling controls, higher and higher taxes and hostility to the system which is the source of our strength. That would be asking too much. Our problems are still very much with us. What is reassuring, however, is that we will have a chance to work out these problems in a new atmosphere.

Government Hostility Ended

That in itself gives us great hope that the deteriorated relationship between private industry and the Federal Government is to be a thing of the past. Instead of hostility and distrust from government, industry can reasonably expect that its contribution can be made in an atmosphere of understanding and mutual cooperation. We can now hope that our energies can be expended properly on the job of production and not dissipated through fighting a rear-guard action to prevent being absorbed by the Federal octopus.

I have digressed a moment because I have felt very deeply the importance of the new national atmosphere in shaping the growth of private industry in the future. With these previous observations of mine as a background, we can approach some of the questions regarding the steel industry which may be upper-most in your minds.

My impression is that one of the questions you are concerned about is whether the industry is to find itself with excess capacity on its hand and, if so, what effect any excess might have on profits.

In addition, I assume you would like information on our raw materials position and on our progress technologically.

It would seem reasonable, as well, that you would want information bearing on the questions as to whether long-term growth trends of the steel industry are about equal to, less, or more than the growth trends of the country as a whole.

What I can hope to do is point out some considerations which might stimulate your thinking on these matters. It might be that you could apply these considerations to the background knowledge you already have and that superior educated guesses might result.

Industry-Wide Statistics Deceptive

I would like to suggest that in arriving at your own estimates you do not generalize too much about the steel industry as a whole. The concept of industry-wide economics has its uses if it is not carried too far. Industry-wide statistics are very valuable but my point may best be illustrated by the analogy that statistics are like Bikini bathing suits—what they reveal is interesting but what they conceal is vital.

It is true that the major integrated steel companies have much in common. We all start with raw materials in the ground and take these through similar operations in the coke ovens, blast furnaces and open hearths. However, nobody has any use for a steel ingot as such.

Actually, we are all making and selling a vast range of products made of steel. And there is as much difference between the problems and prospects for such items as sheets, tin plate, ships, bridges, pipe, wire, propane tanks and heavy forgings — to merely skim the list—as there is between the problems and prospects of the dairy products and petroleum businesses, or hardware and ladies wear, for that matter.

Although all of us are affected with some degree of similarity by major trends in the economy, the effects vary widely as between companies because of their varying product mixes.

This being the case, I shall, rather than generalizing too much about the industry, refer in more instances to my own company, the one I know most about. You can handle it from there to the extent that you think the facts have a common application.

Bethlehem's Position in The Industry

An example of where caution in passing on industry figures is in order may be found in the fact that Bethlehem stands alone among the larger integrated steel companies as a builder of ships on a big scale. We are recognized as the largest shipbuilders and shiprepairers in the world. That introduces a distinctive element which if not properly weighted and taken into account could make statistical comparisons highly unreliable. For instance, during the peak activity of World War II, the shipbuilding division of Bethlehem employed more men and women than all the other activities of Bethlehem put together.

It might interest you to know that our shipbuilding and ship-repairing billings were more than 50% of our total billings for the four war years 1942 to 1945. Normally we might expect this part of our business to run from 10-20% of our total. This year it is averaging about 17%.

The role of shipbuilding in Bethlehem's picture has always been an important one. The shipbuilding business fluctuates considerably, but ship repairing runs steadier.

Moreover, because shipbuilding activities often represent contracts taking more than a year to complete and because it is not prudent to take profits on a contract job until it approaches completion, we at times may take only small profits in a year when we have much work on the ways. On the other hand, we may take rather large profits in a year when there may be little activity during the last six or nine months. Our shipbuilding division has made a real contribution to Bethlehem's income for a long time and the profit expectation for shipbuilding in the year ahead is good.

Now in making this point about the necessity for caution in comparing companies in the industry I hope I have let in a little light on the shipbuilding activities of Bethlehem.

At any rate, you are not so much in the dark now about shipbuilding as was the charming lady sponsor at a launching who is reputed to have asked the yard superintendent how hard she should swing the christening bottle in order to knock the ship into the water.

Now, shipbuilding, although important to us, is only a part of our overall activities. Our general business breaks down into two major parts—the first is the production of steel and rolled steel products—the second is the fabrication and manufacture of many products using steel, such as ships; railroad cars and parts; wire products; bolts and nuts; highway products; structural steel fabrication and erection of buildings, bridges, etc.; steel tanks; oil country supplies; forged steel products; tool steel and many other miscellaneous products.

Under normal conditions today our total billings would be divided about equally between these two major divisions of our business.

Steel Industry Capacity

Turning now to the question of steel industry capacity, let me first set the issue in general context and then deal with the specific factors which must enter into any balanced appraisal of either Bethlehem's or the industry's situation.

On some day somewhere in the USA during the year ahead, a new open hearth furnace will be tapped for the first time. The occasion will mark the attainment in this country of an annual steelmaking capacity of 120 million tons. The industry will have increased its production potential by 30% since the end of 1946.

As all of us know, the additional capacity to reach 120 million tons would not have been built so rapidly except for the war emergency. If it had not been for the emergency the industry would not have been granted certificates of necessity allowing rapid amortization of part of the cost of the tonnage capacity added since the end of World War II, and without rapid amortization, it is doubtful whether many of the new facilities would have been provided.

As you people are aware, to the extent that we can depreciate our plants over five years rather than 20 or upwards we postpone the tax burden and thus indirectly, out of the profits we hope to make during this five-year period, help to provide some of the cash needed for the expansion program.

Whether we will gain or lose over the long-term through rapid amortization depends on the rate of income taxes we shall have to pay. If tax rates remain the same, our only solace is that a bird in the hand is worth two in the bush.

You also know that at whatever rate we write-off our fixed assets, we can do it only once and we can never write-off more than 100%. And you know, too, that during these years of rapid amortization our cash earnings will be large relative to our net earnings and that in later years this situation will tend to be reversed.

New Analytical Approach Necessary

The point I want to emphasize, however, is that in a few years many of our most efficient plants will be carried at a value on our balance sheets which is far less than our original cost or cost of replacement. Because this will be the case, you might do well to think twice before applying some of your time-honored yard-stick ratios of debt to fixed assets and book equity in your determination of how much by way of funded debt and fixed charges a steel company can properly carry. I suggest that you consider giving more weight to the relation of debt and fixed charges to sales, profits, cash items and working capital.

Better still, take a day or two off and have a look at the plants themselves. At Bethlehem, we are prepared to take interested groups through our plant at frequent intervals and I now extend to all of you a cordial invitation to see some of our plants.

Getting back to the question of industry capacity, 120 million tons are almost here and you are interested in how it will affect our profit picture in the event of a significant decline in general business. I share your interest, for I know of no one who thinks the steel companies are going to operate at 100% of capacity year in and year out indefinitely.

Now, let's sit back and take a broad, objective view of this matter of capacity. Is there really excess capacity? In order to help our own thinking, we had some studies made relating the growth of the industry to the growth of Gross National Product and with the Federal Reserve Board index of production.

Steel Capacity Not Excessive

Our studies showed that since 1900 there is a long-term, close correlation between steel production and GNP corrected for inflation. If we accept the Gross National Product index (and, since 1919 the Federal Reserve Board Index of Industrial Production) as being reflective of the country's rate of growth and increased requirements — the indications are that steel capacity is not now excessive.

In other words, steel production seems to move up or down in almost the same manner as these corrected indices and this new capacity does not seem to be out of line as measured by either of the indices. However, if the country were going to slip back to prewar requirement and consumption levels, present capacity might be out of line, but I doubt if anyone here thinks that is going to happen.

Both GNP and the FRB indices reflect the facts of our semi-garrison economy. But they also reflect the growth of our popula-

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*An address by Mr. Homer before the Second Eastern Regional Conference, sponsored by the New York Society of Security Analysts, Inc., New York City, November 24, 1952.

Wage Policies Since World War II

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

Prof. Slichter reviews movements of wages and prices since 1945, and concludes wage fixing arrangements in the American labor market have an inflationary bias. Says this does not mean that nation is bound to have chronic inflation, but it increases probability of almost continually rising prices. Urges that labor federations work out a national wage policy for member unions that will correct the inflationary bias, and recommends, in addition, strongly restrictive credit and fiscal policies. Points to some other powerful deflationary influences which may offset inflationary bias of wage increases.

I

About half of the period since the end of the Second World War has been a time of rapidly rising prices, and about two-thirds of the period a time of rapidly rising wages. Indeed, the increase in wages and prices in the six and a half years between the beginning of 1946 and the middle of 1952 was even faster than during the six years 1940 to 1946—the war period. Between the beginninng of 1946 and the middle of 1952, average hourly earnings in non-agricultural industries rose 63.3%, wholesale prices of non-farm and non-food products, 56.0%, and the consumers' price index, 46.9%.[1] Between 1940 and January 1946, hourly earnings in non-agricultural industries rose 50.5%, the wholesale price index of non-farm and non-food products 23.1%, and the consumers' price index 29.7%. It is noteworthy that both during the war period and the postwar period, hourly earnings rose considerably faster than prices.

Sumner H. Slichter

In these remarks, I wish to examine the movements of wages and prices since the beginning of 1946. What has been the relationship between the movements of wages and prices, what has been the influence of unions on wages, how has the movement of wages been influenced by the bargaining practices and economic position of employers? I am particularly interested in whether the wage-fixing arrangements in the American economy have an inflationary bias and, if so, what is likely to be the effect of this inflationary bias upon the long-run movement of wages and prices.

II

Let us begin by looking briefly at what has happened to wages during the last six and a half years. I have said that the increase in average hourly earnings between the beginning of 1946 and the middle of 1952 was 63.3%. The largest rise was in the railroad industry—95.4%, and the smallest in the hotel industry, 44.7%. The increases in the other industries were as follows:

Bituminous coal	77.4%
Manufacturing	64.1
Private construction	59.6
Retail trade	59.2
Wholesale trade	57.2
Telephone industry	53.7

The rise in hourly earnings has been considerably faster at some times than others. During the 78 months from January 1946 to July 1952, hourly earnings were rising fairly rapidly in two periods totaling 51 months and were rising quite slowly in two periods totaling 27 months. The periods of rapidly rising hourly earnings were from January 1946 to September 1948, and from March 1950 to September 1951. Between September 1948 and March 1950 and between September 1951 and July 1952, the increase was quite slow. The rise by various periods was as follows:

1/1946-1/1947	(12 mos.)	15.1%
1/1947-1/1948	(12 mos.)	11.7
1/1948-9/1948	(9 mos.)	5.9
9/1948-3/1950	(18 mos.)	4.2
3/1950-9/1951	(18 mos.)	12.3
9/1951-7/1952	(9 mos.)	2.6

Not only has there been a large increase in hourly earnings, but there has also been a rapid growth of fringe benefits. The number of private pension plans has increased from 7,425 plans covering 5.6 million persons in 1945 to about 14,000 plans covering 9.6 million persons in 1951.[2] Prior to the Second World War, only two unions had negotiated sick benefit plans with managements.[3] There was a rapid expansion of negotiated sick benefit and retirement plans during the war with the result that by early in 1947, about 1.5 million employees were covered by sick benefit and retirement plans negotiated by unions, by 1948, over 3 million employees, and by mid-1950, over 7.5 million.[4] There has been a large growth of group accident and sickness plans started at the initiative of management. The employees covered by group accident and sickness insurance (union negotiated plans and employer plans) increased from 5.9 million in 1945 to 15.1 million in 1950.[5] A good measure of the increase in "fringe benefits" is given by the rise in employer contributions to private pension and welfare funds. These contributions increased from $881 million in 1945 to $2.7 billion in 1950, and $3.0 billion in 1951. In 1945 they were 1.1% of wage and salary disbursements by private business, and in 1951, 2.2%. These contributions of employers to welfare and pension funds do not, of course, represent the cost of all fringe benefits. They do not, for example, include the cost of vacations or holidays with pay. They indicate, however, that the labor disbursements per hour worked increased at least 1% more between 1946 and 1952 than is indicated by the rise in hourly earnings.

III

What has been the relationship between the movements of hourly earnings and prices? Have prices risen first and hourly earnings afterward, or have hourly earnings risen first and prices afterward? In comparing the movements of hourly earnings and prices, I shall compare hourly earnings with the consumers' price index and also with the index of wholesale prices of commodities other than farm products and foods. The latter index is more satisfactory than the index of all wholesale prices because it measures more accurately than the index of all wholesale prices the changes in the demand for the kind of goods made by non-agricultural employees.

In order to examine the relationship between the movements of hourly earnings and prices, it is convenient to distinguish seven periods of more or less distinct price and wage movements between January 1946 and July 1952. During most of the 78 months between January 1946 and July 1952, hourly earnings have been rising faster than prices, but there were two periods, totaling 18 months, in which prices rose more than hourly earnings. There was one period in which the consumers' price index declined, and two periods in which the index of non-farm and non-food wholesale prices declined, but there were no periods when hourly earnings declined.[6] The percentage change in hourly earnings and prices between January 1946 and July 1952 were as follows:

	Hourly Earnings	Consumers' Price Index	Wholesale prices of non-farm products and foods
(1) January, 1946-June, 1946	7.6	2.7	4.7
(2) June, 1946-June, 1947	12.0	17.9	24.4
(3) June, 1947-September, 1948	12.7	11.1	11.9
(4) September, 1948-July, 1949	2.4	—3.4	—5.0
(5) July, 1949-June, 1950	3.5	1.0	2.4
(6) June, 1950-March, 1951	6.2	8.4	15.9
(7) March, 1951-July, 1952	5.6	3.4	—4.1
January, 1946-July, 1952	63.3	46.9	56.0

Let us examine more closely the seven periods of distinctive wage and price movements:

(1) **The period January, 1946 to June, 1946 when nearly all price controls were lifted.** During this period, when prices were still controlled, hourly earnings were outrunning both the consumers' price index and the index of non-farm and non-food wholesale prices. Hourly earnings increased 7.6% between January and June, 1946; the consumers' price index, 2.6%; and the non-farm and non-food wholesale prices 4.7%. During this period the demand for goods was so strong that personal consumption expenditures were rising faster than personal income after taxes. For example, between the first quarter and the second quarter of 1946 the annual rate of income after taxes rose by $3.9 billion, but the annual rate of personal consumption expenditures increased by $5.1 billion.

(2) **The period from June, 1946 until June, 1947.** In this period, prices were responding to the removal of controls and were rising far faster than hourly earnings. The increase in the consumers' price index in this nine-month period was 17.9%; of non-farm and non-food wholesale prices, 24.4%; and of hourly earnings, 12.0%. As a result of the rapid spurt in prices between June, 1946 and June, 1947, employees more than lost all of the gains in purchasing power that they made in the first half of 1946 and their hourly earnings in June, 1947 would buy only about the same quantity of consumer goods as in January, 1946.[7] Individuals continued to spend a higher and higher proportion of their incomes for consumption goods. Between the third quarter of 1946 and the second quarter of 1947, the annual rate of personal incomes after taxes rose by $2.1 billion, but the annual rate of personal consumption expenditures went up by $11.9 billion. The tendency for consumption expenditures to increase faster than incomes after taxes reflected the adjustment of the economy to the lifting of nearly all price controls in the summer of 1946.

The period June 1946 to June 1947 included the famous "second round" of wage increases. In April and May 1947, the so-called "15-cent package" agreements were negotiated in the automobile, rubber, electrical equipment, and steel industries — agreements based upon an evaluation of fringe benefits such as paid holidays and some insurance plans.[8] In the bituminous coal, construction, and printing industries the settlements exceeded the 15-cent package.

(3) **The period June 1947 to August or September 1948.** An important change occurred in the economy after the second quarter of 1947. Personal saving, which had almost disappeared, began to increase and by the third quarter of 1948 had reached a high rate — namely $13.3 billion a year. Although the annual rate of personal incomes after taxes increased between the second quarter of 1947 and the third quarter of 1948 by the large amount of $28.8 billion, only a little more than half of this gain, or $15.8 billion, was spent for consumer goods. As a result, inflationary pressures, though still strong, were substantially diminished. In the 15 months from June, 1947 to Sept. 1948, the consumers' price index increased 11.1% in comparison with 17.9% in the year from June 1946 to June 1947.

Despite the strong inflationary pressures, employees succeeded in raising their hourly earnings slightly faster than the advance in prices. In September 1948, hourly earnings of non-agricultural workers were 12.7% above June 1947; the consumers' price index was 11.1% above; and the index of wholesale prices other than farm products and foods was 11.9% above.

The period June, 1947 to September, 1948 included the "third round" of wage increases. A determined effort was made by a few companies to hold down wages. There was a 67-day strike in the meat packing industry beginning on March 16. The companies were successful in forcing the union to accept their pre-strike offer of an increase of 9 cents an hour. Other companies were less successful in limiting wage increases. At the opening of negotiations between the General Electric Company and the United Electrical Workers the company announced that it did not care to take the responsibility for the inflationary effects that would result from a wage increase at that time.[9] As a result, negotiations were deadlocked for weeks. In April 1948, the United States Steel Corporation refused the demand of the United Steel Workers for a substantial increase and reduced the prices of many finished steel products. This action stimulated the resistance of large concerns to wage increases. A strike of 75,000 Chrysler employees over wage issues began on May 12. The effort of the large companies in the automobile, electrical, rubber, steel, and agricultural implement industries to hold down wages was finally defeated on May 25 by a settlement between General Motors and the United Automobile Workers. The contract called for an increase of 11 cents an hour plus future adjustments for changes in the cost of living and an automatic increase of 2 cents an hour once a year for gains in productivity. Settlements quickly followed in the next two months in the automobile industry, the steel industry, the rubber industry, the agricultural implement industry, the aluminum industry, the electrical goods industry and others. The settlements in the automobile industry were generally for 13 cents, in the steel industry 13 cents, in the rubber industry 11 cents, in the electrical companies 8%, in the aluminum industry an average of 10%.[10]

(4) **The period September, 1948 to about July, 1949.** This was a period of mild deflation. There is some question about when to date the end of the period. The index of industrial production reached its low point in July 1949, and the volume of unemployment, its high point in the same month.[11] The wholesale price index of other than farm and food products reached its low in August, 1949, but this low was repeated in October and November. The general index of wholesale prices did not reach its low until December 1949, and the consumers' price index until February, 1950. Personal incomes reached a low in the third quarter of 1949. The month of July 1949, the low point in industrial production and the high point in unemployment, though not the low point for prices, is the month that I have selected for the end of the period of deflation. The mild deflation was limited by the tendency of individuals to cut the volume of their savings even faster than the drop in their personal incomes. Hence, although the annual rate of personal incomes after taxes dropped by $7.1 billion between the third quarter of 1948 and the fourth quarter of 1949, the annual rate of consumption expenditures did not drop at all.

Despite the fact that the consumers' price index and the wholesale price level were both falling and unemployment was increasing, average hourly earnings in non-agricultural private industry kept slowly rising. Average hourly earnings in July 1949 were 2.4% above September, 1948, when the consumer price index reached its high. In the meantime, the consumer price index had dropped 3.4% and the index of non-farm and non-food wholesale prices by 5.0%. Although a majority of union workers are estimated to have received wage increases in 1948, only about one-third of the 15 million organized employees received increases in 1949.[12] The fact that falling prices weakened union arguments for wage increases led to a rapid spread of pension and welfare plans. It was in the fall of 1949 that the steel workers won pensions after a nation-wide strike. Substantially more than one million employees are estimated to have secured additional pension or sickness benefits or to have gained coverage for the first time during 1949.[13] As a result of the spread of pension plans and welfare funds, employers' contributions to these arrangements were over $450 million greater in 1950 than in 1949.

(5) **The period July, 1949, to**

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*An address by Dr. Slichter before the Economic Conference of the Chicago Association of Commerce and Industry, Chicago, Ill., Nov. 24, 1952.

1 This is the weighted average of the rise in hourly earnings in manufacturing, bituminous coal, private construction, railroading, the telephone industry, hotel, and retail and wholesale distribution. These industries include about two-thirds of the non-governmental employees of the country. The average hourly earnings were weighted in 1946 and in 1952 by the distribution of employment in March, 1952.

2 Figures provided by Mr. Robert Ball, Assistant Director of the Bureau of Old Age and Survivors' Insurance, Federal Social Security Agency. The figures include plans of non-profit institutions as well as industrial plans. In 1951 about 800 or 900 plans were of non-profit institutions. These covered about 200,000 persons.

3 Rosenbloom, Hilda, "Selected Issues in State Temporary Disability Insurance: Analysis of Existing Acts and Study of Proposed Massachusetts Program, Chapter I, An unpublished thesis.

4 U. S. Department of Labor, "Digest of Selected Health, Insurance, Welfare, and Retirement plans under Collective Bargaining," Special Series No. 6, August 1951, p. i.

5 National Industrial Conference Board, "Studies in Personnel Policy," No. 112.

6 There were, of course, times when for a month or so there was an insignificant drop in hourly earnings.

7 Between January, 1946 and June, 1947, hourly earnings in non-agricultural private industry rose about 20.6%; the consumers' price index, 20.9%.

8 The second round of wage increases began in the fall of 1946, but the large pattern-making settlements were made in April and May 1947.

9 "Journal of Commerce," March 2 and 3, 1948.

10 Council of Economic Advisers, "The Economic Situation" at Midyear 1948, p. 33.

11 The index of industrial production was 161 and the volume of unemployment was 4,095,000; in July 1948, the index of industrial production was 186 and unemployment was 2,227,000.

12 Council of Economic Advisers, "The Annual Economic Review," January 1950, p. 35.

13 Council of Economic Advisers, Ibid., p. 36.

Business Prospects During Next Four Years

By GILBERT MacKAY*

Partner, Gilbert MacKay Associates, New York

Mr. MacKay expresses opinion Eisenhower election means: (1) less inflation; (2) more efficient government spending; (3) greater incentives for everyone; (4) better labor-management relations, and (5) a coordinated foreign program. Gives as basic fundamentals: (1) government is committed to Full Employment; (2) our semi-socialistic government is here to stay; (3) a creeping wage inflation will continue; (4) Russia's great power will still confront us, and (5) defense expenditures will continue high, ranging between $45 and $55 billion annually.

I thought that you would be interested in three questions that everyone is asking today. (1) What will the Eisenhower Administration try to accomplish during the next four years? (2) What is the general business outlook during 1953? (3) What is the longer term outlook—1954, 1955 and 1956? No one knows all these answers but I will give you our opinions for what they are worth.

Gilbert MacKay

I

What the Eisenhower Election Means

(1) **Less inflation.** The purchasing power of your dollar will remain constant—in other words, we will have economic stability rather than automatic inflation. Had the Democrats won, there probably would have been an average price inflation of at least 2 to 4% a year.

(2) **More efficient Government spending.** Total government expenditures would have averaged between $80 and $90 billion a year with the Democrats. Under the Republicans it will average about $10 billion less per year—in short, spending will remain near current levels of $75 to $80 billion rather than increase much further. This takes into consideration a more coordinated military expenditures program.

(3) **Greater incentives for everyone.** The Excess Profits Tax is practically sure to die next summer, but the normal rate will remain between 52% and 54%. Personal taxes will be overhauled, allowing more incentive, but they will not be reduced very much, if at all. Unfortunately, the government deficit will range between $5 and $12 billion annually during the next four years, under present tax schedules. Even though military spending were substantially cut, the deficits will remain about the same. The reason: As government spending declines, unemployment increases, thereby reducing payroll tax receipts and increasing social security payouts. Furthermore, corporation tax payments to the government would also decline. Unfortunately, our government's break-even point appears to be so high, we will get a deficit with or without the defense program.

(4) **Better labor-management relations.** The Eisenhower Administration will cater to the average working man—but not to the Union Leaders. No longer will the Walter Reuthers dictate to the White House. However, wage rates will still advance each year, although at a slower rate. It is interesting to note that the Labor Government in Great Britain allowed wages to rise only about 3% a year; yet, under the Churchill Government they have increased over 12% during the past year. We may have less labor strife under the Republicans but by no means are we going to have stable or lower wages.

(5) **Eisenhower will undoubtedly give us real leadership at home and abroad.** He will unify our people, instead of setting class against class. He will have a coordinated foreign program — not the mess of the past seven or more years. Fortunately, in times of crisis our democracy has always produced a great leader. We have that leader in Eisenhower.

(6) **One word of caution:** Every businessman must realize that the new Administration is not going to be like the "Coolidge-Hoover Golden Twenties." Business has, after 20 years, a real opportunity to show its own leadership, imagination and statesmanship. If it misses this chance, a real calamity will occur. The 1950's are much different from any other decade in our history.

II

The Basic Fundamentals

So much for the Eisenhower Administration. Now, let's look at the business picture. I recently returned from Europe and a few months before made another business trip around South America. There is no better way to analyze one's own country than by getting away from it. Hence, let's look at the basic fundamentals under which our economy is functioning and then attempt to forecast the trend of business in 1953 as well as the longer term outlook through 1956. There are five basic fundamentals.

(1) **Our Government is committed to Full Employment** — which in effect means full employment of physical resources. The Unemployment Act of 1946 states: "It is the responsibility of the Federal Government to use all practicable means to promote maximum employment, production and purchasing power."

This act has never been fully tested, but it is a powerful weapon against future depressions.

Unfortunately, economic history teaches us that any Administration has two choices: Unemployment or creeping Inflation. You can judge for yourself which path will be followed in the long run.

(2) **Our "Labor" or semi-socialistic type of government is here to stay.** In reality we have had a so-called pro-labor Administration for the past 20 years. In fact every country in the free world has a varying degree of "labor" government, regardless of political party labels. This will be true at home under the new Administration — although admittedly it will not be as one-sided as Truman. The 13 million youths that served in the last war, not to mention the 3½ million more serving at present, have become accustomed to paternalistic government. Most of these young people were provided with better food, clothing and medical aid than ever before.

The rise of the labor unions with over 17 million members has caused tremendous power to be vested in the union leaders' hands. The 15 million factory workers, the 6½ million Federal and State government employees and the 7 million farmers vote for policies designed to maintain full employment and paternalism. In short, during the past 20 years there has been a decline in the businessman's prestige and a corresponding rise in the influence of employees. The result: a continuing form of what is now called a Labor or Semi-Socialistic government. It is extremely doubtful that Eisenhower can reverse this although he may be able to arrest the trend for the next four years.

(3) **There will be creeping wage-inflation for many years ahead**—5 to 10 at least. So long as unions remain powerful there will be annual wage increases. We have just had our 7th annual "pattern" in the 7 postwar years. There will be many more to come, varying by different percentage rises. This will be true in good and bad business years. In the 1949 recession, hourly wage costs (take-home pay plus fringes) increased 4½% over 1948. This is in sharp contrast to all previous business set-backs, when wages were reduced.

(4) **For the first time in our nation's history** we are confronted by the existence of a world power equal to us in potential size and strength—and, more important, known to be antagonistic to the United States. Walter Lippmann ably describes Russia as "the largest empire in the whole history of mankind."

(5) **Our expenditures for defense and related activities will average between $45 and $55 billion yearly** for some years ahead —3 or 4 at least. Compare this with $1 billion a year prewar and $16 billion a year pre-Korea. The real effect can be visualized when it is realized that the additional annual weapons expenditures for 1953, 1954 and 1955 are equivalent in dollar volume to adding between 2 and 3 new automobile manufacturing industries to our business structure. Our defense expenditures will not reach the projected peak until the last half of 1953. Then, they will level out and should not decline until possibly 1955 or 1956. In the meantime Russia and her satellites are still outproducing us in weapons. As a result there is little likelihood that the defense program will be cut substantially for many years to come. If this is so, we should not have any depression for a long time. In the more distant future when defense spending may be moderately reduced, public works expenditures will act as an offset.

Now let us summarize what these basic fundamentals mean:

(1) **Up to 1932** the majority of the people voted for a sound currency; since then they have voted for full employment—or in other words creeping price inflation.

(2) **Since 1939** all businessmen have had to learn a rather complete new set of business rules and procedures. And still another new set of rules has to be added to our business lives since Korea when we started our defense program.

(3) **Annual wage increases** have become normal habit. And if any Administration fails to allow such rises, a more pro-labor government will probably come into power in due course.

(4) **Defense expenditures** guarantee that production will be maintained at a relatively high level. In any event they cushion us against a real depression.

III

The Outlook for 1953

Practically every forecaster expects business to decline after the first few months of 1953. The average forecast is this: The Federal Reserve Board production index will start out around current levels of 225 and end up the year around 200 for an average of about 212. There are four reasons for this expected decline:

(1) Military spending will decrease.

(2) New plant and equipment expenditures will fall about $5 billion—or 20%.

(3) New family formation will decline further, thereby causing a real decline in the demand for new houses.

(4) Consumer hard goods, such as autos and appliances will be "overly saturated."

Now let's look at the facts as we see them:

(1) **Military spending will go up, not down.** Currently it is at the rate of $53 billion. It should increase to a peak of at least $58 billion next fall—unless Korea came to a sudden end, in which event, we would have to re-survey the entire defense program.

(2) **New plant building** should remain near current levels throughout 1953. A recent survey of our companies shows no perceptible fall off—certainly not 20%.

(3) **Home construction** should remain between 900,000 and 1,000,000 units, or not much different than in 1952.

(4) **Automobile and truck production** should amount to at least 6½ million units compared to 5½ this year. Most appliances should show a similar pattern—particularly those that have new "gadgets" attached. (Examples: Refrigerators, vacuum cleaners, Room Air Conditioners, etc.)

Thus, for 1953 we expect:

(1) **The FRB index to average 225,** compared with 217 this year. Incidentally this would be the highest in our peacetime history.

(2) **Steel output:** 113 million tons, compared with 105 million in 1950 and 90 million in 1952.

(3) **Total Electric kwh sales** to be up 7%—from 338 to 365 billion.

(4) **The cost of living** to remain virtually unchanged. However, wages will be up 4%, so real purchasing power will be higher.

(5) **Heavy industry backlogs** are now the highest on record in peacetime. Of course, these are heavily weighted with defense contracts. We do not see any real slackening in the overall heavy industry picture next year.

(6) **Soft goods industries** have gone through a violent reaction in the last 15 months. Their bad inventory positions are now corrected. As a result, we expect the nondurable manufacturing industries to average higher in 1953 than in 1952.

IV

The Longer Term—1954-1955-1956

We have seen that 1953 should be a record boom year. In the three following years, through 1956 there are many clouds gathering on the horizon. These include declining rate of marriages and family formation, heavily saturated markets for most durable goods, rising instalment credit and uncertainties with respect to the level of government spending.

I would like to mention two offsetting factors. In 1929, of our total work force, 1 in 16 was hired by Federal, State and local governments. That left 15 out of 16 subject to private unemployment. Today, one out of six is hired by government, which leaves only five out of six subject to unemployment—quite a difference!

In addition, we have not committed the excesses in this boom period, as we did in the late '20s. The Stock Market inflation is absent. Overbuilding of factories and homes on a per capita basis never reached the old dizzy heights. Our debts, in spite of recent increases, are relatively low compared to the past. In short, we do not have much to liquidate this time.

On top of all this, the average businessman is seasoned to a depression, which he has continuously expected since 1948.

In conclusion, it is important to come back to my comments on the new leadership we will have under Eisenhower. If our country were to experience a major depression for a couple of years in the middle 1950s, it would be a catastrophe for the Western World. Our Allies would fall into Russia's trap and we would probably turn Socialistic ourselves. No one living knows this as well as President-elect Eisenhower.

*An address by Mr. MacKay before the Annual Meeting of the New Jersey Utilities Association, Absecon, N. J., November 21, 1952.

Economic Stability Through Federal Budget

By WESLEY LINDOW*
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After discussing fiscal policy and its role in offsetting the business cycle, Mr. Lindow contends great progress has been made in combating depressions and inflation "by automatic means through adjustments in fiscal policy," or "built-in stabilizers in the Budget." Describes these "built-in stabilizers" and relationship of taxation to business trend. Opposes ceiling on power to tax without like ceiling on power to spend, and points out "taxation itself may have inflationary repercussions." Foresees 1953 budget deficit at $10 billion.

Why do we connect the Federal budget with the subject of economic stability? The answer is, I think, that every Federal dollar of intake and of outflow has an economic impact. The budget is something like the mushroom in Alice in Wonderland. You may remember that the rabbit told Alice to eat some of a special mushroom: "One side makes you smaller, the other one taller."

Wesley Lindow

The budget mushroom works the same way: government spending adds to the economic stream and taxes subtract from that stream. The combined effect of all of the dollars coming into the Treasury and all of the dollars going out of the Treasury may be inflationary, or it may be deflationary, or it may be neutral. These economic ramifications of the Federal budget come under the heading of fiscal policy. The term is derived from the noun "fisc" which the dictionary describes as a money basket or a royal treasury.

It is obvious that fiscal policy involves many technical and controversial matters. For my discussion I will have time only for a few highlights and will have to leave many intriguing aspects untouched. I decided that you might be interested in a kind of progress report on fiscal policy. What is the current state of thinking about the possibilities for using the Federal budget to help counterbalance the business cycle? How far can fiscal policy be relied on, and what are its weaknesses? What is there to say about the burden of taxation in economic terms? How about the idea that the economic limit of taxation is about 25% of national income? I cannot hope to give you entirely satisfactory answers to such questions, but I shall try to give you a progress report, as I say, of current thinking on these problems. In addition, I decided that you would be interested in a very brief appraisal of the current budgetary situation and particularly a review of the important expirations of taxes which are now scheduled under existing law for 1953 and 1954.

Development of Fiscal Policy

The importance of fiscal policy, or at least the potential importance of fiscal policy, was not generally appreciated until fairly recently. One of our leading professors of finance, Robert Murray Haig of Columbia University, has stated that so far as he knew when World War I broke out there was no teacher, "even at the largest universities . . . who was able to devote . . . his entire attention to public finance." He reports also that there was only one person on the permanent staff of the Treasury who qualified as a tax expert—this man "was a veteran of the Civil War, housed in a cave-like basement room, who, with the aid of an abacus, was prepared, at the behest of the Congressional committees, to estimate with speed and precision the revenue effects of changes in the rates of the excises on liquor and tobacco."[1]

In the early '20s, the Treasury hired its first permanent economist to help answer questions on general economic matters. The Bureau of the Budget was organized in 1922 and had no economists on its staff for about 15 years.

With the advent of the depression, more and more attention was given to the possibilities of influencing business conditions by conscious action in Federal budgetary matters. People talked about fiscal policy in terms of running a Federal deficit in the depression and a Federal surplus in later boom periods in order to help counteract the business cycle. But there is obviously more to fiscal policy than this. In a broad sense, fiscal policy should be thought of as embracing the whole maze of tax and expenditure programs making up the Federal budget picture. If inflationary pressures are present, should taxes be increased to reduce the public debt? More specifically, should certain types of taxes be pushed up? Can expenditures be reduced and, if so, which ones should preferably be cut? Such questions emphasize the need for a selective approach in thinking about the economic effects of government transactions in contrast to the overall approach which is employed when we concentrate on dollar totals alone.

The economic effects of Federal dollars may vary tremendously between different categories of taxes and between different classes of expenditures. The effects of any one tax or expenditure program may also vary from one period to another.

Thus every dollar of taxation has an economic impact, but each kind of tax does not have the same impact. The effects of a sales tax on food, for example, are probably very different from those of a tax on estates left at death. The impact of a business tax in a boom is not likely to be the same as it would be in a depression. There are many unknowns about the impact of taxation, but one certainty is that all the dollars of tax revenue collected do not have the same economic impact.

The same thing is true of expenditures. A dollar of expenditure for interest on Treasury discount bills probably has a very different impact than a dollar of welfare assistance payments to the States for the needy aged. A dollar of Post Office deficit is quite different from a dollar spent on farm support programs.

The activities of government trust funds also come under the heading of fiscal policy. Tax levies going into social security trust funds, and benefit payments by these funds, have enormous economic importance. It makes no economic difference that the trust funds are outside of the administrative budget accounts. The so-called cash consolidated budget brings together the trust funds and the budget accounts and this concept is of particular value for economic analysis.

Fiscal policy must also consider the activities of government lending and insuring agencies. When the Federal Housing Administration and the Veterans Administration insure or guarantee private mortgage loans, the economic effects may be similar to direct government outlays for loans or aid programs of various kinds.

As it stands now, fiscal policy is concerned with the economic effects of practically all government spending, lending and insuring programs on the one hand, and all revenue programs on the other hand.

Role of Fiscal Policy

As in many fields, there are differing views on the use of fiscal policy. One economist, Abba P. Lerner, regards fiscal policy as a cure for the business cycle. He argues that if the economy is sick from a *shortage* of demand in relation to supply, budget deficits should be incurred freely by the government until supply and demand in the national marketplace are equalized. He argues similarly that if the economy is suffering from an inflationary *excess* of demand in relation to supply, budget surpluses should be provided until supply and demand are brought into balance once again. In his system, which he calls "functional finance," the public debt would be allowed to move in either direction indefinitely as a counterbalance to the business cycle.

The free-wheeling public debt advocated by Lerner has been criticized by many economists. The most extreme critics almost go so far as to deny the whole concept of fiscal policy. They would have the government adopt tax programs and expenditure programs with little or no emphasis on the effect they are likely to have on economic conditions.

Most economists are inclined to take a position somewhere between Lerner and the opposite extreme. A great many positions are possible between the two extremes and economists may be spotted at various points along the way. Somewhere in the middle is a sensible compromise—this is that fiscal policy is enormously important but that it does not provide a perfect tool by itself to accomplish economic stability.

It is relatively easy to set down the objectives of fiscal policy in a broad, generalized way. Fiscal policy should complement monetary policy. Both together should help to reduce demand in the national marketplace in boom periods and should help to expand demand in depressed periods. Monetary policy works to these ends by influencing the volume of credit. Fiscal policy works to these ends by the size and nature of tax levies and the size and nature of expenditures. In addition, the debt management policy of the Treasury may help to achieve the joint objectives by decisions made on interest rates and the choice of securities offered.

The Secretary of the Treasury commented on these related matters recently in reporting to the Patman Subcommittee as follows:

". . . With respect to our domestic policies . . . (our) objective requires revenue and expenditure programs which operate within the framework of a Federal budget policy appropriate to economic conditions. . . . It requires a debt management policy which acts to counter any pronounced inflationary or deflationary pressures; . . . It requires the use of debt policy cooperatively with monetary-credit policy to contribute toward healthy economic growth and reasonable stability in the value of the dollar. It requires the conduct of day-to-day financial operations of the Treasury so as to avoid disruptive effects in the money markets and to complement other economic programs. . .

". . . the Treasury repeatedly urged that sufficient taxes be levied to cover government expenditures during the present period. The Treasury also urged the importance of having the right kinds of taxes consistent with a strong free enterprise system. To seek revenue by taxation is not enough. The burden of the taxes must be equitably distributed; and furthermore it must be adjusted in such a way as to preserve the incentives of our free enterprise system.

". . Through action of Congress and by Executive decisions, the budget is subject to constant change; and it is of the utmost importance that it be kept appropriate to changing economic circumstances . . .

"A major budget objective, in my opinion, is to plan our receipts and expenditures so that there is a budget surplus in inflationary periods. This offers a counter-inflationary drag and helps to keep the debt down."[2]

Unfortunately, it is much more difficult to work towards sound objectives in practice than it is to set up broad abstract principles. In real life we don't know all the answers. For instance, there are a great many unknowns about the impact of taxation. Also, we don't live in a vacuum, and human beings rather than robots are affected by our decisions. In inflationary periods people must be taxed more or receive less from government spending, and this is not going to be popular politically.

In depressed periods there are no such difficulties. Reducing taxes and enlarging government expenditures probably represent, as the song says, "doing what comes naturally."

At an international conference a few years ago, I was struck by the general feeling that fiscal policy had turned out to be a one-way street in many countries. New spending programs developed in depression were generally hard to turn off in a boom. There is a kind of escalator apparently at work which lets programs go up and not down.

Another difficulty is that the budget process is more cumbersome than theory assumes. Congressional machinery moves slowly, and Congress has generally not found it desirable to give the Executive Branch much flexibility to alter spending and tax programs as economic conditions change.

The tax structure is particularly difficult to change as the business cycle unfolds. Ideally, in a boom taxes should be devised to discourage spending; and in a depression to stimulate it. But the tax structure cannot easily be turned inside out as economic conditions change, and taxpayers should not have to face wholesale alterations of the tax structure very often. The fact remains, nevertheless, that taxes should certainly not aggravate the business cycle by being inflexible.

In spite of difficulties like these in taxes and expenditures, fiscal policy must be used. It is inevitable, since the economic effects of the budget are there whether planned or not. The sensible thing is to improve our understanding of the effects of the various government transactions, think things through always to get wanted rather than unwanted effects, and develop better budget machinery.

But fiscal policy should not be pushed as a substitute for monetary policy, which is a much better tool for short-run quick turn-around operations. Together fiscal policy and monetary policy can do much to provide economic stability. The better they work, the less demand there will be for government interference with the market place through the use of direct controls.

Automatic Stabilizers in the Budget

To what extent can the adjustments in fiscal policy that are needed to combat depressions and inflation be introduced by automatic means, or by what may be called "built-in stabilizers" in the Budget? The answer is that a great deal of progress has been made in this direction.

Automatic stabilizers are built into our tax structure in several ways. As personal incomes rise in a boom, for example, they become subject to higher progressive rates of tax which should have a deterring effect on consumer spending. As incomes fall in a depression, the income tax liability incurred falls even faster. The result is that the drop in income is cushioned by the even greater relative drop in the tax. This might not make a man much happier whose income is falling, but for the economy as a whole the more rapid drop in income tax ought to provide some cushioning effect to the general drop in income. Such effects are felt more rapidly now that the personal income tax is on a current basis, with taxes being withheld and with quarterly payments to meet "estimated" taxes.

The corporate tax also provides some stabilizing effects. Under our system of carrying business losses back or forward when computing taxes, the Treasury cash register can, in effect, be reopened as conditions change. Thus when a loss occurs a taxpayer may draw on some of the higher income taxes paid in the preceding year, thereby alleviating his loss in the current period. For example, the United States Steel Corporation reported a pre-tax loss of about $20 million in the second quarter of 1952, when its plants were closed for several weeks because of the steel strike. This loss was converted into a net income of approximately $22 million, however, by establishing a cash tax credit of $43 million from earlier tax payments when substantial income was earned.

Automatic stabilizers are also provided in several expenditure programs. The Federal program for supporting farm prices is an example. If the market for agricultural products declines, the amount of money spent by the government on price support operations will increase. Some people will say that the price supports are too high or too rigid under present law, but the principle is surely that of automatic stabilization in any event.

Also, the Unemployment Trust Fund collects taxes in excess of benefits in boom periods but automatically turns about to pay out benefits in excess of taxes in depressed periods.[3] The Old-age

Continued on page 24

*An address by Mr. Lindow before the Assembly of the Federal Reserve Bank of Minneapolis, Minneapolis, Minn., Nov. 25, 1952.

1 Robert Murray Haig, "The Background of Our War Finance," Political Science Quarterly, September 1943, pp. 326-331.

2 82nd Congress, 2nd Session, Joint Committee on the Economic Report, "Monetary Policy and the Management of the Public Debt." Replies to questions and other material for the use of the Subcommittee on General Credit Control and Debt Management ("Patman Subcommittee"), 1952, pp. 10-11.

3 Under our State system of unemployment insurance, the Treasury merely acts as a bank for the States, receiving deposits of State funds in the Unemployment Trust Fund, investing them in Federal securities, crediting earnings to the various State accounts within the Fund, and paying out funds to the States from time to time as they need to make unemployment benefit payments.

Pension Funds

By ROGER F. MURRAY*
Vice-President, Bankers Trust Company

Mr. Murray explains basic characteristics of pension funds and their individual fields of investment. Points out differences of pension fund investment provisions from those of life insurance companies, and indicates pension fund investment is more flexible and permits greater diversity. Reviews types of investments now being made by corporate pension funds, and points out a relatively higher proportion of fund investments go into equities, one of the encouraging and constructive developments in the capital markets in recent years.

Our topic this afternoon is "Pension Funds." Just to give the field a once-over, there are three main areas outside of the Federally operated retirement systems, such as those of the Social Security system, Railroad Retirement, Civil Service, and so on.

Roger F. Murray

These are, first, the insured pension plans, largely operated for corporations. They amount to about $7 billion of assets, and they are growing at a rate of about $1 billion a year. This money, of course, goes into the life insurance companies, is pooled with the investment of their reserves for other types of contracts, and has no separate identity.

The second group of pension funds that can be identified is composed of State and local pension funds which amount to about another $7 billion and which are growing at the rate of about $800 million a year. The bulk of that money, as you know, goes into Government securities of one type or another, although in recent years a number of these funds have changed their provisions, they have been nibbling at the corporate bond market, and in a few cases they have even cast an eye on equity securities.

The third group, the one on which I am going to concentrate this afternoon, is corporate trusteed pension plans. This is a field in which we have no precise or very accurate statistics, but the best estimate that we have been able to make is that these corporate pension funds now aggregate close to $10 billion, and in the current year they are growing at the rate of about $1 billion.

Basic Characteristics

To get at the investment aspects or the effect of these funds on the capital markets, I think we should consider briefly some of the basic characteristics of pension funds. The question I would like to ask you is: whose funds are these? Who owns a pension fund?

I think the answer you usually get from most people is that they belong to the employees of the company. They do in the sense that no part of that pension fund can revert to the company without a complete loss of its tax status, which permits the company to deduct its contributions for Federal income tax purposes.

On the other hand, if a corporate pension fund earns a better rate of return, or has a better experience, who benefits from that? Not the employee. He gets his benefits in accordance with the terms of the plan, and a better investment experience means that the cost of the plan, the cost of the retirement income program to the corporation, is reduced.

In this sense, therefore, you might argue that the corporation is the beneficial owner of these pension funds. I think the real answer is that they aren't anybody's, in the ordinary sense that we identify property held in trust as being for the benefit of a certain group or certain individuals. What they really represent is a pledge of collateral for the fulfillment of a corporation's commitment to its employees.

So if you think of a pension fund as an escrow account, a group of investments which a corporation has set aside to secure its promise to meet retirement income commitments to its employees in the future, then I think you will have a proper appreciation of the real function of a pension fund.

This suggests that a good pension fund has certain desirable characteristics. It ought to produce a regular income, a fairly steady rate of return, because this is a fund set aside currently by regular increments to meet pensions far into the future. The typical pension fund on the most conservative basis can be expected to grow for 20 or 30 years before it finally begins to level out.

So this is a savings account. The compound interest factor is important, and a regularly productive investment portfolio is desirable for that reason. By the same token, of course, the rate of return should be as good as can be obtained on a reasonably conservative basis.

The other important investment characteristic is that this is really a long-term investment portfolio. We speak of many people as though they were long-term investors. That is, we say a life insurance company is a long-term investor. And yet a life insurance company has problems of liquidity. It has problems of presenting a balance sheet statement to the examining authority, and to the policyholders from time to time. That means that at stated intervals it has to have a reckoning of the accounts, and say, "Where do we stand on gains, losses, income, and reserves?"

The pension fund does not have a liquidity problem, and does not have a statement problem. It is not concerned with problems of how to value bonds, mortgages or corporate securities. It is a very interesting vehicle, therefore. It represents a situation in which you can really adopt and carry out truly long-term investment policies, and accomplish long-term investment objectives without interferences by taxation, by liquidity problems, or by the necessity of publishing a balance sheet statement.

There is one additional factor which is of a non-investment character, and that is that a pension fund ought to look good in times of adversity. Experience has shown that the average employee knows nothing and cares less about the compostion of the pension trust under ordinary circumstances. However, in time of stress, when he sees layoffs around him, when perhaps he has to use up some of his own savings, his pension fund suddenly becomes very important. It also becomes very important to the employee as he comes closer to the retirement age.

If the pension fund is going to accomplish its objective of contributing to good morale and good employee relations, making the company an attractive place in which to work—if it is going to accomplish those objectives, then the pension fund should look strong, not just barely solvent, in times of adversity. It should give the employee who is going through a thin time or the employee who is about to retire that feeling that while everything else may look bad, his pension still looks good. He doesn't have to worry about what may appear to be the shaky credit of his company if he can look to this well-maintained and strongly invested collateral for performance of the pension plan in his case.

That means that a company may well choose a more conservative investment policy than it really believes in. It may accept a lower rate of return, and incur a higher cost of providing the pensions for this single purpose of being able to show a strong, stable fund in bad times. And the more cyclical the company's own business may be, the more reason there may be for having the pension fund conservatively invested.

Differences from Life Insurance Investing

Now, the investment operation differs from life insurance investing in a number of respects. Actually, of course, the objectives are quite similar. You are trying to earn a good rate of return over an extended period of time to meet what will amount to annuity commitments running far into the future.

One difference, of course, is that there is no specific legislation applying to the investment operations of pension trusts. Each agreement can be written to suit the preferences and feelings of the company.

A typical provision runs about like this. As far as bond investments are concerned, the trustee may invest in life isurance legals. As far as stocks are concerned, the trustee may invest in legal investments for fiduciaries in New York State, which means, in other words, 35% of the fund may be invested in common stocks.

But that is really for window dressing purposes. Some people feel that their employees get more confidence in the fund if it reads "legal for life insurance companies, and legal for fiduciaries in New York State." It has a very conservative sound to it, whereas what they really mean to say, and the way it operates in practice, is that the trustee has in general rather complete discretion in the investing of funds.

The other characteristic that you must keep constantly in mind in our talk about pension funds is that they are separate funds. They are not a pool operation. Most of you around Wall Street are familiar with the large volume that Bankers Trust Company, for example, does in this pension field. The outsider always tends to think of it as one big pool. Actually, it is composed of many individual pension trusts, each one of which may differ in major or minor degrees from the others and each one of which may have separate investment characteristics.

Another important difference from the life insurance operation is that these funds are invested without the use of any kind of a reserve operation to equalize capital gains and losses from one year to another. Now, that may sound simply like an accounting problem, but actually it is a significant item in relation to the investment activities of these funds.

If you have to take out of your current year's earnings all of your losses in a bad year—that is, if you have no convenient reserve against which to charge them — you will show in that bad year a very poor earnings, performance, which conceivably can require the company to make an extra contribution to the fund in that year. In all probability that is the one year in which the company would rather make a small contribution instead of a large one.

The converse, of course, is, in good years, if you realize capital gains, then you show a high earnings rate on the fund, and the company contribution on that basis perhaps should be reduced. Yet it may be the very year in which the company is happy to make a large contribution, because its business is good also.

This is a problem that we have worked on with the Treasury, but with very little success. We feel that a pension fund, like any other kind of investment fund of a life insurance company or savings bank or commercial bank, should have an opportunity to accumulate the equivalent of a loan-loss reserve, a security valuation reserve, a loss equalization reserve, or something of that kind which would level out the fluctuations in the capital gains and losses.

Another thing that affects the general investment characteristics of these funds is the fact that they are very flexible. There are many plans that have very large past service liabilities to their existing group of employees which have never been funded. At any time the company may come in and fund a portion of that past service liability. That means that the flow of funds into the pension trust tends to be somewhat irregular.

Another factor always in the picture is that these pension plans are being revised again and again, in the light of changing conditions, and this may well affect the size and flow of funds into them.

Types of Investments Being Made

So much for these general characteristics and general factors. Let us get down to their effect on the type of investments which pension funds are making.

The first point I would make is that there is relatively little interest in real estate mortgages. The appeal of the real estate mortgage to many long-term investors is that there is no valuation problem with it. You take it on your books at par, and until you finally collect it or liquidate it at a loss, you always carry it at book value. You will remember from what I said previously that valuation is not a problem in pension funds. Therefore, this is one advantage of mortgage investments which is of no significance to pension trusts.

Another feature of the modern mortgage which appeals to savings institutions is the regular amortization and steady repayment of principal. Now as I said before, most of these funds are growing at a very rapid rate. A return flow of funds is not particularly attractive, and in fact, in some instances and circumstances almost borders on being undesirable. To illustrate the point, many times we have sat around talking about a particular bond investment for pension funds, and we have said to ourselves, "Now, this is a very fine security. This is one that from the standpoint of quality and yield we would like to have in our pension trusts."

Then we say, "Wait a minute. This really is a good security. This company may not need the money for more than another two or three years. There is a very definite risk that they are going to pay us back." There aren't too many lenders who ever worry about being paid back too soon. Yet in this business, bearing in mind that you are working on a long range earnings basis and that you want to get regularity and stability in that earning power, the kind of an investment that pays you back possibly in a period of somewhat easier money or a period of reduced opportunities to invest your funds to advantage is not a very attractive investment.

So, in some cases, we have not invested in what would otherwise be entirely satisfactory bonds, because the repayment was too rapid. At the same time, we found that the life insurance companies, savings banks, and commercial banks interested in that liquidity feature have liked these securities a great deal.

Just to finish up on this mortgage question, as to why the interest has been relatively modest: the rates of return on FHA and VA insured and guaranteed mortgagees have not been attractive in competition with good quality industrial bonds in the current market. That, in addition to the lack of appeal in the other features of a mortgage investment, accounts for the extremely small amount of mortgage investments by pension funds.

Another characteristic of pen-

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*Stenographic report of an address by Mr. Murray in the lecture course, "The Economics of the Securities Industry," sponsored by the Investment Association of New York, New York City, Nov. 19, 1952.

Some New Qualifications For Leadership

By ROBERT S. BYFIELD*
Member New York Stock Exchange
United Nations Representative, New York Stock Exchange

Mr. Byfield maintains U. S. businessmen must share responsibility in their country's world leadership, and among qualifications for world leadership, must display far greater aggressiveness. Asserts great need for education about American free enterprise. Declaring word-manipulation is a primary characteristic of modern revolutions, offers a detailed "lexicon" of international communism.

It is a pleasure for anyone like myself with a Wall Street address to talk to an engineering group at this time because we have more in common at this stage of the world's history than you might suspect. You will recall, if you are familiar with Andrew D. White's little volume "Fiat Money in France," that some queer things happened during the French Revolution. They created many scapegoats and sometimes, when the quotations for gold bullion or the prices of food rose in terms of the inconvertible paper money which was flooding the market, the familiar cry went up, "Let's Hang a Broker."

Robert S. Byfield

Of course, the Soviet tyranny behind the Iron Curtain cannot imitate this practice because there aren't any brokers left and so in many instances it is now the engineers who are the scapegoats. One recent case comes to mind where there was patently a failure of Soviet methods and machines in the construction of the Black Sea-Danube Canal in Roumania. There was a big trial in the Bucharest Military Court and of the 10 engineers who were accused, five were given death sentences and the other five life imprisonment. The real reasons for the great delay in constructing this canal were probably not mentioned, but the engineers took the rap, for the prosecutors claimed that they substituted defective spare parts for good parts, had destroyed equipment and had allowed machines to rust in the open. The pattern followed was that of the now all too familiar demonstration trials.

You have asked me to talk to you about leadership, and my first suggestion is the need for ideological awareness in mid-20th Century times. In this connection I am wondering whether historians will not actually refer to the time in which we are now living as the Ideological Century. If we are to be aware, then our first task is to find out what kind of an age it is in which we find ourselves. Undoubtedly one of the chief characteristics is that we have witnessed within our lifetime the fall of four great empires—the Austrian, the German, the Japanese and the Italian. Three more — the British, the French and the Dutch, have seen their strength enfeebled. A second characteristic, which all of you will recognize, is the rise of Soviet power which, unfortunately was aided and welcomed by some people not so many miles from here who simply did not know the score. Coupled with this has been the pushing of the United States into the leadership of the West. Our new role as the champion of the West has been thrust upon us for we did not seek it and we wear the mantle of our leadership all too reluctantly.

If, then, we are the champion of the West, we, as businessmen, must contribute to and share in that leadership whether we wish to or not, because the government can't do it all and would not if it could. We must recognize this and first of all, if we are to participate in world leadership, we must ask ourselves, what kind of people are we? Since we believe in free enterprise, what kind of capitalists are we? Are we like the other capitalistic nations, particularly those of Western Europe? I ask these questions because a capitalist means many things to many people in different parts of the world, such as for example in India. There a capitalist is someone sitting on a cellar full of gold and silver and jewelry and whose capital neither employs men nor buys machines to improve their productive capacity. In this age of political and economic ferment, our first task as leaders is to realize we are the children and the legatees of two revolutions, not one. First there was the Freedom Revolution beginning in 1776 during which we created a new type of government within a legal and political framework under which the energies of our citizens were freed to the fullest extent for improvement of themselves and their fellow men. Only twice before in the history of the world had there been governments or social systems under which there was a possibility for man to live in enlightened self interest.

Second, we are more than any other people also the children and the legatees of the Industrial Revolution. Our civilization did not spring from feudalism as did that of our antecedents in Western Europe, where the industrial revolution was directly superimposed upon the feudal system while ours was based on free agriculture. We, indeed, are the greatest revolutionaries of all time and not the Soviets, for the men in the Kremlin are merely perpetrating one of the oldest of the ancient despotisms with pseudo scientific overtones, while we have something new, fresh and clean to offer the nations of the West.

If we are properly to exercise our stewardship, we must know these things and we must submit proof at all times that Marxism-Leninism is so much rubbish. We must be able to explain to those whom we are to lead, to the community of which we are a part, and if necessary to the nation as a whole what it is that has given us the most prolific material civilization of all time. Of course, there are some textbooks and a few short primers which could be read to good advantage, but I preferred to reduce my views to the following four simple formulas:

(1) $AC = CDEF + RNM$:

This is an equasion for American capitalism. It attempts to show that our capitalism is something quite different from most other capitalisms in the world, particularly those found in Western Europe. The C D E F means "competitive decentralized economic flexibility," added to which is R N M, which means something that is typically American, namely, "the regulation of natural monopolies." This really important feature of our economic setup began in 1887, when the Interstate Commerce Commission was created for the regulation of railroad rates, and this concept has been followed up by our self-imposed regulation of other natural monopolies such as companies supplying electricity, gas and water. As you know, this has been accomplished through the various state public service commissions and other similar regulatory agencies. A thoroughly American concept for the servicing of consumers and the limitation of profits to what is sometimes considered a fair return, it does not have its counterpart in Europe. It is one of the many features of our economy which the Soviet propagandists do not seem to understand.

(2) $L + SF = S - I - P$:

The second formula means that a legal and social framework with proper safeguards and protective features is necessary for the sequence S — I — P to function in a healthy manner. This might indeed be called the "golden sequence" because it illustrates that you must first have S for Savings to create, I for Investment in industry before you can have P which is Production. A good many underdeveloped countries abroad would like to have Production, but they either do not understand the sequence necessary to obtain it or perhaps they want us to supply the savings and investment, which, of course, means either taxes from our citizens or some abstinence from immediate consumption.

(3) $P = MMW$:

The third formula is designed merely to illustrate that M M W, by which I mean man's material welfare, depends upon production.

(4) $MMW = RM + HExT$:

The fourth formula, for which I am indebted to the American Economic Foundation, indicates that man's material welfare is dependent upon raw materials plus human energy multiplied by tools. This is a very important concept and I cannot emphasize it too strongly. For example, there are other countries besides ourselves that have an ample supply of raw materials to support a rich material civilization. In fact, there are several countries that are more blessed by a variety of important raw materials than is the United States. The mere existence of raw materials does not guarantee a high standard of living. There is the indispensable ingredient of human energy. But human energy without machine power would by no means have enabled us with only 6% of the world's population to produce almost 50% of the world's goods. Human energy accounts for not more than 5% of our production, the other 95% depending upon machine power including, as you as engineers are well aware, an ample supply of electric power in the shape of KWHs and plenty of fuel as expressed in BTUs. The concept of this fourth formula could easily be expanded from the above simple form which I have mentioned. It is demonstrable that real wages rise in proportion to the capital investment per worker. Perhaps one of the acid tests by which we as citizens and voters can determine the value or validity of pending legislation and social programs is to ask the following question: "Does it contribute to an improvement of the quality or quantity of tools for the production of goods and services?" Following up this line of thought it is easy to see that many proposals for increasing the so-called social overhead of our productive machine would not answer this question affirmatively. Many of such schemes merely take money out of one pocket and transfer it into another while creating nothing at all in the way of new or improved technology or lower cost production.

In my opinion the more Americans who understand how our economic system operates, the greater the immunity they will enjoy from the lure and the attractiveness of competing social systems. Communism, Socialism, Fascism and other social diseases are most easily rejected by an informed electorate. Unfortunately, businessmen have learned that they cannot lean too heavily either upon our government or our colleges and universities to provide the necessary basic instruction on the important subject of how we really earn our living or why our standard of living is the highest in the history of the world. I have looked almost in vain during the present election campaign to find any of the leading candidates willing to stress the importance of incentives, technology, skill in management and sufficiency of capital as factors in promoting the wellbeing of the workers.

Well, besides the need for ideological awareness, perhaps another ingredient of leadership would be the need for grasping the nature of this revolution. We cannot hope to be leaders unless we understand what this revolution is and how it is being effectuated. Back in 1896 a French philosopher named Gustave Le Bon wrote a small but significant volume entitled "The Crowd," which by 1947 had gone through 19 editions. Le Bon's work is quoted widely by philosophers, semanticists and students of ideology, and one of his greatest contributions is the explanation of the fact that most revolutions have been created by changing the meaning of words. He states that when crowds have acquired antipathy for images evoked by certain words and formulas, those politicians aspiring to leadership must use new labels and new words while allowing the things or institutions to continue as before. For these would-be political leaders to influence the crowd to follow them, the new words or formulas or slogans must obviously be ones with which the crowd is either unacquainted or, if acquainted with them, finds favor. In other words, a disagreeable image is replaced by an agreeable image through the use of a new word or slogan.

During the French Revolution the Jacobins, using the words "liberty" and "fraternity" which evoked very popular images at that time, were nevertheless able to inflict upon France a despotism akin to that of the Inquisition. Le Bon also referred to the "taille" which changed its name to the Land Tax, also the "gabelle" which became a tax on salt, and finally what we probably would call a corporation tax became the "license." I happened to pick up an Associated Press dispatch from Washington dated Aug. 30, 1951 which referred to a statement of Congressman Hale Boggs of Delaware in which he criticized the OPS for operating what he called a gigantic propaganda mill to confuse and confound the American people. Rep. Boggs quoted an OPS instruction called "Copy Problem No. 7," which said: "Certain phrases and expressions which in themselves are not objectionable, may be overused or come to have objectionable connotations among persons critical of OPS. . . . Excessive reference to controls has been criticized . . . use instead the words stabilization, price program, controls on prices, efforts to hold prices down and efforts to hold the line. . . . Avoid reference to defense spending. Use instead defense production, production of military equipment and supplies, with emphasis on production rather than on spending." Apparently our modern political leaders and their subordinates in the lower echelons of government have consciously or unconsciously taken Le Bon to heart.

That Socialist Label

But the most important label that has been changed is the word Socialism. It is no longer fashionable or desirable to use the word "socialism" to describe anything or any institution in our national economy. The crowd simply does not like the word "socialism" because this invokes a disagreeable image. The leaders of the revolution have been smart enough to apply the new label of "liberalism" to describe the old things and the old institutions because liberalism is a nice word and evokes a pleasant image. Yet they deny that the things and institutions liked or defended by the liberals are socialistic, and they have succeeded very well in making "the crowd" believe them regardless of the incontrovertible facts.

The Soviet world-wide propaganda machine has not only changed the meaning of a few words, but has developed an entirely new lexicon for the purpose of confusing, obstructing and inhibiting straight thinking. From listening to debates in the U. N. General Assembly, which it was my privilege to attend in Paris last year, and from reading a wealth of additional Communist literature, it has been possible to construct an entire lexicon comprising the hate language used by international communism. Herewith are the definitions of a few words used by the Communists:

The People: The Communists, their sympathizers or collaborators in any satellite nation or prospective satellite nation.

Enemies of the People: The anti-Communists, their sypathizers or collaborators in any satellite nation or prospective satellite nation.

Traitor: A particularly active individual among the anti-Communists.

Reactionary: Outside of the Iron Curtain, anyone who isn't a Communist.

People's Democracy: A totalitarian government, taking orders from Moscow.

Fascist State: A totalitarian government not taking orders from Moscow.

Fascist: Anyone who believes in capitalism.

Anti-Fascist: A Communist.

Progressive: A Communist sympathizer; a fellow traveler.

Marxism - Leninism: Communism.

Liberation: Conquest of a free country by the Red Army.

World National Liberation Movement: The power grab of international communism for world domination.

Aggressor: Anyone or any nation opposing Soviet imperialism.

Peace: A condition of helplessness and indefensibility before the military might of the Soviet Union.

Peace-Loving: Any nation, people or individual willing to cooperate with Moscow.

Cooperation: "You let us do what we want and then help us do it."

War: Not necessarily the physical clash of men on a conventional battlefield, but propaganda, intrigue, assassination, blackmail, economic pressure, infiltration,

*Address by Mr. Byfield before the Management Division of The American Society of Mechanical Engineers, Skytop, Penna., Oct. 29, 1952.

subversion, agitation, kidnapping and shakedowns.

Warmonger: Anyone who is willing to defend himself or his country, if need be by force of arms, from Soviet enslavement.

Profiteer: Anyone who makes a profit.

Monopoly: Any corporate enterprise.

Monopolist: A businessman.

Millionaire: An important businessman.

Billionaire: A very important businessman.

Wall Street: Not a street, nor a financial mechanism, but the symbol of capitalism, free enterprise and private property.

Colonialism: The act of a country or a corporation in investing capital abroad to develop raw material sources.

Imperialism: The act of investing money abroad for any purpose whatsoever.

Ruling Circles: Anyone with a job in Washington who has ever worked for a bank, a stock exchange firm, an investment house or corporation whose shares are listed on any exchange. National City, Morgan or Dillon Read affiliations count double.

Slanderer: Anyone who tells the truth about the Soviet Union.

Besides these terms there are others with subtleties of their own. One of them is "freedom of speech," and when a Communist uses this phrase he merely means "Freedom to print the propaganda line of the moment."

Mere perusal of these verbal booby-traps is sufficient to realize that the front on which we are facing the Communist bid for world domination is not merely at the 38th Parallel in Korea, nor the Brandenburg Gate in Central Berlin, or even the Ringstrasse in Vienna. The front is everywhere. It is in the mind of everyone of us, including yours and mine. For if the Communist propaganda machine can succeed in preventing us from thinking precisely, if it can force us to act on false assumptions and thereby imperil judgment, it will have won without firing a single gun. This is why those who claim that control of the spread of Communism is something that should be delegated to the FBI, are simply not coming to grips with it. They have missed the point. They still cling to outmoded concepts that the only way to fight Communism is by taking steps to avert espionage and sabotage. They do not realize that Communism, among other things, is far less a hunger of the belly than it is a sickness of the mind. As many ex-Communists and other students of ideology have pointed out, Communism in the United States is largely an upper middle class movement. Collectivism has appealed much more to the Park Avenue pinks and Hollywood punks than to others much lower down on the socio-economic scale. Why is it that the workmen in the western sections of Berlin, in the allied sector of Vienna or the Turks near the Soviet border hate Communism worse than a lot of intellectuals in the United States with a high standard of living? The answer is easy. They understand the true nature of Communism and have seen its results. One of the U. N. delegates from a foreign country said recently that if anyone asked his people whether they would prefer to have four sandwiches or the four freedoms, they would undoubtedly choose the four sandwiches. Though dramatic, I think this is an over-simplification. It is something one cannot argue about. All I can say is that Washington was faced with a similiar proposition at Valley Forge with his half-starved, ragged army, and he chose the four freedoms or their equivalent. He was able to keep on because he had a goal, an ideal, and divine Providence to guide him. Without these motivating forces there would have been no United States of America.

There are many more examples of twisted definitions and distorted meanings. We constantly come back to the question we must ask ourselves over and over again; namely: Is our thinking precise? Are we acting on false assumptions? Are old concepts being given new labels and, conversely, are new concepts using old labels? What, for example, is a political party? Is the Communist Party, USA, a political party as we have understood this term over the period of the last hundred years or so? Or is it instead an international conspiracy masquerading as something else? Does it, as such, deserve the legal protection of the U. S. Constitution which it is endeavoring to destroy? Again, and now I know I am on controversial ground, what is a labor union? We knew pretty generally what a labor union was 25 years ago, but with three of the principal unions endorsing one of the two Presidential candidates, will an examination of their methods and pressure group tactics justify the old label of "labor union" or are they really political parties?

The third component of leadership, as I see it, is the need for education and integration. Here the businessman must definitely take the initiative. Perhaps in a

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Two Years of Fighting Inflation

By OLIVER S. POWELL*

President, Federal Reserve Bank of Minneapolis

After reviewing causes of recent inflationary movement, former Governor of Federal Reserve Board discusses events that halted price rise. Lists government anti-inflationary measures, but holds since March, 1951, public has taken over control through: (1) increased plant and production capacity; (2) a leveling-off of inventory accumulations, and (3) a turn of consumers to saving. Sees rebirth of public confidence in Federal Reserve.

Oliver S. Powell

As we move farther and farther away from the exciting days of the fall and winter of 1950-51, the contrast between conditions at that time and conditions today becomes sharper. It is hard to realize that only two years ago prices were skyrocketing and we were all wondering where they would stop. These days there is no talk of higher prices, but rather an occasional conjecture about the business recession which some people are sure is just around the corner, and the danger of lower prices. It occurred to me in choosing a topic for tonight's talk that I could best serve this audience by a review of the monetary moves of the past two years, drawing from those events some lessons for the future.

Before analyzing the cure of the 1950 inflation, we should first examine the elements that contributed to the flare-up in prices. We are apt to forget the strong recovery that occurred in the spring of 1950 from the recession of 1949. Consumers had started buying again, using their credit resources to add to current income. Inventories at stores and factories were rising. By mid-year industrial production was at a high point and there was little unemployment. Thus the economy was not ready for a sudden growth in retail demand.

You will recall the panicky buying that followed the Korean invasion. We rushed to the stores and bought abnormal quantities of merchandise—everything from sheets and coffee to television sets and autos. There was also an unprecedented increase in residential building. This buying rush caused retailers and manufacturers to step up their inventory purchases and production rates, and there was a sharp increase in employment. The inevitable result of all this was a sharp rise in prices, and another round of wage increases. These forces had spent their power, or were checked, in March, 1951, and in the year and a half since that time there has been no significant advance in prices. In fact, wholesale prices have declined 3%.

It is important to analyze the sources of buying power which made possible this abnormal buying movement which was superimposed on a high level of peacetime trade. There were three principal sources of buying power:

First, current income: the sum total of wages, rents, and income from invested capital which will normally just about buy the full producton of goods and services at stable price levels.

Second, the use of savings by drawing down savings accounts, cashing savings bonds, and spending funds which had remained idle in checking accounts awaiting a suitable time for use.

Third, borrowing against future income: consumers' borrowing to buy automobiles, household appliances, and houses; business firms' borrowings to increase inventories or to pay higher prices for inventories or to extend credit to consumers, or to expand plants.

The combination of these three sources of buying power, when used to purchase a quantity of goods and services that could not expand with equal rapidity, caused a sharp price rise.

Events Halting Price Rise

Now having analyzed the sources of funds which contributed to the price rise, let us enumerate the events that bought the price rise to a halt. Some of these developments were governmental, but the most powerful ones were entirely outside of government. An important governmental move was the increase in taxation. Taxes modify the public's use of its money in two ways: first, they take away from the public money which might otherwise be spent in competition with the government for needed items, and second, they furnish the government with funds to purchase the things that the community needs. In short, taxation is a curb on the spending of current income and an anti-inflationary tool of great importance.

To stop, or at least reduce, the spending of savings, it was necessary to do two things: first, to create a belief on the part of the public that there was going to be no scarcity of goods, and second, to create public confidence in the soundness of the dollar. The first of these objectives was, of course, accomplished by the tremendous increase in plant capacity. The second—the creation of confidence in the dollar—was accomplished by a wide variety of moves. Wage and price controls, allocation of scarce materials, and courageous moves by the Federal Reserve Board all tended to stop the price increase and to improve confidence in the dollar.

Lastly, it was necessary to restrain borrowing. Here the Federal Reserve authorities were at home in their own field. Congress gave them emergency powers over consumer credit, and jointly with the Federal Housing Administrator over real estate credit. In the same act, Congress provided for the set-up of voluntary credit restraint program, and that program was also given to the Federal Reserve Board to supervise. The consumer credit controls were immediately effective in stopping the growth of consumer credit. The real estate credit controls were not effective for several months, owing to the backlog of housing starts which had rushed in ahead of the effective date of the regulation. Later, these controls had some effect, and members of this audience probably know better than I to what extent. The voluntary credit restraint program provided a powerful tool of public education and set up new yardsticks as to priorities in a broad range of credit, running the gamut from business loans to municipal bonds.

At the same time that Congress was raising taxes and these emergency controls were being established, Federal Reserve authorities began to move to tighten credit, and to make its expansion less automatic, by those indirect means which are traditional in central banking. The Federal Reserve actions were far from drastic, really little more than a frown on certain practices or a nudge in the right direction. The rate of discount at which member banks may borrow at their Federal Reserve bank was raised in Aug., 1950. The increase was only a quarter of one percent, but the fact of its occurring served notice that the Federal Reserve System was concerned about inflation and was going to use its powers. In Jan., 1951, reserve requirements of member banks were raised to the maximum legal limit, with the exception of two percentage points for demand deposits at New York and Chicago banks.

Then, in March, 1951, the peg was removed which had kept government securities at par or above. This peg was a wartime device. The Federal Open Market Committee purchased all offerings of government securities that were large enough to threaten price declines. The effect of this pegging operation was to afford a ready market for government securities held by lenders who might wish to use their funds for other types of loans. It had the further effect of adding reserves to member bank accounts, thus enabling them to expand their loans and investments by five or six times the amount of the new reserves. When this peg was removed, government bond prices settled down to a few points below par. Holders became reluctant to sell them, and as a result loanable funds dried up. The expansion of bank credit began to behave according to the seasonal pattern. Many lenders were forced to wait for the accumulation of savings funds with which to make advances. Fortunately, as I shall outline, the public began to save at a phenomenal rate, and it was not long before the insurance companies, savings banks, and savings and loan associations were again in the market for mortgages and bond issues.

Not all of these moves were accepted by the public with equanimity. Manufacturers who had produced television sets in excess of any reasonable demand were importunate in calling for easier retail credit terms. Builders protested that they were ruined. Pressure groups of all sorts converged on Washington. Of more importance was the feeling on the part of the average man that big government was regimenting him. Here is part of a letter which we received after Chairman McCabe of the Federal Reserve Board had sent a letter to all banks in the United States in November, 1950, asking them to screen their loans for essentiality:

"We have never needed any assistance in controlling credit. . . . After 50-odd years of banking, crap shooting, poker playing, trading jackasses, turkey hunting, etc., if I discover I need help in operating my little briar patch business, I will know it is time to fold up, join the Baptist Church and go to hell on my own ticket."

I assure you that the Federal Reserve Board was fully conscious of this sentiment and was anxious to relax the controls as soon as the economy could stand on its own feet.

Public Takes Over Control

Just about this time the public took over the control of inflation. I can almost fix the week when it first became evident that something of this sort had taken place. Prices stopped rising in the last week of March, 1951. Looking back on the period since then,

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*An address by Mr. Powell before the Regional Savings and Mortgage Conference of the American Bankers Association, Minneapolis, Minn., Nov. 10, 1952.

Higher Reserve Requirements for New York City And Chicago Banks Held Discriminatory

J. Stewart Baker, Chairman of the Bank of the Manhattan Company, tells stockholders it cuts down earnings of their institution unfairly.

J. Stewart Baker

Addressing the annual meeting of stockholders in New York on Dec. 2, J. Stewart Baker, Chairman of the Bank of the Manhattan Company, called attention to what he called discrimination against banks in the two Central Reserve Cities,—New York and Chicago—because of the larger reserve requirements imposed by the Federal Reserve Board. Commenting on this, Mr. Baker stated:

"I would like to call your attention to the fact that the banks in New York City and Chicago are discriminated against in the matter of the reserves which they are required to keep in the Federal Reserve Banks. The theory that they should keep a larger amount of money idle in the Federal Reserve Bank than banks located in other cities is an inheritance from the system of reserve requirements established when the National Bank Act was passed in 1863. Although obviously conditions have changed tremendously in the past 90 years, the idea of this differential has continued. In the early days of the National Banking System, when banks throughout the country were permitted to deposit part of their reserves with national banks located in cities having higher reserve requirements under the law, the concept was that banks in such cities were subject to higher deposit turnover, especially those in the larger cities such as New York and Chicago, which served as bankers' banks.

"When the Federal Reserve System was established in 1914, all banks which became members, including state chartered institutions, which theretofore had only to conform to the varying and more lenient provisions of state laws, were subjected to the reserve provisions of the Federal Reserve Act. And a basic change was initiated to reduce or eliminate the danger of financial panics which in the past were believed, in part at least, to have derived from the practice of pyramiding bankers' balances in the financial centers. This basic change took the form of a legal requirement that the reserves of each member bank be deposited with the Federal Reserve Bank of its district. In other words, the Federal Reserve System took over the central banking function previously performed by the large city banks as depositories of the banking reserves of the nation.

"In spite of this fundamental change, the old three-fold classification of banks according to location as a basic determinant of required reserves was retained, and this system still applies today even though the conditions which it was originally designed to meet have altered very greatly. At the present time only New York City and Chicago are classified as Central Reserve Cities and the major banks located in those cities are required to maintain reserves of 24% against demand deposits. This compares with a required reserve of 20% for member banks in Reserve Cities and 14% for Country Member Banks.

"For some years, the Federal Reserve Board has had the authority, within specified legal limits, to alter at its discretion the reserve required of member banks in any or all of the three categories to which reference has been made. Except for a temporary period during and just following the last War, when the same percentages of reserves against demand deposits were required of Central Reserve City Banks as of Reserve City Banks, the former, including the Bank of the Manhattan Company, have had to compute their reserves at rates varying from 3 to 6 percentage points above those applicable to Reserve City Banks. The penalty imposed by the present rate differential of 4 percentage points can be better appreciated when it is pointed out that for every billion dollars of demand deposits, Central Reserve City Banks must keep $40 million more as reserve with Federal Reserve Banks than is required of Reserve City Banks. Such additional reserves are in effect sterilized or impounded so that they cannot be loaned or invested to produce an income for stockholders.

"In the case of the Bank of the Manhattan Company, if this rate differential had not applied, our net operating earnings, before taxes, this year could have been increased by more than $1,000,000, assuming that the additional funds available were employed at our average earning rate on loans and investments for the first ten months of this year.

"Of course I am fully cognizant of the fact that many considerations lie back of the decision of the Federal Reserve Board to maintain this reserve differential which applies to Central Reserve City Banks in New York City and Chicago as compared with banks in other leading cities. This is not a simple subject. On the other hand, I firmly believe that during the years since the Federal Reserve System was established, economic and financial conditions have changed so fundamentally as to justify a thorough review of this whole subject.

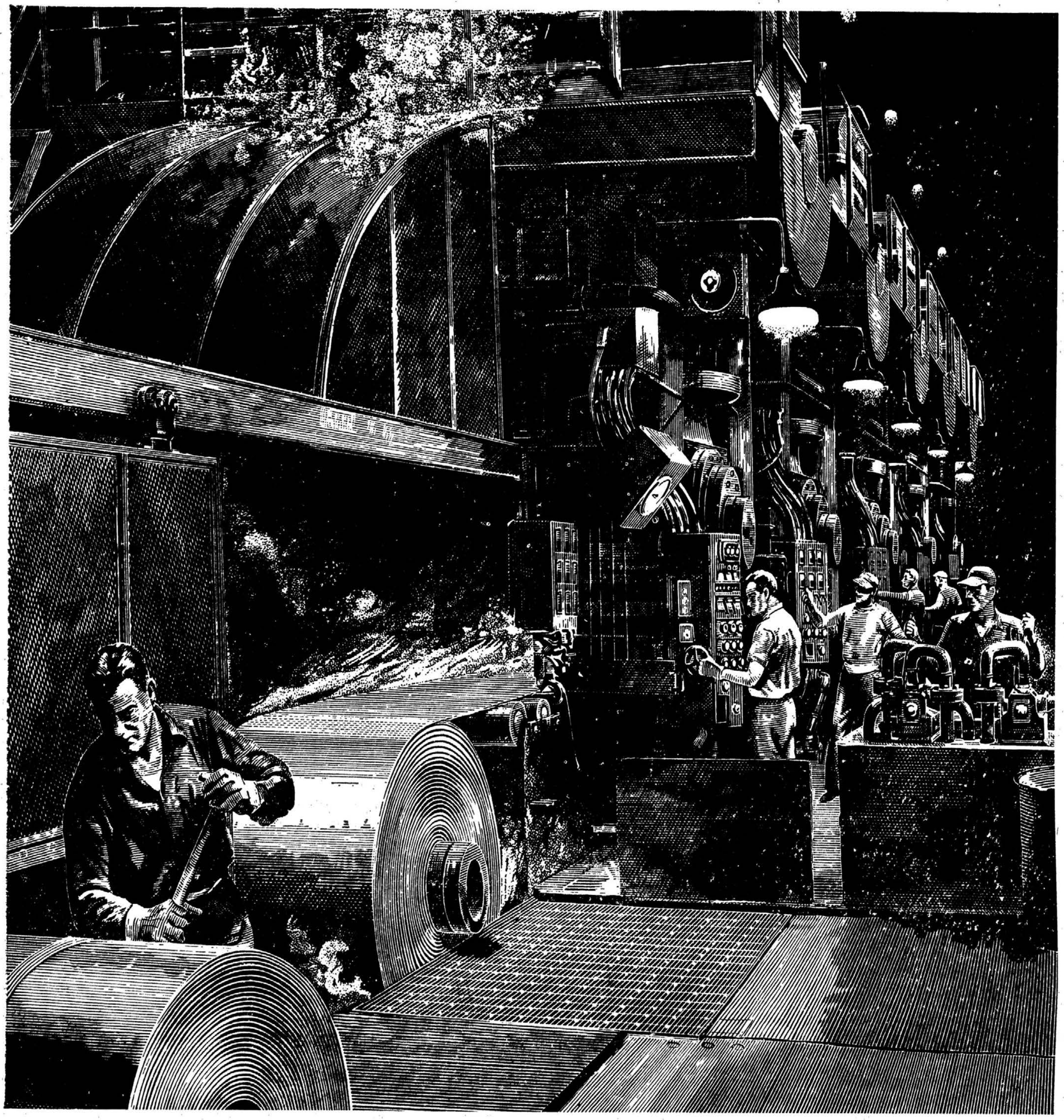
"Great shifts in population have taken place, new industrial and financial centers have grown up, industry has launched a great campaign to decentralize geographically and big businesses have developed programs of spreading their deposits on a nation-wide basis. There have, moreover, been significant shifts in income and wealth distribution. Reflecting these changes the growth in total demand deposits has been much less in New York City and Chicago banks than in Reserve City Banks.

"These as well as other factors strongly suggest that the present system of reserve requirements is outmoded and unfair to the Central Reserve City Banks and that some more realistic basis for computing reserve requirements should be developed as quickly as possible. Perhaps an altogether new criterion should be adopted as the basis of determining reserve requirements instead of the present anachronistic basis of geographical location. But until a more equitable system is ready to be put into effect, I strongly recommend that the existing penalty against banks in New York City and Chicago be removed."

Three With Harris Upham

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, Fla.—John A. Burditt, Thomas J. Julian and William P. Rayner have become connected with Harris, Upham & Co., 316 South County Road. Mr. Julian was previously with Thomson & McKinnon.



This is National Steel

Rolling "mile-a-minute" steel in one of the world's fastest mills

A great deal of the steel you use daily is first made in the form of sheets and strip. Much as the housewife's rolling pin changes a thick lump of dough into thin pie crust, the pressure exerted by heavy steel rolls in giant mills reduces chunky, red hot ingots to these sheets and strip, of precise thickness and width.

Many important uses require steel of extra-thin gauge. This is made by final rolling on a cold reduction mill, such as the one illustrated here by Peter Helck, at the Weirton Steel Company, division of National Steel.

This mill rolls thin-gauge strip steel at the rate of a mile a minute. It is the world's first mill built to operate at this speed. From it comes an average of more than 325 miles of quality steel every eight hours . . . enough, when made into tin plate, for more than 5,000,000 of the familiar No. 2 cans used in food packaging.

This gigantic unit is even bigger than the illustration indicates, for there is as much mill below floor level as above. Each of its five stands, or sets of rolls, has the over-all size of an average two-story house. Yet, through finger-tip controls, the mill's expert operators guide and govern its tremendous speed and pressures with complete safety and accuracy.

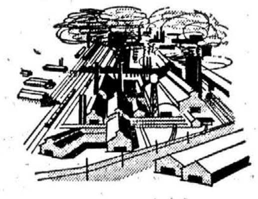
Through investment in more and more efficient facilities of this kind, America's gigantic steel industry has been able to make and *keep* steel one of your lowest-cost and most useful servants.

And constant pioneering in improvements in equipment, methods and quality of product is one of the things that has made and keeps National a steel leader—entirely independent, completely integrated, always progressive.

NATIONAL STEEL CORPORATION
GRANT BUILDING PITTSBURGH, PA.

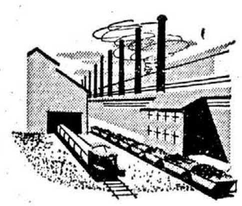
SERVING AMERICA BY SERVING AMERICAN INDUSTRY

SEVEN GREAT DIVISIONS WELDED INTO ONE INTEGRATED STEEL-MAKING STRUCTURE



WEIRTON STEEL COMPANY

Weirton, W. Va. World's largest independent manufacturer of tin plate. Producer of many other important steel products.

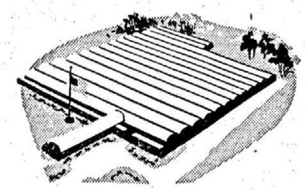


GREAT LAKES STEEL CORP.

Detroit, Mich. A major supplier of standard and special carbon steel products for a wide range of applications in industry.

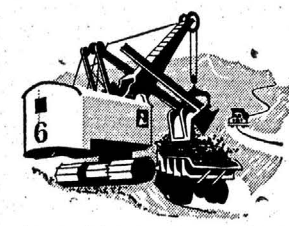
STRAN-STEEL DIVISION

Ecorse, Mich. and Terre Haute, Ind. Exclusive manufacturer of famous Quonset building and Stran-Steel nailable framing.



NATIONAL STEEL PRODUCTS CO.

Houston, Texas. Warehouse and distribution facilities for steel products in the Southwest.



HANNA IRON ORE COMPANY

Cleveland, Ohio. Producer of iron ore from extensive holdings in the Great Lakes area.

THE HANNA FURNACE CORP.

Buffalo, New York. Blast furnace division for production of various types of pig iron.

NATIONAL MINES CORP.

Supplies high grade metallurgical coal for the tremendous needs of National Steel mills.

The Economic Climate For Agriculture

By EARL L. BUTZ*

Head, Department of Agricultural Economics, Purdue University, Lafayette, Ind.

Professor Butz foresees a period of economic stability for agriculture, despite decline in prices of farm products, together with likelihood of modest deflation late in 1953. Looks for renewal of upward trend in business after 1954, thus creating favorable environment for agriculture.

Gross incomes for American farmers in 1953 will continue at approximately the same level as in 1952. However, cash operating expenses will probably strengthen moderately during the coming months, with the result that U. S. net farm income next year may be slightly lower than in 1952. And the 1952 net farm income was modestly below the 1951 figures.

Earl L. Butz

Total cash receipts from farm marketings in 1952 will probably be around $33.5 billion—a record figure. This was 3% above 1951 receipts. However, farm production costs in 1952 are also at a record, $23.4 billion, up about $1 billion from 1951. They will probably increase moderately in 1953.

It now appears that the U. S. net farm income in 1952 will be about $14.2 billion. This is only slightly less than the 1951 figure, when it was $14.3 billion. The record high net income year was 1947, with U. S. net farm income of $16.8 billion. This means that U. S. net farm income has declined about 15% in the five-year interval since 1947. However, because of increasing costs of nearly everything farmers buy, the purchasing power of farm income has declined about 24% since 1947. Farmers' purchasing power in 1952 is not only lower than it was in 1951, but is lower than in any of the previous ten years except 1950. It will very likely be slightly lower next year.

A Period of Economic Stability

The foregoing conclusions do not mean that agriculture is in or is about to enter a period of depression. The agricultural industry is experiencing a cost-price squeeze which has removed much of the opportunity for easy profits which existed half a decade ago. Prices received by U. S. farmers reached an all-time high in February, 1951, eight months after the outbreak of the Korean conflict. They have declined irregularly since then, from an index of 313 in February, 1951, to 282 in October, 1952 (1910-14=100). This is a decline of about 10%. However, they still remain about 15% above the 1950 level, just before Korea.

An over-all decline of 10% in the past 20 months is not serious in itself. A variation of this magnitude is easily in the limits of what may be termed "economic stability." The distressing thing is that prices paid by farmers for items used in production have not moved in the same direction. This index was 282 in October, 1952, up 2% from the February, 1951, figure of 276. This index has been relatively stable during the last year, a time when prices received by farmers were declining modestly. This means that the parity price index has declined from 113 in February, 1951, and from 105 in October, 1951, to 100 in October, 1952.

It can of course be argued with considerable force that a parity price index of 100 is not indicative of agricultural distress. This is obviously true. On the other hand, anybody lending money to farmers knows full well that a decline in the parity price index of 13 points in a little over one and one-half years is bound to be reflected in the general prosperity of the agricultural community.

Short-Term Outlook Is Not Bad

The outlook for farm product prices to mid-1953, in general, is fairly good. Farm prices, on the average, have passed the bottom of their recent decline. Commodity price fluctuations during the next six months will mostly follow a normal seasonal pattern. This assumes that the general price level will hold about steady to strong during the remainder of the winter and spring. It assumes a continuation of our heavy program of Federal expenditures, some expansion of military expenditures in connection with the National Security Program, and a high level of business activity and full employment. These things seem assured until at least mid-1953. The change in Administration on Jan. 20 will have little effect on this, since appropriations are already made for the remainder of this fiscal year which runs through mid-1953. This means, therefore, that receipts from farm marketings will not change greatly, with costs edging up slowly. The farm price parity ratio will hold steady to weak, and will probably fluctuate somewhere between 100 and 95 during the period.

A Peek Into Late 1953 and 1954

Following mid-1953, when military spending is scheduled to taper off, the level of business activity in the U. S. may reach a crest and may be followed by a year or two of mild business downturn. This interval will be more in the nature of a period of relative stability and adjustment than recession. There will be a modest downward adjustment in prices and business activity. It will be more like a 1949 than a 1932. Price adjustments will be spotty geographically, and will not fall equally on all lines of business activity.

Net farm income in 1954 may not be much different from 1953, when it is expected to be slightly below 1952. Purchasing power of farm income in 1954 will be slightly lower than in 1952, because of the tendency of costs to continue their upward trek. During this period farm land prices may decline moderately, and the sellers' market which has prevailed in recent years will lose its edge.

It is extremely unlikely that the deflation of this period will be very severe or very prolonged. Our economy has pretty well grown up to our increased money supply, and prices are currently in fairly stable adjustment with each other. The decline in raw materials prices in recent months, a modest decline in farm product prices, coupled with a slow increase in farm costs, and a still greater increase in wage rates, has placed different price series in relatively equitable adjustment, following the distortions which occurred in the price structure in the months immediately after Korea.

We are now accustomed to living with inflation. We are finishing a year of relative economic stability at a high level. Many of us discuss the "good old days" with some emotion in our voices, but we don't really want to return to them. A severe or prolonged price decline is politically improbable — if not impossible. Any downward adjustment in 1953 and 1954 will be moderate and short-lived.

Beyond 1954?

The post-mobilization adjustment in our economy will be largely completed after 1954, and business will continue its upward trend with modest upward price pressure. However, the tremendous productive capacity of the United States is a major anti-inflationary force. We have roughly one-third of the world's productive capacity within our borders, and we are increasing it rapidly. The index of industrial production has been above 220 (1935-39=100) most of this year, except during the steel strike, compared with the 1950 monthly average of 200, and only slightly under the World War II peak which we attained by eliminating or reducing many service-connected industries. However, we have held this index above 220 during most of 1952 with practically no cutback in the amount of manpower devoted to our service trades and non-industrial pursuits. Total agricultural output in 1952 is 44% above the level 15 years earlier. Thus, it has been possible to absorb a substantial share of our military production out of the increased total output of the economy.

After 1953, when military production hits its contemplated peak, the outlook is good for a continued rising living standard for all of our people. This fact, combined with our amazing upsurge in population, will provide a continuing consumers' market of considerable magnitude for nearly everything we can produce.

The phenomenal strides toward domestic prosperity which we have made during the last two decades will continue for at least another decade or two. For the longer period, I am unalterably optimistic. If we can keep our levels of production up, nothing in my judgment can stop this great political and business system of ours nor our progress toward greater real income for all of us.

In this long time setting of an expanding economy, American agriculture will operate in a relatively favorable environment, with good profit opportunity for efficient farmers. This means that although the outlook for business and agriculture over the next ten years may be uncertain, it is much better than in the late 1930's and early 1940's. There are prospects for reasonable earnings for operators who are efficient, progressive, and scientific. For the long pull ahead, as a life's vocation, agriculture has as much to offer as any other comparable vocation to the young man who desires a comfortable standard of living for his family, good environment, and an opportunity to provide his own security for his declining days.

*Summary of address by Professor Butz before Conference of Bank Correspondents, sponsored by First National Bank of Chicago, Chicago, Illinois, December 1, 1952.

With Steiner, Rouse

Steiner, Rouse & Co., members of the New York Stock Exchange, announced that Leonard J. Goldsmith is now associated with the firm in its Yorkville branch office, 157 East 86th Street, New York City. Mr. Goldsmith was formerly with Francis I. du Pont & Co. and Bache & Co.

The Weather

By ROGER W. BABSON

Mr. Babson, commenting on drought in the West and the serious consequences to that area, says a drought is logical, after five "fat" years. Expresses view changing temperature from year to year is due to changing winds and that "gravity" is the basic cause.

During my recent trip through the Central West I heard much complaint due to the drought. Some sections of Kansas, Oklahoma and Texas have not had a drop of beneficial rain for 6 months. Good pasture and good crops need sunshine and rain, as well as good soil and cultivation. Especially, without sufficient rain, the crops fail. This, in turn, means less feed for the cattle, hogs and other livestock, forcing them to market at lower prices. Furthermore, the longer a drought lasts, the more serious are the results.

Roger W. Babson

Hence, everyone is asking: "How long will the drought last?" Statistics indicate that no one can answer with certainty. Some droughts last only six months; others have lasted three years. Due to the many recent fat years which the Central West has enjoyed, it is logical that a drought is now due and that it may last longer than we all hope. Certainly, our new President cannot make clouds; even scientists cannot make rain when there are no clouds.

Changing Climate and Temperature

Businessmen are not only watching the rainfall (or lack of it), but also the temperature. Whether traveling in the United States or Canada, people tell me that both the winters and summers are getting warmer. This is true with the exception of Florida, which is having cooler winters and more rain. Believing the above is a permanent change, some investment counselors are advising their clients to sell out fuel oil businesses, woolen factories and even certain stores—but to re-invest in air conditioning, synthetic fibres and soft drink stocks!

While in Gloucester, Mass., last summer, I found the fishermen much disturbed because the fish had gone farther north and forced the vessels to go much farther to fish. This, they claim, is one reason for the higher price of fish. In some places—off the coast of California—the fish have left altogether and scores of great canning plants are idle. Also, fish which heretofore were found only in southern waters are now being caught off New England.

What Are the Facts?

Without doubt the temperature of certain portions of the ocean has increased. This, however, does not justify the common belief that this change to warmer weather will be permanent. It is true that the mean temperature of the United States and Canada and adjoining waters has increased 3 degrees during the past 100 years. But this is nothing for us now to get excited about. This 3 degrees is not the cause of fish going north, nor a cause for you to change your business.

The changes in temperature from year to year which you, the cattle and the fish recognize are due to the changing winds. What causes these changes in the direction of prevailing winds is debatable. It may be sunspots, but I believe Gravity is the basic cause of the warm winds blowing over the Northern Hemisphere. The fact that more cold winds are, at the same time, blowing over the Southern Hemisphere should interest every farmer in the study of Gravity. In the meantime, don't believe that we will not have more early frosts.

Jesus as a Weather Prophet

When discussing the winds with a famous weather expert, he referred me to Jesus' comments on the winds of 2000 years ago. In the Eighth Verse of the Third Chapter of St. John we find Jesus saying: "The wind bloweth where it will and thou hearest its sound, but dost thou know from where it comes?"—or a better translation is "why it comes."

Jesus discouraged His followers from depending upon the weather or other material things, urging them to "be born again"—this time to be born "of the Spirit." This surely is the advice America needs today. Only by a spiritual rebirth can we forge ahead—as did the founders of our nation—irrespective of weather, stock markets, businesses or even foreign nations.

Union Bag & Paper Stk. Offering Underwritten

The Union Bag & Paper Corp. is offering to holders of its capital stock rights to subscribe at $42 per share for 253,008 shares of additional capital stock (par $20) at the rate of one share for each six shares held of record on Nov. 28, 1952. The subscription offer will expire at 3:30 p.m. (EST) on Dec. 15, 1952. Morgan Stanley & Co. and 27 associated investment firms are underwriting the offering and will purchase from the company any unsubscribed shares.

The sale of these shares represents the first public financing by the company since a similar offering to stockholders in 1947 and will add more than $10,000,000 to its cash resources. The company is presently expanding its facilities at its main plant in Savannah, Ga., with the installation of a sixth paper machine and related equipment at a total cost of approximately $21,500,000. The addition of this machine will add flexibility to the company's operations, enabling it to use either hard or soft woods. Plant capacity will be increased to approximately 1,800 tons daily, or by 25% upon completion of this work in the third quarter of 1953. The company is also building a multiwall bag factory near St. Louis, Mo., at an estimated cost of approximately $1,400,000.

Union Bag is the largest paper bag manufacturer in the country, producing approximately 20% of the U. S. production of kraft grocers' bags, sacks and special bags and approximately 10% of the nation's production of multiwall bags.

For the nine months ended Sept. 30, 1952, the company reported net sales of $69,058,310 and net income of $8,123,601 or $5.35 per share. The company has declared regular quarterly dividends this year of 75 cents per share and an extra dividend of 50 cents per share, or a total of $3.50 for the year 1952.

Impact on City Property Values Resulting From Decentralization

By WILLIAM L. C. WHEATON*
Department of Regional Planning, Harvard University

Professor Wheaton holds most important trend in last decade in urban growth has been decentralization or dispersion of urban population. Says people are leaving city "because it isn't fit to live in," and present depopulation of cities can be slowed only by drastic improvements. Contends unplanned dispersion of population to suburban areas leads to serious problems, and may mean higher tax rates with poorer municipal services.

Urban land derives its use and its value from the processes of urban growth. As the structure of the city changes, as populations increase and move, land values and land uses change. We need much more knowledge, more research on these relationships in urban growth and structure. We also need a much wider understanding of what is presently known concerning trends in the development of our cities.


Wm. L. C. Wheaton

The most important current trend in urban growth is the decentralization or dispersion of urban population. Our great metropolitan areas continue to attract people, continue to grow. But internally they are bursting at the seams. If recent population trends continue, most of the largest cities of the country, the central cities, will lose population heavily during the next decade, while their suburban areas grow steadily.

During the 1930's four of the nation's largest cities (Philadelphia, Cleveland, St. Louis and Boston) actually lost population. The high birth rates of the last decade resulted in population increases in these and all of our other largest cities. These increases have concealed a significant fact. During the last decade more people moved out of our central cities than moved into them. Let me illustrate: During the last decade it is estimated that 620,000 persons moved into New York City. During the same decade 750,000 persons moved out of the city, 10% of its 1940 population. As a result of these migrations, New York would have lost 130,000 in population during the last decade. Because of a high birth rate, however, New York enjoyed a natural increase (i.e. an excess of births over deaths) of 580,000 people, which produced a final population increase of 450,000 people for the decade.[1]

Future Birth Rate

Now the high birth rates of the forties will not continue in the fifties. During the next decade natural increase in New York may produce something over 300,000 persons. During the next decade, with some luck, we will not lose five years of residential building as we did in World War II. New York's builders should produce 800,000 more homes in the next ten years. At least 500,000 of these homes will be built in the suburban areas of New York. This would permit 1,000,000 or more people to move out of the city. The two factors of declining birth rate and suburban building could combine for a population decrease of 500,000 or more during the next decade. Any city that 750,000 people have wanted to leave should look to its laurels.

Very similar relationships exist in the central cities of eight of the nation's twelve largest metropolitan areas. Using a very rough approximation of natural increase, the net out-migrations in other cities during the last decade may have been: Boston—100,000; Chicago—150,000; Philadelphia—60,000; Pittsburgh—60,000; St. Louis—40,000; Cleveland—60,000. In eight of our largest cities, population growth was less than natural increase alone should have produced during the last decade. In many of them a decline in birth rate alone will produce absolute decreases in population. In all except four (Los Angeles, Detroit, San Francisco and Washington), a continuation of high levels of suburban building will produce substantial—I might say serious—declines in population.

Why do more people leave these cities than move into them? The reasons are abundantly obvious in all of them. They are obsolete, dirty, crowded, expensive. They have lost their appeal to the American people and are being deserted by as many families as can afford to leave them in favor of the suburbs. The average rate of growth of the 12 largest central cities of the country was only 10%; that of their suburbs was over 45%.

This decentralization of population also results from the fact that we are building over a million units of housing a year, and from the fact that two-thirds of these homes are being built in suburban areas. The current rate of building is pulling people out of New York City at the rate of 60,000 per year. If continued, it could reduce New York City's population by 8% in the next decade. Boston could lose 100,000 people, or 13% of its population, by 1960 if present trends continue.

Decentralization in Most Large Cities

This decentralization is occurring in most of our largest cities. The current rate of decentralization in any city can be approximated easily from available population and building statistics. Let me use Boston as an example. In recent years we have been building 1,500 homes per year in the City of Boston, enough for 4,500 people. In Boston's suburbs we have been building 9,000 homes a year, enough for 27,000 people. Boston's population has been growing at a rate of 17,000 people per year. Clearly people are moving out of the city at the rate of about 10,000 to 14,000 per year. I appreciate that undoubling, conversions, and reduction in family size will modify these figures slightly, but not, I think, significantly.

Viewed in another way, Boston is not replacing its existing supply of housing. Boston's 225,000 dwelling units are wearing out at the rate of at least 4,500 units a year, assuming a 2% depreciation rate. These worn-out dwellings are being replaced by only 1,500 new units. Even if we include converted units, the rate of replacement is lower than the rate of deterioration and must eventually reduce Boston's population. We urgently need some replacement reserve accounting for our urban areas.

The significance of these trends is obvious. Our largest central cities are losing population at a rapid rate. These losses of population mean declining retail business, declining property values, and probably rising urban costs. The duration and extent of this decentralization process is unknown. If it continues at present rates for two decades, it could result in serious damage to the core of our great cities. A rotten core will soon infect the rest of the urban area, however remote. The central city is the economic heart of the metropolitan area.

People are leaving the city because it isn't fit to live in. They demand and will get a better environment for living, for working, and for recreation. The present depopulation of central areas can be slowed only by drastic improvements. All that we can do in urban redevelopment, in neighborhood conservation, in neighborhood rehabilitation, in park and highway planning—all that we can do will not stop the decentralization process. We can, however, prevent decentralization from becoming depopulation. We can avoid serious damage to our urban economy if we can make our cities more efficient, more pleasant, more livable. This is a task which the President of the NAREB has rightly emphasized during the last year. It will require far greater efforts than we now realize, far more comprehensive replanning than even the most advanced of today's programs.

Problems of Suburban Growth

Suburban growth presents equally serious problems. During the last decade the population of suburban areas increased by nine million people, accounting for half of our national population growth.[2] The population of these areas increased by one-third in 10 years, and by 50% or more in many metropolitan districts. It is particularly interesting to note that the increase occurred more heavily in the outlying and often unincorporated parts of the suburban area. The city is being diffused, scattered over the countryside. Urban areas now being built will have very low densities, 50 to 75% lower than those of older urban areas. They will have very large amounts of vacant land.

This diffused and unplanned pattern of residential development will produce some unanticipated consequences during the next decade. Many suburban areas will reap a harvest of high taxes and poor services from their current crop of subdivisions. Scattered developments cannot be served economically with schools, water, sewers, and roads. They cannot support cheap and regular public transportation. They cannot support neighborhood shopping centers. Few residential properties can support the municipal services which they require. Tax rates may therefore rise to unanticipated levels, and even then the quality of services may be poor.

These are problems of scattered growth. They will not stop the strong tides of decentralization which are based upon the desire of most Americans to own a home in pleasant surroundings. Rather, these problems may necessitate a much more comprehensive planning of suburban areas in anticipation of residential growth, the further sharing of state-collected taxes, efforts to encourage industrial and commercial development in the suburbs to add to the tax base, and finally, efforts to channel suburban growth into more compactly developed communities.

In conclusion, let me repeat two major points. We are building a million or more homes a year. We can afford, with peace, to build a million and a quarter or a million and a half. This means that each year we will move from a million to three million people out of our central city areas. This means that our central cities could lose from 10% to 25% of their present population within a decade. This means vast readjustments in industry, in commerce, in retail trade, and in transportation. It challenges us to build a better suburbia, and to rebuild a better city.

*An address by Professor Wheaton before the National Association of Real Estate Boards, Miami Beach, Fla., November 12, 1952.

1 New York City, Population Report 1, City Planning Commission, New York, 1951.

2 U. S. Bureau of the Census. Series PC-3, No. 3, 1950.

Magma Copper Stock Offer Underwritten

The Magma Copper Co. is offering 266,227 additional shares of its capital stock (par $10) to its stockholders of record Nov. 26 at $24.50 per share in the ratio of one new share to 2⅜ shares held, with subscription rights to expire on Dec. 11.

A banking syndicate headed by Lazard Freres & Co. is underwriting the offering and the underwriters have stated that it is not their present intention to make a public offering of any of the unsubscribed shares following conclusion of the offering to shareholders.

Others associated with Lazard Freres & Co. are: Dillon, Read & Co. Inc.; A. C. Allyn & Co. Inc.; Bear, Stearns & Co.; Hallgarten & Co.; Ladenburg, Thalmann & Co.; Lehman Brothers; Carl M. Loeb Rhoades & Co.; Swiss American Corp. and Wertheim & Co.

The proceeds of the financing, estimated at about $6,000,000, together with the $94,000,000 authorized under the RFC loan authorization received last July by San Manuel Copper Corp., the company's wholly-owned subsidiary, are to be used to bring into production the San Manuel property in Arizona containing an estimated 475,000,000 tons of copper ore with an expected annual production of 140,000,000 pounds of copper to start sometime in late 1956. In addition, San Manuel holds a contract with the DMPA under which it may sell to the U. S. a total of 695,000,000 pounds of copper at 24 cents.

Cohu Opens New Philadelphia Branch

PHILADELPHIA, Pa.—Cohu & Co., members of the New York Stock Exchange, announce the opening of a Philadelphia office at 1518 Walnut Street. R. Peters Miller will be resident manager of the new office, and he will be associated with Robert T. McDugall, Richard A. Miller, J. Madison Miller and George W. Williams.

Two With R. G. Mills

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — James J. Carlton and John J. Handley are now associated with R. G. Mills & Company, South Side National Bank Building. Mr. Carlton was formerly with the Harris Trust & Savings Bank.

Mutual Funds

By ROBERT R. RICH

Investment Companies—A Re-appraisal

The full text of an address made by Rudolph L. Weissman before the New York Society of Security Analysts on Nov. 28 is given below with the feeling it will be of interest to the mutual fund fraternity. Mr. Weissman, a former member of the staff of the Securities and Exchange Commission, is Vice-President of Franklin Cole & Company, Inc., and author of "Investment Companies—and the Investor."

Centuries ago a young Eastern ruler who wanted to know more about economic policy asked a group of wise men to prepare a treatise on economics. The wise men returned after many years with some 30 volumes. The ruler, now middle-aged, asked for a condensed version. Years passed and he received five tomes. By this time he was cross and asked for a one volume summary. When this was ready he was mortally sick and asked if all the years of labor couldn't be shortened again. One of the second generation of wise men rose to say: "Sire, the whole subject can be put into eight words. . . . 'There ain't no such thing as free lunch.'" Today I feel like the little boy who used to avoid paying his fare on the trolley, having attended a meeting of the New York Society of Security Analysts without paying for the lunch.

Rudolph L. Weissman

In view of the time element and the fact that this group is so thoroughly informed, I intend to deal largely with controversial topics. No one here needs to be told that as of Sept. 30, 1952, some 104 open-end investment companies had net assets of roundly $3.7 billion, or that gross sales amounted to almost $600 million in the first nine months of the year, whereas net sales after redemptions were some $422 million; or that closed-end companies according to the latest data compiled as of June 30, 1952, had net assets amounting to about $1 billion. Nor do other parts of the factual framework that would be of interest to others have a place here.

I can tell you that interest in investment companies appears to be increasing. In classes I teach in the Adult Education Division at Brooklyn College, members of the class always ask if I intend to discuss investment companies. Now that the catalogue contains an outline of the course, the attendance has grown considerably. There is also a challenge. In reply to a questionnaire, I learned that out of a class of 40, exactly six owned investment company shares, whereas more than twice as many owned other stocks.

Let me assure you at the outset of my sympathy with investment company management's problems. After all, in essence, the worries of investment company management and investment advisers are alike.

Value

In our research work dealing with the selection of securities, to paraphrase a line of Ralph Waldo Emerson, we hitch our wagon to values. We make a conscientious, even thorough (we think) attempt to appraise values. Sometimes, alas, the quarterly appraisals may show a variance between values, as we see them, and the quotations at the end of each quarter period. And quotations, not values, are used in appraisals of investment advisers, as they must be in the financial statements of investment companies.

Quarterly Moving Average

This is an unsolved problem of investment management. Perhaps it is insoluble. We all share in the fault, however, of measuring our achievements so largely by prices as the market's close on one day. It would not solve the problem, but would assist in its solution if more attention were paid consistently to income and continuity of income.

I wish I could make a contribution to the central point of management results. Certainly, it is gratifying to do better than the market. One with as philosophic a mind as Judge Jerome Frank has held that value is what-you-can-get-for-it. That means if you had sold a substantial part of your clients' holdings on Dec. 31, 1928, when the Dow-Jones & Co. industrial average stood at 300, you would have been in the dog house in September, 1929.

Yet, judging by the standard criteria of value, stocks were too high 12 months before the end of 1928. My own feeling is that the only keys to value are earnings and dividends, actual and prospective, and not market prices—certainly not as of one day. I would be more comfortable, if as in 1948-49 earnings and dividends were increasing and returns were very high, than I would be at other times when stock prices are advancing and earnings and dividends are not keeping pace with the advance. Adoption of the principle of sticking with value reduces the area of one's vulnerability to criticism. No one who has studied the course of stock prices over the years will seriously maintain that there is always a close relationship between price movements and earnings and dividends, or with general economic and financial conditions.

Diversification

In my book, I coined a more or less worthless catch word "irretrievable error." The thought is, investment companies that are not specialized should avoid going out on a limb as to the diversity of their security holdings—diversity to be judged not by individual stocks, but rather by industry classification. That is why I deplore the action of certain investment companies who asked stockholders to approve changes in their charter provisions, so that their security holdings in petroleum stocks might exceed in price the original limitation placed on holdings in any one industry. The particular industry does not matter. The principle is important, and to revise the principle at the first test of its application, seems to be ill-advised. It is true, of course, that the old "debil," capital gains taxes, may have had something to do with the modification.

Analysis

I do wish there was less running with the herd. For my part, I would more readily trust a management if it showed occasional independence of thought than if it always seemed to fit its portfolio to the news headlines or the erstwhile most accepted views in the financial district. The industry is doing some serious thinking when the tabulations of period changes in security holdings show diversity rather than a high degree of uniformity.

In research, I thoroughly appreciate the value of national income studies and projections, and similar tools. I also know something of their limitations. I should like to see a shift in emphasis. Let us have more analysis, a more searching attempt to understanding of *what is happening* than prophecy as to *what may take place*.

Analysts Not Prophets

To be specific, I question if financial statements are put to their best use. I do not mean merely putting the data and ratios on neat columns, but intensive study of what the changes in the various ratios signify from a business standpoint. We have had a measure of success in this kind of analysis. We have made full use of the available data in company statements or in information filed with the Securities and Exchange Commission with regard to capital budgets, depreciation, maintenance and repairs, cash flow and changes in the relationship of net worth to debt. This may not be as fascinating as pre-occupation with GNP five years hence or with interpreting graphs of the price movements of a stock, but it has been known to pay off in projecting dividend policy, earnings tendencies and in appraising comparative values. Except at extreme points in the history of the stock market, the search for outstanding values among specific securities may be more desirable than inquiry as to whether the market as a whole will advance or decline.

Without neglecting the deductive approach, more can be done with the inductive method. It has been more profitable, to name a few instances, to have chosen Seaboard Air Line Railway Company common stock over Pennsylvania than to have made a correct estimate as to the future of railroad earnings in the aggregate; West Penn Electric has been a more profitable holding than Public Service Electric & Gas, and the choice of the former more important perhaps than a correct estimate of the output of electric energy for the country as a whole; and assuming one made a correct forecast of building activity, by every standard of value, Ruberoid was a more judicious selection than American Radiator & Standard Sanitary.

Not being a mathematician, it is my own belief that so far as general studies are concerned, a profound acquaintance with and an understanding of American history—economic, social and political—are probably the most important aids in portfolio management along general lines. A second aid is a careful survey of the best recent thought in economic theory and its application to current developments. It is often true that economic theory of one year will be accepted in business and government policy next year.

Stockholders

While we take pride in the growing number of investment company shareholders, there is, nevertheless, a difference between direct ownership and the channeling of ownership through financial institutions. What is being done to prevent the watering down of the sense of participation of shareholders in industry because they are one degree removed as holders of investment company shares? To what extent should investment company management take issue with corporate management? We are all familiar with the case of Montgomery Ward & Co. If the shares held by investment companies, and for that matter by fiduciaries, were owned directly, is it likely that the pressure on management to alter its policies would have been greater? On the other hand, if investment companies organized and sought to wield influence, would this arouse criticism on the ground that investment companies were obliterating the line of demarcation between their functions and those of holding companies?

To pass on to the inevitable question: It seems to me that a case can be made out for expecting management to take some action to correct the situation where a discount from net asset value of 25% or more is chronic. Closed-end fund managers reply that no one takes this point of view with regard to bank and insurance company stocks, but the analogy is a poor one both on economic and legal grounds.

Where leverage exists in closed-end companies, I realize there are other difficulties. Nevertheless, it seems to me too much complacency prevails concerning continuous large discounts. What to do about a persistent premium? This is not a serious problem and is merely noted in passing. That a few issues sell substantially higher than net asset value is evidence that a heavy discount is not a form of occupational disease. In connection with discounts and premiums, it is interesting to recall that in a treatise on investment companies published in 1928 it was contended that the fair value of management should be taken at roundly 35 to 50% of invested capital. Here is one problem that has taken care of itself.

Redemptions

In terms of outstanding securities, redemptions of open-end shares are not high. It would be foolish to deny that a persistent excess of withdrawals over sales, however, may not at some future date create serious difficulties. For my part, I should like to see the more general adoption of a penalty of say 1% to be applied against those who turn in their stock for redemption in a period of 18 months from the acquisition date. This would not answer the more serious problems that might arise from a protracted period of loss of confidence, but at least would serve to emphasize that buy-and-run buyers are unwelcome.

Dilution

The tendency of sales to expand in periods of rising stock prices and optimism presents another problem on which discussion seems to be muted. Since funds have come in more heavily when prices are advancing, management must at times be confronted with a difficult series of questions. To keep funds in cash or short-term obligations entails a loss of income. Secondly, it is possible that the stock market will continue to advance. Thirdly, looking at the matter from a different light, is there a seeming inconsistency in continuing to offer shares when management apparently believes a more propitious time for investment may lie ahead? This problem concerns most directly funds that claim to be able to predict swings of the stock market.

Advisers vs. Fund Managers

The grass on the other side of the fence, it is said, is always greener. I have heard individuals in the investment company field point with envy to the advantages of investment advisers over investment company sponsors and managers. They say, "What a wonderful business you are in. Whereas we have to disclose every transaction, the doings of investment advisers are wholly a private matter and are never published, except when the investment adviser chooses to do so." True enough, so far as it goes. But investment advisers have to provide reasons for every step recommended by them. Investment advisers look over the fence and sometimes think if they do not say "What a wonderful business is investment company management."

A number of investment companies in their annual or periodic reports invite their security holders and the world at large to examine the rationale of their decisions. The statements vary widely in completeness and detail. I venture to suggest that full statements should be made, at least in the annual reports. After all, these decisions are the concrete expressions of policy set forth in the prospectus only in general terms. There is at least some analogy between this practice and the requirement provided in the Banking Act of 1935 that the annual report of the Board of Governors of the Federal Reserve System must contain the record of policy actions of the Federal Open Market Committee. The article by Henry Long in the Nov. 20, 1952 issue of the *Commercial and Financial Chronicle* re-inforces my belief that this suggestion has merit and is feasible. Two days after the election results were known, Mr. Long addressed a set of questions to a representative number of fund sponsors and asked them about contemplated shifts in investment policy. His article reviews the answers. The willingness of management to publicize their position is encouraging.

Other Problems

You can readily think of other problems than those I have touched upon, such as the possible dangers of a close relationship between brokerage firms and investment companies, where the former have distribution staffs; size, which has been the subject of considerable discussion; interpretation of the word "balance" in a balanced fund; the selling commission; the management fee; and the turnover of the portfolio, among others.

Selling

Turning to a different side of investment companies, I think the extensive use of 10-year charts of performance regrettable, despite the qualifying statements. It is no secret that the beginning of the period used was a time of low stock prices and the terminal period whether, 1950, 1951 or 1952, a period of a much higher level of stock prices.

Inflation

The stress on inflation as a compelling reason for the purchase of common stock investment company shares also seems to me of a dubious nature, however much it helps current sales. The fact cannot be escaped that to many investors, inflation conjures up visions of a rapidly shrinking value of the dollar, not in terms of years but of weeks. I am somewhat proud of the fact that in my book, which went to press in the Summer of 1951, and was revised in the Spring, I stated one might change Madame Roland's phrase with regard to democracy to read "Inflation—what crimes are committed in thy name." There is too much over-simplification about inflation and the stock market. Public utility and railroad companies have done very well during the recent inflationary period, for example. Regulation of credit and commodity prices, not to speak of taxes, are mighty important factors in determining earnings and dividends. I use inflation as an illustration of selling methods that smack of opportunism.

Is it really necessary that inflation or the fear of inflation be so important a selling point? Here we are in the midst of the greatest industrial, economic and social revolution in the history of mankind. I recommend Frederick Lewis Allen's new book entitled "The Big Change" as the most effective selling document at hand. The amazing advance in living standard in the United States in the last half century is only a prelude of things to come. The effort to increase the size of the pie and see to it that more people share in its eating is unparalleled. This is a policy that transcends party lines. As Alvin Johnson declared in a trenchant essay, no other civilization but that of the United States, Britain and the Scandinavian countries has ever been committed to the lifting of the welfare of the underlying population by democratic means. All prior societies, he says, "present the pattern of a cultivated elite forming a structure more or less lofty, more or less stable, but resting on the backs of the underlying population."

Press

It seems to me that the industry and the financial press have a duty to get together and to establish some uniformity regarding certain items. One cannot help observing that the periods used in comparisons of net asset value are not always the same, or that the aggregate size of the fund alone is sometimes used when the net asset value per share may have fallen.

Perspective

One contribution made especially by open-end companies deserves mention. For some years Wall Street seemed to be suffering from a strange lack of courage and perspective. The financial world saw nothing but diseaster in easy money, SEC policies, social security and other developments. To borrow a quotation from Keats, the region below Fulton Street could be described in these words:

"Here where men sit and
hear each other groan,
Where palsy shakes a few
last sad grey hairs."

The open-end fund people, with but little help, struck out during these years and shook off the palsy. That this was necessary to sell their wares does not alter the fact that many investors overcame their fears and incidentally learned from their dividend checks that the country had not gone completely to the dogs.

Those who participated in formulating the Investment Company did a great job in the amount of information thus made available to stockholders and others. This is not to be ascribed to the statute alone. The industry has moved far ahead of our British cousins in the attitude toward stockholders. The secretary of the Association of Investment Companies in Britain wrote me that a large percentage of investment trusts now publish a list of their holdings in their annual reports—that is, they are gradually coming around to reporting their holding once a year.

Conclusion

The investment company principle is so sound that further growth is inevitable. The broader use of periodic additions to one's holdings, pension funds, the possibility of union purchases and other developments all point in this direction. A wider diffusion of savings and an age of every increasing specialization seem to assure a demand for wise management of funds, whether by investment companies, investment advisers, or financial institutions. There is room for closed-end companies and open-end companies, for investment advisers for the service of brokers, and the investment departments of financial institutions. In fair competition, the best and most efficient will establish its superiority. Sometimes the number of funds does make one wonder if all have a contribution to make. However, even if every fund does not seem to have a good reason for a place in the sun, it is better that the method of trial and error operate than to vest anyone with authority to issue the equivalent of a certificate of public convenience or necessity.

Ours is a high calling. In the hierarchy of economic functions, the management of other people's money ranks close to the top. It is also a serious, demanding calling. We should use every means to maintain the highest code of ethics. Mistakes of judgment are inevitable, but for unethical practices their is no excuse, and everyone in the industry suffers from the malpractices of those who are guilty.

I have dealt more extensively with problems and shortcomings than with the industry's notable achievements, which are familiar to this group. It was Carlyle who said that no matter how much an artist loved his subject, the painting would be more revealing if he did not neglect the warts.

Finally, some years ago an immigrant father and his young son were riding up Broadway to see the sights. From time to time the youngster would gaze with awe at one of the interesting buildings and ask: "Pop, what is that building?" Each time the father would shrug his shoulders and reply: "How should I know, my son?" After a number of attempts the son finally inquired, "You don't mind my asking, do you Pop?" The father answered "No, my son, how else will you learn?" How else can we learn except by asking questions, even though definitive answers are not at once forthcoming?

Continued from page 2

The Security I Like Best

Car Company as my favorite security can be summarized as follows:

(1) Young, able, and aggressive management.

(2) Diversification and extension of products has eliminated the "feast and famine" aspect of the corporation.

(3) Earnings sufficient to warrant a dividend equivalent to an 8% return on current market prices plus future increases in dividends as warranted by the earnings record which should show substantial growth in the near future.

(4) Capital appreciation possibilities can be anticipated based on a combination of the above factors.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

James B. Black of San Francisco, President of Pacific Gas & Electric Co. has been elected to the Board of Directors of **Chemical Bank & Trust Company of New York**, it was announced on Dec. 1 by N. Baxter Jackson, Chairman of the bank. Mr. Black is a Director of United States Steel Corp., Southern Pacific Co., Equitable Life Assurance Society of the United States, Shell Oil Co. and Fireman's Fund Insurance Company. He also is a Trustee of Stanford University.


James B. Black

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An expansion of the Corporate Trust Department of **Chemical Bank & Trust Company** was announced on Dec. 1 by Chairman Jackson, upon the transfer of that department from 165 Broadway to 30 Broad Street. At its new address, Chemical's Corporate Trust Department will occupy four floors, with substantially more room for increased current business, particularly in the transfer of stock certificates. Chemical's main office continues at 165 Broadway, Mr. Jackson explained, but the transfer of the Corporate Trust Department to 30 Board Street consolidates all of the bank's fiduciary facilities in the heart of the financial district.

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Announcement has been made that beginning Dec. 1 the Advertising & Publicity Department of **The National City Bank of New York** and the **City Bank Farmers Trust Company of New York**, formerly on the 15th floor at 20 Exchange Place, will be located on the third floor, 52 Wall Street, New York 1, N. Y.

At a meeting of the Board of Directors of City Bank Farmers Trust Company held on Dec. 2 J. Edmund Bull was appointed an Assistant Secretary.

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The National City Bank of New York on Dec. 1 established limited banking facilities at Camp Zama, Japan, a U. S. Army Base located near Yokohama. The new unit is under the general supervision of L. N. Johnson, Vice-President, who has overall direction of National City's Branches in Japan. National City's first Japanese Branch at Yokohama was organized in 1902. Other Branches are in Tokyo, Nagoya and Osaka. The bank also maintains a limited military banking facility at Camp Otsu, near Osaka.

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The election of five officers and employees to new official posts at **The Marine Midland Trust Company of New York** was announced on Dec. 2 by James G. Blaine, President, following a meeting of the Board of Directors. Promoted to Vice-President from Assistant Vice - President were John P. Maney and Donald K. Mackenzie; James F. Schneider was advanced from Assistant Treasurer to Assistant Vice-President. Advancement to new official posts were to Thomas G. Heffernan, Assistant Treasurer, and James Frein, Assistant Secretary.

Stuart Gorrell and William Huckel have received promotions as Second Vice-Presidents on the Public Relations and Advertising staff of the **Chase National Bank of New York** it is announced by Percy J. Ebbott, President. Mr. Huckel, has been associated with the advertising and public relations activities of the **Equitable Trust Company** and subsequently the Chase National Bank for the past 28 years. He is a former President of the Financial Advertiser's Association chapter in New York. Mr. Gorrell was a reporter on the Indianapolis "Star" and city editor of the Miami "Herald" before joining the staff in 1929. He is editor of the Chase Magazine.

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At the annual meeting of stockholders of **Bank of the Manhattan Company of New York**, J. Stewart Baker, Chairman of the Board, made the following statement:

"The Directors plan to increase the quarterly dividend payable Jan. 2, 1953, from 35 cents per share to 40 cents per share and to recommend to stockholders that rights to subscribe to 250,000 additional shares be offered on the basis of one new share for each ten shares held. The dividend will be declared on Dec. 11, 1952, and shortly afterward there will be sent to the stockholders a notice of a special meeting called to vote on the proposed increase in capital. If their recommendation is approved by stockholders, the Directors feel that on the basis of current net operating earnings the new rate can be maintained on the larger number of shares which will be outstanding."

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Election of Howard F. Sunshine, Vice-President in charge of the Real Estate and Mortgage Department of **Manufacturers Trust Company of New York** as Director of 500 Fifth Avenue, Inc., was announced on Nov. 28 by the corporation.

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The Board of Directors of **Guaranty Trust Company of New York** on Dec. 3 declared a quarterly dividend of $3.50 per share on the capital stock of the company for the quarter ending Dec. 31, 1952, and an extra dividend of $2.50 per share, both payable on Jan. 15, next to stockholders of record at the close of business Dec. 15. The result of this action, it is indicated, is that dividends totaling $16 per share have been declared during the year 1952. The directors further determined to submit to stockholders for their approval at the annual meeting to be held on Jan. 21, a recommendation that the capital stock of the company be split five for one by reducing the par value of the shares from $100 to $20 and increasing the number of authorized shares from 1,000,000 to 5,000,000 shares, the new stock to be distributed to the stockholders by exchanging five shares of the $20 par value for each share of the $100 par value stock now outstanding.

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The Board of Directors of **The Public National Bank and Trust Company of New York**, at its meeting on Nov. 26, declared a regular quarterly dividend of 50 cents per share for the fourth quarter ending Dec. 31, and also an extra dividend of 25 cents per share both payable on Jan. 2 to shareholders of record Dec. 19.

Announcement is made that **The Bank of Osaka, Ltd.** resumed as of Dec. 1 its original name, viz: **The Sumitomo Bank, Ltd.** The bank's head office is at Osaka, Japan. Its New York agency is at 149 Broadway. The bank has 137 branches throughout Japan.

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The **Long Island National Bank of Hicksville, N. Y.** now (as of Nov. 21) has a capital of $365,000 — increased from $315,000 as a result of the sale of $50,000 of new stock.

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The Peoples National Bank of Keyport, N. J. has increased its capital from $61,800 to $140,000; the enlargement of the capital came in part from a stock dividend of $38,200, and from the sale of $40,000 of new stock. The increased capital became effective Nov. 21.

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Richard H. Keenan has been elected an Assistant Vice-President of **Central-Penn National Bank of Philadelphia**, it was announced on Nov. 26 by C. A. Sienkiewicz, President. The appointment of three Assistant Cashiers also was announced by Mr. Sienkiewicz. Staff members named to these posts are Charles E. Lafferty, formerly head of the Bookkeeping Department; Edmund Williams, Jr., of the Personnel Department and James Nannos of the Credit Department. Mr. Keenan, who moves up from the post of Assistant Cashier, has been with Central-Penn since 1929. He served in the U. S. Army during World War II.

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As of Oct. 24 the **North Broad National Bank of Philadelphia**, capital $250,000 was merged with the **Broad Street Trust Co. of Philadelphia** under the charter and title of the latter. The plans for the merger were indicated in our issue of Aug. 28, page 751.

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Effective Nov. 3 the **Security Trust Co.** and the **Equitable Trust Co.**, both of **Wilmington, Del.**, and both State members of the Federal Reserve System, merged under the charter of the Security Trust Co., and under the new title of the **Equitable Security Trust Co.** An item bearing on the proposed merger appeared in our issue of Aug. 21, page 669.

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The absorption on Nov. 3 is announced of the **Farmers Bank of Belville, Ohio**, (a State member of the Federal Reserve System) by the **Farmers Savings & Trust Co. of Mansfield, Ohio**, also a State member.

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A capital of $1,250,000 is reported as of Nov. 20 by the **Lake Shore National Bank of Chicago, Ill.**, the amount having been increased from $1,000,000 by a stock dividend of $250,000.

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The sale of new stock to the amount of $100,000 has served to bring the capital of the **National Security Bank of Chicago** to $900,000 from $800,000. The increase became effective Nov. 19.

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J. R. Parten, Chairman of the Board of the **Federal Reserve Bank of Dallas**, announced on Nov. 18 that, as a result of the election recently closed, J. Edd McLaughlin, President, **Security State Bank & Trust Company, Ralls, Texas**, has been re-elected by member banks in Group 3 as a Class A Director; J. B. Thomas, President and General Manager, Texas Electric Service Company, Fort Worth, Texas, has been elected by member banks in Group 1 as a Class B Director; and D. A. Hulcy, Chairman of the Board and President, Lone Star Gas Company and the Lone Star Producing Company, Dallas, Texas, has been elected by member banks in Group 2 as a Class B Director of the Dallas Reserve Bank. Mr. Hulcy was chosen for the unexpired portion of a three-year term ending Dec. 31, 1954, and Mr. McLaughlin and Mr. Thomas each were chosen for three-year terms beginning Jan. 1, 1953.

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Election of Gordon R. Ball to the Presidency of the **Bank of Montreal**, head office **Montreal**, and appointment of Arthur C. Jensen, to succeed him as General Manager, were announced on Dec. 1, following the bank's 135th annual meeting, by B. C. Gardner, President since 1948. Mr. Gardner has been elected Chairman of the Board and of the Executive Committee. Mr. Ball becomes President of Canada's senior banking institution after five years as its General Manager. Beginning his career as a junior at Perth, Ont., the new President takes over as chief executive officer after a broad experience over 38 years. Immediately before his appointment as General Manager in 1947, he was head of the bank's agency in New York, where he was active in Canadian affairs. His predecessor, Mr. Gardner, who was recently made Chancellor of McGill University, comes to the Chairmanship of the bank with more than half a century of banking experience behind him. Born in England, he went to Canada in 1906 at the age of 22, after five years' banking in his native Bristol. Like Mr. Ball, Mr. Gardner was also once head of the bank's New York organization. Subsequently, he was made an Assistant General Manager, and ten years ago he became General Manager under the late George W. Spinney whom he succeeded as President upon Mr. Spinney's death about five years ago. Mr. Jensen's experience in banking extends over 38 years, during which he has served the bank in both London and New York. His first appointment with the bank was as Assistant Manager of the securities department at the head office in 1935. Eight years later he became a Superintendent and in 1947 Assistant General Manager in charge of the bank's Ontario division at the head office.


Gordon Reginald Ball


Arthur C. Jensen


Bertie C. Gardner

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Following a meeting of the Board of Directors of **Croker First National Bank of San Francisco** held Nov. 13, J. F. Sullivan, Jr., President, announced that George M. Doyle had been promoted from Vice-President and Cashier to Vice-President and Controller. This is a new executive office created by the bank. Charles J. Bradley, Assistant Vice-President, was appointed Cashier. Both Mr. Doyle and Mr. Bradley have been with the bank for a number of years. Mr. Doyle joined the bank on Oct. 29, 1913. After serving in various capacities, he was appointed Auditor on Sept. 10, 1942, was made Cashier on July 1, 1948, becoming a Vice-President and Cashier in January, 1952. Mr. Bradley joined the bank in Nov. 19, 1912, and later joined the United States Navy (in 1917), where he served for two years. He returned to the bank following the Armistice, and subsequently became a tax specialist. He was named an Assistant Cashier in April, 1936, and was appointed Assistant Vice-President in 1945.

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The Hon. Calvert C. Pratt, O. B. E., of St. Johns, Nfld., has been elected a Director of **The Canadian Bank of Commerce**, head office **Toronto**. Senator Pratt is Chairman of Steers Limited and associated companies, and is also a Director of other Canadian companies in diversified fields, embracing manufacturing, insurance, steamships, distributing services, utilities, etc.

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Pension Funds

sion fund investments has been the preference for what might be called good quality and high quality corporate bonds—I would say perhaps a notch above the quality standards customarily set by life insurance companies.

That goes back to the reserve question. I think any one will agree that if you want to run successfully a portfolio of lower grade corporate bonds, the only sound way to operate is to accumulate out of your additional yield a reserve for future losses. If you eliminate the possibility of operating on that reserve principle, and open up the possibility which I mentioned before of a high incidence of bond losses in a year in which the company would not like to make up the deficiency in the fund, then you can understand the preference for the better quality of corporate obligations.

That doesn't mean that they all have to be gold-plated. They don't have to be AAA bonds or they don't have to be AA bonds as used in the customary rating systems. But the preference for pension fund trustees is for bonds about which there is relatively little question as to their being money good.

Another phase of pension fund investing, which also differs from the life companies, is the use of common stocks. Here, again, you can see the lack of a liquidity problem. The fact that you don't have to deal with valuation for statement purposes means that a pension fund, as a true long-term investor, can reasonably take a much larger position in equities than other types of savings institutions. The motive, of course, is the better rate of return which stocks provide currently and over a period of years.

The usual approach on common stock investing is the dollar-averaging one. That is rather natural in rapidly growing funds, where actually you haven't got too much of an option. A new fund, after all, may be growing at the rate of 20, 30 or 40% a year in its early years, so that even if on a timing basis you decide that at the beginning you wanted to acquire your whole stock position, you wouldn't have the money to do it. As a practical matter, therefore, you are naturally led to a dollar averaging approach.

These funds, as I have mentioned, are all different, and it is hard to say what might be a typical diversification. I think you can say that corporate bonds account for the bulk of the new investing going on today. Common stocks—at least in our institution—we think of typically as representing 25 or 30% of a fund. In some cases, it may be higher, and in some cases, it may be lower. The bulk of the balance are corporate bonds of good and high quality.

There is some use of preferred stocks and so-called preference type common stocks, such as operating utility companies, bank and insurance equities, etc. Mortgages and real estate investments, as I mentioned, are relatively small.

Now the effect of these pension fund operations on this scale in the capital markets, I think, has been primarily to provide another vehicle for gathering small amounts of funds, and making them available for the financing of large-scale business enterprise.

The thing that is different about the pension trusts, insofar as the capital markets are concerned, is that a relatively higher proportion of the funds goes into the equity markets. In the case of our life insurance companies, savings banks and savings and loan associations, the amount of equity money flowing through their hands is relatively small.

I think it is fair to say that the Revenue Act of 1942 was something of a landmark in the capital markets. That was the Act which put the real step-up in individual income tax rates into effect. We have gone even further from there. That means, of course, that the individual high income bracket investor who fed this stream of equity money in the past, has been largely taken out of the picture. We had a notable period, it seemed to me, of about two years after the end of World War II, in which we could see a shortage of equity money in the capital markets because no new group had come in to replace this other type of savings flow into equities.

In the last few years, we made a lot of progress. The open-end investment trusts have been very active in gathering small savings from among the lower income groups, and that has added to the flow of equity money. These pension trusts in a fairly significant way have also added to the flow of equity money. This, I think, is one of the encouraging and very constructive developments which we have seen in the capital markets in recent years.

Joins Sweeney Co.

(Special to THE FINANCIAL CHRONICLE)

NEW BRITAIN, Conn. — Clarence J. Hoey has become affiliated with Sweeney & Company, 55 West Main Street. Mr. Hoey was formerly with H. M. Byllesby and Company, Incorporated.

LETTER TO THE EDITOR:

Frederick Shull Takes Issue With Dr. Einzig on Gold Price

Active advocate of restoration of gold standard sees no need to raise value of dollar in terms of gold, and says such move would be again a resort to dishonesty.

Editor, The Commercial and Financial Chronicle.

Your issue of Nov. 20 contains an article by Dr. Paul Einzig (London, Eng.), under the heading "Gold Dollar Price and Sterling Convertibility," which is worthy of careful study by all Americans before accepting some of the suggestions as being "all wool and a yard wide."

Frederick G. Shull

According to the article, Britain and South Africa feel that "an increase in the price of gold in terms of the currencies of the countries belonging to the International Monetary Fund" is something greatly to be desired. No nation, however, can raise the price of gold in terms of its own currency without thereby "raising the denomination of its coin." And it was the world's greatest economist, Adam Smith nearly 200 years ago, who said: "The raising of the denomination of the coin has been the most usual expedient by which a real public bankruptcy has been disguised under the appearance of a pretended payment."

Much is said in the article about the need for "sterling convertibility" that the "gold price" is likely to "be linked with the question of sterling convertibility"; and that the subject will "figure very prominently on the Agenda of the impending London meeting of Commonwealth Prime Ministers." None can properly question the statement that "gold price" and "convertibility" are closely related; for those are the two necessary factors which constitute a true gold standard. And if each nation would set the "value" of its own monetary unit in terms of a definite weight of gold, and rigidly adhere to that standard—as both Britain and the U. S. have done, in the past, in keeping their respective currencies "as good as gold"—rather than for a nation to set the value of its currency in terms of another nation's monetary unit, all of this talk about currency "convertibility" would largely solve itself.

Dr. Einzig is correct in saying that "the idea of changing the dollar price of gold is highly unpopular in the United States." And it is to be hoped that it will continue to be "unpopular"; for no greater economic disaster could possibly befall the people of the U. S. than to have their government again resort to the dishonesty of "devaluating" the American dollar. Let other nations do what they will with their own currencies; but let Americans carefully guard against any further tampering with the gold value of their dollar. Let us continue to bear in mind Adam Smith's statement ("Wealth of Nations," p. 589) that "raising the denomination of the coin" is merely an "expedient" for "disguising a real public bankruptcy under the appearance of a pretended payment."

Currency "devaluation" promotes inflation; and it is reasonable to assume, therefore, that upraising of the gold value of a currency would have the opposite effect. If we do anything, therefore, let it be in the direction of more, rather than less, gold per dollar.

FREDERICK G. SHULL
Connecticut State Chairman
Gold Standard League

Nov. 22, 1952
2009 Chapel St.
New Haven 15, Conn.

Will Bretton Woods Plan Be Revised?

By PAUL EINZIG

Noting that the London Commonwealth Economic Conference will consider question of revision of the Bretton Woods Plan, Dr. Einzig points out U. S. has control of this matter, but there is no doubt that American opinion favors a revision. Says U. S. objective of preventing competitive currency depreciation has not proven practicable. Points out present limitations on International Monetary Fund lending render the institution useless to most participating countries.

LONDON, Eng. — One of the many subjects that occupies the Commonwealth Economic Conference at its meeting in London is the question of a revision of the Bretton Woods Plan. Needless to say there can be no question of its revision unless and until the United States has agreed to it. For one thing, the Bretton Woods Plan forms part of the Loan Agreement of 1945, which cannot be altered unilaterally. In any case for all practical purposes the United States Government controls the majority vote on the International Bank and the International Monetary Fund. In considering the subject of a revision the Commonwealth Conference merely aims at arriving at an understanding about the nature of the revision plan that should be put forward. There can be little doubt, however, that American opinion could be persuaded to favor a revision.

Dr. Paul Einzig

When the Bretton Woods Plan was drafted in 1944, and even when it was accepted by the British Government in 1945, it was difficult to foresee postwar conditions and requirements. Since its acceptance seven years have passed and it is now easier to form an idea about what is needed in out postwar world. The authors of the Plan never intended that the rules which they laid down in 1944 could and should be upheld in perpetuity. It was essentially an experimental plan and the revision is now called for in the light of experience.

In one respect at any rate both the supporters and the critics of the Plan prove to have been hopelessly wrong. The main object of the United States in inspiring the Plan and inducing other governments to accept it was the prevention of a competitive currency depreciation. With the memories of the 'thirties still very much alive the American experts and politicians responsible for the Plan considered it of paramount importance that a repetition of that experience should be prevented. The foremost object of Bretton Woods was to prevent Britain from devaluing the pound unilaterally as was done in 1931, when that action greatly aggravated the deflationary depression in the United States. One of the reasons why the Plan had encountered strong opposition in Britain was because many British experts and politicians were on their part reluctant to relinquish the freedom of Britain to determine the exchange value of the national currency, and to avoid a depression, if necessary, by means of a devaluation.

It is the irony of fate that on the first occasion since the acceptance of the Bretton Woods Plan when sterling was devalued this was done most reluctantly under persistent pressure on the part of the United States Government. The roles appear to have been reversed. So far from wanting to devalue sterling against the wish of the United States, Britain was coerced into devaluation by the United States.

Another lesson taught by postwar experience is that it is futile to secure from a country the pledge of abandoning discriminatory devices in international trade and finance. Seven years after the ratification of the Plan by Britain sterling is still inconvertible in relation to the dollar. This is not because the British Government does not wish to revert to convertibility but because under prevailing conditions it would have been impossible to do so with any chance of being able to maintain convertibility. There is every reason to assume that even in the absence of the pledge of removing exchange restriction embodied in the Bretton Woods Agreement the British Conservative Government would do so at the earliest moment when this became practicable.

This does not necessarily mean that on the basis of the lessons of the past seven years the pledges concerning devaluation and convertibility should be eliminated. The time has arrived, however, to reexamine them and to readjust them in accordance with what is found to be practicable.

Generally speaking it is true to say that while the International Bank has been working reasonably satisfactorily the International Monetary Fund has disappointed the expectations of its supporters. Having granted fairly substantial facilities in 1947 to meet the pressure caused by the premature return to convertibility, early in 1948 the Fund suspended its operations almost completely and has been virtually frozen ever since. The reason for this was that those responsible for its policy felt the need for preserving the recources and good will of the Fund for conditions when it would stand a chance of operating successfully. They feel that the facilities of the Fund, substantial as they are, would be a mere drop in the ocean in face of abnormal requirements resulting from the fundamental disequilibrium that characterizes the postwar period. Had the Fund continued to grant facilities in 1948 it would probably have exhausted its resources. It would have had to suspend its operations and would have shared the fate of the Bank for International Settlements, whose attempt to grant help in the Central European crisis of 1931 resulted in its total demobilization, from which it has never recovered.

Beyond doubt, in itself the Fund is not strong enough to cope with the dollar gap. It could and should, however, supplement other arrangements which will have to be made in order to enable Britain to return to convertibility. The mere fact that the Fund is once more ready to grant facilities would go a long way towards making that step easier. Under its present statutes, however, the extent to which the Fund would be in a position to help is highly inadequate. No country is in a position to draw on its quota in excess of 25% of the total in any one year. Moreover, if the amount utilized exceeds certain limits the interest charged by the Fund becomes very high. While the total of facilities available to Britain is impressive, their actual use in case of need would be limited by these rules. A revision of the statutes removing the 25% limit and lowering the interest charges would be very helpful from the point of view of strengthening confidence. It would strengthen the "second line of defense" of sterling represented by Britain's facilities with the Fund. The mere fact that the facilities are made available might obviate the need for using them.

This is only one instance of the scope of a revision of the Bretton Woods Plan. There are many others. It is to be hoped that the consideration of the problems involved by the Commonwealth Conference will be followed by an International Conference of all countries participating in the Fund.

Brown Bros. Harriman To Admit Partners

David G. Ackerman and L. Parks Shipley will become general partners in the private banking firm of Brown Brothers Harriman & Co., 59 Wall Street, New York City, on Jan. 1, 1953, it has been announced.

Mr. Ackerman has been with the firm since 1930 and in recent years has been a manager and in charge of its investment advisory business. He is a director of Drilling & Exploration Co. of Delaware, Twin Oil Corporation, Austral Oil Exploration Company, Inc., Hydrocarbon Production Co. and other corporations.

Mr. Shipley has been with the firm since 1933 and in recent years has been a manager and senior loaning officer. He is a director of the Manhattan Life Insurance Co. of New York.

Established in 1818, Brown Brothers Harriman & Co. is the oldest and largest private banking firm in the United States, with total assets of approximately $230,000,000. In addition to its commercial banking activities, the firm also conducts an extensive investment advisory business. It holds memberships on the New York Stock Exchange and the New York Curb Exchange with which the required applications for approval of the admission of the new partners have been filed.

General partners include Moreau D. Brown, Thatcher M. Brown, Prescott S. Bush, recently elected United States Senator from Connecticut, Louis Curtis, E. Roland Harriman, Stephen Y. Hord, Frederick H. Kingsbury, Jr., Thomas McCance, Ray Morris, H. D. Pennington and Knight Woolley. W. Averell Harriman is a limited partner.

La Salle St. Women Christmas Dinner

CHICAGO, Ill.—La Salle Street Women will have their annual Christmas Dinner on Tuesday, December 9, at The Chicagoan Hotel. A cocktail party will be held at 5:30 p.m. just before the dinner, and a Christmas program has been planned.

Following their customary procedure, gift packages from the various members of the group will be distributed to the Women's T.B. ward of the Oak Forest Infirmary.

Miss Eleanor B. Karcher of Channer Securities Company is President of the organization.

Firm Municipal Bond Market Ahead!

Alan K. Browne, Vice-President of Bank of America, San Francisco, holds current bond yields, considering current 52% corporate tax rate, are decidedly attractive. Foresees heavy new bond issues, particularly in California.

According to Alan K. Browne, Vice-President of Bank of America, San Francisco, the outlook for municipal bond prices is good, taking in view the result of recent national election.

Alan K. Browne

The new Administration's understanding of important issues has dispelled the uncertainty of recent months, he states, to the benefit of necessary Federal, state and municipal public financing. Basic rates, according to Mr. Browne, will continue firm, with fluctuation from current levels influenced by possibilities of lower income taxes and the likelihood of repeal of the Excess Profits Tax.

Analysis of election returns relating to municipal bond authorizations evidences a note of conservatism, he contends. Electors vetoed unnecessary public spending and turned "thumbs-down" on all "crack-pot hand-in-the-government-pocket" schemes.

Current bond yields based on a 52% corporate tax are decidedly attractive, Mr. Browne continued, when compared with yields available when a 38% rate was in effect. Today better quality 20-year California municipal bonds yield 2.36% compared with 2.44% in November 1948, based on the Bank of America's California municipal bond average. This is equivalent to a return on a taxable bond of 4.92% today, compared with 3.94% in November 1948—a high yield period—when the 38% corporate tax was in effect.

The continued growth of California, requiring expanding school, hospital and sanitary facilities has been financed without any strain on the economy of the state. Increased property values in addition to the dollar volume of business has provided adequate revenue for all purposes.

Additional state and local financing for flood control, water development and conservation, bridges and highways is contemplated particularly during periods of business recession.

The expansion of eastern industry into California in addition to the trek of population from out-of-state, either to become permanently domiciled or enroute to the Far East, has been of tremendous dollar and publicity value to the state. As a result, investors and dealers alike are more responsive to offering of California securities. The market has widened and a better appraisal of credit has resulted.

The anticipated volume of new financing is substantiated by bond election returns. California has contributed a good portion of the newly authorized issues including:

$185,000,000 California State School Building bonds.

$150,000,000 California State Veterans Aid bonds.

$2,500,000 Anaheim Union High School District bonds.

$3,750,000 Excelsior Union High School District bonds.

$179,000,000 Los Angeles County Flood Control District bonds.

$3,500,000 San Diego City Storm Drain bonds.

$4,750,000 San Francisco City and County Fire House bonds.

$3,250,000 San Marino Unified School District bonds.

$2,300,000 San Mateo County Community Hospital bonds.

$4,850,000 Whittier Union High School District bonds.

Continued from page 12

Economic Stability Through Federal Budget

insurance program has some of these same effects too because in a depression, retirement payments will be stepped up as people retire earlier, while in a boom retirements will lag and tax payments will accumulate. Federal grants to States for the needy aged will also rise and fall with the business cycle.

Some of the government's insurance activities, such as the programs of the Federal Housing Administration and the Veterans' Administration, may also operate to lessen deflationary tendencies. While the amount of new insurance written would decline in a recession, the existence of insurance would soften mortgage losses and thereby avoid certain spiraling effects. On the other hand, these insurance and guarantee programs may add to inflationary pressures in a boom if they are pushed too hard. As I said earlier, it is easier to build government programs up than to tone them down.

No discussion of built-in stabilizers would be complete without reference to the thoughtful work done by the Committee for Economic Development. Mr. J. Cameron Thomson and his subcommittee on monetary and fiscal matters have given considerable thought to the possible stabilizing effects of Federal taxes on business conditions. The CED has suggested that tax rates be set to balance the budget and provide a surplus for debt retirement when employment and national income are high. Then these rates of tax should be left alone unless there is "some major change in national policy or condition of national life." [4] Tax revenues will go up faster than business in booms and will go down faster when the business cycle turns downward. The Committee says that "this automatic variation of revenues will exert a stabilizing influence on the economy."

Carrying still further the idea of a fiscal program planned to counteract cyclical fluctuations, some economists have proposed a "formula" arrangement "under which preannounced tax cuts and upward revisions of spending programs will come into force if unemployment exceeds a certain figure or production falls below a certain level, and preannounced changes in the opposite direction if price indexes rise at more than a certain speed." [5]

The Burden of Taxation

Now it is time to turn to the subject of the burden of taxation. I noted earlier that taxes have varying economic effects and tax dollars do not all impose a uniform burden on the taxpayer. Different taxes act in different ways, and they may also have different effects as general economic conditions change. Some taxes are passed on to other than the taxpayer who is formally making the payment. It is probably easier to pass a tax on in a boom than in a depression.

Unfortunately, there are few known facts about these matters, although assumptions must be made in working out a tax program. This is a serious problem in the field of fiscal policy. It has led to controversies over whether taxes are inflationary at certain high levels rather than deflationary as used to be taken for granted. The "deflationary" school says that taxes take away the ability to spend, and therefore counteract inflationary trends. The "inflationary" school says that taxes are costs and help to increase prices (that is, the taxes are passed along to someone else) and also that taxes frequently lead to free and easy spending on expense accounts, etc. Furthermore, the "inflationary" school says that high taxes discourage the incentives to work and to produce more. A high marginal rate of tax on the last dollar of income is particularly bad; but even moderate total taxes may help to increase inflationary pressures by inducing workers to demand higher wages.

There is logic on both sides of this argument. But in the final analysis, I believe that it is government expenditures — rather than taxes—that should be viewed as imposing the real burden on society as a whole, under present circumstances. The spending takes the goods and services away from private use for the use of government. In the present situation, with a large defense program, therefore, the burden of the military effort is determined when the spending is done and the goods and services are taken by the government. This sets the limitation on the remaining goods and services which are available for civilian use. In other words, the real standard of living is determined by the physical level of output available to civilians after the government takes its "bite" of the goods and services for government use.

Now where do taxes fit into this? I would say that the economic purpose of taxes is to support the government in levying its claim on a certain volume of goods and services. If the budget is balanced, then taxes will take enough away from the flow of income to balance off what the government is taking from the physical volume of goods and services. It follows also that in this way the volume of income left to civilians after taxes will correspond approximately with the volume of goods and services available to them. There will thus be a reconciliation of the financial side of the coin with the physical side. Supply and demand are likely to be kept pretty well in balance.

In the final analysis then, the role of taxes today is to help apportion the real burden of defense among different groups of our citizens. Taxes do not create the burden of the military program, they simply help distribute it among the people. The failure to levy enough taxes would not mean that the burden had been avoided; on the contrary, *inflation* would become the distributor of the burden among the people. The way to face the burden of a defense effort like the present one is to pay for it to the fullest possible extent on a pay-as-you-go basis, since in economic terms it must be almost entirely paid for as we go anyway. But as I have noted, it matters a great deal where the tax dollars come from, since a dollar taken from one source may have a completely different inflationary potential than a dollar taken from another source.

The 25% Tax Limit Idea

An Australian economist named Colin Clark has developed the thesis in recent years that the economic limit of taxation is about 25% of the national income.[6] This idea has created a great deal of interest in Western countries.

Clark argues that when the total of all taxes (national, state and local) exceeds about 25%, they begin to undermine production and promote inflation. I have noted earlier that some taxes may have inflationary effects at certain times, but Clark's thesis is that a total "bite" of one-quarter of national income by taxes has these effects in a general overall way.

He suggests three reasons for his conclusion: (1) "When taxation exceeds 25% of national income, influential groups will favor inflation as a means of reducing the burden of the public debt and other fixed charges in the budget." [7] (2) Taxation at such levels will impair the incentives to work and to invest in plant and equipment. (3) Such taxation will weaken employers' resistance to wage increases, and will encourage wasteful business spending.

Clark's doctrine is of immediate practical importance in the United States, because our taxes have recently exceeded 30% of national income and we have been bothered by inflationary price rises. But American tax economists seem to have generally disagreed with Clark's reasoning. For example, the Harvard "Review of Economics and Statistics" for August 1952 contains an article by two Government economists (Joseph A. Pechman and Thomas Mayer) which thoroughly analyzes the statistics used by Mr. Clark in developing his theory and is sharply critical of his methods. Moreover, the Joint Committee on the Economic Report held a panel discussion on Federal fiscal policy early this year that was attended by eight tax economists—including a professor who is President of the National Tax Association, a research economist from the CED, and several university economists with varied backgrounds in the Federal Reserve, the Treasury, and the Budget Bureau. When the discussion turned to the question of Clark's 25% tax limit, not one of the eight panel members supported the Clark doctrine, at least as applying in this country. Among the points they made against Clark were the following:

(1) While there is always a tax limit, it is not uniform in all countries nor does it stay the same for any length of time in any one country.

(2) The tax limit varies greatly depending on the nature of taxes and Government spending.

(3) The tax limit depends on the degree of economic development in a country, and the distribution of income.

(4) The tax limit varies with the quality of tax administration and the psychological attitudes of the citizentry toward taxes.

One of the panel members, Professor Walter Heller of the University of Minnesota, has emphasized in a recent paper that high taxes should not be judged in a vacuum, but in comparison with alternative evils. When Government spending is high and there is full employment "the penalties we pay for not taxing" are high in his opinion.[8] This is similar to my earlier point that Government expenditures determine the real burden of Government for society as a whole in conditions like the present. This burden cannot be avoided by "not taxing." [9]

I believe that when trying to assess the burden of taxes or of total expenditures we should look at the whole budget and all of its many economic effects. No rule-of-thumb answer as to an aggregate breaking point will help very much, and as far as taxes are concerned, bad tax repercussions may be present long before any aggregate economic limit of taxation is reached.

The Clark tax limit theory should not be confused with the proposed constitutional amendment which would "prohibit the Federal Government from taxing incomes, estates, and gifts in peacetime at rates in excess of 25%." This 25% is quite different from Clark's 25%. Here the reference is to the total tax applicable to any one taxpayer. According to a Congressional Committee staff report, "24 State legislatures have enacted endorsing resolutions" in favor of this kind of limitation (as of Feb. 21, 1952). "Of these, seven have reconsidered their action and rescinded their resolutions; in two others, the governor vetoed the resolutions. Only 15 States have resolutions which appear to be in force at the present time." [10]

This project arouses considerable interest, but it is doubtful whether it will ever be carried through. Critics argue that it is too inflexible and would raise many difficult problems. Holding down taxes does not by any means necessarily hold down expenditures, and I have heard it said that if we made all bad taxes unconstitutional, the result might not be good taxes but inadequate taxes.

General Eisenhower stated his opposition to the proposed 25% limitation recently (Oct. 6, 1952) as follows:

"An arbitrary ceiling on the power to tax, without a like ceiling on the power to spend, could likely result in larger and larger deficits and a grave financial unsettlement. And the rigidity of a Constitutional amendment would be a source of danger in possible future national emergencies." [11]

The Current Budget Outlook

And now, before concluding, I will present a brief review of the current budget situation. With a new Administration coming into power in Washington in January, there are more budget uncertainties than ever, although certain things do stand out clearly enough in broad outline.

In the current six-months period, budget expenditures are running about $36 billion. Budget receipts will aggregate about $26

4 Committee for Economic Development, *Taxes and the Budget*, November 1947; and *Monetary and Fiscal Policy for Greater Economic Stability*, December 1948.

5 This proposal was made by a Conference of University Economists meeting at Princeton, N. J., Sept. 16-18, 1949, under auspices of the National Planning Association. See 81st Congress, 1st Session, Joint Committee on the Economic Report, *Monetary, Credit, and Fiscal Policies*, a collection of statements submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies ("Douglas Subcommittee"), 1949, p. 439.

6 See "Economic Journal," December 1945, and "Harper's Magazine," December 1950.

7 Richard Goode, "An Economic Limit on Taxes: Some Recent Discussions." National Tax Journal, September, 1952 p. 228.

8 "How High Can Taxes Go?", The Commercial and Financial Chronicle, Oct. 2, 1952, p. 28.

9 A report of the Joint Committee on the Economic Report has pointed out that "insofar as adequate taxation is an alternative to inflation, the question is simply whether it is not easier to bear a rationally planned equitable tax schedule than to suffer the inequities of a tax levied by reducing the purchasing power of the dollar." 82nd Congress, 1st Session, "Inflation Still a Danger," National Defense and The Economic Outlook, 1951, p. 22.

10 82nd Congress, 2nd Session, Committee staffs of the Joint Committee on the Economic Report and the Select Committee on Small Business of the House of Representatives, "Constitutional Limitation on Federal Income, Estate and Gift Tax Rates," 1952, p. 1.

11 The New York "Times", Nov. 20, 1952.

billion, leaving a budget deficit of about $10 billion.

In the first half of 1953 expenditures will probably rise to around $40 billion. Receipts may be expected to jump to about $43 or $44 billion as heavy corporate taxes will be paid in March and June. A budget surplus of about $3 or $4 billion is, therefore, to be expected in the first half of 1953.

As you all probably know, one of the last acts of the Truman Administration will be to send Congress the official Budget for the fiscal year 1954—the period running from July 1, 1953 through June 30, 1954. The Eisenhower Administration will certainly wish to make many changes in this Budget, but that will take time, and the Congressional machinery may be expected to take many, many months before completing its part of the appropriation process. It looks now as though the government will be spending at an annual rate of something like $80 billion when the fiscal year 1954 starts next summer, while taxes will be coming in at an annual rate of about $70 billion—before allowing for any expirations of taxes as now scheduled. On this basis, a Federal deficit will be accruing at an annual rate of about $10 billion in the administrative budget accounts at that time.

I do not know what expenditure cuts will be made, but the picture will be complicated by the fact that a number of tax expirations are scheduled under present law to take place sometime during the fiscal year 1954. The staff of the Joint Committee on the Economic Report prepared a memorandum on these taxes for the Committee on Nov. 12, 1952 and I would like to draw on that memorandum briefly:

"Given the difficulties of forecasting income levels and (tax) yields derived from them, it appears that if the tax increases provided in recent laws expire according to present statutes, the tax receipts of the Federal Government will be reduced in a full year by approximately $8.5 billion and in the fiscal year 1954 by approximately $2.2 billion."

There are four major tax expirations scheduled during this period, as follows:

	Revenue Loss (billions of dollars) Fiscal Year 1954	Full Year
Excess Profits Tax—terminates July 1, 1953	$1.3	$2.5
Individual Income Tax—expiration Dec. 31, 1953 of last rate increase (averaged 11%)	.8	3.0
Corporate Income Tax—decline of 5 points April 1, 1954	--	2.0
Excise Taxes—various temporary increases expiring April 1, 1954 (alcohol, automobiles and trucks, cigarettes, gasoline and sporting goods)	.1	1.0
Total	$2.2	$8.5

The appendix presents more detail on tax changes scheduled by present law.

Will these expirations be permitted to take place? I doubt that all of them will be feasible. It is not going to be easy to reduce expenditures, and, as I have just indicated, I think it will be necessary to cope with a starting deficit rate of about $10 billion as fiscal 1954 begins.

Summary and Conclusions

Now to review the major points made in this paper.

First, I discussed the development of fiscal policy, and pointed out that its importance was not generally appreciated until fairly recently. I also emphasized that the concept has grown so that today fiscal policy is concerned with the economic effects of all spending, lending and insuring programs of the Federal Government, and all its revenue programs.

Second, I considered the role of fiscal policy. Most economists feel that fiscal policy is no panacea for the business cycle, but properly used in conjunction with monetary policy, can contribute significantly to economic stability. It is recognized that fiscal policy is cumbersome, and that sharp changes in expenditures and taxes may be hard on taxpayers. Moreover, there is a danger that expenditure programs adopted in a depression cannot be turned off when business revives. But in spite of such difficulties sound fiscal policy is highly desirable since economic effects are bound to arise from the Budget whether wanted or not.

Third, the use of "automatic stabilizers" in the Budget was discussed. Certain taxes and expenditures turn about automatically to provide desirable counteraction to turns in the business cycle, and therefore contribute to economic stability.

Fourth, the burden of taxation was analyzed. The real burden of Government in times like the present results from the size of Government spending — spending absorbs goods and services and therefore denies them to civilian use. Taxes do not determine the burden for society as a whole but attempt to distribute that burden among the people. However, taxation itself may have inflationary repercussions. It is important to have tax policies which are appropriate to the free enterprise system and the current phase of the business cycle.

Fifth, I reviewed the theory that taxes reach an economic limit when they rise to 25% of national income. There has been much disagreement with this figure on the part of economists in this country, who have argued generally that the economic limit depends on many complex factors.

Finally, the budget outlook was briefly considered. A deficit rate of about $10 billion is to be expected for mid-1953, with subsequent developments dependent on the size of expenditure cuts and on whether or not tax expirations scheduled by present law are permitted to take place or are modified by new legislation.

Canadian Securities

By WILLIAM J. McKAY

In view of Canada's important position as a source of raw materials for the United States, the Bank of Montreal, in its current "Business Review," surveys the situation in the light of the recent Paley Report, entitled "Resources of Freedom," a report to the President of the United States by the President's Materials Policy Commission. Commenting on the need for strategic raw materials now available in Canada, the Bank of Montreal points out that, considering its wealth and resources, along with its expansion program, Canada can "benefit richly over the short and middle term from the colossal appetite for materials of our neighbors to the South," but, it adds, "if the trend is toward an age of scarcity that can only be averted by major technological developments, we too may be well advised to do some serious stock-taking for the longer range in the midst of our apparent plenty. For, in the words of the Commission, 'the consumption of almost all materials is expanding at compound rates and is thus pressing harder and harder against resources which, whatever else they may be doing, are not similarly expanding.'"

The hint in these remarks that Canada may in the distant future find it necessary for conservation purposes to restrict its export of raw materials to further its own industrial development has, as yet, found little expression in Canadian trade and financial circles. Much has been made, however, of the rapid industrialization trend in Canada, and protests have been voiced against U. S. tariff duties on Canadian manufactured products. But the urge for greater trade and fewer restrictions on movements of goods both ways across the border is being stressed both in Canada and the United States. As stated by the Canadian Minister of Trade and Commerce, the Rt. Hon. C. D. Howe, at a luncheon session of the National Industrial Conference Board in Detroit on Nov. 20:

"While trade relations between Canada and the United States have never been better, they are capable of considerable improvement. The resources of this North American Continent are still not being used to best advantage even as between our two countries. True, we exchange our raw materials without serious restrictions, but can the same be said of manufactured goods and agricultural products? You know the answer to that question as well as I do. If our two countries are determined, as I think we are, to play a full part in getting rid of the restrictions that so hamper world trade, I think we have a useful job of tidying-up to do in our own back yard."

Commenting on the sources of Canada's economic growth and prospects of its continuance, Mr. Howe, in his address stated:

"Our growth has been stimulated by favorable external factors, by increased demands for the products of Canadian farms, factories, forests and mines. It will continue to be affected by these external factors. On the other hand, I think it is also true to say that to a large extent the recent expansion is independent of external conditions. It rests upon discoveries and developments which enable Canada to compete for an increasing share of Canadian and world demands, particularly for such basic products as oil, petro-chemicals, iron ore, aluminum, uranium, nickel and so forth. That is one reason why the growth of Canada has been so steady in post-war years and why Canada managed to avoid the sharp recession that took place in the United States in 1949.

"We are still in the midst of this basic development. Enough is known of the plans of the manufacturing, utilities and mining sectors of industry to support the view that total capital expenditure will continue at a high level in Canada for several years to come.

"Looking further ahead, I am equally confident that Canada will continue to grow and expand. For Canada today is a strategic supplier of many of the commodities needed in the free world, and as standards of living of the peoples of the free world rise, the demands on Canadian resources are bound to grow."

S. M. Roth Co. Opens

Stanley M. Roth & Co., will be formed Dec. 11, with offices at 41 Broad Street, New York City. Partners will be Stanley M. Roth, general partner, and Helen R. Gordon and Etta Roth, limited partners. Mr. Roth will be a member of the New York Stock Exchange. In the past he conducted his own investment business in New York.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Insurance Stocks

Mr. George Geyer of Geyer & Co., 63 Wall Street, New York gave a talk recently before the Bond Club of Buffalo entitled "Insurance Stocks: The Present Practicalities."

As usual, Mr. Geyer presented an interesting and refreshing point of view on insurance stocks. His remarks have been printed and distributed to clients of Geyer & Co. and because of the fact that it represents the thinking of one of the leading investment houses specializing in insurance stocks, we comment on the discussion below.

The central theme of Mr. Geyer's remarks is that among the two general types of insurance stocks—fire and casualty—there is a divergence of operating trends which together with a difference in market action makes the one group seem to be "overpriced or at least fully valued" and the other group "fundamentally undervalued."

Concerning the "blue chip" insurance stocks, Mr. Geyer points out that certain of these issues are heavily favored by institutional buyers. Because of a shortage of supply these shares have risen much more than the general insurance list and are now at historically high prices.

Six of these "blue chips" at recent market prices were selling on a 2.85% yield basis and at a discount of about 5% from June 30 asset values. At the same time these same six stocks were selling at about 13 times what Geyer & Co. considered their "average earning power."

Another group of 31 insurance companies writing a large volume of straight fire insurance, were selling at only 9-10 times "probable earnings of the current year," yielding 4.10% and available at a discount of approximately 34% from the latest per share asset value computations.

While these discrepancies within stocks of the fire group would under different circumstances, inspire an optimistic attitude towards certain shares, the cyclical character of fire underwriting and the fact that fire insurance has had five years of profitable underwriting, warrants a cautious attitude towards these stocks. This is especially true in view of the historically high prices at which many of the various shares are now selling.

Mr. Geyer in support of his contention points out that after five years of very profitable underwriting there are indications that substantial reductions may be imminent in fire premium rates.

Inasmuch as fire rates in many important states are based on the loss experience over a period of five preceding years, it seems inevitable that a downward adjustment will be made in view of the very favorable experience on these lines in recent years. In fact, as Mr. Geyer points out, there have already been a number of rate reductions and more are indicated.

Under these circumstances and although there are certain offsetting considerations, it seems likely that the next phase of the fire underwriting cycle will be on the down side with lower profits realized on this phase of the business.

As opposed to this somber outlook for fire underwriting Mr. Geyer is optimistic about the prospects for casualty stocks.

Because of the highly unfavorable underwriting experience on automobile bodily injury and property damage risks written by casualty companies in recent years, casualty insurance stocks have not participated in the rapidly rising common stock prices of the past two years and "average prices still are 8½% below the best prices of early 1950."

As a result 20 representaive casualty insurance stocks were recently selling at prices equivalent to 8½ times "their average annual earning power—and at much lower capitalization of the higher earnings that can be realized in comparatively good years."

Mr. Geyer states that "the restoration of normal earnings within the next year, on the automobile bodily injury and property damage risks written by these companies, is now reasonably assured."

There have been "two rounds" of general rate increases within the past year-and-a-half. The full impact of these adjustments has not been reflected in operating results because of a lag between the time the new rates are effective and the old policies are renewed.

Underwriting results should show substantial improvement over the next year as the increased rates become effective and normal profit margins are restored. Stock prices should reflect this improvement.

The remarks of Mr. Geyer are indeed interesting and should be reviewed in connection with existing holdings or contemplated purchases of fire and casualty insurance stocks.

With Security Assoc.

(Special to THE FINANCIAL CHRONICLE)

WINTER PARK, Fla. — Parker C. Banzhaf, Louis A. Hornstein, and Robert L. Rhodes have become affiliated with Security Associates, 137-139 East New England Avenue.

Laird, Bissell Partner

WILMINGTON, Del. — Laird, Bissell & Meeds, du Pont Building, members of the New York Stock Exchanges, on Dec. 11, will admit Louis J. Sneed, Jr., to partnership.

Securities Salesman's Corner

By JOHN DUTTON

BUILDING AN INVESTMENT CLIENTELE

(Article 1 — Part 1)

"The Ups and Downs of the Securities Business"

Back in the twenties when the public was first introduced to the many vagaries of stock and bond investment, there was a classic saying among securities salesmen. It went, "The life of your clientele is five years." During the years that followed the market break of 1929, there have been periods when investors have seen their capital shrink substantially, such as during 1937, or again during 1946 and 1949. The ebb and flow of economic forces, of war, of booms, of depression and recession, and of growth in one industry and decadence in another, have taken their toll.

During the years when security prices have been rising and dividends have been increasing, security salesmen have plodded away, gaining new clients and adding to their circle of customers and friends. The main problem has been evident only when bear markets have eventually taken their toll of investor confidence. This is the time when the hard work of several years is often washed away, and the good friend and steady customer of those happier days no longer calls on the telephone but goes elsewhere to place his orders.

This situation has plagued the securities business for almost as long as we have known widespread participation by the public in corporate forms of investment. Very little has been done by the securities industry to eradicate the vast area of investor misunderstanding that still exists today. Instead of attempting to educate the investing public along the lines of sound procedures, in many cases we have taken the road that leads to quick profits. This is the line of least resistance.

The Wrong Securities at the Wrong Time

Only too often have we encouraged the purchase of highly speculative securities at the top of a boom. During 1945, of recent memory, a flood of "new issues" of the most promotional character were sold to the public. Many salesmen worked diligently all during the years of 1942 through 1944 to build up a new circle of investor clients, only to turn around and trade them out of more conservative investments, and replace these securities with speculative promotions. The heavy demand which was created by the excitement generated at that time, caused people who thought they were investors to forget all about such things, and run after quick profits in the "new issue" market. Investment firms that had never been prominent in the underwriting field created new stock issues and had no difficulty whatsoever in selling them almost immediately. Great speculative enthusiasm ran all through the investing community — brokers, customer's men, underwriters, unlisted dealers and the customers themselves, all had the fever. Everyone was seeking something for nothing—over-subscription was the test of value—not the intrinsic merit of the security itself.

Historically, the public buys the less conservative type of investment security at the top of a boom. Instead of looking for safety and building up reserves, they almost compel the investment salesman to sell them speculative stocks. They are often very much like the man who came to my desk back in 1929 before the crash. It so happened that one of my distant relatives was the president of a company that was offering stock to the public for the first time in its history. This company had only a fair record of earnings, and although it was well thought of locally, there seemed to be grave question upon the part of the firm for whom I worked, as to the value of the stock at the price it was being offered. Despite the admittedly high price for this stock, the over-subscription was heavy, and the when-issued market soared substantially the day before the offering took place. One of the my steady customers came to my desk and told me that he wanted a certain amount of that stock, and that he thought I should be able to secure it for him. I tried to tell him something about the facts of life—the low yield—the high ratio of price to earnings — the increased burden that would be placed upon management to earn the additional dividends made necessary by this financing—and I even went so far as to tell him that when I had asked my cousin about it, he told me that he didn't think I should buy the stock. The man looked at me in amazement. He actually thought I was trying to keep him from getting in on a good thing. He said, "If that is all you fellows can do for me after all the business I have brought in here to you, you know what you can do." I finally got him 50 shares on the original offering, and the company eventually went into a dismal receivership that lasted for many years.

The General Appeal for Business

Another weakness in the distribution of securities has been that we have too often made a general appeal for business. We have geared our advertising to the theme that stocks can be bought almost by anyone, at any time, and in any amounts. We are still doing this type of solicitation. It may bring in some business but it is certainly not going to help the public in acquiring the necessary understanding which they must eventually have, if they are to become successful investors over the longer term of a lifetime.

As an illustration, I heard the following radio announcement which concluded a broadcast of the closing stock exchange quotations by a brokerage firm just a few weeks ago. It went something like this: "Can you invest one thousand dollars in stock? If you have even as small an amount as a few hundred dollars you can invest in American Industry. One steel corporation has over 250,000 stockholders, a large telephone company has over a million shareholders, many of them own less than five shares apiece. Come in and see one of our courteous account executives and he will gladly discuss your investment problems with you. Six percent, or better, can be obtained when you invest in many of the leading corporation shares that are listed on the New York Stock Exchange." This may bring in some business, but it is a question as to whether or not this is the proper way to start people along the road of investing in securities.

A man's money is his most important asset next to his health. In most cases he thinks more about it than he does about his health. Money is his nerve center. Are we selling potatoes and cabbages — or are we dealing with the future welfare of those people who do business with us? If we sell the wrong stocks to the wrong people — if we sell the wrong stocks at the wrong time—or the right stocks at the wrong time—if we do not do a complete investment job for our clients, somebody is going to be hurt. In other lines of business the hurt can be bad for the client, too—but in our business it can be even more than a mistake—it can be the end of the road for our client—and for us, as far as any future business relationship is concerned.

(Continued Next Week)

Continued from page 10

Wage Policies Since World War II

June, 1950. This was a period of rising production and most of it was a period of rising prices. Unemployment, however, was fairly high — the monthly average was 3.7 million, or 6% of the civilian labor force. Hourly earnings were rising even during the latter part of 1949 when both the consumers' price index and wholesale prices were falling and, after prices began to advance, hourly earnings increased faster than prices. In June, 1950, the rise of hourly earnings above July, 1949, was 3.5%; of the consumers' price index 1.0%; and of the wholesale prices of non-farm and non-food products 2.4%. The fact that in the recovery from the small recession in 1949, hourly earnings led both the consumers' price index and wholesale prices is significant because in the days before unions were strong, wage movements lagged behind most other price movements.

(6) **The period from June, 1950 to March, 1951.** This was the period of the first vigorous reaction to the outbreak of fighting in Korea. Employment, production, prices, and wages all increased rapidly. The index of non-farm and non-food wholesale prices (as well as the index of all wholesale prices) reached a peak in March, 1951 and the index of industrial production in the next month. Thereafter, the index of industrial production leveled off. The consumers' price index continued rising (though at a slower rate) until the end of the year.

During the nine-month period of vigorous reaction to the Korean war, hourly earnings, consumers' prices, and wholesale prices rose rapidly, but wholesale prices of non-farm and non-food products outran hourly earnings, and the consumers' price index increased slightly faster than hourly earnings. Between June, 1950 and March, 1951, the prices of non-farm and non-food products rose 15.9%, the consumers' price index 8.4%, and hourly earnings 6.2%.

(7) **The period March, 1951 to July, 1952.** I conclude this period with July, 1952 because it is the last month for which comprehensive wage data are available. The period of March, 1951 to July, 1952 was a time of stability at a high level of employment and production. The index of industrial production showed virtually no change (except for several months when it was brought down by strikes), the large inventories accumulated during the speculative rush to buy in the first nine months of the Korean war were being liquidated, and wholesale prices were slowly drifting downward. The proportion of personal income after taxes spent on consumers' goods, however, was slowly rising and so was the consumers' price index, and hourly earnings were rising faster than living costs. In July, 1952, the wholesale price index of non-farm and non-food products was 4.1% below March, 1951, but the consumers' price index was 3.4% above 1951, and hourly earnings were 5.6% above. By July, 1952, hourly earnings had slightly more than recovered the purchasing power of June, 1950, since the rise in hourly earnings from June, 1950 was 12.7% and of the consumers' price index 12.1%.

Four generalizations emerge from this examination of wage and price movements. The first generalization is that wages are quite sensitive to prices and are pushed up quite promptly whenever prices rise. This happened in the second period from June, 1946 to June, 1947, and in the sixth period from June 1950 to March, 1951—both periods in which prices were increasing faster than wages. The second generalization is that in most periods of advancing prices, hourly earnings rise faster than prices. This happened in the first period, the third, the fifth, and the seventh period. The third generalization is that hourly earnings continue to rise slowly even in the face of falling prices and increasing unemployment provided the recession is not severe and the level of employment remains high. This happened in the fourth period from September, 1948 until July, 1949, and in the first part of the fifth period. The fact that in only two of the seven periods were prices rising faster than hourly earnings, and that hourly earnings continued to rise even in the face of falling prices, indicates that the movement of wages is influenced to an appreciable extent by forces which are more or less independent of prices. The fourth generalization is that the relationship between wages and prices is affected to a significant extent by changes in the proportion of personal incomes spent on consumers' goods.

IV

How did the rise of hourly earnings compare with the rise in output per manhour? In July, 1952, output per manhour in manufacturing was about 22% greater than in January, 1946, but hourly earnings of factory workers were 64.1% higher. In 1950, output per manhour in all non-farm private industry was 10% greater than in 1946, but average hourly earnings of non-agricultural private workers in 1950 were 34.2% higher.[14] It is plain that hourly earnings have been rising both in manufacturing and in industry as a whole more than three times as fast as productivity. Even in the period of a mild recession in prices and of a rise of unemployment between September, 1948 and July, 1949, hourly earnings were rising at the rate of over 3.5% a year, which is higher than any of the estimates on long-run increases in productivity.

In the two years following June, 1950, the productivity of the private part of the economy seems to have increased with unusual rapidity—perhaps by as much as 5% per manhour per year. Part of the apparent increase, however, may be an illusion—the result of changes in the kinds of goods produced and perhaps of a drop in the quality of some goods. But even if the rise in output per manhour has been as much as 5% a year, it has been less than the rise in hourly earnings, which increased between June, 1950 and July, 1952 at the rate of about 6% a year.

V

How have unions affected the movement of money wages? Somewhat more than 14 million workers in the United States are organized. Almost two-thirds of the employees in manufacturing, four-fifths in railroading, four-fifths in construction, four-fifths in coal mining and four-fifths in metal mining, belong to trade unions. The principal business of unions is to get more money for their members. Are they able to do so? Do they have any effect upon the rate at which money wages would rise during periods of expansion? Do they limit the fall of money wages during recessions?

Economists are pretty well agreed that unions tend to limit the fall of money wages during recessions. The effect is probably not great, for the simple reason that there is little tendency to cut the wages on non-union workers during recessions. This is shown by the behavior of wages before unions have become strong. Only in severe depressions, and then usually after some lag, were the wages of non-union workers cut. But economists are divided in their views concerning the effect of unions on wages during periods of boom. Some economists, such as Professor Walter Morton of the University of Wisconsin, and Professor Milton Friedman of the University of Chicago, think that unions retard the rise of wages in periods of boom.[15] The argument of Morton and Friedman is that in periods of boom employers are deterred from raising the prices of their goods because such price advances would cause the unions to insist on wage increases. The wage increases could be permanent and might cause trouble to employers when several years later perhaps the boom gives way to recession. Friedman specifically argues that between 1945 and 1949 the existence of unions had the effect of making both prices and wages in the automobile and steel industries lower than they would otherwise have been. Public opinion and the demands of the strong union would have forced price increases to be matched by wage rises, and the wage rises would have been lasting. Thus by indirectly holding down the prices of steel and automobiles, the unions tended to hold down wages in those industries.

A somewhat less extreme view of the effect of unions on wages during periods of boom is taken by Professor Albert Rees of the University of Chicago, who has studied collective bargaining in the steel industry and who has concluded that between 1945 and 1948 and in 1950 collective bargaining did not significantly raise wages in the steel industry.[16] Professor Rees argues that the demand for steel and for steel labor was so strong between 1945 and 1948 and in 1950 that unorganized workers would have been given substantially the same wage increases as were won by the steel workers' union. Professor Rees concedes that the pensions won by the employees in the fall of 1949, when there was a short slump in the demand for steel, would not have been gained without the union.

There is no way of disproving the arguments of Morton, Friedman, or Rees because all of these arguments are based upon suppositions concerning what would have happened if strong unions did not exist. Nevertheless, I do not find their arguments persuasive. Fear that unions will use any price increases made by employers as a basis for demanding wage advances will undoubtedly sometimes deter employers from raising prices, but I do not think that this effect indicates the predominant effect of unions on wages or that this fear explains why the automobile companies or the steel companies did not raise prices high enough in 1947 or the early

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14 The productivity estimate is from the unpublished paper of John W. Kendrick "National Productivity and Its Long Run Projection." The figures on hourly earnings for 1946 and 1950 are monthly averages for the years.

15 Morton, Walter, "Trade Unionism and Inflation," American Economic Review, March, 1950, Vol. XL, pp. 18-19, and Friedman, Milton, in "The Impact of the Labor Union," pp. 228-229.

16 Rees, Albert, "Wage Determination in the Steel Industry," American Economic Review, June, 1951, Vol. XLI, pp. 389-404.

part of 1948 to equate supply and demand. It was not the effect of higher prices upon the unions that the automobile and steel companies feared, but the effect upon public opinion. To some extent, as in 1946 and 1950, the steel companies used wage increases to gain or to justify price increases. To that extent, collective bargaining helped employers raise their prices.

One may concede that the wage increase in 1947, and perhaps the one in 1948, in the steel industry were about the same as might have been given to unorganized workers, and that the increase of 1950 was caused more by the fear of wage stabilization than by pressure from the union. But the 18.5% increase of Feb. 15, 1946, and the 21-cent package of July, 1952, are in the main attributable to the strength of the union. The large increase of February, 1946 was given when the predominant view among economists, business men, and public officials still was that the war would be followed by deflation and substantial unemployment. It is true that the United States Steel Corporation had offered the union 15 cents, but this offer itself was a tribute to the strength of the union. In February, 1946, when there was still widespread belief that deflation was around the corner, such an increase would not have been offered to unorganized workers. The 21-cent package of 1952 was won only after a prolonged strike in which the union was desperately attempting to gain the 26-cent package recommended by the Wage Stabilization Board. But 21-cent packages were not being generally negotiated in 1952 or even in 1951. Furthermore, the union had done well in the closing days of 1950, getting a good increase a month in advance of the reopening date of the contract. No one would argue that under these circumstances, the steel companies would have been offering unorganized workers a 21-cent package in July, 1952.

These replies, based upon conjecture, to arguments also based upon conjecture, are not very satisfactory, but they are a result of the nature of the basic issue — namely, do unions make the course of wages substantially different from what it would have been in the absence of unions or in the absence of strong unions? We are outside the realm of rigorous proof and compelled to rely upon common sense. Although I cannot prove that Mr. John L. Lewis and the United Mine Workers have influenced wages in the coal industry, I cannot avoid the conclusion that they have. I do not believe, for example, that the increase of $1.90 a day, recently agreed to by the operators, would have been offered to unorganized men at this time. There is no shortage of miners' labor—in fact, many mines are working part time, and weekly hours of labor in the industry for some months have been less than a year ago. Coal supplies are not low — on the contrary, they are high. In short, how can one explain the large increase except by attributing it to the strength of the miners' union? And if one very strong union can win far more than unorganized men would get, cannot other unions, not so strong, still win considerably more than unorganized men would get?

There are two bits of more or less general evidence that unions make money wages at any given moment higher than they otherwise would be. One is the fact that wages seem to rise less rapidly in the poorly organized industries than in the well-organized ones. The other is the fact that hourly earnings tend to rise ahead of prices and even to rise when prices are falling.

An examination of the increase in hourly earnings in 46 industries between January, 1946, and July 1952 shows that the percentage increase was least in the poorly organized industries and much higher in the well-organized ones:

Proportion of production workers who are union members	Number of Industries	Unweighted avge. inc. in hourly earnings Jan. 1946 to July 1952
80% or more	19	66.1%
60% to 80%	8	63.1
40% to 60%	9	67.1
Less than 40%	10	58.5

This kind of comparison does not necessarily reveal the effect of unions upon wages. The influence of unions on wages might be so great that non-union employers would raise their wage rates quite promptly whenver unions negotiated wage advances. In that event, wages might rise as rapidly in the non-union firms as in the union plants. And yet unions would be exerting great influence on wages. On the other hand, the fact that wages rose much more rapidly between January, 1946, and July, 1952, in the 19 well-organized industries than in the 10 poorly organized ones is strong evidence that unions had some influence on money wages.

Throughout about two-thirds of the 78 months between January, 1946, and July, 1952, hourly earnings were rising faster than the consumers' price index or the index of the wholesale prices of non-farm and non-food products. And for two periods, one of nine months (September, 1948 to July, 1949) and one of 15 months (March, 1951 to July, 1952) hourly earnings were rising while wholesale prices were dropping. In the first period the consumers' price index was also dropping. In free markets one would expect some lag of wage movements behind changes in the demand for the products of labor. The fact that hourly earnings moved before prices, and in some cases opposite to prices, indicates powerful influences on the supply side of the market — in other words, it indicates the influence of unions.

Even if unions make money wages at any given time high relative to prices, it does not follow that the long-run effect is to raise prices and wages. That will depend upon whether wages that are high relative to prices produce a predominance of inflationary effects or a predominance of deflationary ones. Let us assume (as I think we may) that in the short-run the volume of employment within a plant is not highly sensitive to changes in wage rates, so that advances in wages also increase payrolls. Whether the effect of higher wages is deflationary or inflationary will depend upon whether higher payroll expenditures are completely offset or only partly offset by changes in non-payroll expenditures — overhead, repairs, improvements, product development, expansion. If business expectations are pessimistic, managements will take vigorous steps to limit the tendency for higher wages to increase the size of payrolls. Furthermore, they will try hard to preserve the liquidity of the enterprise by limiting non-payroll expenditures — living off inventories, cutting repairs and maintenance, and postponing improvements and extension of plant. Indeed, if higher wages make the outlook for the profits too dark, the concern may be unable to raise outside capital. On the other hand, if expectations are optimistic, managements will be less inclined to curtail the labor force as a result of higher wages, and payrolls will rise almost in proportion to the wage increase. Furthermore, a management that is optimistic about the future will be less inclined to make drastic cuts in non-payroll expenditures as payrolls increase. It will be more willing to maintain the previous rate of spending by drawing on idle balances, liquidating securities, or by borrowing. Since the expectations of management depend, among other things, upon business conditions, wage increases are likely to be inflationary in good times and deflationary in bad times.

VI

How do employers affect wages? Perhaps the most important fact about employers is that in most industries they are not organized and do not present a united front toward trade unions. The coal industry is an example. The steel strike of 1949 was settled on terms accepted by the Bethlehem Steel Corporation; General Motors fixed the terms in the automobile industry in May, 1948 by making a generous settlement while the Chrysler plants were shut down by a strike.

Not only are most employers not organized for dealing with unions, but they do not wish to be organized. Organization on their part would mean industry-wide bargaining or regional bargaining and the result might be government intervention in disputes. Most employers prefer the whipsawing by unions, made inevitable by present bargaining methods, to the intervention by the government.

The resistance of employers to wage demands is weakened by stiff taxes on corporate profits, because these taxes mean that a large part of the cost of any wage increase falls on the government. Some of the large and powerful enterprises, which might be expected to oppose the wage demands of unions most strongly and successfully, do not do so in times of expanding demand because, under those conditions, the enterprises are looking for good excuses for increases in their prices. Wage increases may help these concerns make price increases acceptable to the public. Hence the combination of trade unions and oligopolies is more inflationary than would be oligopolies without trade unions. Finally, the willingness of employers to raise wages is affected by the anti-trust policy of the country. A few very large enterprises might prefer to reduce prices and attempt to gain a larger share of the markets, but are afraid to do this lest they be accused of attempting to become monopolies. In other words, the fear of being prosecuted for attempting to become monopolies causes them to behave like monopolies. If the savings from technological progress are not passed on in the form of lower prices, it becomes harder not to pass them on in the form of higher wages, particularly if the enterprise is making conspicuously large profits.

VII

This survey indicates that the wage-fixing arrangements in the American labor market are strongly resistant to deflationary influences and are highly sensitive to inflationary influences — in short, that the wage-fixing arrangements have an inflationary bias. On the sellers' side of the market are powerful unions spurred by more or less inter-union rivalry. On the other side, are unorganized employers who are usually opposed to organization and whose willingness to resist wage demands is weakened by the nature of tax laws and by other considerations. Under these circumstances there is a strong tendency for wage patterns to be set by the particular employer or group of employers who are most willing to grant concessions.

The inflationary bias in our wage-fixing arrangements does not mean that the country is bound to have chronic inflation, but it does increase the probability that prices will be rising most of the time. The principal determinant of the movement of prices is the demand for goods. But the inflationary bias in our wage-fixing arrangements means that hourly earnings move within a considerable range more or less independently of prices. Hourly earnings, as we have seen, have a strong tendency to rise faster than output per manhour. This happens even when wholesale prices of non-farm and non-food products are falling — as we saw in the period September, 1948 to July, 1949 and in the period March, 1951 to July, 1952. It seems to take a fairly high rate of unemployment to prevent hourly earnings from rising faster than output per manhour — in other words, to prevent labor costs from rising. In the long-run the price level must adjust itself to labor costs. Hence if hourly earnings have this strong tendency to rise faster than productivity, a long-run advance in the price level becomes quite probable.

VIII

Can the inflationary bias in the wage-setting arrangements in the American economy be corrected? Undoubtedly it can be corrected, but not without some cost or without the use of methods that may be unacceptable to business men, the public or both.

Greater unity among business concerns in dealing with trade unions, particularly more organization among employers, would weaken the inflationary bias. There are signs that employers are slowly developing the will to present a united front. The railroads, experiencing whipsawing tactics in the strike against five selected roads on the diesel issue in 1950, and in the strike against several other roads in the summer of 1950, are slowly learning to stand together. The steel companies, after their failure to maintain a united front in the fall of 1949, are doing better. But progress in the direction of organization and solidarity among employers is slow, and many employers do not believe in organization or solidarity. These opponents of solidarity may be right. Regional or industry-wide bargaining in our largest industries may unduly institutionalize industrial relations and impede the development of good understanding between each management and the men in the enterprise. It may be better to accept some inflationary bias in our wage-setting arrangements than to introduce obstacles to a good understanding in each plant.

The inflationary bias could be reduced by the development of stronger federations of labor in this country, capable of working out a national wage policy for the member unions and able to persuade the member unions to accept a national wage policy. The tradition of individualism among American trade unions is so strong, however, and rivalries are so keen that there is no early prospect that a strong federation or strong federations will be developed.

The inflationary bias in wage-setting arrangements could be offset by strongly restrictive credit and fiscal policies. In order to prevent hourly earnings from rising faster than output per manhour an appreciable amount of unemployment would have to be maintained — probably 3 million or 4 million. This would be wasteful and it would probably be unacceptable to the community — at least for very long periods.

Although the wage-fixing arrangements of our economy have an inflationary bias, they are only one of many conditions and arrangements that affect the behavior of the economy. Some of these conditions and arrangements tend to produce inflation; others tend to produce deflation. Within the last few years there have developed several new and powerful deflationary influences. The high taxe rates are one of these influences because they assure that a considerable part of any rise in incomes will go to the government. The many private pension plans, with their income greatly exceeding their disbursements, are another deflationary influence. The volume of private debt has become so large that annual repayments on it are a powerful deflationary influence.

These strong deflationary influences will not prevent a slow rise in the price level over the long run in the event that the inflationary bias in wage setting arrangements produce a slow advance in labor costs. They will, however, give the economy pretty good protection against a runaway rise in prices. At the same time, the economy in the last decade or so has acquired some important protections against deflation. The new checks on inflation and on deflation mean that the economy has gained substantially in stability. But it is not nearly so stable as we need to have it, and I think that we may have more safeguards against inflation than against deflation. The course for us to pursue, I think, is the one that we have been following—namely constantly adding new defenses against both inflation and deflation and perfecting the ones that we have. In that way we shall gradually build more and more stability into our economy and assure that the long-run trend of prices, whether it be upward or downward, will be free from violent short-run swings and will not be accompanied by pronounced fluctuations in physical production.

Happy Birthday to Jack E. Jones

SEATTLE, Wash. — Jack E. Jones, Resident Manager for Walston, Hoffman & Goodwin, was honored at a birthday luncheon by the Seattle Bond Club on Nov. 26. Mr. Jones was born Nov. 26, 1906 at Portland, Ore. He was graduated from the University of Oregon Class of 1929. In 1930 he became associated with Hartley Rogers & Co. and was President of the Seattle company from 1946 to 1950 when he joined Walston, Hoffman & Goodwin.

Jack E. Jones

Mr. Jones and his wife, Dorothy are the proud parents of Stephanie, aged 15 years, and twins Priscilla and Jonathan, 8 years old.

Mr. Jones is a member of the Ranier Club, Seattle Tennis Club, and College Club. He is Past Master of the Arcadia Lodge No. 87 (F. & A. M.), is a Scottish Rite 32nd degree Mason and a Noble of Seattle's "Nile Temple" (A.A.O.N.M.S.). His chief hobby is fishing — from fly fishing to salt water.

Now Gordon Stuart Corp.

PHILADELPHIA, Pa.—The investment business formerly conducted by K. S. Sweet, Western Saving Fund Building, will henceforth be known as Gordon-Stuart Corp.

Now Metcalf & Thompson

SEATTLE, Wash.—The investment business formerly conducted by Terry Thompson, as a sole proprietorship, is now known as Metcalf & Thompson. Offices are in the Dexter Horton Building.

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Steel's Future—A Producer's Point of View

tion and the advance in our standards of living. Undoubtedly, they reflect trends in increased consumption of steel that none of us expect to see reversed. The tempo may change, but the direction will not.

Over a period of years, then, we see no reason why the overall trend in steel production shouldn't bear about the same relationship it has historically to GNP and the FRB production index. If that holds, as it should, our expansion has worked out in a way that should be welcomed generally.

It is probably correct to assume that the steel industry has added more capacity recently than it would have done without the pressure of war emergency and the assistance of rapid amortization. However, the approach to the problem of expansion has been essentially conservative—partly because of the sobering effect of your appraisal of steel stocks.

Let me illustrate—if we could sell at $50 per share one share of common for each share now outstanding, we would receive about $480 million. It is generally considered in the industry that it now costs about $250 per ton to build new integrated steel capacity. Accordingly, the $480 million resulting from a 50% stock dilution would finance the construction of and provide working capital for new integrated plants with a capacity of only about 10% of our projected capacity of 18 million tons.

Stock Market Appraisal

Put it another way. At the end of 1951, the market appraised the total value of Bethlehem at about $830 million. That is, the market value of our long-term debt, preferred and common stock. Our net working capital was about $464 million. Accordingly, after allowing for other minor adjustments, the value which the market then placed on our properties was approximately $405 million.

Divide that by our present ingot capacity of 16.8 million tons and you get $24 per ton as the value put upon our properties by the market.

Now, under such circumstances, you could hardly expect us to sell common stock at a price which reflected a value of $24 per ton on our entire investment in order to raise funds to construct new plants costing $250 per ton.

Moreover, there is a limit to the amount of debt which prudent management wants to assume in order to finance expansion in boom times, particularly when faced with the necessity of making large expenditures for improving our basic raw materials situation. We also feel that in fairness to our stockholders we should expect to pay some dividends.

Under such circumstances, which apply more or less throughout the industry, you can be sure that the market's appraisal of steel stocks has been an effective brake against any speculative race for new capacity. Such a race might conceivably have taken place in view of the great postwar demand for steel had equity financing on a "growth" industry capitalization of earnings been possible—had we, in other words, been able to sell stock at a price equivalent to several times book value instead of less than book value.

Another effect of the market's conservative appraisal of steel earnings and the great expenditure necessary to construct a modern, efficient steel plant, has been to prevent the emergence of irresponsible, shoe string competition.

Short-Term Outlook Good

You may now raise the question as to whether we can keep this new capacity busy in the future. I dare say a number of you have felt from time to time since the end of World War II that after another six to eight months of good business we might be in for a fairly serious readjustment. As of right now, volume prospects for most of our products—and I'm speaking for Bethlehem—look encouraging as far ahead as we can see—which is at least six months.

Admittedly, we can't forecast demand too far ahead because of the variables and the imponderables. But, let's assume a recession of some proportions appears. How well would we ride it out at Bethlehem? What cushions do we have to take up the impact?

I believe I can state with confidence that we are in a strong position to protect the welfare of our company against what might be likely to come.

The servicing of our bonds and the dividend on our preferred stock should be secure beyond any reasonable doubt, and I think that common shareholders have no reason for qualms over the long-term outlook, whatever degree of uncertainty may attach to the intermediate period. We feel this way for several good reasons.

To begin with, we have put a lot of good financial meat on our bones since the dark days of the 'Thirties. May I suggest that you compare funded debt and fixed charges with sales, working capital and cash at the end of 1929 and 1951. In the interest of brevity let me mention only that for Bethlehem our sales dollars for each dollar of fixed interest charges were $31 in 1929 and $278 at the end of last year.

A second reason why we face the short-term future with confidence involves the change that has come about over the years in our product mix. The Bethlehem I am talking about tonight is a very different enterprise from the Bethlehem of a quarter-century ago in terms of the character of its output.

As a company, we have grown to a definite, preconcieved plan which has taken us through an evolution always pointed toward greater diversity of product. When Bethlehem started out it was primarily a manufacturer of war materials, of guns, armor plate, heavy forgings and miscellaneous ordnance items.

Our first significant move away from this close identification with ordnance came with the development at our Bethlehem plant of the wide-flange structural I beam. It is probably not too much to say that the profile of Manhattan is in large part an outgrowth of that development.

Company's Product Diversified

From the acquisition of Pennsylvania Steel, in 1916, which in addition to the plant at Steelton gave us what is now the world's largest tidewater steel plant, Sparrows Point, and then on through the broad expansion of the 'Twenties, when we added the Lackawanna and Johnstown plants, the process of diversification continued. But we still had, and deservedly, the reputation of being primarily producers of heavy steel products.

However, what has taken place in the last two decades has invalidated any such view of Bethlehem. In 1929, 72% of our shipments in terms of tonnage fell into the category of heavy items such as heavy structural shapes and rails and semi-finished items such as blooms, billets and slabs. Only 28% was in light products.

By the end of 1951, these percentages were very nearly reversed, with heavy products accounting for only 38% of shipments. The preponderant remainder consisted of sheets and strip, tin mill products, wire, pipe, light structural shapes and the like. This rather profound shift in our product mix, I think you will agree, is a factor making for greater stability should there be some rough going ahead. We are no longer unbalanced on the heavy side and with spending for national defense going on at the rate of some $50 billion a year, only a very small percentage of Bethlehem's output today goes directly into arms. We have left the "war baby" phase of our growth far behind us.

So much for considerations affecting the short-range situation, now let's take a look at some factors vitally important for stability over the long pull—our raw materials situation and our progress towards better ways of making better steel.

Raw Materials Plentiful

When it comes to raw materials this is one area in which I can give a categorical assurance. For a period of time that none of us in this room need worry about we do not anticipate any shortages of the major basic raw materials going into the steel making process—iron ore, coal and limestone. Our known reserves of the three basic ingredients are good enough to carry us as far ahead as it is practical now to look. It's the familiar story with reserves. The more we take out, the more we are finding and developing in the way of new reserves. But that's only part of the story. At least equal interest attaches to progress that has been made in improving quality before the materials enter the blast furnace.

At full capacity, Bethlehem produces or controls the production of about two-thirds of the basic raw materials it consumes. The rest we purchase under favorable conditions which we have every reason to anticipate will continue to prevail in the future.

This, of course, does not apply to scrap. If we should be faced with scrap deficiencies, these would have to be made up chiefly by the use of more pig iron.

Out of Bethlehem's present requirement of some 20 million tons of iron ore annually, about half comes from the Great Lakes region. The rest comes from various foreign sources—Venezuela, Chile, Sweden, Africa and Canada—and from our own mines in Pennsylvania.

Particular interest attaches to our new iron mining developments both here and abroad. You are familiar with our pioneering development in Venezuela and our 25-year-old-operations in Chile. Output from our Venezuelan source is steadily increasing.

Within the next four or five years we will be receiving substantial quantities of ore from Labrador under a long-term contract, from our new mine at Marmora, Ontario, and from a new source just a short distance away from our Bethlehem plant. The new Grace mine at Morgantown, Pennsylvania, near Reading, will make a contribution to our raw materials position comparable to that which the famous Cornwall mine at Lebanon, Pennsylvania, has made for years and still continues to make.

Now as you all know, the high grade ores of the Lakes region are rapidly being depleted. Prior to 1940, the general public scarcely even thought of the possibility of Lake ore running short. But World War II and the unprecedented expansion of steel-making capacity which has taken place since has put such a drain on the iron ore ranges that the end of surface mining of metallurgical ore is in sight.

New Ore Techniques

If that were the end of the story, it would be a mighty serious one. The happier ending, of course, lies in new techniques of beneficiating and agglomerating low-grade ores economically. Bethlehem has been a pioneer in the development of the use of taconite ores and we are happy about the way it is working out.

In thinking about the process of beneficiating low grade ores I believe people have a tendency to stress the cost of the operation without balancing off the advantages which accrue to offset these costs.

It is true that a substantial capital investment will be required. But it also should be kept in mind that you wind up with a better ore. When you put average Lakes ore in a blast furnace, about half of the ore is iron. Concentrated ores will average over 60% iron.

The result is a more efficient iron making operation. With higher furnace efficiency comes a reduction in operating costs which more than cancels out the higher cost of ore preparation. We have the technology of improving low-grade ores in hand. That is why we view Bethlehem's share of taconite reserves with a great deal of satisfaction. To all intents and purposes we have an unlimited supply of the stuff and we know how to handle it.

Coal also is improved through better preparation. As increases in mine labor costs have forced increasing mechanization of mining, dirtier coal will turn up at the pit head. This has forced us to spend money on equipment to wash coal before it is shipped for coke-making operation. That costs money, but cleaner coal pays off in greater fuel efficiency in the blast furnace.

In our company, we are definitely of the opinion that better selection and preparation of materials before they get to the furnace goes a long way towards offsetting increases in the cost of steel-making.

Steel-Making Improved

Along with better preparation of raw materials we can also report progress on improvements in the steel-making process itself. The trend to bigger and bigger blast furnaces is making for lower costs in producing pig iron. Two new furnaces under construction at our Bethlehem Plant, for example, will each be capable of turning out 54,000 tons of pig iron every month. As illustrative of one economy, and not even the principal one, no more men are required to operate these than were needed for the old-style furnaces they replace which produce only some 22,000 tons a month. Our newest blast furnace at Sparrows Point has just recently made another world production record of 56,569 tons per month.

In both blast furnaces and open hearths, better furnace lining materials are making for greater production and lower costs. Superior refractories in the open hearths which can handle higher temperatures not only mean more production but also superior quality steel. Another post-war development involves the burning of new fuels. Coke oven gas and pitch or tar derived from the coking process are taking the place of producer-gas and oil. The new fuels generate higher temperatures which allow greater tonnage output per furnace in the same length of time.

An open hearth furnace is still an open hearth furnace, but spectrographic analysis of open hearth steel—a technique pioneered by Bethlehem—has made possible quality control undreamed of only a few years ago. It doesn't make headlines but it does make for better, more versatile and cheaper steel.

Anyway, I can't, in dealing with steel, paint a picture that competes on the glamor front with what is happening in atomic energy or synthetic materials. With us it is a story of steady progress in producing steels to meet higher and higher specifications; steels that will roll with higher yields from ingot to finished product at less reconditioning cost; steels that will do more things cheaply and well.

We are penetrating deeper into the physical chemistry of steel and we have by no means come to the end of the road on new ways of production. We are continually searching for new methods. Progress on the technical front is essential to preserve our competitive position and to help keep ahead of rising costs.

Modern Plants Cut Costs

Now I have mentioned a secure raw materials position and technological advances as factors making for a better long-term future. In Bethlehem's case I believe our expansion should give ground for satisfaction rather than concern over the long-term—in spite of any difficulties that might be encountered during some intermediate period.

Wars and depressions have upset our timing on occasion, but our growth through expansion and modernization of existing facilities, mainly financed from within, and the strengthening of our raw materials position, has never stopped. Incidentally, there is one aspect of our expansion which is not generally recognized. That is that a significant part of our increased capacity is an outgrowth of expenditures designed primarily to effect economies. For example, when you build bigger furnaces to replace less efficient smaller ones, and line them with better refractories, increased capacity may be looked upon as a by-product of a more economical and efficient way of operating.

Partly because of this, taken together with the fact that our expansion has been by way of rounding out, strengthening and adding to existing facilities rationally conceived to begin with, our expansion has cost us much less than it would have cost us had we built entirely new facilities of the same capacity and leaves us in a sound position to compete in existing markets. Competition is the essence of our free enterprise system and we believe in it.

Now what I have been saying up to now about the general picture might add up as follows:

(1) As far as we can see ahead our business should hold at a good volume.

(2) We don't expect to operate always in a sellers' market and we don't think the business cycle has been eliminated from our economy. We know, however, that we have what it takes—financially and otherwise—to ride through any downturn in business which the intermediate future might hold in store.

(3) We are confident that over the long-term, steel will continue to be the backbone of an expanding and prosperous United States economy and that well managed steel companies will share in that prosperity.

Effect of Recession on Steel Industry

But all of this may leave unanswered what is probably your $32 if not your $64 question as to how seriously the earnings of steel companies might be affected during a possible intermediate period of business decline. Will the leading steel companies, for example, be hit harder than, say, leading companies in the oil, building materials, paper or rubber industries? I can't answer that definitely, but I can point out some considerations which might help you in making your own independent analyses.

I know that you people have a profound interest in break-even points. There is a lot of arm-chair reasoning to the effect that break-even points are now much higher than they used to be because of increased cost of wages, materials, services, etc. We are frequently asked whether we have calculated where the break-even point for our company might be.

Frankly, we can only guess. I have seen a lot of figures, but too many assumptions subject to large margins of error are involved. To a considerable extent the break-even point is where you are forced to go. I will say this much, however. We believe that at an operating rate of down to 85 or 90% of capacity we would do about as well profitwise as we are doing now. A continuing demand for full capacity operations requires the use of overtime for both the production and maintenance of the plant, and at much higher costs. These could be curtailed at lower rates of operation.

Should steel operations drop lower than 85% of capacity, it is impossible to state just where the break-even point is. Much will depend on the product mix and on how well the price structure holds. Under stress, management ingenuity has always been stimulated to effect economies.

Now I have left for the last one aspect of Bethlehem's situation which gives me the deepest sense of satisfaction and which I regard as the prime source of our strength. That has to do with the calibre of the men who run the enterprise.

Management will continue to make its own future as it has always done. It is manifestly impossible for people outside of a large company to get a close feel of the intimate workings of its internal organization, to judge at first hand the capability, depth and limitations of the executive group as a whole. Since this is so, perhaps your best guide to the sort of future Bethlehem's management is going to make for itself lies in the basic policies by which our management lives.

"Principles of Management"

About two years ago we had a celebration in honor of our Chairman, Mr. Grace, and in recognition of his 50 years of devotion to the building of Bethlehem Steel. At that time he talked informally about the principles of management which he had found to be successful and which he recommended as the fundamental basis for carrying on our business in the future.

The principles reflected in his remarks on this occasion have been and will continue to be our guide. I can think of no better way to conclude my words tonight than to repeat at this time Mr. Grace's management credo, which has in such large part accounted for the success of Bethlehem.

Here's the way he summarized some of the fundamentals that in his belief, as in mine, have played such a great part in the founding, building and operating of Bethlehem. He had jotted them down on the occasion of that management meeting for the future guidance of the group. I think that these principles are as much a part of our future as they have been of our past.

I will quote him as follows:

"We have and we must keep a strong organization of able and loyal men. Our policy is to develop our own personnel and that is what we have been doing for the last 30 years.

"We have and we must keep the a plants modern and efficient. Never let it be said in good times or bad that Bethlehem didn't keep its properties in the highest state of efficiency and order. Just the minute you try to save money in that process, gentlemen, you're going backwards.

"Never be afraid of expansion or growth on a sound basis. But in planning expansion, don't try to guess the ups and downs of business. We may have a bad period here and there for a couple of years when we supposedly ought not to spend any money, when we ought to hold our horses and stop. But please never do it for long. When you can see an opportunity for sound expansion, never, never fear to go on with it.

"Make sure that expansion is in Bethlehem's legitimate fields. Don't go off on a side track and try to do the other fellow's job. Never go into a business that isn't properly consistent with the integrated position of Bethlehem's activities.

"As long as you study your expansion program soundly, appraise it from every angle, and it is within your field, don't hesitate to go forward in it.

"Don't try to live on past achievements. You can get a little satisfaction from thinking about what you did yesterday, but you'll soon dry up on any such platform as that. . . . Keep your mind free for the future. The past is only useful as it provides experience for the future. That's the frame of mind that management, in my estimation, must be in if they are going to progress.

"Last but not least, integrity. The greatest asset of all in the final analysis is a high sense of integrity. We want the highest sense of integrity, we want to be known for it; and we are. It's the greatest asset that we could have in our business."

Thus spoke Mr. Grace on the principles we try to keep before us.

Now, I believe that the principles upon which management operates have a definite place in a discussion of an industry's future prospects. In the case of Bethlehem I have seen what holding fast to principle has accomplished. We don't live by machinery or the balance sheet alone. We progress or fall back as our policies conform to the practical and moral realities. In other words, we try to be guided by principle. If we operated otherwise, the machinery would get fouled up soon enough, and the balance sheet as well.

We believe these things at Bethlehem and that belief permeates what is a very closely knit organization. In the long run, this shared conviction on matters of principle may be the best guarantee that we can offer of Bethlehem's capacity for progress into the future.

Production Paralleling Orders, Survey Reveals

Consensus of Business Survey Committee of National Association of Purchasing Agents, headed by Robt. C. Swanton, is that high level of business will continue through 1st quarter of 1953.

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents' Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Company, Division of Olin Industries, Inc., New Haven, Conn., find industrial business maintaining the high rate of the past two months, and believe it will continue through the first quarter of 1953. Back orders are high, though not growing as fast, and production is paralleling the order pattern, a normal condition that has been absent during the inflationary spasms following the outbreak in Korea. Domestic prices tend to more stability; there are conflicting pressures, with foreign weakness having considerable effect on our prices. Inventories are in better shape and are rapidly conforming to operating levels. Employment remains high, with defense work coming out of the tooling stage and reaching production lines. Labor unrest is abating. Buying policy is conservative, as material availability improves.

Robert C. Swanton

The consensus of Purchasing executives is that the election has, as yet, had no appreciable impact on orders, production or prices. The principal effect has been psychological; for there is greater confidence that inflationary pressures will decline, prices and materials will be decontrolled, permitting realistic supply and demand forces to operate. Several reports indicate pigeon-holed expansion and new product plans are being dusted off and reviewed.

Commodity Prices

Industrial commodity prices had a more pronounced tendency to hold the line and stabilize in November. The influence of foreign markets, which have been generally weak, has caused a very conservative view to be taken on the future price structure of some materials. This, coupled with capacity production, liquidation of excess inventory and keen competition, indicates the trend to a buyers' market continued through November. Buyers believe the pressure on prices will be more down than up over the next few months.

Inventories

The general policy to reduce unworked material inventories still prevails, and reports indicate that many have reached normal working levels, with improved balance. With delivery promises more dependable, warehouse items in easing supply, and growing competition, there is no urgency to stock beyond delivery lead time and scheduled requirements.

Employment

Full employment is generally reported over the country. Additions to payrolls are only slightly under last month and would be higher if skilled workers were available in many areas. Defense employment is up, as many projects move from the development and tooling stage into production. Catching up production lost by the steel strike, and seasonal demands, are helping to maintain high employment levels. Labor unrest is diminishing.

Buying Policy

Purchasers for industry still hold within a 90-day range for most of their buying. In the past two months, there has been a gradual increase from 30-60 days to a 60-90 days policy. Inflationary pressures have abated; inventory maladjustments are ironing out, and a normal flow of materials is developing.

C. H. Marshall

Charles H. Marshall, partner in Butler, Herrick & Marshall, New York City, passed away at his home at the age of 61.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

A moving, but moderately more active government market, continues to stay within the recently established trading range. Tax operations are assuming greater importance in the market as the year moves on to a close. These sales and purchases of Treasury obligations for tax switching purposes will continue to keep quotations of government securities backing and filling for a while without any important trend changes being looked for by most of the money market followers. The list of eligible obligations was increased this week by more than $2,800,000,000 when the 2½s due 12/15/63-68 became available for purchase by the commercial banks. The attrition of 18% in the December maturity of certificates was high, but evidently has no unusual significances at this time.

Tax switching, it seems, has really come into its own, with the number of institutions and the number of operations that are taking place on the increase. These exchanges will, beyond doubt, be the most important business of the government market for the balance of the year. Although the tax switches involve substantially all of the issues in the list, there appears to be a modest lengthening of maturities discernible in these operations as a whole.

Market Has "Year-End" Look

The money markets are beginning to take on that so-called "year-end look," which means zigging and zagging but not going any place in particular, because of the adjustments that must be made by holders of Treasury obligations. Distortions are cropping up from time to time in individual issues, but that is not an unusual happening since this has occurred many times in the past as the finish of the year gets closer. Tax switches appear to dominate the situation at the moment with more and more institutions coming into the market for this type of operation. To be sure, this has added some volume and activity to the picture, but there is still not enough of either of these to make the market for Treasury obligations the wide and active market that it has been in the past. It is still a thin enough affair so that prices can be run up or down rather readily depending upon what traders and dealers may be interested in accomplishing.

Tax Selling Readily Absorbed

However, despite the lack of breadth and activity in the government market, it is still a much better market than the one for corporate obligations. Sizable blocks of the non-Treasury obligations cannot be disposed of or picked up readily and even if the bonds were eventually sold and others bought in place of them, it could be done only with substantial adjustments in price. This is believed to be one of the most important reasons why nearly all of the tax losses this year are being taken in government securities. Even though the market is still thin and restricted in these securities, it is nonetheless possible to sell and to buy rather sizable amounts of governments without having too much of an effect upon quotations.

Accordingly, portfolio managers are making tax adjustments in their holdings through the sale and purchase of Treasury obligations, which has a tendency to keep the pressure on the market for these securities and to hold prices in check. Likewise, when these tax exchanges and sales have been completed as they will near the end of the year, there should be a much better tone in certain of the Treasury obligations, especially some of the higher income issues that have been under pressure because of this operation.

One of the issues that has been under tax selling pressure is the 1½s due 3/15/55. This obligation has been sold in large amounts by institutions, especially commercial banks. However, in the opinion of some money market followers, this selling has brought about a condition that makes this security attractive for purchase even though there may be further liquidation in this issue. It is pointed out that the issue appears to have greater attraction than the 1¾s due 12/15/55, and the 2⅜s due 6/15/58.

Eligibles Feature Tax Switches

Tax switches and swops involve nearly all of the securities in the government list because some are moving from the longs into the shorts in order to establish loss, whereas others are going into the longs from the shorts, and in that way are carrying out tax operations. It seems at the moment that there is considerable attraction in the eligible and newly eligible restricted bonds, when it comes to tax switching, from the shorter and intermediate term maturities. It is reported that the 2½s due 5/15/62-67, the 2½s due 12/15/63-68, the 2¼s due 6/15/59-62, have been used as replacements for the issues that have been let out in order to establish tax losses. The 2¼s due 12/15/59-62 which will become eligible in the near future have also been used in instances where they fit into the requirements of those involved in tax operations.

The 2½s due 6/15/63-68, which became eligible this week, added a rather sizable amount of bonds that the commercial banks can buy, but, aside from the use of this security for tax switching purposes, there was no really important developments in the market action of the newly eligible obligation.

State funds and some minor buying by private pension funds and private trust accounts have tended to give the longest restricted issues a moderately better tone market-wise.

Continued from page 4

Prosperity Will Continue Through 1953!

tain even the present level of gross national product.

Because of the significance of consumption expenditures we might look at some of the fundamental forces acting upon total sales to consumers. A better understanding of these forces can be had by answering such questions as: What has happened since the end of the war to per capita disposable income and to per capita consumption expenditures? Have our living standards improved? What can be done to increase the amount of consumption expenditures? Are there any forces currently working that will increase the share of gross national product going to the consumer, or that will cause the total gross national product to be increased?

Since the end of the war per capita disposable income and per capita consumption expenditures in terms of constant dollars have not changed significantly. Heavy individual income taxes have tended to keep down per capita disposable income but there are also other factors that should not be overlooked. First, and probably most important, is the decreasing work week. In 1944 the average work week in manufacturing amounted to 45.2 hours. The average for 1952 will be approximately 40.4 hours, a decrease of 10.6%. At current wage rates, if the average work week of 1952 were equal to the high war level, total disposable income and total production would be considerably higher. Another factor that has had some effect in keeping *per capita* disposable income from rising has been the increase in population. This factor has been overemphasized by some, but the large crop of postwar babies has increased our population of 14 years and under to 27% of the total, compared with 25% in 1940, just prior to the war.

Although per capita consumption expenditures, in terms of constant dollars, have not greatly increased since the end of the war we can be proud of the fact that there has been no substantial decline. About 12% of our total production during the past two years has been going for national security and we still have not experienced a decline in our living standards. The fact that, on a per capita basis, our consumption expenditures, in terms of constant dollars, have remained approximately unchanged is a creditable accomplishment and I believe we now can look forward to a period when we can expect further advances in our living standards.

The difference between our disposable income and consumption expenditures represents our current rate of savings. The rate is now running at about $17 billion, or 7.3% of the total disposable income. Should investments drop in the period just ahead it is possible that a portion of consumer's savings might be transferred to the expenditures category. The problem, of course, is to induce the consumer to spend a greater portion of his disposable income. It is difficult to determine the exact role current savings might play but if consumers would spend but $64 more per person for consumption expenditures it would be sufficient to offset a decrease of $10 billion in total investment.

The problem of inducing the American consumer to spend more of his current income in the face of declining investments is not an easy one to solve. A partial solution is for the businessman to improve greatly his selling techniques. Sales managers will be adopting every conceivable gimmick enabling them to place more goods in the hands of consumers. One important tool will be increased advertising expenditures. In areas of severe competition, prices will have to be lowered and sales conducted if more goods are to be sold. Many organizations would benefit by investing in market research in order to further perfect their selling techniques.

A possible source of increase in consumer expenditures is an increase in corporate dividends. If investments drop it can be assumed that it is largely due to the fact that capital plant and equipment have been expanded to the point necessary to meet the immediate demands of our economy. If this assumption is correct, corporations will no longer find it necessary to retain as large a portion of their earnings for this purpose. A decline in earnings need not necessarily be followed by a reduction in dividend payments. Indeed, if earnings remain high, dividends might even increase. A recent study of the Brookings Institution shows that approximately 78% of the nearly 5,000,000 family units owning shares of stock have an annual income of under $10,000. This seems to indicate that a large share of any increase in dividends will go to people who would purchase more consumer goods.

When discussing the need for expanding consumer consumption some thought must be given to the banks' role in extending consumer credit. It is impossible to produce for mass markets unless the means are provided by which consumers can purchase large quantities of goods. In the past few years the banks have done a truly superb job in taking care of the credit needs of the American consumer. However, there are many who strongly believe that consumer debt has been allowed to climb to levels above that which is prudent and reasonable. This seems particularly true when the total consumer debt of today is compared to the total consumer debt of 1939. In that year, total consumer debt, including charge accounts, service credits, automobile loans and other loans to purchase consumer durables, amounted to $7 billion. By the end of this year the comparable figures will be approximately $22 billion, a startling 214% increase. If residential mortgage debt (both city and farm) is included, the total in 1939 would have been approximately $30 billion compared to $87 billion at the end of this year. Percentagewise this increase is not as large, 190%. It is these figures that cause many lenders to be concerned over whether or not the consumers of the nation have over-extended themselves.

Tracing the growth of debt in this way really means very little. It is more significant to compare debt with disposable personal income, income left after taxes. When this is done we note that consumer debt, in 1939, equaled 10% of the total disposable income, and the total debt, consumer and residential, amounted to 43.2%. The same statistics for 1952 are 9.4% and 37.4%, respectively—lower than the 1939 figures. In 1939, with the higher debt-to-disposable-income ratios, there were 9.5 million persons or over 17% of the total civilian labor force unemployed.

Now, assuming our current level of employment, and no change in disposable income, we could have an aggregate consumer and residential debt increase of approximately $13.5 billion, or 45% of the 1939 total, before we would have the same debt-to-disposable-income ratio that existed in 1939. Stated still another way, we would have to experience a decline of $31.4 billion in disposable income before the 1939 ratios would prevail.

There is still another meaningful way that our current aggregate consumer debt can be compared with that of past years. We can relate debt to total personal liquid assets from 1939 on. These assets include currency holdings, demand deposits, time deposits, savings and loan shares and United States Government securities. In 1939, total consumer debt, including residential mortgages, amounted to nearly 61% of such assets held by individuals. In 1952, the per cent is 45. All other factors remaining the same, total liquid assets would have to drop $48 billion or about 25% before the 1939 ratio would be experienced. Stated another way, debt would have to increase $29.5 billion before reaching the 1939 ratio.

I do not recall that anyone was very concerned over the total consumer debt picture in 1939. Although lenders should continue to screen carefully the credits that are extended, it must not be forgotten that if we are to have large-scale consumption the consumer must be provided the means to pay for his purchases. The increasing variety of durable consumer goods, such as television sets, home freezers, dryers, air conditioning units and refrigerators, all represent sizable outlays for individuals. Most consumers can pay for these only if instalment financing is available. If bankers are to do their share in stimulating further consumption they must continue to take care of the legitimate credit needs of the American consumer in at least the same aggressive manner they have in the postwar years.

There are still other phenomena at work in our economy pointing toward a continued high level of consumption expenditures. One of these, one that is a reflection of many other factors, is the redistribution of income which has been going on over the past 20 years. Without arguing the merits or demerits of what has been happening it is of interest to note that the pattern of income distribution is quite different than it was in 1929. This development results in more sales of automobiles, refrigerators, stoves, homes and other durable and nondurable goods. The statistics I use are subject to adjustment, but, in general, they do give us some indication of what has been occurring. In 1929, the top 20% of the spending units of the United States received 51% of the total money income. This top one-fifth did not spend all of its money income on consumer goods. As we know, much of the income of the top group went into savings. By 1951 the share of the total money income going to the top 20% of our spending units had dropped to 42%, notwithstanding the fact that the total dollar amount going to this group had increased. What groups benefited as a result of this decrease in the relative share of the total money income going to the top group?

The statistics show that the income groups receiving the greatest proportionate gain from 1929 to 1951 have been those of the second highest and middle fifths. Members of these groups currently have incomes ranging from $3,000 to $5,000 annually. This 40% of the spending units received 34% of the total money income in 1929, and 42% in 1951. The lowest 40% of our spending units receive today approximately the same share of the total money income in our economy as it received in 1929. One result of this redistribution of income has been to stimulate consumption at the expense of savings. This result is beneficial to the economy in periods in which the need for savings for capital expansion is declining, and in which consumption expenditures have to be enlarged if full employment is to be maintained.

Although this process is still going on, it should be obvious that there is a limit beyond which it cannot be carried. Our economy has grown and prospered under a system that has provided real incentives to work, save and invest. A completely equalitarian society would destroy many of these incentives and would certainly adversely affect our economic progress. It seems to me that our goal now must not be one of further equalizing incomes but rather raising the income level of all groups in our population.

Nearly all of the forces already mentioned will affect the amount of consumer spending that will take place in a given period. However, should such expenditure begin to fall at a rather rapid rate and a significant amount of unemployment begin to appear the government has recourse to a step that could have considerable influence. This step is to cut personal income taxes. If this should be done the amount of disposable income in the hands of individuals and the effective demand for consumer goods would be immediately increased. The additional consumption expenditures which would follow would have an immediate effect upon reviving business activity.

Summary

It might be helpful to summarize briefly what has been said.

A study of the components of our gross national product leads to the conclusion that our economic activity is not likely to undergo an important downward adjustment during 1953. Two of the components, gross private investment expenditures and foreign exports, are likely to decline somewhat but the continued expansion of Federal, state and local government expenditures and the possibility of additional activity on the part of consumers are apt to counterbalance the depressing forces. We have produced both guns and butter since June, 1950 and have not suffered a decline in our living standards as the result of military requirements. We have expanded our plant and equipment to the point where mass markets must be maintained and even expanded if that plant is to be kept at work. I have pointed out that, on a per capita basis, our standard of living, in terms of real goods, has not improved since the end of the war. Now we must concentrate on finding new ways to consume the products produced, to create demand for more products, and thus, to raise our living standards.

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Outlook for Stocks and Bonds

from the spread of the use of television. That feeling is still a growing one but the movies are gradually taking steps to meet this competition. It will be a slow and costly process, but we think that if one will be patient with these issues at present low levels, that most of them will eventually prove to be well worth holding. Certainly none are outstanding bargains for purchase at the moment.

There will be a middle ground where you would expect in certain selected issues in the agricultural equipment industry and some machinery issues a fair combination of income and moderate appreciation available during 1953.

Higher interest rates would certainly appear to be helpful to banks. There are many bank issues that are selling somewhat below their asset value. Most interest has generally been shown in the few big city banks but some of the best bargains are in banks in the medium sized and smaller cities, and incidentally in cities which in the event of bomb warfare are decidedly less vulnerable than the big cities on our coast, and even some of the big cities in the interior. For instance, there are some real purchases in an issue like the First National Bank of Cincinnati, National Bank of Commerce in New Orleans, or the National Bank of Tulsa, Okla.

Insurance Stocks

Another attractive group for the coming year would be the insurance stocks, particularly those in fire insurance business. We have pointed out not long ago the fact that a number of these fire insurance stocks are considerably below their equity values. We have been for sometime recommending three or four in this field, such as Hanover Fire, Firemen's Insurance, Aetna Insurance and National Fire.

The food stocks as mentioned before are in quite a favorable position. It is quite likely that price controls will be relaxed this next year, enabling the food producing companies to show a little better margin of profit. This includes meat packers like Swift and Wilson, and baking companies like Ward Baking, General Baking and Purity Bakeries. It would apply likewise to those companies making various cereal products.

Agricultural equipment stocks certainly seem quite cheap although their earnings are down, but the stocks seem to have largely discounted that fact. They certainly will hold well and might even rise in the first half of next year.

We are impressed by the strength that a few building stocks have been showing in recent periods of weakness in the market, such as National Gypsum, Lehigh Portland Cement, and Sherwin Williams. In spite of the talk of a possible drop in home building activity this next year, we feel that total building activity will be only moderately below that of this year, but building stocks like those just mentioned are not entirely dependent on home building. Repair work and road building are also important factors in the affairs of companies like those already named.

We think grocery chains will do very well and are likely to get some price relief which will certainly be mildly bullish for the stocks of these chains. Our clients are quite heavy in many instances in these chains and we hesitate to recommend much in the field, at the present time; perhaps Kroger would be as good a suggestion as any we might give at present.

Earlier this year there was a very widespread interest in the natural gas stocks and considerable activity on the upside in the market. Then there came a rate decision in the case of two companies which caused investors to shudder and some of them to sell their gas stocks. This caused a little weakness in the gas stocks which have not yet recovered to their highs earlier this year. We are not at all bothered about the long-term growth possibilities of well organized gas companies, and that in spite of the proposed new method of calculating rates, which method will be contested in the courts. We advise continued holding of such natural gas stocks.

The office equipment group on the whole has had a very difficult time of it and there has not been much in the field at all outstanding but we do think most of the stocks in this group are still reasonably cheap. In spite of recent price action, we continue to look very favorably on Remington Rand, which we might consider the poor man's International Business Machines.

Electric utilities, we do not feel will go very much higher as a group with very few exceptions in cases where the growth factor is exceedingly strong. Stocks in general in this group are good defensive issues in a period of generally uncertain market conditions. The present dividends seem very secure and the yield is most attractive especially to those who are strictly income minded.

Railroads Still Speculative

Railroads as a group are still very speculative. They have produced some profits for investors this year to date but we must never forget that the next round of wage increases has not struck them yet, but you can pretty safely count on its striking them within the next 12-18 months, so watch very carefully any rails, particularly the weaker ones you may have in your list.

It is important to note that Canada in dealing with the employees of the Canadian National Railway recently refused to increase rates, even though wage costs were increased. Apparently, the Dominion Government has come to the point where it is commencing to put some kind of a ceiling on freight rates.

If you insist on buying into the rails, there is certainly nothing more solid than the so-called gravity issues, like Chesapeake & Ohio, Norfolk & Western and Virginian Railway.

Textiles are slowly rounding the bottom. Some are not yet off the bottom. A few have begun their slow recovery. We would be particularly wary of those which have put through huge expansion programs in the past three-four years. In that field, Industrial Rayon and North American Rayon preferred are among the best positions to hold in the industry. To those, we might add United Merchants & Manufacturers.

Since telephone and telegraph companies have been restrained more in recent years than other utilities, it seems to us that they would get a better break under a Republican Administration than under continuance of the Democrat Administration.

As we said earlier in this discussion, we think tobaccos will be one of the more attractive groups this next year. Certainly for the last two years, they have been most unattractive especially where there was the slightest interest in appreciation as an investment factor, but they are gradually running into lower average tobacco prices, we believe, and that is very important in their affairs. Likewise, we suspect they are going to get a little price relief on cigarettes very soon which will aid their position considerably. One does not recommend them to the speculator looking for quick short-term profits but they certainly should appeal to the true investor. In this group, we would have to include Liggett & Myers, American Tobacco and Reynolds.

The non-ferrous metal stocks have in recent weeks slumped considerably, particularly issues like Anaconda and Kennecott. We might attribute this to two factors perhaps, nationalization of their properties in Chile and some reduction in the average price they received for their metals, particularly copper.

It is our judgment that both of these factors have been overdone so far as the prices of these stocks are concerned. A while back we suggested half-sale of Phelps Dodge, which seemed out of line with earnings prospects for sometime to come, but we have still held onto Anaconda and Kennecott, and continue to do so for the present. In fact, there has been such drastic readjustment in some of the other metal stocks that we are even beginning to like St. Joseph Lead at present. You all know how drastically lead has dropped in the past few months, that seems to have about halted.

The Automobile Stocks

The automobile stocks which have been so very prominent in this market especially in the past year and a half, we believe are going to be far less prominent next year. We see signs of some price cutting and a squeeze of margins of profit such as the companies have not had to face since World War II. Generally, there will be lower earnings and dividends this next year in the group, and there is nothing here we would want to buy. However, as to automobile accessories we might consider stocks like Electric Auto Lite and Electric Storage Battery. Here, a good part of the business is the replacement business not so dependent on the continued flood of new cars.

In the electrical equipment field, we particularly like at this time Westinghouse Electric. We have suggested taking half profits on General Electric but we do not have that feeling on Westinghouse Eelectric. The latter company has a very aggressive management and for some time now unusually good labor relations, which is always a factor that must be considered in judging market values. We prefer Westinghouse Electric to General Electric if one insists upon making any purchases in that field today.

The proprietary drug stocks have certainly gone through a real testing period this last year and begin to look, in most cases, like a good purchase again today. This is certainly true of Lambert, Vick Chemical and even Sterling Drug. The ethical drugs have in most instances suffered a fairly sharp relapse in recent months. They have been about the outstanding group in that respect. They are again getting down to levels that begin to make them attractive purchases.

The steels are still in a rather uncertain spot until there is final settlement of the wage controversy especially as to fringe profits in the cases of some companies. The government has allowed price increases that are satisfactory in some types of steel but apparently not in all. On the whole, we think the industry will be given pretty fair treatment in further adjustments, at least through the first half of next year. We believe the earnings are going to hold up fairly well compared to those of the second half of this year but we must never forget that when peace comes, the steel industry has so greatly added to its capacity, that there will be a terrific fight for markets for their output, probably by 1954. While generally we are not rushing in to sell all steel stocks at this point, we are not at all actively involved in recommending steels at this time.

The rubber stocks have had considerable adjustment too this past year. Their prospects for volume of business and for earnings seem fairly good over the next 12 months. We think the best value in the group today is Lee Rubber & Tire.

We would not go overboard in purchasing aviation manufacturing stocks at this time. We recognize that all have huge orders on their books, but we remember they also were in that position in World War II, and when the government got through renegotiating those contracts, the earnings did not appear to be what was originally expected. To put it another way, we are in most cases not advising the sale of them at the moment, but certainly not recommending them with the thought there is any appreciation ahead of them. They are a group that needs to be watched possibly for selling in most cases before next year is over, unless there is an indication of a renewal of a much larger armament program.

We are generally bullish on the long-pull outlook for all well organized airlines. At the moment, we like Eastern Air Lines and Braniff Airways.

Interest Rates

Finally we should take up the matter of interest rates. It is my belief that there will not be any significant change in rates in the near future but before next year is over, a further small rise in basic interest rates will develop, which continues to make it important for individual investors to avoid commitments in any type of long-term bonds, including governments. Leave the purchase of long-term governments to banks, institutions, and life insurance companies who are in a position to hold them until maturity. We shall find the government will have to increase short-term rates too, before next year is over, all of which adversely affects the prices of long-term corporate bonds, and high grade non-convertible preferreds. Interest coverage on these bonds or coverage of dividends on the preferreds may be very, very good, but remember the governing factor will be the upward trend of interest rates. This is an important fact to those trying to put part of their fixed asset commitments in bonds of long-term maturities in order to build up their average yield. It is my personal judgment that in continuing to do this, you may lose anywhere from 2-5 points on these bonds before 1953 is over, as a result of the upward trend of interest rates. Therefore, all, or a large part of any interest you may receive will be wiped out. Of course, if you want to hold on the very long-pull basis, eventually the upward trend of interest rates will be halted, and we will probably get into a cycle of lowering interest rates, but that seems a long way off.

For those who are in the higher tax brackets, that is in the surtax brackets of 48% or more, some consideration should be given to purchase of municipal bonds, but there the uptrend of interest rates will have its effect and we think you should confine your purchases to maturities of not over 10 years, with a goodly sprinkling of maturities under five years. As in the stock market, choice of bonds should be on a highly selective basis.

Federal Land Banks Plan to Refund Bonds

J. R. Isleib, Land Bank Commissioner, on Dec. 1 announced that the 12 Federal land banks are making arrangements for a public offering of consolidated Federal farm loan bonds primarily for the purpose of providing funds for the redemption at maturity, Jan. 1, 1953, of approximately $186,000,000 outstanding consolidated Federal farm loan 1½% bonds of Jan. 1, 1951-53.

Mr. Isleib stated that the offering will be for cash; that no preference will be given to holders of the maturing bonds in making allotments of the new bonds; that the offering will be made through the banks' Fiscal Agent, Macdonald G. Newcomb, 31 Nassau St., New York 5, N. Y. with the assistance of a nationwide selling group of recognized dealers in securities; and that Mr. Newcomb will announce the time and terms of the offering at a later date.

Public Utility Securities

By OWEN ELY

Public Service Company of Indiana, Inc.

Public Service Company of Indiana serves electricity to a population of over 900,000 in north central, central and southern Indiana, including the cities of Terre Haute, Lafayette and New Albany. Industries in the area include coal, mining, production of chemicals, steel, automobiles and accessories, aluminum and other metal products, cement and stone quarrying also diversified agriculture in the outlying districts. Revenues are about 33% domestic, 17% commercial, 34% industrial and 10% sales to electric utilities.

The company's proportion of industrial revenues (34%) is lower than for some of the other large companies in this section of the country. Moreover, the largest annual revenue from any one industrial unit (du Pont's Wabash River Ordnance Works) amounts to only $833,000, or about 1.5% of total revenues; the list of large industrial customers shows good diversification among different industries. The company as of Sept. 30 had a large backlog of new industrial business (pending but not yet connected), expected to increase the company's annual revenues by $2.8 million.

The company's residential revenues per kwh. are currently around 3.02c (moderately above the national average) while residential usage approximates 2,162 kwh., about in line with the national average. Residential revenue per kwh. has declined steadily since 1938, or earlier. The company has improved the saturation of electric ranges in its area in the postwar period from 17% to 31%, and that of electric water-heaters has increased from 2½% to 18%.

The company has enjoyed rapid postwar growth. Since 1946 kwh. sales have increased 105% and the peak loan 83%. While growth has been stimulated by defense activity, the relative proportions of domestic, commercial and industrial sales have been consistently maintained. Medium-sized and small communities have benefited substantially by the increase in industrial activity.

A a meeting with a group of security analysts recently, President Gallagher presented a book of statistical data containing some interesting exhibits. A chart of system capability and peak demands during 1946-52, with a projection through 1955, indicated that the company is planning to install 360,000 kw. at its huge new Wabash River Plant by the end of 1954.

The present 561,000 kw. capacity includes 25,000 kw. available under a lease which expires in November, 1953. Thus, the net increase over the next three years will be 335,000 kw., a gain of €0% over 1952 and 150% over 1946. The addition of the first two 90,000 kw. units at Wabash River, scheduled for about March and August, 1953, should greatly improve the generating set-up in relation to peak loads. In the meantime, the company must buy expensive power to meet the load. With the addition of the third and fourth units at Wabash River in the first half of 1954, the company should have ample reserve capacity, for the time being at least.

The significance of the current power shortage is indicated by the fact that the company had to pay (in the nine months ended Sept. 30) 11.60 mills for purchased power, compared with minimum fuel cost for its own power of only 2.43 mills. The company is now paying an average of $4.56 a ton for coal, compared with only $1.69 in 1940. The present coal is about 7% better in btu content, and only 1.23 lbs. are burned at present to produce one kwh. compared with 2.07 in 1940. These factors partially offset the higher cost per ton, so that fuel cost per kwh. now averages 2.8 mills per ton compared with 3.3 mills in 1948 and about 1.7 mills in 1940-42.

The company issued $25 million first mortgage 3⅜s due 1982 and $20 million 4.32% preferred stock in June this year, and as of Sept. 30 the capital structure was as follows

	Amount (mill.)	Percentage
Long-Term Debt	$101	47%
Preferred Stock	37	17
Common Stock Equity	77	36
	$215	100%

The small remaining amount of the 4.64% preferred stock will be called for redemption in December. The company hopes to avoid additional financing in 1953, according to Pres. Gallagher, but might issue preferred or common stock (probably the former) next summer if they decide to add a fifth unit at Wabash River. There are no fixed ideas regarding capital ratios but the management leans toward a 50-15-35 set-up.

Public Service of Indiana has recently been selling around 34 on the New York Stock Exchange, paying $1.80 to yield 5.3%. Share earnings for the 12 months ended Sept. 30 were $2.42 a share, making the price earnings ratio about 14 times. The company has no immediate intention of raising the dividend, according to Mr. Gallagher, although the situation is reviewed by the board at monthly meetings. The record over the past ten years is indicated in the accompanying table.

	Revenues	Common Stock Record		
Year	(mill.)	Earnings	Dividends	‡Price Range
1951	$49.74	$2.06	$1.80	30⅜-26¼
1950	44.99	2.54	1.75	30 -24¼
1949	40.30	2.48	*1.20	27⅜-20
1948	36.89	2.67	†	22⅜-18
1947	31.10	2.42	†	23¼-17¾
1946	27.37	2.06	0.80	22⅝-16¼
1945	27.94	1.11	0.50	18⅞- 9¾
1944	27.53	0.96	0.50	10½- 7½
1943	28.16	0.96	0.50	8⅞- 6
1942	25.66	0.88	0.50	6⅜- 3⅞

*Plus 3/100th share Indiana Gas & Water. †1/10 sh. capital stock of Indiana Gas & Water in 1947 and 11/100 in 1948. ‡Adjusted for 2-for-1 split in November, 1948.

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As We See It

thought and study are being given the question as to what ought now to be done, what can now be done to prevent a crash during the next four years which might very well bring a new lease of life to much of the costly nonsense we have known and suffered under the New Deal and the Fair Deal. It is altogether fitting that this should be the case. Indeed it is definitely heartening to us that it should be so.

Realism Needed

At the same time it seems to us that it is doubly important that the whole matter be approached in a realistic way. Thanks to the "indoctrination" of the past two decades there is altogether too much disposition to revert at once to the notion that the way to avert a depression is essentially that upon which the New Deal and the Fair Deal have placed their stamp of approval—that is by planning in advance to unbalance the budget (assuming it ever is to be balanced) for the purpose of "priming the pump" with funds created for the purpose. Roads, schools, dams, irrigation, harbor work, and a host of other projects theoretically at least "saved up" and blue printed must be activated at the first moment that the wise men on the Potomac conclude that the time has arrived to take such action as a preventive of depression. Similarly, various other measures either for the inflationary creation of funds or the redistribution of funds with the purpose of placing other people's property in the hands of those who will come promptly into the markets are recalled to mind promptly.

As a means of prolonging a tired boom these procedures have, so it seems to us, definitely proved their ineffectiveness. We can not understand how any one familiar with the record of the years from 1934 until the outbreak of World War II can fail for a moment to look with skepticism upon such panaceas as these. It is possible, we suppose, that by judicious timing of essential public works we can alleviate the severity of depressions. In one degree or another practical considerations may make deficits all but unavoidable in some circumstances, and within limits enlargement of the volume of bank credit is indicated in times of crisis. But all such measures are hardly more than palliatives at best. It would be a blunder of the first order of magnitude to accept the currently popular notion that we need never have another depression because such steps as these can be taken to prevent one.

How to Proceed

Whatever may be the political necessities of a threatened or an actual recession in business, the real way and the only way in which such economic misfortunes can be avoided (to the degree that is possible by any means to avert them altogether) is to adhere to policies that limit and restrict the booms which precede them and generate them. In the present case the boom has reached an advanced stage. We do not undertake to say, we would not pretend to know, precisely what stage has been reached and hence how long it may be before recession, or possibly depression, is likely to set in. What is perfectly clear is that boom conditions have prevailed in this country for three-quarters of a decade, that this boom owes its origin to World War II, and its continuance in all human probability to the outbreak of war in Korea. It strains our credulity too far to accept the notion that in all this no conditions have evolved which tend very powerfully to bring the boom to an end.

Mr. Hoover when he stepped into the White House early in 1929 inherited some such situation. We hope, and we are inclined to believe, that the current state of affairs has not reached the advanced stage obtaining in 1929. On the surface at least little evidence of wild speculation is evident, either in the securities markets or in industry generally. We are under the impression that leading executives in almost all, if not quite all, departments of business and finance have been skeptical and cautious at least for a year and a half. They have, of course, adjusted themselves to existing conditions, but do not appear to have been a major cause of their development. The boom has, however, after some hesitation last year, continued. Continuation at this rate carries its own threat; any speculative acceleration would, of course, *pari passu* increase the danger.

Curbing Excesses

The real problem is this: How may excesses in the future be restricted if not eliminated, and how may a solid foundation be built under the situation as it now stands? So far as government is concerned, its proper course is clear. It must promptly eliminate waste and extravagance wherever it can be found—and no difficulty should be experienced in finding it. Many functions now performed by government at all levels must be reduced in scope and often wholly eliminated. Advantage must be taken of reduction in expenditures thus made possible to reduce debt. Outstanding Federal debt, now gravely out of proportion in short-term form, must be funded at rates such that non-bank investors will take it up and hold it. Bankers then must be careful in acquiring other assets to replace bond holdings lest they be feeding inflation through loosely extended credit. And it goes without saying that business generally must continue its attitude of caution and conservatism in its operations.

It is in such directions, not in New Dealish panaceas, that our salvation is to be sought.

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The 1953 Business and Commodity Outlook

ness of the people. For seldom has any President faced such grave domestic and foreign problems as those that lie ahead.

No Panacea

The General's sweeping victory was a tremendous personal triumph for the man. The widespread confidence of the public in Eisenhower's record and capacity was largely responsible for his landslide. Likewise, the peoples' distrust for and disgust at many of the aspects of the current Administration whetted their appetite for a change. Outside of the office of the Presidency, there was little in the election returns that could be considered as encouraging for the future of the Republican Party. At best the Republicans have but a toehold, and a narrow one at that, in the next Congress.

Naturally, in the exuberance of victory—and no one can deny that is was a truly great one—there is likely to develop a feeling that the General's election will sweep along in its wake all manner of good things for men and their activities. Without detracting one whit from the most encouraging long-term implications of the Eisenhower ascendancy, we simply wish to stress one thought: The General's sweep should not be regarded as a panacea; he would be the first to assure you that the rewards are alluring, but that the strivings must be great and that the disappointments are bound to be keen before the green valley can be reached.

Business to Slide Further in 1953

In our annual forecast for the year 1952, we predicted that the Babsonchart Index of the Physical Volume of Business would average about 5% lower than for the year 1951. It now looks as if the Babsonchart Index would average around 126 for the current full year. This represents a decline from last year of just about 5%.

Looking into the year 1953 under Ike, we forecast that the Babsonchaft Index of the Physical Volume of Business will average about 8% lower than the 1952 level. The first quarter of 1953 will probably record the year's highest point. Following the expected peak in the first months of next year, we anticipate a gradual downtrend. At the moment we look for no sharp break in business volume, but much depends on the emotional reaction of businessmen as they see the decline developing.

No New Stimulus

In weighing the encouraging aspects for business of the election, management must not forget that the great flooding economic tides are likely to have a far more lasting effect on the curves of tomorrow's production and sales than are the political acts of the New Administration. A helping hand it may lend. An understanding ear (so long absent) it may bend. But the maladjustments already ingrained by years of expansion and inflation it cannot iron out in a day. Nor can it remove the growing signs of old age that are already showing on the body of the business boom.

No matter what the new Leader may do, he cannot wipe out at one stroke what has been so long abuilding. The threat of excessive productive capacities will remain to heighten greatly the tempo of competition. High labor and other costs have already been frozen into the economy. World economic conditions have shown unmistakable signs of flagging. A continuation of this trend would have a bad effect on United States business for a long time to come. Opportunity to promote new sales through additional expansion in private debts seems limited by the already high totals of loans against consumers' names.

War and Defense

We strongly believe that Russia will have a more healthy respect for a United States led by the conqueror of Hitler and Nazism. No indications are available from modern history to show that the Soviets can be dealt with through negotiation. They have no regard or respect for treaties or for entreaties. Relentless pressure at all the marches of the Communist World by all the nations of the free world appears to hold more hope for an eventual Soviet crack-up than does a passive policy of "containment."

We believe that, under Eisenhower, increasing and relentless forces will be directed at Communism. By use of an expanded underground, by enlarged espionage, by a rising crescendo of propaganda, by enlisting others who fight against Communism, whether they have adopted American political moves or not—these are the things which we feel the new Administration will employ to bring cracks and eventual collapse to the foundations of Communism.

In such a program, the policy of the current Administration may be greatly changed. More foreign troops will be armed to fight on our side. Even the soldiers of Chiang Kai-shek may be thrown into the fray to ease the drain on the American blood supply. In such a policy there is naturally the danger that World War III may be touched off. But we believe such a danger is more remote than the **certainty** of World War III that would be implicit in a policy of appeasement. And there is always the hope that, as the Free World waxes stronger, the Soviets may see the folly of continued aggressive tactics. They might change their ways.

But please note this: Our viewpoint on this whole matter of the war outlook will be subject to sudden revision the day that Stalin dies.

1953 Forecast for Individual Industries

As has been our custom, we are making specific predictions in summing up the 1953 prospects for business volume of various industrial activities. Please note that these specific forecasts cover the volume of business, not dollar values. It should be pointed out that a forecast showing little change expected for an industry next year can be either bullish or bearish, depending upon the position of the industry in 1952. For example, we forecast that 1953 will see little change in both textile activity, and cement production. In the case of textile activity, such a prediction is definitely not encouraging because of the poor position occupied by the textiles this year. Cement production, however, has been at a high rate in 1952. Our forecast that this high rate will continue during 1953 is, therefore, to be considered a constructive forecast.

Table of Output in 1953 Compared to 1952

(1) Activities Expected to Show Improvement Over 1952:

- Aircraft
- Armaments of All Types
- Public Construction
- Air Conditioning
- Electronics
- Airline Transportation
- Natural Gas
- Shoes

(2) Activities Showing Little Change:

- Automobiles
- Household Appliances
- Printing and Publishing
- Chemicals
- Petroleum Products
- Textiles
- Cement
- Tobacco
- Bituminous Coal
- Imports
- Retail Trade
- Rubber Consumption
- Electricity.

(3) Activities Expected to Show Greatest Declines From 1952:

- Steel and Iron
- Machine Tools
- Nonferrous Metals
- Lumber
- Railroad Equipment
- Railway Freight
- Machinery
- Residential Building
- Paper
- Exports.

Inflation

Money Supplies—Looking into 1953 we do not see any big increase in money supplies. At the present time our total supplies of money are so large that it would take a sizable further expansion in order to have a marked effect on the price level.

Credit—We anticipate no great expansion in credit during 1953. The supply of loanable funds has been curtailed and the demand for new loans is less pressing because of the sizable quantity of debt now outstanding.

Failures—Business failures have been unusually low when compared with the nation's experience during the days before World War II. We do not anticipate any marked change in the failure trend during the coming year, Nevertheless, if business declines closer to the Normal X-Y Line on the Babsonchart, it would not be surprising to see a rising rate of failures during the late months of 1953.

Deficit Financing—A minor amount of deficit financing in the next few months will not have any important effect on money supplies. Later in the year tax collections should eliminate the need for deficit financing for a number of months. It would appear, therefore, that deficit financing will not be a major factor affecting money supplies during the year 1953. However, clients should understand that if a business slump should get under way, our new President will find plenty of ways to spend money in order to prime the business pumps. At the same time, a business slump would cause a sharp drop in income tax collections. Such a fall in government intake would create an automatic rise in deficit financing.

Supply of Goods

Raw Materials—Most raw materials, including the major imported items such as rubber, tin, and burlap, should continue in adequate supply. Nickel and copper promise to remain short for some time. Generally, domestic raw materials should be plentiful. Later in 1953, surpluses in many lines may become a problem.

Farm Output — Carryover of most major crops from 1952 will remain large. The supply situation in wheat, corn, oats, etc., looks comfortable at the present time. But weather developments next year may be a vital factor.

Manufactured Goods—Manufacturers' inventories continue high. Most fabricators are still well stocked in many lines. There has, however, been improvement in retailers' stocks. The nation is again building inventories rapidly and this whole situation could change suddenly during the early part of next year.

Consumer Inventories — Although, unfortunately, adequate statistics are lacking, consumer inventories — namely, the supply of household goods, automobiles, etc., in the hands of consumers—have a very important bearing on future business. Consumers are known to have bought heavily all sorts of goods in the years after World War II. Later, when the Korean War broke out, another heavy wave of accumulation developed. It is probably safe to say that most consumers are well supplied with durable goods.

Demand for Goods

Employment — With business likely to see its best level for the year in the first quarter, employment, except for seasonal considerations, should hold close to present figures, well above 62,000,000. Later in the year, if our expected decline in the physical volume of business develops, some rise in unemployment can be anticipated.

National Income — National income is expected to level off during the coming year, but should show greater resistance to the coming decline than most other indicators. The net result should be an average figure for the year 1953, slightly below that for 1952.

Farm Income — Farm income can be expected to strengthen along seasonal lines during the first four or five months of 1953. The total for the year, however, may fall as much as 5% below 1952.

Price Forecast

Carefully weighing the above factors affecting the supply of goods and the demand for goods, we conclude that, barring the outbreak of a bigger war, the trend of wholesale commodity prices will remain in a basic long-term downtrend. At the moment we see no wide-open break. At the same time, it should be recognized that some prices have declined sharply in 1952. A temporary recovery in many price groups is entirely probable during the next few months and perhaps during early 1953.

Although wholesale prices should end the year 1953 lower than they begin it, there will be many divergent movements in individual g[illegible] close watch on influences affecting particular commodity groups during the year should be maintained at all times. Nineteen fifty-three should see the end of nearly all shortages, including most items on all "critical" lists.

One thing to watch during the new year will be the possibility of a move by Eisenhower to expand stockpiling programs. A demand for such an increase in stockpiling will rise in intensity if the price decline continues. Pressure will be brought to bear on the government to use stockpiling as a means of price support and to level out demand fluctuations.

Living Costs

In the early part of next year living costs will probably continue close to current peak levels. As the year wears on, however, an irregular downward movement can be expected. The net result may be an average decline of about 3% to 5% lower for the whole year 1953 as compared with 1952.

Labor

Wage Trend—Unions can be expected to push hard for both wage and fringe gains during the opening months of 1953. Later in the year, as the demand for labor slackens, the union program of driving for advances on every front will gradually change to a program of consolidating gains. The prospects now are that wages may level off by mid- or late-1953, with the result that the year as a whole may show only a moderate wage increase.

Strike Prospects—We forecast a decline in strike totals in 1953 of approximately 15% to 20% compared with 1952. However, there is strong likelihood that a rash of early-year strikes will be very high. During the late months of the year, softening business will force labor to be less aggressive.

Taft-Hartley — General Eisenhower will move at once to revise the Taft-Hartley Act. This, however, will not be accomplished soon enough in the year to prevent widespread labor shutdowns of industry. Such revisions may well mean increased tensions between labor and management during 1953.

Retail Trade

Over-all Trend—We look for a physical volume of retail trade in 1953 close to 1952 totals. Dollar volume of all branches of retail trade can be expected to decline moderately.

Grocery Chains—Grocery sales should average close to the totals for the year 1952. Lower wholesale prices, however, should make for larger profit margins.

Variety Chains—The outlook for the complete year is for a sales picture unchanged to somewhat less favorable.

Mail Order—We look for mail-order sales to run at least 5% below the 1952 level.

Department Stores — Totals for the year 1953 should average moderately lower than this year. Big city stores will have the most difficult time maintaining sales volumes. Those with suburban branch operations should fare better.

Profits Prospects

Recent wage increases will be in effect for the full year, putting heavier cost pressure on profits. With productive capacity increased, price competition will rise tremendously.

You can expect a concentrated management drive for cost cutting. There is plenty of room for this in most businesses and it should help to keep the decline in profits small. Also, lower material costs will help some industries.

One of the biggest cushions under falling profits will be the current very high tax rates. As profits slide, Uncle Sam will share the heaviest loss. Expiration of the excess-profits tax will also be beneficial to certain industries and to certain companies.

All in all, the outlook is for a lower level of profits in 1953 than in 1952.

Real Estate

Residential—Home building will be lower in 1953 than in 1952. Prospects are that the prices of new homes will weaken during the latter part of next year. After early firmness, building costs should edge lower as the year wears on.

Commercial — The whole year 1953 will show a somewhat lower average of commercial building than 1952. Existing values should hold well.

Farm—We look for a moderate decline in the value of farm properties. No big break, however, seems likely in 1953.

Urban — Population trend away away from the cities will continue. This will remain as a drag on city realty values.

Suburban — Continuation of the migration from the cities will help maintain suburban values during 1953.

Public Housing — We anticipate a moderate increase in public housing. This, however, may be greatly expanded if business declines more sharply than we expect. This will be one of the first sections of the economy to be singled out by Ike for pump-priming when business and total construction falter.

Municipal and Public Works—We are forecasting a moderate rise in activity here as compared with 1952. This may be stepped up sharply if business falters.

Construction Costs — After the first few months of the year we can look for lower costs for most building materials. Labor rates will remain very high and no big gain in cost saving can be expected by those who postpone building plans.

Foreign Trade

Exports — We look for another sizable decline in exports during the year 1953—perhaps amounting to as much as 10%.

Imports — Eisenhower will aim to hold imports at this year's high level.

Conclusion

As much as we would now like to predict an "Eisenhower Boom" —to rise immediately above the site of the "Truman Boom"—we simply cannot find sufficient new economic stimuli upon which to base such a forecast. Rather, we are thinking in terms of a possible support to present economic conditions, arising from the intangible factors set in motion by the General's election. But we are not predicting any new boom to come now. In a few words, we predict for 1953: Business will average about 8% lower than the 1952 level.

E. N. Potter & Co. Formed

E. N. Potter & Co., members of the New York Stock Exchange, will be formed as of Dec. 11, with offices at 65 Broadway, New York City. Partners are Eliphalet N. Potter, Exchange member, general partner, and Albert P. Hinckley, limited partner. Mr. Potter is a partner in Potter & Gossler.

Fordon Aldinger Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Roy R. Carpenter is now affiliated with Fordon, Aldinger & Co., Penobscot Building, members of the New York and Detroit Stock Exchanges.

Godfrey B. Simonds

Godfrey B. Simonds, Providence, R. I., resident partner of G. H. Walker & Co., passed away Nov. 26, at the age of 48. Mr. Simonds was a governor of the Investment Bankers Association of America.

Railroad Securities

Baltimore & Ohio

The railroad share market has really come to life in the past couple of weeks. Heavy, consistent buying has pushed investment favorites such as Chicago, Rock Island & Pacific, Illinois Central and Southern Railway (to name but a few outstanding performers) into new high ground by substantial margins. Moreover a factor distinguishing this recent revival of activity in rail securities from earlier advances has been the broadening of interest. For the first time in quite a while the lower priced more speculative issues have been participating. One of the features last week was New York Central, with many traders obviously impressed with the excellence of the September and October earnings reports.

Another of the low priced stocks that has been attracting a sizable following is Baltimore & Ohio common. This road's earnings have been showing up well throughout the year and for 1952 as a whole promise to be well ahead of 1951 results. Another factor favorably affecting public sentiment toward this situation is the confidence of the management as to future prospects implicit in the recent resumption of dividends on the common stock. A distribution of $0.75 a share is to be made Dec. 30. This will be the first payment received by common stockholders since 1931.

The management of Baltimore & Ohio recently distributed a pamphlet outlining the progress that has been made in the reduction of debt and charges since 1941, with estimates carried to the end of this year. During that period non-equipment debt has been cut by $163 million and by the end of this year will stand at roundly $484 million. This has, of course, been partially offset by new equipment purchases but overall the debt has been reduced $92 million or by 13.6%. The reduction in the service charges on this debt has been wider percentagewise (18.2%) in reflection of the lower coupon rates on serial equipments. It is estimated that by the end of this year aggregate interest charges will be down to $24,794,376, including contingent interest.

The question of the level of fixed charges is a particularly important one with respect to this railroad because of the terms of the debt readjustment plan of 1944. Prior to contingent interest there was set up a capital fund of the greater of 2½% of gross or $5 million, less any charges for depreciation on property other than equipment, and a general sinking fund of $1,740,757 annually. These are permanent funds. In addition, there were two provisional sinking funds set up. So long as combined interest charges and guaranteed dividends are $22 million, or more, 50% of net income must go into a sinking fund. When such charges are reduced below $22 million this sinking fund will be a maximum of $750,000 annually. Finally, so long as combined interest and guaranteed dividends are at, or above, $20 million any dividends paid on any class of stock must be matched by a similar sinking fund.

The magnitude of these requirements is obvious when it is realized that the surplus sinking fund alone out of 1951 earnings was close to $6 million. This portion may well top $10 million on the basis of estimated 1952 earnings. Sinking fund payments to match the 1952 dividends will come to $4,277,000. All told, then, and including the permanent general sinking fund, such requirements out of 1952 earnings will probably top $16 million. It is small wonder, then, that progress being made toward reducing interest charges has excited considerable interest in the road's securities. In addition, many rail analysts are of the opinion that in time the program may be expedited by refunding operations.

Baltimore & Ohio's revenues have not held up to 1951 levels so far, the road naturally having suffered considerably from the steel and short-lived coal strikes. Expenses, however, have been very well controlled, a tribute to the management's system of strict budgetary supervision as well as to increased operating efficiency resulting from large capital expenditures. As a result, net income, before capital and sinking funds, for the 10 months through October soared more than $5.4 million, to reach $20,645,939. For the year as a whole it now appears possible that earnings on the common stock, before funds, may reach as high as $10 a share.

Arthur Alexander With W. E. Hutton & Co.

Arthur C. Alexander

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Arthur C. Alexander has become associated with W. E. Hutton & Co., 75 Federal Street.

NASD Dist. 11 Elects To District Committee

WASHINGTON, D. C. — The members of District No. 11 of the National Association of Securities Dealers, Inc., embracing the District of Columbia, Maryland, North Carolina and West Virginia, have elected the following to serve on the District Committee for a three-year term commencing next January 16th:

F. Grainger Marburg, Alex. Brown & Sons, Baltimore, Maryland; Edwin B. Horner, Scott, Horner & Mason, Lynchburg, Virginia; Glenn E. Anderson, Kirchofer & Arnold Associates, Inc., Raleigh, North Carolina; and W. Olin Nisbet, Jr., Interstate Securities Corp., Charlotte, North Carolina.

The above named individuals succeed to the offices held by the following whose terms expire on the same date:

Edward J. Armstrong, Stein Bros. & Boyce, Baltimore, Maryland; W. Erskine Buford, W. E. Buford & Co., Charlottesville, Virginia; William D. Croom, First Securities Corp., Durham, North Carolina; and Ben S. [illegible] Brown & Sons, Winston-Salem, North Carolina.

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Identifying Statements And the Prospectus

the Federal Securities Act. Information about the issuer, the securities, and the circumstances of the offering is contained in the prospectus which must be given to the buyer.

"The registration statement covering these securities is not yet effective. No offer to buy or sell the securities should be made and no offer to purchase the securities will be accepted until the registration statement has become effective. The publication of this notice is no assurance that the proposed offering will be made or as to the amount of securities, if any, that will be available for distribution by this firm."

If, as the SEC states, the purpose of the Securities Act is to achieve widespread dissemination of information before the effective date of the registration statement, we are at a loss to understand the many and severe restrictions with which it has surrounded the identifying statement.

Since every sale to the public of a new issue must be accompanied by the delivery of a prospectus, and therefore the buyer will have all the required information before him prior to the consummation of such sale, why does the Commission make the creation of interest in the instant security so difficult?

The new regulation makes little real advance over the old "tombstone ad."

In our view it is the failure to take an objective view of what the securities industry is trying to, and is obligated to, do which has given rise to this whole unsavory goulash.

A merchandising job is a selling job whether the the product be clothes, machinery, apples, or, yes, securities.

Through skillful propaganda, the Commission has developed a belief that, with respect to the purchase and sale of securities, the public generally is an ignoramus. We dispute this. Indeed, if it were true, then the Commission should be on the defensive, for there can be no excuse for its failure to educate the public after so long a period of existence.

Our newly elected President has promised that he would attempt to establish a sound dollar, balance the budget and use the power of the government to avoid unemployment.

To accomplish all this he must use every available means including provision for a free flow of capital into trade and industry.

Just as any merchant gives an opinion of his wares, why shouldn't an underwriter in an identifying statement give his view of the merits of the security which he offers and discuss the character of business of the issuer corporation in detail if he so chooses?

If it is claimed that this would require an amendment to the Securities Acts, then why hasn't the Commission used its efforts to secure such an amendment?

It must be clear that the free flow of capital into trade and industry is being constantly retarded by the unreal restrictions implanted upon the securities industry by the Commission.

To the extent that these continue they will impede the Presidential plan for a balanced budget and a sound dollar without unemployment.

Rule 132 is divided generally into required information, optional information and prohibited statements.

Under the heading of optional information there are some 16 subdivisions including among others: whether, in the opinion of counsel, the security is a legal investment for fiduciaries, banks and insurance companies; whether, in the opinion of counsel, the security is exempt from specified taxation; whether the issue represents new financing or a refunding operation; whether the security is traded over-the-counter, etc., etc.

The new identifying statements recently published, in contrast to the old tombstone ads, reflect this optional information. This is all to the good.

Because of this improvement there has been a tendency on the part of some of the underwriters and financial publicists to praise the rule.

That is not our reaction. It is regrettable that it has taken almost two decades to gain so slight an improvement when it should have been apparent at the very outset that an objective view required liberality in the dissemination of information before the effective date of a registration statement.

The fact is that in the matter of a sensible and objective administration of the securities laws, the securities industry has been so starved for bread that the yielding of the slightest crumb seems like a windfall.

There is a real hunger for fairness and understanding by the Securities and Exchange Commission in its work.

We can take some comfort from the enunciated credo of the incoming Administration that there is too much government by administrative agencies in business, and hope for relief after the inauguration.

As to the SEC's expressed aim of achieving prospectuses which are reasonably concise and readable, we have given up all hope. The Commission has been toying with that subject and regulating and re-regulating it interminably. Still the modern prospectus is ghastly. Its set-up is hardly calculated to encourage investor reading. Until the SEC adopts a more realistic view concerning its duty to the public, and revises its present thinking, there seems little likelihood that a sensible prospectus will emerge.

There is no sense in an attitude which is founded on the belief that those in the securities industry are lying in wait to fleece the public. It is our observation that as a group, those in the securities industry are honest and upright individuals. Their selling jobs, except insofar as impeded by the SEC, compare favorably with those of other merchants and they should be allowed much the same privileges in their methods.

Continued from first page

Free Exchange and Free Markets

creasing in inverse ratio to the fall of prices, would ultimately crush the nation as it came near doing in the 1929-32 period.

It is more important still that further devaluation of our Dollar be stopped. During the past decade the holders of bank deposits, insurance policies, pensions, Dollar obligations — including government bonds — have suffered the approximate equivalent of a 50% capital tax. While the wages of members of labor unions have been periodically readjusted to the devaluation of the Dollar, and the future earnings of many protected by escalator clauses geared to the cost of living, the same is not the case with those unorganized groups which, together, make up the majority of our population. But in any event no economy can long withstand the periodic readjustment upwards of costs and prices which merely reflects the fiscal maladministration of the country of which the deterioration of its currency is but one symptom. *No government worthy of the name may in peace time ask the people to accept deficit financing as a way of life no matter what the excuse.*

Twin Objectives

The twin objectives of our fiscal policy should be: (1) the stabilization of our price structure at existing levels, and (2) the systematic reduction of our public debts. To this end we must aim at Federal and State budgetary surpluses year in and year out by recognizing and accepting the limitations of our economic life. It is not rational to saddle the American taxpayer with the cost of raising the living standards of the peoples of the earth when that objective could the better be realized by facilitating the interchange of goods and services now impeded by tariffs, by quotas, by controls of every kind. Lend-lease, Marshall Plan, E.C.A., M.S.P., all laudable in their objectives, have served their purpose. Give-away programs must not be permitted further to develop interests vested in their perpetuation. It has come to pass that demands for American aid now are being made as a matter of right, while nations vie with each other as to which shall have priority on American largesse. This, too, must stop. People will never try to stand on their own feet if we continue to support them, nor shall we much longer be able to stand on our own feet if we continue tax-wise to bleed our people while increasing the mortgage on their future.

How then shall we go about developing trade throughout the world and, in that manner, raise the living standards of the less developed areas of the earth to the benefit of all its peoples—a slow process perhaps, yet more rapid than is generally imagined? To put that problem in proper focus we need but review the progress of mankind during the past half-century in the fields of production, distribution, transport and communications which has been nothing short of revolutionary, and which was given added impulse by the growth and spread of credit. The giant combines created during that period which, though paying their labor the highest scale of wages in history, achieve a cost of production with which not even the products of slave labor can compete. But these must not be permitted to create and perpetuate imbalance in world trade relations, so that we needs must find ways and means first to balance world trade, then with balance as our base increase its volume. *This can only be achieved by the adoption first of free exchange, then of free markets.*

Fallacy of "Pegged Currencies"

It is sheer blindness to peg currencies to each other, directly or through any one medium, in the belief that such price-fixing is synonymous to stability. In a price system stability is achieved by the balancing of production with consumption, of supply with demand. Price is the balance wheel, the sure corrective of imbalance, provided it is free. Thus, if left alone, the price of a nation's currency in the exchange market is a true reflection of that nation's position in international trade. If that position is in balance the rate of exchange of its currency will be stable. If imbalance sets in the rate of exchange will not alone reflect it, but *it will also correct it.* For such is the function of the free market in a price system, and it is by the price system that the modern world functions and has its being. Be it remembered that price-fixing in any form quotas, subsidies, multiple rates of exchange and other controls are all rigid impediments in the path of trade; that once adopted they are difficult of repeal because their very existence creates special interests vested in their perpetuation. On the other hand, integrated in a free exchange rate are to be found all those correctives which form the objectives of the various controls, yet all of them at once disappear when the need for them is gone. By emulating Canada's example and adopting free exchange we shall be able safely to lower tariffs while, at the same time, bringing and maintaining our trade with the world into true balance.

With dollar exchange on the free market foreign currency manipulation operating with the dollar as its base will come to an end, and this because no Central banker in his right senses would dare long accept the risk of exchange. The so-called "dollar gap" would also disappear because the free rate of exchange will make it impossible to create dollar debits except at constantly increasing costs to the debtor nation whose own declining exchange rate will, at the same time, stimulate its exports, attract foreign capital, and ultimately restore its position into balance. It is in that manner alone that balance in international trade can be achieved and maintained without recourse to "give-away" programs or one sort or another which invariably end in embittered international relations.

With dollar exchange on the free market we shall be able to scrap price-fixing devices such as the International Monetary Fund, salvage what may be left of our contribution to this self-admitted failure, and concentrate our attention to fiscal affairs. For the first time in our history we may learn to differentiate between dollar exchange and dollar currency which to date we have treated as if synonymous. Our failure to treat bills of exchange, which are the instruments of international trade, as distinct from currency notes which are local currency in the United States and nowhere else, has caused the latter to become the tools of tax evasion and hoarding in many countries, chiefly those of Western Europe. Thus is it that while pouring out bounty abroad on the one hand, we have undermined foreign governments by aiding and abetting tax evasion within their borders. But worse still, we have shut our eyes to the fact that the Red Chinese, busy killing American boys in Korea, use our currency notes as the chief medium of exchange for their foreign trade.

It may come as a surprise to most Americans that competent exchange men here and abroad estimate the volume of dollar currency notes now held outside the United States at between $8 and $10 billion. These estimates, which go far in explaining the redundancy of our note issue, are based on the powers of attraction of foreign premiums for our currency over official rates of exchange which, for seven years past, have ranged between 8% and and well over 30% (current premium in Paris 13%). This has been our contribution to world disorder and will also explain the chronic nature of the so-called "dollar gap" which, in reality, is largely imaginary.

We Americans, although ill-prepared, have been thrust by circumstances into a position of world leadership. As such we are the trustees of the institutions of freedom to which we must pay more than lip service. The sooner we acquire "know-how" in money and exchange, and the sooner we recognize that a free functioning price system is the very essence of freedom, the better for ourselves and for the world.

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. 7	105.5	*106.1	105.9	103.6
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 7	2,191,000	*2,203,000	2,200,000	2,071,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Nov. 22	6,662,550	6,621,800	6,537,700	6,232,176
Crude runs to stills—daily average (bbls.)	Nov. 22	¶7,076,000	7,096,000	6,938,000	6,757,000
Gasoline output (bbls.)	Nov. 22	23,842,000	23,973,000	22,301,000	22,191,000
Kerosene output (bbls.)	Dec. 22	2,946,000	2,472,000	2,493,000	2,862,000
Distillate fuel oil output (bbls.)	Nov. 22	10,857,000	10,898,000	10,531,000	9,428,000
Residual fuel oil output (bbls.)	Nov. 22	8,885,000	8,651,000	8,497,000	9,305,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 22	123,885,000	123,313,000	120,767,000	122,105,000
Kerosene (bbls.) at	Nov. 22	32,086,000	32,247,000	34,212,000	33,936,000
Distillate fuel oil (bbls.) at	Nov. 22	117,834,000	119,148,000	121,286,000	105,693,000
Residual fuel oil (bbls.) at	Nov. 22	52,081,000	51,942,000	54,101,000	48,704,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 22	810,922	828,723	760,741	711,447
Revenue freight received from connections (no. of cars)	Nov. 22	698,403	699,721	653,909	654,691
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Nov. 27	$203,025,000	$269,883,000	$276,859,000	$179,341,000
Private construction	Nov. 27	129,149,000	164,746,000	129,365,000	115,966,000
Public construction	Nov. 27	73,876,000	105,137,000	147,494,000	63,375,000
State and municipal	Nov. 27	40,426,000	76,422,000	69,328,000	43,935,000
Federal	Nov. 27	33,450,000	28,715,000	78,166,000	19,440,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 22	10,425,000	*10,455,000	2,150,000	10,160,000
Pennsylvania anthracite (tons)	Nov. 22	809,000	917,000	985,000	865,000
Beehive coke (tons)	Nov. 22	90,400	*81,000	28,500	136,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	Nov. 22	134	*130	122	123
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 29	7,701,176	7,971,149	7,752,925	7,445,693
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Nov. 27	127	167	136	148
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 25	4.376c	4.376c	4.376c	4.131c
Pig iron (per gross ton)	Nov. 25	$55.26	$55.26	$55.26	$52.7.
Scrap steel (per gross ton)	Nov. 25	$42.00	$42.00	$42.00	$42.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 26	24.200c	24.200c	24.200c	24.200c
Export refinery at	Nov. 26	34.950c	34.575c	34.300c	27.425c
Straits tin (New York) at	Nov. 26	121.500c	121.500c	121.500c	103.000c
Lead (New York) at	Nov. 26	14.000c	14.500c	13.500c	19.000
Lead (St. Louis) at	Nov. 26	13.800c	14.300c	13.300c	18.800c
Zinc (East St. Louis) at	Nov. 26	12.500c	12.500c	13.000c	19.500
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Dec. 2	96.82	96.94	97.12	96.97
Average corporate	Dec. 2	109.79	109.60	109.06	108.88
Aaa	Dec. 2	113.89	113.70	112.93	113.70
Aa	Dec. 2	112.37	112.19	111.81	112.19
A	Dec. 2	109.06	108.88	108.52	107.80
Baa	Dec. 2	103.97	103.80	103.30	102.63
Railroad Group	Dec. 2	106.92	106.74	106.21	104.66
Public Utilities Group	Dec. 2	109.79	109.79	109.24	108.88
Industrials Group	Dec. 2	112.37	112.19	112.00	113.50
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Dec. 2	2.72	2.71	2.70	2.70
Average corporate	Dec. 2	3.18	3.19	3.22	3.23
Aaa	Dec. 2	2.96	2.97	3.01	2.97
Aa	Dec. 2	3.04	3.05	3.07	3.05
A	Dec. 2	3.22	3.23	3.25	3.29
Baa	Dec. 2	3.51	3.52	3.55	3.59
Railroad Group	Dec. 2	3.34	3.35	3.38	3.47
Public Utilities Group	Dec. 2	3.18	3.18	3.21	3.23
Industrials Group	Dec. 2	3.04	3.05	3.06	2.98
MOODY'S COMMODITY INDEX	Dec. 2	407.8	406.8	408.6	459.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 22	205,897	215,183	200,915	144,151
Production (tons)	Nov. 22	248,614	243,255	242,598	184,691
Percentage of activity	Nov. 22	98	96	97	75
Unfilled orders (tons) at end of period	Nov. 22	502,963	548,900	472,987	382,247
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	Nov. 28	109.24	109.44	109.39	115.52
STOCK TRANSACTIONS FOR ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON N. Y. STOCK EXCHANGE — SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Nov. 15	22,637	27,676	26,290	21,292
Number of shares	Nov. 15	648,337	779,475	732,341	608,024
Dollar value	Nov. 15	$28,623,489	$34,676,021	$32,785,362	$26,845,662
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Nov. 15	19,383	20,649	20,503	17,623
Customers' short sales	Nov. 15	119	303	167	156
Customers' other sales	Nov. 15	19,264	20,346	20,336	17,467
Number of shares—Total sales	Nov. 15	543,012	578,681	582,964	495,191
Customers' short sales	Nov. 15	3,949	10,472	5,742	5,436
Customers' other sales	Nov. 15	539,063	568,209	577,222	489,755
Dollar value	Nov. 15	$22,128,328	$24,215,493	$23,704,017	$20,514,489
Round-lot sales by dealers—					
Number of shares—Total sales	Nov. 15	144,590	154,030	189,990	127,850
Short sales	Nov. 15	------	------	------	------
Other sales	Nov. 15	144,590	154,030	189,990	127,850
Round-lot purchases by dealers—					
Number of shares	Nov. 15	271,040	348,650	304,250	263,070
TOTAL ROUND-LOT STOCK SALES ON THE NEW YORK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):					
Total Round-lot sales—					
Short sales	Nov. 8	404,060	187,370	171,340	320,610
Other sales	Nov. 8	6,643,500	6,056,000	5,606,060	6,540,840
Total sales	Nov. 8	7,047,560	6,243,370	5,777,400	6,861,450
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:					
Transactions of specialists in stocks in which registered—					
Total purchases	Nov. 8	826,350	585,090	527,680	755,030
Short sales	Nov. 8	225,980	97,880	91,680	166,090
Other sales	Nov. 8	652,980	457,260	414,320	538,920
Total sales	Nov. 8	878,960	555,140	506,000	705,010
Other transactions initiated on the floor—					
Total purchases	Nov. 8	153,970	116,350	118,830	152,320
Short sales	Nov. 8	36,400	8,300	5,100	17,000
Other sales	Nov. 8	160,350	93,500	141,800	148,100
Total sales	Nov. 8	196,750	101,800	146,900	165,100
Other transactions initiated off the floor—					
Total purchases	Nov. 8	260,747	239,495	224,988	262,264
Short sales	Nov. 8	45,050	28,250	24,850	42,650
Other sales	Nov. 8	285,075	242,101	263,530	263,040
Total sales	Nov. 8	330,125	270,351	288,380	305,690
Total round-lot transactions for account of members—					
Total purchases	Nov. 8	1,241,067	940,935	871,498	1,169,614
Short sales	Nov. 8	307,430	134,430	121,630	225,740
Other sales	Nov. 8	1,098,405	792,861	819,650	950,060
Total sales	Nov. 8	1,405,835	927,291	941,280	1,175,800
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):					
Commodity Group—					
All commodities	Nov. 25	110.1	110.4	110.3	------
Farm products	Nov. 25	101.7	102.6	104.5	------
Processed foods	Nov. 25	104.6	105.6	106.2	------
Meats	Nov. 25	96.6	99.4	101.1	------
All commodities other than farm and foods	Nov. 25	113.0	113.0	112.4	------

*Revised figure. ¶Includes 617,000 barrels of foreign crude runs

	Latest Month	Previous Month	Year Ago
BUSINESS INVENTORIES — DEPT. OF COMMERCE NEW SERIES — Month of Sept. (millions of dollars):			
Manufacturing	$43,151	*$43,107	$42,067
Wholesale	9,927	9,862	10,482
Retail	20,299	*19,745	20,113
Total	$73,377	*$72,714	$73,662
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of November (000's omitted):			
Total U. S. construction	$1,079,879	$1,446,381	$1,024,775
Private construction	663,996	788,004	638,258
Public construction	415,883	658,377	386,517
State and municipal	264,599	414,309	284,770
Federal	151,284	244,068	101,747
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to November 14	12,277,139	------	11,187,785
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1947-1949 AVERAGE = 100—Month of October:			
Sales (average monthly), unadjusted	116	98	114
Sales (average daily), unadjusted	110	100	108
Sales (average daily), seasonally adjusted	105	95	103
Stocks, unadjusted	124	116	130
Stocks, seasonally adjusted	110	110	115
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of August:			
All manufacturing (production workers)	12,846,000	*12,059,000	13,069,000
Durable goods	7,096,000	*6,550,000	7,261,000
Nondurable goods	5,750,000	5,509,000	5,808,000
Employment Indexes (1947-49 Avge.=100)—			
All manufacturing	103.9	*97.5	105.7
Payroll Indexes (1947-49 Average=100)—			
All manufacturing	133.0	*121.1	128.4
Estimated number of employees in manufacturing industries—			
All manufacturing	15,976,000	*15,153,000	16,008,000
Durable goods	8,863,000	*8,292,000	8,878,000
Nondurable goods	7,113,000	*6,861,000	7,130,000
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of October:			
Weekly Earnings—			
All manufacturing	$70.80	*$70.09	$65.41
Durable goods	77.30	*76.06	71.10
Nondurable goods	62.30	62.30	58.00
Hours—			
All manufacturing	41.5	*41.3	40.5
Durable goods	42.4	*42.0	41.7
Nondurable goods	40.3	40.3	38.9
Hourly earnings—			
All manufacturing	$1.706	*$1.697	$1.615
Durable goods	1.823	*1.811	1.705
Nondurable goods	1.546	1.546	1.491
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE—Month of October: (000's omitted):			
Ordinary	$1,824,000	$1,594,000	$1,549,000
Industrial	499,000	470,000	481,000
Group	338,000	440,000	226,000
Total	$2,661,000	$2,504,000	$2,256,000
MANUFACTURERS' INVENTORIES & SALES (DEPT. OF COMMERCE) NEW SERIES—Month of September (millions of dollars):			
Inventories:			
Durable	$23,186	*$23,200	$21,542
Nondurable	19,964	*19,908	20,525
Total	$43,151	*$43,107	$42,067
Sales	23,647	*21,873	20,892
MONEY IN CIRCULATION—TREASURY DEPT. —As of September 30 (000's omitted)	$29,419,000	$29,293,000	$28,288,000
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of September (in billions):			
Total personal income	$273.3	*$269.6	$257.3
Wage and salary receipts, total	184.3	*182.5	172.1
Total employer disbursement	180.8	*179.0	168.8
Commodity producing industries	80.7	*78.7	75.7
Distributing industries	49.1	*49.4	46.3
Service industries	21.7	21.5	20.4
Government	32.8	*32.9	29.7
Less employee contributions for social insurance	3.7	3.7	3.3
Other labor income	4.5	4.5	4.2
Proprietors and rental income	53.5	51.8	50.9
Personal interest income and dividends	21.4	21.4	21.0
Total transfer payments	13.3	*13.1	12.4
Total nonagricultural income	252.3	*249.4	236.4
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE—August, 1909-July, 1941 = 100—As of September 15:			
Unadjusted—			
All farm products	288	295	291
Crops	264	272	239
Food grain	240	236	233
Feed grain and hay	234	233	216
Tobacco	428	436	423
Cotton	329	319	283
Fruit	200	206	201
Truck crops	182	229	161
Oil-bearing crops	305	310	288
Livestock and products	309	316	337
Meat animals	349	372	411
Dairy products	307	295	283
Poultry and eggs	227	225	247
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION —Month of September (000's omitted):			
Savings and loan associations	$592,897	$592,065	$445,850
Insurance companies	118,218	118,874	113,712
Bank and trust companies	316,181	313,236	263,396
Mutual savings banks	103,284	108,285	82,671
Individuals	227,979	239,129	203,825
Miscellaneous lending institutions	228,964	226,194	198,967
Total	$1,587,523	$1,597,783	$1,308,421
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of October:			
Net sales	------	------	------
Net purchases	$16,543,000	$3,545,450	$8,444,450

*Revised figures.

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Two Years of Fighting Inflation

three important developments seem to have been responsible.

(1) Plant capacity has increased to a level where we can support the demands of national defense and also supply most civilian demands. I wonder if it is fully recognized how much our industrial plant has grown since the war. Here are some rough figures: we have poured into investment in plant and machinery about $100 billion since the war, most of it in the last two years; the capacity for producing machinery and chemicals has doubled; electric generating capacity has increased 75%; petroleum output is up 50%, and steel ingot capacity will soon be 30% higher than seven years ago.

(2) Business firms have acquired a level of inventories which seems satisfactory to them. Retail inventories increased until the middle of 1951 and have since declined sharply. Manufacturing inventories grew for a somewhat longer period, but the growth has leveled out in 1952. When firms stop buying for inventory accumulation, it amounts to a decrease in the demand for raw materials and finished goods.

(3) The public suddenly began to save. Their withdrawals from savings accounts stopped and increases began. No one knows quite why this occurred. Perhaps the public had bought so much merchandise in the feverish months before that their wants were satisfied. I prefer to think that the public began to realize that we could control prices and that there would be plenty of goods available. At any rate, the accumulation of savings had been tremendous. In 1951, funds in the hands of insurance companies increased by $9 billion—$5 billion for private companies and $4 billion in the government's insurance operations. Savings deposits grew $2 billion, savings and loan funds increased by a like amount, and it is estimated that pension funds also increased by $2 billion.

The flow of income into savings is not quite as great in 1952 as in 1951, but it is still impressive. This flow has done two things. First, properly channeled by the insurance companies and others, it has financed plant expansion without the resort to bank credit. Second, it has reduced purchases of consumer goods and thus provided the public's solution to inflation.

I cannot emphasize too much the importance of savings in the control of inflation. I have already referred to the role that it played in 1951-52 in turning the price level downward. To the extent that the public restrains itself, government regulation and monetary controls become unnecessary. Thus an informed public can do the things which make regulation unnecessary.

It is right at this point that bankers have a very important job to do. They are the ones who must mold the public's thought with regard to their savings and investment policies. Advertising and other forms of public relations can be directed by banks to encourage the savings habit and to explain why savings are important.

Savings take many forms and I should like to discuss a few with you. One of the most common forms of savings in the last 20 years—and I should add a very troublesome one based on its performance—is savings in the form of idle demand deposits. Since demand deposits do not bear interest, it can only be assumed that the deposit is kept in the firm's or individual's checking account, awaiting some rather immediate expenditure. I recall deposits of this sort in the agricultural banks throughout the northwest, especially in the range, wheat, and potato areas. Farmers accumulated rather fabulous demand deposits, and it was a matter of some concern as to how long those deposits would remain unspent. These demand deposits, or temporary savings, influenced bank policies as to cash resources and investment maturities. While I have not had an opportunity to talk with these bankers about those unnatural demand deposits since my return to the northwest, I assume that a large part of the deposits was spent in the 1950-51 buying spree.

A Plea for More Savings Deposits

How much better it would be if deposits of that sort were placed in the time deposit category or invested in government bonds. The fact that the funds were earning a return would make their owner much less anxious to spend money. Furthermore, the campaign by bankers to encourage savings would be a healthy contribution to anti-inflation education.

Perhaps some bankers will not welcome expansion in their interest-bearing deposits. To these bankers I would make the recommendation that they encourage purchases of government savings bonds. In fact, it is my judgment that all bankers should get behind the savings bond program as a matter of public service. The government needs the money, and the act of buying savings bonds reduces the danger of the funds being spent for consumer goods.

I have heard that some bankers are reluctant to sell savings bonds because of the resulting reduction in their deposits. I cannot believe that this is true. The story is always that someone else believes that, and not the man that I am talking to. As a matter of fact, I do not believe that over the long run bankers will suffer a net loss in deposits if they sell savings bonds. The money supply in a growing economy must increase with the needs of business. Normally every bank shares in this gradual growth of deposits. If there is no danger of shrinking deposits from the sale of savings bonds, then the advantages to the government and to the individual and the anti-inflation influence of savings bond purchases should make the bankers of the country enthusiastic salesmen.

Our Monetary Policy Today

Now where do we stand today in the operation of monetary policy? The voluntary credit restraint program and consumer credit control were discontinued by the Federal Reserve Board and Congress has since abolished them. Real estate credit regulation was first eased and then completely lifted. The government security market is orderly, but not pegged. The Treasury has conducted huge financing operations, both for new money and for refunding, and the Federal Reserve has contributed support to these financing operations. In the case of refundings, there are always some holders of maturing securities who do not wish to accept the new securities offered. The Federal Reserve has stepped in and absorbed this attrition and later has reduced its portfolio to a point where no new reserves were added to the banking system. Excess reserves of member banks have been held at a level which seems to fluctuate around $500 million. Member bank borrowings are around the billion dollar mark, and this is today the principal restraint against unwise credit expansion.

In the words of Dr. Riefler, Secretary of the Federal Open Market Committee: "Member banks have shown themselves quite responsive to changes in the magnitude of their borrowing; they have tended to be conservative with respect to new commitments when their borrowing at the Reserve banks was high, and interest rates in the money markets have reflected this conservatism. In operating terms, experience so far indicates that the Reserve banks can again look to the volume of member bank discounting as a guide in judging the timing and size of open market operations. It means also that discount and open market operations can be regarded as interrelated and integrated instruments of credit policy."

Summary

In summary, as I look back on the history of the past two years, I can sum the experience up as a rebirth of confidence. The Federal Reserve Board has new confidence in the tools of its trade. Again quoting Dr. Riefler: "The emergence of a Federal deficit, even of a deficit that is financed in the first instance by securities which appeal to banks, does not necessarily mean that there will be an expansion of the money supply in excess of the needs of the community for cash balances."

Foreign central banks have gained a new sense of leadership from the actions of the monetary authorities in this country. I have this first-hand from presidents of central banks who called at the Federal Reserve Board office in Washington, and also from the writings of financial journals in the larger countries of Europe. Finally, the impressive savings totals point to the fact that the public has regained its confidence in the value of the dollar.

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Some New Qualifications For Leadership

few years there will be enough textbooks in the social science and economic courses taught by our colleges and universities which will afford a proper perspective of the foundations of our standard of living. I have seen little evidence that this is now the case, but I have hopes for the future. If my reasoning is sound, then besides the need for a top flight executive to uphold the sales end of any business and another to take charge of operations, we now need what I shall call "The Third Man."

The question naturally comes up, who is The Third Man and what should he do? My answer is that he should be able to sell not the goods and services of the organization of which he is a part, but promote its ideas and ideals or expound its social utility, if you wish it more completely defined. He should not be a public relations man of the conventional type, nor should he be exactly a political adviser. He should certainly supervise the in-plant training of employees on subjects related to the functioning of his organization, the industry group of which it is a part and the entire economic system of the United States. He should be willing to speak locally, nationally or in whatever way desired, on the radio, or appear on television, write articles for newspapers and magazines and otherwise express himself wherever and whenever desired. He should know his facts and he should be articulate. He should be ready to debate at the drop of a hat. Too often program directors of our radio and television programs have been frustrated in obtaining talent from business or finance to uphold their end on controversial economic or politico-economic subjects. On the contrary, there is never any trouble obtaining Congressmen, Senators, labor union executives, college professors or others to uphold the anti-business side. There are, of course, plenty of professional economists in and out of the teaching profession who know the score, but all too often they stand on the sidelines and are not sufficiently vocal. Businessmen could encourage them to change their tactics and to stand up for what they believe.

I cannot pass this point without mentioning the fact that over 20% of all the companies whose shares are listed on the New York Stock Exchange now have some type of in-plant training programs. Certain companies, such as du Pont with its HOBSO (How our business system operates) and Inland Steel and Borg Warner with their moving picture, "In Our Hands," have been doing pioneer work, and there are many other companies which should be mentioned in any analysis of this kind. Things are rolling in the right direction, but not fast enough. A recent Brookings Institution study of economic education will probably bear me out at least in part, but since that report has been issued there already seems to have been some improvement.

Another admonition might be for potential leaders from industry to stand up and fight. They must be dedicated. They must have a sense of mission. Those who would destroy American free enterprise or stifle it with taxes and regulations always seem to have one common denominator. They have fire in their eyes. They are neither satisfied nor philosophical. They never seem to know when to quit. When business executives are up against this type of drive, then silence from their side becomes appeasement. In addition to standing up for our point of view, we must at all times have robust convictions.

Now I wish to talk about two other words which are good words, but which at times are misunderstood. I refer first to "tolerance." True tolerance is indispensable in the proper working out of our democracy, but let us not mistake a true tolerance for a false tolerance which is really indifference or laziness. Furthermore, let us remember that it is not tolerance to be tolerant of intolerance.

The second good word is broadmindedness. We are all admonished to be broadminded. This is likewise a nice word and a fine quality, but let's not mistake it for vagueness and laxity if they masquerade as broadmindedness. Let's get down to hard pan and analyze the situation rather than be lulled into complacency by a happy word.

And, finally, any formula for leadership must be awareness that this is 1952 and not 1902. Lots of water has gone over the dam and we cannot afford as businessmen to be isolationists in our own communities. It is later than we think. The following five points will explain what I mean:

(1) We must have the ability to humanize and dramatize our organizations and our industry to all concerned, our employees, our customers and the community in which we live. In other words, our neighbors.

(2) We must prove the social utility of our endeavors. This does not deny the fact that we are in business for profit and we must always be in business for profit if we are in business at all. Let us not flinch from this.

(3) We must identify our work with the welfare of the average man. This is a political necessity.

(4) We must at all times promote the vitality of our flexible decentralized economic system.

(5) We must grasp the emotionalism of man's political behavior.

An incident that happened about 400 years ago illustrates our position. In the 16th Century, the Duc de Crillon, one of the great captains of the day, was absent from a crucial battle. After it had been won, his King, Henry IV, wrote him somewhat as follows: "Shame on you brave Crillon. We fought at Argives and you were not there." Let it not therefore be said that in this great battle we were absent and unaccounted for.

H. A. Hanning With Arnold Bernhard Co.

Harold A. Hanning, formerly manager of research and advising at Greene & Ladd, New York Stock Exchange firm, has become associated with Arnold Bernhard & Company, 5 East 44th Street, New York City, as Vice-President in Charge of Accounts of the firm's newly formed affiliate, Value Line Investor's Counsel, Inc. Mr. Hanning was at one time Public Utility Editor of Moody's, and later served as Vice-President of Thomas Gibson, Inc., an economic service. During the last World War, he served with the Maritime Price Adjustment Board as renegotiator.

Harold A. Hanning

Bache Discussion

Bache & Co., members of the New York Stock Exchange and other leading exchanges, have arranged a timely discussion on "What's Ahead for Securities," to be held at the firm's offices on the Central Pier, Atlantic City, on December 5th at 4 p.m.. Guest speaker at the session will be John B. Huhn, a partner of Bache & Co. He will discuss the market outlook at length and will answer questions from the audience.

The session is a part of Bache's overall program setup in response to public demand for more information on the security market.

With Hill, Richards

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Frank E. Driscoll has joined the staff of Hill Richards & Co., 621 South Spring Street, members of the Los Angeles and San Francisco Stock Exchanges. Mr. Driscoll was previously with Walston, Hoffman & Goodwin and prior thereto with Maxwell, Marshall & Co.

With Dean Witter Staff

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—John A. Bullard, Jr. has become connected with Dean Witter & Co., 632 South Spring Street. He was previously with Lester, Ryons & Co.

King Merritt Adds

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Myrtle I. Patterson is now affiliated with King Merritt & Co., Inc., 1151 South Broadway.

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The State of Trade and Industry

net tons of scrap on hand. Now they have 6.8 million. At producers' ovens there now are 2.8 million net tons of coke. A year ago there were only 1.7 million.

While there are 51 million net tons of iron ore at furnaces and lower lake docks now, compared with 54.9 million a year ago, the lakes shipping season is not quite over yet, and rail shipments during the winter can supplement the ore pile. Even with the increased consumption of the expanded blast furance capacity it is believed there will be enough ore to carry through until the lakes shipping season reopens next spring, continues this trade weekly.

More and more this expansion is being accepted as realistically in line with the needs. Ever since the expansion was projected there has been much debate over whether or not it's too big.

"Steel" magazine points out that A. B. Homer, President, Bethlehem Steel Co., contends that, "if we accept the gross national product index and the Federal Reserve Board index of industrial production as being reflective of the country's rate of growth and increased requirements, the indications are that steel capacity is not now excessive." The approach to the problem of expansion has been essentially conservative, he believes.

Even if further increases in capacity do become necessary, economic conditions may bring some downward fluctuations in production from time to time. How much of a drop the steel industry can stand with operating costs as high as they are has been a recurring question. Bethlehem Steel, says Mr. Homer, believes it can do as well profitwise at 85 to 90% of capacity as it is now doing at full capacity, concludes "Steel."

The American Iron and Steel Institute announced that the operating rate of steel companies having 93% of the steelmaking capacity for the entire industry will be at an average of 105.5% of capacity for the week beginning Dec. 1, 1952, equivalent to 2,191,000 tons of ingots and steel for castings. In the week starting Nov. 24, the rate was 106.1% (revised) of capacity and actual output totaled 2,203,000 tons. A month ago output stood at 105.9%, or 2,200,000 tons, while a year ago when the capacity was smaller the estimated output was 2,071,000 tons with the rate at 103.6%.

Electric Output Eases in Holiday Week

The amount of electric energy distributed by the electric light and power industry for the week ended Nov. 29, 1952, was estimated at 7,701,176,000 kwh., according to the Edison Electric Institute.

The current total (which included the Thanksgiving Holiday) was 269,973,000 kwh. below that of the preceding week when output amounted to 7,971,149,000 kwh. It was 225,483,000 kwh., or 3.0% above the total output for the week ended Dec. 1, 1951, and 984,903,000 kwh. in excess of the output reported for the corresponding period two years ago.

Car Loadings Decline 2.1% Below Previous Week

Loadings of revenue freight for the week ended Nov. 22, 1952, totaled 810,922 cars, according to the Association of American Railroads, representing a decrease of 17,801 cars, or 2.1% below the preceding week.

The week's total represented an increase of 99,475 cars or 14% above the corresponding week a year ago, which included the Thanksgiving Holiday, and an increase of 109,371 cars, or 15.6% above the corresponding week in 1950, which also included the holiday.

United States Auto Output Shows 10% Decline Below Previous Week

Passenger car production in the United States last week fell 10% for the level of the previous week, and was close to 3% under the like week a year ago.

It aggregated 87,088 cars compared with 97,172 cars (revised) in the previous week, and 89,762 cars in the like week a year ago, according to "Ward's Automotive Reports."

Total output for the past week was made up of 87,088 cars and 23,887 trucks built in the United States, against 97,172 cars and 26,359 trucks the previous week and 89,762 cars and 23,063 trucks in the comparable period a year ago.

Canadian plants turned out 3,430 cars and 3,295 trucks against 3,180 cars and 2,513 trucks in the prior week and 4,347 cars and 2,790 trucks in the comparable 1951 week.

Business Failures Turn Downward in Holiday Week

Commercial and industrial failures declined in the holiday-shortened week ended Nov. 27 to 127 from 167 in the preceding week, Dun & Bradstreet, Inc., reports. This drop brought casualties below last year's total of 148 for the comparable week, as well as below the 160 which occurred in 1950. Only one-half as many businesses failed as in pre-war 1939 when 264 were recorded.

Wholesale Food Price Index Continues to Fall

Continued easiness in foods brought a further decline in the Dun & Bradstreet wholesale food price index last week. The Nov. 25 number fell to $6.23, from $6.27 the week before, bringing the current figure to a new 1952 low and the lowest since July 4, 1950 when it stood at $6.19. The high for this year was $6.70 on Aug. 26 and Sept. 2. The lastest index shows a drop of 7.2% from the corresponding 1951 level of $6.71.

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 Holds to Downward Course

Continuing its downward course, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., touched a new low for more than two years last week. The index closed at 283.90 on Nov. 25, comparing with 284.38 a week earlier, and with 311.87 a year ago.

Grain markets were irregular with most grains showing moderate losses for the week. Principal bearish influences were uncertainty over renewed peace proposals and more favorable crop news as the result of recent rains. Drought conditions, however, still prevail in the major part of the hard Winter wheat belt. The oats market was further depressed by reports of substantial shipments of Canadian oats to this country. Sales of grain and soybean futures on the Chicago Board of Trade last week averaged 55,000,000 bushels per day, against 50,000,000 the previous week, and 47,000,000 during the same week last year.

Trading in hard wheat bakery flours last week continued on a very limited scale as bakers and jobbers showed little or no interest in buying at current prices. Activity at mid-week was centered in the sale of 100,000 hundredweight of bakery grade flour to Jamaica. Cocoa futures developed a steadier undertone the past week. The spot market remained tight with virtually no offerings, and prices nominally lower than the week previous. Warehouse stocks of cocoa declined to 37,987 bags, from 43,644 a week earlier, and compared with 124,250 bags a year ago. Coffee was slightly firmer on somewhat better demand. The domestic raw sugar market was mostly steady with the spot price nominally held at 6.50 cents, duty paid. Lard prices moved downward, influenced by further declines in hog values as the result of liberal receipts and sharply lower wholesale pork prices.

Steers were slightly firmer, while lambs were weak at lowest prices in five years.

Cotton price movements were mixed last week. Futures showed irregular net changes while spot markets closed slightly lower than the week before. Weakness in the nearby options was largely due to liquidation in the December contract.

Other bearish influences included renewed talk of peace in Korea, continued slow export business and weakness in outside markets.

Mill price fixing and short covering helped to cushion the declines. Sentiment was also aided by the official consumption report for October which showed a slightly larger figure than had been anticipated. However, the daily rate of consumption for October at 37,000 bales, still showed a contraseasonal decline from 37,800 in September. The average daily use for October a year ago was 36,600 bales. Sales activity in the ten spot markets last week increased to 314,000 bales, from 273,200 the previous week, and 266,100 a year ago. Loan entries during the week ended Nov. 14 rose to 72,600 bales, from 64,200 a week earlier. This brought total entries for the season through mid-November to 238,800 bales.

Trade Volume Rises Slightly Under Stimulus of Christmas Buying

The increasing emphasis on the approach of Christmas in retail promotions helped to boost buying slightly in the period ended on Wednesday of last week. Merchants continued to have larger receipts than a year ago. Although Christmas shopping was much more brisk a year ago when Thanksgiving occurred a week earlier, the extra shopping day this year enabled retailers to maintain their volume above that of a year ago.

A new record in the volume of Christmas shopping was anticipated by most merchants.

The total dollar volume of retail trade in the week was estimated by Dun & Bradstreet, Inc., to be from unchanged to 4% higher than a year ago. Regional estimates varied from the comparable 1951 levels by the following percentages: New England —3 to +1; East —2 to +2; South and Pacific Coast +2 to +6; Southwest +3 to +7; Midwest and Northwest 0 to +4. This was the eighth successive month in which retail trade topped the year ago level.

More apparel was sold than in either the preceding week or the similar week a year before. As mild weather prevailed in many parts shoppers displayed a discernible disinclination to purchase Winter coats and suits. Particularly popular were women's medium-to-better grade dresses and men's casual clothing. Accessories, haberdashery, and piece goods were in wider demand than in recent weeks. The purchasing of shoes remained well above a year earlier.

There were substantial rises in food buying last week as housewives prepared the holiday festive fare. Turkeys were more plentiful than ever before with retail prices down moderately from last year. However, some specialties, particularly cranberries and baked goods, were more expensive than last year.

Housewives spent palpably more for food than they did a year ago when the turkey left-overs appeared in various guises.

As many buyers placed hurried re-orders for holiday merchandise and others prepared for the Spring selling season, the volume of trading in the nation's wholesale markets continued to rise. As during recent months, the total dollar volume of wholesale trade remained discernibly higher than a year ago. Retailers' inventories mounted steadily as most merchants looked forward to a new high mark in Christmas shopping. While most items were readily available, some delays were reported in the deliveries of apparel and household textiles.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 22, 1952, increased 9% from the level of the preceding week. In the previous week no change was reported from that of the similar week of 1951. For the four weeks ended Nov. 22, 1952, sales reflected a decline of 1%. For the period Jan. 1 to Nov. 22, 1952, department store sales registered a drop of 1% below the like period of the preceding year.

Retail trade in New York last week suffered from the Thanksgiving Holiday by a reduction in trade volume of about 20% compared with that of a year ago, according to trade observers.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period ended Nov. 22, 1952, increased 2% above the like period of last year. In the preceding week a decline of 5% was reported from that of the similar week of 1951, while for the four weeks ended Nov. 22, 1952, a decrease of 5% was recorded. For the period Jan. 1 to Nov. 22, 1952, volume declined 8% under the like period of the preceding year.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

There's nothing so irritating as watching a market continue to boil while you are out of it. There's all the temptation to forget all the previous warnings, throw caution to the winds and jump right in again.

Last week I suggested that it was close to the time when not only a paring of all holdings should be started, but it was also the time to convert the previous half holdings to cash. Since then the market has advanced some more and the other day it managed to make a new high.

According to the oldest market theory, the Dow, this meant that the market has reconfirmed its bull status and in its final essence was going higher again.

But despite this and other theories the dangers of a severe reaction, instead of lessening, seemed to increase. The Dow Industrials hit 285 and the talk of 300 became quite common in the board rooms. Yet while this talk became accepted as an accomplished fact, I saw signs of a major distribution gradually stepping up.

What the reasons are for this distribution I haven't the faintest idea. Or, rather if I have, they're so far-fetched I'd rather not mention them here. I prefer to accept the more widely held belief that Christmas sales will give department stores one of their best seasons; industry, consumer and heavy, is heading for better and bigger earnings periods and with the watering down of EPT, even the marginal producers will have a big 1953.

But if I accept all this, I still can't see the market reflecting all these coming events more than once. The above has become general knowledge. Because it has become general knowledge you can be virtually certain that the market has already anticipated it.

I don't know how long you'll have to wait before you'll see the next decline. It may be that stocks will go somewhat higher before they turn down. I doubt, however, if the rise will carry them much above their recent 285 highs. As a matter of fact, it even begins to look like the 285 figure may well be the high for the current move.

[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.]

Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
• ITEMS REVISED

Allpark Finance Co., Inc.
Aug. 28 filed $500,000 of 6% sinking fund convertible debentures due June 30, 1962. **Price**—At par. **Proceeds**—For working capital. **Office** — Houston, Tex. **Underwriter**—C. K. Pistell & Co., Inc., New York. The proposed offering of preferred and common stocks have been withdrawn from registration.

★ American Seal-Kap Corp.
Nov. 24 (letter of notification) 18,978 shares of common stock (par $2) being offered to common stockholders of record Dec. 2 at rate of one new share for each eight shares held; rights to expire on Dec. 16. **Price** — $11.50 per share. **Proceeds**—To increase working capital. **Underwriters**—American Securities Corp. and Hirsch & Co., both of New York.

★ Anchor Precision Corp., New York
Nov. 25 (letter of notification) 299,930 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For advances to Anchor Slide Fastener Corp., a wholly-owned subsidiary; and for other corporate purposes. **Office**—115 East 23rd St., New York, N. Y. **Underwriter**—Israel & Co., New York.

• Atlantic Finance Co., Spartanburg, S. C.
Nov. 17 (letter of notification) $200,000 of 12-year 6% subordinated convertible debentures due 1964 (in denominations of $20 each). **Price**—At par. **Proceeds**—For working capital. **Address**—P. O. Box 2265 A, Spartanburg, S. C. **Underwriters**—Citizens Trust Co., Greenwood, S. C.; and Dargan & Co., Spartanburg, S. C.

★ Beaver Lodge Oil Corp., Dallas, Tex.
Nov. 24 (letter of notification) 10,500 shares of common stock (par $1). **Price**—At market (approximately $2.87½ per share). **Proceeds**—To the Tioga Petroleum Corp. of Dallas. **Office**—301 Mercantile Commerce Bldg., Dallas 1, Tex. **Underwriter**—None.

Bristol Oils Ltd., Toronto, Canada
Sept. 25 filed 1,000,000 shares of common stock (par $1). **Price**—Approximately 64.48 cents per share. **Proceeds**—To acquire leases and for corporate purposes. **Underwriter**—None. To be named by amendment.

★ Bryant Chucking Grinder Co., Springfield, Vt.
Nov. 24 (letter of notification) 20,000 shares of common stock (par $5) to be offered first for subscription by common stockholders. **Price**—To stockholders, $10 per share, and to public, $11 per share. **Proceeds**—For working capital. **Underwriter**—Lee Higginson Corp., New York. **Offering**—Now being made.

Byrd Oil Corp., Dallas, Tex.
Oct. 22 filed $1,750,000 of 10-year 5½% convertible sinking fund mortgage bonds due Nov. 1, 1962, to be offered for subscription by common stockholders at the rate of $100 of bonds for each 28 shares of stock held (for a 14-day standby). Certain stockholders have waived their rights. **Price**—At par. **Proceeds**—To repay $1,014,500 of outstanding notes and for drilling expenses and working capital. **Underwriters** — Dallas Rupe & Son, Dallas, Texas; Carl M. Loeb, Rhoades & Co., New York; and Straus, Blosser & McDowell, Chicago, Ill. **Offering**—Postponed until after Jan. 1, 1953.

• Canadian Prospect Ltd., Calgary, Alta., Canada
Nov. 24 filed 303,595 shares of common stock (par 33⅓ cents), of which 235,000 shares are to be issued upon exercise of share rights and 68,595 shares are to be sold for account of selling stockholders. **Price**—To be supplied by amendment. **Proceeds**—To company to be used for operating expenses to pay for future exploration and development of leases, etc. **Underwriters**—White, Weld & Co., New York, for an undetermined number of shares; balance through a Canadian underwriter to be named later. **Offering**—Expected late in December.

Cincinnati Enquirer, Inc.
July 25 filed $2,500,000 of 10-year convertible junior debentures due Aug. 1, 1962. **Price**—To be supplied by amendment. **Proceeds**—To pay notes issued to the Portsmouth Steel Corp. **Underwriter**—Halsey, Stuart & Co. Inc., Chicago and New York. **Offering** — Temporarily postponed.

• Circle Wire & Cable Corp. (12/5)
Nov. 17 filed 100,000 shares of common stock (par $5). **Price**—To be filed by amendment. **Proceeds**—To two stockholders, Max B. and Sol Cohn, President and Vice-President respectively. **Underwriters** — Van Alstyne, Noel & Co. and Hornblower & Weeks, both of New York. **Offering**—Expected week of Dec. 8.

NEW ISSUE CALENDAR

December 4, 1952
Great Northern Ry. — Equip. Trust Ctfs. (Bids 11 a.m. EST)
New Orleans Terminal Co. — Bonds (Bids noon EST)

December 5, 1952
Circle Wire & Cable Corp. — Common (Van Alstyne, Noel & Co. and Hornblower & Weeks)

December 8, 1952
Nashville, Chattanooga & St. Louis RR. — Eq. Tr. Ctfs. (Bids 11 a.m. EST)
Standard Coil Products Co., Inc. — Debentures (F. Eberstadt & Co., Inc.)
State Securities, Inc. — Common (Paul C. Kimball & Co.)

December 9, 1952
Chicago, Rock Island & Pacific RR. — Eq. Tr. Ctfs. (Bids noon CST)
Copperweld Steel Co. — Preferred (Riter & Co.)
Horizon Oil & Gas Corp. — Common (Teden & Co., Inc.)
New England Telephone & Telegraph — Debs. (Bids 11 a.m. EST)
Pillsbury Mills, Inc. — Debentures (Goldman, Sachs & Co. and Piper, Jaffray & Hopwood)

December 10, 1952
Modigliani Glass Fibers, Inc. — Common (Cohu & Co.)
Wabash RR. — Equip. Trust Ctfs. (Bids noon EST)

December 11, 1952
Southern Ry.-New Orleans & Northeastern RR. — Bonds (Bids noon EST)

December 12, 1952
New England Telephone & Telegraph Co. — Com. (Offering to stockholders—no underwriting)
Texas Telephone Co. — Preferred (Moroney, Beissner & Co.)

December 15, 1952
Diana Stores Corp. — Common (Van Alstyne, Noel & Co.)
Filtrol Corp. — Common (Underwriters to be named by amendment)
Garrett Freightlines, Inc. — Debentures (Allen & Co.)
Multicrafters, Inc. — Preference (Steele & Co.)
Standard Sulphur Co. — Common (Gearhart & Otis, Inc. and F. L. Rossmann & Co.)
Western Natural Gas Co. — Preferred (White, Weld & Co.)

December 16, 1952
Consolidated Engineering Co. — Common (Blyth & Co., Inc.)
Franklin Stores Corp. — Common (Merrill Lynch, Pierce, Fenner & Beane)

December 17, 1952
Fluor Corp., Ltd. — Common (William R. Staats & Co.)
New York Central RR. — Equip. Trust Ctfs. (Bids noon EST)

December 18, 1952
Commonwealth Oil Co. — Common (Gordon Graves & Co.)

January 7, 1953
New York, New Haven & Hartford RR. — Bonds (Bids to be invited)
Ohio Edison Co. — Common (Bids to be invited)

January 13, 1953
Ohio Edison Co. — Preferred (Bids to be invited)

January 14, 1953
Consumers Power Co. — Common (Bids to be invited)

January 15, 1953
Southern California Edison Co. — Common (Bids to be invited)

January 20, 1953
Kansas City Power & Light Co. — Bonds (Bids to be invited)
Ohio Power Co. — Bonds & Preferred (Bids 11 a.m. EST)

January 26, 1953
Culver Corp. — Common (Offering to stockholders—no underwriting)

January 27, 1953
Iowa-Illinois Gas & Electric Co. — Bonds & Pfd. (Bids 11 a.m. CST)

• Cleveland Electric Illuminating Co.
Oct. 22 filed 557,895 shares of common stock (no par) being offered for subscription by common stockholders of record Nov. 24 at the rate of one new share for each five shares held; rights to expire on Dec. 19. **Price**—$43.25 per share. **Proceeds**—For property additions. **Underwriter**—None.

★ Code Products Corp., Philadelphia, Pa.
Dec. 1 filed 500,000 shares of 6% cumulative preferred stock (par $1) and 255,000 shares of common stock (no par—stated value $1) to be sold in units of two shares of preferred and one share of common stock. **Price**—$3 per unit. **Proceeds** — For working capital. **Business** — Manufactures electrical equipment. **Underwriter**—None. Company intends to offer securities to broker-dealers for public offering.

Commonwealth Edison Co., Chicago, Ill.
Nov. 6 filed 1,155,730 shares of $1.40 convertible preferred stock (par $25) being offered for subscription by common stockholders of record Nov. 24 at rate of one prefererd share for each 12 common shares held. Rights will expire on Dec. 10. **Price**—$31 per share. **Proceeds**—For construction program. **Underwriters**—Glore, Forgan & Co. and The First Boston Corp., both of New York.

★ Commonwealth Oil Co., Miami, Fla. (12/18)
Nov. 28 filed 150,000 shares of common stock (par one cent). **Price**—To be supplied by amendment. **Proceeds**—For investigation of potential oil areas and for general corporate purposes. **Underwriter**—Gordon Graves & Co., New York.

★ Consolidated Engineering Co., Pasadena, Calif. (12/16)
Nov. 25 filed 225,000 shares of common stock (par 50 cents). **Price**—To be supplied by amendment. **Proceeds**—To purchase vacuum equipment business from Kodak's Distillation Products Industries. **Underwriter**—Blyth & Co., San Francisco and New York.

• Consolidated Gas, Electric Light & Power Co. of Baltimore
Nov. 5 filed $16,484,300 of 3¼% convertible debentures due Dec. 18, 1967 being offered for subscription by common stockholders of record Dec. 1 at rate of $100 of debentures for each 30 shares of stock held; rights will expire Dec. 18. **Price**—At par (flat). **Proceeds**—To finance expansion program and repay bank loans. **Underwriters**—Halsey, Stuart & Co. Inc.

Copperweld Steel Co., Glassport, Pa. (12/9-10)
Nov. 17 filed 70,000 shares of cumulative preferred stock (par $50). **Price**—To be supplied by amendment. **Proceeds**—To be used, together with other funds, for purchase of at least 80% of common stock of Ohio Seamless Tube Co. (157,304 shares outstanding) at $55 per share. **Underwriter**—Riter & Co., New York.

Crown Finance Co., Inc.
Nov. 19 (letter of notification) $250,000 5% subordinated debentures due 1983. **Pricc**—At par (in denominations of $1,000 each). **Proceeds**—For working capital, to reduce debt, for expansion and investments. **Underwriter**—Hodson & Co., Inc., New York.

Daitch Crystal Dairies, Inc.
Nov. 20 (letter of notification) 3,000 shares of common stock (par $1). **Price**—At market (about $6.75 per share). **Proceeds**—To Louis Daitch, Chairman of the Board, who is the selling stockholder. **Underwriter** — None, but Hirsch & Co., and Thomson & McKinnon may act as brokers.

Danielson Manufacturing Co.
Nov. 6 (letter of notification) 5,526 shares of class A preferred stock (par $5) and 10,000 shares of common stock (par $1) to be initially offered to stockholders at rate of one preferred share for each five shares held and one share of common stock for each two shares held. **Price**—For preferred, $8.50 per share, and for common, $6.50 per share. **Proceeds**—For working capital. **Underwriter**—Coburn & Middlebrook, Inc., Hartford, Conn.

• Davison Chemical Corp.
Nov. 12 filed 160,666 shares of common stock (par $1) being offered for subscription by common stockholders of record Dec. 1 at rate of one new share for each four shares held; rights to expire Dec. 16. **Price**—$34.50 per share. **Proceeds**—From sale of stock, together with other funds expected to be obtained through long-term debt, will be used for expansion program. **Underwriter**—Alex. Brown & Sons, Baltimore, Md.

Deerpark Packing Co., Port Jervis, N. Y.
March 21 (letter of notification) 235,000 shares of common stock (par 10 cents). **Price**—$1.25 per share. **Proceeds**—To repay RFC loan of $41,050 and for working capital. **Offering**—Expected before Oct. 15.

Devil Peak Uranium, Ltd. (Nev.)
April 7 (letter of notification) 600,000 shares of common stock (par one cent). **Price**—50 cents per share. **Proceeds**—For rehabilitation and development program. **Office**—Suite 839, 60 East 42nd St., New York 17, N. Y. **Underwriter**—Gardner & Co., New York.

★ Diana Stores Corp., New York (12/15-19)
Nov. 28 filed 100,000 shares of common stock (par 50 cents.) **Price**—To be supplied by amendment. **Proceeds**—To Mrs. Selma Beck Oritt, the selling stockholder. **Business**—Chain of women's wearing apparel stores. **Underwriter**—Van Alstyne, Noel & Co., New York.

Electronic Devices, Inc., Brooklyn, N. Y.
Nov. 18 (letter of notification) 3,000,000 shares of common stock (par one cent). **Price**—Five cents per share. **Proceeds**—For equipment and working capital. **Underwriter**—Tellier & Co., New York.

Electronics & Nucleonics, Inc., N. Y.
Nov. 10 (letter of notification) 1,200,000 shares of common stock (par one cent). **Price**—25 cents per share. **Proceeds**—To expand current operations and for working capital. **Underwriter**—To be furnished by amendment.

Empire Oil Corp., Tulsa, Okla.
Nov. 6 (letter of notification) 600,000 shares of common stock (par 5 cents). **Price**—50 cents per share. **Proceeds**—To drill well. **Office**—Mayo Bldg., Tulsa, Okla. **Underwriter**—I. J. Schenin Co., New York.

★ **Empire Oil & Refining Co., Inc., Tyler, Tex.**
Nov. 28 (letter of notification) 300,000 shares of common stock (par five cents). **Price**—$1 per share. **Proceeds**—For working capital. **Office** — Fair Foundation Bldg., Tyler, Tex. **Underwriter**—Charter Securities Corp., New York.

Farm Equipment Acceptance Corp., Peoria, Ill.
Oct. 10 (letter of notification) 2,000 shares of common stock (par $50). **Price** — $60 per share. **Proceeds** — For working capital. **Office**—3500 North Adams St., Peoria, Ill. **Underwriter**—Paul H. Davis & Co., Chicago, Ill.

★ **Filtrol Corp., Los Angeles, Calif. (12/15-19)**
Nov. 28 filed 653,500 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To Atlantic Co., F. Eberstadt & Co., Inc. and Lazard Freres & Co. and certain individuals. **Underwriters**—To be named by amendment. **Business**—Production of clay cracking catalysts for petroleum refining, etc.

★ **Fluor Corp., Ltd., Los Angeles, Calif. (12/17)**
Nov. 26 filed 100,000 shares of capital stock (par $2.50). **Price**—To be supplied by amendment (estimated not to exceed $17 per share). **Proceeds**—For working capital. **Underwriter** — William R. Staats & Co., Los Angeles, Calif.

Food Fair Stores, Inc., Philadelphia, Pa.
Sept. 9 filed 100,000 shares of common stock (par $1) to be offered to certain employees pursuant to the terms of stock purchase plan. **Price**—$3 below the average market price for the month in which payment is completed. **Proceeds**—For general funds. **Underwriter**—None.

★ **Franklin Stores Corp., New York (12/16)**
Nov. 26 filed 95,225 shares of common stock (par $1). **Price** — To be supplied by amendment. **Proceeds** — To Executors of Estate of Marcus Rubenstein. **Underwriter** — Merrill Lynch, Pierce, Fenner & Beane, New York.

★ **General Electronics Distributors, Inc. (W. Va.)**
Nov. 24 (letter of notification) 1,000 shares of common stock. **Price**—$37 per share. **Proceeds**—For working capital. **Office**—26 Tenth St., Wheeling, W. Va. **Underwriter**—None.

★ **General Steel Castings Corp., Granite City, Ill.**
Nov. 26 (letter of notification) 434 shares of common stock (no par). **Price**—$21.50 per share. **Proceeds**—To Baldwin Securities Corp., the selling stockholder. **Underwriter**—Drexel & Co., Philadelphia, Pa.

Gyrodyne Co. of America, Inc.
Nov. 13 filed 350,000 shares of class A common stock (par $1), of which 50,000 shares will be issued to stockholders, directors, officers and employees for services rendered and 300,000 shares will be offered to public. **Price**—To be supplied by amendment. **Proceeds**—For engineering and construction of prototype coaxial helicopter. **Office**—St. James, L. I., N. Y. **Underwriter**—None.

Hawthorne House of Nevada, Inc.
Nov. 17 (letter of notification) 30,000 shares of common stock. **Price**—At par ($10 per share). **Proceeds**—For new construction and furnishings of motel. **Office**—Room 4, Cornet Bldg., Las Vegas, Nev. **Underwriter**—Lester L. LaFortune, Las Vegas, Nev.

● **Hoosier Crown Corp., Crawfordsville, Ind.**
Nov. 19 (letter of notification) $100,000 of 5% sinking fund debentures, 1952 series, due Oct. 1, 1962, with stock purchase warrants attached; and 2,000 shares of common stock (no par) covered by stock purchase warrants which give the owner the right to purchase common stock in units of 10 shares each per $500 debenture at $220 per 10 share unit. **Price**—Of debentures, at par. **Proceeds**—For working capital. **Office**—100 Harrison St., Crawfordsville, Ind. **Underwriter**—City Securities Corp., Indianapolis, Ind.

★ **Horizon Oil & Gas Corp., N. Y. (12/9)**
Nov. 24 (letter of notification) 600,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Proceeds**—To drill test wells. **Office**—50 Broadway, New York, N. Y. **Underwriter**—Teden & Co., Inc., New York.

Idaho Maryland Mines Corp.
June 6 filed 200,000 shares of common stock (par $1). **Price**—At market (on the San Francisco Stock Exchange). **Proceeds**—To selling stockholder (Gwendolyn MacBoyle Betchtold, as executrix of the last will and testament of Errol Bechtold, deceased). **Office**—San Francisco, Calif. **Underwriter**—None.

★ **Insurance Exchange Corp., Walla Walla, Wash.**
Nov 25 filed 30,000 shares of common stock (par $10) and 14,000 shares of preferred stock (par $50) of which 28,000 common shares and all of the preferred stock are to be offered in units of one share of preferred and two shares of common stock. Of remaining 2,000 common shares, 500 have been sold to directors and 1,500 are to be reserved for directors and sales representatives. **Price**—$70 per unit. **Proceeds**—For working capital. **Underwriter**—None.

International Glass Corp., Beverly Hills, Calif.
Sept. 22 (letter of notification) 299,635 shares of common stock, to be issued as follows: To William Hoeppner, 6,985 shares; to stockholders of Soft-Flex Glass Fabrics Corp., 17,650 shares; and to public, 275,000 shares. **Price**—At par ($1 per share). **Proceeds**—For general corporate purposes. **Office**—119 South Beverly Drive, Beverly Hills, Calif. **Underwriter**—Douglass & Co., Beverly Hills, Calif.

Ispetrol Corp., New York
Oct. 29 filed 49,500 shares of common stock. **Price**—At par ($100 per share). **Proceeds**—To finance purchase of crude oil for Israeli enterprises and to purchase crude oil and oil products for resale in Israel. **Underwriter**—Israel Securities Corp., New York.

Israel Industrial & Mineral Development Corp.
Oct. 6 filed 30,000 shares of class A stock. **Price**—At par ($100 per share). **Proceeds**—For industrial and mineral development of Israel. **Underwriter** — Israel Securities Corp., New York.

Kwik-Kafe Coffee Processors of America, Inc.
Oct. 30 (letter of notification) 3,000 shares of common stock. **Price**—$100 per share. **Proceeds**—To acquire certain assets of Rudd-Melikian, Inc., of Philadelphia, Pa., and for working capital. **Office**—Philadelphia, Pa. **Underwriter**—None.

Lee Paper Co., Vicksburg, Mich.
Nov. 13 (letter of notification) 30,000 shares of common stock to be offered for subscription only by stockholders of record Aug. 18. **Price**—At par ($10 per share). **Proceeds**—For working capital. **Underwriter**—None.

● **Leon Land & Cattle Co.**
Nov. 6 (letter of notification) 30,000 shares of 5% cumulative convertible preferred stock being offered for subscription by common stockholders of record Nov. 15, 1952 on basis of 4½ preferred shares for each 100 common shares held (with an oversubscription privilege); rights to expire Dec. 31. **Price**—At par ($10 per share). **Proceeds** — To pay loans. **Address** — c/o S. H. Collier, President of First National Bank, Mercedes, Tex. **Underwriter**—None.

★ **Lindemann (A. J.) & Hoverson Co., Milwaukee, Wis.**
Nov. 21 (letter of notification) 6,510 shares of common stock (par $1). **Price**—$2 per share. **Proceeds**—To Mrs. Julia Lindemann Amendt, the selling stockholder. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, Milwaukee, Wis.

● **Lowell Adams Discount Co. Inc. N. Y.**
Oct. 23 (letter of notification) 29,000 shares of 6% cumulative preferred stock. **Price**—At par ($10 per share). **Proceeds**—To increase working capital. **Underwriter**—Louis L. Rogers Co., New York. Letter to be withdrawn.

Macco Corp., Paramount, Calif.
Nov. 4 (letter of notification) 1,470 shares of common stock (par $1). **Price**—At the market (about $10 per share). **Proceeds**—To Mrs. Helen R. Davis, the selling stockholder. **Underwriter** — Dean Witter & Co., San Francisco, Calif.

Magma Copper Co.
Nov. 7 filed 266,227 shares of common stock (par $10) being offered for subscription by stockholders of record Nov. 26 at rate of one new share for each 2⅜ shares of stock held; subscription rights to expire Dec. 11. **Price**—$24.50 per share. **Proceeds**—Sufficient to provide company with a minimum of $6,000,000, after expenses, will be used to provide additional funds to San Manuel Copper Corp., wholly-owned subsidiary, in connection with the loan authorized to it by the RFC in the amount of $94,000,000. **Underwriter** — Lazard Freres & Co., New York.

Magma King Manganese Mining Co.
Nov. 12 (letter of notification) 553,500 shares of common stock (par 10 cents). **Price**—50 cents per share. **Proceeds**—For working capital. **Office** — 532 Security Bldg., Phoenix, Ariz. **Underwriter**—Weber-Millican Co., New York.

Marsh Steel Corp., North Kansas City, Mo.
Oct. 27 filed $500,000 of 5% debentures, series A, due $50,000 annually from Nov. 1, 1953 to Nov. 1, 1962, inclusive. **Price**—At 100% of principal amount. **Proceeds**—For working capital. **Underwriter**—The First Trust Co. of Lincoln (Neb.).

McCarthy (Glenn), Inc.
June 12 filed 10,000,000 shares of common stock (par 25 cents). **Price**—$2 per share. **Proceeds** — For drilling of exploratory wells, acquisition of leases and for general corporate purposes. **Underwriter**—B. V. Christie & Co., Houston, Tex. **Dealer Relations Representative**—George A. Searight, 50 Broadway, New York, N. Y. Telephone WHitehall 3-2181. **Offering**—Date indefinite.

McGraw (F. H.) Co., Hartford, Conn.
Sept. 10 (letter of notification) 5,000 shares of common stock (par $2) and warrants to purchase 20,000 shares of common stock at $6 per share to be offered in units of one share and warrants to purchase four additional shares. **Price**—$19.87½ per share. **Proceeds**—To Clifford S. Strike, the selling stockholder. **Underwriter**—Granbery, Marache & Co., New York.

Mex-American Minerals Corp., Granite City, Ill.
Nov. 3 filed 113,000 shares of 6% cumulative preferred stock (par $5) and 113,000 shares of common stock (par 10 cents) to be offered in units of one share of each class of stock. **Price**—$6 per unit. **Proceeds**—For working capital. **Business**—Purchase, processing, refining and sale of Fluorspar. **Underwriter** — To be supplied by amendment.

Mid-Gulf Oil & Refining Co.
Nov. 10 (letter of notification) 400,000 shares of common stock (par five cents). **Price**—60 cents per share. **Proceeds**—To acquire additional properties. **Office**—927-929 Market St., Wilmington, Del. **Underwriter**—W. C. Doehler Co., Jersey City, N. J.

Mississippi Chemical Corp., Yazoo City, Miss.
Sept. 29 filed 2,000,000 shares of common stock (par $5), of which 849,038 shares have been subscribed, paid for and issued, and an additional 107,550 shares have been subscribed for as of Aug. 28 and will be issued in connection with expansion of ammonia plant. The remaining shares will be offered for sale primarily to farmers and farm groups. **Price** — At par. **Proceeds** — For new construction. **Underwriter**—None.

★ **Modigliani Glass Fibers, Inc., L. I. City, N. Y. (12/10)**
Nov. 24 (letter of notification) 100,000 shares of capital stock (par 10 cents). **Price**—$3 per share. **Proceeds**—For expansion of plant, to repay loans and for working capital. **Underwriter**—Cohu & Co., New York.

Montana Basin Oil Corp. (N. Y.)
Sept. 19 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For exploration and development expenses. **Underwriter**—Aetna Securities Corp., New York.

● **Multicrafters, Inc., Lincolnwood, Ill. (12/15)**
Oct. 28 (letter of notification) 99,900 shares of 6% convertible prior preference stock. **Price**—At par ($3 per share. **Proceeds** — For new machinery and equipment. **Office**—3517 Touhy Ave., Lincolnwood, Ill. **Underwriter**—Steele & Co., New York.

Multiple Dome Oil Co., Salt Lake City, Utah
Sept. 8 (letter of notification) 150,000 shares of common stock. **Price**—At market (approximately 10 cents per share). **Proceeds**—To George W. Snyder, President. **Underwriter**—Greenfield & Co., Inc., New York.

★ **Mutual Investment Fund, Inc., New York**
Dec. 1 filed 221,754 shares of capital stock (par $1). **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

Nash Finch Co., Minneapolis, Minn.
Oct. 21 (letter of notification) 1,000 shares of common stock (par $10). **Price**—At market (estimated at from $17 to $20 per share). **Proceeds**—To Willis King Nash, the selling stockholder. **Underwriter**—J. M. Dain & Co., Minneapolis, Minn.

★ **Nevada Tungsten Corp., Mina, Nev.**
Nov. 21 (letter of notification) 4,000,000 shares of common stock (par one cent). **Price**—Five cents per share. **Proceeds**—For working capital. **Underwriter**—Tellier & Co., New York.

New England Telephone & Telegraph Co. (12/9)
Nov. 7 filed $20,000,000 of 25-year debentures due Dec. 15, 1977. **Proceeds**—To repay advances received from American Telephone & Telegraph Co., the parent. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Glore, Forgan & Co.; Kuhn, Loeb & Co. Bids—To be received up to 11 a.m. (EST) on Dec. 9 at Room 2315, 195 Broadway, New York, N. Y.

New England Telephone & Telegraph Co. (12/12)
Nov. 20 filed 232,558 shares of capital stock to be offered for subscription by stockholders of record Dec. 10 at rate of one new share for each ten shares held; rights to expire on Jan. 12. Subscription rights will be issued on Dec. 12. **Price** — At par ($100 per share). **Proceeds** — To repay borrowings made from American Telephone & Telegraph Co., the parent, and for other corporate purposes. **Underwriter**—None.

● **Nielco Chemicals, Inc., Detroit, Mich.**
Nov. 19 (letter of notification) 34,800 shares of common stock. **Price**—At par ($5 er share). **Proceeds**—To liquidate notes. **Office**—8129 Lyndon Ave., Detroit 21, Mich. **Underwriter**—Smith, Hague & Co., Detroit, Mich.

Northland Oils, Ltd., Calgary, Alta., Canada
Nov. 21 filed 1,000,000 shares of capital stock (par 20 cents—Canadian) and subscription warrants for 600,000 shares, of which the stock and subscription warrants for 400,000 shares are to be offered in units of 100 shares of stock and subscription warrants for 40 shares. **Price**—$52 per unit. **Proceeds**—For drilling of additional wells and to purchase producing wells. **Underwriter**—M. S. Gerber, Inc., New York.

★ **Overide Oils, Inc., Casper, Wyo.**
Nov. 28 (letter of notification) 37,500 shares of common stock (par $1). **Price**—$2 per share. **Proceeds**—To purchase royalties. **Address**—Box 806, Casper, Wyo. **Underwriter**—None.

● **Pacific Telephone & Telegraph Co.**
Oct. 24 filed 703,375 shares of common stock being offered for subscription by stockholders at rate of one new share for each nine preferred or common shares held on Dec. 3; rights to expire on Dec. 30. American Telephone & Telegraph Co., the parent, presently owns more than 90% of the outstanding shares. **Price**—At par ($100 per share). **Proceeds**—To repay advances and bank loans and for new construction. **Underwriter**—None.

Pacific Western Oil Corp.
Aug. 5 filed 100,000 shares of common stock (par $4). **Price**—At the market. **Proceeds**—To J. Paul Getty, President. **Underwriter** — None, sales to be handled by brokers on the New York Stock Exchange.

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Paradise Valley Oil Co., Reno, Nev.
Aug. 20 filed 3,000,000 shares of capital stock. **Price—At par (10 cents per share). Proceeds**—To drill six wells on subleased land and for other corporate purposes. **Underwriter**—None, with sales to be made on a commission basis (selling commission is two cents per share). **Office**—c/o Nevada Agency & Trust Co., Inc., Cheney Bldg., 139 N. Virginia St., Reno, Nev.

Peoples Gas Light & Coke Co.
Oct. 24 filed 186,715 shares of capital stock being offered for subscription by stockholders of record Nov. 19 at rate of one new share for each five shares held; rights to expire on Dec. 15. **Price**—At par ($100 per share). **Proceeds** — For new construction. **Underwriter** — None. Statement effective Nov. 12.

Petroleum Service, Inc. (Texas)
Oct. 29 (letter of notification) 100,000 shares of preferred stock (par $1) and 100,000 shares of common stock (par 10 cents) to be offered in units of one preferred and one common share. **Price**—$1.25 per unit. **Proceeds** — For operating capital. **Address** — c/o N. A. Tinker, Jr., Mercantile Securities Bldg., Dallas, Tex. **Underwriter**—Garrett & Co., Inc., Dallas, Tex.

Phoenix Budget Loans, Inc., Minneapolis, Minn.
Sept. 22 (letter of notification) 4,000 shares of preferred stock, series A (no par). **Price**—$24 per share. **Proceeds**—For working capital. **Office**—227 Twin City Federal Building, Minneapolis, Minn. **Underwriter**—M. H. Bishop & Co., Minneapolis. Minn.

Pillsbury Mills, Inc. (12/9)
Nov. 19 filed $17,000,000 of sinking fund debentures due Dec. 1, 1972. **Price**—To be supplied by amendment. **Proceeds**—About $13,600,000 to retire all of the present funded debt of company and of one of its subsidiaries, and the balance for working capital, capital expenditures and other corporate purposes. **Underwriters**—Goldman, Sachs & Co., New York; and Piper, Jaffray & Hopwood, Minneapolis, Minn.

★ **Pittsburgh Reflector Co.**
Dec. 2 (letter of notification) 60,000 shares of class B common stock to be offered about Dec. 10 to stockholders of record Dec. 1 at rate of one new share for each class A or B share held. Officers of company have waived sufficient of their preemptive rights (33,078 shares) so that the remaining stockholders may subscribe on a one-for-one basis. **Price**—At par ($5 per share). **Proceeds**—For expansion and modernization of plant and for working capital. **Office** — 403 Oliver Bldg., Pittsburgh 22, Pa. **Underwriter**—None.

Powers Manufacturing Co., Longview, Tex.
Sept. 25 filed 250,000 shares of common stock (par $1). **Price** — $2 per share. **Proceeds** — For machinery and equipment and new construction. **Business**—Production of heavy duty power transmission chain, prockets, gears, etc. **Underwriter** — Dallas Rupe & Son, Dallas, Texas. **Offering**—Expected in January.

Reeves Soundcraft Corp., N. Y.
Oct. 3 (letter of notification) 10,245 shares of common stock (par five cents). **Price**—At market (about $2.62½ per share). Proceeds—To Bernard Goodwin, the selling stockholder. **Underwriter**—Gearhart & Otis, Inc., New York.

★ **Republican & Herald Publishing Co., Winona, Minn.**
Nov. 20 (letter of notification) 2,500 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Proceeds**—To construct newspaper building. **Office**—67-71 West Second St., Winona, Minn. **Underwriter** — None.

Safeway Stores, Inc.
Sept. 12 filed 1,900 shares of 4% cumulative preferred stcok (par $100) and 18,000 shares of common stock (par $5) to be issued to James A. Dick Investment Co. (formerly The James A. Dick Co.) in exchange for inventories, fixtures, operating supplies, good will and other assets of Dick. It is anticipated that the Dick Company will sell all or a substantial part of these shares from time to time on the New York Stock Exchange. **Underwriter**—None.

Sapphire Petroleums Ltd., Toronto, Canada
Oct. 28 filed 50,000 shares of common stock (par $1—Canadian). **Price**—To be supplied by amendment. **Proceeds**—To Ken Kelman, the selling stockholder, who will offer the shares from time to time either on the New York Curb Exchange or in the over-the-counter market. **Underwriter**—None.

Schweser's (George) Sons. Inc., Fremont, Neb.
Oct. 17 (letter of notification) 989 shares of 6% cumulative preferred stock. **Price**—At par ($100 per share). **Proceeds**—For working capital. **Office**—108 East 6th St., Fremont, Neb. **Underwriter**—None, but Ellis, Holyoke & Co., Lincoln, Neb., will act as broker.

Seaboard Finance Co., Los Angeles, Calif.
Nov. 14 (letter of notification) 14,000 shares of common stock (par $1). **Price**—$20.75 per share. **Proceeds**—For working capital. **Office** — 945 South Flower St., Los Angeles 15, Calif. **Underwriter**—None.

Seacrest Productions, Inc., Newport, R. I.
Sept. 8 (letter of notification) 5,000 shares of non-voting common stock, series B (no par). **Price**—$10 per share. **Proceeds**—To acquire real estate and buildings, convert sound stages, install recording equipment and cameras, and for other corporate purposes. **Office**—73 Bliss Road, Newport, R. I. **Underwriter** — Kidder, Peabody & Co., Providence, R. I.

Seiberling Rubber Co.
Oct. 1 filed $3,750,000 convertible sinking fund debentures due Oct. 1, 1967. **Price**—To be supplied by amendment. **Proceeds**—To repay $1,200,000 loan and for working capital. **Underwriter**—Blair, Rollins & Co., Inc., New York. **Offering**—Postponed indefinitely.

Seneca Oil Co., Oklahoma City, Okla.
Nov. 10 (letter of notification) 150,000 shares of class A stock (par 50 cents). **Price**—$1.75 per share. **Proceeds**—To reduce bank loans and acquire oil and gas leases. **Underwriters**—Genesee Valley Securities Co., Rochester, N. Y., and White & Co., St. Louis, Mo.

★ **Shattuck (Frank G.) Co., Boston, Mass.**
Nov. 28 (letter of notification) 1,000 shares of capital stock (no par). **Price**—At market (approximately $10.25 per share). **Proceeds** — To United States Trust Co. and Isadore Silverman, trustees under the will of George F. Schrafft. **Underwriter**—None.

Signode Steel Strapping Co., Chicago, Ill.
Oct. 9 (letter of notification) 2,044 shares of common stock (par $1). **Price**—At market (about $17 per share). **Proceeds**—To John W. Leslie, trustee of Walter S. Underwood and Emily C. Underwood. **Underwriter**—Ames, Emerich & Co., Chicago, Ill.

Sinclair Oil Corp.
Nov. 10 filed 298,735 shares of common stock (no par) to be offered to certain officers and other employees of the company and its subsidiaries under the Stock Purchase and Option Plan. **Price**—$39.50 per share. **Proceeds**—For general corporate purposes. **Underwriter**—None.

★ **Southern Connecticut & Long Island Television Co., Inc., Bridgeport, Conn.**
Nov. 24 (letter of notification) 5,632 shares of $2 participating class A stock (par $25) and 2,816 shares of class B stock (par $1) to be offered in units of two shares of class A stock and one share of class B stock. **Price**—$51 per unit. **Proceeds**—For construction program. **Office**—114 State St., Bridgeport, Conn. **Underwriter**—None.

Southern Radio Corp., Charlotte, N. C.
Oct. 20 (letter of notification) 10,500 shares of common stock (par $5), and 2,500 shares of 6% cumulative preferred stock (par $50). **Price**—$12 per share for common and $50 per share for preferred. **Proceeds**—For operating capital. **Office**—1625 West Morehead St., Charlotte, N. C. **Underwriter**—None.

Standard Coil Products Co., Inc. (12/8)
Nov. 19 filed $5,000,000 of 5% convertible subordinated debentures due Dec. 1, 1967, and 250,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—From sale of debentures, to repay bank loans and for working capital; and from sale of stock, to three selling stockholders. **Underwriter**—F. Eberstadt & Co., Inc.

● **Standard Sulphur Co., New York (12/15)**
Nov. 7 filed 1,250,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For construction of plant and purchase of new equipment and for working capital. **Underwriters**—Gearhart & Otis, Inc., and F. L. Rossmann & Co., both of New York.

State Securities, Inc., Santa Fe, N. M. (12/8-12)
Nov. 10 (letter of notification) 60,000 shares of class A common stock (par $1). **Price**—$5 per share. **Proceeds**—For working capital. **Office**—440 Cerrillos Road, Santa Fe, N. M. **Underwriter**—Paul C. Kimball & Co., Chicago, Ill. **Offering**—Expected week of Dec. 8.

State Street Investment Corp.
Oct. 24 filed 180,556 shares of capital stock (no par) being offered for subscription by stockholders of record Nov. 5, 1952, at rate of one new share for each 10 shares held; rights to expire on Dec. 20. **Price**—At net asset value in effect when properly executed subscription warrants are received from stockholders. **Proceeds**—For investment. **Underwriter**—None.

Streeter-Amet Co., Chicago, Ill.
Aug. 27 (letter of notification) 2,367 shares of common stock (par $50) to be offered for subscription by common stockholders at rate of one new share for each four shares held. **Price**—$100 per share. **Proceeds**—To increase equity capital to take care of increased business and increased costs. **Office**—4101 Ravenswood Avenue, Chicago 13, Ill. **Underwriter**—None.

Sweet Grass Oils, Ltd., Toronto, Canada
July 29 filed 375,000 shares of common stock (no par). **Price**—To be related to quotation on the Toronto Stock Exchange at time of offering. **Proceeds** — For working capital. **Underwriter**—F. W. MacDonald & Co., Inc., New York. **Offering**—Probaby some time in October.

★ **Texas Farm Bureau Investment Corp.**
Nov. 21 (letter of notification) 25 shares of 5% cumulative preferred stock (par $10,000 each). **Price**—At par. **Proceeds**—To buy 6% preferred stock of Southern Farm Bureau Casualty Insurance Co. **Office**—117 South Fifth St., Waco, Tex. **Underwriter**—None.

Texas General Production Co.
June 4 filed 2,500,000 shares of common stock (par 50 cents). **Price**—To be supplied by amendment. **Proceeds**—To buy property for oil prospecting. **Office**—Houston, Tex. **Underwriter**—To be named by amendment. **Offering**—Tentatively postponed. Statement may be withdrawn.

Texas Western Oil Co., Inc., Houston, Tex.
Nov. 12 (letter of notification) 100,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Proceeds**—For working capital. **Office**—1 Main St., Houston, Tex. **Underwriter**—Scott, Khoury & Co., Inc., New York.

★ **TexSoDak Oil Co., Sioux Falls, S. D.**
Nov. 24 (letter of notification) 1,000 shares of class A common stock (par $25) to be offered for subscription by stockholders; 6,226½ shares of class A common stock in exchange for leases and beneficial interest; and 2,679½ shares of class A common stock and 13,750 shares of class B common stock (par $1) to be issued to G. L. Clifton as the promoter. **Price**—Of class A stock, at par. **Proceeds**—To drill and equip wells. **Office**—1213 South Hawthorne Ave., Sioux Falls, S. D. **Underwriter**—None.

★ **Thermoid Co., Trenton, N. J.**
Nov. 26 filed 1,400 memberships in company's Employees' Thrift Bonus Plan, together with a maximum of 72,000 shares of common stock (par $1) and 16,000 shares of $2.50 cumulative convertible preferred stock (par $50) purchaseable under the plan.

Torhio Oil Corp., Ltd., Toronto, Canada
Aug. 21 filed 300,000 shares of common stock (par $1) to be offered first to stockholders and then to the general public. **Price** — 60 cents per share. **Proceeds**—For exploration of oil and gas properties, and to drill a test well. **Underwriter**—None, but offering to public will be handled through brokers.

Trad Television Corp., Asbury Park, N. J.
Nov. 10 (letter of notification) 130,000 shares of common stock (par one cent). **Price**—At market (about 27 cents per share). **Proceeds**—To Victor Trad, President. **Office**—1001 First Ave., Asbury Park, N. J. **Underwriter**—None.

Trans World Airlines, Inc.
Oct. 31 filed 381,916 shares of common stock (par $5) being offered for subscription by common stockholders of record Nov. 19 at rate of one new share for each seven shares held; rights to expire on Dec. 5. **Price**—$16 per share. **Proceeds**—For working capital. **Underwriter**—None. Hughes Tool Co. (which holds 75% of outstanding Trans World stock) will purchase any unsubscribed shares, so that the net proceeds will be at least $5,000,000.

● **Union Bag & Paper Corp., New York**
Nov. 7 filed 253,008 shares of capital stock (par $20) being offered for subscription by stockholders of record Nov. 28 at rate of one new share for each six shares held. Rights will expire on Dec. 15. **Price**—$42 per share. **Proceeds**—For working capital and expansion program. **Underwriters**—Morgan Stanley & Co., New York.

★ **United Equipment & Service, Inc., Baltimore, Md.**
Nov. 20 (letter of notification) $238,400 of 6% bonds. **Price**—At par (in denominations of $100, $500, $1,000 and $5,000 each). **Proceeds**—To reduce outstanding notes. **Office**—629 Title Bldg., Baltimore, Md. **Underwriter**—None.

★ **United Fire & Casualty Co., Cedar Rapids, Iowa**
Nov. 20 (letter of notification) 20,000 shares of 6% cumulative preferred stock. **Price** — At par ($10 per share). **Proceeds**—For capital purposes. **Office**—810 First Ave., N.E., Cedar Rapids, Ia. **Underwriter**—None.

United Petroleum & Mining Corp., Bismarck, N. D.
Nov. 17 (letter of notification) 150,000 shares of class A voting stock and 150,00 shares of 4% class B non-voting stock. **Price**—$1 per share. **Proceeds**—To purchase oil and gas leases. **Office**—222 Main Street, Bismarck, N. D. **Underwriter**—John G. Kinnard & Co., Minneapolis, Minn.

★ **Utica Radiator Corp., Utica, N. Y.**
Nov. 28 (letter of notification) $94,720 of 6% income bonds of 1936 due Dec. 1, 1986, to be offered to stockholders, employees and sales representatives. **Price**—At par. **Proceeds** — For expansion program. **Office** — 2201 Dwyer Ave., Utica, N. Y. **Underwriter**—None.

★ **Van Waters & Rogers, Inc., Seattle, Wash.**
Nov. 19 (letter of notification) 15,584 shares of common stock (par $1). **Price**—$19.25 per share. **Proceeds**—For working capital. **Office**—4000 First Ave., South, Seattle, Wash. **Underwriter**—None.

Victoria Copper Zinc Mines Ltd., Montreal, Canada
Oct. 22 filed 1,050,000 shares of common stock. **Price**—To be taken down in 10 blocks ranging from 50,000 to 200,000 shares at prices ranging from 15 cents to $1 per share. Estimated public offering prices range from 35 cents to $1.50 per share. **Proceeds**—For mining operations. **Underwriter**—Jack Rogers, of Montreal, Canada, who is the "optionee" of the stock to be taken down.

Video Products Corp., Red Bank, N. J.
Oct. 3 (letter of notification) 75,000 shares of common stock (par 50 cents). **Price**—$2.50 per share. **Proceeds**—For working capital. **Office**—42 West Street, Red Bank, N. J. **Underwriter**—None.

Warren Petroleum Corp., Tulsa, Okla.
Nov. 7 (letter of notification) 3,000 shares of common stock (par $3). **Price**—At market. **Proceeds**—To J. A. La Fortune and Mrs. Gertrude La Fortune. **Underwriter**—Harris, Upham & Co., New York.

West Coast Pipe Line Co., Dallas, Tex.
Nov. 20 filed $29,000,000 12-year 6% debentures due Dec. 15, 1964, and 580,000 shares of common stock (par 50 cents) to be offered in units of one $50 debenture and one share of stock. **Price**—To be supplied by amendment. **Proceeds**—From sale of units and 1,125,000 additional shares of common stock and private sale of $55,000,000 first mortgage bonds, to be used to build a 1,030-mile crude oil pipeline. **Underwriters**—White, Weld & Co. and Union Securities Corp., both of New York.

West Coast Pipe Line Co., Dallas, Tex.
Nov. 20 filed 1,125,000 shares of common stock (par 50 cents). **Price**—To be supplied by amendment. **Proceeds**—Together with other funds, to be used to build pipeline. **Underwriters**—White, Weld & Co. and Union Securities Corp., both of New York.

West Flagler Amusement Co., Inc., Miami, Fla.
Nov. 20 filed 170,000 shares of common stock (par 50 cents). **Price**—$10 per share. **Proceeds**—To nine selling stockholders. **Business**—Amusement park. Is owner of West Flagler Kennel Club. **Underwriter**—Floyd D. Cerf Jr. Co., Miami, Fla., and Chicago, Ill.

● **Western Light & Telephone Co., Inc.**
Nov. 7 filed 65,168 shares of common stock (par $10) being offered for subscription by common stockholders at rate of one new share for each five shares held Nov. 26; rights to expire Dec. 9. **Price**—$22 per share. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—Harris, Hall & Co. (Inc.), Chicago, Ill.

★ **Western Natural Gas Co., Houston, Tex. (12/15)**
Nov. 25 filed 183,002 shares of convertible preferred stock (par $30) to be offered for subscription by common stockholders of record Dec. 15 at rate of one share of preferred stock for each 20 shares of common stock held. **Price**—To be supplied by amendment. **Proceeds**—To retire outstanding preferred stock and bank debt. **Underwriter**—White, Weld & Co., New York.

★ **Western States Refining Co., North Salt Lake City, Utah**
Nov. 21 (letter of notification) 8,000 shares of 6% cumulative preferred stock (par $5) and 100,000 shares of common stock (par 25 cents). **Price**—Of preferred, $4 per share, and of common, $1.60 per share. **Proceeds**—For working capital. **Underwriter**—None.

Wisdom Magazine, Inc., Beverly Hills, Calif.
Sept. 17 filed 6,600 shares of 5% cumulative preferred stock (par $100) and 6,600 shares of common stock (par $10) to be offered in units of one share of preferred and one share of common stock. **Price**—$110 per unit. **Proceeds**—To publish new national picture magazine. **Underwriter**—None. An earlier registration statement filed July 14, 1952, covering a like offering of preferred and common shares was withdrawn Aug. 1, 1952.

Wyoming National Oil Co., Inc., Denver, Colo.
Nov. 17 (letter of notification) 500,000 shares of common stock (par five cents). **Price**—25 cents per share. **Proceeds** — For oil and gas leases. **Underwriter** — R. L. Hughes & Co., Denver, Colo.

★ **Zenda Gold Mining Co., Seattle, Wash.**
Nov. 12 (letter of notification) 1,200,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds**—To repay bank loans and for mining operations. **Office**—635 Securities Bldg., Seattle 1, Wash. **Underwriter**—None.

Prospective Offerings

Aluminium Ltd.
Oct. 15 directors expected that additional financing will be undertaken in 1953 to meet the major part of the increase in the estimated cost of the expansion program. The First Boston Corp., and A. E. Ames & Co., Ltd., acted as dealer-managers in stock offering to stockholders in Oct. 1951.

American Trust Co., San Francisco, Calif.
Nov. 12 company offered 246,088 additional shares of common stock (par $20) to common stockholders of record Nov. 7 at rate of one share for each three shares held. Rights to expire Dec. 11. **Price**—$50 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—Blyth & Co., Inc., and associates.

Arkansas Fuel Oil Corp. (to be successor to Arkansas Natural Gas Corp.)
Oct. 3 it was announced that subject to approval of reorganization plan of Arkansas Natural Gas Corp. by U. S. District Court of Delaware, the new company, to be known as Arkansas Fuel Oil Corp., proposes to issue and sell $23,000,000 of sinking fund debentures due 1972. **Proceeds**—To retire $21,877,760 of 6% preferred stock (par $10), at $10.60 per share, with preferred stockholders, other than Cities Service Co., to be offered the debentures in exchange, plus a cash adjustment. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Lazard Freres & Co. (jointly); Smith, Barney & Co.

Arkansas Louisiana Gas Co.
Dec. 6, 1951 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.

Arkansas Power & Light Co.
Aug. 7 C. Hamilton Moses, President, announced that the company expects to borrow additional money next Spring to finance its 1953 construction program, which, it is estimated, will involve $29,500,000.

California Electric Power Co.
Oct. 7 it was announced company intends to sell early in 1953 approximately $10,000,000 of additional new securities, viz: $8,000,000 of first mortgage bonds and about $2,000,000 of common or preferred stock. **Proceeds**—For new construction and repayment of bank loans. **Underwriters**—May be determined by competitive bidding. Probable bidders: (1) For bonds only—Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler. (2) For bonds and stocks: Merrill Lynch, Pierce, Fenner & Beane and Dean Witter & Co. (jointly); Kidder, Peabody & Co.; Blyth & Co., Inc.

Central Hudson Gas & Electric Corp.
Oct. 20 filed with New York P. S. Commission for permission to issue and sell $6,000,000 first mortgage bonds, the proceeds to be used for new construction. Latest bond financing was done privately in March, 1951, through Kidder, Peabody & Co., New York.

Central Maine Power Co.
Sept. 2 it was announced company soon after March 1, 1953, intends to issue and sell $6,000,000 of first and general mortgage bonds and sufficient common stock to yield approximately $5,000,000 to refund the then outstanding short-term notes. **Underwriters**—To be determined by competitive bidding. Probable bidder—(1) For bonds, Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc. and The First Boston Corp. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler. (2) For stock, Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Coffin & Burr, Inc. and The First Boston Corp. (jointly); Harriman Ripley & Co., Inc.

Charter Oil Co., Ltd.
Nov. 18, it was reported that company plans to offer and sell 900,000 additional shares of common stock (no par). **Price**—To be named later (around $1.70 per share). **Proceeds**—For expansion program. **Underwriters**—Lehman Brothers and Bear, Stearns & Co. for about 800,000 shares; balance to be offered in Canada. **Offering**—Expected late this month.

Chicago, Rock Island & Pacific RR. (12/9)
Bids will be received by the company up to noon (CST) on Dec. 9 at its office, Room 1136, La Salle Street Station, Chicago 5, Ill., for the purchase from it of $4,440,000 equipment trust certificates, series O, to be dated Jan. 1, 1953 and to mature in 24 equal semi-annual instalments from July 1, 1953 to and including Jan. 1, 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Columbia Gas System, Inc., N. Y.
Oct. 10 it was announced company plans to issue and sell common stock and additional debentures early in the Spring of 1953. **Proceeds**—To repay bank loans and for construction program. Company has sought SEC authority to borrow from banks an aggregate of $25,000,000. **Underwriters**—To be determined by competitive bidding. Probable bidders: For stock, Merrill Lynch, Pierce, Fenner & Beane, White, Weld & Co. and R. W. Pressprich & Co. (jointly); Morgan Stanley & Co. For debentures, Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

Connecticut Light & Power Co.
March 1 it was announced that it is presently estimated that approximately $11,000,000 of additional capital will be required during the latter half of 1952. **Underwriter**—Putnam & Co., Hartford, Conn.

★ **Consumers Power Co. (1/14)**
Nov. 26 it was announced company plans to offer 617,669 additional shares of common stock (no par) to common stockholders of record about Jan. 14 on a 1-for-10 basis; rights to expire on Jan. 30. **Price**—To be supplied by amendment. **Proceeds**—For expansion program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Lehman Brothers; Morgan Stanley & Co.; Harriman Ripley & Co. Inc. and the First Boston Corp. (jointly). **Bids**—Tentatively expected to be received on Jan. 14.

Culver Corp., Chicago, Ill. (1/26)
Nov. 22 it was announced that company proposes to offer to stockholders on or about Jan. 26, 1953, a total of 23,640 additional shares of common stock on a share-for-share basis; rights to expire Feb. 9. **Price**—At par ($2 per share). **Proceeds**—For investment. **Office**—105 West Madison Street, Chicago, Ill. **Underwriter**—None.

Duke Power Co.
Nov. 10 the FPC authorized company to split up common shares on the three-for-one basis. The company said this stock split will be advantageous in raising the additional new capital which will be necessary for the continuation of its postwar construction program. Costing more than $250,000,000.

East Tennessee Natural Gas Co.
Nov. 13 the FPC authorized the company to construct about 100 miles of pipe line the estimated cost of which, $5,784,606, is expected to be financed through the issuance of $4,500,000 of first mortgage bonds (which may be placed privately) and $1,300,000 of bank loans. **Traditional Underwriter**—White, Weld & Co., New York.

Eastern Utilities Associates
Sept. 3 it was announced that amended plant of reorganization of this company and subsidiaries calls for issuance by company of $7,000,000 debentures and a sufficient amount of common stock to raise approximately $2,000,000. plan further provides that Blackstone Valley Gas & Electric Co., Brockton Edison Co., and Fall River Electric Light Co. issue mortgage bonds. **Proceeds**—To repay bank loans. **Underwriters**—For EUA debentures may be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (for bonds only); Lehman Brothers; Estabrook & Co. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and Harriman Ripley & Co., Inc. (jointly).

Equitable Gas Co.
Nov. 20 it was announced company may offer early next year $10,000,000 of preferred stock. **Proceeds**—To repay $8,000,000 of bank loans and for construction program. **Underwriters**—May be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Kidder, Peabody & Co.; White, Weld & Co.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane. **Meeting** — Stockholders will vote Jan. 20 on authorizing an issue of $20,000,000 preferred stock.

European American Airlines, Inc.
June 11 it was reported company plans to raise an additional $400,000 of equity capital. An issue of $200,000 of capital stock was just recently placed privately at $7.50 per share. **Underwriter** — Gearhart, Kinnard & Otis, Inc., New York.

Garrett Freightlines, Inc. (12/15)
Oct. 17 it was announced company has applied to ICC for authority to issue and sell $1,100,000 6% convertible debentures due 1967. **Price**—At par. **Proceeds**—To retire outstanding debentures and preferred stock and for new equipment and working capital. **Underwriter**—Allen & Co., New York; Peters, Writer & Christenson, Denver, Colo.; and Edward D. Jones & Co., St. Louis, Mo.

General Public Utilities Corp.
Nov. 15, A. F. Tegen, President, announced that its domestic subsidiaries may spend around $80,000,000 for new construction in 1953. Of this total, $15,000,000 will be provided internally leaving about $65,000,000 to be financed by the sale of securities. Subsidiaries expect to sell around $49,000,000 of bonds, debentures and preferred stocks and GPU will furnish about $16,000,000 to them. GPU expects to obtain the funds from bank loans, the sale of debentures, the sale of common stock or a combination of these. If present conditions continue well into next year, GPU would expect to offer additional shares to stockholders rather than resort to borrowing.

★ **Great Northern Ry. (12/4)**
Bids will be received by the company up to 11 a.m. (EST) on Dec. 4 for the purchase from it of $8,520,000 equipment trust certificates, dated Jan. 1, 1953, and due semiannually to and including Jan. 1, 1968. Probable bidders: Halsey Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Gulf Interstate Gas Co., Houston, Tex.
Sept. 16 company applied to the FPC for authority to construct an 860-mile pipeline extending from southern Louisiana to a point in northeastern Kentucky. This project would cost about $127,887,000. Transportation of gas is expected to commence by Nov. 1, 1954.

Indiana & Michigan Electric Co.
Nov. 6 it was reported company plans to issue and sell in 1953 some bonds and/or preferred stock. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—May be determined by competitive bidding. Probable bidders: (1) for bonds—Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; The First Boston Corp.; Union Securities Corp.; Harriman Ripley & Co., Inc. (2) for preferred—Lehman Brothers; The First Boston Corp.; Smith, Barney & Co.

● **Iowa-Illinois Gas & Electric Co. (1/27/53)**
Nov. 26 directors approved plans to issue and sell $8,000,000 first mortgage bonds and 60,000 shares of preferred stock (par $100). **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: For bonds, Halsey, Stuart & Co. Inc.; Harriman, Ripley & Co. Inc., Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; Glore, Forgan & Co.; Harris, Hall & Co. (Inc.); Lehman Brothers; Blyth & Co., Inc.; The First Boston Corp.; Smith, Barney & Co. For preferred, Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co.; Lehman Brothers; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Kidder, Peabody & Co.; Harriman, Ripley & Co. Inc. **Registration**—Expected late in December. **Bids**—Tentatively scheduled to be received at 11 a.m. (CST) on Jan. 27.

Kansas City Power & Light Co. (1/20)
Nov. 19, H. B. Munsell, President, announced company plans to issue and sell $12,000,000 of first mortgage bonds. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; Blyth & Co., Inc. and Lazard Freres & Co. (jointly); The First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Smith, Barney & Co.; Kuhn, Loeb & Co., Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Equitable Securities Corp.; Lehman Brothers and Bear, Stearns & Co. (jointly); Harriman Ripley & Co., Inc. **Bids**—Tentatively scheduled to be received on Jan. 20.

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Laclede Gas Co.
Oct. 1 it was reported company may issue and sell $10,000,000 to $12,000,000 of securities, probably bonds. **Proceeds**—For new construction. In August of last year an issue of $8,000,000 3¾% first mortgage bonds due 1976 was placed privately through Lehman Brothers and Merrill Lynch, Pierce, Fenner & Beane.

Macy (R. H.) & Co.
Nov. 13 it was reported company may do some financing in 1953 in the form of debentures or long-term bank loans. Previous financing was done privately through Lehman Brothers.

Mansfield Tire & Rubber Co.
Oct. 1 it was reported company plans issuance and sale of a convertible preferred stock issue. **Underwriter**—A. G. Becker & Co. Inc., Chicago, Ill.

★ Missouri Power & Light Co.
Nov. 24 it was announced that company intends to borrow $2,800,000 from The Chase National Bank of the City of New York, the loan to be later funded through a form of permanent financing. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; White, Weld & Co., Kidder, Peabody & Co. and Shields & Co. (jointly).

Narragansett Electric Co.
Oct. 7 it was reported company plans issuance and sale of about $10,000,000 first mortgage bonds, series D. **Proceeds** — To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Glore, Forgan & Co. (jointly); Salomon Bros. & Hutzler; Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly); Lehman Brothers and Goldman, Sachs & Co. (jointly); Union Securities Corp.; The First Boston Corp.; White, Weld & Co. **Offering**—Expected late this year or early in 1953.

★ Nashville, Chattanooga & St. Louis RR. (12/8)
Bids will be received by the company at 71 Broadway, New York, N. Y., up to 11 a.m. (EST) on Dec. 8, for the purchase from it of $2,640,000 equipment trust certificates, series H, to be dated Dec. 15, 1952 and due $176,000 each Dec. 15 from 1953 to 1967, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

National City Bank of Cleveland
Nov. 17 it was reported bank may in January offer additional capital stock for subscription by its stockholders. **Underwriter**—Merrill, Turben & Co., Cleveland, Ohio.

New Orleans Public Service Inc.
July 24 company announced plans to issue and sell $6,000,000 of first mortgage bonds due Dec. 1, 1982. **Proceeds**—For new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co. and Stone and Webster Securities Corp. (jointly); Equitable Securities Corp.; Union Securities Corp. **Bids**—Originally scheduled to be received on Dec. 15 have been postponed until around the end of the first quarter of 1953.

New Orleans Terminal Co. (12/4)
Bids will be received up to noon (EST) on Dec. 4 at the office of the company, Room 2018, 70 Pine Street, New York 5, N. Y., for the purchase from it of $8,000,000 first mortgage bonds to be dated Nov. 1, 1952, and to mature Nov. 1, 1977. Proceeds, together with other funds, will be used to repay $11,423,000 bonds which mature on July 1, 1953. New bonds will be guaranteed unconditionally as to principal, interest and sinking fund instalments by Southern Railway Co. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.

New York Central RR. (12/17)
Nov. 14 it was announced company expects to receive bids on Dec. 17 for the purchase from it of $11,625,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

New York, New Haven & Hartford RR. (1/7)
Oct. 31 it was announced company plans to issue and sell $14,000,000 of bonds. **Proceeds**—Together, with other funds, to refund $14,482,000 Harlem River & Port Chester first mortgage 4% bonds due May 1, 1954. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Kuhn, Loeb & Co.; Morgan Stanley & Co.; The First Boston Corp.; Smith, Barney & Co.; W. C. Langley & Co. **Bids**—Expected to be received on or about Jan. 7.

Northern Indiana Public Service Co.
Sept. 18 it was reported company may issue and sell shortly after the close of this year some additional preferred and common stock. **Underwriters**—May be Central Republic Co. (Inc.), Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane.

Northern Natural Gas Co., Omaha, Neb.
Sept. 17 company sought FPC authority to construct pipeline facilities to cost an estimated $69,826,000. This would include about 442 miles of main pipeline additions; installation of a total of 73,600 h.p. in new and existing compressor stations; and numerous branch line additions. Probable bidders for debentures or bonds; Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First mortgage pipeline bonds, and preferred and common Boston Corp. and Kidder, Peabody & Co. (jointly). Common stock financing will probably be done via rights.

Ohio Edison Co. (1/13-1/7)
Nov. 20 company sought SEC authority to issue and sell, early in 1953, of 150,000 additional shares of preferred stock (par $100) and 479,846 additional shares of common stock (par $12), the latter issue to be first offered for subscription by common stockholders of record Jan. 7 on a 1-for-10 basis at a price to be determined by the company. **Proceeds**—To finance construction program. **Underwriters** — To be determined by competitive bidding. Probable bidders: (1) For perferred stock: Morgan Stanley & Co.; Lehman Brothers and Bear, Stearns & Co. (jointly); W. C. Langley & Co.; Glore, Forgan & Co. and White, Weld & Co. (jointly); The First Boston Corp. (2) For common stock: Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly); Morgan Stanley & Co.; The First Boston Corp. **Bids** — For preferred, expected Jan. 13; for common, Jan. 7.

Ohio Power Co. (1/20/53)
Oct. 28 it was reported company plans to issue and sell $22,000,000 of first mortgage bonds and 100,000 shares of preferred stock (par $100). **Proceeds** — To repay bank loans and for new construction. **Underwriters** — To be determined by competitive bidding. Probable bidders: (1) For bonds, Halsey, Stuart & Co., Inc.; The First Boston Corp.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Kuhn, Loeb & Co., Harriman Ripley & Co., Inc. and Stone & Webster Securities Corp. (jointly); Blyth & Co. Inc.; Glore Forgan & Co. (2) For preferred stock, Blyth & Co., Inc.; Dillon, Read & Co., Inc.; Harriman Ripley & Co., Inc. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co.; Lehman Brothers; The First Boston Corp.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly). **Bids**—Tentatively expected to be received on Jan. 20 at 11 a.m. (EST). **Registration**—Scheduled for Dec. 18.

Oklahoma Gas & Electric Co.
Nov. 13 it was announced company plans to issue and sell additional common stock at about a one-for-ten basis (2,411,945 shares of common stock outstanding). **Proceeds**—For new construction. **Underwriters**—May be determined by competitive bidding. **Probable bidders:** Lehman Brothers; The First Boston Corp.; Smith, Barney & Co. and Harriman Ripley & Co., Inc.

Pacific Northwest Pipeline Corp.
Aug. 29 company filed a second substitute application with the FPC proposing to construct a 1,384-mile transmission line extending from the San Juan Basin in New Mexico and Colorado to market areas in the Pacific Northwest. Estimated overall capital cost of the project is $179,000,000. Financing is expected to consist of first mortgage pipe line bonds and preferred and common stocks, and is expected to be completed by April, 1953. **Underwriters**—White, Weld & Co. and Kidder, Peabody & Co., both of New York, and Dominion Securities Corp., Ltd., Toronto, Canada.

Pan-American Sulphur Co., Dallas, Tex.
Oct. 23, J. R. Patten, President, said that it is planned to float an issue of over $3,000,000 of common stock (probably around 500,000 shares to be offered to stockholders on a 1-for-2½ basis. **Price**—About $7 per share. **Proceeds** — For construction program. **Underwriters** — Kuhn, Loeb & Co. and Carl M. Loeb, Rhoades & Co., both of New York.

Peoples Gas Light & Coke Co.
Oct. 24 it was announced that company and each of its subsidiaries will issue mortgage bonds or other debt securities. **Proceeds**—To finance construction programs. **Underwriters**—To be determined by competitive bidders. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Kuhn, Loeb & Co.

Public Service Co. of New Hampshire
Nov. 3 it was announced company plans to issue and sell approximately $5,000,000 of bonds in May or June, 1953, and in the latter part of 1953 to issue sufficient common shares to raise about $4,000,000. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: For bonds, Halsey, Stuart & Co. Inc.; The First Boston Corp. and Coffin & Burr, Inc. (jointly); Kidder, Peabody & Co.; White, Weld & Co. For stock, Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co. Inc.

Rockland Light & Power Co.
Nov. 12, F. L. Lovett, President, announced company expects to raise about $24,000,000 in the next two years through sale of bonds, and preferred and common stock, viz: $5,500,000 of first mortgage bonds and $5,500,000 prefererd stock in 1953 and $6,000,000 bonds, $6,000,000 preferred stock, and $1,000,000 common stock in 1954. **Proceeds**—For expansion program. **Underwriters** — For bonds and preferred stock may be determined by competitive bidding. Probable bidders: (1) For bonds—Halsey, Stuart & Co. Inc.; First Boston Corp. and Salomon Bros. & Hutzler (jointly); Stone & Webster Securities Corp.; Lehman Brothers, Bear, Stearns & Co. and A. C. Allyn & Co., Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Estabrook & Co. (2) For preferred—Stone & Webster Securities Corp.; Lehman Brothers; W. C. Langley & Co.; Estabrook & Co. and Kidder, Peabody & Co. (jointly). Common stock will probably be offered for subscription by stockholders.

Sinclair Oil Corp.
Oct. 28 it was announced company plans to issue and sell a total of $101,758,900 of new convertible subordinated debentures, which are first to be offered for subscription to comon stockholders at rate of $100 of debentures for each 12 shares of stock held. **Price**—To be determined at a later date. **Proceeds**—To retire $40,000,000 of bank loans and for expansion program. **Offering**—Expected some time in January. **Registration**—Expected after Dec. 18. **Underwriters**—Smith, Barney & Co. and Merrill Lynch, Pierce, Fenner & Beane, both of New York. **Registration**—Expected Dec. 19.

★ Southern California Edison Co. (1/15)
Dec. 2 Harold Quinton, Executive Vice-President, announced that company plans to issue and sell 500,000 additional shares of common stock. **Proceeds**—For new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders may include Blyth & Co., Inc.; The First Boston Corp.; White, Weld & Co. **Bids** — Tentatively expected to be received on Jan. 15. **Registration**—To be filed Dec. 12.

Southern Natural Gas Co.
Nov. 3 FPC authorized company to construct pipeline facilities estimated to cost $32,518,500. On Sept. 15 it had been announced that the company expects to sell additional bonds during the first six months of 1953 in the amount then permissible under its mortgage indenture, and to provide for other permanent financing by the sale of additional first mortgage bonds or other securities in such amounts as may be appropriate at the time. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; The First Boston Corp., Blyth & Co. Inc. and Kidder, Peabody & Co. (jointly). **Any** stock financing may be via stockholders.

Southern Ry. (12/11)
Nov. 2 it was announced company and New Orleans & Northeastern RR. plan to issue and sell $15,000,000 of joint 25-year mortgage bonds due Nov. 1, 1977. **Proceeds**—For refunding. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co. **Bids**—To be received by John B. Hyde, Vice-President, Room 2018, 70 Pine Street, New York 5, N. Y., up to noon (EST) on Dec. 11.

• Southwestern Public Service Co.
Nov. 21 it was reported that the company's financing program tentatively involves the offering in January of $12,000,000 bonds and $2,000,000 preferred stock in addition to about $5,500,000 to be raised from the sale of additional common stock to common stockholders on a 1-for-12 basis (with an oversubscription privilege). Bond and preferred stock financing was previously done privately. **Proceeds** — To repay bank loans and for new construction. **Underwriter**—Dillon, Read & Co. Inc., New York.

★ Texas Telephone Co. (12/12)
Nov. 25 it was announced company plans to issue and sell 25,000 shares of 6% cumulative preferred stock of which 15,000 shares will be offered publicly to residents of Texas only and 10,000 shares will be sold to Citizens Independent Telephone Co., an affiliate. **Price**—At par ($20 per share). **Proceeds** — For new construction, etc. **Underwriter**—Moroney, Beissner & Co., Houston, Tex.

Toledo Edison Co.
Oct. 3 it was reported company plans issue and sale of $7,500,000 first mortgage bonds and 500,000 shares of common stock. **Proceeds**—For construction program. **Underwriters**—For bonds, to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp. and Salomon Bros. & Hutzler (jointly); Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; The First Boston Corp. and Glore, Forgan & Co. (jointly); Union Securities Corp.; Smith, Barney & Co.; White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Lehman Brothers. The common stock offering may be underwritten by The First Boston Corp. In 1950, the following group bid for common stock issue: Merrill Lynch, Pierce, Fenner & Beane; Blyth & Co., Inc.; Smith, Barney & Co. and Collin, Norton & Co. (jointly); Lehman Brothers, Harriman Ripley & Co., Inc., Bear, Stearns & Co. and Carl M. Loeb, Rhoades & Co. (jointly); W. C. Langley & Co. **Offering**—Of bonds probably early in 1953; and of stock, late in 1952.

• Union Planters National Bank, Memphis, Tenn.
Dec. 1 company offered common stockholders of record Nov. 25 the right to subscribe for 100,000 additional shares of common stock (par $10) on a one-for-five basis; rights to expire Dec. 16. **Price** — $32 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—Equitable Securities Corp., Nashville, Tenn.

United States Pipe Line Co. (Del.)
Sept. 25, 1950 it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." The initial financing has been arranged for privately with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation. **Underwriters**—Probably Dillon, Read & Co. Inc. and Glore, Forgan & Co., both of New York.

Wabash RR. (12/10)
Bids will be received by the company at its office, 44 Wall St., New York 5, N. Y., up to noon (EST) on Dec. 10 for the purchase from it of $6,360,000 equipment trust certificates, series D, to be dated Jan. 1, 1953 and to mature in 30 equal semi-annual installments from July 1, 1953 to Jan. 1, 1968, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

• Wisconsin Public Service Corp.
Nov. 26 it was announced that company plans permanent financing prior to June 1, 1953, which may include the issuance and sale of between $7,000,000 and $8,000,000 of bonds and from $2,000,000 to $3,000,000 of preferred stock. An indeterminate number of shares of common stock may be offered late in 1953 or early in 1954. Stock financing, if negotiated, may be handled by The First Boston Corp. and Robert W. Baird & Co. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Union Securities Corp.; Kidder, Peabody & Co.; Shields & Co.; Merrill Lynch, Pierce, Fenner & Beane; Harris, Hall & Co. (Inc.); Carl M. Loeb, Rhoades & Co.; Salomon Bros. & Hutzler.

John W. Shea Joins Schirmer, Atherton Co.

John William Shea

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—John W. Shea, has become associated with Schirmer, Atherton & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges. Mr. Shea was formerly manager of the trading department of the Boston office of R. H. Johnson & Co. and prior thereto was with Mixter & Co.

Joins Reinholdt Gardner

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Homer A. Heid is now affiliated with Reinholdt & Gardner, 400 Locust Street, members of the New York and Midwest Stock Exchanges.

Two With Slayton Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Vennie C. Smith and Fred J. T. Stock have become connected with Slayton & Company, Inc., 408 Olive Street.

With A. M. Kidder Co.

(Special to THE FINANCIAL CHRONICLE)

CLEARWATER, Fla.—Frank H. Ruggiero has joined the staff of A. M. Kidder & Co., 405 South Garden Avenue.

With First So. Investors

(Special to THE FINANCIAL CHRONICLE)

BOYNTON BEACH, Fla.—Donald B. Barmack has been added to the staff of First Southern Investors Corporation, 524 Jasmine Street.

Nickel Plate Road Sells Equip. Tr. Ctfs.

Halsey, Stuart & Co. Inc., in association with McMaster Hutchinson & Co. are offering today (Dec. 4) $2,430,000 New York, Chicago & St. Louis RR. 2⅞% serial equipment trust certificates, equipment trust of 1953, maturing annually Oct. 1, 1953 to 1967, inclusive. The certificates are priced to yield from 2.20% to 2.95%, according to maturity. Issuance of the certificates is subject to the authorization by the Interstate Commerce Commission. The firms were the successful bidders for the certificates at competitive sale yesterday (Dec. 3), submitting a winning bid of 99.70%.

The certificates will be secured by 25 new diesel electric locomotives estimated to cost $3,037,877.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—One of the problems which will be laid on the doorstep of the new Eighty-third Congress will be what to do about completing the "mobilization base."

Defense Production Administration or the Office of Defense Mobilization will be the agency which will raise this problem. The question is how to install the physical plants AND machines necessary to produce military end items on a large scale in case of M-day or all-our war.

Under the tax certificate program the physical expansion of production capacity has gone roughly as far as it appears economic for business to undertake it, even with government help.

What is still lacking, however, is in the field of special purpose industrial facilities. An example of such is capacity for, say, production of armor plate or for propulsion machinery for ships. The needs for such peculiar and special M-day facilities goes far beyond a capacity where there is any remote chance it would pay off for business to build it. Even a large and continuing defense program with substantial war orders would not provide a sufficient volume to offer hope that such special and additional facilities would pay off, with or without tax acceleration—short of all-out war.

Private industry would not wish to borrow money to build such facilities, because it couldn't see ahead sufficient volume of orders at a profit to repay a government loan. Likewise, tax acceleration would prove meaningless, it is said, without prospective profits against which taxes could be deferred.

Study Under Way

ODM has had studies of this special plant capacity problem under way for several months. Last week's announced recommendations for a special purpose machine tool procurement program represents only a phase of this problem. Other facets of the M-day capacity program will come along from time to time.

Basically the approach, as ordered by the Office of Defense Mobilization, is for the Defense Department to survey, first, existing or planned prospective industrial production capacity for all-out war. Second, after seeing what capacity is or will likely be installed, then Defense is supposed to come forward with detailed specifications where there would be production bottlenecks immediately in case of all-out war, for lack of industrial facilities.

The theory is that unless these bottlenecks were resolved before M-day, then the absence of the peculiar and specialized facilities would force a delay of from months to years in the achievement of full production in case of total war.

This program does NOT relate to overall industrial capacity, officials assert. There is no thought of enveloping a possible increase in steel or aluminum or copper or other basic material production within the compass of this "special purpose" capacity program.

Rather the problem would be how to put in place highly specialized physical production capacity for a volume of output that would not be required except in case of total war.

Poses Budget Problem

Among other things, this poses a prospective budgetary problem for the coming Eisenhower Administration. The informal estimate of the last week's special purpose machine tool procurement program, for example, was for the expenditure of $1 billion in the first year of its operation, and in fiscal 1954. Even this machine tool program, if it involved an additional appropriation, would pose a strain. The new Administration is committed to cutting several billions off fiscal 1954 expenses, and this will be difficult enough without offsetting $1 billion of new money machine tools or another $1 billion of something else.

On the other hand, if the Defense Department can be persuaded under new management that these specialized facilities can be installed so as to forestall or curtail production of military end items, there would be no strain. Thus, if the Air Forces were to lower their end item goals for big bombers by some hundreds of millions, and substitute for those bombers machine tools to make big bombers, this would wash out budgetwise.

The nature of the military minds is such, however, that it would take a great deal of persuading to get them to reduce production goals for end items.

Government Would Own

Another problem would be whether private industry or the government should own and operate these facilities. Officials take the position that they want to persuade private industry to own them. It is the special nature of the problem, however, that private industry can see no profit in owning them, and since they would be standby in character, it might be difficult arranging for private industry to maintain them.

Still another problem, especially in relation to machine tools, is the factor of obsolescence in military equipment. A given special purpose machine tool may be designed and put into reserve on the assumption that a given type of new bomber will be ordered heavily in case of all-out war. If, however, three or four years pass by without all-out war, then the particular bomber, and hence the machine tool key to its construction as well, may become obsolete.

See Higher Sugar Prices

Only upon the assumption, which may or may not prove to be justified, that Eisenhower's designee for Secretary of Agriculture, Ezra T. Benson, is sympathetic to the problems of domestic beet sugar producers, agricultural observers here are predicting that a somewhat higher price of sugar will follow the installation of the new Administration.

Under the Sugar Act, the Secretary of Agriculture dominates the sugar market, by virtue of his power to establish by quota the amount of sugar that can be sold for consumption in the continental United States.

Because of its pre-occupation with some phases of consumer pricing, the Truman Administration, and particularly Secretary Brannan, have been relatively liberal, if not to the satisfaction of commercial users, with the supply. The price of sugar has been substantially lower than the prices, in relation to prewar, of other basic commodities.

So observers expect the new Secretary of Agriculture to lower the allowable supply somewhat.

Cooperatives Safe From Tax Attack

It is also predicted by observers that the farm cooperatives will be fairly safe from further attempts at Federal income taxation.

For one thing, Mr. Benson was one of the leading cooperative leaders in the United States. For another, the new Chairman of the House Ways and Means or taxing committee, Rep. Daniel A. Reed (R., N. Y.) is hostile to Federal taxation of cooperatives.

PHA Loses On Subversives

It is now fairly clear that the drive of public housers to put a special kibosh on FHA and VA housing loans is doomed to go down to defeat.

When Congress earlier this year was considering appropriations for public housing, an amendment was tacked on in the House which would have forbidden payment of housing subsidies if any member of any subversive organization were an occupant of Federally-supported public housing.

This was toned down somewhat, however, in the Senate and in the final version of the appropriation.

However, the report of the Senate committee recommended that Housing and Home Finance Agency require that no VA-guaranteed or FHA-insured mortgages should be made to buyers of homes who were members of subversive organizations.

The real meaning of this committee admonition was that it was an attempt of left-wingers in Congress to try to retaliate against beneficiaries of "private" housing insured or guaranteed by the government, because of the ban on subversives in public housing.

Belatedly the Housing and Home Finance Agency last week got around to issuing regulations banning the future occupation of public housing by tenants who are subversives.

In issuing the regulation, however, HHFA had to admit that a committee recommendation did not have the force of law and that the government, without a law from Congress, could not alter the terms of the present statutes.

So the planned retaliation flopped. It is doubted that the new Congress will accommodate the public housers with a new piece of legislation on this subject.

Veterans Administration, incidentally, is having almost no luck selling its 4% direct Federal loans to veterans. These loans were authorized for areas in which 4% money under a VA guarantee was not available.

If VA were able to turn these loans over to investors it could then re-loan these funds to other veterans.

(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

"Aint you got no ambition, Butch?—Everybody gets mentioned by the State Crime Commission except you!"

M. H. Bishop Co. Installs Wires

MINNEAPOLIS, Minn.—M. H. Bishop & Co., Northwestern Bank Building, has installed a wire connection to Bonner & Gregory, New York City; Straus, Blosser & McDowell, Chicago; Jaffe, Siegler & Co., Cleveland, Ohio; L. Johnson & Co., Syracuse, N. Y.

Jos. E. Masek

The trading department, specializing in securities local to the Northwest is in charge of Joe E. Masek.

$30,000,000 Issue of N. J. Turnpike Bonds Sold by Smith, Barney

Smith, Barney & Co., New York City, the Authority's financial advisors, announced Dec. 2 that the firm had negotiated the direct placement with institutional investors of a new issue of $30,000,000 New Jersey Turnpike Authority 1⅞% second series (series A) bonds, due Jan. 1, 1958. The bonds are dated July 1, 1952 and are callable at par and accrued interest at any time on and after July 1, 1953. Proceeds of the issue are to be used to meet general bond reserve requirements of $8,000,000 on Jan. 1, 1953 as a prerequisite to freeing and making available surplus revenues from the existing 118-mile turnpike for other purposes and to provide for completion of the Turnpike, including a minimum amount of additional facilities needed to improve service and safety in handling the abnormal traffic being handled. Current traffic on the facility is almost 2½ times the volume initially forecast by engineers and is within the range which would be expected in 1965 and 1966, according to report.

Joins L. A. Caunter Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio.—Henry E. Steele has become associated with L. A. Caunter & Co., Park Building.